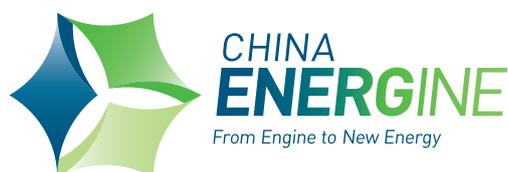


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CHINA ENERGINE INTERNATIONAL (HOLDINGS) LIMITED

中國航天萬源國際（集團）有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1185)

**INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2020**

RESULTS

The Board of Directors of China EnerGINE International (Holdings) Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2020 as follows:

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2020**

		1.1.2020 to 30.6.2020 HK\$'000 (Unaudited)	1.1.2019 to 30.6.2019 HK\$'000 (Unaudited)
	<i>NOTES</i>		
Continuing operations			
Turnover	3	13,824	21,350
Cost of sales		(10,558)	(16,789)
Gross profit		3,266	4,561
Other income		7,075	7,502
Other gains and losses	4	(898)	(12,939)
Impairment loss, net of reversal, on financial assets and contract assets	5	3,408	(55,073)
Selling and distribution expenses		(3,847)	(5,897)
Administrative expenses		(47,663)	(64,111)
Finance costs		(40,553)	(40,921)
Share of results of associates		(370)	373
Share of results of joint ventures		21,785	7,686
Loss before taxation	6	(57,797)	(158,819)
Taxation	7	(1,145)	(1,512)
Loss for the period from continuing operations		(58,942)	(160,331)

* For identification purpose only

	1.1.2020 to 30.6.2020 HK\$'000 (Unaudited)	1.1.2019 to 30.6.2019 HK\$'000 (Unaudited)
Discontinued operations		
Loss for the period from discontinued operations	—	(47,208)
Loss for the period	<u>(58,942)</u>	<u>(207,539)</u>
Other comprehensive expense:		
Item that will not be reclassified to profit or loss		
– exchange differences arising on translation to presentation currency	<u>5,901</u>	<u>(485)</u>
Total comprehensive expense for the period	<u>(53,041)</u>	<u>(208,024)</u>
Loss for the period attributable to owners of the Company		
– from continuing operations	(58,557)	(159,430)
– from discontinued operations	<u>—</u>	<u>(47,208)</u>
	<u>(58,557)</u>	<u>(206,638)</u>
Loss for the period attributable to non-controlling interests		
– from continuing operations	<u>(385)</u>	<u>(901)</u>
Loss for the period	<u>(58,942)</u>	<u>(207,539)</u>
Total comprehensive expense attributable to:		
Owners of the Company	(53,455)	(206,938)
Non-controlling interests	<u>414</u>	<u>(1,086)</u>
	<u>(53,041)</u>	<u>(208,024)</u>
Loss per share – Basic	9	
From continuing and discontinued operations	<u>HK(1.34) cents</u>	<u>HK(4.73) cents</u>
From continuing operations	<u>HK(1.34) cents</u>	<u>HK(3.65) cents</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2020

	<i>NOTES</i>	30.6.2020 <i>HK\$'000</i> (Unaudited)	31.12.2019 <i>HK\$'000</i> (Audited)
Non-current assets			
Investment properties		126,992	130,724
Property, plant and equipment		180,319	194,507
Right-of-use assets		6,574	6,342
Goodwill		2,004	2,004
Interests in associates		190,458	194,587
Interests in joint ventures		853,648	932,381
Amount due from a joint venture		–	67,351
Financial assets at fair value through other comprehensive income		4,707	4,800
		1,364,702	1,532,696
Current assets			
Inventories		54,376	41,170
Trade and other receivables, deposits and prepayments	<i>10</i>	1,074,266	1,079,654
Contract assets		218,441	226,518
Amounts due from associates		131,966	154,507
Amounts due from joint ventures		79,692	19,186
Restricted bank balances		19,057	–
Pledged bank deposits, bank balances and cash		73,481	78,236
		1,651,279	1,599,271
Non-current asset held-for-sale		33,994	–
		1,685,273	1,599,271

	<i>NOTES</i>	30.6.2020 <i>HK\$'000</i> (Unaudited)	31.12.2019 <i>HK\$'000</i> (Audited)
Current liabilities			
Trade and other payables	<i>11</i>	1,272,717	1,320,176
Amounts due to associates		26,694	23,372
Amounts due to joint ventures		3,762	2,862
Government grants		683	696
Warranty provision		314,357	328,231
Taxation payable		2,282	1,621
Borrowings		1,508,200	659,983
Lease liabilities		4,548	5,078
		<u>3,133,243</u>	<u>2,342,019</u>
Net current liabilities		<u>(1,447,970)</u>	<u>(742,748)</u>
Total assets less current liabilities		<u>(83,268)</u>	<u>789,948</u>
Non-current liabilities			
Government grants		26,655	27,520
Borrowings		273,691	1,094,019
Lease liabilities		2,477	1,363
Deferred tax liabilities		17,737	17,833
		<u>320,560</u>	<u>1,140,735</u>
Net liabilities		<u>(403,828)</u>	<u>(350,787)</u>
Capital and reserves			
Share capital		436,900	436,900
Reserves		(881,534)	(828,878)
Equity attributable to owners of the Company		(444,634)	(391,978)
Non-controlling interests		40,806	41,191
Total deficit		<u>(403,828)</u>	<u>(350,787)</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Group incurred a net loss from continuing operations of approximately HK\$58,942,000 during the period ended 30 June 2020 and, as of 30 June 2020, the Group had net current liabilities and net liabilities of approximately HK\$1,447,970,000 and HK\$403,828,000, respectively. The Group’s aggregate borrowings amounted to approximately HK\$1,781,891,000, out of which HK\$1,508,200,000 will be due for repayment within twelve months from 30 June 2020; while its cash and cash equivalents amounted to approximately HK\$73,472,000 only as at 30 June 2020.

In view of the above circumstances, the directors of the Company have given careful consideration to the future liquidity and financial position of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to continue as a going concern. Certain plans and measures have been taken to mitigate the liquidity position and to improve the Group’s financial position which include, but are not limited to, the followings:

- (i) The Group has been actively negotiating with Aerospace Science and Technology Finance Co. Ltd. (“ASTF”), a fellow subsidiary of the Company, and CALT for the extension of the existing unsecured loans of RMB792,200,000 (equivalent to approximately HK\$867,271,000) advanced from ASTF and loans of RMB400,000,000 (equivalent to approximately HK\$437,905,000) advanced from CALT through ASTF as the trustee, both of which will be due within twelve months from the date of approval of the condensed consolidated financial statements. In the opinion of the directors of the Company, it is expected that further extension of such loans would be granted by these counterparties based on past experience;

- (ii) As set out in the Company's circular dated 28 February 2020, the Group and ASTF entered into a loan agreement (the "Loan Agreement") on 25 December 2019 for a loan facility of RMB300,000,000 (equivalent to approximately HK\$328,000,000) to be provided by ASTF to the Group, which are secured by the share charge (the "Share Charge") to be granted by the Group in favour of ASTF over all its shares held in a joint venture, Beijing Delphi Wan Yuan Engine Management Systems Co., Ltd ("Delphi") (representing 49% of the share capital of Delphi). The loan is repayable on the first anniversary of the Loan Agreement. The Loan Agreement and the Share Charge were approved by the shareholders in the extraordinary general meeting of the shareholders of the Company on 18 March 2020. As at the date of the condensed consolidated financial statements, an amount of RMB97,450,000 (equivalent to approximately HK\$106,685,000) has been drawn down by the Group. The Group is expected to utilise the full amount of this loan facility up to RMB300,000,000 (equivalent to approximately HK\$328,000,000) to enable sufficient financial resources are available to the Group within twelve months from the date of approval of the consolidated financial statements. In the opinion of the directors of the Company, based on past experience, it is expected that further extension of such loan facility would be granted by ASTF upon expiry;
- (iii) The Group has been arranging the collection of outstanding balance from its joint venture of HK\$67,821,000, through disposal of the pledged land and buildings by such joint venture;
- (iv) The Group has been looking for potential buyers to acquire the Group's equity interests in a joint venture and an associate with an aggregate carrying amount of HK\$41,067,000;
- (v) The Group has been looking for potential buyer to purchase an investment property of the Group located in Shenzhen with carrying amount of HK\$46,090,000;
- (vi) The Group is currently re-negotiating the repayment schedules with certain of its debtors and endeavoring to request them to repay the trade receivables in accordance with the repayment schedules agreed with them; and
- (vii) The Group has been arranging for settlement of part of the balances outstanding to its creditors. The Group has ongoing communication with its creditors, and monitored closely any settlement requests of trade payables. In the opinion of the directors of the Company, due to the impact of the COVID-19 epidemic, the uncertainty in negotiating deferred settlement agreements with relevant creditors has increased, which has posed a severe challenge to the Group's debt repayment pressure.

Accordingly, certain non-current assets of the Group are classified as "non-current assets held-for-sale" as at 30 June 2020.

The directors of the Company believe that, taking into account the above-mentioned plans and measures, although the Group faces severe challenges, with the support of major shareholder and the understanding of creditors, it will have the working capital to deal with debt pressure and to meet its financial obligations as they fall due within twelve months from the date of approval of the condensed consolidated financial statements. Accordingly, the directors of the Company are satisfied that it is appropriate to prepare the condensed consolidated financial statements on a going concern basis.

Notwithstanding the above, since the execution of the above plans and measures are in progress, significant uncertainties exist as to whether management of the Group will be able to achieve its plans and measures as described above. Whether the Group will be able to continue as a going concern would depend upon the Group's ability to generate adequate financing and operating cash flows through the followings:

- (i) successful extension of the existing unsecured loans of RMB792,200,000 (equivalent to approximately HK\$867,271,000) advanced from ASTF and loans of RMB400,000,000 (equivalent to approximately HK\$437,905,000) advanced from CALT through ASTF as the trustee;
- (ii) successful extension of the loan facility of RMB300,000,000 (equivalent to approximately HK\$328,000,000) provided by ASTF upon expiry;
- (iii) successful disposal of the pledged land and buildings by a joint venture in order to collect the amount due from that joint venture of HK\$67,821,000;
- (iv) successful disposal of the equity interests in a joint venture and an associate with an aggregate carrying amount of HK\$41,067,000;
- (v) successful disposal of an investment property located in Shenzhen with carrying amount of HK\$46,090,000;
- (vi) timely collection of the Group's certain debtors in accordance with the repayment schedules agreed with them; and
- (vii) successful agreement with the Group's creditors of settlement arrangements where applicable.

Should the Group fail to achieve the above mentioned plans and measures, or should ASTF and CALT no longer have the financial ability to provide finance to the Group, it might not be able to continue to operate as a going concern, and adjustments would have to be made to reclassify the Group's non-current assets and non-current liabilities as current assets and current liabilities respectively, to write down the carrying values of the Group's assets to their recoverable amounts and to provide for any provision for any contractual commitments that have become onerous as at the end of the reporting period. The effects of these adjustments have not been reflected in the condensed consolidated financial statements.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties and financial assets at fair value through other comprehensive income (“FVTOCI”), which are measured at fair value.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2019.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKFRS 3,	<i>Definition of a Business</i>
Amendment to HKFRS 16,	<i>Covid-19-Related Rent Concessions</i>

Except as described below, the application of the new and amendments to HKFRSs in the current period has had no material impact on the Group’s financial performance and position for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

Amendment to HKFRS 16, *Covid-19-Related Rent Concessions*

The amendment provides a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 pandemic (“COVID-19-related rent concessions”) are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

The Group has elected to early adopt the amendments and applies the practical expedient to all qualifying COVID-19-related rent concessions granted to the Group during the interim reporting period. Consequently, rent concessions received have been accounted for as negative variable lease payments recognised in profit or loss in the period in which the event or condition that triggers those payments occurred. There is no impact on the opening balance of equity at 1 January 2020.

3. TURNOVER AND SEGMENT INFORMATION

An analysis of the Group's turnover for the period from continuing operations is as follows:

	1.1.2020	1.1.2019
	to	to
	30.6.2020	30.6.2019
	HK\$'000	HK\$'000
Continuing operations		
Sales of wind energy related products	919	6,906
Sales of electricity from operation of wind power field	12,905	14,444
	13,824	21,350

The Group's revenue from continuing operations from external customers are recognised at a point in time.

Information reported to the Group's executive directors, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

In prior interim period, there were 3 reportable and operating segments namely Wind Energy Related Products, Operation of Wind Farm and Energy Storage and Related Products.

During the period ended 30 June 2019, the CODM reviewed the Group's business operation and considered Energy Storage and Related Products segment was discontinued. Therefore it is no longer a reportable and operating segment of the Group.

Specifically, the Group's operating and reportable segments during the period are as follows:

- Wind Energy Related Products – Manufacture and sales of wind energy related products
- Operation of Wind Farm – Sales of electricity from operation of wind power field

The following is an analysis of the Group's turnover and results from continuing operations by operating and reportable segments for the period under review:

Six months ended 30 June 2020

	Wind Energy Related Products <i>HK\$'000</i>	Operation of Wind Farm <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Continuing operations			
Turnover			
External sales	<u>919</u>	<u>12,905</u>	<u>13,824</u>
Result			
Segment result	(32,638)	3,381	(29,257)
Unallocated other income			5,064
Unallocated corporate expenses			(14,466)
Finance costs			(40,553)
Share of result of an associate			(370)
Share of result of a joint venture			<u>21,785</u>
Loss before taxation			<u>(57,797)</u>

Six months ended 30 June 2019

	Wind Energy Related Products <i>HK\$'000</i>	Operation of Wind Farm <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Continuing operations			
Turnover			
External sales	<u>6,906</u>	<u>14,444</u>	<u>21,350</u>
Result			
Segment result	(80,621)	7,583	(73,038)
Unallocated other income			6,091
Unallocated corporate expenses			(56,579)
Finance costs			(40,921)
Share of result of an associate			(2,437)
Share of result of a joint venture			<u>8,065</u>
Loss before taxation			<u>(158,819)</u>

4. OTHER GAINS AND LOSSES

	1.1.2020	1.1.2019
	to	to
	30.6.2020	30.6.2019
	HK\$'000	HK\$'000
Continuing operations		
Gain (loss) on disposal of property, plant and equipment	474	(40)
Net exchange loss recognised	(159)	(2,616)
Impairment losses recognised in respect of intangible assets (<i>Note</i>)	–	(10,283)
Loss from changes in fair value of investment properties	<u>(1,213)</u>	<u>–</u>
	<u>(898)</u>	<u>(12,939)</u>

Note: The management of the Group performed impairment review based on value in use calculation using discounted cash flow forecast with respect to the cash generating unit of the wind energy related products segment and no impairment loss was recognised as at 30 June 2020 (As at 30 June 2019: impairment loss of HK\$10,283,000).

5. IMPAIRMENT LOSS, NET OF REVERSAL, ON FINANCIAL ASSETS AND CONTRACT ASSETS

	1.1.2020	1.1.2019
	to	to
	30.6.2020	30.6.2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Continuing operations		
(Reversal of) impairment loss recognised in respect of trade		
balances arising from contracts with customers and an associate	<u>(3,408)</u>	<u>55,073</u>

6. LOSS BEFORE TAXATION

	1.1.2020	1.1.2019
	to	to
	30.6.2020	30.6.2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss before taxation from continuing operations has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	5,043	12,426
Depreciation of right-of-use assets	3,623	2,189
Amortisation of intangible assets	–	5,573
Interest income from		
– advance to a joint venture	(1,784)	(1,410)
– advance to an associate	(631)	(675)
– bank balances	<u>(170)</u>	<u>(233)</u>

7. TAXATION

	1.1.2020	1.1.2019
	to	to
	30.6.2020	30.6.2019
	HK\$'000	HK\$'000
The tax charge comprises:		
PRC Enterprise Income Tax ("EIT")		
Current period	895	1,397
Overprovision in prior periods	<u> –</u>	<u> (213)</u>
	895	1,184
Deferred taxation charge	<u>250</u>	<u>328</u>
	<u>1,145</u>	<u>1,512</u>

No provision for Hong Kong Profits Tax has been made as the Company and its subsidiaries in Hong Kong have no assessable profits arising in or derived from Hong Kong for both periods.

Taxation arising in the PRC is recognised based on EIT rate of 25% (1.1.2019 to 30.6.2019: 25%) for the six months ended 30 June 2020.

8. DIVIDENDS

No dividend was paid or declared for the six months ended 30 June 2020 and 2019. The directors do not recommend the payment of an interim dividend for the interim period.

9. LOSS PER SHARE – BASIC

The calculation of basic loss per share attributable to owners of the Company is based on the following data:

	1.1.2020 to 30.6.2020 <i>HK\$'000</i>	1.1.2019 to 30.6.2019 <i>HK\$'000</i>
From continuing operations		
Loss for the period attributable to owners of the Company	(58,557)	(206,638)
Add: Loss for the period from discontinued operations	<u>–</u>	<u>47,208</u>
Loss for the purpose of basic loss per share from continuing operations	<u><u>(58,557)</u></u>	<u><u>(159,430)</u></u>
Number of shares		
	2020	2019
Weighted average number of shares for the purpose of basic loss per share	<u><u>4,368,995,668</u></u>	<u><u>4,368,995,668</u></u>
	1.1.2020 to 30.6.2020 <i>HK\$'000</i>	1.1.2019 to 30.6.2019 <i>HK\$'000</i>
From continuing and discontinued operations		
Loss for the period attributable to owners of the Company for the purpose of basic loss per share	<u><u>(58,557)</u></u>	<u><u>(206,638)</u></u>

The denominators used are the same as those detailed above for basic loss per share.

From discontinued operations

Basic loss per share for the discontinued operations is HK\$1.08 cent per share for the period ended 30 June 2019, based on the loss for the period from the discontinued operations attributable to owners of the Company of HK\$47,208,000 and the denominators detailed above for basic loss per share.

No diluted loss per share has been presented as there were no potential ordinary shares outstanding for both periods.

10. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

As at 30 June 2020, the Group's total trade and other receivables, deposits and prepayments comprised of trade receivables, other bills receivables and other receivables, deposits and prepayments of HK\$919,133,000, HK\$25,423,000 and HK\$129,710,000 (31.12.2019: HK\$983,249,000, HK\$13,508,000 and HK\$82,897,000), respectively.

The Group's trade receivables as at 30 June 2020 are net of allowance for credit losses of HK\$767,495,000 (31.12.2019: HK\$784,431,000). The Group allows credit periods for not more than six months to its customers for sales of goods. At the discretion of the executive directors, several major customers were allowed to settle their balances beyond the credit terms up to one year. Included in trade receivables are balances of HK\$537,176,000 (31.12.2019: HK\$579,219,000) without bills received while the remaining balances are trade receivables with bills received for future settlements. The following is an aging analysis of trade receivables without bills received, net of allowances, presented based on the invoices dates at the end of the reporting period, which approximately the respective revenue recognition dates:

	30.6.2020	31.12.2019
	HK\$'000	HK\$'000
Within 30 days	1,998	3,700
Between 31 and 90 days	2,759	1,837
Between 91 and 180 days	2,646	1,171
Between 181 and 365 days	18,318	12,248
Over 1 year	511,455	560,263
	537,176	579,219

All the Group's trade receivables with bills receivables as at 30 June 2020 are aged over one year (31.12.2019: over one year), based on invoice dates at the end of reporting period.

11. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$1,100,558,000 (31.12.2019: HK\$1,129,823,000). The Group normally receives credit period for 30 to 90 days from its suppliers. The following is an aged analysis of trade payables based on the invoice date at the end of the reporting period:

	30.6.2020	31.12.2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	8,891	9,361
Between 31 and 90 days	6,976	11,431
Between 91 and 180 days	6,793	2,233
Between 181 and 365 days	26,854	32,181
Over 1 year	1,051,044	1,074,617
	1,100,558	1,129,823

Included in the Group's other payables at 30 June 2020 are bills payables of HK\$57,733,000 (31.12.2019: HK\$88,760,000) and consideration payable for the acquisition of a subsidiary of HK\$11,916,000 (31.12.2019: HK\$12,151,000).

BUSINESS REVIEW

On behalf of the Board of Directors, the business performance of China Energin International (Holdings) Limited (the “Company”) and its subsidiaries (collectively the “Group”) for the first half of 2020 is summarised in the following paragraphs.

RESULTS SUMMARY

For the six months ended 30 June 2020 (the “Period”), the Group’s turnover of continuing operations amounted to HK\$13.82 million as compared to HK\$21.35 million for the same period of 2019, representing a decrease by HK\$7.53 million. Turnover for the Period comprised sale of wind energy related products amounting to HK\$0.92 million and sale of electricity generated from wind farm amounting to HK\$12.90 million, compared to turnover for the same period of 2019 which comprised sale of wind energy related products amounting to HK\$6.91 million and sale of electricity generated from wind farm amounting to HK\$14.44 million.

Loss for the Period from continuing operations attributable to owners of the Company amounted to HK\$58.56 million, such loss was principally due to: (1) the performance of the Group’s business segments resulting in operating loss of HK\$29.26 million; (2) unallocated corporate expenses amounted to HK\$14.47 million; and (3) finance costs amounted to HK\$40.55 million.

Wind Power Generation Business

In the first half of 2020, the PRC government has successively issued a series of policies in relation to the wind power industry clarifying, among others, the construction of grid parity projects, the construction of state-subsidized projects, the construction of distributed wind power projects, the implementation of power transmission and consumption conditions. The wind power industry has entered an era of comprehensive competition, which presents tremendous challenges to the Group’s wind power business and business model.

In the first half of 2020, the number of installation of wind turbines of the wind power industry has dropped significantly, the price of wind turbines units has stabilized and mainstream onshore models have gradually been replaced with 3.X MW and above platform units. Due to the keen competition in the wind power industry, the market concentration of the industry has been increased, resulting in the pressure in profitability of the middle stream companies of the wind power industry.

As disclosed in the announcement of the Company dated 7 August 2020, in the first half of 2020, as affected by factors including quality issues of wind turbine and the COVID-19 outbreak, there were difficulties in the collection of trade receivables of wind turbine manufacture segment of the Group, which led to continued funding constraints and failure to pay relevant payables as agreed.

Due to the grim situation as stated in the profit warning announcement issued by the Company dated 24 June 2020 and the emerging impact of the COVID-19 outbreak, the Group can hardly fully implement all of the operation improvement plans as scheduled and there is an increasing number of wind turbines being temporarily shut down due to malfunction in respect of which the wind turbines are subject to the Group's warranty obligations. Although the Group has adopted various measures to maintain the ongoing operation of the wind turbine manufacture business, such business faces serious operational difficulties.

Facing the fierce competition and the changing policy environment, the Group proactively adjusted its market strategy to focus on acquiring market resources for the Gaizhou Project, the Baotou Damao Phase II Project, and a clean energy project in a district of Inner Mongolia. Among those projects, saved for the proposal in relation to the environmental protection of the Gaizhou Project which has been submitted to the Ministry of Natural Resources for approval, there is no substantial progress in other projects.

Wind Farm Operations

The wind farms operated by the Group include the CASC Long Yuan (Benxi) Wind Farm in which the Group holds a controlling interest, which provides a capacity of 24,650KW with 29 sets of 850KW wind turbines.

The three wind farms invested in and constructed by the Group include the Jilin Longyuan Tongyu Wind Farm providing a capacity of 200,000KW with 236 sets of 850KW wind turbines; the Jiangsu Longyuan Rudong Wind Farm providing a capacity of 150,000KW with 100 sets of 1.5MW wind turbines; and the Inner Mongolia Datang Wanyuan Xinghe Wind Farm providing a capacity of 49,500KW with 55 sets of 900KW direct-drive wind turbines.

In the first half of 2020, the operating income of the above-mentioned wind farms was basically the same as the corresponding period in 2019, with decreased profit contribution and relatively stable contribution to the Group.

Business of Automotive Engine Management Systems

Beijing Delphi Wan Yuan Engine Management Systems Co., Ltd (“Delphi”), a joint venture of the Group, is a major supplier in the domestic automotive electronic fuel injection market. In the first half of 2020, Delphi has overcome the impact of the COVID-19 epidemic and the continuous decline in national automobile production and sale by implementing various measures to reduce costs and increase revenue. The operating income and profit increased by 3.7% and 143%, respectively, compared with the corresponding period in 2019.

PROSPECTS

In the first half of 2020, the PRC government has successively issued a series of new energy industry policies and notices regarding the wind power industry’s grid parity, low-price competition, monitoring and early warning mechanism of wind power investment and etc., the Group’s original business plan and the demand for the manufacture of wind energy products are expected to be materially affected.

As disclosed in the Annual Report 2019 of the Company dated 15 May 2020, due to continuous impact of COVID-19 outbreak, the Company has difficulties in fulfilling all the requirements of productions orders and difficulties in the combination of power network by the end of 2020 as a result of our suppliers’ difficulties in delivering certain key ancillary equipment.

There are still unsolved technical deficiencies and quality issues associated with certain wind turbine products of the Group, resulting in difficulty for the Group to obtain new orders of the wind turbines manufacture segment. Further financial resources are required to solve these issues, and the Group is still under evaluation of the potential financial impact.

The Company has taken relevant measures to meet the above challenges, but it remains difficult. As of the date of this announcement, the Company will continue to provide operation and maintenance services for wind turbines related products and operation service for wind farms, and actively explore new business cooperation opportunities in relation to core aerospace technology products.

HUMAN RESOURCES AND REMUNERATION POLICY

As at 30 June 2020, the Group had 13 employees (31 December 2019: 12 employees) at the Hong Kong head office and 293 employees (31 December 2019: 342 employees) at the Mainland China offices. Remuneration of employee is determined according to individual employee's performance and the prevailing trends in different areas and reviewed on an annual basis. The Group also provides Mandatory Provident Fund and medical insurance to its employees. In addition, performance-based bonus is available at the discretion of the Directors.

FINANCIAL REVIEW

Liquidity and Financial Resources

Total borrowings of the Group as at 30 June 2020 amounted to HK\$1,781,891,000 (31 December 2019: HK\$1,754,002,000), of which HK\$96,339,000 (31 December 2019: HK\$98,239,000) was subject to floating interest rates, while the remainder was subject to fixed interest rates. All borrowings of the Group were incurred at market interest rates. The Group has not issued any financial instruments for hedging or other purposes. An amount of HK\$1,685,551,000 (31 December 2019: HK\$1,655,764,000) out of the total borrowings of the Group was from China Academy of Launch Vehicle Technology ("CALT"), the controlling shareholder of the Company, and Aerospace Science and Technology Finance Co. Ltd., a fellow subsidiary of CALT.

Gearing ratio (total borrowings over equity attributable to owners of the Company) as at 30 June 2020 was -441% (31 December 2019: -500%).

Trade and Other Receivables and Contract Assets

As at 30 June 2020, trade and other receivables and contract assets were HK\$1,074,266,000 and HK\$218,441,000 respectively (31 December 2019: HK\$1,079,654,000 and HK\$226,518,000).

Reversal of impairment loss of HK\$3,408,000 in respect of financial assets and contract assets were recognised from continuing operations for the current period (impairment loss for the same period in 2019: HK\$55,073,000).

Pledge of Assets

As at 30 June 2020, the Group has pledged the 49% equity interest in Delphi with a carrying value of approximately HK\$853,648,000 as security for the borrowings obtained from a wholly owned subsidiary of the controlling shareholder.

Exchange and Other Exposures

Most of the Group's business transactions were conducted in Renminbi. The Group expected that the exposure to exchange rates fluctuation was not significant and therefore has not engaged in any hedging activities.

Contingent Liabilities

Other than those stated in the legal proceedings section below, the Group had no significant contingent liabilities as at 30 June 2020.

Legal Proceedings

Since 15 May 2020, the date of the publication of audited results announcement, and up to 21 August 2020, 18 new arbitrations/litigations were raised against the Group and its subsidiaries for the payment of contractual arrears of approximately RMB128,760,000. The relevant amounts are due considered and accrued for in the condensed consolidated financial statements as at 30 June 2020. Among the arbitrations/litigations, 12 cases amounted to approximately RMB120,000,000 are concluded and pending for settlement, and 6 out of the 12 cases have been applied for enforcement. The total amount of claims involved in outstanding cases is approximately RMB418,710,000. The bank accounts of three subsidiaries of the Group's wind turbine manufacture segment have been frozen, the counterparties applied to freeze the amount of approximately RMB80,880,000, the aggregated amount of approximately RMB17,400,000 is frozen, which results in the failure to make payments for normal operations of the wind turbine manufacture segment. Preservation measures are adopted against the equity interests in Delphi and an associate held by the Group with carrying value of approximately HK\$853,648,000 and HK\$7,072,000 respectively, and such equity interests are subject to the risk of being auctioned if the outstanding payments are not settled in the future.

Other than those stated above, the Group did not have any significant legal proceedings.

CORPORATE GOVERNANCE

Corporate Governance Code

The Group has complied with all code provisions as set out in the Corporate Governance Code in Appendix 14 of the Listing Rules for the six-month period ended 30 June 2020.

Model Code for Securities Transactions by Directors

Throughout the six-month period ended 30 June 2020, the Group 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 the code for dealing in securities of the Group by the Directors. Having made specific enquiry, all the Directors confirmed that they have complied with the Model Code.

REVIEW OF INTERIM RESULTS

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the unaudited interim financial statements for the six months ended 30 June 2020.

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

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the six-month period ended 30 June 2020.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT

This interim results announcement is available for viewing on the websites of Hong Kong Exchanges and Clearing Limited (<http://www.hkexnews.hk>) and the Company (<http://www.energine.hk>) and the interim report for the six months ended 30 June 2020 of the Company containing all the information required by the Listing Rules will be dispatched to the Company's shareholders and published on the above websites in due course.

By Order of the Board
China Energine International (Holdings) Limited
Liu Zhiwei
Chairman and Executive Director

Hong Kong, 21 August 2020

As at the date of this announcement, the Board comprises five executive Directors, namely Mr. Liu Zhiwei, Mr. Li Lei, Mr. Han Qingping, Mr. Xu Jun and Mr. Wang Guanghui; and three independent non-executive Directors, namely Mr. Lau Fai Lawrence, Mr. Gordon Ng and Mr. Li Dapeng.