

China New Energy Limited



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This Document, which is an admission document prepared in accordance with the AIM Rules for Companies, has been issued in connection with the application for Admission. Admission will not constitute an offer to the public requiring an approved prospectus under section 85 of FSMA or the Prospectus Rules published by the Financial Services Authority (“FSA”) (as amended) and accordingly this Document does not constitute a prospectus for these purposes and has not been pre-approved by the United Kingdom Listing Authority pursuant to section 85 of FSMA.

The Company (whose registered office appears on page 13 of this Document) and the Directors (whose names appear on page 13 of this Document) accept responsibility, both individually and collectively, for the information contained in this Document. To the best of the knowledge and belief of the Directors and the Company, who have taken all reasonable care to ensure that such is the case, the information contained in this Document is in accordance with the facts and contains no omission likely to affect the import of such information. In connection with this Document no person is authorised to give any information or make any representations other than as contained in this Document and, if given or made, such information or representation must not be relied upon as having been so authorised.

The delivery of this Document or any subscriptions or purchases made hereunder and at any time subsequent to the date of this Document shall not, under any circumstances, create an impression that there has been no change in the affairs of the Company since the date of this Document or that the information in this Document is correct.

CHINA NEW ENERGY LIMITED

(Incorporated in Jersey with registration number 93306)

Placing of 9,360,147 Ordinary Shares at a price of 7p per share and Admission of Ordinary Shares to trading on AIM

Nominated Adviser



Cairn Financial Advisers LLP

Authorised and Regulated by the Financial Services Authority

Financial Adviser and Broker



SVS Securities plc

Authorised and Regulated by the Financial Services Authority

18 May 2011

SHARE CAPITAL ON ADMISSION

Authorised			Issued and fully paid		
Amount		Number	Amount		Number
£10,000,000		40,000,000,000	£74,171.11		296,684,450

Application has been made for the Ordinary Shares to be admitted to trading on AIM, a market operated by London Stock Exchange plc. AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the official list of the United Kingdom Listing Authority (“Official List”). A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. Each AIM company is required pursuant to the AIM Rules for Companies to have a nominated adviser. The nominated adviser is required to make a declaration to London Stock Exchange on admission in the form set out in Schedule Two to the AIM Rules for Nominated Advisers. The London Stock Exchange has not itself examined or approved the contents of this Document.

The rules of AIM are less demanding than those of the Official List. It is emphasised that no application will be made for admission of the Ordinary Shares to the Official List. No application has been or will be made for the Ordinary Shares to be listed on any other regulated investment exchange.

The whole of this Document should be read. An investment in the Company involves a significant degree of risk, may result in the loss of the entire investment and may not be suitable for all recipients of this Document. Your attention is also drawn to the section headed “Risk Factors” which is set out in Part II of this Document.

It is expected that Admission will become effective and dealings in the Ordinary Shares of the Company will commence on 23 May 2011.

The distribution of this Document outside the UK may be restricted by law. No action has been taken by the Company, the holders of the Ordinary Shares, Cairn Financial Advisers LLP or SVS Securities plc that would permit a public offer of Ordinary Shares or possession or distribution of this Document where action for those purposes is required. Persons outside the UK who come into possession of this Document should inform themselves about and observe any restrictions on the holding of Ordinary Shares and/or the distribution of this Document in their particular jurisdiction. Failure to comply with these restrictions may constitute a violation of the securities laws of such jurisdiction.

This Admission Document does not constitute an offer to sell or an invitation to subscribe for, or solicitation of an offer to subscribe or buy Ordinary Shares to any person in any jurisdiction to whom it is unlawful to make such an offer or solicitation. In particular this Document is not for distribution (directly or indirectly) in or into the United States of America, Canada, Australia, Japan, the Republic of Ireland, the British Virgin Islands, Singapore or South Africa. Accordingly the Ordinary Shares may not, subject to certain exceptions, be offered directly or indirectly in or into the United States of America, Canada, Australia, Japan, the Republic of Ireland, the British Virgin Islands, Singapore or South Africa. The Ordinary Shares have not been and will not be registered under the United States Securities Act of 1933 (as amended) or under the securities legislation of any state of the United States.

of America, Canada, Australia, Japan, the Republic of Ireland, the British Virgin Islands, Singapore or South Africa and they may not be offered or sold directly or indirectly within the United States of America, Canada, Australia, Japan, the Republic of Ireland, the British Virgin Islands, Singapore or South Africa or to or for the account or benefit of any national, citizen or resident of the United States of America, Canada, Australia, Japan, the Republic of Ireland, the British Virgin Islands, Singapore or South Africa.

A copy of this Document has been delivered to the registrar of companies in accordance with Article 5 of the Companies (General Provisions) (Jersey) Order 2002, and the registrar has given, and has not withdrawn, consent to its circulation. The Jersey Financial Services Commission has given, and has not withdrawn, its consent under Article 2 of the Control of Borrowing (Jersey) Order 1958 to the issue of securities in the Company. It must be distinctly understood that, in giving these consents, neither the registrar of companies nor the Jersey Financial Services Commission takes any responsibility for the financial soundness of the Company or for the correctness of any statements made, or opinions expressed, with regard to it. If you are in any doubt about the contents of this Document you should consult your stockbroker, bank manager, solicitor, accountant or other financial adviser. The Directors of the Company have taken all reasonable care to ensure that the facts stated in this Document are true and accurate in all material respects, and that there are no other facts the omission of which would make misleading any statement in the Document, whether of facts or of opinion. All the Directors accept responsibility accordingly. It should be remembered that the price of securities and the income from them can go down as well as up.

Cairn Financial Advisers LLP, which is regulated in the UK by the FSA, is acting as the Company's nominated adviser in connection with the proposed Admission. Cairn Financial Advisers LLP's responsibilities as the Company's nominated adviser under the AIM Rules for Nominated Advisers are owed solely to the London Stock Exchange and are not owed to the Company or to any Director, or to any other person in respect of his decision to acquire Ordinary Shares in reliance on any part of this Document. No representation or warranty, express or implied, is made by Cairn Financial Advisers LLP as to, and no liability whatsoever is accepted by Cairn Financial Advisers LLP for the accuracy of any information or opinions contained in this Document or for the omission of any material information from this Document for which the Company and the Directors are solely responsible. Cairn Financial Advisers LLP will not be offering advice and will not otherwise be responsible for providing customer protections to recipients of this Document in respect of any acquisition of Ordinary Shares.

SVS Securities plc ("SVS"), which is regulated in the UK by the FSA, is acting as broker and financial adviser in connection with the proposed Placing and Admission of the Company's Ordinary Shares to trading on AIM. No representation or warranty, express or implied, is made by SVS as to any of the contents of this Document (without limiting the statutory rights of any person to whom this Document is issued). No liability whatsoever is accepted by SVS for the accuracy of any information or opinions contained in this Document or for the omission of any material information from this Document for which the Company and the Directors are solely responsible. SVS will not be offering advice and will not otherwise be responsible for providing customer protections to recipients of this Document in respect of any acquisition of shares in the Company.

Copies of this Document will be available free of charge during normal business hours on any weekday (except Saturdays and public holidays) at the offices of Cairn Financial Advisers LLP, 61 Cheapside, London EC2V 6AX from the date of this Document and shall remain available for a period of one month from Admission.

IMPORTANT INFORMATION

The information below is for general guidance only and it is the responsibility of any person or persons in possession of this Document to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. No person has been authorised by the Company to issue any advertisement or to give any information or to make any representation in connection with the contents of this Document and, if issued, given or made, such advertisement, information or representation must not be relied upon as having been authorised by the Company. This Admission Document does not constitute, and may not be used for the purposes of, an offer or solicitation to anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation. In particular, this Document does not constitute an offer to sell or the solicitation of an offer to buy any of the Ordinary Shares in the United States of America (or any of its territories or possessions), Canada, Australia, South Africa, the Republic of Ireland, the British Virgin Islands, Singapore or Japan (collectively, the “Prohibited Territories”) and this Document should not be forwarded or transmitted to or into the Prohibited Territories or to any resident, national, citizen or corporation, partnership or other entity created or organised under the laws thereof or in any other country outside the United Kingdom where such distribution may lead to a breach of any legal or regulatory requirement. The distribution of this Document may be restricted and accordingly persons into whose possession this Document comes are required to inform themselves about and to observe such restrictions.

Prospective investors should inform themselves as to: (a) the legal requirements of their own countries for the purchase, holding, transfer or other disposal of the Ordinary Shares; (b) any foreign exchange restrictions applicable to the purchase, holding, transfer or other disposal of the Ordinary Shares which they might encounter; and (c) the income and other tax consequences which may apply in their own countries as a result of the purchase, holding, transfer or other disposal of the Ordinary Shares. Prospective investors must rely upon their own representatives, including their own legal advisers and accountants, as to legal, tax, investment or any other related matters concerning the Company and an investment therein. Statements made in this Document are based on the law and practice currently in force in England, China and Jersey and are subject to change. This Document should be read in its entirety. All holders of Ordinary Shares are entitled to the benefit of, and are bound by and are deemed to have notice of, the provisions of the Articles of the Company.

FORWARD-LOOKING STATEMENTS

This Admission Document includes forward-looking statements. These statements relate to, among other things, analyses and other information that are based on forecasts of future results and estimates of amounts not yet determinable. These statements also relate to the Company’s future prospects, developments and business strategies.

These forward-looking statements are identified by the use of terms and phrases such as “anticipate”, “believe”, “could”, “estimate”, “expect”, “intend”, “may”, “plan”, “predict”, “project”, “will” or the negative of those variations, or comparable expressions, including references to assumptions. These statements are contained in all sections of this Document. The forward-looking statements in this Document, including statements concerning projections of the Company’s future results, operating profits and earnings, are based on current expectations and are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied by those statements.

Certain risks to the Company are specifically described in Part II “Risk Factors”. If one or more of these risks or uncertainties arises, or if underlying assumptions prove incorrect, the Company’s actual results may vary materially from those expected, estimated or projected. Given these uncertainties, potential Shareholders should not place over-reliance on forward-looking statements. The Company undertakes no obligation to update forward-looking statements or risk factors other than as required by applicable law, whether as a result of new information, future events or otherwise.

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PLACING STATISTICS

Number of Existing Ordinary Shares	277,404,008
Number of Placing Shares	9,360,147
Further Ordinary Shares issued to advisers on Admission	9,920,295
Number of Ordinary Shares in issue following Admission	296,684,450
Number of warrants in issue following Admission	23,238,565
Placing Price	7p
Market capitalisation of the Company at the Placing Price on Admission	£20.8 million
Estimated net proceeds of the Placing receivable by the Company	£60,000
ISIN Code	JE00B3RWLF12
AIM Symbol	CNEL

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

	<i>2011</i>
Publication of this AIM Admission Document	18 May
Admission to trading on AIM effective and commencement of dealings in the Ordinary Shares	8.00 a.m. on 23 May
CREST stock accounts credited in respect of Placing Shares in uncertificated form	23 May
Definitive share certificates in respect of Placing Shares in certificated form despatched by	13 June

DEFINITIONS

The following definitions apply throughout this Document unless the context requires otherwise:

“2006 Act”	the UK Companies Act 2006, as amended
“Admission Document” or “Document”	this document
“Admission”	the admission of the entire issued and to be issued ordinary share capital of the Company to trading on AIM becoming effective in accordance with the AIM Rules for Companies
“AIM”	the market of that name operated by the London Stock Exchange
“AIM Rules”	the AIM Rules for Companies and the AIM Rules for Nominated Advisers
“AIM Rules for Companies”	the rules which set out the obligations and responsibilities in relation to companies whose shares are admitted to AIM as published by the London Stock Exchange from time to time
“AIM Rules for Nominated Advisers”	the rules which set out the eligibility, obligations and certain disciplinary matters in relation to nominated advisers as published by the London Stock Exchange from time to time
“Articles”	the articles of association of the Company for the time being, a summary of which is set out in paragraph 7 of Part V of this Document
“Board” or “Directors”	the current directors of the Company, whose names are set out on page 13 of this Document
“Boluo”	Guangdong Boluo Jiuneng High-New Technology Engineering Co., Ltd., a company incorporated in the PRC and a wholly owned subsidiary of ZKTY
“Business Day”	any day on which the London Stock Exchange is open for the transaction of business
“Cairn”	Cairn Financial Advisers LLP, the Company’s nominated adviser
“Cairn Warrant Instrument”	the warrant instrument dated on or around 18 May 2011 and entered into between Cairn (1) and the Company (2) pursuant to which the Cairn Warrants will be issued, further details of which are set out in paragraph 8.8 of Part V of this Admission Document
“Cairn Warrants”	the warrants to be issued to Cairn pursuant to the terms of the Cairn Warrant Instrument, as more particularly described in this Admission Document
“Citadel”	Citadel Equity Fund Ltd, a company incorporated in the Cayman Islands whose registered office is at c/o Maples Corporate Services Limited, P.O.Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands

“Citadel Warrants”	the warrants issued to Citadel pursuant to the terms of the Citadel Warrant Instrument, as more particularly described in this Admission Document
“Citadel Warrant Instrument”	the warrant instrument dated 22 December 2010 and entered into between Citadel (1) and the Company (2) pursuant to which the Citadel Warrants have been issued, further details of which are set out in paragraph 8.7 of Part V of this Admission Document
“Companies Law”	the Companies (Jersey) Law 1991 (as amended)
“Company” or “CNE”	China New Energy Limited
“CREST Regulations”	the Uncertificated Securities Regulations 2001 of the UK (SI 2001/3755) and the Companies (Uncertificated Securities) (Jersey) Order 1999 (as amended)
“CREST”	the computerised settlement system (as defined in the CREST Regulations) operated by Euroclear UK & Ireland Limited which facilitates the transfer of title to shares in uncertificated form
“DTR”	the Disclosure and Transparency Rules as set out in the FSA Handbook
“Enlarged Share Capital”	the enlarged share capital of the Company upon Admission, comprising the Existing Ordinary Shares and the Placing Shares and those new Ordinary Shares to be allotted to Cairn, SVS and NovusAsia Capital Limited immediately prior to Admission as set out in paragraphs 8.4 and 8.11 of this Document
“Euroclear”	Euroclear UK & Ireland Limited, a company incorporated under the laws of England and Wales and the operator of CREST, formerly known as CrestCo.
“Existing Ordinary Shares”	the 277,404,008 Ordinary Shares in issue as at the date of this Document
“FSA”	the United Kingdom Financial Services Authority
“FSMA”	the Financial Services and Markets Act 2000 of the United Kingdom (as amended)
“GIEC CAS”	Guangzhou Institute of Energy Conversion, Chinese Academy of Sciences
“Group”	the Company and its subsidiaries from time to time, to include, where the context so requires, an investment that the Company or any of its subsidiaries makes in a corporate body
“Guangzhou Baojie”	Guangzhou Baojie Electromechanical Co., Ltd, a company incorporated in the PRC and a former shareholder of 49 per cent. of Boluo
“GZTY Regeneration Resources”	Guangdong Zhongke Tianyuan Regeneration Resources Engineering Co., Ltd, a company incorporated in the PRC and a former shareholder of 51 per cent. of Boluo

“HMRC”	Her Majesty’s Revenue & Customs
“IFRS”	International Financial Reporting Standards
“ISIN”	International Security Identification Number
“London Stock Exchange”	London Stock Exchange plc
“Memorandum”	the memorandum of association of the Company
“Official List”	the official list of the United Kingdom Listing Authority
“Ordinary Shares” or “Shares”	ordinary shares of £0.00025 each in the capital of the Company
“Placing Agreement”	the conditional agreement dated 18 May 2011 between SVS (1), Cairn (2), the Company (3) and the Directors (4) relating to the Placing and Admission, details of which are set out in paragraph 8.4 of Part V of this Document
“Placing Price”	7p per Placing Share
“Placing Shares”	9,360,147 new Ordinary Shares to be issued pursuant to the Placing
“Placing”	the conditional placing by SVS on behalf of the Company of the Placing Shares pursuant to the Placing Agreement
“PLUS”	PLUS Markets Group plc, a recognised investment exchange under section 290 of FSMA
“PLUS-quoted Market”	the PLUS-quoted market operated by PLUS which allows trading of shares in unlisted companies
“PRC” or “China”	the People’s Republic of China
“Prohibited Territories”	United States of America (or any of its territories or possessions), Canada, Australia, South Africa, the Republic of Ireland, the British Virgin Islands, Singapore and Japan and any other territory in which it would be unlawful to send a copy of this Admission Document and/or allot Ordinary Shares
“Prospectus Rules”	the rules made for the purposes of Part VI of FSMA in relation to offers of securities to the public and admission of securities to trading on a regulated market
“Registrar”	Computershare Investor Services (Jersey) Limited
“Regulatory Information Service Provider” or “RIS”	a regulatory information service provider that is approved by the FSA
“Securities Act”	the United States Securities Act 1933 as amended
“Shareholders”	holders of the Ordinary Shares from time to time

“Substantial Shareholder”	any person who, on Admission, holds any legal or beneficial interest directly or indirectly in 10 per cent. or more of the Enlarged Share Capital or voting rights of the Company, as defined in the AIM Rules for Companies
“SVS”	SVS Securities plc, broker to the Company
“Takeover Code”	The City Code on Takeovers and Mergers in the United Kingdom
“Takeover Panel”	the Panel on Takeovers and Mergers
“UK Corporate Governance Code”	the UK Corporate Governance Code, published by the Financial Reporting Council
“UK” or “United Kingdom”	the United Kingdom of Great Britain and Northern Ireland
“US”	the United States of America
“UNIDO”	United Nations Industrial Development Organization
“WFOE”	Wholly foreign owned enterprise
“ZKTY”	Guangdong Zhongke Tianyuan New Energy Science and Technology Co. Ltd, a company incorporated in the PRC, a wholly owned subsidiary of the Company and the Group’s trading subsidiary

CURRENCIES AND UNITS OF MEASUREMENTS

“GBP” or “£” or “Sterling”	Pounds Sterling, the lawful currency of the United Kingdom
“RMB” or “RMB cents”	Renminbi and Renminbi cents, respectively, the lawful currency of the PRC
“USD” or “\$”	United States of American dollar, the lawful currency of the United States of America
“l/d”	Litres per day
“sq m”	Square metres
“t/d”	Tonnes per day
“t/y”	Tonnes per year
“%”	Per cent. or percentage

INDICATIVE EXCHANGE RATES

	As at 31 December 2010	As at 16 May 2011
GBP : RMB	10.2159	10.5189
USD : RMB	6.5910	6.4949
GBP : USD	1.5500	1.6196

Source: www.oanda.com

TECHNICAL GLOSSARY, ABBREVIATIONS & ACRONYMS

“acetic acid”	An organic acid, which gives vinegar its sour taste and pungent smell. It is a weak acid, in that it is only a partially dissociated acid in an aqueous solution. Pure, water-free acetic acid (glacial acetic acid) is a colourless liquid that absorbs water from the environment (hygroscopy), and freezes at 16.5 °C (62 °F) to a colourless crystalline solid.
“biobutanol”	Butanol produce from biomass.
“bioenergy”	Renewable energy made from materials derived from biological sources.
“Bluesky Award”	Awarded by UNIDO for investment scenarios leading to global impact of new technologies and innovations in the field of renewable energy and sustainable development, and which stimulate investment flow into technology transfers to developing countries and to encourage further development and application of technological advances of renewable energy utilisation.
“butanol”	<p>Can refer to any of the four isomeric alcohols of formula C₄H₉OH:</p> <ul style="list-style-type: none">• n-Butanol, butan-1-ol, 1-butanol, n-butyl alcohol;• Isobutanol, 2-methylpropan-1-ol, isobutyl alcohol;• sec-Butanol, butan-2-ol, 2-butanol, sec-butyl alcohol; and• tert-Butanol, 2-methylpropan-2-ol, tert-butyl alcohol.
“CE standard”	Conformité Européenne (CE) standards in relation to consumer safety, health or environmental concerns. Compliance with these standards is mandatory for many products in the European Economic Area.
“distillation”	A method of separating mixtures based on differences in their volatilities in a boiling liquid mixture.
“downstream”	Downstream refers to the output from, or to a later stage in, a manufacturing process or a series of subsequent processes.
“edible alcohol”	Ethanol used in the consumable products such as alcoholic beverages.
“ethane”	Ethane, a natural odourless and colourless gas that is included in the first four primary alkanes: methane, ethane, propane, and butane. Ethane is categorized as a clean fuel and is also the second main constituent of natural gas after methane. Apart from natural gas, it also naturally occurs as a dissolved component in petroleum oil.
“ethanol fuel”	Ethanol (ethyl alcohol), the same type of alcohol found in alcoholic beverages. It can be used as a transport fuel, mainly as a biofuel additive for gasoline.
“ethanol”	Best known as the type of alcohol in alcoholic beverages. A straight-chain alcohol, and its molecular formula is C ₂ H ₅ OH. Its empirical formula is C ₂ H ₆ O. An alternative notation is CH ₃ –CH ₂ –OH,

which indicates that the carbon of a methyl group (CH_3-) is attached to the carbon of a methylene group ($-\text{CH}_2-$), which is attached to the oxygen of a hydroxyl group ($-\text{OH}$). It is a constitutional isomer of dimethyl ether.

“fermentation”

A biological process in which sugars such as glucose, fructose, and sucrose are converted into cellular energy and thereby produce ethanol and carbon dioxide as metabolic waste products.

“ISO 9001:2000”

International specification for a quality management system. The ISO 9000 family is one of the management standards and guidelines of ISO. The 3 standards, namely, ISO 9001, ISO 9002 and ISO 9003 have been integrated into the new ISO 9001:2000. ISO 9001:2000 specifies the requirements for the management system of any organisation that demonstrates its ability to consistently provide products that meet customer and applicable regulatory requirements and aims to enhance customer satisfaction. It covers the following 8 management principles – customer focus, leadership, involvement of people, process approach, system approach management, continual improvement, factual approach to decision making and mutually beneficial supplier relationship. The maintenance of accreditation requires annual surveillance audit.

“methanol”

Also known as methyl alcohol, wood alcohol, wood naphtha or wood spirits.

DIRECTORS, SECRETARY AND ADVISERS

Directors	Mr. Yu <u>Weijun</u> – Executive Chairman Mr. Tang <u>Zhaoxing</u> – Chief Executive Officer Prof. Chen <u>Yong</u> – Non-executive Director Mr. Foo <u>Shiang</u> Peow – Non-executive Director Mr. <u>Richard</u> Bennett – Non-executive Director
<i>all of the registered office:</i>	Queensway House, Hilgrove Street St. Helier Jersey JE1 1ES Channel Islands
Telephone Number	00 86 20 8705 7185
Operating Subsidiaries	Guangdong Zhongke Tianyuan New Energy Science and Technology Co., Ltd Room 210, Floor 2 Integration Service Building Guangzhou Science and Technology Innovation Base 80 Lanyue Road, Science Town High & New Technology Industry Development Zone Guangzhou, China Guangdong Boluo Jiuneng High-New Technology Engineering Co. Ltd Zhouji High & New Technology Industrial Zone Boluo County Guangdong Province China
Company Secretary	Computershare Company Secretarial Services (Jersey) Limited Queensway House, Hilgrove Street St. Helier Jersey JE1 1ES Channel Islands
Website	www.chinanewenergy.co.uk

Nominated Adviser	Cairn Financial Advisers LLP 61 Cheapside London EC2V 6AX
Financial Adviser and Broker	SVS Securities plc 21 Wilson Street London EC2M 2SN
Solicitors to the Company as to English Law	Stephenson Harwood One Raffles Place #12-00 Singapore 048616
Solicitors to the Company as to PRC Law	Jingtian & Gongcheng Room 2401-2402, New World Center 6009 Yitian Road, Futian District, Shenzhen, 518026, China
Solicitors to the Company as to Jersey Law	Appleby PO Box 207 13-14 Esplanade, St. Helier Jersey JE1 1BD
Solicitors to the Nominated Adviser and Broker	Bird & Bird LLP 15 Fetter Lane London EC4A 1JP
Reporting Accountants	Crowe Clark Whitehill LLP St. Bride's House 10 Salisbury Square London EC4Y 8EH
Auditors	Crowe Clark Whitehill LLP St. Bride's House 10 Salisbury Square London EC4Y 8EH
Registrar	Computershare Investor Services (Jersey) Limited Queensway House, Hilgrove Street St. Helier Jersey JE1 1ES Channel Islands
Financial Public Relations	Walbrook Public Relations 4 Lombard Street London EC3V 9HD
Bankers to the Company	HSBC Bank plc Poultry & Princes Street Branch Po Box 648 27-32 Poultry London EC2P 2BX

PART I

INFORMATION ON THE GROUP

1. Introduction

The China New Energy Limited Group is a technology, process and engineering solutions provider, whose operations are based in China, for bioethanol and biobutanol projects focusing on the bioenergy sector.

Through its wholly owned subsidiary, Guangdong Zhongke Tianyuan New Energy Science and Technology Co. Ltd (“ZKTY”), the Group provides process technology, engineering designs, plant manufacturing and operational services in connection with the production of, *inter alia*, fuel ethanol, edible ethanol, biobutanol, bioacetic acid and other chemicals from agricultural plant materials and waste.

ZKTY provides its services to primary producers and users of bioenergy. The products made using its technology, bioethanol and biobutanol, are commonly used by downstream producers as primary fuels, as solvents for use in the chemicals industry or as ingredients for the beverages industry. The Group’s activities are principally based in the PRC, however, it also provides services to overseas customers in areas including Romania, Taiwan, Russia, Thailand and Indonesia.

Since its formation, ZKTY has advised on 88 projects with an aggregate production capacity of approximately 9.0 million tonnes per year (“t/y”) and a total contract value of approximately RMB1.5 billion.

ZKTY has proprietary and patented bioenergy technology, and maintains its own research and development laboratory to further develop its technology and patent portfolio. The Group has benefited from the historical links between GZTY Regeneration Resources (from which ZKTY acquired much of its technology and other assets (see details below)) and the Guangzhou Institute of Energy Conversion, a division of the Chinese Academy of Sciences (“GIEC CAS”), from which GZTY Regeneration Resources was originally spun-out and which was originally an indirect shareholder of GZTY Regeneration Resources. GIEC CAS is a prominent research centre in China which specialises in the research of alternative energy and renewable energy technologies.

ZKTY has received international standards accreditations, including ISO 9001:2000, ISO 9001:2008 and CE marking for part of its equipment.

The purpose of Admission is to raise the profile of the Group and to provide the Group with access to future additional capital to allow it to fulfil its objectives of acquisitive and organic development on both a national and international level.

2. Development of Group Structure

The Company was incorporated in Jersey on 2 May 2006 and acts as an offshore investment holding company being the sole shareholder of the Group’s principal trading entity ZKTY, a wholly foreign owned enterprise incorporated in the PRC in 2006.

The origins of ZKTY’s activities date back to 2002, with the formation of Guangdong Zhongke Tianyuan Regeneration Resources Engineering Co., Ltd (“GZTY Regeneration Resources”), which was formed as a result of a spin-out from GIEC CAS. Certain of the Directors and GIEC CAS, through an investment holding company, were founding shareholders of GZTY Regeneration Resources.

In 2004, Guangzhou Baojie Electromechanical Co., Ltd. (“Guangzhou Baojie”) was founded by certain of the Directors and others, to focus on the production and supply of equipment and provision of production technology and technical services to produce ethanol downstream products, including acetic acid and ethane.

In 2006 ZKTY acquired certain assets, including customer contracts, from Guangzhou Baojie and GZTY Regeneration Resources, which enabled the establishment of ZKTY’s operations.

In October 2010, ZKTY acquired Guangdong Boluo Jiuneng High Technology Engineering Co., Ltd. (“Boluo”), a company incorporated in the PRC. Boluo fabricates and manufactures equipment in accordance with project requirements and designs, and provides its services exclusively to ZKTY.

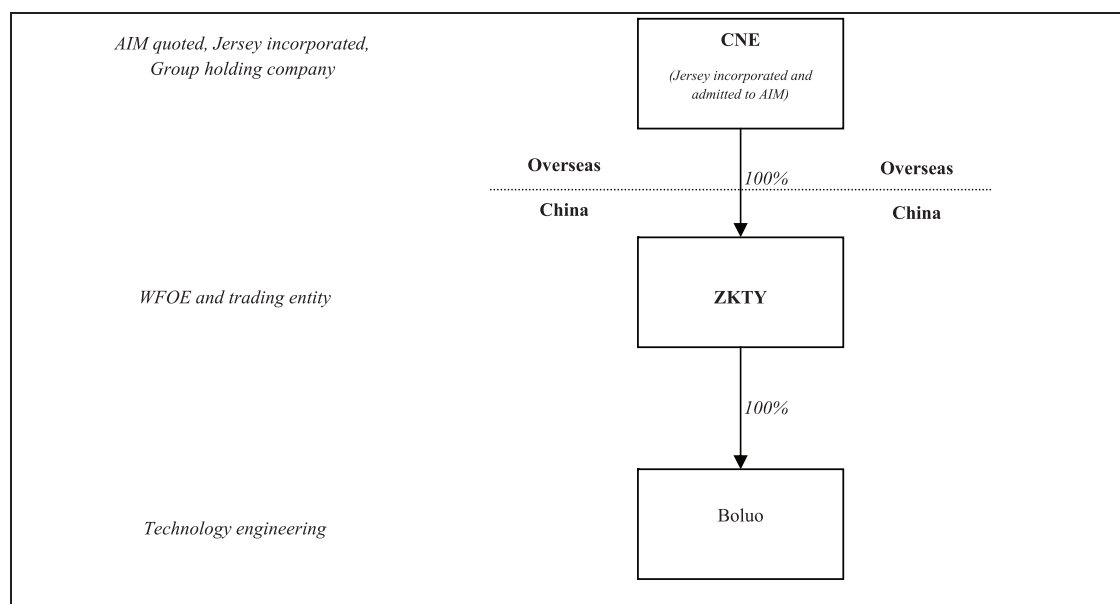


Diagram 1 – Group Structure Chart

3. Group’s Trading Development

The table below sets out the keystone contracts and milestone events in the development of the Group and the Group’s trading history:

Year	Description
2002	GZTY Regeneration Resources secured the first significant contract for the business that was subsequently acquired by ZKTY. The contract with the Qian’an branch of Jilin Ji an Bio-Chemical Alcohol Company Limited for the design, construction and provision of technical services for a 50,000 t/y superfine edible alcohol project in China was subsequently transferred to and completed by ZKTY.
2003-2004	GZTY Regeneration Resources was awarded the first in a series of contracts (the rest of which were subsequently awarded to ZKTY) by Jilin Meihekou Fukang Alcohol Co., Ltd., to increase its production of edible ethanol by 35,000 t/y. GZTY Regeneration Resources was awarded a contract (which was subsequently transferred to and completed by ZKTY) by Jilin Xin Tian Long Alcohol Co., Ltd., to increase its production of edible ethanol by 60,000 t/y.

Year	Description
2005	Guangzhou Baojie secured a contract from Songyuan Ji'an Bio-Chemical Co., Ltd. to design, construct and provide technical services for a 150,000 t/y acetic acid plant using bioethanol as feedstock. This contract was subsequently transferred to and completed by ZKTY. The Directors believe that this was the largest acetic acid plant using bioethanol as feedstock in the PRC at the time of construction.
2006	<p>The Company and ZKTY were formed.</p> <p>ZKTY acquired assets, including customer contracts, from Guangzhou Baojie and GZTY Regeneration Resources to enable it to commence operations and continue to provide the services previously offered by Guangzhou Baojie and GZTY Regeneration Resources, as referred to in the above milestones.</p>
2006	On 6 September 2006, the shares of CNE then in issue were listed on the PLUS-quoted Market.
2006	Based on a technology developed and patented by GZTY Regeneration Resources, the rights to which were transferred to ZKTY in 2007, relating to the production of fuel ethanol using mixed cassava and sugarcane as raw materials in very high gravity fermentation, GIEC CAS (which had been a shareholder of GZTY Regeneration Resources at the time of submission of the application for the award) was awarded the Bluesky Award by United Nations Industrial Development Organization (UNIDO) and recognised as one of the “global top 10 investment scenarios to apply new technologies for renewable energy utilisation”.
2006	ZKTY secured its first contract in Europe to provide design and construction services for the production of a 80,000 t/y fuel ethanol plant in Romania.
2006	ZKTY was awarded ISO 9001:2000 certification by the China Great Wall (Tianjin) Quality Assurance Centre, for the provision of products and services relating to the production of alcohol and ethanol. Accreditation with an internationally recognised certification marked a significant landmark for the Group.
2007	ZKTY secured contracts with other international clients, including for the Blagoveschensk Alcohol Plant in Russia and for clients in Taiwan and Thailand.
2007	ZKTY acquired the rights to certain patents and patent applications from GZTY Regeneration Resources and Guangzhou Baojie.
2007	In July 2007, CNE raised US\$12 million from Citadel Equity Fund Ltd, further details of which can be found in paragraph 13 of Part I of this Document.
2008	ZKTY secured a contract with Indonesia Fuel Ethanol Co. Limited in Indonesia.
2008	CE accreditation was granted confirming that certain of the pressure equipment designed and constructed by ZKTY and Boluo conformed to EU standards for pressure equipment.
2009	The Company withdrew its listing from the PLUS-quoted Market in early 2009.

4. Revenue and Business Model

The Group, through ZKTY, is an integrated service provider which principally provides technology and engineering services mainly to ethanol, ethanol downstream product and biobutanol producers. The Group's main business segment, "Technology and Engineering Solutions," generates revenue from providing services to its customers, which include technical design, engineering, procurement, construction, installation, testing and commissioning of production plants and training of its customers' staff. Revenues are not typically of a recurring nature.

ZKTY also generates revenues by providing ancillary services such as technical support on plant operation, plant maintenance and upgrading of existing plants and equipment through a sub-segment, "Energy Management Conservation" ("EMC").

Going forward, the Directors expect the Group to further develop the Biogas and EMC revenue streams under its "Technology and Engineering Solutions" segment and to establish an "Investments" segment.

5. Business Structure

The Group intends to organise its business into two segments: (1) Technology and Engineering Solutions; and (2) Investments. Under both of these segments are various sub-segments, as shown below:

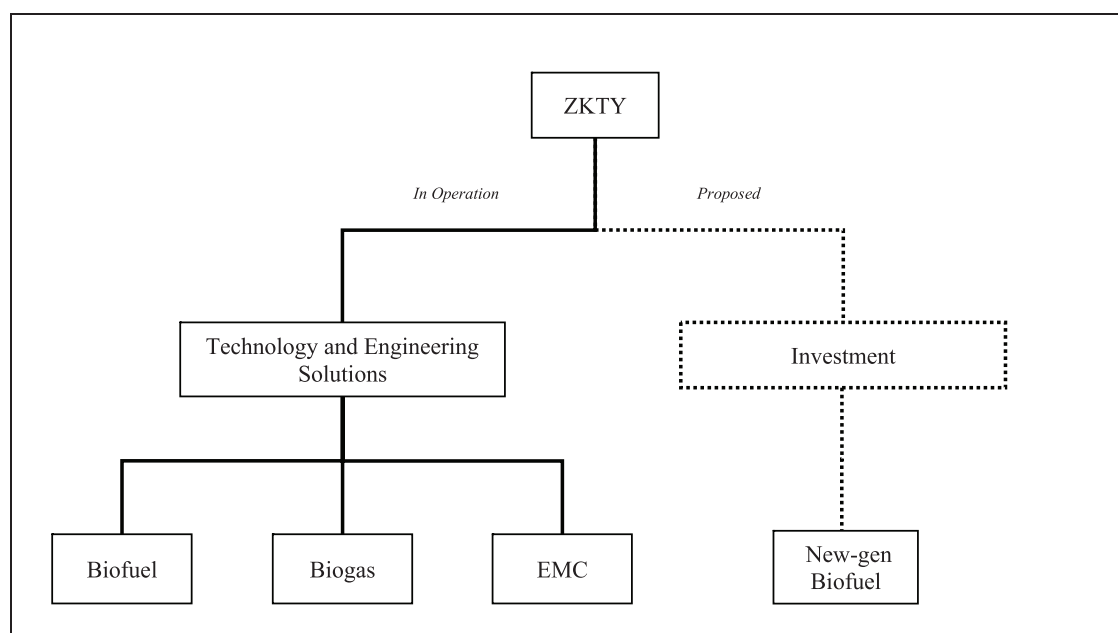


Diagram 2 – Business segments

(1) **Technology and Engineering Solutions**

The Group develops, engineers and implements plant and equipment for the production of bioethanol, biobutanol and biogas that are customised for site specific circumstances and conditions, providing a range of services for the operation and maintenance of production plants and equipment, including energy efficiency services and refurbishment of existing plants.

i. **Biofuel – Bioethanol and biobutanol**

Ethanol is commonly used in the manufacture of chemicals, cosmetics, and beverages. Butanol is commonly used in the manufacture of chemicals and solvents. Both ethanol and butanol may also be used as fuels.

Bioethanol and biobutanol are commonly made from feedstocks of starchy materials (such as wheat, corn, barley, potato, cassava and sweet potato) and saccharides materials (such as sugar beet, sugar cane and molasses) using a combination of both fermentation and distillation.

The Group has technologies for producing various grades of ethanol, such as normal grade edible ethanol, superfine grade ethanol and fuel ethanol. The Directors believe that the Group's core competency lies in the design and construction of fermentation, distillation and dehydration systems for ethanol production, which are the critical processes for the production of ethanol.

Some of the main projects that the Group has undertaken in recent years or is currently undertaking are as follows:

Project	Capacity (t/y) Unless otherwise stated	Date of Completion or Estimated Date of Completion	Contractual Value (RMB'000) Unless otherwise stated
Ethanol distillation equipment for Daqing Bo Run Biological Technology Co Ltd	—	—	9,380
Fuel ethanol equipment for Oriental Science Instrument Import & Export Co., Ltd	60,000	—	25,000
Superfine-grade alcohol project with five tower multi-effect distillation technology for Jiangsu Huating Wine Industry Co., Ltd.	167 t/d	October 2010	13,000
Distillation equipment for Shenyang Tianming Alcohol Co., Ltd.	100,000	November 2010	20,000
Super-grade edible alcohol project for Jilin Meihekou City Fukang Alcohol Co., Ltd.	35,000	March 2011	30,200
Ethanol fuel plant for Romania Biofuel Energy SRL.	80,000	June 2011	Euro 180,0000
Cassava-based edible alcohol project for Guangxi Mingyang Bio-Chemical Science & Technology Co., Ltd.	100,000	August 2011	43,173
Fine-grade edible ethanol and anhydrous ethanol equipment for PT Indonesia Ethanol Industry	50,000 edible ethanol 30,000 (anhydrous ethanol)	August 2011	20,665
Fuel and common grade ethanol device for Ubon Bio Ethanol Co. Ltd's cassava ethanol project in Thailand (via agent)	400,000 l/d	April 2013	77,000

ii. *Biogas*

Biogas refers to either a methane, hydrogen or carbon dioxide rich gas that is produced as organic matter breaks down. This gas is flammable and the plants can supply and sell clean biogas as fuel for domestic use to the local utility gas companies. Providing technology and engineering solutions for the production of biogas is a new venture for the Group. The Group specialises in the production of biogas through the treatment and anaerobic fermentation of waste by-product from the ethanol production process.

ZKTY proposes to structure its customer contracts for its biogas business so that ZKTY will share the customer's revenue collected from selling the biogas. If ZKTY succeeds in procuring this contract structure with biogas customers, this will also provide the Group with a source of recurring revenues. In addition to domestic and utility company use, biogas can be used in many industries as fuel, materials, intermediates and additives.

As at the date of this Document, the Group has entered into the following arrangements regarding proposed pilot biogas projects:

- (1) An agreement with Dongguan Xin'ao Gas Co. Ltd (which is a subsidiary of ENN Energy Holdings Ltd, a Hong Kong listed company) pursuant to which ZKTY will design and construct a bio-gas recovery and purifying plant at a beer brewery located in Dongguan, China.
- (2) A letter of intent with Shenzhen City Gas Group, pursuant to which (subject to the parties entering into a formal contract) ZKTY will build a bio-gas recovery and purifying plant at a beer brewery owned by Kingway Beer Group, located in Shenzhen, China, and it is intended that the purified biogas from the plant will be sold to Shenzhen City Gas Group.

Commercial production of biogas is relatively new. However, the 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.

iii. *Energy Management Conservation ("EMC")*

Under its Energy Management Conservation ("EMC") model, the Group offers customers with existing production facilities the ability to reduce energy consumption by modifying the customer's existing equipment and/or installing ancillary equipment for the customer's existing production infrastructure. Under the EMC model, ZKTY bears the costs of modifying the customer's existing equipment and installing ancillary equipment in return for a share of the customer's targeted net energy saving.

The Group completed its first EMC project in 2009, with the completion of its contract with Yichang Sanxia Limin Biochemical Ltd. Under the contract, the customer is required to pay ZKTY the sum of RMB220,000 per month for a period of sixty months from January 2010, which sum represents the parties' estimate of the net reduction in the customer's energy consumption costs attributable to the EMC modifications and installations performed by ZKTY. The Company's total investment for this project was RMB4,286,703.

(2) *Investments*

The Group has identified a number of potential future income streams that it is currently exploring and which the Directors intend will form the basis of the Group's Investment segment, although the Group has not yet entered into any contractual arrangements. These potential areas are as follows:

1. invest in undervalued biofuel operators and producers; and
2. form joint ventures to co-invest in next generation biofuel operators.

6. Market Opportunity

The Group's performance is driven in part by corresponding growth in the industries that it predominantly serves, namely the renewable energy, alcoholic beverage and chemical industries. Demand for downstream products, including bioethanol and biobutanol, is also affected by the price and availability of the feedstocks used to produce them, as well as the price and availability of substitute products such as oil, natural gas and solvents.

The Board believes that Group's prospects are promising in the foreseeable future having regard to the following:

1. ***Growth in renewable energy industry***

The Group's ability to grow its existing business depends in part on the growth trends and developments in the global bioethanol, biobutanol and biofuel markets, particularly in the PRC, which is the Group's largest market. According to the International Energy Agency, the PRC overtook the USA to become the world's biggest energy consumer, fuelled by its decades-long economic growth and its rapidly expanding position as an industrial giant. China is also the second largest oil consumer behind the USA. China's oil consumption growth accounted for about a third of the world's oil consumption growth in 2009, an important factor in world energy markets.

To help satisfy domestic demand for oil and to reduce its dependence on foreign oil, the PRC government has enacted various laws and regulations encouraging the use of renewable energy as a substitute for fossil fuels. Bioenergy, which includes biofuels, is widely considered to be one of the key alternatives to fossil fuel use because of its easy acquisition and clean emissions.

The National Development and Reform Commission 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 ethanol (which is bioethanol produced from wood, grasses or the non-edible parts of plants) could be substituted for 31 million tons of gasoline in China by 2020, cutting the nation's oil imports by 10 per cent.

The global bioenergy industry is expanding, including in China. The Directors believe that because of the Group's experience in providing services to the bioenergy sector, the Group is well positioned to benefit from the expected continued growth in the bioenergy sector, particularly in China.

The Directors believe that the progressive development of the PRC ethanol industry and its expanding production capacity will open up opportunities for the Group's Technology and Engineering Solutions business.

2. ***Growth in alcoholic beverages industry***

The Directors believe that with its large and growing population, population growth and changing social attitudes, the PRC will demonstrate increasing demand for edible alcohol products in the future, which will in turn increase the demand for ethanol and ethanol downstream products. The Directors also believe that there will be an increased demand for higher quality alcoholic beverages due to the growing affluence of consumers in the PRC. The Directors believe that such increase will lead to a demand for new ethanol plants which are capable of producing higher quality ethanol with fewer impurities, and with higher production capacities and cost effectiveness. The Group has technologies for producing various grades of ethanol, such as normal grade edible ethanol and superfine grade ethanol, and the Directors believe that the Group will be in a position to capitalise on the increasing demand for edible alcohol products in the future.

3. ***Growth in the chemical industry***

The Directors believe that 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. Ethanol is used as a solvent in making chemical products such as antiseptics, paint and cosmetics. Acetic acid is used in the production of chemical compounds such as glues and paints and it can also be used as a solvent in ink, paints and coatings. As many industrial, commercial and household products contain ethanol and acetic acid, the Directors believe that the demand for ethanol production plants will continue to rise in the future.

7. **Competitive Strengths**

The Directors believe that the Group's competitive strengths are as follows:

1. ***Established track record***

The Group has extensive experience in designing and constructing ethanol and ethanol downstream production plants. Since ZKTY's establishment, the Group has successfully completed 88 projects. These completed projects demonstrate the Group's track record in providing its customers with a broad spectrum of technology and engineering services in relation to their ethanol and biobutanol production needs.

2. ***Experienced and qualified personnel***

The Group's management team is led by its Chairman and Chief Executive Officer ("CEO"), Yu Weijun and Tang Zhaoxing respectively, who have many years' experience in the renewable energy industry. Each of them has been instrumental in the strategic development of the Group. The Chairman and CEO are supported by a team of dedicated and academically qualified personnel with extensive operational and business experience in the PRC.

3. ***Integrated service provider***

The Group is an established integrated service provider. It can offer customers a broad range of services including consultation, design, manufacturing, constructing and technical support services, with equipment, expertise and experience to provide complex, complementary services assisting its customers to save costs and time.

4. ***Quality equipment and services***

The Group's biofuel technology, and the equipment it offers, is designed to yield high grades of ethanol and butanol production. The Group continues to work towards upgrading its technology to achieve cost and energy efficiencies and increase the quality and reliability of its production plants. The Group provides products and services that comply with national standards and, for certain products, also international CE standards, and places great importance on implementing and enforcing quality control measures in the design and construction of its customers' equipment. These quality assurance procedures help ensure that the functional aspects, performance and reliability of the Group's equipment meet the requirements of its customers.

The Directors believe that the Group's commitment to quality is key for its reputation in the industry. For example, the 80,000 t/y ethanol fuel equipment constructed for Romania Inter Agro S.A. complied with the CE standards, accreditation for which was provided in 2008. This signifies that some of the Group's equipment is able to conform to the applicable European Union consumer safety and environmental requirements.

8. Intellectual Property Rights and Technology

ZKTY is the registered owner of the following patents issued by the State Intellectual Property Office of the PRC:

Title of Patent	Patent Number	Effective Term
Five Tower Differential Pressure Distillation Equipment and Process for Producing Alcohol	ZL 2005 1 0035598.9	20 years from 30 June 2005
Six Tower Differential Pressure Distillation Equipment and Process for Producing Superfine-grade Edible Alcohol	ZL 2006 1 0035346.0	20 years from 30 April 2006
Thick Mash Fermentation Process for Mixed Material in Alcohol Production	ZL2006100354529	20 years from 12 May 2006
Fermentation Tank with Horizontal Clapboards for Alcohol Production	ZL2005100362041	20 years from 28 July 2005

Applications for the following patents have been filed with the State Intellectual Property Office of the PRC in the name of ZKTY and are currently pending:

Title of Patent	Application Number
Equipment and Process of Producing Anhydrous Alcohol with Fermented Mash as Material	2008100280473
Equipment and Process for Producing ethylene from Ethanol	2007100269198
Dehydration Equipment and Process for Producing Fuel Ethanol	2006100359503
Five-Tower Two-stage Differential Pressure Distillation Equipment and Process for Superfine-grade Edible Alcohol	2007100305508
Differential Pressure Distillation of Molasses-based Alcohol and Wastewater Concentration & Thermal Coupling	2008100256224
A carrier and making method for microorganism fixation	200810218641.9
A Production Method With The United Fermentation Of Biobutanol And Bioethanol	200910192761.0
Six Tower Differential Pressure Distillation Equipment and Process for Producing Superfine-grade Edible Alcohol	200910194089.9
Distillation and Dehydration Equipment and Process for Combined Production of Fuel Ethanol and Normal-grade Edible Alcohol	201010545523.6
Distillation and Dehydration Equipment for Combined Production of Fuel Ethanol and Normal-grade Edible Alcohol	201020608595.6
Equipment and Method for Ethanol Recovery with Low-pressure Three-effect Rectification	201010595965.1
Multi-tube-bundle Anti-blocking Tube-shell Heat Exchanger	201020661563.2
An equipment and Method for Material Acidization and De-dusting in Ethanol Production	201010587458.3
A Vertical Continuous Fermentation Tank for Ethanol	201020666097.7

Whilst ZKTY developed some of the patents listed above internally, the Group acquired its rights to some of the patents and patent applications listed above from GZTY Regeneration Resources and in one case, Guangzhou Baojie.

9. Awards and accreditations

In November 2006, ZKTY was first awarded the ISO 9001:2000 certification by the China Great Wall (Tianjin) Quality Assurance Centre for the provision of products and services relating to the production of alcohol and ethanol. Accreditation with an internationally recognised certification marked a significant landmark for the Group.

10. Current Prospects

The Directors envisage the operating environment for FY2011 to be encouraging as the Directors believe that the recent increase in oil prices will result in increasing demand for bioenergy, which will in turn lead to growth in the ethanol markets in the PRC and around the world. The Board is of the

opinion that bioenergy demand will continue to increase as a result of the likelihood that, in their opinion, the price of oil will remain high in the near future. Further, because of the Board's experience in providing services to the bioenergy sector, the Directors believe that CNE is well positioned to benefit from this expected sector growth, particularly in China.

As at 31 December 2010, the Group's order book for existing contracts was approximately RMB39 million. The Directors expect that a substantial part of this order book will be completed and recognised in FY2011.

The Group is currently exploring opportunities and negotiating with prospective customers for new projects in the PRC and overseas. In particular, Oriental Science Instrument Import & Export Co. Ltd, ZKTY's exclusive representative for Thailand, has recently entered into agreements pursuant to which ZKTY's products and services will be sold to a cassava ethanol project in Ubon Ratchathani province of Thailand which is intended to produce up to 400,000 litres per day of edible ethanol or fuel ethanol.

Barring unforeseen delays, cancellations of projects or other events included in the risk factors in Part II of this Document, the Directors expect the Company to register increased revenue in FY2011.

11. Business Strategy and Future Plans

The Group intends to focus its strategy towards the future growth and expansion of its business as follows:

1. *To expand its customer base and enlarge its geographical market*

According to a report on the future of biorefineries by the World Economic Forum (WEF), together with companies and consultancies including Novozymes and McKinsey, the conversion of biomass into fuel, energy and chemicals has the potential to generate upwards of US\$230 billion for the global economy by 2020.

According to a report jointly conducted by Novozymes and the consultants McKinsey & Company, cellulosic ethanol could be substituted for 31 million tons of gasoline in China by 2020, cutting the nation's oil imports by 10 per cent. The report also forecasts that China's biofuel industry will bring about construction projects with a total value of RMB96 billion (US\$14.1 billion based on the exchange rate at the time). The Group intends to expand its capability to capture and maintain, if not expand, its market share in the China ethanol fuel market. The Group intends to do this by seeking to become more responsive to market changes, such as technological advancements and regulatory changes, and by adapting to meet customers' needs.

CNE intends to broaden its international presence by marketing its services globally, especially in Southeast Asia where the Directors believe that the availability of non-grain feedstock such as cassava makes biofuel production a more viable and commercially attractive option. ZKTY's agent for Thailand has recently entered into agreements relating to the supply of products and services for a cassava ethanol plant in Thailand.

2. *To broaden its EMC business by developing new complementary services*

The Group's EMC business segment assists its customers in improving production efficiency, cost savings and environmental aspects of their business. The nature of ethanol production requires substantial consumption of energy and water, and results in hazardous waste. The Group is seeking to expand its existing service offering by further developing its engineering capabilities, in order to offer its customers a more comprehensive, better integrated and higher quality engineering solution to use water and energy more efficiently, to increase recycling and to reuse and decrease the adverse impact of waste material on the environment.

The Group's senior management have extensive experience in China's alternative and renewable energy sector. The Directors believe that the Group's management's experience can help CNE to identify business opportunities in this segment and assist the Group in building or acquiring the necessary resources and capability to expand its EMC business segment.

3. ***To develop and commercialise new sources of biofuel through internal research efforts, and via joint collaborations with third parties***

The Group intends to carry out further research and development in the areas of biofuel production, by relying on its qualified staff or by collaborating with external institutions to carry out further research and development activities. In particular, the Group intends 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 from cellulosic feedstock such as wood and grass. To date, ZKTY has entered into:

- i. a collaboration agreement with ButylFuel LLC (a US entity) ("BF"), pursuant to which ZKTY and BF agree to jointly market their technologies in the field of biobutanol production to a particular customer for a wood pulp mill in Maine, US;
- ii. a letter of intent with Songyuan Laihe Chemicals Co., Ltd ("Songyuan"), pursuant to which the parties intend 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. The letter of intent is conditional upon a third party investor investing a specified amount, which investment has not yet been made at the date of this Document.

In addition, the Group intends to conduct research and development activities in other potential new technologies to produce other advanced biofuels using alternative feed stocks.

The Directors believe that the Group's research efforts will help to contribute towards offering new opportunities to broaden the source of sustainable and low cost feedstock for biofuel production.

4. ***To achieve growth through acquisitions, joint ventures or strategic alliances***

The Group intends to expand its capabilities and business through acquisitions, joint ventures or strategic alliances with parties who the Group management believe can strengthen the Group's market position and add value to its existing business, as well as enable it to expand into new businesses. The Group continues to explore opportunities to acquire other operations which are also involved in similar industries. The Directors believe that CNE's status as a quoted company will help position the Group to take advantage of such opportunities when they arise, as it would have access to the public equity market to assist it to raise funds for such acquisitions.

12. Summary Financial Information

The table below summarises the audited trading results of the Group for each of the three years ended 31 December 2007, 2008 and 2009 and the 12 months unaudited information to 31 December 2010. The information has been extracted from Part III of the Document.

	<i>Year ended 31 December</i>			<i>12 months ended 31 December</i>
	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>Audited</i>	<i>Audited</i>	<i>Audited</i>	<i>Unaudited</i>
Revenue	205,749	224,208	125,301	138,447
Cost of sales	(163,947)	(182,128)	(93,781)	(97,739)
Gross profit	41,802	42,080	31,520	40,738
Other operating income	1,079	4,587	5,563	464
Selling and distribution expenses	(5,757)	(4,938)	(3,129)	(3,909)
Administrative expenses	(15,608)	(13,421)	(11,221)	(10,936)
Other operating expenses	(34,331)	(34,475)	(5,470)	(2,187)
Interest expense	(1,045)	(9,622)	(2,837)	–
Profit/(loss) before income tax	(13,860)	(15,789)	14,426	24,170
Income tax expense	(9)	(8)	(2,508)	(3,623)
Profit/(loss) for the financial year/period	(13,869)	(15,797)	11,918	20,547
<i>Other comprehensive income:</i>				
Exchange difference arising from consolidation	1,244	22,332	(5,498)	(2,092)
Total comprehensive income attributable to equity holder	(12,625)	6,535	6,420	18,455

The Group commenced trading in late 2006 and secured its first major contract in November 2006 and generated a broadly consistent level of revenue in its first full two years of trading during the years ended 31 December 2007 and 2008 at RMB206 million and RMB224 million, respectively. However, towards the end of 2008, due to a combination of the global economic downturn and the significant fall in petrol prices, which directly affected the price of ethanol, many existing projects were suspended and contracts in negotiation at that time were either not concluded, the scope substantially reduced, or delayed. As a result, the level of activities and revenue during the year ended 31 December 2009 and the year ended 31 December 2010 (unaudited) were significantly lower at RMB125 million and RMB138 million, respectively.

The Group was exposed to significant bad debt and impairments on construction contracts, principally during the two years ended 31 December 2007 and 2008. This has led to the significant level of other operating expenses during these two years.

As a result of improved controls in construction contract costing and in working capital management, the Group's net profit margins have improved during the year ended 31 December 2009 and the year ended 31 December 2010 (unaudited). Despite the significant fall in revenue from 2008 to 2009, the Group made a profit of RMB11.9 million for the year ended 31 December 2009 compared to a loss of RMB15.8 million for the year ended 31 December 2008. After an exchange difference arising from consolidation, which was principally caused by the translation of the convertible bond (see paragraph 13 below) issued to Citadel, the Group's total comprehensive income attributable to equity holders was RMB12.6 million (loss), RMB6.5 million, RMB6.4 million and RMB18.5 million for the

year ended 31 December 2007, the year ended 31 December 2008, the year ended 31 December 2009, and the year ended 31 December 2010 (unaudited), respectively.

13. Citadel Convertible bond

In July 2007, CNE raised US\$12 million from Citadel through the issuance of convertible bonds which the Company undertook to use for contributing to ZKTY's working capital and investing in a chemical production company in the PRC (which did not proceed).

The Company entered into a redemption arrangement with Citadel in October 2008, pursuant to which the Company paid Citadel US\$4,000,000 and the principal amount of convertible bonds held by Citadel was reduced to US\$8,000,000. The Company and others entered into a further redemption agreement with Citadel in August 2009, further details of which are set out in paragraph 8.13 of Part V of this Document, however the Company was unable to meet these commitments.

On 21 December 2010, the Company entered into further agreements with Citadel to restructure the debt existing at such time, cancelling the convertible bonds and reissuing ordinary bonds to the same value. In consideration of Citadel agreeing to the cancellation of the convertible bonds and Citadel releasing the Company from any claims relating to their previous agreements, the Company paid Citadel US\$1 million, issued to Citadel interest-bearing non-convertible bonds of US\$3 million principal amount and granted Citadel warrants to subscribe for 7 per cent. of the issued ordinary share capital of the Company at close of business on 28 February 2011, after taking into account shares issuable upon exercise of the warrants. Further details of the Citadel agreements are provided in paragraphs 8.7, 8.9 and 8.10 of Part V of this Document.

14. Plus-quoted Market

On 6 September 2006 the issued share capital of the Company at the time was listed on PLUS.

The Company withdrew its listing from PLUS on 19 January 2009 because, in the opinion of the board, which included Yu Weijun and Tang Zhaoxing, there was no apparent benefit to the Company of maintaining its listing on PLUS as the Company had not raised any capital as a result of its PLUS listing.

15. Foreign Exchange Exposure

Most of the Group's projects are conducted in the PRC, where the transactions are denominated in RMB. The Group's overseas contracts are generally denominated in RMB, so the Directors believe that the Group's exposure to foreign currencies and foreign exchange fluctuations is minimal. For FY2007, FY2008, FY2009 and FP2010, the revenue denominated in foreign currencies amounted to 0.51%, 0.18%, 0.74% and 0.13% respectively of total revenue.

The foreign exchange gains and losses of the Group for FY2007, FY2008, FY2009 and FP2010 have been insignificant and details are shown in the consolidated financial statements in Part III of this Admission Document.

The Group does not have a formal foreign currency hedging policy with respect to its foreign exchange exposure and it has not entered into any currency forward or other derivative contracts. The Directors will continue to monitor the foreign exchange exposure and will consider formalising the hedging policy to manage foreign exchange exposure should the need arise.

In such an event, it is the intention of the Board to put in place adequate procedures which must be reviewed and approved by the proposed new audit committee.

16. The Directors

Brief biographical details of the Directors are set out below:

Yu Weijun, MBA, – Executive Chairman

Age: 46

Date of birth: 2.11.1964

Mr. Yu is the Chairman of CNE and ZKTY. He is primarily in charge of the overall strategic planning and corporate development of CNE. Prior to joining CNE, he worked in GIEC CAS. He joined the assets and finance department of GIEC CAS in 1988 where he was responsible for asset management and financial matters of GIEC CAS. Mr. Yu was promoted to Deputy Chief of GIEC CAS, in charge of the industrial and external investments, asset management and financial matters of GIEC CAS where he gained experience of corporate transactions, restructuring and financial management.

Mr. Yu holds an Executive Master of Business Administration from Sun Yat-sen University and is a member of the Chinese Institute of Certified Public Accountants.

Tang Zhaoxing, BSc, MBA – Chief Executive Officer

Age: 41

Date of birth: 12.10.1969

Mr. Tang Zhaoxing has been a director of CNE since 2006 and is the managing director of ZKTY. He is responsible for the overall company operation, sales and project design and management. Prior to joining ZKTY, he was managing director of GZTY Regeneration Resources, of which he is still a director.

Mr. Tang graduated from South China Science & Tech University with a degree in Chemical Engineering, and holds an EMBA from Peking University.

Chen Yong, BSc, MSc, Ph.D. – Non-executive Director (independent)

Age: 53

Date of birth: 13.6.1957

Mr. Chen is the President of Guangzhou Branch, Chinese Academy of Sciences. Mr. Chen graduated from Nanjing University of Technology with a Bachelor's degree in Chemical Engineering in 1981. In 1988, he graduated with a master's degree from Aichi University of Technology, Japan. He obtained a Ph.D. in chemical engineering from Nagoya University, Japan in 1993.

Foo Shiang Peow – Non-executive Director (not independent)

Age: 40

Date of birth: 29.12.1970

Mr. Foo Shiang Peow has many years' investment and corporate finance experience. He is currently a director of NovusAsia Capital Limited, an investment and corporate advisory company. Mr. Foo started his career as an equity analyst in Salomon Brothers Inc, based in Singapore, in 1994 and subsequently moved to Credit Suisse First Boston. He was then a senior manager at UOB Asia Limited (part of the United Overseas Banking Group in Singapore) before becoming a director of corporate finance at BDO Raffles, Singapore from 2002 to 2004. He established NovusAsia Capital Limited.

Mr. Foo has a Master of Business Administration from Nanyang Technological University, Singapore.

Richard Bennett – Non-executive Director (independent)

Age: 42

Date of birth: 24.8.1968

Richard Bennett started his career in the energy industry working for General Electric in Asia. Mr. Bennett held a portfolio of roles that involved commercialising and bringing to market new technologies.

In 1993, Mr. Bennett was a co-founder of JFAX Inc, which became a major internet communications company, J2 Global communications Inc., that listed on NASDAQ (NASDAQ:JCOM) and today has a valuation exceeding \$1billion.

Mr. Bennett has been involved in developing two businesses which have been admitted to the AIM market, Virtual Internet UK Limited (which was subsequently acquired by a US multinational company) and Coms plc (AIM:COMS).

Mr. Bennett is actively working in the clean technology sector as CEO of Jade Clean Technology Limited which is developing underground coal gasification projects in China and India.

17. Key Management

Ding Liren (“Adam”), BSc – Chief Administrative Officer

Age: 42

Date of birth: 20.6.1968

Mr. Ding has been the Chief Administrative Officer of ZKTY since 2008. He is responsible for procurement, administration and human resources in ZKTY. Prior to joining ZKTY, he worked in Ningxia Xiacheng Import/Export Corporation, Ningxia Chengwei Advertising Co., Ltd., Devotion Energy Group Ltd and London Asia Capital plc.

Mr. Ding graduated from the University of International Business & Economics Beijing in 1990 with a bachelor’s degree in economics.

Wen Xiaoyi (“Sunny”) – Chief Financial Officer

Age: 40

Date of birth: 6.3.1971

Ms. Wen has been the Chief Financial Officer of ZKTY since 2007. She is responsible for the finance, accounting, taxation and compliance matters relating to the operations of ZKTY. Prior to joining ZKTY, she worked at Guangzhou Finance Bureau and Guangzhou Financing Guarantee Centre and was chief financial officer at Guangzhou Jinpeng Company and assistant chief executive officer at iTour Co. Ltd.

Ms. Wen is a member of the Chinese Institute of Certified Public Accountants.

18. Employees

As at the date of this Document, the Group has 83 full-time employees who are employed by the companies within the Group as follows:

Group company	Number of employees
CNE	2
ZKTY	77
Boluo	4

19. Employee Benefit Trust (“EBT”)

The Board believes that equity incentives are, and will continue to be, an important means of retaining, attracting and motivating employees and the Company has established an employee benefit trust for that purpose.

The Directors have issued and allotted 8,079,728 new Ordinary Shares (representing 2.9 per cent. of the issued share capital of the Company as at the date of this Document) to EES Trustees International Limited, the trustee of the China New Energy Limited Employee Benefit Trust, to be held on trust for and allocated to certain employees (not including any of the executive Directors) in recognition of

their services to the Group, provided the respective employees remain employees of the Group on the first anniversary of Admission.

Further details of the employee benefit trust are set out in paragraph 8.16 of Part V of this Document.

20. Directors' Interests

The following table shows the Directors' interests immediately prior to and after Admission:

Name	As at the date hereof		On Admission	
	Number of Ordinary Shares	Percentage of total number of issued Ordinary Shares	Number of Ordinary Shares	Percentage of total number of issued Ordinary Shares
Yu Weijun ¹	90,932,440	32.78%	90,932,440	30.65%
Tang Zhaoxing ²	48,000,000	17.30%	48,000,000	16.18%
Foo Shiang-Peow ³	—	—	8,079,728	2.72%

Note 1: Yu Weijun is the legal and beneficial owner of Leader Vision Investments Limited which holds 64,000,000 Ordinary Shares. Mr. Yu is also the legal and beneficial holder of Tewin Capital Holding Limited which holds 26,932,440 Ordinary Shares.

Note 2: Tang Zhaoxing is the legal and beneficial owner of the 48,000,000 Ordinary Shares held by Asia Tianxing Investment Limited.

Note 3: Foo Shiang-Peow is the legal and beneficial owner of NovusAsia Capital Limited, to which the Company will issue and allot 8,079,728 Ordinary Shares on Admission, as part of the consideration for services provided by NovusAsia Capital Limited to the Company pursuant to the engagement letter dated 17 March 2011 (further details of which are set out in paragraph 8.11 of Part V of this Document).

Further information is set out in paragraph 5 of Part V of this Document.

21. Significant Shareholders

The following table shows Significant Shareholders, excluding Directors, immediately prior to and after Admission:

Name	As at the date hereof		On Admission	
	Number of Ordinary Shares	Percentage of total number of issued Ordinary Shares	Number of Ordinary Shares	Percentage of total number of issued Ordinary Shares
Best Full Investments Limited	48,000,000	17.30%	48,000,000	16.18%
Cobalt Ventures Ltd	40,398,640	14.56%	40,398,640	13.62%
Jiang Xinchun	20,000,000	7.21%	20,000,000	6.74%
Qiu Weiming	20,000,000	7.21%	20,000,000	6.74%

Further information is set out in paragraph 4 of Part V of this Document.

22. Use of Proceeds

The Placing proceeds will be used for general working capital purposes.

23. Reasons for the Admission to AIM

The Directors believe that the benefits of Admission to AIM include:

- to enhance the Group's status with its customers (both existing and prospective) and its other stakeholders, including suppliers, potential joint venture partners and collaborators by being a quoted company;
- to provide access to capital for growth i.e. raise finance for further development both at the time of Admission and through further capital raising after Admission;
- to encourage and incentivise employees' commitment through an employee benefit trust, and create a market and place a market value for the Group's shares; and
- to broaden the Group's shareholder base.

24. Placing

The Company has raised £655,210 through the Placing, by issuing 9,360,147 new Ordinary Shares at 7p per share.

The net proceeds of the Placing are estimated to be approximately £60,000 after the deduction of expenses, commissions and VAT. The Placing Shares will represent 3.16 per cent. of the Enlarged Share Capital of the Company immediately following Admission.

The principal terms of the Placing Agreement are summarised in paragraph 8.4 of Part V of this Document.

The Placing Shares will, when allotted, be fully paid and rank *pari passu* in all respects with the Existing Ordinary Shares, including the right to receive all dividends and distributions. They will be issued free from all liens, charges and encumbrances.

The Placing Agreement contains certain warranties from the Company and the Directors in favour of Cairn and SVS in relation to, *inter alia*, the accuracy of information contained in this Admission Document and certain other matters relating to the Company and its business. In addition, the Company has agreed to indemnify Cairn and SVS in relation to certain liabilities they may incur in respect of the Placing and Admission.

Cairn and SVS have the right to terminate the Placing Agreement in certain circumstances prior to Admission, principally for *force majeure*, in the event of a material breach of the warranties set out in the Placing Agreement, or of certain other obligations of the Company and/or the Directors under the Placing Agreement.

25. Orderly Market Agreements

Certain shareholders on Admission are subject to an orderly market agreement pursuant to which such shareholders have agreed (subject to certain limited exceptions) not to dispose of any interest they hold in Ordinary Shares immediately following Admission (or pursuant to the exercise of an option or warrant) for a period of 12 months from Admission without the prior consent of Cairn and SVS. In aggregate 275,410,808 shares representing 92.83 per cent. of the issued share capital of the Company will be subject to such arrangements. Further details of the orderly market agreements are set out in paragraphs 8.5 and 8.6 of Part V of this Document.

The following Shareholders will be subject to the provisions of orderly market agreement, as follows:

Shareholder	At the date hereof		On Admission	
	No. of Ordinary Shares held	Percentage of issued share capital	No. of Ordinary Shares held	Percentage of issued share capital
Yu Weijun ¹	90,932,440	32.78%	90,932,440	30.65%
Best Full Investments Limited	48,000,000	17.30%	48,000,000	16.18%
Tang Zhaoxing ²	48,000,000	17.30%	48,000,000	16.18%
Cobalt Ventures Ltd	40,398,640	14.56%	40,398,640	13.62%
Jiang Xinchun	20,000,000	7.21%	20,000,000	6.74%
Qiu Weiming	20,000,000	7.21%	20,000,000	6.74%
Foo Shiang-Peow ³	—	—	8,079,728	2.72%
Citadel ⁴	—	—	—	—

Note 1: Yu Weijun is the legal and beneficial owner of Leader Vision Investments Limited which holds 64,000,000 Ordinary Shares. Mr. Yu is also the legal and beneficial holder of Tewin Capital Holding Limited which holds 26,932,440 Ordinary Shares.

Note 2: Tang Zhaoxing is the legal and beneficial owner of the 48,000,000 Ordinary Shares held by Asia Tianxing Investment Limited.

Note 3: Foo Shiang-Peow is the legal and beneficial owner of NovusAsia Capital Limited, to which the Company will issue and allot 8,079,728 Ordinary Shares on Admission, as part of the consideration for services provided by NovusAsia Capital Limited to the Company pursuant to the engagement letter dated 17 March 2011 (further details of which are set out in paragraph 8.11 of Part V of this Document).

Note 4: Citadel does not hold any Ordinary Shares at the date of this Document but has a warrant to subscribe for 20,271,720 Ordinary Shares.

26. Warrants

The Company has executed warrant instruments in favour of both Cairn and Citadel. Pursuant to the Cairn Warrant Instrument, Cairn has been granted warrants over 1 per cent. of the Enlarged Share Capital. The Cairn Warrants will be exercisable at the Placing Price and for a period of 5 years following Admission. The new Ordinary Shares to be issued upon exercise of the Cairn Warrants will be subject to proportional adjustments to reflect stock dividends, share splits, reverse share splits and other dilutive events.

Pursuant to the Citadel Warrant Instrument, and in consideration for the restructuring of its bonds and reduction in debt, Citadel has been granted warrants to subscribe for 7 per cent. of the issued ordinary share capital of the Company at the close of business on 28 February 2011 (after taking into account the shares issuable upon the exercise of the warrants), which amounts to 20,271,720 Ordinary Shares. The Citadel Warrants will be exercisable for a period of two years following Admission at the Placing Price. The new Ordinary Shares to be issued upon conversion of the Citadel Warrants will be subject to proportional adjustments to reflect stock dividends, share splits, reverse share splits and other dilutive events.

The terms of both the warrant instruments are described more fully in paragraphs 8.7 and 8.8 respectively of Part V of this Document.

27. Dividend Policy

The Directors do not intend to declare a dividend until the Group has achieved sufficient profitability and until requirements for working capital are such that it is prudent to do so.

In accordance with the terms of the covenants given by the Company to Citadel under the Citadel Bond (see paragraph 8.10 of Part V of this Document for details), the Directors have agreed that they will not declare, make or pay a dividend in the event that the first US\$1.5 million of the principal payment to

Citadel (due on 8 October 2011) has not been met or the Company is in arrears with the repayment of principal or interest in respect of the convertible bonds issued to Citadel, and that any such dividend would not exceed 25 per cent. of the Company's distributable reserves for that financial year.

28. Related Parties

Details of the historical related party transactions entered into by the Group are summarised in paragraph 9 of Part V of this Document.

29. Corporate Governance

Companies incorporated in Jersey are not subject to specific corporate governance guidelines. In addition, companies that are not admitted to a regulated market are not required to comply with the UK Corporate Governance Code. The Directors will comply with the provisions of the Corporate Governance Guidelines for Smaller Quoted Companies published by the Quoted Companies Alliance to the extent that they believe it is appropriate in light of the size, stage of development and resources of the Company.

The Company has adopted, and will operate where applicable, a share dealing code for Directors and senior executives under the same terms as the Model Code on directors' dealings in securities published from time to time by the United Kingdom Listing Authority.

The audit committee will meet at least twice a year and be responsible for ensuring that the financial performance of the Group is properly reported and monitored and for meeting the auditors and reviewing the reports from the auditors relating to accounts and internal control systems. It will meet once a year with the auditors and will be chaired by Mr. Richard Bennett.

The remuneration committee will review the performance of the executive Directors and will set and review the scale and structure of their remuneration and the terms of their service agreements with due regard to the interests of the Shareholders. In determining the remuneration of executive Directors, the remuneration committee will seek to enable the Company to attract and retain executives of high calibre. No director will be permitted to participate in discussions or decisions concerning his own remuneration. The remuneration committee will meet as and when necessary. The remuneration committee will be chaired by Prof. Chen Yong.

As a result of the current size of the Company, a nomination committee will not be put in place at the current time. The Directors will review the need for a nomination committee as the Company progresses.

As required, the Company will comply with the provisions of the AIM Rules, as amended from time to time, which govern the operation and administration of AIM, including the arrangements for the admission of securities to AIM and ongoing requirements once admitted to trading.

30. Admission to Trading on AIM

The Company has made an application to AIM for the Ordinary Shares to be admitted to trading on AIM. This Document constitutes an admission document for the purposes of the AIM Rules. The Ordinary Shares are not presently listed or dealt in on any stock exchange. Once the Placing is concluded, it is expected that trading of the Ordinary Shares on AIM (including Placing Shares) will commence on Admission.

Prior to Admission, the Company will enter into an appropriate arrangement with a Regulatory Information Service Provider approved by the FSA to disseminate regulatory information to the market.

Any individual wishing to buy or sell AIM-quoted shares, must trade through a stockbroker regulated by the FSA, as the market cannot deal directly with the public.

31. CREST

The Company's Articles permit the Company to issue shares in uncertificated form in accordance with the Companies (Uncertificated Securities) (Jersey) Order 1999. Application has been made for the Ordinary Shares to be admitted to CREST upon start of trading on AIM.

32. City Code on Takeovers and Mergers

The Company is incorporated and registered in Jersey but the operating Group entities are managed and controlled outside the UK, the Channel Islands and the Isle of Man. For this reason, the Takeover Code does not apply to the Company and Shareholders will not be offered any protections under the Takeover Code. It is emphasised that, although the Ordinary Shares will trade on AIM, the Company will not be subject to takeover regulation in the UK. Certain protections have been incorporated into the Articles which, to an extent, mirror provisions of the Takeover Code (the "Relevant Code Provisions").

The Articles provide that if an acquisition of Ordinary Shares were to increase the aggregate holding of the acquirer and its concert parties to shares carrying 30 per cent. or more of the voting rights in the Company, the acquirer and, depending on the circumstances, its concert parties, would be required (except with the agreement of the Company in general meeting by ordinary resolution) to make a cash offer for the outstanding shares in the Company at a price not less than the highest price paid for the Ordinary Shares by the acquirer or its concert parties during the previous 12 months. This requirement would also be triggered by any acquisition of shares by a person holding (together with its concert parties) shares carrying between 30 and 50 per cent. of the voting rights in the Company if the effect of such acquisition were to increase that person's voting rights. The main difference between these provisions and the Relevant Code Provisions is that the Takeover Panel does not have any jurisdiction to exercise its discretion in waiving any of the provisions of the Articles. Details of the key provisions of the Articles may be found in paragraph 7.2.15 of Part V of this Admission Document.

33. Disclosure Obligations

The Articles include provisions which are similar to those of Chapter 5 of the Disclosure and Transparency Rules and Part 22 of the 2006 Act, requiring shareholders to disclose their interest in shares in the Company in certain circumstances. Details of these provisions are set out in paragraphs 7.2.13 and 7.2.14 of Part V of this Document.

34. Taxation

The Group's operations in the PRC are subject to PRC taxation.

General information regarding UK and Jersey taxation in relation to the Placing and Admission is set out in paragraph 15 of Part V of this Document. If you are in any doubt as to your tax position you should consult your own independent adviser immediately.

35. Risk Factors

Your attention is drawn to the risk factors set out in Part II of this Admission Document. Potential investors should carefully consider the risks described in Part II before making a decision to invest in the Company.

PART II

RISK FACTORS

All the information set out in this Admission Document should be carefully considered and, in particular, those risks described below. If any of the following risks actually materialise, the business, financial condition, prospects and share price of the Company could be materially and adversely affected, and you may lose all or part of your investment.

The Directors believe the following risks to be the most significant to the Company. However, the risks listed do not necessarily comprise all those associated with an investment in the Company. In particular, the Company's performance may be affected by changes in market or economic conditions and in legal, regulatory and tax requirements. Further risks which are not presently known to the Directors, or that the Directors currently deem immaterial, may also have a material effect on the business, financial condition, prospects and share price of the Company, all of which may be adversely affected.

The list below is not exhaustive, nor is it an explanation of all the risk factors involved in investing in the Company and nor are the risks set out in any order of priority.

Business Risks

The Company

The value of an investment in the Company is largely dependent upon the Company achieving its strategic aims. There is no certainty that the businesses will be capable of achieving the anticipated revenues or growth. This growth and expansion could place significant strain on the Company's current managerial, financial and other resources. The Company will mainly operate in existing markets and, as such, the maintenance of its professional reputation and quality and maintenance of its services is vital to the continued success of its businesses. The Company's future revenues are inherently difficult to forecast as the Company relies on the ability to secure new contracts to generate its revenue.

Dependency on outsourced manufacturing and on key components or suppliers

ZKTY's ability to perform many of its customer contracts depends in part upon the availability and quality of outsourced manufacturing and upon the supply of key components. The supply of such items cannot be guaranteed and any interruption to the supply chain or failure to be able to obtain components from alternative sources may ultimately impact the availability of equipment and/or ZKTY's ability to perform its customer contracts within the contractual time frame, and accordingly the Company's resulting cash flows. This may occur through delays in the availability of components and the ability to meet manufacturing time lines (including quality of manufacturing or business failure of an outsourced manufacturer or supplier).

Reliance on sub-contracted works and the quality of the products provided by ZKTY's suppliers

In some of the Group's projects, ZKTY may sub-contract aspects of the contract. In the event that sub-contractors are unable to perform the work satisfactorily, ZKTY may have to seek further sub-contractors causing delays and the potential for late delivery damages claims.

Further, if the materials used by sub-contractors are of inferior quality or do not meet the requisite specifications, ZKTY may be subject to claims by its customers for any resultant defects or non-compliance in its products. If such claims are of a substantial amount, and ZKTY is unable to claim against the supplier for such damages, the Company's financial performance may be materially and adversely affected.

Failure to obtain or maintain requisite permits and licences

The Directors believe that the Group currently holds all necessary licenses and permits to carry on the activities which it is currently conducting under applicable laws and regulations. ZKTY and Boluo are subject to various government rules and regulations to carry out their respective business activities in the PRC. They are also subject to periodic audits by the relevant PRC authorities for the renewal of these licences and certifications. The relevant PRC authorities may suspend or refuse to renew the existing licences or certifications. Such PRC authorities may also impose fines or issue public warnings or censure. There is no assurance that ZKTY and Boluo will be able to maintain or renew their respective existing permits, licences and certifications in the future. If they fail to maintain or renew any of these licences, permits and certifications, the Company's business and operating results will be adversely affected.

Reliance on the renewal and/or maintenance of certain certifications for the sale of the Group's products and services

The Group's ability to market its products and services successfully overseas is reliant to some extent upon the Group renewing and/or maintaining certain certifications, such as the ISO 9001:2000 certification (which is due to expire on 25 November 2011) and the EC certification. The renewal of these certifications is subject to the approval of the accreditation organisations upon re-examination of the Group's qualifications. Any failure on the Group's part to renew and/or maintain these certifications may hinder the Group's ability to continue to market its products and services overseas and to expand its overseas business.

Delays in the completion of projects and the potential for damages

Delays in the completion of projects may arise from time to time as a result of various factors such as natural calamities, shortages of labour, construction equipment or raw materials, electricity shortages, worksite accidents or labour strikes. Any of these issues could impede the timely completion of a project.

In the event of any delays in the completion of a project, ZKTY may be liable to pay liquidated damages to customers or project owners. The quantum of liquidated damages payable is normally specified in the contracts. No assurance can be given that there will be no delays in the completion of ZKTY's current or future projects, giving rise to claims which in turn could materially affect the Company's profit margins.

Intellectual Property

The Company's success depends in part on obtaining, maintaining, and enforcing its intellectual property rights, and its ability to avoid infringing the intellectual property rights of others.

There is a risk that technology used by ZKTY in connection with the Group's current business operations may not be adequately protected by patents or any other intellectual property rights, and if there is insufficient protection, there is a risk that competitors could be able to use the technology to which the Group believes it has proprietary rights.

There is also a risk that third parties could allege that the Group may be in breach of their intellectual property rights. This could result in the Group facing claims for damages or litigation, and if such claims were successful the Group could be prevented from using such third party intellectual property rights or being required to seek licenses to obtain the right to use such third party intellectual property for the Group's operations.

Dependence on key personnel

The Company's business and future success is substantially dependent on the expertise and continued services and continuing contributions of its Directors and the Group's senior employees. The loss of the services of any Director, or other key employee, could have a material adverse effect on the Company's business. The Company cannot guarantee the retention of the Directors and the Group's senior employees. The Company's future success and growth will also depend on the Group's ability to attract and retain additional suitably qualified and experienced employees. There can be no guarantee that the Group will be

able to continue to attract and retain such employees, and failure to do so could have a material adverse effect on the financial condition, results or operations of the Company.

Litigation

Legal proceedings, with or without merit, may arise from time to time in the course of the Company's business, including in connection with the intellectual property rights. The Directors cannot preclude litigation being brought against the Company and any litigation brought against the Company could have a material adverse effect on the financial condition, results or operations of the Company. The Company's business may be materially adversely affected if the Group and/or its employees or agents are found not to have met the appropriate standard of care or exercised their discretion or authority in a prudent or appropriate manner in accordance with accepted standards.

Uncertainty of future revenues

The Group operates a project based model with little recurring revenue. As such, there can be no assurance that the Group's operations will continue to be profitable or produce a reasonable return, if any, on investment. New or unknown technology may also appear that reduces or eliminates the need for and/or the competitiveness or attractiveness of the Group's products and services.

Internal controls

Future growth and prospects for the Company will depend on its ability to manage the business and to continue to expand and improve operational, financial and management information and quality control systems on a timely basis, whilst at the same time maintaining effective cost controls. Any failure to expand and improve operational, financial and management information and quality control systems in line with the Company's growth could have a material adverse effect on the Company's business, financial condition and results of operations.

The Group may fail to implement successfully its expansion strategies

As set out in Part I, the Company intends to carry out certain expansion strategies. The Group's growth and future success will be dependent to some extent on the successful completion of such expansion strategies proposed to be undertaken by the Group and the sufficiency of demand for the Group's products and services. The execution of the Group's expansion strategies may also place a strain on its managerial, operational and financial reserves. Should the Group fail to implement the Group's expansion plans or should there be insufficient demand for the Group's products and services, the Group business operations, financial performance and prospects may be adversely affected.

The Group is largely reliant on the Chinese market

The Group's operations in China represent a significant majority of the Group's total revenues. As a result, the Group's operations, prospects and financial condition could be adversely affected if there is any deterioration in or disruption to legal, political, economic or social conditions in China.

Late payment

The Company is involved with construction projects and payments are received on a staged basis, with a proportion of total revenue from an order being retained by the customer for a warranty period following completion. There is a risk that customers will not meet these stage payments on a timely basis or honour the final payment at the end of the warranty period. Delays in payment or failure to pay altogether may have a material effect on the Group's financial performance.

There is a risk that in future the Group's customers may experience cashflow difficulties, which could materially and adversely affect the Group's business in the future. This may result in the Group experiencing payment delays for its products and services or in more severe cases not receiving payment for products and

services which could adversely affect the Group's business operations, financial performance and financial position.

Contracts with sub-contractors for installation services and equipment processing services

Some of the warranties given to ZKTY by its sub-contractors who provide installation services and equipment processing services at ZKTY's customers' sites, do not cover the entire period of the warranties given by ZKTY to its customers for the respective projects. So in the event of any claims made by ZKTY's customers under warranties which have not yet expired, there is a risk that ZKTY will not be able to in turn claim from the installation providers and equipment processing service providers where the warranties given by such sub-contractors to ZKTY have already expired and that, as a result, ZKTY could then be solely responsible for bearing the cost of meeting any such claims from customers.

Acquisition of Group Companies

The Group has been formed by the acquisition of entities owned partly by third parties. Normal commercial indemnities were obtained by the Company on acquisition but there is a risk that claims made against the Group could arise for the period of time prior to the Group's acquisition.

Insurance

The Group has not taken out any product liability insurance (which is not mandatory under PRC laws) as the Directors do not consider it to be necessary and believe that it would be difficult to obtain at commercially viable rates as ZKTY's products and services are so highly customised for particular projects. In addition, the Group has not taken out asset or inventory insurance for ZKTY's laboratory as the Directors do not consider it to be necessary. No independent assessment has been conducted of the adequacy of the Group's insurance coverage and of whether the Directors' assessment that the Group's current insurance coverage is adequate and that no product liability insurance or asset or inventory insurance for ZKTY's laboratory is required, is a fair and reasonable assessment in the circumstances. There is thus a risk that the Directors' assessment that the Group's current insurance coverage is adequate and that no product liability insurance or asset or inventory insurance for ZKTY's laboratory is required, may not be considered to be a fair and reasonable assessment, and that the Group may be exposed to certain financial risks which could otherwise be covered by insurance.

Market Risks

Price of petroleum and related substitute ethanol downstream products

Biofuel is an alternative energy source to petroleum and ethanol is commonly used as a partial substitute of gasoline. The demand for biofuel may be significantly influenced by the price of petroleum and related products. In the event that the price of petroleum decreases, this will lead to the increase in demand for petroleum and in turn decrease the demand for biofuel. This will adversely affect the demand for the Group's products and services. If the prices of petroleum and related products fall significantly, the Company's financial performance may be materially and adversely affected.

Prices of the feedstock for ethanol production

The prices of feedstock may be affected by factors such as climatic variations and government regulations. The increase in the prices of feedstock will increase the production cost of ethanol, which is likely to reduce the cost effectiveness of producing bioethanol. In such an event, capital expenditure by the Company's customers in the building of new plants or expansion of existing plants is likely to decrease. If the prices of feedstock increase substantially, the demand for the Group's products and services will decrease and this may affect the Group's financial performance.

General economic climate

The general economic climate is volatile and is affected by numerous factors which are beyond the Company's control and which may affect its operations, business and profitability. These factors include the supply and demand of capital, growth in gross domestic product, employment trends and industrial disruption, international economic trends, currency exchange rate fluctuations, the level of interest rates and the rate of inflation, global or regional political events and international events, as well as a range of other market forces, all of which have an impact on demand, business costs and stock market prices.

Competition

Larger companies, in particular, may have access to greater financial resources and technical facilities than the Group, which may give them a competitive advantage. In addition, the Company cannot predict the pricing or promotional activities or product development activities of its competitors or their effect on its ability to market and sell its products and services. In order to ensure that its products and services remain competitive, the Group may be required to reduce its prices as a result of price reductions by its competitors. This could adversely affect the Company's results. Potential competitors may establish co-operative relationships between themselves or with third parties to enhance their products. Accordingly, it is possible that new competitors or alliances among competitors may emerge and rapidly acquire significant market share. There is no assurance that the Group will be able to compete successfully in such a marketplace.

Taxation

The attention of potential investors is drawn to paragraph 15 of Part V of this Admission Document headed "Taxation". The tax rules, including stamp duty provisions and their interpretation relating to an investment in the Group may change during the life of the Group.

The levels of, and reliefs from, taxation may change. The tax reliefs referred to in this Admission Document and those that are currently available and their value depends upon the individual circumstances of investors. Any change in the Group's tax status or the tax applicable to holding Ordinary Shares or in taxation legislation or its interpretation in Jersey, the United Kingdom, the PRC or other jurisdictions in which the Group operates, could affect the value of the investments held by the Group, affect the Group's ability to provide returns to shareholders and/or alter the post-tax returns to shareholders. Statements in this Admission Document concerning the taxation of the Group and its investors are based upon current tax law and practice which is subject to change.

Prospective investors are urged to consult their tax advisers with respect to their particular tax situations and the tax effects of an investment in the Company.

Geographic risks

Difficulty to enforce a Jersey settlement on the Directors

The Company's operating subsidiaries, operations and most of its assets are located in the PRC. Its operating subsidiaries are therefore subject to the relevant laws in the PRC, which may not be similar to the laws in Jersey. The Directors are non-residents of Jersey and the assets of these persons are mainly located outside Jersey. As such, there may be difficulties for shareholders to effect service of process in Jersey, or to enforce a judgement obtained in Jersey against any of these persons.

Political Risks in PRC

The Chinese system operates within a political framework of communist control. Although the Directors believe that political conditions in the PRC are generally stable, changes may occur in its political, fiscal and legal systems which might affect the ownership or operation of the Group's interests, including, *inter alia*, changes in exchange control regulations, changes in government and in legislative and regulatory regimes. The Chinese Government since 1978 has pursued a policy of economic liberalisation, including the relaxation of private sector involvement in certain business sectors, although in late 2003 it began to limit

new infrastructure projects, in an effort to cool off the economy. The degree to which the PRC Government regulates industry is a key risk to business in the PRC in the future. The rate of economic liberalisation could change and laws and policies affecting the environmental protection sector, foreign investment, exchange rates and other matters affecting investment in PRC could change as well. A material change in the PRC's economic liberalisation could disrupt the country's economy generally and the Group's business in particular.

Limitations caused by PRC foreign exchange control

The Company's PRC subsidiaries are subject to the PRC rules and regulations on currency conversion. In the PRC, the State Administration of Foreign Exchange ("SAFE") regulates the conversion of the RMB into foreign currencies. Currently, foreign investment enterprises ("FIEs") are required to apply to SAFE for "Foreign Exchange Registration Certificates" for FIEs. With such registration certifications (which need to be examined annually), FIEs are allowed to open foreign currency accounts including the "current account" and "capital account". Currently, conversion within the scope of a "current account" (e.g. remittance of foreign currencies for payment of dividends, etc.) can be effected without requiring the approval of SAFE. However, conversion of currency in a "capital account" (e.g. for capital items such as direct investments, loans, securities, etc.) still requires the approval of SAFE.

There can be no assurance that the PRC regulatory authorities will not impose further restrictions on the convertibility of the RMB. Any future restriction on currency exchanges may limit the ability of the Company to repatriate revenues.

PRC Legal Environment

The Chinese legal system is based on written statutes. Prior legal decisions and judgments have limited precedential value. The PRC is still in the process of developing a comprehensive statutory framework, and its legal system is still considered to be underdeveloped in comparison with legal systems in some western countries. The interpretation of Chinese laws may be subject to changes that have a material adverse effect on the Group. In addition, enforcement of existing laws may be uncertain. The PRC legal system and regional taxation laws have inherent uncertainties and inconsistencies as to interpretation that could limit the legal protections available to members of the Group and might constrain the effectiveness of its intellectual property rights. As the Group's business is substantially conducted in the PRC, its operations are governed principally by the laws of the PRC. The Directors believe that PRC company law and special provisions, in general, and provisions for the protection of shareholders' rights and access to information, in particular, are less developed and afford less protection than those applicable to companies incorporated in the United Kingdom and other developed countries or regions.

Environmental Regulation

The Group's operations are subject to environmental and safety regulation in the PRC and other jurisdictions in which it operates. Such regulation covers a wide variety of matters, including, without limitation, prevention of waste, pollution and protection of the environment, labour regulations and worker safety. Although there has been no material past non-compliance, the Directors cannot guarantee that the Group will at all times be in compliance with such laws, regulations and permits. If the Group violates or fails to comply with the requirements, the Group could be fined or otherwise sanctioned by regulators. Environmental legislation and permit regimes are likely to evolve in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their directors and employees.

Health and Safety

While health and safety regulations in the PRC are not well developed, the adoption and enforcement of more stringent regulations in the future could adversely affect operational flexibility and costs.

The M&A Regulations

(i) The listing of the Company

On 8 August 2006, the Ministry of Commerce (“**MOC**”), the State-owned Assets Supervision and Administration Commission, the State Administration of Taxation, the State Administration of Industry and Commerce, the China Securities Regulatory Commission (“**CSRC**”), and the State Administration of Foreign Exchange jointly promulgated a new regulation on mergers and acquisitions of domestic enterprises by foreign investors (“**M&A Regulations**”). The M&A Regulations came into force on 8 September 2006 and were amended by the MOC on 22 June 2009. The M&A Regulations will apply to mergers and acquisitions of domestic investment enterprises by foreign investors. Pursuant to Article 39 and 40 of the M&A Regulations, special purpose vehicles (“**SPV**”) which are formed for the purpose of acquiring PRC domestic companies and which are directly or indirectly controlled by PRC domestic companies or individuals, are required to obtain CSRC’s approval prior to listing and trading their securities on an overseas stock exchange.

Jingtian & Gongcheng, legal advisers to the Company as to PRC law, have opined that the CSRC’s approval is not required for the proposed listing of the Company on AIM given the fact that the current corporate structure whereby the Company holds the entire issued share capital of ZKTY, was established before the M&A Regulations became effective on 8 September 2006.

However, there is a risk that the CSRC or other PRC governmental authorities may issue an interpretation or implementing rules in the future that could reach a different conclusion and that could determine that the CSRC’s or another PRC governmental authority’s approval is required for the proposed listing of the Company on AIM. If the CSRC or any other such PRC governmental authority subsequently determines that its approval is required for the proposed listing of the Company on AIM, the Group may face sanctions by the CSRC or such other PRC governmental authority. If this happens, there could be a material adverse effect on the Group’s business, financial condition, operations, reputation and prospects. However, as far as Jingtian & Gongcheng are aware, neither the CSRC nor any other PRC governmental authority intends to issue any such interpretation or implementing rules. Furthermore, Jingtian & Gongcheng understand that similar structures on previous transactions have not required any such approvals.

(ii) The acquisition of Boluo

Pursuant to Article 11 of the M&A Regulations, if a domestic company, enterprise or natural person intends to merge or acquire an affiliated domestic company in the name of an overseas company legally established or controlled by them, it shall submit this to the MOC for approval.

Pursuant to Article 55 of the M&A Regulations, where a foreign investor merges or acquires a domestic enterprise through a foreign-invested enterprise established by it within China, it shall comply with corresponding provisions on the combination and split-up of foreign-invested enterprises and corresponding provisions on domestic investment of foreign-invested enterprises. If the case is not covered by the aforesaid provisions, it shall be handled according to the M&A Regulations.

Jingtian & Gongcheng have opined that the MOC’s approval is not required for ZKTY’s acquisition of Boluo as the acquisition complied with the corresponding provisions on the combination and split-up of foreign-invested enterprises and the corresponding provisions on domestic investment of foreign-invested enterprises.

However, there is a risk that the MOC or any other PRC governmental authority may issue an interpretation or implementing rules in the future that could reach a different conclusion and that could require the MOC or other PRC governmental approvals for ZKTY’s acquisition of Boluo. If the MOC or any such other PRC governmental authority subsequently determine that its approval is required for ZKTY’s acquisition of Boluo, ZKTY may face sanctions by the MOC or any other such PRC governmental authority. If this happens, there could be a material adverse effect on the Group’s business, financial condition, operations, reputation and prospects.

AIM Specific Risks

AIM membership

The Company's proposed admission to AIM is entirely at the discretion of the London Stock Exchange. The Ordinary Shares are not presently listed or traded on any stock exchange.

Investment in AIM-quoted securities, share price volatility and liquidity

Prospective investors should be aware that the value of an investment in the Company may go down as well as up and that the market price of the Ordinary Shares may not reflect the underlying value of the Company. There can be no guarantee that the value of an investment in the Company will increase. Investors may therefore realise less than, or lose all of, their investment.

The share price of quoted companies can be highly volatile and shareholdings illiquid. The price at which the Ordinary Shares are quoted and the price which investors may realise for their Ordinary Shares may be influenced by a large number of factors, some of which are specific to the Company and its operations and some of which may affect quoted companies generally. These factors include, without limitation, the performance of the Company, large purchases or sales of Ordinary Shares by other investors, legislative changes and general economic, political or regulatory conditions, and other factors which are outside of the control of the Company.

Valuation of Shares

The Placing Price per Ordinary Share has been determined by the Company, and may not relate to the Company's net asset value, net worth or any established criteria or value. There can be no guarantee that the Ordinary Shares will be able to achieve higher valuations or, if they do so, that such higher valuations can be maintained. Cairn has not been involved in establishing the Placing Price for the purposes of the Placing and accordingly expresses no opinion.

Raising working capital to fund development and consequences of doing so

It is possible that the Company will need to raise further funds in the future. There is no guarantee that the then prevailing market conditions will allow for such a fundraising or that new investors will be prepared to subscribe for Ordinary Shares at the same price as the Placing Price, or higher. Shareholders may be materially diluted by any further issue of Ordinary Shares by the Company.

Future payment of dividends

There can be no assurance as to the level of future dividends. The declaration, payment and amount of any future dividends of the Company are subject to the discretion of the Directors and shareholders of the Company and will depend upon, *inter alia*, the Company's earnings, financial position, cash requirements and availability of profits as well as the provisions of relevant laws and/or generally accepted accounting principles from time to time. The Company has no plans to pay a dividend in the immediate future. The Company has also given certain undertakings to Citadel regarding the declaration or payment of dividends (see paragraph 8.10 of Part V of this Admission Document for details).

Planning uncertainty

This Admission Document contains certain forward-looking statements that are subject to certain risks and uncertainties, in particular statements regarding the Group's plans, goals and prospects. These statements and the assumptions that underline them are based on the current expectations of the Directors and are subject to a number of factors, many of which are beyond their control. As a result, there can be no assurance that actual performance of the Group will not differ materially from the matters described in this Admission Document.

PART III – A
ACCOUNTANTS’ REPORT ON CHINA NEW ENERGY LIMITED
AND ITS SUBSIDIARIES

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The Partners
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The Directors
SVS Securities Plc
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18 May 2011

Dear Sirs

We report on the consolidated financial information set out below on China New Energy Limited (the “Company”) and its subsidiaries (together ‘the CNE Group ‘) (‘the Consolidated Financial Information’) which has been prepared for inclusion in the AIM admission Document (‘the Document’) dated 18 May 2011 of the Company on the basis of the principal accounting policies set out in Note 2 to the Financial Information. This report is required by Schedule Two of the AIM Rules and is given for the purpose of complying with that schedule and for no other purpose.

Responsibilities

The Directors of the Company are responsible for preparing the Financial Information on the basis set out below and in accordance with applicable International Financial Reporting Standards.

It is our responsibility to form an opinion as to whether the Financial Information gives a true and fair view, for the purposes of the Document, and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the Financial Information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the Financial Information underlying the financial statements and whether the accounting policies are appropriate to the entity’s circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Financial Information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion the Financial Information gives, for the purposes of the Document dated 18 May 2011, a true and fair view of the state of affairs of the CNE Group as at the dates stated and of its results and cash flows for the periods then ended in accordance with the basis of preparation set out below and in accordance with applicable International Financial Reporting Standards as adopted by the EU and has been prepared in a form that is consistent with the accounting policies adopted by the Company.

Declaration

For the purposes of paragraph (a) of Schedule Two of the AIM Rules we are responsible for this report as part of the Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Document in compliance with Schedule Two of the AIM Rules.

Yours faithfully

Crowe Clark Whitehill LLP

Chartered Accountants

Consolidated Statements of Financial Position

The consolidated statements of financial position of the CNE Group as at 31 December 2007, 31 December 2008, 31 December 2009, and 31 August 2010 are set out below:

		As at 31 December			As at 31 August
	Note	2007 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000
Non-current assets					
Property, plant and equipment	4	4,053	3,988	6,809	5,310
Intangible assets	5	257	127	108	102
Deferred tax assets	6	3,823	3,823	2,370	1,076
Trade receivables	10	—	—	7,803	6,602
		<u>8,133</u>	<u>7,938</u>	<u>17,090</u>	<u>13,090</u>
Current assets					
Inventories	8	67,440	32,976	23,570	33,927
Due from customers for construction contracts	9	15,025	38,988	53,785	57,256
Trade and other receivables	10	80,787	33,633	32,954	42,972
Notes receivables		26,878	100	5,299	4,300
Cash and cash equivalents	11	56,866	13,663	19,743	13,492
		<u>246,996</u>	<u>119,360</u>	<u>135,351</u>	<u>151,947</u>
Current liabilities					
Trade and other payables	12	81,747	62,650	59,240	61,850
Due to customers for construction contracts	9	107,854	20,290	36,213	41,134
Notes payables		—	3,421	5,491	2,133
Income tax payable		18	18	—	—
Convertible bonds	13	—	—	54,704	54,513
		<u>189,619</u>	<u>86,379</u>	<u>155,648</u>	<u>159,630</u>
Net current assets		<u>57,377</u>	<u>32,981</u>	<u>(20,297)</u>	<u>(7,683)</u>
Non-current liabilities					
Convertible bonds	13	62,561	51,601	—	—
Deferred tax liabilities		—	—	1,055	1,033
		<u>62,561</u>	<u>51,601</u>	<u>1,055</u>	<u>1,033</u>
Net assets/(liabilities)		<u>2,949</u>	<u>(10,682)</u>	<u>(4,262)</u>	<u>4,374</u>
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)	(33,156)	(33,156)
Statutory reserve	15	392	3,971	4,788	4,788
Convertible bonds reserve	13	29,888	9,722	9,722	9,722
Accumulated losses		(25,747)	(45,123)	(34,022)	(27,576)
Foreign currency translation reserve	17	1,205	23,537	18,039	20,229
		<u>2,949</u>	<u>(10,682)</u>	<u>(4,262)</u>	<u>4,374</u>

Consolidated Statements of Comprehensive Income

The consolidated statements of comprehensive income of the CNE Group for each of the three years ended 31 December 2007, 2008, 2009 and eight months ended 31 August 2010 are set out below:

		Year ended 31 December 2007	Year ended 31 December 2008	Year ended 31 December 2009	8 Months ended 31 August 2010
	Note	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	18	205,749	224,208	125,301	69,024
Cost of sales		(163,947)	(182,128)	(93,781)	(50,066)
Gross profit		41,802	42,080	31,520	18,958
Other operating income	19	1,079	4,587	5,563	584
Selling and distribution expenses		(5,757)	(4,938)	(3,129)	(2,121)
Administrative expenses		(15,608)	(13,421)	(11,221)	(7,973)
Other operating expenses	20	(34,331)	(34,475)	(5,470)	(1,549)
Interest expenses		(1,045)	(9,622)	(2,837)	—
Profit/(loss) before income tax	21	(13,860)	(15,789)	14,426	7,899
Income tax expense	22	(9)	(8)	(2,508)	(1,453)
Profit/(loss) for the financial year/period		(13,869)	(15,797)	11,918	6,446
Other comprehensive income:					
Exchange difference arising from consolidation		1,244	22,332	(5,498)	2,190
Total comprehensive income for the financial year/period		1,244	22,332	(5,498)	2,190
Total comprehensive income attributable to equity holder		(12,625)	6,535	6,420	8,636
Earnings/(loss) per share:					
Basic and diluted	23	(2.06)	(2.35)	1.77	0.96

Consolidated Statements of Changes in Equity

The consolidated statements of changes in equity of the CNE Group for each of the three years ended 31 December 2007, 2008, 2009 and eight months ended 31 August 2010 are set out below:

	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory reserve RMB'000	Convertible bonds reserve RMB'000	Accumulated losses RMB'000	Foreign currency translation reserve RMB'000	Total RMB'000
Balance at 1 January 2007	1,013	29,354	(33,156)	—	—	(11,486)	(39)	(14,314)
Transfer to statutory reserve	—	—	—	392	—	(392)	—	—
Convertible bonds reserve	—	—	—	—	29,888	—	—	29,888
Total comprehensive income for the year	—	—	—	—	—	(13,869)	1,244	(12,625)
Balance at 31 December 2007	1,013	29,354	(33,156)	392	29,888	(25,747)	1,205	2,949
Transfer to statutory reserve	—	—	—	3,579	—	(3,579)	—	—
Total comprehensive income for the year	—	—	—	—	—	(15,797)	22,332	6,535
Redemption of convertible bonds	—	—	—	—	(20,166)	—	—	(20,166)
Balance at 31 December 2008	1,013	29,354	(33,156)	3,971	9,722	(45,123)	23,537	(10,682)
Transfer to statutory reserve	—	—	—	817	—	(817)	—	—
Total comprehensive income for the year	—	—	—	—	—	11,918	(5,498)	6,420
Balance at 31 December 2009	1,013	29,354	(33,156)	4,788	9,722	(34,022)	18,039	(4,262)
Transfer to statutory reserve	—	—	—	—	—	—	—	—
Total comprehensive income for the year	—	—	—	—	—	6,446	2,190	8,636
Balance at 31 August 2010	1,013	29,354	(33,156)	4,788	9,722	(27,576)	20,229	4,374

Consolidated Statements of Cash Flows

The consolidated cash flow statements of the CNE Group for each of the three years ended 31 December 2007, 2008, 2009 and eight months ended 31 August 2010 are set out below:

	Year ended 31 December 2007 RMB'000	Year ended 31 December 2008 RMB'000	Year ended 31 December 2009 RMB'000	8 Months ended 31 August 2010 RMB'000
<i>Operating activities</i>				
Profit/(loss) before income tax	(13,860)	(15,789)	14,426	7,899
Adjustments for:				
Depreciation and amortisation	695	1,345	1,419	901
Allowance for doubtful trade receivable	16,524	269	3,114	—
Allowance for doubtful other receivable	—	—	—	502
Allowance for impairment/(write back)	11,849	24,334	699	(936)
Loss/(gain) on disposal of property, plant and equipment	(343)	(284)	19	—
Property, plant and equipment written off	25	208	—	—
Interest income	(214)	(162)	(151)	(512)
Exchange difference	—	8,844	(5,033)	1,995
Interest expenses	—	9,622	2,805	—
<i>Operating cash flows before movements in working capital</i>	14,676	28,387	17,298	9,849
Inventories	(27,751)	34,464	9,406	(10,357)
Construction work-in-progress	34,251	(135,861)	427	2,386
Trade and other receivables	(64,974)	46,885	(10,238)	(9,319)
Notes receivables	(26,878)	26,778	(5,199)	999
Trade and other payables	25,503	(19,097)	(3,410)	2,610
Notes payables	—	3,421	2,070	(3,358)
Cash generated from/(used in) operations	(45,173)	(15,023)	10,354	(7,190)
Income taxes paid	(1,355)	(8)	(18)	(181)
<i>Net cash from/(used in) operating activities</i>	(46,528)	(15,031)	10,336	(7,371)
<i>Investing activities</i>				
Proceeds from disposal of property, plant and equipment	1,150	1,000	98	1,173
Acquisition of property, plant and equipment	(3,874)	(2,074)	(4,338)	(569)
Interest received	214	162	151	512
<i>Net cash from/(used in) investing activities</i>	(2,510)	(912)	(4,089)	1,116
<i>Financing activities</i>				
Proceeds from issuance/(redemption) of convertible bonds	95,530	(27,575)	—	—
<i>Net cash from/(used in) financing activities</i>	95,530	(27,575)	—	—

	Year ended 31 December 2007 RMB'000	Year ended 31 December 2008 RMB'000	Year ended 31 December 2009 RMB'000	8 Months ended 31 August 2010 RMB'000
Net increase/(decrease) in cash and cash equivalents	46,492	(43,518)	6,247	(6,255)
Cash and bank balances at beginning of year/period	16,124	56,866	13,663	19,743
Effect of foreign exchange rate changes in cash and bank balances	(5,750)	315	(167)	4
Cash and cash equivalents at end of year/period	<u>56,866</u>	<u>13,663</u>	<u>19,743</u>	<u>13,492</u>

1. General

The Company (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 subsidiary, Guangdong Zhongke Tianyuan New Energy Science and Technology Co., Ltd., 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.

The principal place of business is located at Wushan, Tianhe District, Guangzhou, People's Republic of China (PRC).

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 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.

Standards, 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 were in issue and have not been applied in these financial statements are listed below:

IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments
IFRIC 14 (Amendment)	Prepayments of a minimum funding requirement
IAS 24 (revised)	Related Party Transactions

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

2.2 **Basis of consolidation**

The consolidated financial information incorporates the financial information of the Company and its subsidiary. 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.

Subsidiary is consolidated from the date on which control is transferred to the CNE 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 CNE 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 company 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 CNE 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.

When the CNE 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 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.

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, 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.

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 CNE Group and the nominal amount of the share capital issued as consideration for the acquisition.

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/period.

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 comprehensive income statement.

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

2.6 Intangible assets

Computer software

Acquired computer software licences 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 licences are subsequently carried at cost less accumulated amortisation and accumulated impairment losses. These costs are amortised to comprehensive income statement using the straight-line method over their estimated useful lives of 3 years.

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

2.7 Impairment of tangible and intangible assets excluding goodwill

At the end of each financial year, the CNE 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 CNE 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 comprehensive income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (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 been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in comprehensive income statement, 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 comprehensive income statement 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 subsidiary 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 are 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 comprehensive income statement, 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.

Current and deferred tax are recognised as an expense or income in comprehensive income statement, 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 CNE Group's consolidated statement of financial position when the CNE 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 receipts or payments (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) through the expected life of the financial instrument, or where appropriate, a shorter period, to the net carrying amount of the financial instrument. Income and expense are recognised on an effective interest basis for debt instruments other than those financial instruments at fair value through comprehensive income statement.

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 its financial assets at initial recognition and re-evaluates this classification at every reporting date. As at the balance sheet date, the CNE Group did not have any financial assets 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 CNE 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 comprehensive income statement.

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 comprehensive income statement.

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 comprehensive income statement to the extent 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 CNE 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 CNE 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 CNE Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the CNE Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the CNE Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds receivables.

Financial liabilities and equity instruments

Classification as debt or equity

Financial liabilities and equity instruments issued by CNE 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 CNE CNE 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 comprehensive income statement 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 CNE Group derecognises financial liabilities when, and only when, the CNE 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.

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 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 CNE Group has a present legal or constructive obligation as a result of a past event, it is probable that the CNE 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.

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 CNE Group pays fixed contributions into separate entities such as the social security plan in People's Republic of China (the "PRC") on a mandatory, contractual or voluntary basis. The CNE 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 CNE 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 CNE Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

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/period. 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 CNE 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 CNE 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.

2.20 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 CNE 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.

Impairment of financial assets

The CNE Group follows the guidance of IAS 39 – Financial Instruments: Recognition and Measurement, in determining whether a financial asset is impaired. This determination requires significant judgement, the CNE 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.

Deferred tax assets

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 judgement 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 CNE Group's recognised deductible temporary differences as at 31 December 2007, 2008, 2009 and 31 August 2010 were RMB3.8 million, RMB3.8 million, RMB2.4 million and RMB1.1 million respectively. Management is of the view that these deferred tax assets are considered to be fully recoverable based on anticipated future profitability of the CNE Group.

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 CNE 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 2007, 2008, 2009 and 31 August 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/period, 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 a 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 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 CNE Group's trade and other receivables as at 31 December 2007, 2008, 2009 and 31 August 2010 were RMB80.8 million, RMB33.6 million, RMB33.0 million and RMB43.0 million respectively.

Construction contracts

The CNE Group uses the percentage-of-completion method to account for its contract revenue. The stage of completion is measured by reference to the contract costs incurred to date compared to the estimated total costs for the contract. Significant assumptions are required to estimate the total contract costs and the recoverable variation works that will affect the stage of completion and the contract revenue respectively. In making these estimates, management has relied on past experience.

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 2007, 2008, 2009 and 31 August 2010 were RMB257,000, RMB127,000, RMB108,000 and RMB102,000, respectively.

Depreciation of property, plant and equipment

The CNE 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 CNE Group intends to derive future economic benefits from the use of the CNE Group's property, plant and equipment. The residual value reflects management's estimated amount that the CNE 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 2007, 2008, 2009 and 31 August 2010 were RMB4.1 million, RMB4.0 million, RMB6.8 million and RMB5.3 million 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 CNE Group's inventories as at 31 December 2007, 2008, 2009 and 31 August 2010 were RMB67.4 million, RMB30.0 million, RMB23.6 million and RMB33.9 million respectively.

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
<u>As at 31 December 2007</u>					
Cost					
At 1 January 2007	887	212	864	—	1,963
Additions	1,228	1,727	358	561	3,874
Write off	(46)	—	—	—	(46)
Disposals	—	(832)	—	—	(832)
At 31 December 2007	<u>2,069</u>	<u>1,107</u>	<u>1,222</u>	<u>561</u>	<u>4,959</u>
Accumulated depreciation					
At 1 January 2007	62	20	258	—	340
Charged for the year	194	105	173	140	612
Write off	(21)	—	—	—	(21)
Disposals	—	(25)	—	—	(25)
At 31 December 2007	<u>235</u>	<u>100</u>	<u>431</u>	<u>140</u>	<u>906</u>
Net book value					
At 31 December 2007	<u>1,834</u>	<u>1,007</u>	<u>791</u>	<u>421</u>	<u>4,053</u>
<u>As at 31 December 2008</u>					
Cost					
At 1 January 2008	2,069	1,107	1,222	561	4,959
Additions	132	1,880	62	—	2,074
Write off	(147)	—	(6)	(270)	(423)
Disposals	—	(774)	—	—	(774)
At 31 December 2008	<u>2,054</u>	<u>2,213</u>	<u>1,278</u>	<u>291</u>	<u>5,836</u>
Accumulated depreciation					
At 1 January 2008	235	100	431	140	906
Charged for the year	364	413	230	208	1,215
Write off	(25)	—	(1)	(189)	(215)
Disposals	—	(58)	—	—	(58)
At 31 December 2008	<u>574</u>	<u>455</u>	<u>660</u>	<u>159</u>	<u>1,848</u>
Net book value					
At 31 December 2008	<u>1,480</u>	<u>1,758</u>	<u>618</u>	<u>132</u>	<u>3,988</u>
<u>As at 31 December 2009</u>					
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	<u>5,334</u>	<u>3,041</u>	<u>1,274</u>	<u>291</u>	<u>9,940</u>

	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Leasehold improvements RMB'000	Total RMB'000
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
<u>As at 31 August 2010</u>					
Cost					
At 1 January 2010	5,334	3,041	1,274	291	9,940
Additions	299	140	130	—	569
Write off	—	—	—	—	—
Disposals	(509)	(900)	—	—	(1,409)
At 31 August 2010	5,124	2,281	1,404	291	9,100
Accumulated depreciation					
At 1 January 2010	1,547	522	815	247	3,131
Charged for the period	658	123	99	15	895
Write off	—	—	—	—	—
Disposals	(236)	—	—	—	(236)
At 31 August 2010	1,969	645	914	262	3,790
Net book value					
At 31 August 2010	3,155	1,636	490	29	5,310

5. Intangible assets

	As at 31 December			As at 31 August
	2007 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000
Cost				
Balance at beginning of year/period	290	380	380	380
Additions	90	—	—	—
Balance at end of year/period	380	380	380	380
Accumulated amortisation				
Balance at beginning of year/period	40	123	253	272
Amortisation for the year/period	83	130	19	6
Balance at end of year/period	123	253	272	278
Net book value	257	127	108	102

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

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.

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 CNE Group			
		As at 31 December			As at 31 August
		2007	2008	2009	2010
Guangdong Zhongke Tianyuan New Energy Science and Technology Co., Ltd/The PRC	Provision of engineering, procurement and construction services to ethanol producers.	100%	100%	100%	100%

8. Inventories

	As at 31 December			As at 31 August
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	18,908	15,276	12,182	20,020
Work-in-progress	48,532	17,700	11,388	13,907
	<u>67,440</u>	<u>32,976</u>	<u>23,570</u>	<u>33,927</u>

The cost of inventories recognised as expense and included in “cost of sales” amounted to RMB138.0 million, RMB153.0 million, RMB62.4 million, and RMB37.9 million respectively.

9. Due from/to customers for construction contracts

	As at 31 December			As at 31 August
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Aggregate costs incurred and profits recognised to- date	438,606	615,101	591,057	600,397
Less: Progress billings	(512,407)	(553,041)	(529,424)	(541,150)
	<u>(73,801)</u>	<u>62,060</u>	<u>61,633</u>	<u>59,247</u>
Allowance for impairment	(19,028)	(43,362)	(44,061)	(43,125)
	<u>(92,829)</u>	<u>18,698</u>	<u>17,572</u>	<u>16,122</u>
<u>Presented as:</u>				
Due from customers for construction contracts	15,025	38,988	53,785	57,256
Due to customers for construction contracts	(107,854)	(20,290)	(36,213)	(41,134)
	<u>(92,829)</u>	<u>18,698</u>	<u>17,572</u>	<u>16,122</u>

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

	As at 31 December			As at 31 August
	2007 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000
At beginning of the year/period	7,179	19,028	43,362	44,061
Allowance for impairment/(write back)	11,849	24,334	699	(936)
At end of the year/period	19,028	43,362	44,061	43,125

10. Trade and other receivables

	As at 31 December			As at 31 August
	2007 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000
<u>Current</u>				
Trade receivables				
– Related party	7,807	7,307	–	–
– Third parties	54,306	46,588	65,591	69,561
	62,113	53,895	65,591	69,561
Allowance for impairment of receivables	(44,208)	(40,383)	(41,266)	(41,266)
	17,905	13,512	24,325	28,295
Other receivables				
– Deposits	30,953	6,645	6,786	8,542
– Prepayments	119	20	–	15
– VAT recoverable	–	4,325	–	–
– Due from related parties	6,786	5,603	550	4,328
– Due from shareholders	737	999	–	–
– Others	24,287	2,529	1,293	2,294
Allowance for impairment	–	–	–	(502)
	24,287	2,529	1,293	1,792
	80,787	33,633	32,954	42,972
<u>Non-current</u>				
Trade receivables	–	–	7,803	6,602
	–	–	7,803	6,602

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

Other receivables comprise loans to employees. In 2007 the amount was high due to prepayment of stock purchases to China Develop Limited and Wealth Ascent Asia Limited for investment purposes.

As at 31 December 2007, 2008, 2009, and 31 August 2010, retention monies held by customers for contract work amounted to RMB5.0 million, RMB5.3 million, RMB6.6 million, and RMB3.7 million respectively.

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:

	As at 31 December			As at 31 August
	2007 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000
<u>Current</u>				
Face value	—	—	66,164	70,171
Discount on trade receivables	—	—	(573)	(610)
Fair value	—	—	65,591	69,561
<u>Non-current</u>				
Face value	—	—	9,214	7,551
Discount on trade receivables	—	—	(1,411)	(949)
Fair value	—	—	7,803	6,602

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

	As at 31 December			As at 31 August
	2007 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000
	Audited	Audited	Audited	Audited
At beginning of the year/period	27,684	44,208	40,383	41,266
Allowance during the year/period	16,524	269	3,114	—
Write off	—	(4,094)	(2,231)	—
At end of the year/period	44,208	40,383	41,266	41,266

The CNE 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 CNE Group's receivables.

11. Cash and cash equivalents

	As at 31 December			As at 31 August
	2007 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000
Cash at bank and on hand	56,866	13,663	19,743	13,492

The currency profiles of the CNE Group's cash and cash equivalents as at 31 December 2007, 2008, 2009, and as at 31 August 2010 are disclosed in Note 26.

12. Trade and other payables

	As at 31 December			As at 31 August
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables				
– Third parties	38,480	44,854	34,754	29,623
Other payables				
– Advance deposits from customers	27,229	5,780	9,878	16,239
– Other payables and accruals	8,870	5,689	8,149	7,476
– VAT payables	4,478	3,319	5,927	8,121
– Due to related parties	180	2,078	532	–
– Due to directors	2,510	930	–	391
	<u>81,747</u>	<u>62,650</u>	<u>59,240</u>	<u>61,850</u>

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.

13. Convertible bonds

On 30 July 2007, the Company entered into a subscription agreement with Citadel Equity Fund Limited (“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”). Further details are provided in note 30.

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:

	As at 31 December			As at 31 August
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Face value of convertible bonds	92,449	61,323	64,426	64,235
Equity conversion component	(29,888)	(9,722)	(9,722)	(9,722)
Fair value of debt	62,561	51,601	54,704	54,513
Represented by:				
Current	—	—	54,704	54,513
Non-current	62,561	51,601	—	—
Fair value of debt	62,561	51,601	54,704	54,513

14. Share capital

	Number of shares	Share capital	
		£ '000	RMB '000
At date of incorporation	2	—	—
Proceeds from shares issued	6,733,095	67	1,013
At 31 December 2007, 2008, 2009 and 31 August 2010	6,733,097	67	1,013

Until 21 March 2011 the Company had an authorised share capital of £10,000,000 divided into 1,000,000,000 shares of £0.01 each. In 2006, the Company issued 6,733,097 ordinary shares for total consideration of £2,019,150 net of expenses.

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.

All newly issued ordinary shares rank pari-passu with the existing ordinary shares.

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

15. 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.

16. 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.

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

	Years ended 31 December			8 months ended 31 August
	2007 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000
Contract revenue	205,749	224,208	125,301	69,024

19. Other operating income

	Years ended 31 December			8 months ended 31 August
	2007 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000
Interest income	214	162	151	512
Sale of scrap materials	538	140	149	72
Sundry income	327	4,285	137	—
Foreign exchange gain	—	—	5,126	—
	1,079	4,587	5,563	584

During the year ended 31 December 2008, sundry income mainly related to forfeiture of deposits for cancelled contracts.

20. Other operating expenses

	Years ended 31 December			8 months ended 31 August
	2007 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000
Research and development expense	2,500	–	1,029	522
Bank charges	67	151	110	21
Foreign currency exchange loss	3,355	9,629	393	1,430
Allowance for doubtful trade receivables	16,524	269	3,114	–
Allowance for doubtful non-trade receivables	–	–	–	502
Allowance for impairment on due from customers	11,849	24,334	699	(936)
Technical service fee	36	92	12	10
Others	–	–	113	–
	<u>34,331</u>	<u>34,475</u>	<u>5,470</u>	<u>1,549</u>

21. Profit/(loss) before income tax

	Years ended 31 December			8 months ended 31 August
	2007 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000
Staff costs including directors remuneration	9,230	8,210	7,043	4,242
Depreciation of property, plant and equipment	612	215	1,400	895
Write-off of property, plant and equipment	807	716	9	–
Gain/(loss) on disposal of property, plant and equipment	343	284	19	–
Amortisation of intangible assets	83	130	19	6
Operating lease	482	508	636	248

22. Income tax expense

	Years ended 31 December			8 months ended 31 August
	2007 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000
Current income tax	<u>9</u>	<u>8</u>	<u>2,508</u>	<u>1,453</u>
Deferred tax asset	<u>3,823</u>	<u>3,823</u>	<u>2,370</u>	<u>1,076</u>
Current income tax	<u>–</u>	<u>–</u>	<u>1,055</u>	<u>1,033</u>

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:

	Years ended 31 December			8 months ended 31 August
	2007 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000
At beginning of the year/period	—	3,823	3,823	2,370
Tax paid	3,823	—	—	—
Utilised for the year/period	—	—	(1,453)	(1,294)
At end of the year/period	3,823	3,823	2,370	1,076

Movements in deferred tax liabilities are as follows:

	Years ended 31 December			8 months ended 31 August
	2007 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000
At beginning of the year/period	—	—	—	1,055
Charged/Reversal for the year/period	—	—	1,055	(22)
At end of the year/period	—	—	1,055	1,033

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.

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 2007, 2008, 2009, and eight months ended 2010 are as follows:

	Years ended 31 December			8 months ended 31 August
	2007 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000
Profit/(loss) before income tax	(13,860)	(15,789)	14,426	7,899
Income tax using PRC tax rate of 33%/25%	—	—	3,607	1,975
Expenses not deductible for tax purposes	4,574	5,210	705	466
Tax exempt income	(4,583)	(5,218)	(1,804)	(988)
Deductible tax benefits	—	—	—	—
	(9)	(8)	2,508	1,453

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 2007, 2008, 2009, and eight months ended 2010 are as follows:

	Years ended 31 December			8 months ended 31 August
	2007 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000
Profit/(loss) attributable to equity holders	(13,869)	(15,797)	11,918	6,446
Weighted average number of shares	6,733	6,733	6,733	6,733
Earnings/(loss) per share	(2.06)	(2.35)	1.77	0.96

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:

	As at 31 December			As at 31 August
	2007 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000
Within one year	1,023	930	552	587
After one year but before five years	830	—	577	217
	1,853	930	1,129	804

Operating lease payments represent rents payable by the Company 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 Company'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/period, in addition to those disclosed elsewhere in these financial statements, the following significant transactions took place at terms agreed between the parties:

	Years ended 31 December			8 months ended 31 August
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Related parties				
– R&D expenses	2,500	–	–	–
– Purchase of a motor vehicle	–	2,100	900	–
– Deposit for investment	–	–	–	1,000
– Subcontracting fees	793	1,026	1,034	917
– Loan to a related party	–	–	–	(231)
– Disposal of a motor vehicle	–	–	–	(900)
– Payment on behalf of a related party	(304)	(1,198)	(1,211)	–
– Collection on behalf by a related party	–	–	–	(930)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

b) Key management personnel compensation is analysed as follows:

	Years ended 31 December			8 months ended 31 August
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Remuneration	821	787	1,190	846
Other term benefits	6	22	149	11
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	827	809	1,339	857

26. Financial risk management

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

The Board of Directors is responsible for setting the objectives and underlying principles of financial risk management for the CNE 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 CNE 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 CNE Group. The CNE 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 CNE Group performs ongoing credit evaluation of its counterparties' financial condition. The CNE 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 CNE 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 2007, 2008, 2009, and 31 August 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.

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			As at 31 August
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and cash equivalents	56,866	13,663	19,743	13,492
Trade and other receivables	80,787	33,633	32,954	42,972
Notes receivables	26,878	100	5,299	4,300
	<u>164,531</u>	<u>47,396</u>	<u>57,996</u>	<u>60,764</u>

At the balance sheet date, the CNE Group's trade receivable was due from the related parties and third parties. There was significant concentration of credit risk in the CNE Group's trade receivables as the Group's five biggest customers accounted for 82%, 80%, 27% and 62% of the total receivables as at 31 December 2007, 2008, 2009, and 31 August 2010 respectively.

Credit risk

Trade receivables that are past due but not impaired

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

	As at 31 December			As at 31 August
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Less than 30 days	5,306	—	8,623	3,485
31-60 days	—	2,166	4,358	1,906
Over 60 days	7,508	7,493	11,344	21,733
	<u>12,814</u>	<u>9,659</u>	<u>24,325</u>	<u>27,124</u>

Trade receivables that are impaired

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

	As at 31 December			As at 31 August
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Less than 30 days	1,068	—	—	—
31-60 days	2,487	—	—	—
Over 60 days	40,653	40,383	41,266	41,266
	<u>44,208</u>	<u>40,383</u>	<u>41,266</u>	<u>41,266</u>

Currency risk

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

The Company and its subsidiary maintain their respective books and accounts in their functional currencies. As a result, the CNE 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 CNE Group's policy that no derivatives shall be undertaken except for the use as hedging instruments where appropriate and cost-efficient. The CNE Group does not apply hedge accounting.

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

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

	RMB '000	£ '000	US\$ '000	EUR'000	Total
<u>At 31 August 2010</u>					
Financial assets					
Trade and other receivables	42,972	—	—	—	42,972
Notes receivables	4,300	—	—	—	4,300
Cash and bank balances	13,198	25	269	—	13,492
	<u>60,470</u>	<u>25</u>	<u>269</u>	<u>—</u>	<u>60,764</u>
Financial liabilities					
Trade and other payables	61,850	—	—	—	61,850
Notes payables	2,133	—	—	—	2,133
	<u>63,983</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>63,983</u>
Net financial assets	<u>(3,513)</u>	<u>—</u>	<u>269</u>	<u>—</u>	<u>(3,219)</u>
Less: Net financial assets denominated in the functional currency	<u>(3,513)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(3,513)</u>
Net currency exposure	<u>—</u>	<u>25</u>	<u>269</u>	<u>—</u>	<u>294</u>

	RMB '000	£ '000	US\$ '000	EUR'000	Total
<u>At 31 December 2009</u>					
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	60,556
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	<u>—</u>	<u>3</u>	<u>136</u>	<u>5</u>	<u>144</u>
<u>At 31 December 2008</u>					
Financial assets					
Trade and other receivables	33,633	—	—	—	33,633
Notes receivables	100	—	—	—	100
Cash and bank balances	13,376	5	282	—	13,663
	47,109	5	282	—	47,396
Financial liabilities					
Trade and other payables	62,549	7	94	—	62,650
Notes payables	3,421	—	—	—	3,421
	65,970	7	94	—	66,071
Net financial assets	(18,861)	(2)	188	—	(18,675)
Less: Net financial assets denominated in the functional currency	18,861	—	—	—	18,861
Net currency exposure	<u>—</u>	<u>(2)</u>	<u>188</u>	<u>—</u>	<u>186</u>
	RMB '000	£ '000	US\$ '000	EUR'000	Total
<u>At 31 December 2007</u>					
Financial assets					
Trade and other receivables	80,787	—	—	—	80,787
Notes receivables	26,878	—	—	—	26,878
Cash and bank balances	23,533	96	33,237	—	56,866
	131,198	96	33,237	—	164,531
Financial liability					
Trade and other payables	81,797	11	203	—	82,011
Net financial assets	49,401	85	33,034	—	82,520
Less: Net financial assets denominated in the functional currency	(49,401)	—	—	—	(49,401)
Net currency exposure	<u>—</u>	<u>85</u>	<u>33,034</u>	<u>—</u>	<u>33,119</u>

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			8 months ended 31 August
	2007 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000
£ against RMB				
– strengthen	9	–	–	3
– weaken	(9)	–	–	(3)
US\$ against RMB				
– strengthen	3,303	19	14	27
– weaken	(3,303)	(19)	(14)	(27)

Interest rate risk

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

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

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
<u>31 August 2010</u>			
Trade and other payables	61,850	–	61,850
Notes payables	2,133	–	2,133
Convertible bonds	54,513	–	54,513
	<u>118,496</u>	<u>–</u>	<u>118,496</u>
<u>31 December 2009</u>			
Trade and other payables	59,240	–	59,240
Notes payables	5,491	–	5,491
Convertible bonds	54,704	–	54,704
	<u>119,435</u>	<u>–</u>	<u>119,435</u>

	Less than one year RMB'000	Later than one year RMB'000	Total RMB'000
<u>31 December 2008</u>			
Trade and other payables	62,650	—	62,650
Notes payables	3,421	—	3,421
Convertible bonds	—	51,601	51,601
	<u>66,071</u>	<u>51,601</u>	<u>117,672</u>
	Less than one year RMB'000	Later than one year RMB'000	Total RMB'000
<u>31 December 2007</u>			
Trade and other payables	81,797	—	81,797
Convertible bonds	—	62,561	62,561
	<u>81,797</u>	<u>65,561</u>	<u>144,358</u>

Commodity price risk

The CNE Group has commodity price risk as steel is 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 CNE Group's profitability will be adversely affected if the CNE 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 CNE 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 CNE Group's objectives when managing capital are to safeguard the CNE 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 CNE 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 CNE Group manages its capital structure by making necessary adjustments to it in response to the changes in economic conditions.

The CNE Group's strategy is 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.

The gearing ratios as at 31 December 2007, 2008, 2009, and 31 August 2010 were as follows:

	As at 31 December			As at 31 August
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Total debt	249,180	137,980	156,703	160,723
Less: Cash and bank balances	(56,866)	(13,663)	(19,743)	(13,492)
Net debt	192,314	124,317	137,230	147,231
Total equity	2,949	(10,682)	(4,262)	4,374
Total capital	195,263	113,635	132,968	151,605
Gearing ratio	98%	109%	103%	97%

A subsidiary of the CNE 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 CNE Group manages capital by regularly monitoring its current and expected liquidity requirements. The CNEGroup 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.

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/periods by geographical regions is not shown.

	Years ended 31 December			8 months ended 31 August
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
PRC	202,480	130,120	115,610	37,878
Taiwan	1,132	2,646	70	29,314
Romania	2,105	84,817	8,244	1,832
Russia	32	6,625	1,377	—
	<u>205,749</u>	<u>224,208</u>	<u>125,301</u>	<u>69,024</u>

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 IAS 14 *Segmental Reporting*. Nonetheless the CNE Group's revenue and results can be classified into the following streams:

- EPC of plants producing ethanol and ethanol downstream products ("EPC activities"); and
- Value-added and other value added services ("VAS") services.

	EPC Activities RMB'000	VAS RMB'000	Total RMB'000
Revenue			
Eight months ended 31 August 2010	56,076	12,948	69,024
Year ended 31 December 2009	98,761	26,540	125,301
Year ended 31 December 2008	216,508	7,700	224,208
Year ended 31 December 2007	<u>205,749</u>	<u>—</u>	<u>205,749</u>
Results			
Eight months ended 31 August 2010	17,057	1,901	18,958
Year ended 31 December 2009	22,282	9,238	31,520
Year ended 31 December 2008	47,658	300	47,958
Year ended 31 December 2007	<u>41,802</u>	<u>—</u>	<u>41,802</u>

29. Contingencies

On 29 October 2007, Yichun Senhua Industry & Trade Co., Ltd. ("Yichun") filed a legal action against Daqing Anxin Tongwei Alcohol Industry Co., Ltd. ("Daqing") in relation to a debt amounting to RMB5 million and claimed preferential payment rights against a set of equipment (the "Assets") which was held by Daqing.

Huarong Finance Leasing Co., Ltd. ("Huarong") acquired the Assets from Guangdong Zhongke Tianyuan New Energy Science and Technology Co., Ltd, the wholly owned subsidiary of the Company ("GZTY") and leased the Assets to Daqing under a finance leasing contract. With the acknowledgement and consent of Huarong, GZTY withdrew its invoice to Huarong and re-issued a

new invoice to Daqing. Therefore, the legal title of the Assets was transferred to Daqing. The Assets with a total value of RMB7.14 million were purportedly mortgaged by Daqing to Yichun.

Huarong argued that it retained the legal title to the Assets, the mortgage by Daqing to Yichun was invalid, and that the issuance of the new invoice by GZTY was unauthorised. As the outcome of the case thereof will affect the GZTY's interests, the People's Court, therefore, notified GZTY to participate in the proceeding as a third party.

The outcome of the first instance judgment (passed on 29 December 2007) and the second instance judgment (passed on 24 July 2008) indicated that GZTY bore no liability. Huarong subsequently appealed to the Higher People's Court. On 25 January 2010, the Higher People's Court issued an order rejecting Huarong's appeal.

30. Subsequent events

On 28 September 2010, GZTY signed a share transfer agreement, respectively, with the shareholders of Guangdong Boluo Jiuneng Hi-tech Engineering Co., Ltd. ("Boluo Jiuneng") to acquire the entire registered capital of Bolou Jiuneng for a total consideration of RMB6 million. ("the Acquisition"). The Acquisition was completed on 10 October 2010, when the Boluo Administration Bureau for Industry and Commerce approved the share transfer agreement. As at 31 August 2010, an aggregated advance payment amount of RMB1.32 million had been made. The remaining balance of RMB4.68 million was paid on in November 2010.

On 21 December 2010, the Company entered into further agreements with Citadel to restructure the debt existing at such time, cancelling the convertible bonds and reissuing ordinary bonds to the same value (the "Settlement Agreement"). In consideration of Citadel agreeing to the cancellation of the convertible bonds and Citadel releasing the Company from any claims relating to their previous agreements, the Company paid Citadel US\$1 million, issued to Citadel interest-bearing non-convertible bonds of US\$3 million principal amount and granted Citadel warrants to subscribe for 7 per cent. of the issued ordinary share capital of the Company at close of business on 28 February 2011, after taking into account shares issuable upon exercise of the warrants.

On 21 March 2011, pursuant to written resolutions passed by the shareholders of 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.

31. Nature of financial information

The financial information presented above does not constitute statutory financial statements for either of the three years ended 31 December 2007, 2008, 2009, and the eight months ended 31 August 2010.

PART III – B

UNAUDITED INTERIM RESULTS FOR CHINA NEW ENERGY LIMITED AND ITS SUBSIDIARIES

Set out below are the audited interim results of China New Energy Limited and its subsidiaries (“the CNE Group”) for the eight months ended 31 August 2010 and unaudited interim results for the twelve months ended 31 December 2010.

Condensed Consolidated Statements of Financial Position

		As at 31 December 2009 Audited RMB'000	As at 31 August 2010 Audited RMB'000	As at 31 December 2010 Unaudited RMB'000
	Note			
Non-current assets				
Property, plant and equipment	3	6,809	5,310	11,109
Intangible assets		108	102	3,378
Deferred tax assets		2,370	1,076	–
Trade receivables		7,803	6,602	6,602
		<u>17,090</u>	<u>13,090</u>	<u>21,089</u>
Current assets				
Inventories	5	23,570	33,927	35,026
Due from customers for construction contracts	6	53,785	57,256	56,735
Trade and other receivables	7	32,954	42,972	40,453
Notes receivables		5,299	4,300	6,893
Cash and cash equivalents		19,743	13,492	10,631
		<u>135,351</u>	<u>151,947</u>	<u>149,738</u>
Current liabilities				
Trade and other payables		59,240	61,850	68,631
Due to customers for construction contracts	6	36,213	41,134	18,725
Notes payables		5,491	2,133	8,166
Convertible bonds	8	54,704	54,513	49,791
Short-term borrowings		–	–	5,000
Income tax payables		–	–	1,118
		<u>155,648</u>	<u>159,630</u>	<u>151,431</u>
Net current liabilities		<u>(20,297)</u>	<u>(7,683)</u>	<u>(1,693)</u>
Non-current liabilities				
Deferred tax liabilities		1,055	1,033	1,018
		<u>1,055</u>	<u>1,033</u>	<u>1,018</u>
Net assets/(liabilities)		<u>(4,262)</u>	<u>4,374</u>	<u>18,378</u>

		As at 31 December 2009 Audited RMB'000	As at 31 August 2010 Audited RMB'000	As at 31 December 2010 Unaudited RMB'000
	Note			
Equity				
Share capital	9	1,013	1,013	1,013
Share premium		29,354	29,354	29,354
Combination reserve		(33,156)	(33,156)	(33,156)
Statutory reserve		4,788	4,788	7,324
Convertible bonds reserve	8	9,722	9,722	9,722
Accumulated losses		(34,022)	(27,576)	(16,010)
Foreign currency translation reserve		18,039	20,229	20,131
		<u>(4,262)</u>	<u>4,374</u>	<u>18,378</u>

Condensed Consolidated Statements of Comprehensive Income

		8 months ended 31 August 2009 Unaudited RMB'000	12 months ended 31 December 2009 Audited RMB'000	8 months ended 31 August 2010 Audited RMB'000	12 months ended 31 December 2010 Unaudited RMB'000
Revenue	13	68,550	125,301	69,024	138,477
Cost of sales		(53,376)	(93,781)	(50,066)	(97,739)
Gross profit	13	15,174	31,520	18,958	40,738
Other operating income		3,694	5,563	584	464
Selling and distribution expenses		(2,595)	(3,129)	(2,121)	(3,909)
Administrative expenses		(6,063)	(11,221)	(7,973)	(10,936)
Other operating expenses		(1,647)	(5,470)	(1,549)	(2,187)
Interest expenses		(2,915)	(2,837)	–	–
Profit before income tax		5,648	14,426	7,899	24,170
Income tax expense		–	(2,508)	(1,453)	(3,623)
Profit for the period		5,648	11,918	6,446	20,547
Other comprehensive income:					
Exchange difference arising from consolidation		(17,212)	(5,498)	2,190	(2,092)
Total comprehensive income for the period		(17,212)	(5,498)	2,190	(2,092)
Total comprehensive income attributable to equity holder		(11,564)	6,420	8,636	18,455
Earnings per share:	10				
Basic and diluted		0.84	1.77	0.96	3.05

Condensed Consolidated Statements of Changes in Equity

	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory reserve RMB'000	Convertible bonds reserve RMB'000	Accumulated 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)
Transfer to statutory reserve	–	–	–	817	–	(817)	–	–
Total comprehensive income for the year	–	–	–	–	–	11,918	(5,498)	6,420
Balance at 31 December 2009	1,013	29,354	(33,156)	4,788	9,722	(34,022)	18,039	(4,262)
Transfer to statutory reserve	–	–	–	–	–	–	–	–
Total comprehensive income for the period	–	–	–	–	–	6,446	2,190	8,636
Balance at 31 August 2010	1,013	29,354	(33,156)	4,788	9,722	(27,576)	20,229	4,374
Transfer to statutory reserve	–	–	–	2,536	–	(2,536)	–	–
Total comprehensive income for the period	–	–	–	–	–	14,102	(98)	14,004
Balance at 31 December 2010 (unaudited)	1,013	29,354	(33,156)	7,324	9,722	(16,010)	20,131	18,378

Condensed Consolidated Statements of Cash Flows

	8 months ended 31 August 2009 Unaudited RMB'000	12 months ended 31 December 2009 Audited RMB'000	8 months ended 31 August 2010 Audited RMB'000	12 months ended 31 December 2010 Unaudited RMB'000
<i>Operating activities</i>				
Profit before tax	5,648	14,426	7,899	24,170
<i>Adjustments for:</i>				
Depreciation and amortisation	884	1,419	901	2,109
Allowance for doubtful trade and other receivables	651	3,114	502	–
Allowance for impairment/(write back)	–	699	(936)	(936)
Loss/(gain) on disposal of property, plant and equipment	(96)	19	–	–
Interest income	(7)	(151)	(512)	(635)
Interest expense	2,915	2,805	–	–
Exchange difference	(3,720)	(5,033)	1,995	(3,487)
<i>Operating cash flows before movements in working capital</i>	6,275	17,298	9,849	21,221
Inventories	5,030	9,406	(10,357)	(11,456)
Construction work-in-progress	(408)	427	2,386	(19,502)
Trade and other receivables	(1,665)	(10,238)	(9,319)	538
Notes receivables	(11,568)	(5,199)	999	(1,594)
Trade and other payables	(11,470)	(3,410)	2,610	6,021
Notes payables	10,994	2,070	(3,358)	2,675
Cash generated from/(used in) operations	(2,812)	10,354	(7,190)	(2,097)
Income taxes paid	–	(18)	(181)	(6,774)
<i>Net cash from/(used in) operating activities</i>	(2,812)	10,336	(7,371)	(8,871)
<i>Investing activities</i>				
Cash inflow from acquisition of subsidiary	–	–	–	32
Proceeds from disposal of property, plant and equipment	204	98	1,173	1,963
Acquisition of property, plant and equipment	–	(4,338)	(569)	(2,928)
Interest received	7	151	512	635
<i>Net cash from/(used in) investing activities</i>	211	(4,089)	1,116	(298)
<i>Financing activities</i>				
Proceeds from short term borrowings	–	–	–	5,000
Redemption of convertible bonds	–	–	–	(4,913)
<i>Net cash from/(used in) financing activities</i>	–	–	–	87
<i>Net increase/(decrease) in cash and cash equivalents</i>	(2,601)	6,247	(6,255)	(9,082)
Cash and bank balances at beginning of year/period	13,663	13,663	19,743	19,743
Effect of foreign exchange rate changes in cash and bank balances	–	(167)	4	(30)
<i>Cash and cash equivalents at end of year/period</i>	11,062	19,743	13,492	10,631

1. General

The Company (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 JE48PW.

The principal activities of the subsidiary, Guangdong Zhongke Tianyuan New Energy Science and Technology Co., Ltd., 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.

The principal place of business is located at Wushan, Tianhe District, Guangzhou, People's Republic of China ("the PRC").

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 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.

Standards, 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 were in issue and have not been applied in these financial statements are listed below:

IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments
IFRIC 14 (Amendment)	Prepayments of a minimum funding requirement
IAS 24 (revised)	Related Party Transactions

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

2.2 Basis of consolidation

The consolidated financial information incorporates the financial information of the Company and its subsidiary. 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.

Subsidiary is consolidated from the date on which control is transferred to the CNE 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 CNE 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 company 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 CNE 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.

When the CNE 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 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.

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, 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 combining 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.

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.

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	12
Motor vehicles	6
Office equipment	6
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/period.

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 comprehensive income statement.

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

2.6 **Intangible assets**

Computer software

Acquired computer software licences 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 licences are subsequently carried at cost less accumulated amortisation and accumulated impairment losses. These costs are amortised to comprehensive income statement using the straight-line method over their estimated useful lives of 3 years.

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

2.7 Impairment of tangible and intangible assets excluding goodwill

At the end of each financial year, the CNE 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 CNE 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 comprehensive income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (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 been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in comprehensive income statement, 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 comprehensive income statement 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 CNE 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 subsidiary 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 are 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 CNE 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 comprehensive income statement, 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 CNE Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised as an expense or income in comprehensive income statement, 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 CNE Group's consolidated statement of financial position when the CNE 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 receipts or payments (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) through the expected life of the financial instrument, or where appropriate, a shorter period, to the net carrying amount of the financial instrument. Income and expense are recognised on an effective interest basis for debt instruments other than those financial instruments at fair value through comprehensive income statement.

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 its financial assets at initial recognition and re-evaluates this classification at every reporting date. As at the balance sheet date, the CNE Group did not have any financial assets 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 CNE 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 comprehensive income statement.

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 comprehensive income statement.

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 comprehensive income statement to the extent 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 CNE 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 CNE 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 CNE Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the CNE Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the CNE Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds receivables.

Financial liabilities and equity instruments

Classification as debt or equity

Financial liabilities and equity instruments issued by CNE 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 CNE 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 comprehensive income statement 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 CNE Group derecognises financial liabilities when, and only when, the CNE 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.

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 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 CNE Group has a present legal or constructive obligation as a result of a past event, it is probable that the CNE 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.

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 People's Republic of China (the "PRC") on a mandatory, contractual or voluntary basis. The CNE 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 CNE 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 CNE Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

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/period. 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 CNE 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 CNE 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.

2.20 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 Group of executive directors and the chief executive officer who make strategic decisions.

3. Property, plant and equipment

	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Leasehold improvement RMB'000	Total RMB'000
<u>As at 31 December 2009</u>					
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
<u>As at 31 August 2010</u>					
Cost					
At 1 January 2010	5,334	3,041	1,274	291	9,940
Additions	299	140	130	—	569
Disposals	(509)	(900)	—	—	(1,409)
At 31 August 2010	5,124	2,281	1,404	291	9,100
Accumulated depreciation					
At 1 January 2010	1,547	522	815	247	3,131
Charged for the period	658	123	99	15	895
Disposals	(236)	—	—	—	(236)
At 31 August 2010	1,969	645	914	262	3,790
Net book value					
At 31 August 2010	3,155	1,636	490	29	5,310

	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Leasehold improvement RMB'000	Total RMB'000
<u>As at 31 December</u>					
<u>2010 (unaudited)</u>					
Cost					
At 1 September 2010	5,124	2,281	1,404	291	9,100
Additions	1,528	1,930	65	5,652	9,175
Disposals	(1,636)	–	(98)	(355)	(2,089)
At 31 December 2010	5,016	4,211	1,371	5,588	16,186
Accumulated depreciation					
At 1 September 2010	1,969	645	914	262	3,790
Charged for the period	270	369	53	1,894	2,586
Disposals	(1,271)	–	(28)	–	(1,299)
At 31 December 2010	968	1,014	939	2,156	5,077
Net book value					
At 31 December 2010	4,048	3,197	432	3,432	11,109

4. 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 CNE Group		
		As at 31 December 2009 Audited	As at 31 August 2010 Audited	As at 31 December 2010 Unaudited
Guangdong Zhongke Tianyuan New Energy Science and Technology Co. Ltd (“ZKTY”)/ The PRC	Provision of engineering, procurement and construction services to ethanol producers	100%	100%	100%
Guangdong Boluo Jiuneng Hi-tech Engineering Co., Ltd. (“Boluo Jiuneng”)/ The PRC	Fabrication and manufacturing of equipment in accordance with project requirements and designs	0%	0%	100%

On 28 September 2010, GZTY signed a share transfer agreement with the shareholders of Boluo Jiuneng to acquire the entire registered capital of Boluo Jiuneng for a total consideration of RMB6 million. (“the Acquisition”). The Acquisition was completed on 10 October 2010, when the Boluo Administration Bureau for Industry and Commerce approved the share transfer agreement. As at 31 August 2010, an aggregated advance payment amount of RMB1.32 million had been made. The remaining balance of RMB4.68 million was paid on in November 2010.

5. Inventories

	As at 31 December 2009 RMB'000	As at 31 August 2010 RMB'000	As at 31 December 2010 RMB'000
Raw materials	12,182	20,020	21,773
Work-in-progress	11,388	13,907	13,253
	<u>23,570</u>	<u>33,927</u>	<u>35,026</u>

The cost of inventories recognised as expense and included in “cost of sales” amounted to RMB 60.4 million and RMB 49.0 million respectively for the eight months ended 31 August 2010 and 2009; and RMB109.2 million and RMB84.4 million respectively for the twelve months ended 31 December 2010 and 2009.

6. Due from/to customers for construction contracts

	As at 31 December 2009 Audited RMB'000	As at 31 August 2010 Audited RMB'000	As at 31 December 2010 Unaudited RMB'000
Aggregate costs incurred and profits recognised to- date	591,057	600,397	631,899
Less: Progress billings	(529,424)	(541,150)	(552,885)
	<u>61,633</u>	<u>59,247</u>	<u>79,014</u>
Allowance for impairment	(44,061)	(43,125)	(41,004)
	<u>17,572</u>	<u>16,122</u>	<u>38,010</u>
Presented as:			
Due from customers for construction contracts	53,785	57,256	56,735
Due to customers for construction contracts	(36,213)	(41,134)	(18,725)
	<u>17,572</u>	<u>16,122</u>	<u>38,010</u>

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

	As at 31 December 2009 Audited RMB'000	As at 31 August 2010 Audited RMB'000	As at 31 December 2010 Unaudited RMB'000
At beginning of the year/period	43,362	44,061	44,061
Allowance for impairment/(write back)	699	(936)	(3,057)
At end of the year/period	<u>44,061</u>	<u>43,125</u>	<u>41,004</u>

7. Trade and other receivables

	As at 31 December 2009 Audited RMB'000	As at 31 August 2010 Audited RMB'000	As at 31 December 2010 Unaudited RMB'000
<u>Current</u>			
Trade receivables			
- Related party	—	—	—
- Third parties	65,591	69,561	67,143
	65,591	69,561	67,143
Allowance for impairment of receivables	(41,266)	(41,266)	(41,558)
	24,325	28,295	25,585
Other receivables			
- Deposits	6,786	8,542	5,950
- Prepayments	—	15	10
- VAT recoverable	—	—	6,924
- Due from related parties	550	4,328	—
- Due from shareholders	—	—	—
- Others	1,293	2,294	1,987
Allowance for impairment	—	(502)	(3)
	1,293	1,792	1,984
	32,954	42,972	40,453
<u>Non-current</u>			
Trade receivables	7,803	6,602	6,602
	7,803	6,602	6,602

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

Other receivables comprise loans to employees.

As at 31 August 2010 and 31 December 2010, retention monies held by customers for contract work amounted to RMB3.6 million, and RMB3.7 million respectively.

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:

	As at 31 December 2009 Audited RMB'000	As at 31 August 2010 Audited RMB'000	As at 31 December 2010 Unaudited RMB'000
<u>Current</u>			
Face value	66,164	70,171	67,630
Discount on trade receivables	(573)	(610)	(487)
Fair value	<u>65,591</u>	<u>69,561</u>	<u>67,143</u>
<u>Non-current</u>			
Face value	9,214	7,551	7,551
Discount on trade receivables	(1,411)	(949)	(949)
Fair value	<u>7,803</u>	<u>6,602</u>	<u>6,602</u>

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

	As at 31 December 2009 Audited RMB'000	As at 31 August 2010 Audited RMB'000	As at 31 December 2010 Unaudited RMB'000
At beginning of the year/period	40,383	41,266	41,266
Allowance during the year/period	3,114	—	500
Write off	(2,231)	—	(208)
At end of the year/period	<u>41,266</u>	<u>41,266</u>	<u>41,558</u>

The CNE 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 CNE Group's receivables.

8. Convertible bonds

On 30 July 2007, the Company entered into a subscription agreement with Citadel Equity Fund Limited ("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”). Further details are provided in note 15.

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:

	As at 31 December 2009 Audited RMB’000	As at 31 August 2010 Audited RMB’000	As at 31 December 2010 Unaudited RMB’000
Face value of convertible bonds	64,426	64,235	59,513
Equity conversion component	(9,722)	(9,722)	(9,722)
Fair value of debt	<u>54,704</u>	<u>54,513</u>	<u>49,791</u>
Represented by:			
Current	54,704	54,513	49,791
Non-current	—	—	—
Fair value of debt	<u>54,704</u>	<u>54,513</u>	<u>49,791</u>

9. Share capital

	Number of shares	Share capital £ ‘000	RMB ‘000
At date of incorporation	2	—	—
Proceeds from shares issued	6,733,095	67	1,013
At 31 December 2009, 31 August 2010, and 31 December 2010	<u>6,733,097</u>	<u>67</u>	<u>1,013</u>

Until 21 March 2011, the Company had an authorised share capital of £10,000,000 divided into 1,000,000,000 shares of £0.01 each. In 2006, the Company issued 6,733,097 ordinary shares for total consideration of £2,019,150 net of expenses.

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.

All newly issued ordinary shares rank pari-passu with the existing ordinary shares.

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

10. 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 eight months ended 31 August 2010 and 2009 are as follows:

	8 months ended 31 August 2009 Unaudited RMB'000	12 months ended 31 December 2009 Audited RMB'000	8 months ended 31 August 2010 Audited RMB'000	12 months ended 31 December 2010 Unaudited RMB'000
Profit attributable to equity holders	5,648	11,918	6,446	20,547
Weighted average number of shares	6,733	6,733	6,733	6,733
Earnings per share	0.84	1.77	0.96	3.05

11. 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:

	8 months ended 31 August 2009 Unaudited RMB'000	12 months ended 31 December 2009 Audited RMB'000	8 months ended 31 August 2010 Audited RMB'000	12 months ended 31 December 2010 Unaudited RMB'000
Within one year	591	552	587	597
After one year but before five years	908	557	217	21
	1,499	1,129	804	618

Operating lease payments represent rents payable by the Company 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.

12. 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 Company'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/period, in addition to those disclosed elsewhere in these financial statements, the following significant transactions took place at terms agreed between the parties:

	8 months ended 31 August 2009 Unaudited RMB'000	12 months ended 31 December 2009 Audited RMB'000	8 months ended 31 August 2010 Audited RMB'000	12 months ended 31 December 2010 Unaudited RMB'000
Related parties				
- Purchase of motor vehicle	—	900	—	1,000
- Deposit for investment	—	—	1,000	1,296
- Subcontracting fees	686	1,034	917	(259)
- Loan to a related party	—	—	(231)	(900)
- Disposal of a motor vehicle	—	—	(900)	—
- Payment on behalf of a related party	—	(1,211)	—	(930)
- Collection on behalf by a related party	—	—	(930)	1,000
	<u>—</u>	<u>—</u>	<u>(930)</u>	<u>1,000</u>

(b) Key management personnel compensation is analysed as follows:

	8 months ended 31 August 2009 Unaudited RMB'000	12 months ended 31 December 2009 Audited RMB'000	8 months ended 31 August 2010 Audited RMB'000	12 months ended 31 December 2010 Unaudited RMB'000
Remuneration	482	1,190	846	1,350
Other term benefits	15	149	11	17
	<u>497</u>	<u>1,339</u>	<u>857</u>	<u>1,367</u>

13. 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 our 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/periods by geographical regions is not shown.

	8 months ended 31 August 2009 Unaudited RMB'000	12 months ended 31 December 2009 Audited RMB'000	8 months ended 31 August 2010 Audited RMB'000	12 months ended 31 December 2010 Unaudited RMB'000
PRC	64,706	115,610	37,878	103,199
Taiwan	–	70	29,314	32,996
Romania	2,467	8,244	1,832	2,282
Russia	1,377	1,377	–	–
	<u>68,550</u>	<u>125,301</u>	<u>69,024</u>	<u>138,477</u>

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 IAS 14 Segmental Reporting. Nonetheless the CNE Group's revenue and results can be classified into the following streams:

- EPC of plants producing ethanol and ethanol downstream products ("EPC activities"); and
- Value-added and other value added services ("VAS") services.

	EPC Activities RMB'000	VAS RMB'000	Total RMB'000
Revenue			
Eight months ended 31 August 2010	56,076	12,948	69,024
Twelve months ended 31 December 2009	98,761	26,540	125,301
Eight months ended 31 August 2009	51,550	17,000	68,550
Twelve months ended 31 December 2010	<u>110,474</u>	<u>28,003</u>	<u>138,477</u>
Results			
Eight months ended 31 August 2010	17,057	1,901	18,958
Twelve months ended 31 December 2009	22,282	9,238	31,520
Eight months ended 31 August 2009	10,774	4,400	15,174
Twelve months ended 31 December 2010	<u>36,535</u>	<u>4,203</u>	<u>40,738</u>

14. Contingencies

On 29 October 2007, Yichun Senhua Industry & Trade Co., Ltd. ("Yichun") filed a legal action against Daqing Anxin Tongwei Alcohol Industry Co., Ltd. ("Daqing") in relation to a debt amounting to RMB5 million and claimed preferential payment rights against a set of equipment (the "Assets") which was held by Daqing.

Huarong Finance Leasing Co., Ltd. ("Huarong") acquired the Assets from Guangdong Zhongke Tianyuan New Energy Science and Technology Co., Ltd, the wholly owned subsidiary of the Company ("ZKTY") and leased the Assets to Daqing under a finance leasing contract. With the acknowledgement and consent of Huarong, ZKTY withdrew its invoice to Huarong and re-issued a new invoice to Daqing. Therefore, the legal title of the Assets was transferred to Daqing. The Assets with a total value of RMB7.14 million were purportedly mortgaged by Daqing to Yichun.

Huarong argued that it retained the legal title to the Assets, the mortgage by Daqing to Yichun was invalid, and that the issuance of the new invoice by ZKTY was unauthorised. As the outcome of the

case thereof will affect the ZKTY's interests, the People's Court, therefore, notified ZKTY to participate in the proceeding as a third party.

The outcome of the first instance judgment (passed on 29 December 2007) and the second instance judgment (passed on 24 July 2008) indicated that ZKTY bore no liability. Huarong subsequently appealed to the Higher People's Court. On 25 January 2010, the Higher People's Court issued an order rejecting Huarong's appeal.

15. Subsequent events

On 28 September 2010, GZTY signed a share transfer agreement, respectively, with the shareholders of Guangdong Boluo Jiuneng Hi-tech Engineering Co., Ltd. ("Boluo Jiuneng") to acquire the entire registered capital of Bolou Jiuneng for a total consideration of RMB6 million. ("the Acquisition"). The Acquisition was completed on 10 October 2010, when the Boluo Administration Bureau for Industry and Commerce approved the share transfer agreement. As at 31 August 2010, an aggregated advance payment amount of RMB1.32 million had been made. The remaining balance of RMB4.68 million was paid on in November 2010.

On 21 December 2010, the Company entered into further agreements with Citadel to restructure the debt existing at such time, cancelling the convertible bonds and reissuing ordinary bonds to the same value (the "Settlement Agreement"). In consideration of Citadel agreeing to the cancellation of the convertible bonds and Citadel releasing the Company from any claims relating to their previous agreements, the Company paid Citadel US\$1 million, issued to Citadel interest-bearing non-convertible bonds of US\$3 million principal amount and granted Citadel warrants to subscribe for 7 per cent. of the issued ordinary share capital of the Company at close of business on 28 February 2011, after taking into account shares issuable upon exercise of the warrants.

On 21 March 2011, pursuant to written resolutions passed by the shareholders of 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.

16. Nature of financial information

The financial information presented above does not constitute statutory accounts.

PART IV

**UNAUDITED PRO FORMA STATEMENT OF
CONSOLIDATED NET ASSETS**

The Directors
China New Energy Limited
8F, Technology Integrated Building No. 4
Nengyuan Road
Wushan Tianhe District
Guangzhou China 510640

The Partners
Cairn Financial Advisers LLP
61 Cheapside
London
EC2V 6AX

The Directors
SVS Securities Plc
21 Wilson Street
London
EC2M 2SN

18 May 2011

Dear Sirs

Introduction

We report on the unaudited pro forma financial information set out in Part IV of the AIM Admission Document (the “Document”) dated 18 May 2011 of China New Energy Limited (the “Company”) which has been prepared on the basis of the notes thereto, for illustrative purposes only, to provide information about how the IPO placing, which took place since 31 August 2010 and prior to Admission might have affected the financial information presented on the basis of the accounting policies adopted by the Group in preparing its consolidated financial information as at and for the period ended 31 August 2010.

Responsibilities

It is the responsibility of the Directors of the Company to prepare the unaudited pro forma financial information. It is our responsibility to form an opinion on the financial information as to the proper compilation of the unaudited pro forma financial information and to report our opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the unaudited pro forma financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the

evidence supporting the adjustments and discussing the unaudited pro forma financial information with the Directors of the Company.

We planned and performed our work so as to obtain all the information and explanations we considered necessary in order to provide us with reasonable assurance that the unaudited pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled on the basis stated; and
- (b) such basis is consistent with the accounting policies of the Company.

Declaration

We are responsible for this report as part of the Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import.

Yours faithfully

Crowe Clark Whitehill LLP

Set out below is an unaudited pro forma statement of consolidation net assets of China New Energy Limited (the “Company”) and its subsidiaries (together, the “Group”), which has been prepared on the basis of the Group’s audited financial information for the period ended 31 August 2010 as adjusted for the IPO placing, as set out in the notes below. The unaudited pro forma statement has been prepared for illustrative purposes only and, because of its nature, will not represent the actual consolidated financial position of the Company at the date of Admission.

	The Group Note 1 RMB’000	IPO placing net proceeds Note 2 RMB’000	Pro forma net assets RMB’000
Non-current assets			
Property, plant and equipment	5,310	—	5,310
Intangible assets	102	—	102
Deferred tax assets	1,076	—	1,076
Trade receivables	6,602	—	6,602
	<u>13,090</u>	<u>—</u>	<u>13,090</u>
Current assets			
Inventories	33,927	—	33,927
Due from customers for construction contracts	57,256	—	57,256
Trade and other receivables	42,972	—	42,972
Notes receivables	4,300	—	4,300
Cash and cash equivalents	13,492	590	14,082
	<u>151,947</u>	<u>590</u>	<u>152,537</u>
Current liabilities			
Trade and other payables	61,850	—	61,850
Due to customers for construction contracts	41,134	—	41,134
Notes payables	2,133	—	2,133
Convertible bonds	54,513	—	54,513
	<u>159,630</u>	<u>—</u>	<u>159,630</u>
Net current liabilities	<u>(7,683)</u>	<u>590</u>	<u>(7,093)</u>
Non-current liabilities			
Deferred tax liabilities	1,033	—	1,033
	<u>1,033</u>	<u>—</u>	<u>1,033</u>
Net assets	<u>4,374</u>	<u>590</u>	<u>4,964</u>

Notes:

1. The unaudited balance sheet of the Group as at 31 August 2010 has been extracted without adjustment from the Group’s financial information set out in Part IV of the Admission Document. No account has been taken of the activities of the Group subsequent to 31 August 2010.
2. Prior to Admission, the Company raised £655,210 (approximately RMB 6.55 million) (gross) from IPO placing. Associated costs of the placing were approximately £724,600 (approximately RMB 7.25 million), of which £595,760 (approximately RMB 5.96 million) were payable by cash and £128,840 (approximately RMB 1.29 million) were payable in a form of shares in the Company.

PART V

ADDITIONAL INFORMATION

1. Responsibility

- 1.1 The Directors (whose names are set out on page 13 and pages 28 and 29 of Part I and in paragraph 5 of this Part V of this Document) and the Company accept responsibility, individually and collectively, for the information contained in this Document. To the best of the knowledge and belief of the Directors and the Company (who have taken all such reasonable care to ensure that such is the case), the information contained in this Document is in accordance with the facts and does not omit anything likely to affect the import of that information.

2. The Company and its subsidiary undertakings

- 2.1 The Company was incorporated in Jersey as a public par value company limited by shares on 2 May 2006 under the laws of Jersey under the name of China New Energy Limited. The Company has the registration number 93306. The Company is governed by its Memorandum and Articles and the principal statute governing the Company is the Companies Law.
- 2.2 The liability of the members of the Company is limited. The Company has an unlimited life.
- 2.3 The Company and its activities and operations are principally regulated by the Companies Law and the regulations made there under.
- 2.4 The registered office of the Company is Queensway House, Hilgrove Street, St. Helier, Jersey JE1 1ES. The Company is domiciled in Jersey. The telephone number of the Company is (00 44) (0)8707 020 009. The register of members of the Company is kept at its registered office.
- 2.5 As at the date of this Document, no company within the Group has received notification that it is in breach of any law in any country in which it operates, but the Company failed to file its accounts for the financial year ended 31 December 2009 with the Jersey Companies Registry or lay the accounts for approval at the annual general meeting within the time stipulated by the applicable law.
- 2.6 The Company is the holding company of the Group.
- 2.7 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.
- 2.8 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.
- 2.9 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.

- 2.10 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.
- 2.11 On 16 May 2011, by or pursuant to written resolutions passed by the shareholders of the Company, the Company approved the adoption of new Articles such that the pre-emption provisions contained therein shall not apply until Admission and until all shares, warrants and securities which the Board resolved prior to the date of such shareholders' resolutions to issue in connection with Admission have been issued, and to any shares issued or allotted as conversion thereof.
- 2.12 On Admission, the Company will have the following subsidiary undertakings:

Subsidiary undertakings

Name, Incorporation Number and Address	Date and Place of Incorporation	Par Value	Authorised Share Capital	Issued Paid-Up Share Capital	Ownership Interest (per cent.)	Principal Activities
Guangdong Zhongke Tianyuan New Energy Science & Technology Co., Ltd (440101400001231), Room 210, Floor 2, Integration Service Building, Guangzhou Science & Technology Innovation Base, No. 80 Lanyue Road, Science Town, High & New Technology Industry Development Zone, Guangzhou, PRC	2 September 2006 Guangzhou, Guangdong Province, PRC	—	US\$10,955,529 (registered capital)	US\$10,955,529	100 (held by Company)	Research and development of new energy technology; production and supply of energy saving equipment; technology consulting
Guangdong Boluo Jiuneng High-New Technology Engineering Co., Ltd. (441322000044546), Zhouji High & New Technology Industrial Zone, Boluo County, Guangdong Province, PRC	30 September 1998 Boluo, Guangdong Province, PRC	—	RMB5,000,000 (registered capital)	RMB5,000,000	100 (held by ZKTY)	Production, processing and sale of high technology energy saving, new energy and environmental protection equipment.

3. Share capital

- 3.1 The authorised share capital of the Company is £10,000,000 comprising 40,000,000,000 Ordinary Shares, with at the date of this Document an issued and paid-up share capital of £69,351.00 comprising 277,404,008 Ordinary Shares.

Date of allotment	Number of Ordinary Shares allotted	Par Value	Consideration	Cumulative total (£)
21/06/2006	2 ¹	£0.05	–	–
17/08/2006	5,049,820 ²	£0.01	£50,498.20	£50,498.20
18/08/2006	1,683,277 ²	£0.01	£2,124,191.00	£2,174,689.20
15/04/2011	2,019,932 ³	£0.001	£2,019.90	£2,176,709.10
On or before Admission	9,920,295	£0.00025	In part settlement of fees	£2,871,129.75
Placing Shares	9,360,147	£0.00025	£655,210	£3,526,339.75

Note¹: Each of the two ordinary shares of par value £0.05 each allotted on 21 June 2006 was sub-divided into five ordinary shares of par value £0.01 each on 15 August 2006, each of which was subsequently subdivided into ten ordinary shares of par value £0.001 each on 21 March 2011, each of which was subsequently subdivided into four ordinary shares of par value £0.00025 each on 6 May 2011.

Note²: Each of these shares was subsequently subdivided into ten ordinary shares of par value £0.001 each on 21 March 2011, each of which was subsequently subdivided into four ordinary shares of par value £0.00025 each on 6 May 2011.

Note³: Each of these shares was subsequently subdivided into four Ordinary Shares of par value £0.00025 each on 6 May 2011.

- 3.2 Jersey law does not include statutory pre-emption rights. The Company has therefore voluntarily adopted pre-emption provisions in the Articles (see paragraph 2.11 of Part V above) which are designed to mirror those available under English law, details of which are set out at paragraph 7.2.3(g) of Part V below.
- 3.3 The Placing Shares will rank *pari passu* for all dividends or other distributions hereafter declared, paid or made on existing Ordinary Shares. All Placing Shares shall form one class with the existing Ordinary Shares and shall rank *pari passu* in respect of payment of dividends, voting rights, entitlement to liquidation proceeds and otherwise.
- 3.4 Following Admission, the Ordinary Shares may be held in either certificated form or in uncertificated form.
- 3.5 Save as described in this Document, the Company does not have in issue any securities not representing share capital and there are no outstanding convertible or redeemable securities issued by the Company.
- 3.6 Except for the following, the Company has not issued or granted any options, warrants or any convertible securities of the Company:
 - 3.6.1 The Company has granted Citadel a warrant to subscribe in aggregate at any time on or before the second anniversary of Admission for 20,271,720 Ordinary Shares (being seven per cent. of the issued ordinary share capital of the Company at close of business on 28 February 2011 calculated on an as converted and fully diluted basis (after taking into account the shares issuable upon the exercise of such warrant)). The warrant is exercisable at the Placing Price (see paragraph 8.7 of Part V for further details);
 - 3.6.2 The Company has granted Cairn a warrant to subscribe for one per cent. of the Enlarged Share Capital, exercisable at the Placing Price at any time on or before the fifth anniversary of Admission (see paragraph 8.8 of Part V for further details).
- 3.7 The Ordinary Shares and the Placing Shares are or will be created pursuant to the Companies Law and the Memorandum and Articles of the Company.

- 3.8 The Company has unrestricted corporate capacity and can borrow, guarantee and give security.
- 3.9 The Ordinary Shares bear the ISIN number JE00B3RWLF12, are in registered form and are held in certificated form.
- 3.10 The Articles give the Directors a general mandate to issue shares up to an amount not exceeding 20 per cent. of the Company's issued share capital immediately following Admission, for the period from the date of Admission until the second annual general meeting of the Company following Admission.

4. Significant shareholders

- 4.1 Except for the interests of the Directors, which are set out in paragraph 5 below, and the interests disclosed in paragraph 4.2 below, the Directors are not aware of any holdings of Ordinary Shares as at the date of this Document and immediately following Admission representing three per cent. (3%) or more of the ordinary share capital of the Company
- 4.2 In addition to the holdings of certain of the Directors, details of which are set out in paragraph 5.1 below, the Directors are aware of the following holdings of Ordinary Shares which on 16 May 2011 (being the last practicable date prior to the publication of this Document) and at Admission represented three per cent. (3%) or more of the ordinary share capital of the Company:

Name	As at the date hereof		On Admission	
	Number of Ordinary Shares	Percentage of total number of issued Ordinary Shares	Number of Ordinary Shares	Percentage of total number of issued Ordinary Shares
Best Full Investments Limited	48,000,000	17.30%	48,000,000	16.18%
Cobalt Ventures Ltd ¹	40,398,640	14.56%	40,398,640	13.62%
Jiang Xinchun	20,000,000	7.21%	20,000,000	6.74%
Qiu Weiming	20,000,000	7.21%	20,000,000	6.74%

Note¹: On 24 January 2011 Cobalt signed a sale and purchase agreement with IPCO International Limited ("IPCO"), a Singapore-incorporated company listed on the Singapore stock exchange, pursuant to which Cobalt agreed to transfer 1,009,966 ordinary shares of par value £0.01 each, constituting 15% of the issued share capital of the Company, to IPCO, conditional upon (i) the approval of IPCO's shareholders at general meeting; (ii) the approval in principle of the Singapore Exchange Securities Trading Limited for the listing of certain shares in IPCO to be allotted and issued to Cobalt in consideration for the transfer of shares in the Company to IPCO; (iii) all necessary consents or approvals by third parties and governmental or regulatory bodies and (iv) there being no adverse change (as determined in IPCO's discretion) in the Group's prospects, operations or financial condition. The conditions (which must be satisfied by 24 July 2011, failing which the agreement will terminate) have yet to be satisfied, payment has not yet been made and the transfer has not yet been effected. Upon acquisition of the shares in the Company, IPCO agrees to execute an orderly market agreement on terms and conditions agreed between IPCO, Cairn and SVS for the Company's Admission.

There are no differences in the voting rights of the significant shareholders.

5. Directors' interests

- 5.1 The interests of the Directors and their immediate families and, as far as they are aware having made due and careful enquiries, of persons connected with them (within the meaning of sections 252 to 254 of the Companies Act 2006 of the UK) in the share capital of the Company as at 16 May 2011 (being the latest practicable date prior to the date of this Document) and at Admission, all of which are beneficial, unless otherwise stated, are set out below.

Name	As at the date hereof		On Admission	
	Number of Ordinary Shares	Percentage of total number of issued Ordinary Shares	Number of Ordinary Shares	Percentage of total number of issued Ordinary Shares
Yu Weijun ¹	90,932,440	32.78%	90,932,440	30.65%
Tang Zhaoxing ²	48,000,000	17.30%	48,000,000	16.18%
Foo Shiang-Peow ³	–	–	8,079,728	2.72%

Note ¹: Yu Weijun is the legal and beneficial owner of Leader Vision Investments Limited which holds 64,000,000 Ordinary Shares. Mr. Yu is also the legal and beneficial holder of Tewin Capital Holding Limited which holds 26,932,440 Ordinary Shares.

Note ²: Tang Zhaoxing is the legal and beneficial owner of the 48,000,000 Ordinary Shares held by Asia Tianxing Investment Limited.

Note ³: Foo Shiang-Peow is the legal and beneficial owner of NovusAsia Capital Limited, to which the Company will issue and allot 8,079,728 Ordinary Shares on Admission, as part of the consideration for services provided by NovusAsia Capital Limited to the Company pursuant to the engagement letter dated 17 March 2011 (further details of which are set out in paragraph 8.11 of Part V of this Document).

- 5.2 None of the Directors holds any options to subscribe for Ordinary Shares in the Company nor warrants exercisable into Ordinary Shares in the Company.
- 5.3 None of the Directors holds any securities convertible into Ordinary Shares in the Company.
- 5.4 None of the Directors has voting rights which are different to any other holders of Ordinary Shares.
- 5.5 Except as disclosed in paragraph 5.1 above, none of the Directors, nor any member of their respective immediate families, nor any person connected with them within the meaning of sections 252 to 254 of the Companies Act 2006 of the UK, is interested in any share capital of the Company.
- 5.6 None of the Directors or persons connected with them within the meaning of Sections 252 to 254 of the Companies Act 2006 of the UK has a related financial product (as defined in the AIM Rules for Companies) referenced to the Ordinary Shares.
- 5.7 The Company is not aware of any person (or corporation) who, directly or indirectly, jointly or severally, exercises control over the Company.
- 5.8 Except as disclosed in the footnotes to paragraph 4.2 of Part V of the Admission Document, the Company and the Directors are not aware of any arrangements, the operation of which may, at a subsequent date, result in a change of control of the Company.

6. Directors' agreements and letters of appointment

The following are particulars of the Directors' service agreements and letters of appointment with the Company:

6.1 *Executive Directors*

6.1.1 *Yu Weijun*

Yu Weijun entered into a service agreement with the Company dated 16 May 2011 to act as Executive Chairman of the Company from Admission. Under the service agreement, Mr. Yu's remuneration is RMB25,000 per month and he may also be paid a discretionary performance based bonus of up to £125,000 per annum. The service agreement can be terminated at any time by either party giving to the other 6 months' written notice, provided that such notice shall not be given any earlier than the first anniversary of the date of Admission. Mr. Yu shall exercise

the powers and functions and perform the duties assigned to him from time to time by or under the authority of the Board in such manner as shall be specified by or under the authority of the Board and as are appropriate to his position. Mr. Yu shall devote the whole of his time, attention and abilities during working hours to the affairs of the Company. Mr. Yu may be paid such discretionary bonus as determined by the Board from time to time. He shall also be entitled to such other benefits as accorded by the Board from time to time.

Mr. Yu entered into a director's service contract with ZKTY on 1 January 2011 to act as chairman of ZKTY. Under the service contract, Mr. Yu receives a salary of RMB240,000 per annum and a bonus of RMB60,000 per annum. The service contract can be terminated at any time by either party upon 30 days' written notice. Pursuant to the service contract Mr. Yu may not engage in any competitive activities during his employment and within two years of resigning from ZKTY; and all intellectual property arising during Mr. Yu's engagement belongs to ZKTY.

6.1.2 *Tang Zhaoxing*

Tang Zhaoxing entered into a service agreement with the Company dated 16 May 2011 to act as Chief Executive Officer of the Company from Admission. Under the service agreement, Mr. Tang's remuneration is RMB25,000 per month and he may also be paid a discretionary performance based bonus of up to £125,000 per annum. The service agreement can be terminated at any time by either party giving to the other 6 months' written notice, provided that such notice shall not be given any earlier than the first anniversary of the date of Admission. Mr. Tang shall exercise the powers and functions and perform the duties assigned to him from time to time by or under the authority of the Board in such manner as shall be specified by or under the authority of the Board and as are appropriate to his position. Mr. Tang shall devote the whole of his time, attention and abilities to the affairs of the Company. Mr. Tang may be paid such discretionary bonus as determined by the Board from time to time. He shall also be entitled to such other benefits as accorded by the Board from time to time.

Mr. Tang entered into a director's service contract with ZKTY on 1 January 2011 to act as Chief Executive Officer of ZKTY. Under the service contract, Mr. Tang receives a salary of RMB240,000 per annum and a bonus of RMB60,000 per annum. The service contract can be terminated at any time by either party upon 30 days' written notice. Pursuant to the service contract Mr. Tang may not engage in any competitive activities during his employment and within two years of resigning from ZKTY; and all intellectual property arising during Mr. Tang's engagement belongs to ZKTY.

6.2 *Non-Executive Directors*

- 6.2.1 Pursuant to a letter of appointment dated 16 May 2011, the Company has appointed Foo Shiang-Peow to act as a non-executive Director of the Company from Admission. Mr. Foo shall receive a director's fee of £10,000 per annum payable monthly in arrears. The agreement is to continue until terminated by either party giving 6 months' written notice or by resolution of the shareholders.
- 6.2.2 Pursuant to a letter of appointment dated 16 May 2011, the Company has appointed Prof. Chen Yong to act as a non-executive Director of the Company from Admission. Prof. Chen Yong shall receive a director's fee of £10,000 per annum payable monthly in arrears. The agreement is to continue until terminated by either party giving 6 months' written notice or by resolution of the shareholders.
- 6.2.3 Pursuant to a letter of appointment dated 16 May 2011, the Company has appointed Richard Bennett to act as a non-executive Director of the Company from Admission. Mr. Bennett shall receive a director's fee of £20,000 per annum payable monthly in arrears. The agreement is to

continue until terminated by either party giving 6 months' written notice or by resolution of the shareholders.

- 6.3 In the year ended 31 December 2010, the total aggregate remuneration paid, and benefits-in-kind granted, to those of the Directors who, at the time, were employed by the Group was approximately £116,000. The only Directors employed by the Group during this period were Yu Weijun and Tang Zhaoxing. In addition, Foo Shiang-Peow will receive such fees as are set out in paragraph 8.11 of this Part V from the Company in accordance with the engagement letter between NovusAsia Capital Limited (of which Mr. Foo is a director and the sole shareholder) and the Company (details of which are set out in paragraph 8.11 of Part V), which fees relate in part to services provided by NovusAsia Capital Limited to the Company for the year ended 31 December 2010.

It is estimated that the aggregate remuneration to be paid and benefits-in-kind to be granted to the Directors for the year ending 31 December 2011, under the arrangements in force at the date of this Document, will amount to the sum of approximately £156,000.

- 6.4 Save as set out above, there are no existing or proposed service contracts between any of the Directors and the Company or any other member of the Group and there are no existing or proposed service contracts between any of the Directors and the Company or any other member of the Group which provide for benefits upon termination of employment.
- 6.5 The Directors hold or have held the following directorships and/or partnerships (in addition, where relevant, to being a Director of the Company) within the five years prior to the publication of this Document:

Director	Current Directorships	Past Directorships
Yu Weijun	<ul style="list-style-type: none"> ● Boluo ● CNE ● Guangdong Tianwei Investments Limited ● GZTY Regeneration Resources ● ZKTY ● Tewin Capital Holding Limited ● Leader Vision Investments Limited 	<ul style="list-style-type: none"> ● Guangzhou Clean New Technology Co., Ltd. ● Guangzhou Zhongke Environmental Energy Science and Tech. Co., Ltd. ● Tongliao Zhongke Tian Yuan Starch Chemical Co., Ltd.
Tang Zhaoxing	<ul style="list-style-type: none"> ● Boluo ● CNE ● Guangdong Xinxing Tianyuan Investment Co., Ltd ● Guangzhou Baojie Electro-machinery Ltd. ● GZTY Regeneration Resources ● ZKTY ● Asia Tianxing Investment Limited 	<ul style="list-style-type: none"> ● Tongliao Zhongke Tianyuan Bio-chem Ltd.
Foo Shiang-Peow	<ul style="list-style-type: none"> ● CNE ● NovusAsia Capital Limited 	<ul style="list-style-type: none"> ● None
Chen Yong	<ul style="list-style-type: none"> ● CNE 	<ul style="list-style-type: none"> ● Guangzhou Zhongke Environmental Energy Science and Tech. Co., Ltd.
Richard Bennett	<ul style="list-style-type: none"> ● CNE ● Coms plc ● Coms.com Limited ● Exchangext Limited ● Jade Commodities Limited ● Superline Telecommunications Limited 	<ul style="list-style-type: none"> ● Cogito Associates Limited ● Green Riband Capital Limited ● Seamwell Energy Limited ● The Carbon Advisory Limited

- 6.6 In February 2001 UOB Asia, a subsidiary of United Overseas Bank Ltd, was charged in Singapore with market rigging and making a misleading statement which affected the market price in relation to the initial public offerings of two companies, eWorld of Sports.com Ltd and Hua Kok International Ltd, managed by UOB Asia. UOB Asia pleaded guilty to the charges and was fined a total of Singapore Dollars 400,000.

Foo Shiang-Peow was a senior manager at UOB Asia at the time and was one of the members of UOB Asia's team handling the initial public offerings referred to above. Mr. Foo and several other employees resigned from UOB Asia due to the matter. However, no legal or regulatory charges or findings were made against Mr. Foo personally.

6.7 None of the Directors has:

6.7.1 any unspent convictions relating to indictable offences;

6.7.2 had a bankruptcy order made against him or entered into any individual voluntary arrangements;

6.7.3 been a director of a company which has been placed in receivership, compulsory liquidation, creditors' voluntary liquidation or administration or entered into a company voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors whilst he was a director of that company at the time of, or within the twelve months preceding, such events;

6.7.4 been a partner of a firm which has been placed in compulsory liquidation or administration or which has entered into a partnership voluntary arrangement whilst he was a partner of that firm at the time of, or within twelve months preceding, such events;

6.7.5 had any asset belonging to him placed in receivership or been a partner of a partnership whose assets have been placed in receivership whilst he was a partner at the time of, or within twelve months preceding, such receivership; or

6.7.6 been publicly criticised by any statutory or regulatory authority (including any recognised professional body) or ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

6.8 No Director has been interested in any transaction with the Company, which was unusual in its nature or conditions or significant to the business of the Company during the current or previous financial year or during any previous financial year that remains outstanding or unperformed.

6.9 Certain of the Directors and Shareholders are interested in entities with certain similar or related interests to those of the Group, as follows. The scope of business of each of GZTY Regeneration Resources and Guangzhou Baojie as stated in their respective filings with the responsible companies registry is broad and on the face of the wording it appears that there could be a potential overlap with the Company's business. However:

(i) Yu Weijung, Tang Zhaoxing, Jiang Xinchun and Qiu Weiming (each of whom is a director of GZTY Regeneration Resources as well as a director of ZKTY and Mr. Yu and Mr. Tang also being Directors) confirm that: (aa) GZTY Regeneration Resources focuses on technology research and development in fields in which the Company is not engaged and GZTY Regeneration Resources is not involved in manufacturing; and (bb) based on the two companies' current operations, there is no potential competition between GZTY Regeneration Resources and the Company;

(ii) Tang Zhaoxing (who is a director of Guangzhou Baojie as well as a Director of the Company) confirms that: (aa) Guangzhou Baojie's business relates primarily to electromechanical devices and is not involved in fields in which the Company is engaged; and (bb) based on the two companies' current operations, there is no potential competition between Guangzhou Baojie and the Company; and

- (iii) Each of GZTY Regeneration Resources and Guangzhou Baojie has entered into a written agreement with the Company dated 30 November 2010, undertaking not to compete with the Company's business (including the Company's proposed future business as set out in the Admission Document).

Each of Yu Weijung, Tang Zhaoxing, Jiang Xinchun and Qiu Weiming (each a Director and Shareholder of the Company) is also a director and (direct or indirect) shareholder of GZTY Regeneration Resources.

Tang Zhaoxing (a Director and Shareholder of the Company) is also a director and shareholder of Guangzhou Baojie. Yu Weijung and Jiang Xinchun (each a Director and Shareholder of the Company) are also (direct or indirect) shareholders of Guangzhou Baojie.

7. Extracts of the Memorandum and Articles of Association

Set out below is a summary of certain provisions of the Memorandum and Articles of the Company. Persons seeking a detailed explanation of the Memorandum and Articles or any provisions of Jersey law or the difference between it and the laws of England and Wales or any other jurisdiction, should seek specific legal advice.

7.1 *Memorandum of Association*

The Memorandum of the Company does not restrict the activities of the Company and thus the Company will have unrestricted corporate capacity. The Memorandum is one of the documents available for inspection at the address specified in paragraph 20 below.

7.2 *Articles of Association*

The Articles are one of the documents available for inspection at the address specified in paragraph 20 below. The Company's Articles contain provisions, *inter alia*, to the following effect:

7.2.1 *Annual general meetings*

Subject to the provisions of the Companies Law, annual general meetings shall be held at such time and place as the Board may determine at least once in every calendar year. An annual general meeting shall be convened by not less than 21 clear days' notice in writing or on shorter notice if so agreed by all of the Members entitled to attend and vote at the meeting.

7.2.2 *Extraordinary general meetings*

The Board may convene an extraordinary general meeting whenever it thinks fit by not less than 14 clear days' notice in writing or on shorter notice if so agreed by a majority in number of the Members having a right to attend and vote at the meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right. An extraordinary general meeting shall also be convened on such requisition, or in default may be convened by such requisitionists, as provided by Article 89 of the Companies Law. In summary, Article 89 of the Companies Law provides that on a requisition of members of a company who together hold not less than one-tenth of the total voting rights of the members of that company who have the right to vote at the meeting requisitioned, the directors of that company are required forthwith to call a general meeting and, if the directors fail to do so, the requisitionists themselves can call such general meeting. At any meeting convened on such requisition or by such requisitionists no business shall be transacted except that stated by the requisition or proposed by the board.

7.2.3 *Meetings generally*

- (a) In the case of both an annual general meeting and an extraordinary general meeting, the notice must specify whether the meeting is an annual general meeting or an extraordinary general meeting, the place, day and time of the meeting, the general nature of the business (if special business is to be transacted) and the intention to propose a special resolution if that be the case, and with reasonable prominence that a Member entitled to attend and vote is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him and that a proxy need not also be a Member.
- (b) The notice must be given to the Members (other than any who, under the provisions of the Articles or of any restrictions imposed on any shares, are not entitled to receive notice from the Company), the Board and its Auditors.
- (c) The Board may direct that any person wishing to attend any general meeting should provide and submit to such searches or such other security arrangements or restrictions as the Board shall consider appropriate in the circumstances and shall be entitled in its absolute discretion to refuse admission to any person who fails to comply with such security arrangements or restrictions.

7.2.2 *Voting rights*

Subject to any special rights or restrictions as to voting attached to any shares, on a show of hands every Member who is present in person shall have one vote and on a poll every Member who is present in person or by proxy shall have one vote for every share of which he is the holder. If a Member has been duly served by the Company with a notice requiring disclosure of the identity of any other persons interested in his shares under article 40 of the Articles (as to which, see paragraph 7.2.15 below) and fails to supply the Company with the information thereby required within a period of 14 days from the date of service of such notice, in certain circumstances he may not be entitled to attend or vote at a general meeting either personally or by proxy or to receive any dividend or to transfer or agree to transfer any shares or any rights therein.

7.2.3 *Variation of rights and changes of capital*

- (a) If at any time the capital of the Company is divided into different classes of shares, the special rights attached to any class of shares may, subject to the provisions of the Companies Law, be varied or abrogated in such manner (if any) as may be provided by such rights or, in the absence of such provision, either with the consent in writing of the holders of two-thirds in nominal amount of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of the class, but not otherwise. To every such separate meeting, the provisions of the Articles relating to general meetings of the Company shall apply with the necessary modifications except that the necessary quorum shall be not less than two persons holding or representing by proxy at least one-third in nominal amount of the issued shares of that class.
- (b) The Company may from time to time by special resolution amend its Memorandum to increase its share capital by such sum to be divided into shares of such amounts and carrying such rights as the resolution may prescribe.
- (c) The Company may by special resolution amend its Memorandum to increase or reduce the number of shares that it is authorised to issue, to consolidate all or any of its shares (whether issued or not) into fewer shares or to divide all or any of its shares (whether issued or not) into more shares.

- (d) The Company may by special resolution reduce any of its share capital and its share premium account. The Company may, subject to the provisions of the Companies Law and to any rights for the time being attached to any shares, purchase any of its own shares (including redeemable shares).
- (e) In general, the Board has the power to allot, grant options over, offer or otherwise deal with or dispose of shares (or rights to subscribe for or convert any securities into shares) in the authorised but unissued share capital of the Company.
- (f) The Board may not exercise the power referred to in (e) above in relation to relevant securities unless the Board is authorised to do so by the Company in general meeting by ordinary resolution. Such authority may be given for a particular exercise of the power or for its exercise generally, and may be unconditional or subject to conditions. The authority must state the maximum amount of relevant securities that may be allotted under it and the date on which the authority will expire, which must be not more than 5 years from the date on which the resolution is passed by virtue of which the authority is given, but such authority may be previously revoked or varied by the Company in general meeting by ordinary resolution. The Companies Law does not include an equivalent to section 20 of the Companies (Amendment) Act 1990, and the purpose of these provisions of the Articles is to provide similar provisions in favour of Members.
- (g) Subject to the provisions of the Articles, if the Company proposes to allot equity securities then the Company (i) shall not allot any of them on any terms to a person unless it has made an offer to each Member who holds relevant shares or relevant employee shares to allot to him on the same or more favourable terms a proportion of those securities which is as nearly as practicable equal to the proportion in nominal amount held by him of the aggregate of relevant shares and relevant employee shares; and (ii) shall not allot any of those securities to a person unless the period during which any such offer may be accepted has expired or the Company has received notice of the acceptance or refusal of every offer so made. These rights in favour of Members are called “pre-emption” rights. The Company in general meeting may by special resolution disapply such pre-emption rights, in which case such equity securities may be allotted as if members did not have such pre-emption rights. The Companies Law does not include an equivalent to sections 89 to 95 of the Companies Act 1985 and the purpose of these provisions of the Articles is to provide similar provisions in favour of members (although, under the UK Companies Act, a special resolution would require a three-fourths majority vote, whereas under Jersey law a special resolution requires a two-thirds majority vote unless the articles of association of the company prescribe a higher majority). The Articles give the Directors a general mandate to issue shares up to an amount not exceeding 20 per cent., of the Company’s issued share capital for the period from the date on which its shares are admitted to trading on AIM until the second annual general meeting.

7.2.4 *Transfer of shares*

Subject to the following, the shares are freely transferable. Subject to a shareholder’s ability to transfer all or any of his uncertificated shares in accordance with the Uncertificated Securities Order, the instrument of a share may be in any usual form or in any other form approved by the Directors and shall be executed on behalf of the transferor and unless the shares are fully paid, also on behalf of the transferee.

The Directors may refuse to register a transfer unless the instrument of transfer is: (i) lodged at the Company’s registered office or at such other place as the Directors appoint and is accompanied by the certificate for the shares to which it relates and such other evidence as the

Directors reasonably require to show the right of the transferor to make the transfer; (ii) in respect of only one class of shares; and (iii) in favour of not more than four transferees.

If the Directors refuse to register a transfer of a share they shall send the transferor and the transferee notice of the refusal within two months. No fees shall be charged for the registration of any instrument of transfer.

7.2.5 Dividends and distributions of assets on a winding up

The profits of the Company available for dividend and resolved to be distributed shall be applied in the payment of dividends to the Members in accordance with their respective rights and interests in the profits of the Company. The Company in general meeting may declare dividends accordingly, but no dividend shall exceed the amount recommended by the Board. No dividends shall be payable otherwise than in accordance with the Companies Law out of the profits of the Company available for that purpose. If the Company should be wound up (whether the liquidation is voluntary, under supervision or by the court) the liquidator (or, if no liquidator is appointed, the Board) may with the authority of a special resolution and any other sanction required by the Companies Law, divide amongst the Members *in specie* the whole or any part of the assets of the Company and whether or not the assets shall consist of property of one kind or of properties of different kinds, and may for such purposes set such value as he deems fair upon any one or more class or classes of property, and may determine how such division should be carried out as between the Members or different classes of Members. There are no fixed dates on which entitlement to dividends arises.

7.2.6 Unclaimed dividends

No dividend or other monies payable in respect of a share shall bear interest as against the Company unless otherwise provided by the rights attached to the share. Any dividend which has remained unclaimed for a period of ten years from its due date of payment shall, if the Board so resolves, be forfeited and shall cease to remain owing by the Company and belong to the Company absolutely.

7.2.7 Redeemable shares and share warrants

The Company may issue redeemable shares and, with respect to fully paid shares, may issue a warrant stating that the bearer of the warrant is entitled to the shares specified in it and may provide for the payment of future dividends on the shares.

7.2.8 Borrowing powers

Subject to the further provisions of the Articles, the Board may exercise all the powers of the Company to borrow money and to mortgage or charge all or any part of its undertaking, property, assets (present and future) and uncalled capital and, subject to the provisions of the Companies Law, to create and issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligations of the Company or of any third party.

7.2.9 Directors

- (a) Unless and until otherwise determined by the Company by ordinary resolution, the Board shall be not less than two but there shall be no maximum. Save as mentioned below, any person on the Board shall not vote on or in respect of any contract or arrangement or any other proposal in which he has any interest which is to his knowledge a material interest otherwise than by virtue of his or her interest in shares, debentures or other securities or rights of, or otherwise in or through, the Company. No person on the Board shall be counted in the quorum at a meeting in relation to any

resolution on which he or she is debarred from voting but this shall not apply to a proposal in which he or she has any interest which is not material.

- (b) Any person on the Board shall (in the absence of some other material interest than is indicated below) be entitled to vote (and be counted in the quorum) in respect of any resolution concerning any of the following matters:
 - (i) the giving of any security, guarantee or indemnity in respect of money lent or obligations incurred by him or any other person at the request of or for the benefit of the Company or any of its subsidiary undertakings;
 - (ii) the giving of any security, guarantee or indemnity in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
 - (iii) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any of its subsidiary undertakings in which he is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting in which he is to participate;
 - (iv) any proposal to which the Company is to be party concerning another company in which he is interested (directly or indirectly), whether as an officer, shareholder, creditor or otherwise of that other company, if he does not hold an interest in 5 per cent. or more of any class of the equity share capital of or the voting rights in such other company;
 - (v) any proposal relating to an arrangement for the benefit of the employees of the Company or any of its subsidiary undertakings which does not award to him any privilege or benefit not generally awarded to the employees to whom the arrangement relates; or
 - (vi) any proposal concerning insurance which the Company proposes to maintain or purchase for the benefit of the Board or for the benefit of persons including the Board.
- (c) Where proposals are under consideration concerning the appointment (including determining or varying the terms of appointment) of two or more of the Directors to offices or employment with the Company or any company in which the Company is interested, such proposals may be divided and considered in relation to each Director separately. In such case, each of the Directors concerned shall (if not debarred from voting under the Articles) be entitled to vote (and be counted in the quorum) in respect of each resolution except that concerning his own appointment.
- (d) If any question shall arise at a meeting as to the right of any person on the Board to vote, including a dispute in relation to the materiality of a Director's interest, and such question is not resolved by his voluntary agreement to abstain from voting, the question may (subject to the Companies Law) be referred to the chairman of the meeting (or, if the Director concerned is the chairman of the meeting, to such other Directors present at the meeting) and his ruling in relation to any other Director shall be final and conclusive.
- (e) Any person on the Board shall be entitled to receive by way of fees for their services such sum as the Board may from time to time determine. The Directors shall also be entitled to be paid all reasonable travelling, hotel and other expenses properly incurred

by them in or about the performance by them of their duties as directors including any expenses in attending meetings of the Board or any committee of the Board or general meetings or separate meetings of the holders of any class of shares or debentures of the Company. Extra remuneration may be paid out of the funds of the Company by way of salary, commission, participation in profits or otherwise as the Board may determine to any Director who, by arrangement with the Board, shall perform or render any special duties or services outside the scope of the ordinary duties of a director and not in his capacity as a holder of employment or executive office.

- (f) The Board may exercise all the powers of the Company to provide pensions or other retirement or superannuation benefits and to provide death or disability benefits or other allowances or gratuities (whether by insurance or otherwise) for, or to institute and maintain any institution, association, society, club, trust, other establishment or profit-sharing, share incentive, share purchase or employees' share scheme calculated to advance the interests of the Company or to benefit any person who is or has at any time been a Director or employee of the Company or any body corporate which is a holding body or a subsidiary undertaking of or allied to or associated with the Company or any such holding body or subsidiary undertaking or any predecessor in business of the Company or of any such holding body or subsidiary undertaking, and for any member of his family (including a spouse or former spouse) and any person who is or was dependent on him. For such purpose the Board may establish, maintain, subscribe and contribute to any scheme, institution, association, club, trust or fund and pay premiums and, subject to the provisions of the Companies Law, lend money or make payments to, guarantee or give an indemnity in respect of, or give any financial or other assistance in connection with any of the aforesaid matters. The Board may procure any of such matters to be done by the Company either alone or in conjunction with any other person. Any Director or former Director shall be entitled to receive and retain for his own benefit any pension or other benefit provided under the Articles and shall not be obliged to account for it to the Company.
- (i) At each annual general meeting one-third of the Directors who are subject to retirement by rotation shall retire from office. Such directors may stand for reelection subject to any rules or law to the contrary.

7.2.10 Non-United Kingdom shareholders

There are no limitations in the Articles on the rights of non-United Kingdom shareholders to hold, or to exercise voting rights attached to, the Ordinary Shares.

7.2.11 CREST

CREST is a paperless settlement system enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by a written instrument. The Articles are consistent with CREST membership and, amongst other things, allow for the holding and transfer of shares in uncertificated form.

7.2.12 Restrictions on changes in control, mergers, acquisitions or corporate restructuring of the Company

There are no provisions in the Articles that would have the effect of delaying, deferring or preventing a change of control in the Company that would operate only with respect to a merger, acquisition or corporate restructuring involving the Company.

7.2.13 *Disclosure of interests*

- (a) The Companies Law does not contain any provisions equivalent to those contained in Part 22 of the Companies Act 2006 (Disclosure of Interests in Shares). Accordingly, in order to make provision for the disclosure of interests, the Articles contain provisions which require Members in certain circumstances to disclose interests in shares.
- (b) Any Member will be required to notify the Company whenever (i) he becomes interested in relevant shares which together represent 3 per cent., or more of the aggregate nominal amount of all relevant shares, (ii) having been so interested, he is no longer interested in relevant shares representing 3 per cent., or more of the aggregate nominal amount of all relevant shares, or (iii) at a time when he is interested in 3 per cent., or more of the aggregate nominal amount of all relevant shares, the percentage of all such relevant shares in which he is interested changes such that the percentage of all such relevant shares in which he is interested changes (expressed as a whole number, and rounding down in the case of fractions) changes by a whole percentage. Where a notification is required, it must generally be made within 2 days of the Member becoming aware of the relevant facts giving rise to the obligation to make notification. For these purposes, relevant shares are shares which generally carry the right to vote at all general meetings; and where there is more than one class of such shares, means the shares in each class taken separately. A Member, in addition to the shares which he holds, is taken to be interested in shares held by any concert party, associated entity or related person of such Member. For these purposes (i) a “concert party” in relation to a Member means any other person or persons with whom that Member, pursuant to an agreement or understanding (whether formal or informal), actively co-operates, through the acquisition by any of them of shares or otherwise, to obtain or consolidate control of or influence over the Company; (ii) an “associated entity” in relation to a Member which is a body corporate, partnership or other entity (whether of independent legal status or otherwise) means any body corporate, partnership or entity (whether of independent legal status or otherwise) which is controlled by or which controls or which is under common control with such Member and includes all directors and officers of any such Member or any such body corporate, partnership or entity and any other person who is able to direct, control or influence such Member or any such body corporate, partnership or entity; and (iii) a “related person” means, in relation to a Member who is an individual, his or her spouse, children, stepchildren, parents, grandparents, brothers, sisters and trusts of which that individual or any other such related person is a beneficiary.
- (c) The Company also has the right by service of notice to require any Member to disclose to the Company the identity of any person other than the Member who has any interest in the shares held by the Member and the nature of such interest. A Member will be required to respond within 5 days of the date of the notice, or such longer period as the Directors may determine. The Directors may be required to exercise their powers on the requisition of Members of the Company holding at the date of deposit of the requisition not less than one-tenth in number of such of shares as carry at that date the right of voting at general meetings of the Company. The sanctions applicable if a Member is in default of his obligation to respond to a notice requiring disclosure of interests include that the Member may not be entitled to exercise voting rights attaching to the shares held by that Member, that (depending on the size of his holding) dividends payable on his shares may be withheld and certain transfers of shares may be prohibited, in each case until such time as the Member complies with the obligation to respond to such notice.

7.2.14 The provisions of Chapter 5 of the Disclosure and Transparency Rules (the “DTR 5 Provisions”) are incorporated by reference into the Articles

The DTR 5 Provisions detail the circumstances in which a person may be obliged to notify the Company within two business days that he has an interest in voting rights in respect of the shares of the Company. An obligation to notify the Company arises when the percentage of voting rights which a person holds reaches, exceeds or falls below 3 per cent., of the voting rights attaching to the shares or moves through any whole percentage point about 3 per cent.

Where a shareholder fails to comply with the DTR 5 Provisions that shareholder will be in default (such shareholder being a “Defaulting Holder”). Under the Articles, the Company has the right to deliver a direction notice to the Defaulting Holder in accordance with the provisions summarised in paragraph 7.2.15 above, save that any such direction notice shall cease to have effect on the date that is not more than seven (7) days after the Company has determined that the Defaulting Holder has cured the non-compliance with the DTR 5 Provisions; provided, however, that the Company may at any time by subsequent written notice cancel or suspend the operation of a direction notice. The full text of the DTR 5 Provisions will be made available to any shareholder free of charge on application to the company secretary.

7.2.15 Takeover Provisions

When any person or persons acting in concert acquire shares in the Company which, when taken together with any other share held by that person or persons acting in concert, carry 30 per cent. or more of the voting rights of the Company, or when a person or persons acting in concert holding between 30 per cent. and 50 per cent., of the voting rights of the Company acquire additional shares which increases his voting rights, except with the approval of an ordinary resolution passed by the shareholders who the Directors determine are not acting in concert, that person (and, depending on the circumstances, its concert parties) shall be required to make an offer to acquire all the issued shares of the Company for cash or a cash alternative at not less than the highest price paid by the offerer or any concert party during the previous 12 months. Except with the consent of the Board, such offer must be conditional upon the offerer receiving acceptances in respect of shares which will result in the offerer holding more than 50 per cent. of the voting rights of the Company. The Board has been vested with equivalent powers as those afforded to the Panel on Takeovers and Mergers under the Takeover Code, including the authority to determine the deemed application of the whole or any part of the Takeover Code. In exercising these powers, the Board is obliged to consult with the Company’s solicitors and nominated adviser for the time being on the manner in which the Takeover Code would apply with a view to ensuring that an outcome is achieved as near as reasonably practicable to the outcome that would arise if the Company were subject to the rules of the Takeover Code.

- 7.3 Under the Companies Law, the Company in general meeting may by special resolution amend its Memorandum or Articles. For the purposes of the Companies Law, a resolution is a special resolution when it has been passed by a two-thirds majority vote.

8. Material contracts

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Group within two years immediately prior to the date of this Document, and are, or may be, material.

8.1 Company Secretarial Services Agreement

By an agreement dated 15 February 2011 between (i) the Company and (ii) Computershare Company Secretarial Services (Jersey) Limited, the Company appointed Computershare Company Secretarial

Services (Jersey) Limited as its company secretary to provide company secretarial services and a registered office in Jersey.

8.2 ***Nominated Adviser Agreement***

By an agreement dated on or around 18 May 2011 between (i) Cairn; (ii) the Company; and (iii) the Directors (the “**Nominated Adviser Agreement**”), Cairn agreed to act as the Company’s nominated adviser for the purpose of the AIM Rules. Under the Nominated Adviser Agreement, the Company agrees (i) to pay Cairn an annual nominated adviser retainer fee of £35,000 (discounted to £30,000 for the first year following Admission) plus VAT and reasonable expenses and (ii) to grant Cairn a warrant to subscribe for one per cent. of the Enlarged Share Capital, exercisable at the Placing Price at any time up to five years from the date of Admission (see further details of Cairn Warrant Instrument in paragraph 8.8 of Part V). Cairn will provide relevant services and fulfil relevant duties in its capacity as nominated adviser to the Company. The Company has undertaken to comply with applicable legal and regulatory requirements and to indemnify Cairn for certain liabilities incurred in the delivery of the services. The Directors have also undertaken to inform Cairn of any breach of the AIM Rules and to comply with the AIM Rules. The agreement is terminable on 3 months’ notice from either party (provided that if the Company terminates the agreement within the first 12 months of its term, the Company shall pay Cairn the balance of its outstanding annual retainer fee for the first year) or by either immediately in certain circumstances relating, *inter alia*, to breach of the agreement.

Pursuant to an engagement letter between Cairn and the Company dated 21 September 2010, Cairn was appointed as nominated adviser to the Company in connection with the proposed Admission and Cairn agreed to provide certain corporate advisory services. The fee payable to Cairn for such services was £125,000 comprising £100,000 in cash and £25,000 in fee shares, plus a warrant over 1 per cent. of the Enlarged Share Capital on Admission. This engagement letter is succeeded by the Nominated Adviser Agreement.

8.3 ***Broker Agreement***

By an agreement dated on or around 16 May 2011 between SVS and the Company (the “**Broker Agreement**”), SVS agreed to act as the Company’s financial adviser and broker. Under the Broker Agreement, SVS has agreed to provide *inter alia* all the services specified from time to time in the AIM Rules as being the responsibility of a broker. SVS’s appointment as broker is exclusive during the engagement to the extent that if the Company wishes to raise funds, SVS will be given a right of first refusal. SVS is entitled to a fee of £20,000 plus VAT per annum payable quarterly in advance and to be reimbursed its out of pocket expenses. Under the Broker Agreement, the Company has undertaken to comply with all relevant laws and regulations and to indemnify SVS for certain liabilities incurred in delivery of the services. The Broker Agreement is terminable on three months’ notice from either party (not to be given in the first twelve months after Admission) (or upon four weeks’ notice by the Company if SVS increases the applicable fee after the first anniversary of Admission) or by either party immediately in certain circumstances relating, *inter alia*, to breach of the agreement and insolvency.

Pursuant to an engagement letter from SVS dated 8 September 2010 (and countersigned in acceptance by the Company on 30 September 2010), the Company appointed SVS to use its reasonable endeavours to raise up to US\$2 million gross through a placing in conjunction with Admission and to act as financial adviser and broker to the Company in connection therewith. The appointment is for a minimum term of 12 months. During the term, SVS has an exclusive right of first refusal to use its reasonable endeavours to raise further funds in future capital raisings, provided that until 29 September 2011 the Company agrees not to raise finance through the issue of equity except (i) through the Placing; (ii) through further fundraisings referred to in the Admission Document; (iii) through a further fundraising agreed by SVS and the Company; or (iv) if the engagement letter is terminated. If SVS does not exercise the right of first refusal, the Company can appoint a co-broker for such fundraising, in which case SVS will be entitled to a commission of 1 per cent. of any funds

raised by such co-broker. The Placing is not underwritten or guaranteed. Under the engagement letter SVS is entitled to:

- (a) a financial adviser and broker fee of £50,000 (plus VAT if applicable and expenses) to lead the Admission process;
- (b) a commission of 5 per cent. on all funds raised by SVS in the Placing;
- (c) a commission of 1 per cent. on all funds raised outside SVS in the Placing, (including by any co-broker, as mentioned above); and
- (d) the issue of such number of Ordinary Shares as is equal to 0.5 per cent. of the Enlarged Share Capital at Admission.

8.4 ***Placing Agreement***

On 18 May 2011 the Company, the Directors and the Broker entered into the Placing Agreement pursuant to which the Broker has agreed conditional upon, *inter alia*, Admission taking place on or before 23 May 2011 (or such later time as the Company, the Broker and the Nominated Adviser may determine not being later than 30 June 2011 to act as agent for the Company, to use its reasonable endeavours to procure subscribers for the 9,360,147 Placing Shares at the Placing Price. The Placing is not being underwritten.

Under the Placing Agreement, the Company has agreed:

- (i) to pay to SVS, conditional on Admission, the following amounts (as agreed in SVS's engagement letter dated 8 September 2010):
 - (a) a broking fee of £50,000 (of which £30,000 has been paid prior to the date of the Placing Agreement) in cash;
 - (b) a further broking fee of £103,839.75 satisfied by the allotment, credited as fully paid, of 1,483,425 Ordinary Shares at the Placing Price;
 - (c) a broking commission equal to 5% of the aggregate value at the Placing Price of those Placing Shares for which SVS procures placees pursuant to the Placing; and
 - (d) a further broking commission equal to 1% of the aggregate value at the Placing Price of any Placing Shares issued to persons who have not been procured by SVS pursuant to the Placing;
- (ii) to pay to Cairn, conditional on Admission, the following amounts (as agreed in Cairn's engagement letter dated 21 September 2010):
 - (a) an advisory fee of £125,000, to be satisfied:
 - (aa) as to £100,000 (of which £60,000 has been paid prior to the date of the Placing Agreement) in cash; and
 - (bb) as to £25,000 by the allotment, credited as fully paid, of 357,142 Ordinary Shares at the Placing Price; and
- (iii) to grant to Cairn, conditional on Admission, warrants to subscribe new Ordinary Shares on the terms contemplated in the Cairn Warrant Instrument described in paragraph 8.8 of Part V of this Admission Document;

- (iv) to pay all costs, charges and expenses of and incidental to the Admission and the Placing, including all printing, advertising and distribution costs, professional fees, stamp duty and stamp duty reserve tax,

in each case together with applicable VAT.

The Placing Agreement contains representations and warranties given by the Company and the Directors to Cairn and SVS as to the accuracy of the information contained in the Admission Document and other matters relating to the Group and its business, subject to certain limitations. The Executive Directors and the Company have agreed to indemnify Cairn and SVS and their partners, directors, officers, employees and agents in respect of, and they shall have no liability to the Directors or the Company, for, any losses incurred by them or the Company in connection with the performance by Cairn and SVS of their respective duties under the Placing Agreement (except to the extent such losses arise as a result of negligence, willful default, fraud or a breach of the Placing Agreement by Cairn and/or SVS (as the case may be)). Cairn and SVS are entitled to terminate the Placing Agreement in certain specified circumstances, including if there has been a material breach of any of the warranties or other material terms of the Placing Agreement on the part of the Company or the Directors or by reason of *force majeure*.

8.5 ***Orderly Market Agreement with Citadel***

By an agreement dated 21 December 2010 between the (i) the Company; (ii) SVS; (iii) Cairn; and (iv) Citadel (the “**Citadel Orderly Market Agreement**”), Citadel has agreed (subject to certain limited exceptions) not to dispose of any Ordinary Shares (legally or beneficially) held by Citadel immediately following Admission or acquired by Citadel pursuant to the exercise of any option or warrant granted to Citadel on or before the first anniversary of Admission (thus including the Citadel Warrants) for a period of 12 months from Admission, without the prior written consent of Cairn and SVS.

The circumstances in which the restrictions referred to above will not apply to any disposal include:

- (i) in acceptance of a general offer made to the Company’s Shareholders to acquire all the Ordinary Shares (other than any such shares which are already owned by the person making such offer or any person(s) acting in concert with it) or an irrevocable commitment to accept such a general offer;
- (ii) pursuant to an intervening court order;
- (iii) to a connected person (as defined in sections 252 to 255 of the UK Companies Act 2006);
- (iv) to Citadel’s prime broker (provided Citadel remains the beneficial owner); and
- (v) pursuant to any compromise or arrangement between the Company and its creditors or Shareholders under applicable law.

Citadel agrees to notify Cairn and SVS prior to any transfer of any interest in Ordinary Shares (legally or beneficially) held by Citadel on or before the first anniversary of Admission.

The Citadel Orderly Market Agreement shall terminate if Admission is not effected by 31 May 2011 or if Citadel exercises the cashless exercise mechanism in respect of such number of the Citadel Warrants such that thereafter Citadel is only interested (legally or beneficially) in less than three per cent. of the Enlarged Share Capital or (if Admission is effected after 28 February 2011) of the issued ordinary share capital of the Company on 28 February 2011.

Under the Citadel Warrant Instrument (see paragraph 8.7 of Part V for further details) the Citadel Warrants may only be transferred, *inter alia*, if the transferee has submitted to the Registrar an undertaking to comply with the terms of the Citadel Orderly Market Agreement.

8.6 ***Other Orderly Market Agreements***

By agreements dated on or around 16 May 2011 between the (i) the Company; (ii) SVS; (iii) Cairn; and (iv) each of Yu Weijun, Leader Vision Investments Limited, Tewin Capital Holding Limited, Tang Zhaoxing, Asia Tianxing Investment Limited, Foo Shiang-Peow, NovusAsia Capital Limited, Cobalt Ventures Ltd, Best Full Investments Limited, Jiang Xinchun and Qiu Weiming (each a “Restricted Shareholder”) (the “Orderly Market Agreements”), each of the Restricted Shareholders has agreed (subject to certain limited exceptions) not to dispose of any Ordinary Shares (legally or beneficially) held by them immediately following Admission or acquired by them pursuant to the exercise of any option or warrant granted to them on or before the first anniversary of Admission for a period of 12 months from Admission, without the prior written consent of Cairn and SVS; and not to make any such disposal during such time at a price less than the price at which the respective Restricted Shareholder sold Ordinary Shares during the preceding two months without the prior written consent of Cairn and SVS; and that any such transfers shall be effected through SVS.

The circumstances in which the restrictions referred to above will not apply to any disposal include:

- (i) in acceptance of a general offer made to the Company’s Shareholders to acquire all the Ordinary Shares (other than any such shares which are already owned by the person making such offer or any person(s) acting in concert with it) or an irrevocable commitment to accept such a general offer;
- (ii) pursuant to an intervening court order; and
- (iii) to a connected person (as defined in sections 252 to 255 of the UK Companies Act 2006).

8.7 ***Citadel Warrant Instrument***

On 22 December 2010 the Company granted Citadel a warrant to subscribe in aggregate at any time on or before the second anniversary of Admission for 20,271,720 Ordinary Shares (being seven per cent. of the issued Ordinary Share Capital of the Company at close of business on 28 February 2011 calculated on an as converted and fully diluted basis (after taking into account the shares issuable upon the exercise of such warrant). The warrant is exercisable at the Placing Price.

The Citadel Warrant Instrument includes a cashless exercise mechanism. The Citadel Warrants may only be transferred if (i) the Registrar has received an undertaking from the transferee to comply with the conditions of the Citadel Warrant Instrument, including the terms of Citadel Orderly Market Agreement (see paragraph 8.5 of Part V for further details) and (ii) any necessary consent under the Control of Borrowing (Jersey) Order 1958 has been obtained.

8.8 ***Cairn Warrant Instrument***

Pursuant to a deed of warrant granted dated on or around 18 May 2011, conditional upon Admission the Company agreed to grant Cairn a warrant to subscribe for up to one per cent. of the Enlarged Share Capital at the Placing Price per share. Such warrant is exercisable at any time following Admission until the fifth anniversary of Admission.

8.9 ***Settlement Agreement***

Pursuant to a settlement agreement dated 21 December 2011 between the Company and Citadel (the “**Settlement Agreement**”), the Company agreed to:

- (i) pay Citadel an aggregate of US\$1 million (which sum has been paid);
- (ii) issue the Citadel Bonds to Citadel; and
- (iii) grant the Citadel Warrants to Citadel.

Conditional upon the above, Citadel agreed: (a) to the cancellation of the Series A zero coupon convertible bonds of an aggregate remaining principal amount of US\$ million issued by the Company to Citadel on 30 July 2007; and (b) to release and discharge any actions or claims against the Company or its subsidiaries arising out of or connected with the debt principal mentioned in (a) above and any agreement between or act by Citadel and the Company prior to the Settlement Agreement. The Settlement Agreement superceded all previous agreements between the parties relating to its subject matter.

Under the Settlement Agreement the Company gave various undertakings, including *inter alia* to use its best endeavours to procure that Admission is effected and that a Placing is effected which raises at least US\$1 million in gross proceeds, in each case on or before 28 February 2011. Until such time as the Citadel Warrants have been exercised in full or lapsed and the Citadel Bonds have been redeemed in full, Citadel is entitled to appoint one director of (or, in Citadel's discretion, observer to) the board of directors of the Company and ZKTY respectively.

The Settlement Agreement superceded the term sheet dated 10 September 2010 entered into between the Company and Citadel relating to the settlement arrangements.

8.10 **Citadel Bond**

On 22 December 2010 the Company issued to Citadel bonds of an aggregate principal amount of US\$3 million bearing interest of 10 per cent. per annum. The first US\$1.5 million of the principal amount of the bonds shall mature and be redeemed on 8 October 2011 and the remainder of the principal amount on 8 October 2012, unless a redemption event or change of control occurs and triggers early redemption or the Company chooses to redeem the bonds early. For such purposes:

- (i) redemption events include, without limitation, the Company's failure to pay any interest or principal when due; breach or default by the Company of any representations, warranties or undertakings given in the Settlement Agreement, the Citadel Warrants or the Citadel Bonds; any other indebtedness of at least US\$1.5 million of any Group company becoming prematurely repayable following a default; and insolvency of any Group company; and
- (ii) change of control means the Company's merger, amalgamation or consolidation or the sale of all or substantially all of its assets; adoption of a plan for the liquidation or dissolution of the Company; or Yu Weijun, Tang Zhaoxing, Liang Hongtao, Qiu Weiming and Jiang Xinchun collectively ceasing to own at least 51 per cent. of the issued share capital of the Company.

The bonds may be transferred in whole or in part, provided that: (i) the Company is given advance notice of any such intention and does not notify the bondholder within 7 days that it wishes to redeem the bonds; and (ii) any consent required under the Control of Borrowing (Jersey) Order 1958 has been obtained.

The Company gives Citadel various undertakings which apply as long as any of the Citadel Bonds are outstanding and held by Citadel and provide (*inter alia*) that, except with Citadel's consent, no Group company will: (i) incur indebtedness, other than indebtedness of a PRC subsidiary not exceeding RMB20 million; (ii) make any loan other than to customers in the ordinary course of business or give any guarantee; (iii) create any security over any assets of any Group company other than liens on assets of a PRC subsidiary not exceeding RMB20 million; (iv) pay dividends unless the first US\$1.5 million of the principal amount of the Citadel Bonds has been redeemed, the Company is not

in arrears with payments of principal or interest in respect of the Citadel Bonds at the time and such distribution does not exceed 25 per cent. of the Company's distributable reserves for that financial year; (v) dispose of any of its assets; (vi) acquiring any assets exceeding RMB10 million; (vi) amend its articles or other constitutional documents in a manner that might have a detrimental effect on the value of the Citadel Bonds outstanding; (vii) engage in any related party transactions; (viii) redeem, repurchase or otherwise reduce its share capital; (ix) commence insolvency proceedings; or (xi) agree to do any of the foregoing.

8.11 ***Engagement Letter with NovusAsia Capital Limited***

Pursuant to an engagement letter dated 17 March 2011, the Company engaged NovusAsia Capital Limited (of which Foo Shiang-Peow is a director and the sole shareholder) as financial adviser and consultant to the Company in connection with various corporate advisory matters, including in connection with the proposed Admission. The Company agreed to pay NovusAsia Limited (in addition to reimbursement of reasonable expenses):

- (i) 8,079,728 Ordinary Shares (equal to approximately 3% of the issued share capital of the Company as at the date of the engagement letter), to be issued and allotted to NovusAsia Capital Limited at Admission; and
- (ii) A cash fee payable within 5 days of receipt of the Placing proceeds amounting to (a) US\$100,000 if the Placing proceeds amount to US\$1.5 million or more; (b) US\$50,000 if the Placing proceeds amount to less than US\$1.5 million; or (c) nil if no funds are raised by the Placing.

The Company and NovusAsia Capital Limited have agreed that NovusAsia Capital Limited's appointment as a financial adviser and consultant to the Company will terminate automatically on the earlier of (i) Foo Shiang-Peow's appointment as a non-executive Director of the Company or (ii) on Admission.

8.12 ***Engagement Letter with Walbrook***

Pursuant to an engagement letter dated 20 January 2011 between the Company and Walbrook PR Limited ("Walbrook"), the Company engaged Walbrook to provide public relations services for a monthly fee of £1,500 plus VAT and expenses. The agreement provides that Walbrook will share commission payments with SVS on a 50:50 basis on all funds raised from parties introduced by Walbrook.

8.13 ***2009 Citadel Agreement***

The Company, ZKTY, Citadel, Yu Weijun, Tang Zhaoxing, Liang Hongtao, Qiu Weiming and Jiang Xinchun entered into an agreement dated 28 August 2009 (the "**August 2009 Agreement**") in connection with a proposed reverse merger transaction between the Company, certain founding shareholders of the Company and Annica Holding Limited ("**Annica**"), according to which proposed reverse merger transaction, *inter alia*, Annica would purchase 100% of the issued ordinary shares of the Company in exchange for a cash payment and the issuance of new shares of Annica to the shareholders of the Company (the "**Reverse Merger**"). Under the August 2009 Agreement, the Company, ZKTY and certain founding shareholders acknowledged that certain actions and/or omissions of the Company constituted possible defaults or material breaches under certain of their previous agreements with Citadel. Pursuant to the August 2009 Agreement:

- (i) the Company would procure that US\$4,000,000 would be paid to Citadel at closing of the Reverse Merger from the cash payment payable by Annica to the shareholders of the Company in connection with the Reverse Merger; and
- (ii) the Company would pay US\$4,000,000 to Citadel at closing of the Reverse Merger;

- (iii) upon receipt of such payment Citadel would cancel the remaining US\$8,000,000 principal amount of convertible bonds issued by the Company to Citadel on 30 July 2007; and
- (iv) the Company, ZKTY and the certain founding shareholders gave various covenants to Citadel.

The Reverse Merger did not occur. The Settlement Agreement (referred to in paragraph 8.9 of this Part V of this Admission Document) which was entered in December 2010 superceded the August 2009 Agreement and under the Settlement Agreement Citadel released the Company from all claims arising out of or connected with, *inter alia*, the August 2009 Agreement.

8.14 ***ButylFuel LLC Collaboration Agreement***

ZKTY entered into a collaboration agreement with ButylFuel LLC (“BF”, a US company) on 10 August 2010, which was amended by a supplemental agreement on 22 February 2011.

Under the agreement, BF and ZKTY agree to collaborate to jointly market their technologies in the field of biobutanol production, together with related consulting, engineering, design and equipment sourcing services, for a named customer for use in connection with a wood pulp mill in Maine, US (“Project”). Under the agreement, the parties shall agree upon a proposal to submit to the customer (setting out, *inter alia*, ZKTY and BF’s revenue sharing, including a license fee and royalties for their respective intellectual property rights). All license fees from the Project are to be shared equally between BF and ZKTY.

Under the agreement, ZKTY grants BF a limited license to use its proprietary rights relating to the extraction of fuel ethanol, edible alcohol, biobutanol, bio-acetic acid and other chemical products from various feedstocks in connection with the Project; and BF grants ZKTY a limited license to use its intellectual property (which relates to the creation of butyric acid and biobutanol through its proprietary fermentation process using various feedstocks) in connection with the Project.

If either party develops an improvement to either of the parties’ intellectual property which (i) is applicable to the production of biobutanol from wood pulp and (ii) is created as part of or in connection with the Project, that party must notify the other party. The improvement shall be owned by the party which created the same unless it is non-severable, in which case it shall be assigned to the party to whose intellectual property it is non-severable. If the improvement would be applicable to the Project, the owning party shall grant a limited non-exclusive license to the other party for use in the Project; and otherwise the parties shall negotiate in good faith the licensing and commercialisation of the improvement.

The agreement provides that upon completion of the Project, at the option of either BF or ZKTY, the parties (directly or through an affiliate) may form a joint venture company for exclusive commercialisation of their respective technologies applicable to the production of biobutanol from wood pulp as used for the Project, subject to negotiation in good faith.

Under the agreement, in connection with the Project, BF is ZKTY’s exclusive sales and marketing agent and licensee of its proprietary rights relating to the extraction of fuel ethanol, edible alcohol, biobutanol, bio-acetic acid and other chemical products from various feedstocks. Under the agreement ZKTY and BF agree not to compete with each other with respect to the Project, which restriction shall survive the termination of the collaboration agreement for a further 36 months. The agreement is in effect until the earlier of (i) such time as the parties cease to provide services for the Project and (ii) 9 August 2013, following which it may be terminated by either party on three months’ notice.

8.15 ***Proposed joint venture with Songyuan Laihe Chemicals Co., Ltd.***

Songyuan Laihe Chemicals Co., Ltd. (“Songyuan”) and ZKTY entered into a letter of intent dated 20 December 2010 regarding a settlement arrangement, all of which is conditional upon a third party

investor investing RMB150,000,000 in a joint venture to be established by ZKTY, Songyuan and the third party investor 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. Songyuan agrees to grant an exclusive licence to the joint venture company to use the technology.

The letter of intent provides that the joint venture company will be established with RMB5 million registered capital, of which; (aa) 45% will be contributed by ZKTY; (bb) 40% will be contributed by Songyuan; and (cc) 15% will be contributed by the third party investor.

The settlement agreement refers to the Songyuan affiliates, Songyuan Ji'an Bio-chemistry Co., Ltd., Ji'an Biochemistry Qian'an Alcohol Co., Ltd. and Jilin Ji'an New Energy Co., Ltd., ("Songyuan's Affiliates") owing the ZKTY RMB64 million.

Under the letter of intent:

- (i) ZKTY agrees to give Songyuan a discount on the amount owed, and it is agreed that only RMB63 million is owed in aggregate by Songyuan's Affiliates.
- (ii) ZKTY and Songyuan agree to reorganize the debt such that:
 - (a) ZKTY will be given shares in Songyuan equal to 3% of the issued share capital of Songyuan, in full settlement of RMB30 million of the debt owed by Songyuan's Affiliates;
 - (b) Songyuan will pay ZKTY RMB6 million of the debt owed in cash, which sum is due but has not yet been received; and
 - (c) the remaining RMB27 million of debt will be repaid to ZKTY by Songyuan in cash by 19 December 2012.

8.16 ***China New Energy Limited Employee Benefit Trust***

The Company has established an employee benefit trust (the "**EBT**") known as the China New Energy Limited Employee Benefit Trust established by the trust deed dated 24 March 2011 between the Company and EES Trustees International Limited (the "**Trustee**").

8.16.1 *Beneficiaries*

All employees (excluding executive directors) or former employees of the group or their spouse, civil partner, surviving spouse, surviving civil partner or child or step-child under the age of 18 are beneficiaries under the EBT. Trust assets and income are held on trust for such of the beneficiaries as the Trustee may determine in its absolute discretion. The EBT is a discretionary trust and therefore the Board may make recommendations to the Trustee as to how the trust fund should be applied.

8.16.2 *Financing*

The EBT may be financed by contributions (i.e. gifts) and/or loans from the Company or any member of the Group and the beneficiaries are eligible to receive the benefit from any income deriving from those contributions. The EBT is not able to benefit the Company or any member of the Group once it has received any contributions.

The Company has issued and allotted 8,079,728 Ordinary Shares to the Trustee as a gift, to be held in accordance with the terms of the EBT for the benefit of and to be allocated to certain

employees of the Group (excluding executive Directors) provided such employees remain employees of the Group on the first anniversary of Admission.

8.16.3 *Share Schemes and Options*

The EBT is intended to constitute an employee' share scheme, i.e. in broad terms, a scheme to provide benefits to employees or former employees (excluding executive directors) in the form of shares, share options, interests in shares or other benefits derived from shares. Such schemes are useful tools to recruit, retain and motivate employees and are a good means of aligning employees' interests with those of shareholders. The Trustee has the ability under the trust deed to grant options to any beneficiary to acquire some or all of the assets of the EBT and the Trustee may determine the consideration for such options and the price at which they may be exercised.

The EBT may also operate in conjunction with any employees' share scheme operated by a member of the Group. Where options to subscribe for shares in the Company or Group are granted the limits on the number of shares to be subscribed will be prescribed by the rules of that employees' share scheme.

8.16.4 *Powers*

The Trustee has wide powers, including the power to invest and to borrow and grant security against the trust assets, effect any transaction concerning any part of the trust fund if it thinks the transaction is for the benefit of the EBT and its beneficiaries and the power to amend, during the trust period, the trust deed establishing the EBT.

8.16.5 *Voting and Dividends*

The Trustee will abstain from voting unallocated shares held in the EBT at any general meeting of any member of the Group. Unless the Company directs the Trustee otherwise, the Trustee waives its entitlement to dividends on shares held in the trust fund.

8.16.6 *Trust Period*

The Company established the EBT on 24 March 2011 and the EBT will end either (i) on the day before the 125th anniversary of the date of the trust deed; or (ii) the date when an order for the winding-up of the Company is made or a resolution is passed for the voluntary winding-up of the Company; or (iii) the date the Trustee declares by deed to be the end of the trust period (not being a date earlier than the date of the trust deed).

At the expiration of the trust period the Trustee shall not hold the trust fund on trust for the beneficiaries then living in the proportions that Trustee decides before the end of the trust period or, if the Trustee does not make any decision, for all of the employees then living in equal shares, or, if there are no employees at that time, for such charity or charities as the Trustee then chooses.

9. Related party transactions

9.1 Save as otherwise disclosed in this Document or as disclosed below, the Group has not entered into any related party transaction in the three year period to 31 December 2010 or for the period from 1 January 2011 to the date of this Document:

9.1.1 In January 2008 GZTY Regeneration Resources purchased a car from ZKTY for approximately RMB200,000, which payment has been made in full. According to the Directors, the sale was not on arm's length terms.

This is a related party transaction because GZTY Regeneration Resources and ZKTY are related parties, and were related parties at the time, because:

- (i) Yu Weijun (a Director and shareholder of the Company, which in turn owns ZKTY) is a director and a shareholder of GZTY Regeneration Resources (via his holding of 90% of the issued share capital of Guangdong Tianwei Investment Co., Ltd. which in turn holds 32% of the issued share capital of GZTY Regeneration Resources);
- (ii) Tang Zhaoxing (a Director and shareholder of the Company, which in turn owns ZKTY and a director of ZKTY) is a director and the holder of 21% of the issued share capital of GZTY Regeneration Resources;
- (iii) Qiu Weiming (a shareholder of the Company and who at the time of the transaction was also a director of the Company, which in turn owns ZKTY) is a director and the holder of 16% of the issued share capital of GZTY Regeneration Resources;
- (iv) Jiang Xinchun (a shareholder of the Company and who at the time of the transaction was also a director of the Company, which in turn owns ZKTY) is a director and the holder of 11% of the issued share capital of GZTY Regeneration Resources;
- (v) Liang Hongtao (a shareholder of the Company which in turn owns ZKTY and a director of ZKTY) is a shareholder of GZTY Regeneration Resources (via his holding of 80% of the issued share capital of Guangzhou Dineng Electromechanical Co., Ltd. which in turn holds 20% of the issued share capital of GZTY Regeneration Resources); and
- (vi) Ding Liren (an employee of ZKTY) is a shareholder of GZTY Regeneration Resources (via his holding of 20% of the issued share capital of Guangzhou Dineng Electromechanical Co., Ltd. which in turn holds 20% of the issued share capital of GZTY Regeneration Resources).

9.1.2 In January 2008 Guangzhou Baojie purchased a car from ZKTY for approximately RMB1,900,000, which payment has been made in full. According to the Directors, the sale was not on arm's length terms.

This is a related party transaction because Guangzhou Baojie and ZKTY are related parties, and were related parties at the time, because:

- (i) Yu Weijun (a Director and shareholder of the Company, which in turn owns ZKTY) is a shareholder of Guangzhou Baojie (via his holding of 90% of the issued share capital of Guangdong Tianwei Investment Co., Ltd. which in turn holds 51% of the issued share capital of Guangzhou Baojie);
- (ii) Tang Zhaoxing (a Director and shareholder of the Company, which in turn owns ZKTY and a director of ZKTY) is a director and the holder of 39% of the issued share capital of Guangzhou Baojie;
- (iii) Jiang Xinchun (a shareholder of the Company and who at the time of the transaction was also a director of the Company, which in turn owns ZKTY) is the holder of 10% of the issued share capital of Guangzhou Baojie.

9.1.3 In the period since 1 January 2008, ZKTY extended various advances to and made various payments on behalf of Boluo amounting in aggregate to approximately RMB3,862,000. All advances and payments have been settled by Boluo. The advances and payments were not on arm's length terms as they were unsecured, had no fixed terms and were interest-free.

This is a related party transaction because Boluo and ZKTY were related parties at the time because:

- (i) at the time of the transactions, GZTY Regeneration Resources held 51% of the issued share capital of Boluo and Guangzhou Baojie held 49% of the issued share capital of Boluo. For the reasons given in paragraphs 9.1.1 and 9.1.2 respectively above GZTY Generation Resources and Guangzhou Baojie were related parties of ZKTY/the Company at the time;
- (ii) Yu Weijun (a Director and shareholder of the Company, which in turn owns ZKTY) was a director of Boluo at the time of the transactions;
- (iii) Tang Zhaoxing (a Director and shareholder of the Company, which in turn owns ZKTY and a director of ZKTY) was a director of Boluo at the time of the transactions;
- (iv) Jiang Xinchun (a shareholder of the Company and who at the time of the transaction was also a director of the Company, which in turn owns ZKTY) was a director of Boluo at the time of the transactions.

- 9.1.4 Since 1 January 2007, Boluo has manufactured products and equipment for ZKTY pursuant to framework contracts that provide that Boluo will fabricate equipment and pressure vessels exclusively for ZKTY. The contracts are not on arm's length terms.

This is a related party transaction because Boluo and ZKTY were related parties from 1 January 2007 until 14 October 2010 (for the reasons given in paragraph 9.1.3 above), when ZKTY acquired the entire issued share capital of Boluo.

- 9.1.5 On 14 October 2010 ZKTY acquired 51% of the share capital of Boluo from GZTY Regeneration Resources and 49% of the share capital of Boluo from Guangzhou Baojie for RMB3,110,286 and RMB2,988,314 respectively, pursuant to a share transfer agreement dated 28 September 2010. The price was based on an evaluation report prepared by Guangdong Dezhong Evaluation Co., Ltd. and the Directors believe that it reflects the fair market value of the shares. Payment has been made in full.

This is a related party transaction because ZKTY was a related party to each of Boluo, GZTY Regeneration Resources and Guangzhou Baojie at the time of the transaction for the reasons given in paragraph 9.1.3 (in respect of Boluo), paragraph 9.1.1 (in respect of GZTY Regeneration Resources) and paragraph 9.1.2 (in respect of Guangzhou Baojie) respectively above.

- 9.1.6 On 5 February 2009 GZTY Regeneration Resources, Tongliao ZhongKe Tian Yuan Starch Chemical Co., Ltd. ("Tongliao Starch") and ZKTY entered into a settlement agreement, pursuant to which GZTY Regeneration Resources transferred certain research and development equipment and the rights to patent application number 200810218641.9 to ZKTY in full satisfaction of the outstanding amount due from Tongliao Starch to ZKTY under an equipment purchase and installation contract between Tongliao Starch and ZKTY dated 8 October 2006.

This is a related party transaction because:

- (i) at the time the equipment purchase and installation contract between Tongliao Starch and ZKTY was entered on 8 October 2006 until October 2008, Tongliao Starch and ZKTY were related parties because:

- (a) GZTY Regeneration Resources held 20% of the issued share capital of Tongliao Starch. GZTY Regeneration Resources was a related party of ZKTY for the reasons given in paragraph 9.1.1 above; and
- (b) Guangdong Tianwei Investment Co., Ltd. held 20% of the issued share capital of Tongliao Starch. Yu Weijun (who is (and at the time of the transaction was) a Director and shareholder of the Company, which in turn owns ZKTY) holds 90% of the issued share capital of Guangdong Tianwei Investment Co., Ltd.

Tongliao Starch ceased to be a related party of ZKTY in October 2008, when an unrelated party acquired 100% of the issued share capital of Tongliao Starch;

- (ii) GZTY Regeneration Resources and ZKTY are related parties for the reasons given in paragraph 9.1.1 above.

9.1.7 ZKTY loaned RMB1,500,000 to Tongliao Starch from 29 October 2007 to 31 December 2008 pursuant to a written agreement dated 29 October 2007, which amount has been fully repaid. The loan was not on arm's length terms as it was unsecured, had no fixed terms and was interest-free.

This is a related party transaction because at the time ZKTY and Tongliao Starch entered into the loan arrangement, they were related parties for the reasons given in paragraph 9.1.6(i) above.

10. Working capital

- 10.1 The Directors are of the opinion that, having made due and careful enquiry and having regard to the net proceeds receivable from the Placing, the working capital available to the Company will be sufficient for its present requirements, that is for at least the next twelve months from the date of Admission.

11. Litigation

- 11.1 No member of the Group is or has been involved in any governmental, legal or arbitration proceedings which may have or have had during the last twelve months preceding the date of this Document, a significant effect on the financial position or profitability of the Company and/or the Group nor, so far as the Company is aware, are any such proceedings pending or threatened.

12. Intellectual property

12.1 Patents

12.1.1 Issued patents

ZKTY is the registered owner of the following patents issued by the State Intellectual Property Office of the PRC.

Title of Patent	Patent number	Effective Term
Five tower differential pressure distillation equipment and process for producing alcohol	ZL 2005 10035598.9	20 years from 30 June 2005
Six tower differential pressure distillation equipment and process for producing superfine-grade edible alcohol	ZL 2006 10035346.0	20 years from 30 April 2006
Thick mash fermentation process for mixed material in alcohol production	ZL 2006 100354529	20 years from 12 May 2006
Fermentation tank with horizontal clapboards for alcohol production	ZL 2005 100362041	20 years from 28 July 2005

Note: ZKTY acquired the rights to the above-mentioned patents from GZTY Regeneration Resources pursuant to various agreements dated 12 July 2007.

12.1.2 Patent applications

The following patent applications have been filed with the State Intellectual Property Office of the PRC in the name of the Company and are currently pending approval:

Title of Patent	Application Number
Equipment and process of producing anhydrous alcohol with fermented mash as material	2008100280473
Equipment and process for producing ethylene from ethanol ¹	2007100269798
Dehydration equipment and process for producing fuel ethanol ¹	2006100359503
Five tower two-stage differential pressure distillation equipment and process for superfine-grade edible alcohol ²	2007100305508
Differential pressure distillation of molasses-based alcohol and wastewater concentration and thermal coupling	2008100256224
A carrier and making method for micro-organism fixation ¹	200810218641.9
A production method with the united fermentation of biobutanol and bioethanol	200910192761.0
Six tower differential pressure distillation equipment and process for producing superfine-grade edible alcohol	200910194089.9
Distillation and Dehydration Equipment and Process for Combined Production of Fuel Ethanol and Normal-grade Edible Alcohol	201010545523.6
Distillation and Dehydration Equipment for Combined Production of Fuel Ethanol and Normal-grade Edible Alcohol	201020608595.6
Equipment and Method for Ethanol Recovery with Low-pressure Three-effect Rectification	201010595965.1
Multi-tube-bundle Anti-blocking Tube-shell Heat Exchanger	201020661563.2
An equipment and Method for Material Acidization and De-dusting in Ethanol Production	201010587458.3
A Vertical Continuous Fermentation Tank for Ethanol	201020666097.7

Note¹: ZKTY acquired the rights to these patent applications from GZTY Regeneration Resources pursuant to various agreements dated 12 July 2007 and 23 January 2009 respectively.

Note²: ZKTY acquired the rights to this patent application from Guangzhou Baojie pursuant to an agreement dated 18 June 2009.

12.2 Other than the patents mentioned in paragraph 12.1 above, the Group has confirmed that it does not own any other registerable or non-registerable intellectual property rights.

12.3 Other than the patent transfer agreements referred to in paragraph 12.1 above and the agreements with ButylFuel LLC and Songyuan Laihe Chemicals Co., Ltd referred to in paragraphs 8.14 and 8.15

respectively above, the Group has confirmed that it has not entered into any licensing or other arrangements in respect of intellectual property rights with any third parties.

- 12.4 For the purpose of compliance with AIM Rule 26, the Company's website is www.chinanewenergy.co.uk.

13. Summary of premises and principal establishment

- 13.1 The Group's principal establishments are located at:

13.1.1 2/F west and 8/F, Technology Integration Building of GIEC, No. 4, Nengyuan Road, Wushan, Tianhe District, Guangzhou, RPC. The premises are owned by Guangzhou Energy Research Institute of Chinese Academy of Science and leased to the Company until 31 December 2011 at a current rental of RMB27,325 per month.

13.1.2 3rd Floor, New Energy Building (experimental building), No. 81, Xianliezhong Road, Guangzhou, PRC. The premises are owned by Guangzhou Energy Research Institute of Chinese Academy of Science and leased to the Company until 31 December 2011 at a current rental of RMB20,766 per month.

13.1.3 Room 210, 2nd Floor, No. 80 Lanyue Road, Science Town, High & New Technology Industry Development Zone, Guangzhou. The premises are owned by Guangzhou Yonglong Construction and Investment Co., Ltd and leased to the Company until 31 December 2012 at a monthly rental of RMB1,734.30.

13.1.4 The 13.333m³ premises at Continental High & New Technology Industry Development Zone, Boluo, Guangdong Province, PRC. The premises are owned by Boluo.

14. Comparison of Jersey law and UK law

There are a number of differences between company law in England and company law in Jersey, which may impact upon the holders of Ordinary Shares. However, where permitted by the Companies Law and considered to be appropriate, rights and protections similar to those provided to shareholders under English law have been conferred on holders of Ordinary Shares by the Articles, including as described in the summary of certain provisions of the Articles set out in paragraph 7 of this Part V.

Key differences between company law in England and company law in Jersey include (without limitation) the following:

- (a) the Companies Law does not confer statutory pre-emption rights on shareholders relating to new share issues; however, pre-emption rights broadly based on the provisions of the Companies Act 1985 have been enshrined in the Articles;
- (b) under the Companies Law, the directors of a company do not need the sanction of the shareholders to issue and allot shares; however, the requirement to obtain such sanction has been enshrined in the Articles;
- (c) Jersey law allows for partly paid shares to be allotted even if they are not paid up to at least one quarter of its nominal value;
- (d) any increase in the authorised share capital of the Company requires a special resolution (two-thirds majority) rather than an ordinary resolution (a simple majority);
- (e) under the Companies Law a special resolution is required to be passed by two-thirds of shareholders present (in person or by proxy) at the relevant meeting, compared with a three-quarters majority required under English law. Thus, for example, a buy-back of shares requiring

the sanction of a special resolution will only require a two-thirds majority instead of a three-quarters majority. It is, however, possible under Jersey law for a company to specify in its articles of association a greater majority than two-thirds of the shareholders for passing of a special resolution, if it so wishes;

- (f) the circumstances in which the Companies Law permits a Jersey company to indemnify its directors in respect of liabilities incurred by its directors in carrying out their duties are limited, and differ slightly to the analogous rules under English law. There is, however, no general prohibition on the granting of loans by a company to its directors (but directors remain subject to fiduciary duties when considering the grant of any such loans) and any costs incurred in defending any proceedings which relate to anything done or omitted to be done by that director in carrying out his duties may be funded by way of loans;
- (g) Jersey law/does not require that shareholders approve compensation payments made to directors for loss of office, whereas under English law a payment by a company for loss of office to a director of a company or its holding company must be approved by a resolution of shareholders;
- (h) unless the articles of association of a public company provide otherwise, proxies are not entitled to speak or vote on a show of hands under Jersey law. Jersey law does not permit the appointment of more than one corporate representative by a member in respect of the same shareholding;
- (i) any general meeting of a Jersey company may be convened on 14 days' notice (rather than 21 days' notice required under English law in certain circumstances, including for the passing of a special resolution);
- (j) the Companies Law does not require the directors of a Jersey company to disclose to the company their beneficial ownership of any shares in the company (although they must disclose to the company the nature and extent of any direct or indirect interest which conflicts, or may conflict to a material extent with, a transaction into which the company or any of its subsidiaries is proposing to enter). However, as a London-listed company, the Company and all shareholders in the Company will be required to comply with the Disclosure and Transparency Rules issued by the Financial Services Authority which contain such requirements (Chapter 3 of the Disclosure and Transparency Rules require the disclosure of such interests by the directors);
- (k) the Companies Law does not grant the directors of a Jersey company a statutory power to request information concerning the beneficial ownership of shares, but powers based on section 793 of the Companies Act 2006 have been incorporated into the Articles entitling the Directors to request information to establish details of interests in shares in the Company;
- (l) under the Companies Law, shareholders holding not less than one-tenth of the total voting rights of the shareholders of the Company may requisition a meeting of shareholders (whereas under the Companies Act 2006, this right may be exercised by shareholders representing at least 10 per cent., of the paid up voting capital of a company);
- (m) the Companies Law does not confer on members the right to an independent scrutiny of a poll taken, or to be taken, at a general meeting, nor does it confer rights on members to require a company to circulate resolutions proposed to be moved by members at the next annual general meeting, or to circulate explanatory statements relating to any matter relating to a proposed resolution at a general meeting, or rights for a nominee holder of shares to have information rights granted to the underlying beneficial owner of the share;
- (n) there is no restriction on donations by a company to political organisations under Jersey law;

- (o) under the Companies Law, at a meeting of shareholders a poll may be demanded in respect of any question by: (i) no fewer than five shareholders having the right to vote on the question; or (ii) a shareholder or shareholders representing not less than one tenth of the total voting rights of all shareholders having the right to vote on the question (whereas, under the Companies Act 2006, a shareholder or shareholders representing 10 per cent., of the total sum paid up on all shares giving the right to vote may also demand a poll);
- (p) Jersey companies are permitted to make distributions to shareholders without reference to distributable reserves. Instead, distributions may be made out of a company's assets (other than its nominal capital account or any capital redemption reserve), provided the directors approving the distribution give the appropriate solvency statement required by the Companies Law (to the effect that the company will be able to continue its business and meet its liabilities as they fall due for the next 12 months);
- (q) a Jersey company's redeemable shares may be redeemed out of any capital source which, in particular, allows shares to be redeemed in whole or in part out of share capital accounts without the need for capital redemption reserves, provided such shares are fully paid up and the directors give the appropriate solvency statement required by the Companies Law (to the effect that the Company will be able to continue its business and meet its liabilities as they fall due for the next 12 months);
- (r) a Jersey company may, by special resolution, apply a capital redemption reserve in issuing shares to be allotted as fully paid bonus shares;
- (s) under Jersey law, it is harder for shareholders to bring a derivative claim against a company than is the case under the Companies Act 2006. However, Jersey law includes an equivalent provision relating to protection of shareholders against unfair prejudice (which, in English law, has not changed substantially between the Companies Act 1985 and the Companies Act 2006) and Jersey has (subject to certain exceptions) a broadly similar position under customary law to the common law position under English law;
- (t) under Jersey law, the two procedures for dissolving a Jersey company are winding up and desastre. Concepts such as receivership, administration and voluntary arrangements do not exist under Jersey law. The concept of a winding up is broadly similar to that under English law, except that under Jersey law, a winding up may only be commenced by the Jersey company and not by one of its creditors. If the company is solvent the winding up will be a summary winding up. If the company is insolvent, the winding up will be a creditors' winding up. A creditor wishing to dissolve a Jersey company would seek to have the company's property declared en desastre (literally meaning "in disaster"). If the company's property is declared en desastre, all of the powers and property of the company (whether present or future or situated in Jersey or elsewhere) are vested in the Viscount (an officer of the court). The role of the Viscount is similar to that of a liquidator. The Viscount's principal duty is to act for the benefit of the company's creditors. He is not under an obligation to call any creditors' meetings, although he may do so; and
- (u) the Companies Law restricts indemnities or exemptions from liability given by Jersey companies to their directors and officers. In general, directors and officers of a Jersey company cannot be exempt from or receive an indemnity in respect of any liability which would otherwise attach to that director or officer of the company. There are exemptions to this restriction, in particular in respect of proceedings where the director or officer is not held liable or the matter is discontinued, where the director or officer acted in good faith in the best interests of the company and in respect of any liability for which the company normally maintains insurance. The Articles provide that a director, alternate director, secretary or other officer may be indemnified out of the assets of the Company to the extent that this is legally

permissible under the Companies Law and subject to the rules made by London Stock Exchange in connection with AIM (or by the competent authority of any other regulated market or other stock exchange on which the shares of the Company may be listed).

This list is intended to be illustrative only and does not purport to be exhaustive or to constitute legal advice. Any shareholder wishing to obtain further information regarding his rights as a holder of Ordinary Shares under Jersey law should consult his Jersey legal advisers.

Following and subject to Admission, the Company will be required to comply with the AIM Rules for Companies (including rules relating to related party transactions, and significant transactions) and the Disclosure and Transparency Rules. In certain of the instances where the AIM Rules for Companies and the Disclosure and Transparency Rules apply differently to an overseas company, provision has been made in the Articles to apply the rules as if the Company was a company incorporated in the UK.

The Company has adopted those elements of the Model Code which the Directors consider appropriate to a Company of its size whose shares are traded on AIM.

It should be noted that insider dealing legislation set out in the UK Criminal Justice Act 1993, as well as provisions relating to market abuse, will apply to the Company and dealings with Ordinary Shares, alongside the relevant provisions of Jersey law.

15. Taxation

UK taxation

(a) *Tax treatment of the Company*

The following information is based on the law and practice currently in force in the UK.

Provided that the Company is not resident in the UK for taxation purposes and does not carry out any trade in the UK (whether or not through a permanent establishment situated there), the Company should not be liable for UK taxation on its income and gains, other than in respect of interest and other income received by the Company from a UK source (to the extent that it is subject to withholding taxes in the UK).

It is the intention of the Directors to conduct the affairs of the Company so that the central management and control of the Company is not exercised in the UK in order that the Company does not become resident in the UK for taxation purposes. The Directors intend, insofar as this is within their control, that the affairs of the Company are conducted so the Company is not treated as carrying on a trade in the UK through a permanent establishment.

(b) *Tax treatment of UK investors*

The following information, which relates only to UK taxation, is applicable to the Company and to persons who are resident or ordinarily resident in the UK and who beneficially own Ordinary Shares as investments and not as securities to be realised in the course of a trade. It is based on the law and practice currently in force in the UK. The information is not exhaustive and potential investors:

- who intend to acquire, or may acquire (either on their own or together with persons with whom they are connected or associated for tax purposes), more than 10 per cent., of any of the classes of shares in the Company; or
- who intend to acquire Ordinary Shares as part of tax avoidance arrangements; or
- who are in any doubt as to their taxation position,

should consult their professional advisers without delay. Investors should note that tax law and interpretation can change and that, in particular, the levels, basis of and reliefs from taxation may change. Such changes may alter the benefits of investment in the Company.

Shareholders who are neither resident nor ordinarily resident nor temporarily non-resident in the UK and who do not carry on a trade, profession or vocation through a branch, agency or permanent establishment in the UK with which the Ordinary Shares are connected will not normally be liable to UK taxation on dividends paid by the Company or on capital gains arising on the sale or other disposal of Ordinary Shares. Such Shareholders should consult their own tax advisers concerning their tax liabilities.

(c) *Dividends*

Where the Company pays dividends, Shareholders who are resident in the UK for tax purposes will, depending on their circumstances, be liable to UK income tax or corporation tax on those dividends.

Shareholders who are individuals, depending on their circumstances, should be entitled to a UK tax credit in respect of any dividend paid. The tax credit will equal one ninth of the amount of dividend paid (including any withholding tax imposed). The income tax payable in respect of the dividend will be based on the amount of dividend paid (including any withholding tax imposed) plus the UK tax credit multiplied by the relevant income tax rate. The individual should be entitled to deduct the UK tax credit and any withholding tax imposed from the income tax payable. However, if the income tax payable is less than the UK tax credit plus any withholding tax, the excess can not be used against any other income tax liability.

Shareholders who are subject to corporation tax should be able to claim exemption from UK corporation tax in respect of any dividend received but should not be entitled to claim relief in respect of any underlying tax or withholding tax imposed.

(d) *Disposals of Ordinary Shares*

Any gain arising on the sale, redemption or other disposal of Ordinary Shares will be taxed at the time of such sale, redemption or disposal as a capital gain.

For Shareholders within the charge to UK corporation tax, indexation allowance may reduce any chargeable gain arising on disposal of Ordinary Shares but will not create or increase an allowable loss.

(e) *Further information for Shareholders subject to UK income tax and capital gains tax*

The attention of individuals ordinarily resident in the UK is drawn to the provisions of Chapter 2 (Transfer of Assets Abroad) of Part 13 of the Income Tax Act 2007, which may render such individuals liable to tax in respect of undistributed profits of the Company in certain circumstances.

(f) *Controlled foreign companies*

The attention of corporate shareholders resident in the UK is drawn to the provisions of Chapter IV (Controlled Foreign Companies) of Part XVII of the Income and Corporation Taxes Act 1988, which may render companies with a 25 per cent., assessable interest in the Company liable to tax in respect of undistributed profits of the Company in certain circumstances.

(g) *Stamp Duty and Stamp Duty Reserve Tax*

The following comments are intended as a guide to the general UK Stamp Duty and Stamp Duty Reserve Tax ("SDRT") position and do not relate to persons such as market makers,

brokers, dealers, intermediaries and persons connected with depository arrangements or clearance services, to whom special rules apply.

No UK Stamp Duty or SDRT will be payable on the issue of the Ordinary Shares. UK Stamp Duty (at the rate of 0.5 per cent., rounded up where necessary to the next £5 of the amount of the value of the consideration for the transfer, provided that no UK Stamp Duty is payable if the value of the consideration is £1,000 or less) is payable on any instrument of transfer of Ordinary Shares executed within, or in certain cases brought into, the UK. On the basis that the Company is incorporated in Jersey, SDRT should not be chargeable on transfers of Ordinary Shares carried out through CREST, provided that they are not registered in any register of the Company kept in the UK.

Jersey taxation

(a) Taxation of the Company

All Jersey companies are subject to the zero/ten taxation regime, under which the general rate of income tax charged on a company's taxable profits will be 0 per cent., unless the company is a financial services company, to which the corporate rate of tax of 10 per cent., will apply.

The Company is not a financial services company, hence it will be subject to a corporate tax rate of 0 per cent. It is possible that the current tax regime applicable in Jersey may be amended and the Company could become subject to taxation in Jersey.

In late 2009, it was reported that concerns had been raised by some members of the ECOFIN Code of Conduct group as to whether the current "Zero/Ten" tax regime for companies in Jersey could be interpreted as being outside the spirit of the EU Code of Conduct for Business Taxation. The Treasury and the Resources Minister of the States of Jersey confirmed in his budget speech on 8 December 2009 that the Zero/Ten tax regime in Jersey had not been found to be non-compliant with the Code of Conduct. The Minister has also announced a review of business taxation in Jersey. Although the Minister stated in his budget speech that he understood the fundamental importance of tax neutrality to Jersey's financial services industry and the requirement that this be maintained, the outcome of this review cannot at this time be predicted. Following the review there is, therefore, the possibility that the current taxation regime applicable in Jersey may be amended and, as a result, certain companies which are currently subject to tax at zero rate, including the Company, could be subject to taxation in Jersey at a rate of more than zero.

(b) Taxation of Jersey shareholders

Currently in Jersey there is the statutory requirement for the Company to deduct income tax from dividends paid to Jersey resident shareholders and to account for such income tax deducted to the Comptroller of Income Tax. Furthermore, the Company is required to make a return to the Comptroller, on request, of the names and addresses of all Jersey resident shareholders.

A Jersey resident shareholder may be able to reclaim the Jersey tax suffered by the Company to the extent that their personal tax liability in respect of the dividend is exceeded by the Jersey tax credit associated with the dividend.

Jersey resident shareholders are subject to a tax regime called zero/ten. Under the provisions of the zero/ten regime a Jersey resident individual who owns, directly or indirectly, more than 2 per cent., of the ordinary share capital in a Jersey trading company is liable to pay tax on deemed interim dividends. A Jersey trading company is a company which is taxed at 0 per cent., and which is not a company subject to full attribution (pursuant to Article 85F of the Income Tax (Jersey) Law 1961, as amended) or a collective investment fund (within the meaning of the

Collective Investment Funds (Jersey) Law 1988). The liability to pay tax on deemed interim dividends arises where the amount of cash dividends paid and stock dividends issued by the company out of its relevant profits chargeable under Schedule D of the Income Tax (Jersey) Law 1961, at 0 per cent., is less than 60 per cent., of the amount of the relevant profits.

Under Article 88(4) of the Income Tax (Jersey) 1961, as amended, when a dividend is declared out of profits or gains charged to tax on the Company at the rate of 0 per cent., the Company shall not be entitled, when paying the dividend, to make any deduction from it in respect of tax.

Under current Jersey law there are no death duties, gift, wealth, inheritance or capital transfer taxes.

No stamp duty is levied in Jersey on the issue, transfer, conversion or redemption of shares. In the event of the death of a sole holder of Ordinary Shares probate duty at a rate of up to 0.75 per cent., of the value of the shares at the time of death is levied in Jersey on grants of probate and letters of administration, save where the condition for small estates exemption (not exceeding £10,000) is satisfied.

The attention of shareholders who are resident in Jersey is drawn to the provisions of Article 134A of the Income Tax (Jersey) Law 1961, as amended, under which the Comptroller may, in certain circumstances, make an assessment or additional assessment on that person as the Comptroller considers appropriate to counteract avoidance or reduction of tax liability.

The foregoing summary does not address tax considerations which may be applicable to certain Shareholders under the laws of jurisdictions other than the UK and Jersey. However, non-Jersey Shareholders should note that under Article 118B of the Income Tax (Jersey) Law 1961, as amended distributions made by the Company to Shareholders not resident in Jersey are exempt from income tax under Schedule D.

The Company has no present plans to apply for any certifications or registrations, or to take any other actions under the laws of any jurisdictions which would afford relief to local investors therein from the normal tax regime otherwise applicable to an investment in Ordinary Shares. It is the responsibility of all persons interested in purchasing the Ordinary Shares to inform themselves as to any income or other tax consequences arising in the jurisdictions in which they are resident or domiciled for tax purposes, as well as any foreign exchange or other fiscal or legal restrictions, which are relevant to their particular circumstances in connection with the acquisition, holding or disposition of the Ordinary Shares.

Any person who is in any doubt as to their tax position, and in particular any person who is subject to taxation in a jurisdiction other than the United Kingdom, is strongly advised to consult an appropriate professional adviser.

16. Share dealing code

- 16.1 The Directors intend to comply with Rule 21 of the AIM Rules for Companies relating to Directors' and applicable employees' dealings in Ordinary Shares and to this end, the Company has adopted an appropriate share dealing code, the details of which are set out below.
- 16.2 The Share Dealing Code provides that, in accordance with the AIM Rules for Companies, a Director cannot deal in the Company's Ordinary Shares in the following circumstances:
 - (a) during the two month period prior to notification of the Company's annual results and half-yearly results; during the one month period prior to the notification of its quarterly results or, if shorter, the period from the relevant financial period end up to and including the time of notification;

- (b) whilst the Company is in possession of unpublished price-sensitive information; or
 - (c) at any other time when it has become reasonably probable that such information will be required to be notified to a regulatory information service under the AIM Rules for Companies.
- 16.3 The Company will also be subject to UK legislation prohibiting market abuse and insider dealing under the FSMA. Guidance notes on the market abuse regime are set out in full in the Share Dealing Code.

17. Consents

- 17.1 Cairn Financial Advisers LLP of 61 Cheapside, London, EC2V 6AX, United Kingdom is a member of the London Stock Exchange and is authorised and regulated by the FSA. Cairn has given and has not withdrawn its written consent to the issue of this Document with the inclusion of its name and references to it in the form and contexts in which it appears.
- 17.2 SVS Securities PLC of 21 Wilson Street, London EC2M 2SN, United Kingdom is a member of the London Stock Exchange and is authorised and regulated by the FSA. SVS has given and has not withdrawn its written consent to the issue of this Document with the inclusion of its name and references to it in the form and contexts in which it appears.
- 17.3 Crowe Clark Whitehill LLP of St. Bride's House, 10 Salisbury Square, London, EC4Y 8EH, United Kingdom is a chartered accountant regulated by the Institute of Chartered Accountants in England and Wales. Crowe Clark Whitehill LLP has given and has not withdrawn its written consent to the issue of this Document with the inclusion of its name and references to it in the form and contexts in which it appears.
- 17.4 Jingtian & Gongcheng of Room 2401-2402, New World Center, 6009 Yitian Road, Futian District, Shenzhen, 518026 China is a law firm in China. Jingtian & Gongcheng has given and has not withdrawn its written consent to the issue of this Document with the inclusion of its name and references to it in the form and contexts in which it appears.
- 17.5 Stephenson Harwood of 1 Finsbury Circus, London EC2M 7SH is a law firm regulated in the United Kingdom by the Solicitors Regulation Authority. Stephenson Harwood has given and has not withdrawn its written consent to the issue of this Document with the inclusion of its name and references to it in the form and contexts in which it appears.
- 17.6 Appleby of PO Box 207, 13-14 Esplanade, St. Helier, Jersey, JE1 1BD, Channel Islands is a law firm in the Channel Islands. Appleby has given and has not withdrawn its written consent to the issue of this Document with the inclusion of its name and references to it in the form and contexts in which it appears.

18. Significant Change

- 18.1 Save for the Placing and as disclosed in this Document, there has been no significant change in the financial or trading position of the Group since 31 December 2010, being the date to which the unaudited results of the Group for the year ended 31 December 2010 were made up.

19. General

- 19.1 The total costs and expenses payable by the Company in cash in connection with or incidental to the Admission, including London Stock Exchange fees, printing and advertising and distribution costs, legal and accounting fees and expenses are estimated to amount to approximately £600,000, excluding the monetary value of shares issued as set out in paragraph 8.4 above.

- 19.2 Save as disclosed in this Part V of this Document, no person (excluding professional advisers otherwise disclosed in this Document and trade suppliers and counterparties of contracts being in the ordinary course of business) has received directly or indirectly from the Company, within the twelve months preceding the date of this Document; or entered into contractual arrangements (not otherwise disclosed in this Document) to receive, directly or indirectly, from the Company on or after Admission any of the following:
- 19.2.1 fees totalling £10,000 or more;
 - 19.2.2 securities where these have a value of £10,000 or more calculated by reference to the Placing Price; or
 - 19.2.3 any other benefit with a value of £10,000 or more at the date of Admission.
- 19.3 Information in this Document which has been sourced from third parties has been accurately reproduced and, so far as the Company is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.
- 19.4 Save as disclosed in this Document, the Directors are unaware of any exceptional factors which have influenced the Company's activities.
- 19.5 Save as disclosed in this Document, the Directors are unaware of any environmental issues that may affect the Group's utilisation of its tangible fixed assets.
- 19.6 Save as disclosed in this Document, the Directors are unaware of any trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the Group's prospects for the current financial year.
- 19.7 Save as disclosed in this Document, there are no investments in progress and there are no future investments in respect of which the Directors have already made firm commitments which are significant to the Group.
- 19.8 Save as disclosed in this Document, there are no other intellectual property rights, know-how, licences or other intellectual property and/or know-how related contracts that are of fundamental importance to the Company's business.
- 19.9 The current accounting reference period of the Company will end on 31 December 2011.
- 19.10 The Company failed to file consolidated financial statements for the financial years ended 31 December 2006, 2007, 2008 and 2009 with the Jersey Companies Registry within the stipulated time period and failed to lay the respective accounts before annual general meetings within the stipulated time period. The Company has now filed the relevant accounts and has also laid the relevant accounts before annual general meetings. The Company paid late filing fees of £825 in respect of the 2006, 2007, 2008 and 2009 accounts.
- 19.11 No financial information contained in this Document is intended by the Company to represent or constitute a forecast of profits by the Company nor to constitute publication of accounts by it.
- 19.12 The Directors are not aware of any other information that they should reasonably consider as necessary for the investors to form a full understanding of (i) the assets and liabilities, financial position, profits and losses, and prospects of the Company and the securities for which Admission is being sought; (ii) the rights attached to those securities; and (iii) any other matter contained herein.

- 19.13 There are no mandatory takeover bids and/or squeeze-out and sell-out rules in relation to the Ordinary Shares.
- 19.14 No public takeover bids have been made by third parties in respect of the Company's issued share capital in the current financial year nor in the last financial year.
- 19.15 No underwriter is involved with the Placing. No paying agents are involved with the Placing.
- 19.16 There are no shares in the Company that are held by or on behalf of the Company itself or by any subsidiary of the Company.
- 19.17 Save for the warrants granted to Citadel and Cairn detailed in paragraphs 8.7 and 8.8 respectively of Part V of this Document, no undertakings have been given to increase the authorised but unissued share capital of the Company.
- 19.18 Save for the information set out in Part IV of this Document no other audited information is included in this Document.

20. Documents available for inspection

- 20.1 Copies of this Document will be available for inspection during normal business hours on any weekday (except public holidays) at the offices of:
- 20.1.1 Stephenson Harwood, 1 Finsbury Circus, London EC2M 7SH, England;
- 20.1.2 the Company, Queensway House, Hilgrove Street, St. Helier, Jersey JE1 1ES; and
- 20.1.3 Jingtian & Gongcheng Attorneys at Law, Room 2401-2402, New World Centre, 6009 Yitian Road, Futian District, Shenzhen, RPC.
- 20.2 Copies of the following documents will be available for inspection during normal business hours on any weekday (except public holidays) at the offices of Stephenson Harwood, 1 Finsbury Circus, London EC2M 7SH, England for a period of fourteen days from the date of this Document:
- 20.2.1 the Memorandum and Articles of the Company;
- 20.2.2 audited financial statements of the CNE Group for each of the three years ended 31 December 2009;
- 20.2.3 the Accountants' Report set out in Part III, the proforma statement of consolidated net assets set out in Part IV and the letter from the Accountants set out in Part IV of this Document;
- 20.2.4 the letters of consent referred to in paragraph 17 above;
- 20.2.5 the material contracts referred to in paragraph 8 above;
- 20.2.6 the Directors' contracts and letters of appointment referred to in paragraph 6 above; and
- 20.2.7 the employee benefit trust deed.

18 May 2011

