CHINA NEW ENERGY LIMITED

Company Registration No. 93306 (Jersey)

CHINA NEW ENERGY LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

COMPANY INFORMATION

Directors	Yu Weijun	Executive Chairman
	Tang Zhaoxing	Chief Executive Officer
	Chen Yong	Non-Executive Director
	Foo Shiang Peow	Non-Executive Director
	Richard Bennett	Non-Executive Director
Company secretary	Computershare Company Secretarial Services (Jersey) Limited	
Registered office	Queensway House Hilgrove Street St Helier JE1 1ES	
Registered number	93306 (Jersey)	
Auditors	Crowe Clark Whitehill LLP St Bride's House 10 Salisbury Square London EC4Y 8EH	
Solicitors	Stephenson Harwood One Raffles Place #12-00 Singapore 048616	
Nominated adviser	Cairn Financial Advisers LLP 61 Cheapside London EC2V 6AX	
Broker	SVS Securities plc 21 Wilson Street London EC2M 2SN	
Registrars	Computershare Investor Services (Jersey) Limited Queensway House, Hilgrove Street St. Helier Jersey JE1 1ES	
Financial PR	Walbrook Public Relations 4 Lombard Street London EC3V 9HD	
Website	http://www.chinanewenergy.co.uk/	

CHINA NEW ENERGY LIMITED

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Chairman's Statement

On behalf of the Board, I am very pleased to present to you our Annual Report for the financial year ended 31 December 2010, our first since our successful admission to AIM on 23rd May 2011.

Financial Performance Review

The Group principally provides EPC (Equipment, Procurement and Construction) services and VAS (Value Added Service) mainly to ethanol, ethanol downstream product and biobutanol producers.

We are very pleased that despite the fact that our operating environment in 2010, especially the first half of the year, has been challenging, we have still made good progress and have delivered strong growth across the Group. In the aftermath of the Global Financial Crisis in 2008, many of our customers were less willing to take on new capital projects and also faced funding difficulties, meaning many projects were suspended or cancelled as a consequence. Since the second half of the year, we have witnessed a sustained recovery by our customers who are now re-commencing projects that were previously suspended, and whilst this has contributed to our growth in 2010 it provides us with confidence for our growth prospects in 2011.

Notwithstanding this challenging environment, the Group's revenue increased by 10.4% to RMB 138.4 million from RMB 125.3 million in 2009. This was mainly achieved by focussing on ensuring the timely completion of projects and our focus on providing Value Added Services (e.g. technical/facility upgrades, maintenance and energy efficiency improvement) to our customers.

The Group's gross profit grew 27.6% to RMB 40.2 million in 2010 compared to RMB 31.5 million in 2009; gross margins improved from 25.2% in 2009 to 29.1% in 2010. Our gross margins improved significantly in 2010. This was mainly attributable to two key drivers: (1) our ability to control our costs of sales through our technical research and development and better coordination of our supply chain, and (2) improving our value proposition, especially for overseas projects, vis-à-vis our competitors in terms of pricing, quality and timely work delivery.

Reflecting our ability to control overheads, our operating expenses were RMB 17.0 million in 2010, down 14% from RMB 19.8 million in 2009. The Group recorded a profit after tax of RMB 20.0 million in 2010 compared to RMB 11.9 million in 2009. This 68% year on year improvement in profitability was largely due to a significant improvement in gross margins on higher revenue, and our ability to control our overheads and selling and distribution expenses.

Operational Review

Our competitiveness and growth depend on our ability to remain abreast of technological advancements in the biofuel industry and with the development of ethanol. Some commodities like maize (corn), sugar cane or vegetable oil can be used either as food, feed, or to make biofuels and, as biofuel production has increased in recent years, there has been growing concern regarding the risk of diverting edible feedstocks to biofuel production. This concern is particularly felt in China where some regions restrict the use of certain crops for activities other than commercial food productions. Substantial global research and development efforts have been put into commercialising the production of next generation biofuels from non-food crops, crop residues and waste. The Group is currently also conducting research and development activities internally and is collaborating with external institutions to research the possibility of developing new processes to maximise the extraction of ethanol and other biogases from cassava, and to explore cost effective and efficient ways to extract ethanol and butunol from cellulosic feedstock, such as wood waste and the non-food parts of the current crops.

As a result of our continued development in this area, in 2010 we entered into the following:

- a collaboration agreement with ButylFuel LLC (a US entity) to jointly develop and market technologies in the field of biobutanol production to a particular customer for a wood pulp mill in Maine, US; and

- a letter of intent with Songyuan Laihe Chemicals Co., Ltd ("Songyuan"), to form a joint venture company to commercialise a technology that was developed by the Chinese Academy of Sciences in collaboration with Songyuan to produce advanced biofuel bio-butanol using cellulosic waste from agricultural produce such as straw and wood.

Leveraging on our technical know-how and customer base, our wholly owned subsidiary, Guangdong Zhongke Tianyuan New Energy Science and Technology Co. Ltd ("ZKTY"), ventured into a relatively new business area by providing technology and engineering solutions for the biogas production industry. Biogas refers to either methane, hydrogen or carbon dioxide rich gas that is produced as organic matter breaks down. This gas can be sold to local utility gas companies as fuel for domestic use. The Group specialises in the production of biogas through the treatment and anaerobic fermentation of waste by-products from the ethanol production process. The Group entered into two arrangements in 2010 to construct two pilot biogas projects in southern China, which we expect to complete by H1 2011. ZKTY intends to structure its customer contracts for its biogas business so that ZKTY will share the customer's revenue collected from selling the biogas, which will provide the Group with a source of recurring revenues. Your Directors believe that ZKTY's background and experience in designing and constructing ethanol production plants will help build a competitive strength for the Group in biogas production.

In October 2010, ZKTY acquired Guangdong Boluo Jiuneng High Technology Engineering Co., Ltd. ("Boluo"), a company incorporated in the People's Republic of China ("PRC"). Boluo fabricates and manufactures equipment in accordance with project requirements and designs, and provides its services exclusively to ZKTY. The key rationale for this acquisition was to reduce our dependency on outsourced manufacturing and to ensure quality of key components.

The Board is pleased to advise that the above initiatives, which were taken in 2010, are consistent with our business strategy of offering services which enable our customers to achieve cost and energy efficiencies and increase the quality and reliability of their production plants.

Market Prospects and Business Outlook

Our customers' products are mainly required in the renewable energy, beverage and chemical industries. The Group's performance is therefore driven in part by corresponding growth in these industries. The Directors believe that with its large and growing population, and changing social attitudes, the PRC will demonstrate increasing demand for edible alcohol for ethanol. In addition, due to the increasing industrial development in the PRC, there will be a corresponding increase in the demand for the Group's services from the ethanol downstream producers.

Demand for oil, energy security and reducing carbon emissions are also key drivers for our industry. China is an important participant in world energy markets. In the interests of its energy security, the PRC government has enacted various laws and regulations encouraging the use of renewable energy as a substitute for fossil fuels. Bioenergy, which includes biofuel, is widely considered to be one of the key alternatives to fossil fuel use, because of its easy acquisition and cleaner emissions. The National Development and Reform Commission ("NDRC") in the PRC forecasts that the production of ethanol will increase from 1.7 million tons in 2008 to 10 million tons in 2020. However, in another more recent report jointly conducted by Novozymes and the consultants McKinsey & Company, it is predicted that cellulosic biofuel (which is biofuel produced from wood, grasses or the non-edible organic matter) could be substituted for 31 million tons of gasoline in China by 2020, cutting the nation's oil imports by 10 per cent.

It should also be noted that the same drivers apply to most markets around the world. Developed countries such as those in Europe and the USA are all planning specific production blending targets of bioethanol with petrol (E10), which again is driven by energy security and carbon emission reduction goals. One of the company's aims for the coming period is to establish both a business and corporate development foothold in these markets.

The Directors believe that the Group's experience and track record in providing services to the bioenergy sector will position the Group well to benefit from the progressive development and growth in the bioenergy sector, particularly in China.

The Directors envisage the operating environment for FY2011 to be encouraging as, despite recent drops, the year-on-year price of oil remains high and the promotion of renewable energy globally augur well for positive development and growth in biofuel markets in both domestic and international markets. Since the second half of 2010, we have witnessed a sustained recovery in our customers' business activities, with our customers re-commencing projects that were previously suspended. Already, in the year to date, we have secured around RMB168 million worth of new contracts compared to RMB 57 million during the same period last year. The Group is currently exploring opportunities and negotiating with prospective customers for new projects in the PRC and overseas. Barring unforeseen circumstances such as delays and cancellations of projects, the Directors expect the Company to register increased revenue in FY2011.

Outlook

After two years of challenging conditions in 2009 and 2010, the Directors and Management Team are confident in the Company's outlook and are determined to position the Group for recovery and organic growth. To strengthen our market position and to add value to our existing business, the Group is actively exploring opportunities to expand into complimentary businesses or operations through acquisitions, joint ventures or strategic alliances. The Directors believe that the Group's status as a quoted company should allow the Group to take advantage of such opportunities as and when they arise, as it will have access to the public equity markets to assist it to raise funds for such acquisitions, or be able to use its quoted shares as a currency for acquisition. The Group undertakes to keep our shareholders duly and timely informed of such corporate activity.

Admission to AIM is a key milestone in the corporate development of China New Energy. The Board is committed to making the most of our quoted status and growing our business, to enhance shareholder value.

Conclusion

On behalf of the Board and management, I would like to thank all staff for their dedication and teamwork in 2010. I would also like to thank our shareholders and business partners for their invaluable support and confidence in China New Energy.

Yu Weijun
Chairman

29 June 2011

The Directors present their report and financial statements for the year ended 31 December 2010.

Principal activities

The principal activity of the Company is investment holding. The Group's principal activity is 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 in China.

Business review

As a result of global economic downturn and a significant fall in petrol prices towards the end of 2008, the level of activities and revenue has reduced from RMB224.2 million for the year ended 31 December 2008 to RMB125.3 million for the year ended 31 December 2009 before increasing to RMB 138.3 million for the year ended 31 December 2010.

Owing to the improved controls in construction contract costing and in working capital management during the year ended 31 December 2010, the Group's net profit margins improved from 25.2% to 29.1%. Profit after tax of RMB 20.0million for the year ended 31 December 2010 compared to a loss of RMB11.9million for the year ended 31 December 2009.

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 historic 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.

The business faces three principal risks. Firstly, the Group needs to expand and retain its current position in this industry. Future growth will be both organic and through potential acquisitions. There are a number of uncertainties relating to future acquisitions and there can be no guarantee that the Group will be able to expand as envisaged.

The Board of Directors meets regularly to review the future of the group and potential areas for growth.

Secondly, the Group may need to raise additional capital to fund its future expansion. There can be no assurance that the Group will be able to obtain such funding.

The Board of Directors actively monitors its capital to ensure that the Group operates as a going concern and maintains sufficient flexibility to process planned wishes. This process considers the variety of capital and the sources from which it would be found.

Thirdly, the Group's operating subsidiaries' functional currency is Chinese Yuan (''RMB''), the fluctuations in RMB could have an adverse effect on the Group's business and operating results.

In addition, the financial instruments and risk profile of the Group are set out in note 26.

Results and dividends

The consolidated revenue and profit after taxation for the year amounted to RMB138,359,000 (2009: RMB 125,301,000) and RMB 20,039,000 (2009: RMB 11,918,000) respectively, as set out in the Consolidated Statement of Comprehensive Income on page 10.

The Directors do not recommend a dividend payment for the year.

Post balance sheet events

Events after the balance sheet date have been disclosed in note 30.

Directors' interests

The following Directors have held office during the period and their interests as at 31 December 2010, 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:

Director		*Number of Ordinary Shares*	*Percentage of Ordinary Shares*
Yu Weijun		16,000,000	42.1
Tang Zhaoxing		12,000,000	31.5
Chen Yong (Appointed 25 March 2011)		-	-
Foo Shiang Peow (Appointed 25 March 2011)		-	-
Richard Bennett (Appointed 25 March 2011)		-	-
Jiang Xinchun (Resigned 18 March 2011)		5,000,000	13.2
Qiu Weiming (Resigned 18 March 2011)		5,000,000	13.2

In accordance with Article 22.2 of the Articles of Association of the company, all directors shall not remain in office for longer than 2 years since their last election or re-election without submitting themselves for re-election. The directors will retire by rotation, for which one third of Directors who have been in the office largest shall retire by rotation.

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 Company'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 Company's policy for the year ended 31 December 2010 is to settle the terms of payment with suppliers when agreeing the terms of the business transactions:

- ensure that suppliers are aware of the terms of payments by the inclusion of the relevant terms in contracts; and
- 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 2010 was 120 days *(2009: 135 days)*.

Going concern

The Directors are required to report that the business is a going concern, with supporting assumptions or qualifications as necessary.

After making enquiries, the Directors consider that the Company and the Group has adequate resources and committed borrowing facilities to continue in operational existence for the foreseeable future. Consequently, they have adopted the going concern basis in preparing the Financial Statements.

Financial instruments

Details of the Group's financial instruments are set out in note 27.

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 Company and 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 judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, 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 that they have complied with the above requirements in preparing the financial statements.

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

Statement of disclosure to auditor

The Directors have confirmed that:

- so far as each Director is aware, there is no relevant audit information of which the company's auditor 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 Company's auditor is aware of that information.

Auditor

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

By order of the Board

Yu Weijun
Director
29 June 2011

CHINA NEW ENERGY LIMITED

Independent Auditor's Report to the Members of China New Energy Limited

We have audited the Financial Statements of China New Energy Limited for the year ended 31 December 2010, which comprise the group and company Statement of Comprehensive Income, group and company Statement of Financial Position, group and company Statement of Cashflows, group and company Statement of Change in Equity and the related notes.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union. This report is made solely to the company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law, 1991. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

We read all the financial and non-financial information in the Chairman's Statement and the Directors Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2010 and of the group's profit and company's profit for the year then ended;

- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and

- the financial statements have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

Independent Auditor's Report to the Members of China New Energy Limited (continued)

Matter on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

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

Roland Malkin (Senior Statutory Auditor)
For and on behalf of Crowe Clark Whitehill LLP
(Statutory Auditors)

St Bride's House
10 Salisbury Square
London
EC4Y 8EH

29 June 2011

Note: The maintenance and integrity of the China New Energy Limited website is the responsibility of the directors. The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

CHINA NEW ENERGY LIMITED

Statement of Financial Position

		Group As at 31 December		Company As at 31 December	
	Note	**2010 RMB'000**	**2009 RMB'000**	**2010 RMB'000**	**2009 RMB'000**
Non-current assets					
Property, plant and equipment	4	11,118	6,809	-	-
Intangible assets	5	3,370	108	-	-
Deferred tax assets	6	-	2,370	-	-
Trade receivables	10	6,601	7,803	-	-
Investment in subsidiary	7	-	-	84,069	84,069
		21,089	17,090	84,069	84,069
Current assets					
Inventories	8	35,026	23,570	-	-
Due from customers for construction contracts	9	56,735	53,785	-	-
Trade and other receivables	10	45,675	32,954	4,054	550
Notes receivables		6,893	5,299	-	-
Cash and cash equivalents	11	10,631	19,743	772	3
		154,960	135,351	4,826	553
Current liabilities					
Trade and other payables	12	72,959	59,240	4,665	2,618
Due to customers for construction contracts	9	18,725	36,213	-	-
Notes payables		8,166	5,491	-	-
Income tax payable	12	1,118	-	19	21
Short-term borrowing		5,000	-	-	-
Convertible bonds	13	49,790	54,704	49,790	54,704
		155,758	155,648	54,474	57,343
Net current (liabilities)/assets		(798)	(20,297)	(49,648)	(56,790)
Non-current liabilities					
Deferred tax liabilities		1,018	1,055	-	-
		1,018	1,055	-	-
Net (liabilities)/assets		19,273	(4,262)	34,421	27,279
Equity					
Share capital	14	1,013	1,013	1,013	1,013
Share premium		29,354	29,354	29,354	29,354
Combination reserve	16	(33,156)	(33,156)	-	-
Statutory reserve	15	7,247	4,788	-	-
Convertible bonds reserve	13	9,722	9,722	9,722	9,722
Accumulated losses		(16,442)	(34,022)	(27,374)	(30,846)
Foreign currency translation reserve	17	21,535	18,039	21,706	18,036
		19,273	(4,262)	34,421	27,279

The notes on pages 17 to 53 form part of these financial statements.

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 29 June 2011.

Yu Weijun
Director

CHINA NEW ENERGY LIMITED

Statement of Comprehensive Income

		Group		Company	
		Year Ended 31 December			
	Note	**2010 RMB'000**	**2009 RMB'000**	**2010 RMB'000**	**2009 RMB'000**
Revenue	18	138,359	125,301	-	-
Cost of sales		(98,131)	(93,781)	-	-
Gross profit		40,228	31,520	-	-
Other operating income	19	464	5,563	7,883	-
Selling and distribution expenses		(3,909)	(3,129)	-	-
Administrative expenses		(10,934)	(11,221)	(3,007)	(1,094)
Other operating expenses	20	(2,187)	(5,470)	-	5,127
Interest expenses		-	(2,837)	(1,404)	(2,837)
Profit before income tax	21	23,662	14,426	3,472	1,196
Income tax expense	22	(3,623)	(2,508)	-	-
Profit for the financial year attributable to equity holders		20,039	11,918	3,472	1,196
Other comprehensive income: Exchange difference		3,496	(5,498)	3,670	(5,870)
Total comprehensive income for the financial year		23,535	(6,420)	7,142	(4,674)
Total comprehensive income attributable to equity holder		23,535	6,420	7,142	(4,674)
Earnings per share:					
Basic and diluted	23	3.50	1.77		

The notes on pages 17 to 53 form part of these financial statements.

All amounts are derived from continuing operations.

CHINA NEW ENERGY LIMITED

Consolidated Statement of Changes in Equity

	Share capital RMB'000	Share premium RMB'000	Combination reserve RMB'000	Statutory reserve RMB'000	Convertible bonds reserve RMB'000	Accumulated earnings/ (losses) RMB'000	Foreign currency translation reserve RMB'000	Total RMB'000
Balance at 1 January 2009	1,013	29,354	(33,156)	3,971	9,722	(45,123)	23,537	(10,682)
Profit for the year	-	-	-	-	-	11,918	-	11,918
Exchange difference arising on the translation of financial statements of overseas subsidiaries	-	-	-	-	-	-	(5,498)	(5,498)
Total comprehensive income for the year	-	-	-		-	11,918	(5,498)	6,420
Transfer to statutory reserve	-	-	-	817	-	(817)	-	-
Balance at 31 December 2009	1,013	29,354	(33,156)	4,788	9,722	(34,022)	18,039	(4,262)
Profit for the year	-	-	-	-	-	20,039	-	20,039
Exchange difference arising on the translation of financial statements of overseas subsidiaries	-	-	-	-	-	-	3,496	3,496
Total comprehensive income for the year	-	-	-		-	20,039	3,496	23,535
Transfer to statutory reserve	-	-	-	2,459	-	(2,459)	-	-
Balance at 31 December 2010	1,013	29,354	(33,156)	7,247	9,722	(16,442)	21,535	19,273

CHINA NEW ENERGY LIMITED

Company Statement of Changes in Equity

	Share capital	Share premium	Convertible bonds reserve	Accumulated earnings/ (losses)	Foreign currency translation reserve	Total
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Balance at 1 January 2009	1,013	29,354	9,722	(32,042)	23,906	31,953
Profit for the year	-	-	-	1,196	-	1,196
Exchange difference	-	-	-	-	(5,870)	(5,870)
Total comprehensive income for the year	-	-	-	1,196	(5,870)	(4,674)
Balance at 31 December 2009	1,013	29,354	9,722	(30,846)	18,036	27,279
Profit for the year	-	-	-	3,472	-	3,472
Exchange difference	-	-	-	-	3,670	3,670
Total comprehensive income for the year	-	-	-	3,472	3,670	7,142
Balance at 31 December 2010	1,013	29,354	9,722	(27,374)	21,706	34,421

CHINA NEW ENERGY LIMITED

Statement of Cash Flows

	Group		Company	
	Year ended 31 December			
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Operating activities				
Profit before income tax	23,662	14,426	3,472	1,196
Adjustments for:				
Depreciation and amortisation	1,761	1,419	-	-
Allowance for doubtful trade receivable	502	3,114	-	-
Allowance for impairment/(write back)	-	699	-	-
Loss/(gain) on disposal of property, plant and equipment	446	19	-	-
Interest income	-	(151)	-	-
Operating cash flows before movements in working capital	**26,371**	**19,526**	**3,472**	**1,196**
Inventories	(11,456)	9,406	-	-
Construction work-in-progress	(20,438)	427		-
Trade and other receivables	(11,511)	(11,352)	(348)	(51)
Notes receivables	(1,594)	(5,199)	-	
Trade and other payables	10,349	(4,524)	2,559	(1,375)
Notes payables	2,675	2,070	-	-
Deferred tax	2,370	-	-	-
Cash generated from/(used in) operations	**(3,234)**	**10,354**	**(5,683)**	**(230)**
Income taxes paid	(170)	(18)	-	-
Net cash from/(used in) operating activities	**(3,404)**	**10,336**	**5,683**	**(230)**
Investing activities				
Proceeds from disposal of property, plant and equipment	563	98	-	-
Acquisition of property, plant and equipment	(290)	(4,338)	-	-
Net cash outflow from acquisition of subsidiary	(6,067)	-	-	-
Interest received	-	151	-	-
Net cash from/(used in) investing activities	**(5,794)**	**(4,089)**	**-**	**-**
Financing activities				
Short-term borrowing	5,000	-	-	-
Proceeds from issuance/ (redemption) of convertible bonds	(4,914)	-	(4,914)	-
Net cash from/(used in) financing activities	**86**	**-**	**(4,914)**	**-**
Net increase/(decrease) in cash and cash equivalents	**(9,112)**	**6,247**	**769**	**(230)**
Cash and bank balances at beginning of year	19,743	13,663	3	211
Effect of foreign exchange rate changes in cash and bank balances	-	(167)	-	22
Cash and cash equivalents at end of year	**10,631**	**19,743**	**772**	**3**

Notes to the financial statements
1. General

The Company ("CNE") (Registration Number 93306) was incorporated in Jersey on 2 May 2006 as an investment holding Company with its registered office at Ordnance House, 31 Pier Road, St Helier, Jersey JE4 8PW.

The principal activities of the main subsidiary, Guangdong Zhongke Tianyuan New Energy Science and Technology Co Ltd., ("ZKTY") are engaged in 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. On 28 September 2010, the Group acquired Guongdong Boluo Jiumeng High Technology Engineering Co. Ltd, ("Boluo"), a company engaged in the fabrication and manufacture of equipment.

The principal place of business is located at Wushan, Tianhe District, Guangzhou, People's Republic of China ("PRC") and Guongdong, where the newly acquired subsidiary Boluo works from.

2. Summary of significant accounting policies

2.1. Basis of preparation

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

The individual financial information of each group entity are measured and presented in the currency of the primary economic environment in which the entity operates (its functional currency). The consolidated financial information of the CNE Group are presented in Chinese Renminbi ("RMB"), which is the presentation currency for the consolidated and Company financial statements. The functional currency of the Company is British pound sterling ("GBP"). As the CNE Group mainly operates in the PRC, RMB is used as the presentation currency of the CNE Group. All financial information presented in RMB has been recorded to the nearest thousand.

The consolidated financial information incorporates the financial information of the Company and its subsidiary. The Subsidiary is an entity (including special purposes entities) over which the Company has the power to govern the financial operating policies, generally accompanied by a shareholding giving rise to the majority of the voting rights, as to obtain benefits from their activities.

Amendments and interpretations to published standards not yet effective

At the date of authorisation of this consolidated information, the IASB and IFRIC have issued the following standards and interpretations which are effective for annual accounting periods beginning on or after the stated effective date.

The standards and interpretations that were in issue and have not been applied in these financial statements are listed below:
IFRS 9 - Financial Instruments (not yet adopted by the EU)
IAS24 - Related party disclosures (revised 2009)
Amendment to IAS32 - Classification of rights issue
IFRIC 19 - Extinguishing financial liabilities with equity instruments
Amendment to IFRIC 14 - Prepayments of minimum funding requirement
Improvements to IFRS issued May 2010
Amendment to IFRS7 - Financial Instruments: Disclosures (not yet adopted by the EU)
Amendment to IAS12 - Income Taxes (not yet adopted by the EU)

Notes to the financial statements (continued)

2. Summary of significant accounting policies (continued)

2.1. Basis of preparation (continued)

The Directors consider that adopting these standards and interpretations in the future will not have a material impact to the financial information.

Going concern

The Financial Statements have been prepared assuming the Group will continue as a going concern. Under the going concern assumption, an entity is ordinarily viewed as continuing in business for the foreseeable future with neither the necessity of liquidity, nor ceasing trading or seeking protection from creditors pursuant to laws or regulations. In assessing whether the going concern assumption is appropriate, management takes into account all available information for the foreseeable future, in particular for the twelve months from the date of approval of the Financial Statements. Based on the budgets prepared, management have a reasonable expectation that the group has adequate resources to continue its operational exercises for the foreseeable future and the group has adopted the going concern basis of accounting in preparing the financial statements. In making this assessment, the Group has specifically taken into consideration the settlement of the convertible bonds after the year end as referred to in notes 13 and 30.

2.2. Basis of consolidation

The subsidiary is consolidated from the date on which control is transferred to the Group up to the effective date on which control ceases, as appropriate.

Intra-Group balances and transactions and any unrealised income and expenses arising from intra-Group transactions are eliminated on consolidation. Unrealised gains arising from transactions with associates and joint ventures are eliminated against the investment to the extent of the Group’s interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no impairment.

The financial information of the subsidiary companies is prepared for the same reporting period as that of the Company, using consistent accounting policies. Where necessary, accounting policies of a subsidiary are changed to ensure consistency with the policies adopted by other members of the Group.

2.3. Business combinations within the scope of IFRS 3 (revised)

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the CNE Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree’s identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (revised) are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held-for-sale in accordance with IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at the lower of cost and fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the CNE Group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised.

Notes to the financial statements (continued)

2. Summary of significant accounting policies (continued)

2.3. Business combinations within the scope of IFRS 3 (revised) (continued)

When the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary acquired exceeds the cost of the business combination, and if, after reassessment, the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary acquired remains higher than the cost of the business combination, the excess is recognised immediately in the statement of comprehensive income.

The interest of minority shareholders in the acquiree is measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised. The acquisition during the current period of Boluo, as described further in note 29, has been accounted for using the purchase method.

2.4. Common control business combination outside the scope of IFRS 3 (revised)

A business combination involving entities under common control is a business combination in which all the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. For such common control business combinations, the merger accounting principles are used to include the assets, liabilities, results, equity changes and cash flows of the combining entities in the combined financial statements.

In applying merger accounting principles, financial statement items of the combining entities or businesses for the reporting period in which the common control combination occurs, and for any comparative periods disclosed, are included in the combined financial statements of the combined entity as if the combination had occurred from the date when the coming entities or businesses first came under the control of the controlling party or parties.

A single uniform set of accounting policies is adopted by the combined entity. Therefore, the combined entity recognises the assets, liabilities and equity of the combining entities or businesses at the carrying amounts in the combined financial statements of the controlling party or parties prior to the common control combination. The carrying amounts are included as if such combined entity's accounting policies and applying those policies to all periods presented. There is no recognition of any goodwill or excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of the common control combination. The effects of all transactions between the combining entities or businesses, whether occurring before or after the combination, are eliminated in preparing the combined financial statements of the combined entity.

The combination reserve represents the differences between the nominal amount of the share capital of the combining entities at the date on which it was acquired by the Group and the nominal amount of the share capital issued as consideration for the acquisition.

In this respect, the company has recognized in this manner its acquisition of Guongdong Zhangke Tianyuen New Energy Science and Technology Co. Ltd ("ZKTY"). In determining the appropriate accounting treatment for this transaction, the Directors considered IFRS 3 "Business Combinations" (Revised 2008). However, the transaction described above represents a combination of entities under common control.

Notes to the financial statements (continued)

2. Summary of significant accounting policies (continued)

2.4. Common control business combination outside the scope of IFRS 3 (revised)

In accordance with IAS 8 "Accounting Policies, changes in accounting estimates and errors", in developing an appropriate accounting policy, the Directors have considered the pronouncements of other standard setting bodie, specifically looking to accounting principles generally accepted in the United Kingdom ("UK GAAP") for guidance (FRS 6 – Acquisitions and mergers) which do not conflict with IFRS and reflect the economic substance of the transaction as a group reconstruction.

Under UK GAAP the assets and liabilities of both entities are recorded at book value, not fair value (although adjustments are made to achieve uniform accounting policies); intangible assets and contingent liabilities are recognised only to the extent that they were recognised by the legal acquiree in accordance with applicable IFRS, no goodwill is recognised, and any comparative amounts, if applicable, are restated as if the combination had taken place at the beginning of the earliest accounting period present.

Both entities had the same management as well as majority shareholders, illustrating common control.

On this basis the Directors decided that it was appropriate to reflect the combination using merger accounting principles as a group reconstruction under FRS 6 – acquisitions and mergers in order to give a true and fair view.

2.5. Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. The cost of property, plant and equipment includes its purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Dismantlement, removal or restoration costs are included as part of the cost of property, plant and equipment if the obligation for dismantlement, removal or restoration is incurred as a consequence of acquiring or using the property, plant and equipment.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their depreciable amounts over their estimated useful lives as follows:

	Years
Plant and machinery	5
Motor vehicles	10
Office equipment	5
Leasehold improvement	3

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The estimated useful lives, residual values and depreciation methods are reviewed, and adjusted as appropriate, at the end of each financial year.

The gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the Statement of Comprehensive Income.

Fully depreciated plant and equipment are retained in the financial statements until they are no longer in use.

2. Summary of significant accounting policies (continued)

2.6. Intangible assets

Computer software

Acquired computer software licenses are initially capitalised at cost which includes the purchase price (net of any discounts and rebates) and other directly attributable costs of preparing the software for its intended use. Direct expenditure which enhances or extends the performance of computer software beyond its specifications and which can be reliably measured is added to the original cost of the software. Costs associated with maintaining computer software are recognised as an expense as incurred.

Computer software licenses are subsequently carried at cost less accumulated amortisation and accumulated impairment losses. These costs are amortised to the Statement of Comprehensive Income using the straight-line method over their estimated useful lives of 3 years.

Land use rights

Land use rights are capitalised and stated at cost less accumulated amortisation and impairment losses. Amortisation is provided on a straight line basis over the term of the rights.

Patent rights

Patent rights acquired are initially recognised at cost less accumulated amortisation and accumulated impairment losses. These costs are amortised to the income statement using the straight-line method over 10 years.

The amortisation period and amortisation method of intangible assets other than goodwill are reviewed at the end of each financial year. The effects of any revision are recognised in the Statement of Comprehensive Income when the changes arise.

2.7. Impairment of tangible and intangible assets excluding goodwill

At the end of each financial year, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the Statement of Comprehensive Income, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

2. Summary of significant accounting policies (continued)

2.7. Impairment of tangible and intangible assets excluding goodwill (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss has been recognised for the asset or the cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in the Statement of Comprehensive Income, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

2.8. Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or tax deductible. The Group's liability for current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted in countries where the Company and its subsidiaries operate by the end of the financial year.

Deferred tax is recognised on the differences between the carrying amounts of assets and liabilities in the financial information and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised on taxable temporary differences arising on investment in subsidiary, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each financial year and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the financial year. Deferred tax is charged or credited to the Statement of Comprehensive Income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

2. Summary of significant accounting policies (continued)

2.8. Income tax (continued)

Current and deferred tax are recognised as an expense or income in the Statement of Comprehensive Income, except when they relate to items credited or debited directly to equity, (in which case the tax is also recognised directly in equity) or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

2.9. Financial instruments

Financial assets and financial liabilities are recognised on the Group's consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial instrument and allocating the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) throughout the expected life of the financial instrument, (or where appropriate, a shorter period), to the net carrying amount of the financial instrument. Income and expenditure are recognised on an effective interest basis for debt instruments other than those financial instruments recognised at fair value through the Statement of Comprehensive Income.

Financial assets

Financial assets within the scope of IAS 39 are classified as either:
(i) financial assets at fair value through profit or loss
(ii) loans and receivables
(iii) held-to-maturity investments
(iv) available-for-sale financial assets

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition and re-evaluates this classification at every reporting date. As at the balance sheet date, the Group did not have any financial assets held at fair value through profit or loss, and in the categories of held-to-maturity investments and available-for-sale financial assets.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase the asset. Regular way purchases and sales are purchases or sales of financial assets that require delivery of the financial assets within the period generally established by regulation or convention of the market place concerned.

Financial assets are derecognised when the rights to receive cash flow from the financial assets have expired or have been transferred and the Group have transferred substantially all risks and rewards of ownership.

Financial assets at fair value through profit or loss ("FVTPL")

Financial assets are classified in this category if they are acquired for the purpose of selling in the short term. Gains or losses on investments held for trading are recognised in the Statement of Comprehensive Income.

Notes to the financial statements (continued)

2. Summary of significant accounting policies (continued)

2.9. Financial instruments (continued)

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in active market are classified as loans and receivables. Loans and receivables are measured at amortised cost, using the effective interest method less impairment. Interest is recognised by applying the effective interest method, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than FVTPL, are assessed for indicators of impairment at the end of each financial year. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For financial assets carried, at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amounts of all financial assets are reduced by the impairment loss directly with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in the Statement of Comprehensive Income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through the Statement of Comprehensive Income to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity instruments, any subsequent increase in fair value after an impairment loss is recognised directly in equity.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds receivables.

2. Summary of significant accounting policies (continued)

2.9. Financial instruments (continued)

Financial liabilities and equity instruments

Classification as debt or equity

Financial liabilities and equity instruments issued by Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through the Statement of Comprehensive Income or other financial liabilities.

Financial liabilities are classified as at fair value through comprehensive income statement if the financial liability is either held for trading or it is designated as such upon initial recognition.

Other financial liabilities

Trade and other payables

Trade and other payables are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost, where applicable, using the effective interest method, with interest expense recognised on an effective yield basis.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

2.10. Inventories

Inventories are stated at the lower of cost and net realisable value. Costs comprise direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

2.11. Contract to construct specialised equipment ("Construction contracts")

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the balance sheet date ("percentage-of-completion method"). When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that are likely to be recoverable. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

2. Summary of significant accounting policies (continued)

2.11. Contract to construct specialised equipment ("Construction contracts")

Contract revenue comprises the initial amount of revenue agreed in the contract and variations in the contract work and claims that can be measured reliably. A variation or a claim is recognised as contract revenue when it is probable that the customer will approve the variation, or negotiations have reached an advanced stage such that it is probable that the customer will accept the claim.

The stage of completion is measured by reference to the contract costs incurred to date compared to the estimated total costs for the contract. Costs incurred during the financial year in connection with future activity on a contract are excluded from costs incurred to date when determining the stage of completion of a contract. Such costs are shown as construction contract work-in-progress on the balance sheet unless it is not probable that such contract costs are recoverable from the customers, in which case, such costs are recognised as an expense immediately.

At the balance sheet date, the aggregated costs incurred plus recognised profit (less recognised loss) on each contract is compared against the progress billings. Where costs incurred plus the recognised profits (less recognised losses) exceed progress billings, the balance is presented as due from customers on construction contracts. Where progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is presented as due to customers on construction contracts.

2.12. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

2.13. Leases

Operating Leases

Rentals payable under operating leases are charged to comprehensive income statement on a straight-line basis over the term of the relevant lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability and released to the income statement as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

2.14. Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the financial year, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Notes to the financial statements (continued)

2. Summary of significant accounting policies (continued)

2.14. Provisions (continued)

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Changes in the estimated timing or amount of the expenditure or discount rate are recognised in comprehensive income statement when the changes arise.

2.15. Share capital

Ordinary share capital is recognised at the fair value of the consideration received by the Company.

Incremental costs directly attributable to the issuance of new equity instruments are taken to equity as a deduction, net of tax, from the proceeds.

2.16. Retirement benefit costs

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities such as the social security plan in the PRC on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid.

Contributions to defined contribution plans are recognised as an expense in the statement of comprehensive income in the same financial year as the employment that gives rise to the contributions.

2.17. Compound financial instrument

Compound financial instrument issued by the Group comprise convertible bonds that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair values.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

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 end of the reporting period.

Notes to the financial statements (continued)

2. Summary of significant accounting policies (continued)

2.18. Revenue recognition

Revenue from construction contracts

Please refer to Note 2.11 “Contract to construct specialised equipment” for the accounting policy for revenue recognition from construction contracts.

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the applicable effective interest rate.

Income from sale of scrap materials

Income from sale of scrap materials is recognised upon the transfer of significant risks and rewards of ownership of the goods to customers, which generally coincides with delivery and acceptance of the goods sold.

2.19. Foreign currency transactions and translation

In preparing the financial statements of the individual entities, transactions in currencies other than the entity’s functional currency are recorded at the rate of exchange prevailing on the date of the transaction. At the end of each financial year, monetary items denominated in foreign currencies are retranslated at the rates prevailing as of the end of the financial year. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on retranslation of monetary items are included in comprehensive income statement for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in comprehensive income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group’s foreign operations (including comparatives) are expressed in Renminbi using exchange rates prevailing at the end of the financial year. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group’s translation reserve. Such translation differences are recognised in comprehensive income statement in the period in which the foreign operation is disposed of.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities (including monetary items that, in substance, form part of the net investment in foreign entities), are taken to the foreign currency translation reserve.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

2. Summary of significant accounting policies (continued)

2.20. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors and the chief executive officer who make strategic decisions.

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 2, management made judgements, estimates and assumptions about the carrying amounts of assets and liabilities that were not readily apparent from other sources. The estimates and associated assumptions were based on historical experience and other factors that were considered to be reasonable under the circumstances. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

3.1 Critical judgements in applying the entity's accounting policies

The following are the critical judgements, apart from those involving estimations (see below) that management has made in the process of applying the CNE Group's accounting policies and which have the significant effect on the amounts recognised in the financial information.

<u>Impairment of financial assets</u>

The Group follows the guidance of IAS 39 – Financial Instruments: Recognition and Measurement, in determining whether a financial asset is impaired. This determination requires significant judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of a financial asset is less than its cost and the financial health of and near-term business outlook for the financial asset, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

<u>Deferred tax assets</u>

Deferred tax assets are recognised to the extent that it is probable that the taxable profit will be available against which the deferred tax asset recognised can be utilised. Management's judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future tax planning strategies. The carrying amount of the Group's recognised deductible temporary differences as at 31 December, 2009 and 2010 were RMB 2.4 million and 0 respectively. Management is of the view that these deferred tax assets are considered to be fully recoverable based on anticipated future profitability of the Group.

3. Critical accounting judgements and key sources of estimation uncertainty (continued)

3.1 Critical judgements in applying the entity's accounting policies (continued)

Impairment of construction in progress

Provision for impairment on construction in progress is made when the construction project is suspended for a long period; the construction project is technically and physically obsolete and its economic benefits to the Group is uncertain; or other evidences can prove the existence of the decline in value of construction project. An impairment loss is recognised individually for the shortfall of the recoverable amount of construction in progress below its carrying amount. The carrying amounts of the CNE Group's, construction in progress as at 31 December 2009 and 2010 are disclosed in Note 9.

3.2 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the financial year, 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.

Allowance for trade and other receivables

Management reviews its loans and receivables for objective evidence of impairment at least quarterly. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy, and default or significant delay in payments are considered objective evidence that a receivable is impaired. In determining this, management makes judgment as to whether there is observable data indicating that there has been a significant change in the payment ability of the debtor, or whether there have been significant changes with adverse effect in the technological, market, economic or legal environment in which the debtor operates in.

Where there is objective evidence of impairment, management makes judgment as to whether an impairment in value should be recorded in the income statement. In determining this, management uses estimates based on historical loss experience for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between the estimated loss and actual loss experience.

The allowance policy for doubtful debts of the Group is based on the ageing analysis and management's ongoing evaluation of the recoverability of the outstanding receivables. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the assessment of the creditworthiness and the past collection history of each customer. If the financial conditions of these customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The carrying amounts of the Group's trade and other receivables as at 31 December 2009 and 2010 were RMB 33.0 million and RMB 45.7 million, respectively.

Construction contracts

Where the outcome of a construction contract can be estimated reliably, the Group recognises revenue and costs by reference to the stage of completion of the contract activity at the statement of financial position, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

3. Critical accounting judgements and key sources of estimation uncertainty (continued)

3.2 Key sources of estimation uncertainty (continued)

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent it is probable that contract costs incurred will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The Group's accounting approach reflects a sound judgment as potential losses on contract are being considered and reflected with its probability immediately upon occurrence while contract revenue which cannot be estimated reliably is realized only after confirmed by written agreement.

Impairment of intangible assets

Determining whether intangible assets are impaired requires an estimation of the value in use of the cash-generating units ("CGU") to which intangible assets have been allocated. The value-in-use calculation requires the entity to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value. No impairment loss was recognised during the financial year. The carrying amounts of the intangible assets as at 31 December 2009 and 2010 were RMB 108,000 and RMB 3,370,000, respectively.

Depreciation of property, plant and equipment

The Group depreciates the property, plant and equipment, using the straight-line method, over their estimated useful lives after taking into account of their estimated residual values. The estimated useful life reflects management's estimate of the period that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. The residual value reflects management's estimated amount that the Group would currently obtain from the disposal of the asset, after deducting the estimated costs of disposal, as if the asset were already of the age and in the condition expected at the end of its useful life. Changes in the expected level of usage and technological developments could affect the economics, useful lives and the residual values of these assets which could then consequentially impact future depreciation charges. The carrying amounts of the Group's property, plant and equipment as at 31 December 2009 and 2010 were RMB6.8 million and RMB11.1million, respectively.

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer demand and competitor actions in response to severe industry cycle. Management reassesses these estimates at each balance sheet date. The carrying amount of the Group's inventories as at 31 December 2009 and 2010 were RMB 23.6 million and RMB 35.0million, respectively.

Notes to the financial statements (continued)

4. Property, plant and equipment

	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Leasehold improvements RMB'000	Total RMB'000
As at 31 December 2009					
Cost					
At 1 January 2009	2,054	2,213	1,278	291	5,836
Additions	3,286	1,040	12	-	4,338
Disposals	-	(212)	(22)	-	(234)
Reclassification	(6)	-	6	-	-
At 31 December 2009	5,334	3,041	1,274	291	9,940
Accumulated depreciation					
At 1 January 2009	574	455	660	159	1,848
Charged for the year	973	175	164	88	1,400
Disposals	-	(108)	(9)	-	(117)
At 31 December 2009	1,547	522	815	247	3,131
Net book value					
At 31 December 2009	3,787	2,519	459	44	6,809
As at 31 December 2010					
Cost					
At 1 January 2010	5,334	3,041	1,274	291	9,940
Additions	685	140	189	411	1,425
On acquisition of subsidiary	4,839	1,030	7	-	5,876
On disposal	(446)	-	-	-	(446)
At 31 December 2010	10,412	4,211	1,470	702	16,795
Accumulated depreciation					
At 1 January 2010	1,547	522	815	247	3,131
Charged for the year	931	192	149	19	1,291
On acquisition of subsidiary	1,190	299	2	-	1,491
On disposal	(236)	-	-	-	(236)
At 31 December 2010	3,432	1,013	966	266	5,677
Net book value					
At 31 December 2010	6,980	3,198	504	436	11,118

The company holds no fixed assets.
As at 31 December 2010, leasehold improvements of the Group amounting to RMB436,000 (2009: nil) were pledged as security for the short term borrowing amounting to RMB5,000,000.

Notes to the financial statements (continued)

5. Intangible assets

	As at 31 December		Computer software	Patent	Technology Knowhow	Land use management	Total
	2010 RMB'000	**2009 RMB'000**					
Cost							
Balance at beginning of year	380	380	60	70	250	-	380
On acquisition of subsidiary	3,623	-	10	-	-	3,613	3,623
Balance at end of year	4,003	380	70	70	250	3,613	4,003
Accumulated amortisation							
Balance at beginning of year	272	253	14	8	250	-	272
Amortisation for the year	361	19	14	3	-	344	361
Balance at end of year	633	272	28	12	250	344	633
Net book value	3,370	108	42	58	-	3,269	3,370

Intangible assets include patents, computer software license and technology knowhow acquired. Amortisation of intangible assets is included in amortisation expense under administrative expenses.

The land use management was valued by a third party at RMB3.6million on acquisition in 2010.

The intangible assets are tested for impairment as part of the cash generating unit to which it belongs. The carrying amount of the cash generating units are tested for impairment based on 30 years discounted cash flow method for the period from year 2011 to 2050 at the discount rate of 8%.

A movement of 8% in the period and 10% in the discount factor would result in the request for an impairment of the intangible asset.

As at 31 December 2010, land use management of the Group amounting to RMB3,269,000 (2009: nil) were pledged as security for the short term borrowing amounting to RMB5,000,000.

6. Deferred tax assets

Deferred tax assets represents tax effect on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax based used in the computation of taxable profits. Movements in deferred tax asset are shown in Note 22 below.

Notes to the financial statements (continued)
7. Investment in subsidiary

The details of the subsidiary are as follows:

Name of subsidiary/ place of incorporation	Principal activity	Effective equity interest held by the Group	
		As at 31 December	
		2010	2009
Guangdong Zhongke Tianyuan New Energy Science and Technology Co Ltd / The PRC	Provision of engineering, procurement and construction services to ethanol producers.	100%	100%
Guongdong Boluo Jiuneng High Technology Engineering Co Ltd / The PRC	Boluo fabricates and manufactures equipment in accordance with project requirements and designs, and provides its services exclusively to ZKTY	100%	-

8. Inventories

	Group As at 31 December	
	2010	2009
	RMB'000	RMB'000
Raw materials	21,467	12,182
Work-in-progress	13,559	11,388
	35,026	23,570

The cost of inventories recognised as expense and included in "cost of sales" in 2009 and 2010 amounted to RMB 62.4 and RMB 64.3million, respectively.

Notes to the financial statements (continued)
9. Due from/to customers for construction contracts

	Group As at 31 December	
	2010	2009
	RMB'000	RMB'000
Aggregate costs incurred and profits recognised to - date	631,899	591,057
Less: Progress billings on outstanding contracts as at the year end	(552,885)	(529,424)
	79,014	61,633
Allowance for impairment	(41,004)	(44,061)
	38,010	17,572
Presented as:		
Due from customers for construction contracts	56,735	53,785
Due to customers for construction contracts	(18,725)	(36,213)
	38,010	17,572

Movements in allowance for impairment on amount due from customers for construction contracts are as follows:

	Group As at 31 December		Company As at 31 December	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year	44,061	43,362	-	-
Allowance for impairment/ (write back)	(3,057)	699	-	-
At end of the year	41,004	44,061	-	-

Notes to the financial statements (continued)

10. Trade and other receivables

	Group As at 31 December		Company As at 31 December	
	2010 RMB'000	**2009 RMB'000**	**2010 RMB'000**	**2009 RMB'000**
Current				
Trade receivables				
- Related party	-	-	1,404	550
- Third parties	72,875	65,591	-	-
- Group companies	-	-	2,650	-
	72,875	65,591	4,054	550
Allowance for impairment of receivables	(41,547)	(41,266)	-	-
	31,328	24,325	4,054	550
Other receivables				
Deposits	5,353	6,786	-	-
VAT recoverable	7,010			
Due from related parties		550	-	-
Due from shareholders		-	-	-
Others	1,987	1,293	-	-
Allowance for impairment	(3)	-	-	-
	1,984	1,293	-	-
	45,675	32,954	4,054	550
Non-current			-	
Trade receivables	6,601	7,803	-	-
	6,601	7,803	-	-

Deposits comprise office rental deposits and deposit to suppliers for the purchase of raw materials.

Other receivables comprise loans to employees.

As at 31 December 2009 and 2010 retention monies held by customers for contract work amounted to RMB6.6 million and RMB3. 8 million, respectively.

Notes to the financial statements (continued)

10. Trade and other receivables (continued)

The amounts due from related parties are non-trade, unsecured, non-interest bearing and repayable on demand.

The carrying amounts of other receivables approximate their fair values.

There is one trade receivables represents a project from a customer repayable in 5 years. The fair value of trade receivables current and non-current are as follows:

	Group As at 31 December		Company As at 31 December	
	2010	**2009**	**2010**	**2009**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Current				
Face value	73,849	66,164	4,054	550
Discount on trade receivables	(487)	(573)	-	-
Fair value	73,362	65,591	4,054	550
Non-current				
Face value	7,551	9,214	-	-
Discount on trade receivables	(949)	(1,411)	-	-
Fair value	6,602	7,803	-	-

Movements in allowance for doubtful debts in receivables are as follows:

	Group As at 31 December		Company As at 31 August	
	2010	**2009**	**2010**	**2009**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
At beginning of the year	41,266	40,383	-	-
Allowance during the year	502	3,114	-	-
Write off	(210)	(2,231)	-	-
At end of the year	41,558	41,266		-

The Group's historical experience in the collection of third parties trade receivable falls within the recorded allowances. Due to these factors, management believes that no additional credit risk beyond amounts provided for collection losses is inherent in the Group's receivables.

Notes to the financial statements (continued)

11. Cash and cash equivalents

	Group As at 31 December		Company As at 31 December	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at bank and on hand	10,631	19,743	772	3

The currency profiles of the CNE Group's cash and cash equivalents as at 31 December 2009 and 2010 are disclosed in Note 26.

12. Trade and other payables

	Group As at 31 December		Company As at 31 December	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables				
- Third parties	32,486	34,754	-	-
Other payables				
- Advance deposits from customers	15,229	9,878	-	-
- Other payables and accruals	8,452	7,505	19	20
- VAT payables	16,215	5,927	19	20
- Due to related parties	-	532	4,240	1,954
- Due to directors	577	644	577	644
	72,959	59,240	4,855	2,638

Other payables and accruals comprise expenses incurred for rental of office premises, entertainment expenses and audit fees.

The carrying amounts of trade and other payables approximate their fair values.

Notes to the financial statements (continued)

13. Convertible bonds

On 30 July 2007, the Company entered into a subscription agreement with Citadel. Under the subscription agreement, Citadel subscribed for an aggregate principal amount of US$12.0 million of convertible bonds (the "Convertible Bonds") issued by the Company and were originally matured on 30 July 2010. In October 2008, the Company entered into a redemption agreement (the "Redemption Agreement") with Citadel, whereby, the Company will pay the full amount of US$8.0 million to Citadel as full redemption of the principal amount of US$12.0 million.

On 17 October 2008, the Company redeemed US$4 million of the Convertible Bonds and met its first committed instalment payment of US$4 million, but failed to pay the second and third instalments of US$1.5 million in November 2008 and US$2.5 million in October 2009, respectively.

On 28 August 2009, the Company, Citadel and certain other parties entered into an agreement relating to a proposed reverse acquisition transaction with an investment company, which would purchase 100% of the issued ordinary shares of the Company in exchange for a cash payment and the issuance of new shares of this investment company to the shareholders of the Company (the "Reverse Acquisition"). It was agreed that upon completion of the Reverse Acquisition, US$4 million would be paid to Citadel and that the CBs would be cancelled. However, as the Reverse Acquisition did not occur, Citadel continues to hold an aggregate principal amount of US$8 million of CBs (the "Debt Principal"). Therefore, the parties wished to restructure the Debt Principal and entered into a term sheet relating to the settlement of the outstanding convertible bonds dated 10 September 2010 (the "Term Sheet").

On 21 December 2010, the Company and Citadel recorded the terms agreed for the full and final settlement of the Debt Principal on a binding basis (the "Settlement Agreement"). The settlement agreement cancels the convertible bond once a number of conditions are fulfilled, a number of which were outstanding at 31 December 2010. On this basis, these financial statements retain the convertible bonds as per the year ended 31 December 2009, taking into account foreign exchange variances.

The fair value of the liability component and the equity conversion component were determined at the date of the Convertible Loan Agreement. The fair value of the liability component, included in current liabilities, was estimated using prevailing market interest rate for a similar debt instruments without a conversion option. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity in convertible bonds reserve.

The Convertible Bonds recognised in the consolidated balance sheets is calculated as follows:

	Group As at 31 December		**Company As at 31 December**	
	2010	**2009**	**2010**	**2009**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Face value of convertible bonds	59,512	64,426	59,512	64,426
Equity conversion component	(9,722)	(9,722)	(9,722)	(9,722)
Fair value of debt	49,790	54,704	49,790	54,704
Represented by:				
Current	9,941	54,704	9,941	54,704
Non-current	39,849	-	39,849	-
Fair value of debt	49,790	54,704	49,790	54,704

Notes to the financial statements (continued)

14. Share capital

	Number of shares	Share capital	
		£ '000	RMB '000
At date of incorporation	2	-	-
Proceeds from shares issued	6,733,105	67	1,013
At 31 December 2009 and 2010	6,733,107	67	1,013

The Company has an authorised share capital of £10,000,000 divided into 1,000,000,000 shares of £0.01 each. In 2006, the Company issued 6,733,107 ordinary shares for total consideration of £2,019,150 net of expenses. These share issue expenses totaled £155,579.

The Company has one class of ordinary shares which carry no right to fixed income.

The holders of ordinary shares of the Company are entitled to receive dividends as and when declared by the Company.

All ordinary shares of the Company carry one vote per share without restriction.

Share premium represents an excess amount of capital raised by the Company over the par value of the share capital less share issue costs.

15. Statutory reserve

(a) Statutory surplus reserve

According to the relevant PRC regulations and the Articles of Association of the subsidiary, it is required to transfer 10% of its profit after income tax to the statutory surplus reserve until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before the distribution of dividends to equity owners. Statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into paid-in capital in proportion to the existing interests of equity owners, provided that the balance after such conversion is not less than 25% of the registered capital.

(b) Statutory public welfare fund

According to the relevant PRC regulations and the Articles of Association of the subsidiary, it is required to transfer 5% of its profit after income tax to the statutory public welfare fund. The statutory public welfare fund is established for the purpose of providing employee facilities and other collective benefits to its employees.

Movements in these accounts are set out in the consolidated statement of changes in equity.

16. Combination reserve

Combination reserve represents the differences between the nominal amount of the share capital of the combining entities at the date on which it was acquired by the Group and the nominal amount of the share capital issued as consideration for the acquisition of ZKTY as described further in note 2.4.

Notes to the financial statements (continued)

17. Foreign currency translation reserve

The foreign currency translation reserve represents exchange differences arising from the translation of the financial statements of foreign operations where functional currencies are different from that of the Group's presentation currency.

Movements in these accounts are set out in the consolidated statement of changes in equity.

18. Revenue

	Year ended 31 December	
	2010 RMB'000	2009 RMB'000
Contract revenue	138,359	125,301

19. Other operating income

	Group	
	Year ended 31 December	
	2010 RMB'000	2009 RMB'000
Interest income	-	151
Sale of scrap materials	464	149
Sundry income	-	137
Foreign exchange gain	-	5,126
	464	5,563

20. Other operating expenses

	Year ended 31 December	
	2010 RMB'000	2009 RMB'000
Research and development expense	1,128	1,029
Bank charges	101	110
Foreign currency exchange loss	1,425	393
Allowance for doubtful trade receivables	(434)	3,114
Allowance for doubtful non-trade receivables	-	-
Allowance for impairment on due from customers	-	699
Technical service fee	10	12
Others	(43)	113
	2,187	5,470

Notes to the financial statements (continued)

21. Profit/(loss) before income tax

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Staff costs including directors remuneration	7,376	7,043
Depreciation of property, plant and equipment	1,284	1,400
Write-off of property, plant and equipment	-	9
Gain/(loss) on disposal of property, plant and equipment	(446)	19
Amortisation of intangible assets	361	19
Operating lease	509	636

22. Income tax expense

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Current income tax	3,623	2,508
Deferred tax asset	-	2,370
Current income tax	1,018	1,055

The Company has been granted exempt Company status under Article 123A of the Income Tax (Jersey) Law 1961 for the years ended 31 December 2007 and 2008. With effect from 1 January 2009, exempt Company status was abolished and a general zero rate of Jersey corporate income tax was introduced.

Movements in deferred tax asset are as follows:

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
At beginning of the year	2,370	3,823
Tax paid		-
Utilised in the year	(2,370)	(1,453)
At end of the year	-	2,370

Movements in deferred tax liabilities are as follows:

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
At beginning of the year	1,055	-
Charged/reversal for the year	(37)	1,055
At end of the year	1,018	1,055

Notes to the financial statements (continued)

22. Income tax expense (continued)

On 1 September 2006, the Subsidiary was established in the PRC as a wholly foreign owned enterprise ("WFOE") under the laws of the PRC. In accordance with the "Income Tax Law of the PRC for Enterprise with Foreign Investment and Foreign Enterprise", where the Subsidiary is entitled to full exemption from Enterprise Income Tax ("EIT") for the first two years commencing from its first profitable year and, thereafter is entitled to a 50% relief of EIT for the next three years which results in an effective tax rate of 12.5%

Relationship between tax expense and accounting profit

A reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rate for the years ended 31 December 2008 and 2009 are as follows:

	Year ended 31 December	
	2010	**2009**
	RMB'000	**RMB'000**
Profit/(loss) before income tax	23,660	14,426
Income tax using PRC tax rate of 33% /25%	3,623	3,607
Expenses not deductible for tax purposes	-	705
Tax exempt income	-	(1,804)
	3,623	2,508

23. Earnings per share

The calculation for earnings per share (basic and diluted) for the relevant period is based on the profit after income tax attributable to equity holder for the years ended 31 December 2009 and 2010 are as follows:

	2010	**2009**
Profit attributable to equity holders (RMB'000)	20,037	11,918
Basic weighted average number of shares in issue during the period (thousands)	6,733	6,733
Diluted weighted average number of shares in issue during the period (thousands)	6,733	6,733
Earnings per share (basic and diluted) (RMB)	3.50	1.77

Notes to the financial statements (continued)

24. Operating lease commitments

As at each of the balance sheet date, the future aggregate minimum lease payments under non-cancellable operating leases contracted for but not recognised as liabilities, are as follows:

	2010 RMB'000	2009 RMB'000
Within one year	598	552
After one year but before five years	619	577
	1,217	1,129

Operating lease payments represent rents payable by the Group for office premises and other operating facilities. Leases are negotiated for an average term of 1 to 3 years and rentals are fixed for an average 3 years.

25. Significant related party transactions

a) Related parties are entities with common direct or indirect shareholders and/or directors. Parties are considered to be related if one party has the ability to control the other party in making financial and operating decisions.

Certain of the Group's transactions and arrangements are with related parties and the effect of these on the basis determined between the parties is reflected in these financial statements. The balances are unsecured, interest-free and repayable on demand unless otherwise stated.

During the financial year, in addition to those disclosed elsewhere in these financial statements, the following significant transactions took place at terms agreed between the parties:

	Year ended 31 December	
	2010 RMB'000	2009 RMB'000
Related parties		
- R&D expenses	-	-
- acquisition of Boluo Jiuneng company	6,099	-
- Purchase of a motor vehicle	-	900
- Deposit for investment	-	-
- Subcontracting fees	1,064	1,034
- Loan to a related party	-	-
- Disposal of a motor vehicle	-	-
- Payment on behalf of a related party	(7,134)	(1,211)
- Collection on behalf by a related party	-	-

Notes to the financial statements (continued)
25. Significant related party transactions (continued)

b) Key management personnel compensation is analysed as follows:

	Year ended 31 December	
	2010	**2009**
	RMB'000	**RMB'000**
Remuneration	1,460	1,190
Other short term benefits	33	149
	1,493	1,339

c) Directors' emoluments

Directors' remuneration for the year was:

	Short term employment benefits RMB'000	Post employment benefits RMB'000	Total RMB'000
2010			
Yu Weijun	600	-	600
Tang Zhaoxing	600	17	617
Jiang Xinchun	260	17	277
Qiu Weiming	-	-	-
Aggregate emoluments	1,460	34	1,494
2009			
Yu Weijun	621	-	621
Tang Zhaoxing	621	-	621
Jiang Xinchun	257	-	257
Qiu Weiming	-	-	-
Aggregate emoluments	1,499	-	1,499

Notes to the financial statements (continued)

26. Financial risk management

The Group's activities expose it to credit risk, liquidity risk and market risk (including interest rate risk, currency risk and commodity price risk). The Group's overall risk management strategy seeks to minimise adverse effects from the volatility of financial markets on the Group's financial performance.

The Board of Directors is responsible for setting the objectives and underlying principles of financial risk management for the Group. The Company management then establishes the detailed policies such as risk identification and measurement, exposure limits and hedging strategies, in accordance with the objectives and underlying principles approved by the Board of Directors.

There has been no change to the Group's exposure to these financial risks or the manner in which it manages and measures the risk. Market risk exposures are measured using sensitivity analysis indicated below.

Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in a loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group performs ongoing credit evaluation of its counterparties' financial condition. The Group does not hold any collateral as security over its customers. The Group's major classes of financial assets are cash and bank balances, trade and other receivables and notes receivable.

As at the end of the financial year/period, the Group's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the statements of financial position.

As at 31 December 2009, and 2010, substantially all the cash and bank balances as detailed in Notes 11 to the financial statements, are held in major financial institutions which are regulated and located in the PRC, which management believes are of high credit quality. The management does not expect any losses arising from non-performance by these counterparties.

Notes to the financial statements (continued)
26. Financial risk management (continued)

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date of the CNE Group is as follows:

	As at 31 December	
	2010	**2009**
	RMB'000	**RMB'000**
Cash and cash equivalents	10,631	19,743
Trade and other receivables	45,675	32,954
Notes receivables	6,893	5,299
	63,199	57,996

At the balance sheet date, the Group's trade receivable was due from the related parties and third parties. There was significant concentration of credit risk in the Group's trade receivables as the Group's five biggest customers accounted for 27% and 60% the total receivables as at 31 December 2009 and 2010 respectively.

Credit risk

Trade receivables that are past due but not impaired

The Group's trade receivables that are past due but not impaired are as follows:

	As at 31 December	
	2010	**2009**
	RMB'000	**RMB'000**
Less than 30 days	4,617	8,623
31-60 days	3,980	4,358
Over 60 days	23,207	11,344
	31,804	24,325

Trade receivables that are impaired

The Group's trade receivables that are impaired are as follows:

	As at 31 December	
	2010	**2009**
	RMB'000	**RMB'000**
Less than 30 days	502	-
31-60 days	-	-
Over 60 days	41,056	41,266
	41,558	41,266

Notes to the financial statements (continued)
26. Financial risk management (continued)

Currency risk

Currency risk arises from a change in foreign currency exchange rate, which is expected to have adverse effect on the Group in the current reporting year and in future years.

The Company and its subsidiary maintain their respective books and accounts in their functional currencies. As a result, the Group is subject to transaction and translation exposures resulting from currency exchange rate fluctuations. However, to minimise such foreign currency exposures, the Group uses natural hedges between sales receipts and purchases, and operating expenses disbursement. It is, and has been throughout the current and previous financial year the Group's policy that no derivatives shall be undertaken except for the use as hedging instruments where appropriate and cost-efficient. The Group does not apply hedge accounting.

The Group incurs foreign currency risk on sales, purchases and operating expenses that are denominated in currencies other than the respective functional currencies of Group entities, primarily the United States dollar ("US$").

The Group's currency exposure based on the information provided by key management is as follows:

	RMB '000	£ '000	US$ '000	EUR'000	Total
At 31 December 2010					
Financial assets					
Trade and other receivables	44,271	1,404	-	-	45,675
Notes receivables	6,893	-	-	-	6,893
Cash and bank balances	9,798	762	28	19	10,607
Financial liabilities					
Trade and other payables	68,294	4,665	-	-	72,959
Notes payables	8,166	-	-	-	8,166
Net financial assets	(15,498)	(2,499)	28	19	(17,950)
Less: Net financial assets denominated in the functional currency	(15,498)	-	-	-	(17,950)
Net currency exposure	**-**	**(2,499)**	**28**	**19**	**-**

Notes to the financial statements (continued)
26. Financial risk management (continued)

Currency risk (continued)

At 31 December 2009

Financial assets					
Trade and other receivables	35,518	-	-	-	35,518
Notes receivables	5,299	-	-	-	5,299
Cash and bank balances	19,599	3	136	5	19,743
	60,416	3	136	5	60,560
Financial liabilities					
Trade and other payables	56,607	-	-	-	56,607
Notes payables	5,491	-	-	-	5,491
	62,098	-	-	-	62,098
Net financial assets	(1,682)	3	136	5	(1,538)
Less: Net financial assets denominated in the functional currency	(1,682)	-	-	-	(1,682)
Net currency exposure	**-**	**3**	**136**	**5**	**144**

Sensitivity analysis

If the £ sterling and US$ vary against the RMB by 10% with all other variables including tax rate being held constant, the effect on the net profit will be as follows:

	Years ended 31 December	
	2010	**2009**
	RMB'000	**RMB'000**
£ against RMB		
- strengthen	76	-
- weaken	(76)	-
US$ against RMB		
- strengthen	3	14
- weaken	(3)	(14)
EUR against RMB		
- strengthen	2	-
- weaken	(2)	-

Interest rate risk

The Group has no significant interest-bearing liabilities and assets.

The Group monitors the interest rates on its interest bearing assets closely to ensure favourable rates are secured.

Notes to the financial statements (continued)
26. Financial risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Company's objective is to maintain a balance between continuity of funding and flexibility through financial support of related companies and secures committed funding facilities from financial institution.

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

	Less than one year RMB'000	Later than one year RMB'000	Total RMB'000
31 December 2010			
Trade and other payables	72,959	39,849	72,959
Notes payables	8,166	-	8,166
Convertible bonds	9,941	-	9,941
	91,066	39,849-	130,915
31 December 2009			
Trade and other payables	59,240	-	59,240
Notes payables	5,491	-	5,491
Convertible bonds	54,704	-	54,704
	119,435	-	119,435

Commodity price risk

The Group has commodity price risk as steel are one of the main components of raw materials. Metals are traded commodities and their prices are subject to the fluctuations of the world commodity markets. Any significant increases in the prices for metals will have a material adverse impact on the financial position and results of operation. The Group's profitability will be adversely affected if the Group is unable to pass on any increase in raw material prices to its customers on a timely basis or find cheaper alternative sources of supply.

The Group monitors the material price fluctuation closely and constantly studies other ways to reduce material wastage in order to reduce the impact of material price risk.

Capital risk management

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

The capital structure of the Group consists of equity attributable to equity holders of the parent, comprising share capital, share premium, statutory reserve, foreign currency translation reserve, and accumulated profits/(losses) as disclosed in the statements of financial position.

The Group manages its capital structure by making necessary adjustments to it in response to the changes in economic conditions.

The Group's strategy was to maintain gearing ratio between 85% to 100%. Gearing ratio is calculated as net debt divided by total of capital. Net debt is calculated as total debt (as shown in the statements of financial position) less cash and bank balances. Total capital is calculated as total equity plus net debt.

Notes to the financial statements (continued)
26. Financial risk management (continued)

Capital risk management (continued)

The gearing ratios as at 31 December 2009 and 2010 were as follows:

	Year ended 31 December	
	2010	**2009**
	RMB'000	**RMB'000**
Total debt	156,776	156,703
Less: Cash and bank balances	(10,631)	(19,743)
Net debt	146,145	136,960
Total equity	19,273	(4,262)
Total capital	165,418	132,698
Gearing ratio	100%	100%

A subsidiary of the Group is required by the relevant PRC regulations to contribute to and maintain a non-distributable statutory reserve fund whose utilisation is subject to approval by the relevant PRC authorities.

The Group manages capital by regularly monitoring its current and expected liquidity requirements. The Group is not subject to either internally or externally imposed capital requirements except for conversion of RMB into foreign currencies is subject to the rules and regulations of the foreign exchange control promulgated by the PRC government.

27. Fair value of financial instruments

The carrying amount of the financial assets and financial liabilities in the consolidated financial statements approximate their fair values due to the relative short term maturity of these financial instruments. The fair values of other classes of financial assets and liabilities are disclosed in the respective notes to the consolidated financial statements.

The fair values of financial assets and financial liabilities are determined as follows:

(i) the fair value of financial assets and financial liabilities with standard terms and conditions and trade on active liquid markets are determined with reference to quoted market prices;

(ii) the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow; and

(iii) the fair value of derivative instruments are calculated using quoted prices. Where such prices are not available, discounted cash flow analysis is used, based on the applicable yield curve of the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

Notes to the financial statements (continued)

28. Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments. The CNE Group's revenue breakdown by geographical location is determined based on our customers' country of incorporation.

The CNE Group's revenue breakdown by geographical location is determined based on its customers' country of incorporation. The CNE Group's cost of sales and operating expenses are aggregated on a cumulative basis and are not attributable to specific geographical regions. Therefore, a breakdown of gross profit for the financial years by geographical regions is not shown.

	Year ended 31 December	
	2010	**2009**
	RMB'000	**RMB'000**
PRC	103,081	115,610
Taiwan	32,996	70
Romania	2,282	8,244
Russia		1,377
	138,359	125,301

Business segment

The CNE Group's assets, liabilities and capital expenditure are almost entirely attributable to a single business segment of provision of technology and engineering services to ethanol, ethanol downstream product and biobutanol producers. Therefore, the CNE Group does not have separately reportable business segments under IFRS 8 *Segmental Reporting*. Nonetheless the CNE Group's revenue and results can be classified into the following streams:

a. EPC of plants producing ethanol and ethanol downstream products ("EPC activities"); and

b. Value-added and other value added services ("VAS") services.

	EPC activities RMB'000	**VAS RMB'000**	**Total RMB'000**
Revenue			
Year ended 31 December 2010	110,435	27,923	138,358
Year ended 31 December 2009	98,761	26,540	125,301
Results			
Year ended 31 December 2010	35,429	4,856	40,285
Year ended 31 December 2009	22,282	9,238	31,520

Notes to the financial statements (continued)

29. Acquisition of Guongdong Boluo Jiuneng High Technology Engineering Co Ltd

Purchase Consideration

	Book Value RMB'000	Adjustment RMB'000	Fair value RMB'000
Cash	6,099	-	6,099
Total purchase consideration	6,099	-	6,099
Fair value of net asset acquired	3,731	2,368	(6,099)
Goodwill on acquisition			-

The fair value adjustments that arose on acquisition related to intangible assets (RMB2,013k) and buildings (RMB 355k). See note 5 regarding the impairment testing performed.

30. Events after the balance sheet date

As disclosed further in note 13, a settlement agreement signed on 21 December 2010 with respect to the convertible bonds cancelled these instruments in exchange for the completion of a number of conditions, such as the issue of other instruments. Certain of these conditions were completed after the year end and the accounting will reflect this settlement in the next accounting period.

On 21 March 2011, pursuant to written resolutions passed by the shareholders of the Company, the Company approved (i) the subdivision of the authorised share capital of the Company into 10,000,000,000 ordinary shares of par value £0.001 each and (ii) that each existing issued ordinary share of par value £0.01 at such date be subdivided into 10 ordinary shares of par value £0.001 each, and (iii) that the Company's memorandum of association be amended to reflect the same.

On 15 April 2011 by resolutions of the Board, the Board approved the allotment of an aggregate of 2,019,932 ordinary shares of par value £0.001 each to EES Trustees International Limited, to be held on trust in accordance with the terms of the China New Energy Limited Employee Benefit Trust and to be allocated to certain named employees of the Group provided such persons remain employees of the Group on the anniversary of Admission.

On 6 May 2011, pursuant to written resolutions passed by the shareholders of the Company, the Company approved (i) the subdivision of the authorised share capital of the Company into 40,000,000,000 ordinary shares of par value £0.00025 each and (ii) that each existing issued ordinary share of par value £0.001 at such date be subdivided into 4 ordinary shares of par value £0.00025 each, and (iii) that the Company's memorandum of association be amended to reflect the same.

On 16 May 2011 by resolutions of the Board, the Board approved, conditional on Admission, (i) the allotment of up to 9,360,147 Ordinary Shares free of pre-exemption in connection with the Placing; (ii) that a further 2,966,845 Ordinary Shares be at the disposal of the Board pursuant to the warrant agreement to be executed in favour of Cairn in part settlement of fees; (iii) that a further 357,142 Ordinary Shares be allotted to Cairn on Admission in part settlement of fees; (iv) that a further 1,483,425 Ordinary Shares be allotted to SVS on Admission in part settlement of fees; and (v) that a further 8,079,728 Ordinary Shares be allotted to NovusAsia Capital Limited on Admission in part settlement of fees.

On 23 May 2011, the group raised £655,210 through a share placing at 7 pence per share and the shares of the Company were admitted for trading on the AIM market of the London Stock Exchange

On 9 June 2011, Citadel Equity Fund Ltd exercised its warrant in full. The warrant instrument was dated 22 December 2010 and granted Citadel warrants to subscribe for an aggregate of 20,271,720 ordinary shares in cash or upon the exercise of the cashless mechanism which would reduce the number of ordinary shares being issued. Citadel exercised the cashless mechanism which resulted in the issue and allotment of 7,932,412 new ordinary shares. Following the issue of this equity, Citadel had an interest of 2.60 per cent of the issued share capital of the company and ceased to have any interests in any warrants that had been granted by the Company.