CHINA NEW ENERGY LIMITED

Company Registration No. 93306 (Jersey)

CHINA NEW ENERGY LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

COMPANY INFORMATION

Directors	Yu Weijun	Executive Chairman
	Tang Zhaoxing	Chief Executive Officer
	Chen Yong	Non-Executive Director
	Richard Bennett	Non-Executive Director
Company secretary	Computershare Company Secretarial Services (Jersey) Limited	
Registered office	Queensway House Hilgrove Street St Helier JE1 1ES	
Business address	8 Floor, Technology Integration Building of GIEC, No 4, Nengyuan Rd, Wushan, Tianhe District, Guangzhou 510640 P.R. China	
Registered number	93306 (Jersey)	
Auditors	UHY Hacker Young LLP Quadrant House 4 Thomas More Square London E1W 1YW	
Nominated adviser	Cairn Financial Advisers LLP 61 Cheapside London EC2V 6AX	
Broker	SVS Securities plc 21 Wilson Street London EC2M 2SN	
Registrars	Computershare Investor Services (Jersey) Limited Queensway House Hilgrove Street St. Helier Jersey JE1 1ES	
Website	http://www.chinanewenergy.co.uk/	

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CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012

I am pleased to present the annual report and financial statements of China New Energy Limited (the "Company" or "CNE") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2012.

Financial Review

For the year ended 31 December 2012, the Group's total revenues decreased by approximately 18.1% from RMB178 million to RMB146 million, but I am pleased to report that our profit before tax increased by 1.5% from RMB25.8 million to RMB26.2 million ensuring that the Group's overall performance remained steady.

The past year was challenging for the Group's core EPC (Equipment, Procurement and Construction) business. This was mainly due to a depressed ethanol price and lower demand for ethanol related products during the period, which in-turn delayed the capital expenditure of ethanol producers. However, the group did succeed in securing new contracts in 2012 to a total value of RMB 166.6 million, down only 2.6% from RMB171 million in 2011.

The gross profit for the year had decreased by approximately 36.4% from RMB40.9 million to RMB26.0 million. This was mainly due to lower gross margin on this year's EPC contracts, and a cost overrun on the Thailand Ubon Ratchathani Project ("UBBE project") that was mostly attributed to the flooding in Thailand.

I am pleased to report that we successfully reached an agreement with one of the company's overdue trade accounts in Songyuan, which was previously written off, whereby they paid off RMB30 million debts with 2.86% of their share capital to the Group, this contributes the increased of the bad debt write back during the year.

FY2012 profit after tax maintained at the similar level of RMB22 million as compared to FY2011.

Operational Review

The Group principally provides EPC (Equipment, Procurement and Construction) services and VAS (Value Added Service) to ethanol and biobutanol producers. The revenue from EPC contracts during the period was more than 95% of the company's total revenue. The board recognises that there is significant potential to expand our VAS business, and is implementing strategies that will increase revenues from the provision of value added services.

CNE established a strategic partnership with Jilin Ethanol Industrial Group Company ("JEIC") in 2011. JEIC was specifically formed in 2011 to amalgamate a number of inefficient state-owned ethanol producers in Jilin Province. JEIC currently has an annual corn processing capacity of 2,000,000 tons, annual ethanol production capacity of 600,000 tons and a 25% shareholding in a further 500,000 tons of annual biofuel grade ethanol capacity. JEIC is targeting to increase its own annual production of ethanol to 1,000,000 tons by 2013, thereby becoming the largest ethanol producer in Asia.

As a result of our strategic partnership, in 2012, Guangdong Zhongke Tianyuan New Energy Science and Technology Co., Ltd ("ZKTY"), the Company's wholly owned operating subsidiary in China, won a RMB73 million (£7.7 million) contract from JEIC to reconstruct and improve the technology in one of their ethanol refineries. ZKTY will also supply the key equipment to expand their ethanol capacity to 350,000 tons per year.

During the year, we spent a lot of human resource on the UBBE project in Thailand to complete the agreement that we secured in 2011. Many of our best engineers worked on this project in order to deliver outstanding performance to the client to ensure we are considered for future contracts. At the end of December 2012, the construction and installation was completed, and some of our engineers are currently optimising the ethanol production at the biorefinery as part of an on-going VAS commitment.

The projects mentioned above are the two largest projects implemented during the financial year. The Group also implemented more than 10 other projects for Chinese customers in 2012. The total contracted value was RMB167 million. Given the current economic environment, the board are pleased with this achievement and believe our customers continue to value our technology and services.

Research & development

CNE is a provider of first generation ethanol and butanol refinery technology, and mostly our clients use feedstock such as corn, cassava and sugar cane. A major goal of our industry is to commercialise second-generation technology that converts cellulosic biomass (agricultural waste) into fuel grade ethanol and butanol. During the period, ZKTY's R&D centre made significant progress in developing new processes that will help achieve that goal.

One of the most significant is a new feedstock pre-treatment process that reduces the cellulosic biomass to its basic chemical components. This uses a unique combination of acid, steam and other specific catalysts (such as ionic liquids) followed by enzymatic digestion of cellulose and/or hemicelluloses. As a direct result of this innovation, ZKTY is now able to offer our clients process technologies that ferment raw cellulosic biomass feedstock, such as corn stover or bagasse, to produce valuable Acetone, Butanol and Ethanol (commonly known as "ABE") as well as biogases.

ZKTY is now in the process of scaling-up the technology at Asia's largest ABE plant in Songyuan. This is an important customer, of which the Group now owns 2.86%, who will play a crucial role in the testing and commercialisation of ZKTY's second-generation technology.

Our primary goal remains to commercialise second-generation biochemical technology platforms that produce biofuel using the biological conversion of sustainable and low-cost cellulosic biomass.

Outlook

The Board believes that CNE's business can radically improve the way commercial ethanol producers use and source their raw feedstock and in-turn the economics of the biofuel industry. We believe we can leverage our local customer base, and achieve our goal to become a leading supplier of second-generation cellulosic biofuel technology to ethanol and butanol producers in China and around the world. The Board's ambitions include building our own second-generation biofuel refinery, as well as to seek strategic acquisitions and mergers that will facilitate the rapid scale-up and rollout of second-generation technology to global markets.

According to the International Energy Agency ("IEA"), biofuels could provide 27% of total transport fuel by 2050; worldwide biofuel consumption could rise from 55 million tonnes of oil equivalent (Mtoe) today, to 750Mtoe by 2050. Ambitious biofuel support policies have been adopted in both the United States (with 60 billion litres of second-generation biofuel by 2022) and the European Union (with 10% renewable energy in the transport sector by 2020). On Jan. 8 2013, the U.S. Energy Information Administration released the January issue of its Short-Term Energy Outlook, which is the first to include forecasts for 2014. The EIA's analysis predicts that ethanol production will rebound, beginning in the second half of 2013.

The Board believes the Company is poised to capture profitable opportunities from the growing demand for second-generation biofuel technology. Specifically EPC contracts to build second-generation refineries, as well as value added services across the bioethanol and biobutanol production cycle. In the meantime, the company will continue to develop pragmatic complementary revenue generating services, which help existing first-generation biofuel operators improve production efficiency and generate further cost savings through the efficient use of energy.

Furthermore R&D efforts, along with collaboration with other world-class organisations, shall enable the Company to develop and commercialise second-generation biofuel technology, and to scale-up of future biofuel and biochemical technology platforms quickly and cost efficiently.

Conclusion

In general, I am optimistic about the Group's prospects in 2013 and beyond. We continue to expect challenges due to the global economic climate, but the general outlook for our industry is very exciting as it transitions to second-generation technology. The Board and Management are feeling energized and committed to deliver growth this year, and build a strong foundation for sustainable growth in the future.

On behalf of the board, I would like to extend my appreciation to our valued shareholders, supportive business partners and associates, insightful management and dedicated staff for all their contribution and commitment towards the Company. I would also like to thank the Board of Directors for their invaluable counsel in steering the Group through this exciting time.

Yu Weijun
Chairman

24th June 2013

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2012

The Directors present their report and financial statements for the year ended 31 December 2012.

Principal activities

The principal activity of the Group is investment holding. The Group's principal activity is providing turnkey technology solutions to manufacturers of ethanol, edible alcohol and acetic acid from a range of bio-resources including corn, sugarcane, cassava and other bio-resources in China.

Business review

The Company recorded a decrease of 18.1% in revenue to RMB146 million for the financial year 2012, reflecting the decreased volume of contracts signed and executed. The total value of contracts secured in 2012 was RMB166.6million, down 2.6% from RMB171 million in 2011.

With the downturn of ethanol market investment, our contracts' gross profit also decreased at RMB26 million in FY2012, down 36.4% from RMB40.9 million in FY2011; gross profit margin was down from 22.9% in FY2011 to 17.8% in FY2012. The decline in gross margin was mainly attributed to a few low margin contracts and costs overrun projects, i.e. approximately RMB10 million losses on Ubon Ratchathani Project in Thailand ("UBBE").

Other operating income grew from RMB0.8 million in 2011 to RMB5.3 million in FY2012. This is mainly due to subsidy income received and income made on sales of certain ethanol products during the year.

Profit after tax maintained at the similar level of RMB22 million in FY2012, compared to FY2011.

Risks and uncertainties

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

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

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

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

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

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

In addition, the risk profile and financial instruments of the Group are set out in note 28 and 29.

Results and dividends

The consolidated revenue and profit after taxation for the year amounted to RMB146,154,000 (2011: RMB178,348,000) and RMB21,752,000 (2011: RMB22,044,000) respectively, as set out in the Consolidated Statement of Comprehensive Income.

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

Post balance sheet events

Events after the balance sheet date have been disclosed in note 33.

Directors' interests

The following Directors have held office during the period and their interests as at 28 March 2013, all of which are beneficial unless otherwise stated, whether direct or indirect, of the Directors and their families in the issued share capital of the Company and options over Ordinary Shares which had been granted, are as follows:

Director	Number of Ordinary Shares	Percentage of Ordinary Shares
Yu Weijun (Re-appointed 1 June 2012)	90,932,440	28.72%
Tang Zhaoxing	48,000,000	15.16%
Chen Yong (Reappointed 1 June 2012)	-	-
Foo Shiang Peow (Appointed 25 March 2011, resigned 12 September 2012)	6,079,728	1.92%
Richard Bennett (Appointed 25 March 2011)	-	-

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

Employment policies

The Group pursues a policy of equal opportunities to all employees and potential employees. The Group has continued its policy of giving fair consideration to applications for employment made by disabled persons bearing in mind the requirements for skills and aptitude for the job. In the areas of planned employee training and career development, the Group strives to ensure that disabled employees receive equal treatment, including opportunities for promotion. Every effort is made to ensure that continuing employment and opportunities are also provided for employees who become disabled. It is the Company's policy to take the views of employees into account in making decisions, and wherever possible to encourage the involvement of employees in the Group's performance.

Payments to suppliers

The Company's policy for the year ended 31 December 2012 is to settle the terms of payment with suppliers when agreeing the terms of the business transactions:

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

The number of days of trade purchases outstanding for the group as at 31 December 2012 was 113 days (2011: 93 days).

Impairment of investment

The Group assesses the impairment of investment whenever events or changes in circumstances suggest that the carrying amount of the asset may not be recoverable or may have been impaired. However, the directors believe that any reasonable possible change in the key assumptions on which recoverable amount is based would not cause the carrying amount to exceed the recoverable amount, and no impairment is provided on investment in Songyuan Laihe Chemicals Co., Limited.

Going concern

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

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

Financial Risk Management

Details of the Group's financial risk management objectives, policies and strategies are set out in note 28.

Statement of Directors' responsibilities

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

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

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group to enable them to ensure that the financial statements comply with the Companies (Jersey) Law, 1991. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of disclosure to auditor

The Directors have confirmed that:

- so far as each Director is aware, there is no relevant audit information of which the company's auditor is unaware; and

- each director has taken all the necessary steps he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

During the year, Crowe Clark Whitehill LLP resigned and UHY Hacker Young LLP was appointed in their place as auditors of the Company for the purpose of the audit of the Company's financial statements.

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

By order of the Board

Yu Weijun
Director
24th June 2013

CORPORATE GOVERNANCE STATEMENT

Principles of Corporate Governance

As a Company listed on AIM, the Company is not governed by the UK Code of Corporate Governance adopted by the London Stock Exchange ('the Code') but is required to operate principles of good governance and best practice. Accordingly, the Directors are committed to the Code and believe that an effective system of corporate governance supports the enhancement of shareholder value. These principles have been in place since the Company's listing on 23rd May 2011.

The Directors acknowledge the importance of the Code and intend to apply its principles so far as is practicable taking into account the Company's size and stage of development. The Company has three non-executive Directors.

The Directors have established an Audit Committee (the "Audit Committee"), a Remuneration Committee (the "Remuneration Committee") and an AIM Rules Compliance Committee (the "AIM Rules Compliance Committee") with formally delegated duties and responsibilities to operate.

Audit Committee

The Audit Committee, which comprises of Richard Bennett as Chairman, as well as Yu Weijun, determines and examines any matters relating to the financial affairs of the Company including the terms of engagement of the Group's auditor and, in consultation with the auditor, the scope of the audit. The Audit Committee receives and reviews reports from the management and the external auditor of the Group relating to the annual and interim amounts and the accounting and internal control systems of the Group. In addition, it considers the financial performance, position and prospects of the Company and ensures they are properly monitored and reported on.

Remuneration Committee

The Remuneration Committee is responsible for making recommendations to the Board on the Company's framework of Executive remuneration and its cost. The Committee determines the contract terms, remuneration and other benefits for each of the Executive Directors and senior employees, including performance related bonus schemes, pension rights and compensation payments.

The Remuneration Committee, which comprises Chen Yong and Tang Zhaoxing, with Chen Yong acting as Chairman, reviews the performance of the executive Directors and senior management and sets and reviews their remuneration and the terms of their service contracts, determines the payment of bonuses to the Executive Directors and considers the Group's bonus and option schemes.

AIM Compliance Committee

In addition, the Board has established an AIM Rules Compliance Committee which has responsibility for ensuring that the Company complies fully with the AIM Rules.

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

The Board

The Board is responsible to shareholders for the proper management of the Company. The Non-Executive Directors have a particular responsibility to ensure that the strategies proposed by the Executive Directors are fully considered. The Board has a formal schedule of matters reserved to it and has discussions on a monthly basis since its listing on the AIM Market. The Board is responsible for overall strategy, reviewing management accounts, approval of major capital expenditure projects and consideration of significant financing matters.

Directors

During the year, the Board comprised the Chairman Yu Weijun, the Chief Executive Officer Tang Zhaoxing, a London based Non-Executive Director Richard Bennett and a further Non-Executive Directors, Chen Yong.

Internal controls

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

The key elements of the control systems in operation are:

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

Relations with shareholders

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

Substantial shareholders

As at 28 March 2013, the Company had been notified of the following beneficial interest of 3% or more in its shares:

Name of holder	Number of Ordinary Shares	Percentage of Ordinary Shares
Leader Vision Investment Limited (Yu Weijun)	64,000,000	20.21%
Asia Tianxing Investment Limited (Tang Zhaoxing)	48,000,000	15.16%
Best Full Investments Limited (Liang Hongtao)	48,000,000	15.16%
Cobalt Ventures Limited	40,398,640	12.76%
Tewin Capital Holding Limited (Yu Weijun)	26,932,440	8.51%
Mr Weiming Qiu	14,000,000	4.42%
Mr Xinchun Jiang	10,000,000	3.16%
Ms ShuiXia Jiang	10,000,000	3.16%

UHY Hacker Young
Chartered Accountants

UHY Hacker Young LLP
Quadrant House
4 Thomas More Square
London E1W 1YW

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF CHINA NEW ENERGY LIMITED

We have audited the Financial Statements of China New Energy Limited for the year ended 31 December 2012, which comprise the Group and Company Statement of Comprehensive Income, Group and Company Statement of Financial Position, Group and Company Statement of Cashflows, Group and Company Statement of Change in Equity and the related notes.

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

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2012 and of the group's and parent company's profit for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

UHY Hacker Young
Chartered Accountants

UHY Hacker Young LLP
Quadrant House
4 Thomas More Square
London E1W 1YW

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF CHINA NEW ENERGY LIMITED

Matter on which we are required to report by exception

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

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

Emphasis of matter – significant judgements

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 3.2 relating the potential impairment of investment in Songyuan Laihe Chemicals Co., Limited ("Songyuan"). During 2012 Songyuan made losses, although during this period that company's plant was still being tested. The projections and the underlying assumptions that have been used to assess the value in use of the group's investment in Songyuan therefore cannot be corroborated by past performance. This fact, and the context of current market conditions, means that there is material uncertainty regarding the likelihood of those projection being achieved. The financial statements do not include any impairment of this investment.

Julie Wilson (Senior Statutory Auditor)
For and on behalf of
UHY Hacker Young LLP

Quadrant House
4 Thomas More Square
London
E1W 1YW

24th June 2013

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

CHINA NEW ENERGY LIMITED

CONSOLIDATED AND COMPANY STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	Group As at 31 December 2012 RMB'000	Group As at 31 December 2011 RMB'000	Company As at 31 December 2012 RMB'000	Company As at 31 December 2011 RMB'000
Non-current assets					
Property, plant and equipment	4	11,245	9,888		-
Intangible assets	5	4,760	4,177		-
Trade receivables	10	3,523	4,402		-
Investment in subsidiary	6	-	-	89,922	89,922
Investment	7	30,950	1,700		
		50,478	**20,167**	**89,922**	**89,922**
Current assets					
Inventories	8	12,286	23,354		-
Due from customers for construction contracts	9	86,832	93,241		-
Financial asset at fair value through profit and loss	29	-	7,181		7,181
Trade and other receivables	10	50,429	53,896	6,449	9,283
Notes receivable	28	7,600	3,150		-
Cash and cash equivalents	11	11,310	6,682	45	118
		168,457	187,504	6,494	16,582
Current liabilities					
Trade and other payables	12	95,901	94,133	19,460	13,707
Due to customers for construction contracts	9	10,525	10,054	-	-
Notes payable		5,404	4,725	-	-
Income tax payable		9,020	4,640	18	17
Short-term borrowing		-	6,500	-	-
Convertible bonds	13	25,081	37,758	25,081	37,758
		145,931	157,810	44,559	51,482
Net current (liabilities)/assets		**22,525**	**29,694**	**(38,065)**	**(34,900)**
Non-current liabilities					
Deferred tax liabilities	24	859	913	-	-
		859	**913**	**-**	**-**
Net assets		**72,145**	**48,948**	**51,857**	**55,022**
Equity					
Share capital	14	1,134	1,118	1,134	1,118
Share premium	14	39,171	38,601	39,171	38,601
Combination reserve	16	(33,156)	(33,156)	-	-
Statutory reserve	15	12,328	9,856	-	-
Convertible bonds reserve	13	6,549	6,549	6,549	6,549
Warrant reserve	18	1,673	1,673	1,673	1,673
Own shares	19	(5,853)	(5,853)	-	-
Accumulated earnings/(losses)		27,954	6,467	(19,154)	(16,612)
Foreign currency translation reserve	17	22,345	23,693	22,484	23,693
		72,145	**48,948**	**51,857**	**55,022**

The notes on pages 22 to 67 form part of these financial statements.

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 24th June 2013.

Yu Weijun
Director

CHINA NEW ENERGY LIMITED

CONSOLIDATED AND COMPANY STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	Group Year Ended 31 December 2012 RMB'000	Group Year Ended 31 December 2011 RMB'000	Company Year Ended 31 December 2012 RMB'000	Company Year Ended 31 December 2011 RMB'000
Revenue	20	146,154	178,348	-	-
Cost of sales		(120,177)	(137,475)	-	-
Gross profit		**25,977**	**40,873**		-
Other operating income	21	5,330	796	244	14,511
Bad debts write back		19,105	8,535		
Selling and distribution expenses		(3,394)	(3,430)	-	-
Administrative expenses		(16,922)	(15,811)	(960)	(2,530)
Other operating expenses	22	(1,490)	(2,341)		31
Interest expense		(1,435)	(3,376)	(902)	(1,781)
Loss on disposal of investment		(924)	-	(924)	-
Change in fair value of held for sale investments	29	-	531	-	531
Profit before income tax	23	**26,247**	**25,777**	**(2,542)**	**10,762**
Income tax expense	24	(4,495)	(3,733)	-	-
Profit for the financial year attributable to owners of the company		**21,752**	**22,044**	**(2,542)**	**10,762**
Other comprehensive income:					
Exchange difference arising on translating foreign operations		(1,348)	2,158	(1,209)	1,987
Total comprehensive income for the financial year		20,404	24,202	(3,751)	12,749
Total comprehensive income attributable to owners of the company		20,404	24,202	(3,751)	12,749
Earnings per share (RMB)					
Basic	25	RMB 0.070	RMB 0.077		
Diluted	25	RMB 0.068	RMB 0.075		

The notes on pages 22 to 67 form part of these financial statements.

All amounts are derived from continuing operations.

CONSOLIDATED AND COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED31 DECEMBER 2012

Group	Note	Share capital RMB'000	Share premium RMB'000	Combination reserve RMB'000	Statutory reserve RMB'000	Convertible bonds RMB'000	Own shares & Warrants reserve RMB'000	Accumulated earnings/ (losses) RMB'000	Foreign currency translation reserve RMB'000	Total RMB'000
Balance at 31 December 2010		**1,013**	**29,354**	**(33,156)**	**7,247**	**9,722**	**-**	**(16,442)**	**21,535**	**19,273**
Profit for the year		-	-	-	-	-	-	22,044	-	22,044
Exchange difference arising on the translation of overseas subsidiaries		-	-	-	-	-	-	-	2,158	2,158
Total comprehensive income for the year		-	-	-	-	-	-	22,044	2,158	24,202
Issue of shares and net off share issue costs, issue of warrants		84	3,415	-	-	-	1,673	-	-	5,172
Convertible bonds		-	-	-	-	(3,173)	-	-	-	(3,173)
Shares granted to Employee Benefit Trust		21	5,832	-	-	-	(5,853)	3,474	-	3,474
Transfer to statutory reserve		-	-	-	2,609	-	-	(2,609)	-	-
Balance at 31 December 2011		**1,118**	**38,601**	**(33,156)**	**9,856**	**6,549**	**(4,180)**	**6,467**	**23,693**	**48,948**
Profit for the year		-	-	-	-	-	-	21,752	-	21,752
Exchange difference arising on the translation of overseas subsidiaries	17	-	-	-	-	-	-	-	(1,348)	(1,348)
Total comprehensive income for the year		-	-	-	-	-	-	21,752	(1,348)	20,404
Issue of shares, net of share issue cost	14	16	570	-	-	-	-	-	-	586
Employee Benefit Trust charges	19	-	-	-	-	-	-	2,207	-	2,207
Transfer to statutory reserve		-	-	-	2,472	-	-	(2,472)	-	-
Balance at 31 December 2012		**1,134**	**39,171**	**(33,156)**	**12,328**	**6,549**	**(4,180)**	**27,954**	**22,345**	**72,145**

CONSOLIDATED AND COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

Company	Note	Share capital RMB'000	Share premium RMB'000	Convertible bonds reserve RMB'000	Warrant reserve RMB'000	Accumulated earnings/ (losses) RMB'000	Foreign currency translation reserve RMB'000	Total RMB'000
Balance at 31 December 2010		1,013	29,354	9,722	-	(27,374)	21,706	34,421
Profit for the year		-	-	-	-	10,762	-	10,762
Exchange difference arising on the translation of overseas subsidiaries		-	-	-	-	-	1,987	1,987
Total comprehensive income for the year		-	-	-	-	10,762	1,987	12,749
Issue of shares, net of share issue cost		84	3,415	-	-	-	-	3,499
Issue of warrants		-	-	-	1,673	-	-	1,673
Convertible bonds		-	-	(3,173)	-	-	-	(3,173)
Shares granted to Employee Benefit Trust		21	5,832	-	-	-	-	5,853
Balance at 31 December 2011		**1,118**	**38,601**	**6,549**	**1,673**	**(16,612)**	**23,693**	**55,022**
Profit for the year		-	-	-	-	(2,542)	-	(2,542)
Exchange difference arising on the translation of overseas subsidiaries		-	-	-	-	-	(1,209)	(1,209)
Total comprehensive income for the year		-	-	-	-	(2,542)	(1,209)	(3,751)
Issue of shares, net of share issue cost		16	570	-	-	-	-	586
Balance at 31 December 2012		**1,134**	**39,171**	**6,549**	**1,673**	**(19,154)**	**22,484**	**51,857**

CONSOLIDATED AND COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

Share premium: The share premium reserve represents the consideration that has been received in excess of the nominal value of shares on issue of new ordinary share capital, net of share issue costs.

Combination reserve: The merger reserve represents shares that have been issued at a premium to their nominal value on acquisition of another company.

Statutory reserve: The statutory reserve represents the amount set aside in accordance with the legislation in the People's Republic of China.

Convertible bond reserve: The equity component of the convertible loan notes represents the remaining equity component of convertible notes which have

Own shares reserve: Company shares held by the Employee Benefit Trust are deducted from the shareholders' funds and classified as Own Shares until such time as they vest unconditionally to participating employees and their families.

Accumulated earnings/(losses): The accumulated earnings/(losses) represent the profits and losses retained in the current and previous period.
Foreign currency translation reserve: The foreign currency translation reserve represents the exchange gains and losses resulting from translating foreign currency amounts to the reporting currency.

The notes on page 22 to 67 form part of these financial statements.

All amounts are derived from continuing operations.

Own shares relate to the holding of 8,079,728 (2011: 8,079,728) unallocated and unvested ordinary shares in the Company by the Employee Benefit Trust, representing 2.6% per cent (2011: 2.6%) of the ordinary shares in issue at 23 May 2011.

CHINA NEW ENERGY LIMITED

CONSOLIDATED AND COMPANY STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2012

	Group As at 31 December		Company As at 31 December	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Operating activities				
Profit/ before income tax	26,247	25,777	(2,542)	10,762
Adjustments for:				
Depreciation and amortisation	2,104	2,060	-	-
Administrative expenses-issue of shares to employees	2,207	3,473	-	-
Bad debt written back	(19,105)	(8,535)	-	-
Loss/(gain) on disposal of property, plant and equipment	70	(419)	-	-
Loss/(gain) on disposal of financial assets	924	-	924	-
Fair value gain	-	(531)	-	(531)
Dividend income	-	-	-	(14,068)
Interest income	(394)	(357)	-	-
Interest expenses	1,435	3,376	902	1,781
Impairment of investment	750	-	-	-
Operating cash flows before movements in working capital	14,238	24,844	(716)	(2,056)
Inventories	11,068	11,672	-	-
Construction work-in-progress	6,880	(45,177)	-	-
Trade and other receivables	(6,549)	(4,137)	1,620	(1,114)
Notes receivables	(4,450)	3,743	-	-
Trade and other payables	(4,900)	19,393	426	451
Notes payables	679	(3,441)	-	-
Deferred tax	-	-	-	-
Cash generated from/(used in) operations	16,966	6,897	1,330	(2,719)
Income taxes paid	(182)	(314)	-	(2)
Dividend received	-	-	-	9,953
Net cash from/(used in) operating activities	16,784	6,583	1,330	7,232
Investing activities				
Proceeds from disposal of property, plant and equipment	-	917	-	-
Proceeds from disposal of financial assets	6,257	-	6,257	
Acquisition of property, plant and equipment	(3,375)	(1,233)	-	-
Acquisition of intangible assets	(739)	(902)	-	-
Net cash outflow from acquisition of subsidiary	-	-	-	-
Payment for associated company in the course of acquisition	-	(1,700)	-	-
Net cash from/(used in) investing activities	2,143	(2,918)	6,257	-

CONSOLIDATED AND COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012

	Group As at 31 December		Company As at 31 December	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Financing activities				
Short-term borrowing	(6,500)	1,500	-	-
Proceeds from issuance of shares	586	2,001	586	2,001
Proceeds from issuance/ (redemption) of convertible bonds	(8,171)	(9,845)	(8,171)	(9,845)
Interest received	394	357	-	-
Interest paid	(613)	(1,595)	(80)	-
Net cash from/(used in) financing activities	(14,304)	(7,582)	(7,665)	(7,844)
Net increase/(decrease) in cash and cash equivalents	4,623	(3,917)	(78)	(612)
Cash and bank balances at beginning of year	6,682	10,631	118	772
Effect of foreign exchange rate changes in cash and bank balances	5	(32)	5	(42)
Cash and cash equivalents at end of year	11,310	6,682	45	118

1. General

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

The principal activities of the main subsidiary, Guangdong Zhongke Tianyuan New Energy Science and Technology Co Ltd., ("ZKTY") are engaged in turnkey technology solutions to manufacturers of ethanol, edible alcohol and acetic acid from a range of bio-resources including corn, sugarcane, cassava and other bio-resources. On 28 September 2010, the Group acquired Guongdong Boluo Jiumeng High Technology Engineering Co. Ltd, ("Boluo"), a company engaged in the fabrication and manufacture of equipment.

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

2. Summary of significant accounting policies

2.1. Basis of preparation

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

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

The consolidated financial information incorporates the financial information of the Company and its subsidiaries. The Subsidiaries are entities (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.

New IFRS standards and interpretations newly adopted

China New Energy prepares its financial statements in accordance with applicable International Financial Reporting Standards (IFRS) and interpretations issued by the International Accounting Standards Board as adopted by the European Union.

The Group has adopted the following new and amended IFRS standards and IFRIC interpretations:

- IFRIC 19 Extinguishing financial liabilities with equity instruments
- IAS 24 Related Party Disclosures (2009)
- Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement
- Annual improvements to IFRSs (2010)

The adoption of these revised standards has not had a material impact for the Group's result for the year and equity.

2. Summary of significant accounting policies (continued)

2.1. Basis of preparation (continued)

New IFRS standards and interpretations not yet adopted

The following standards, amendments and interpretations are not yet effective and have not yet been adopted early by the Group:

- Amendments to IFRS 7 Financial Instruments: Disclosures
- IAS 27 Separate Financial Statements (2011).
- IAS 28 Investments in Associates and Joint Ventures (2011).
- IFRS 9 Financial Instruments
- IFRS 10 Consolidated Financial Statements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 13 Fair Value Measurement.
- Amendments to IAS 19 Employee Benefits
- Amendments to IAS 1 Presentation of Items of Other Comprehensive Income
- Amendments to IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities
- Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities
- Annual improvements to IFRSs (2009 – 2011)

The management does not anticipate that the adoption of the above IFRS (including consequential amendments) and interpretations will result in any material impact to the financial statements in the period of initial application.

Going concern

The Financial Statements have been prepared assuming the Group will continue as a going concern. Under the going concern assumption, an entity is ordinarily viewed as continuing in business for the foreseeable future with neither the necessity of liquidity, nor ceasing trading or seeking protection from creditors pursuant to laws or regulations. In assessing whether the going concern assumption is appropriate, management takes into account all available information for the foreseeable future, in particular for the twelve months from the date of approval of the Financial Statements. Based on the budgets prepared, management have a reasonable expectation that the group has adequate resources to continue its operational exercises for the foreseeable future and the group has adopted the going concern basis of accounting in preparing the financial statements. In making this assessment, the Group has specifically taken into consideration the settlement of the convertible bonds after the year end as referred to in notes 13 and notes 33.

2.2. Basis of consolidation

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

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

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

2. Summary of significant accounting policies (continued)

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

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

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

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

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

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

2. Summary of significant accounting policies (continued)

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

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

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

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

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

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

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

2.5. Investments in associates

The Group's investments in associates are accounted for using the equity method. An associate is an entity in which the Group has significant influence. Under the equity method, the investment in the associate is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of consolidated comprehensive income reflects the share of the results of operations of the associate unless immaterial to the group. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate. The share of profit of associates is shown on the face of the consolidated statement of comprehensive income. This is the profit attributable to equity holders of the associate and therefore is profit after tax and non-controlling interests in the subsidiaries of the associates.

2. Summary of significant accounting policies (continued)

2.5. Investments in associates (continued)

The financial statements of the associate are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group. After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated statement of comprehensive income.

Upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognised in the consolidated statement of comprehensive income.

2.6. Property, plant and equipment

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

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

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

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

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

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

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

2. Summary of significant accounting policies (continued)

2.7. Intangible assets

Computer software

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

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

Land use rights

Land use rights are capitalised and stated at cost less accumulated amortisation and impairment losses. Amortisation is provided on a straight line basis over the term of the rights, 50 years.

Patent rights

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

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

2.8. Impairment of tangible and intangible assets excluding goodwill

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

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

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

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

2. Summary of significant accounting policies (continued)

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

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

2.9. Income tax

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

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

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

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

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

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

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

2. Summary of significant accounting policies (continued)

2.9. Income tax (continued)

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

2.10. Financial instruments

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

Effective interest method

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

Financial assets

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

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition and re-evaluates this classification at every reporting date.

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

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

Financial assets at fair value through profit and loss

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

2. Summary of significant accounting policies (continued)

2.10. Financial instruments (continued)

Loans and receivables

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

Available for Sale Investments

Available for sale investments are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held to maturity investments or financial assets at fair value through profit and loss. After initial recognition, available for sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the statement of comprehensive income.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the closure of business on the statement of financial position date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value, discounted cash flow analysis and option pricing models.

Impairment of financial assets

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

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

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

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

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

2. Summary of significant accounting policies (continued)

2.10. Financial instruments (continued)

Derecognition of financial assets

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

Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds receivables.

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

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

Other financial liabilities

Trade and other payables

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

Derecognition of financial liabilities

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

2. Summary of significant accounting policies (continued)

2.11. 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.

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

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

2.13. 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.

2.14. Incentive scheme charge

The fair value of employee service received in exchange for the grant of shares is recognised as an expense. The total amount to be expensed over the performance period, from grant date to vesting date, is determined by reference to the fair value of the shares determined at the date the employee is deemed to be fully aware of their potential entitlement and all conditions of vesting.

2. Summary of significant accounting policies (continued)

2.15. 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.

2.16. Provisions

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

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

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.

2.17. 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.

2.18. Own shares

Company shares held by the Employee Benefit Trust ("EBT") are deducted from the shareholders' funds and classified as Own Shares until such time as they vest unconditionally to participating employees and their families.

2. Summary of significant accounting policies (continued)

2.19. Retirement benefit costs

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

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

2.20. Compound financial instruments

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

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

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

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

2.21. Revenue recognition

Revenue from construction contracts

Please refer to Note 2.12 "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. Summary of significant accounting policies (continued)

2.22. Foreign currency transactions and translation

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

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

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

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

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

2.23. 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.

2.24. Research and development expenditure

Research and development expenditure is written off to the Statement of Comprehensive Income in the year in which it is incurred, unless the directors are satisfied as to the commercial and financial viability of individual projects. This being the case, the expenditure would be deferred and amortised over the period during which the Group is expected to obtain benefits from the expenditure.

3. Critical accounting judgements and key sources of estimation uncertainty

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

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 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 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.

Impairment of construction in progress

Provision for impairment on construction in progress is made when the construction project is suspended for a long period; the construction project is technically and physically obsolete and its economic benefits to the Group is uncertain; or other evidences can prove the existence of the decline in value of construction project. An impairment loss is recognised individually for the shortfall of the recoverable amount of construction in progress below its carrying amount. The carrying amounts of the CNE Group's, construction in progress as at 31 December 2011 and 2012 are disclosed in Note 9.

3.2 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the financial year, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

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

3.2 Key sources of estimation uncertainty (continued)

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

The allowance policy for doubtful debts of the Group is based on the ageing analysis and management's ongoing evaluation of the recoverability of the outstanding receivables. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the assessment of the creditworthiness and the past collection history of each customer. If the financial conditions of these customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The carrying amounts of the Group's trade and other receivables as at 31 December 2011 and 2012 were RMB 53.9million and RMB 50.4million, respectively.

Construction contracts

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

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

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

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

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

3.2 Key sources of estimation uncertainty (continued)

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 2011 and 2012 were RMB 4.2million and RMB 4.8miilion respectively.

Depreciation of property, plant and equipment

The Group depreciates the property, plant and equipment, using the straight-line method, over their estimated useful lives after taking into account of their estimated residual values. The estimated useful life reflects management's estimate of the period that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. The residual value reflects management's estimated amount that the Group would currently obtain from the disposal of the asset, after deducting the estimated costs of disposal, as if the asset were already of the age and in the condition expected at the end of its useful life. Changes in the expected level of usage and technological developments could affect the economics, useful lives and the residual values of these assets which could then consequentially impact future depreciation charges. The carrying amounts of the Group's property, plant and equipment as at 31 December 2011 and 2012 were RMB 9.9 million and RMB 11.2million, respectively.

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer demand and competitor actions in response to severe industry cycle. Management reassesses these estimates at each balance sheet date. The carrying amount of the Group's inventories as at 31 December 2011 and 2012 were RMB 23.4million and RMB 12.3million, respectively.

Share-based payment

The Group has share option schemes for certain suppliers. Judgements and estimates are required in determining the share-based payment charge as an expense in the income statement. The directors have used Black-Scholes model which has been widely used in valuing the share based payment charge. The directors are in the opinion that the model used has been adjusted to their best estimate in arriving at the charge.

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

3.2 Key sources of estimation uncertainty (continued)

Impairment of investment

The Group assesses the impairment of investment whenever events or changes in circumstances suggest that the carrying amount of the asset may not be recoverable or may have been impaired. Factors that may trigger an impairment review include the following:

I. Significant underperformance relative to historical or projected operating results.
II. Significant changes in the manner of the use of the assets or the overall business strategy.
III. Significant negative industry or macro-economic trends.

The key assumptions used in the net present value ("NPV") calculations for the recoverable amount of investment are gross profit margin, revenue growth rates and appropriate discount rates.

Management has assessed the net present value and thereby impairment on variety of bases and assumptions. The impairment test are particularly sensitive to changes in the key assumptions and changes to the assumptions could result in impairment; however all of the varying bases indicate a net present value in excess of the carrying value of the investment.

The key assumptions in the NPV calculations are as follows:

Commencement of production	within next 2 years (at 30% productivity level)
Gross profit margin	15-30%
Revenue growth rate	10-15%
Discount factor	10%
Duration	20 years

4. Property, plant and equipment

	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Leasehold improvements RMB'000	Total RMB'000
As at 31 December 2011					
Cost					
At 1 January 2011	10,412	4,211	1,470	702	16,795
Additions	533	563	85	52	1,233
On disposal	(1,282)	(342)	(812)	(291)	(2,727)
At 31 December 2011	9,663	4,432	743	463	15,301
Accumulated depreciation					
At 1 January 2011	3,432	1,013	966	266	5,677
Charge for the year	999	618	153	195	1,965
On disposal	(1,153)	(83)	(731)	(262)	(2,229)
At 31 December 2011	3,278	1,548	388	199	5,413
Net book value					
At 31 December 2011	6,385	2,884	355	264	9,888
As at 31 December 2012					
Cost					
At 1 January 2012	9,663	4,432	743	463	15,301
Additions	468	2,683	221	3	3,375
Disposals	-	(28)	(264)	(356)	(648)
At 31 December 2012	10,131	7,087	700	110	18,028
Accumulated					
At 1 January 2012	3,278	1,548	388	199	5,413
Charge for the year	937	673	160	178	1,948
Disposals	-	(21)	(237)	(320)	(578)
At 31 December 2012	4,215	2,200	311	57	6,783
Net book value					
At 31 December 2012	5,916	4,887	389	53	11,245

The company holds no fixed assets.

As at 31 December 2012, no plant and machinery of the Group (2011: RMB6.3 million) were pledged as security for any short loan borrowings (2011: RMB6.5 million).

5. Intangible assets

	Computer software	Patent	Technology Knowhow	Land use management	Development cost	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost						
As at 1 January 2011	70	70	250	3,613	-	4,003
Additions	-	-	-	-	902	902
As at 31 December 2011	70	70	250	3,613	902	4,905
Additions	-	-	-	-	739	739
Transfer	-	731	-	-	(731)	-
As at 31 December 2012	70	801	250	3,613	910	5,644
Accumulated amortisation						
As at 1 January 2011	28	11	250	344	-	633
Amortisation for the year	9	3	-	83	-	95
As at 31 December 2011	37	14	250	427	-	728
Amortisation for the year	6	67	-	83	-	156
As at 31 December 2012	43	81	250	510	-	884
Carrying amount						
As at 31 December 2012	27	720	-	3,103	910	4,760
As at 31 December 2011	33	56	-	3,186	902	4,177

The company holds no intangible assets.

As at 31 December 2012, no land use management of the Group (2011: RMB3.2 million) were pledged as security for any short loan borrowings (2011: RMB6.5 million).

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

The Company obtained the right to occupy the land at Continental High & New Technology Industry Development Zone, Boluo, Guangdong Province, PRC for a period of 50 year from 19 July 2010, which was valued by a third party at RMB 3.6million on acquisition. The remaining period of amortisation is approximate 48.5 years.

The intangible assets are tested for impairment as part of the cash generating unit to which it belongs, and no indication in request for an impairment of the intangible assets.

The Group undertakes development projects to improve and upgrade its technology and engineering solutions in the field of bioethanol production.

6. Investment in subsidiary (Company)

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
As at 1 January	89,922	84,069
Additions during the period	-	5,853
As at 31 December	89,922	89,922

The details of the subsidiary are as follows:

Name of subsidiary/ place of incorporation	Principal activity	Effective equity interest held by the Group	
		As at 31 December	
		2012	2011
Guangdong Zhongke Tianyuan New Energy Science and Technology Co Ltd / The PRC	Provision of engineering, procurement and construction services to ethanol producers.	100%	100%
Guangdong Boluo Jiuneng High Technology Engineering Co Ltd / The PRC	Fabrication and manufacture of equipment in accordance with project requirements and designs of ZKTY and provision of services to ZKTY	100%	100%
China New Energy Limited Employee Benefit Trust	The Trust is established with a view to providing benefits for the employees and officers of the Company, its holding company and its subsidiaries.	-	-

7. Investment

	Group Year ended 31 December	
	2012 RMB'000	2011 RMB'000
As at 1 January	1,700	-
Impairment of investment	(750)	
Acquired during the period	30,000	1,700
As at 31 December	30,950	1,700

The associate company, which is a private entity and not listed on any public exchange is as follows:

Name of subsidiary/ place of incorporation	Principal activity	Effective equity interest held by the Group	
		As at 31 December	
		2012	2011
Jilin Tianshun Bio-chemical Technology Co Ltd / The PRC	Provision of R&D achievements of grain deep and technical service	34%	34%
Songyuan Laihe Chemicals Co., Limited	Manufacturer of biobutanol	2.86%	2.86%

The group does not consolidate the results of Jilin Tianshun Chemical Technology Co., Limited ("Jilin Tianshun") as the directors are of the opinion the group has no significant influence over the boards of Jilin Tianshun.

During the year, the Group has subscribed 4.63% of the share capital amounting RMB89.4 million of Songyuan Laihe Chemicals Co., Limited ("Songyuan Laihe") for RMB30 million as part of debts settlement for construction fund owed by Songyuan Laihe. The shareholdings are currently held in nominee entrusted to an individual, PRC national and also the employee of the Group.

Following the new share placement at Songyuan Laihe, its share capital has increased from RMB89.4 million to RMB 510 million, the Group's effective equity interest has then diluted from 4.63% to 2.86% as results of enlarged share capital.

The Group follows the guidance of IAS 36 to determine when the investment is impaired. This determination requires significant judgment. In making this judgment, the group evaluates, among other factors, the duration and extent to which the Songyuan Laihe will operate at its full production capacity and the company will generate substantial profit and cash flow in the near future without further capital injection. The directors are of the opinion that the no impairment provision is required against the carrying value of Songyuan Laihe investment. The assessment of impairment review and its key assumptions are detailed in note 3.2

8. Inventories

	Group As at 31 December	
	2012 RMB'000	2011 RMB'000
Raw materials	7,404	13,526
Work-in-progress	4,881	9,828
	12,285	23,354

The cost of inventories recognised as expense and included in "cost of sales" in 2011 and 2012 amounted to RMB108.8 million and RMB89.3 million, respectively.

9. Due from/to customers for construction contracts

	Group As at 31 December	
	2012 RMB'000	2011 RMB'000
Aggregate costs incurred and profits recognised to - date	816,238	741,693
Less: Progress billings on outstanding contracts as at the year end	(734,273)	(652,849)
	81,965	88,844
Allowance for impairment	(5,657)	(5,657)
	76,308	83,187
Presented as:		
Due from customers for construction contracts	86,832	93,241
Due to customers for construction contracts	(10,525)	(10,054)
	76,307	83,187

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

	Group As at 31 December		Company As at 31 December	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
At beginning of the year	5,657	41,004	-	-
Allowance for impairment/ (write back)	-	(35,347)	-	-
At end of the year	5,657	5,657	-	-

10. Trade and other receivables

	Group As at 31 December		Company As at 31 December	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Current				
Trade receivables	80,762	97,034	-	-
Allowance for impairment of receivables	(41,723)	(60,828)	-	-
	39,039	36,206	-	-
Due from group undertakings	-	-	6,449	6,765
Due from related parties	2,423	678	-	-
VAT recoverable	-	-	-	-
Others receivables	1,828	7,462	-	2,518
Deposits	6,967	9,550	-	-
Prepayments	172	-	-	-
	50,429	53,896	6,449	9,283
Non-current				
Trade receivables	3,523	4,402	-	-
	3,523	4,402	-	-

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

Other receivables comprise loans to employees.

As at 31 December 2011 and 2012 retention monies held by customers for contract work amounted to RMB2.5 million and RMB2 million, respectively.

10. Trade and other receivables (continued)

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

The carrying amounts of other receivables approximate their fair values.

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

	Group As at 31 December		Company As at 31 December	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Current				
Face value	81,309	97,224	-	-
Discount on trade receivables	(547)	(190)	-	-
Fair value	80,762	97,034	-	-
Non-current				
Face value	3,776	5,351	-	-
Discount on trade receivables	(253)	(949)	-	-
Fair value	3,523	4,402	-	-

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

	Group As at 31 December		Company As at 31 August	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year	60,828	41,558	-	-
Allowance during the year	-	35,389	-	-
Write off	(19,105)	(16,119)	-	-
At end of the year	41,723	60,828	-	-

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

11. Cash and cash equivalents

	Group As at 31 December		Company As at 31 December	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at bank and on hand	11,310	6,682	45	118

The currency profiles of the CNE Group's cash and cash equivalents as at 31 December 2011 and 2012 are disclosed in Note 28.

12. Trade and other payables

	Group As at 31 December		Company As at 31 December	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	37,406	37,900	-	-
Other payables				
- Advance deposits from	14,660	17,782	-	-
- Other payables and accruals	10,889	12,161	5,044	18
- VAT payables	29,278	24,135	-	-
- Interest payables	2,603	1,781	2,603	1,781
- Due to related parties	-	- -	11,588	11,534
- Due to directors	1,065	374	225	374
	95,901	94,133	19,460	13,707

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

During the year, the company failed to fully repay the non-convertible bond, where the bond has matured and the amount of RMB 4.5m has been included within the other payables.

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. 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 Convertible Bonds would be cancelled. However, as the Reverse Acquisition did not occur, Citadel continues to hold an aggregate principal amount of US$8 million of Convertible Bonds (the "Debt Principal"). Therefore, the parties wished to restructure the Debt Principal and entered into a term sheet relating to the settlement of the outstanding convertible bonds dated 10 September 2010 (the "Term Sheet").

On 21 December 2010, the Company and Citadel recorded the terms agreed for the full and final settlement of the Debt Principal on a binding basis (the "Settlement Agreement"). The settlement agreement transfers US$4 million into interest-bearing (10% p.a.) non-convertible bonds of US$1 million and US$3 million principals, also cancels the convertible bond (US$4 million / RMB25 million) once a number of conditions are fulfilled. During the period, US$0.5 million was paid.

On 28 February and 31 October 2011, the Group redeemed US$0.5million and US$1million non-convertible bond principals according to the "Settlement Agreement", respectively.

In 2012, US$1.28 million non convertible bond principal was repaid, reminding balance of US$0.72 million (RMB4.5 million in note 12) will be settled in the following year based on an extended agreement.

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

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

	Group As at 31 December		Company As at 31 December	
	2012 RMB'000	**2011 RMB'000**	2012 RMB'000	2011 RMB'000
Face value of convertible	31,630	44,307	31,630	44,307
Equity conversion component	(6,549)	(6,549)	(6,549)	(6,549)
Fair value of debt	25,081	37,758	25,081	37,758
Represented by:				
Current	25,081	37,758	25,081	37,758
Fair value of debt	25,081	37,758	25,081	37,758

14. Share capital

	Number of Shares	Share Capital £ '000	Share Capital RMB '000	Share premium £ '000	Share premium RMB '000
As at 31st December 2010	6.733.107	67	1.013	1.952	29.354
As at 21st March 2011	67.331.070	67	1.013	1.952	29.354
As at 6 May 2011	269.324.280	67	1.013	1.952	29.354
Shares issued in connection with the Placing	9,360,147	2	24	653	6,756
Share issued in settlement of fees to professional	9,920,295	2	26	692	7,160
Share issued to EES Trustees International Limited	8,079,728	2	21	564	5,832
Shares issued to Citadel pursuant to warrant agreement	7.932.412	2	20	305	3.152
Placing on 14 Dec 2011	6.000.000	2	14	258	2.650
Less share issue costs	-		-		(16,303)
As at 31 December 2011	310,616,862		1,118		38,601
Placing on 25 Sept 2012	6,000,000	2	16	59	601
Less share issue costs				(3)	(31)
As at 31 December 2012	316,616,862		1,134		39,171
Total shares in issue	316,616,862				

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

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

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

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

14. Share capital (continued)

On 9 June 2011 Citadel elected to exercise the cashless exercise mechanism in respect of its aggregate rights under the warrant. The effect of the cashless exercise mechanism results in Citadel being issued and allotted 7,932,412 new ordinary shares. The fair value of the warrants was RMB 3,172,856. Following this issue of equity, the company transferred to the warrants reserve from convertible reserve RMB 3,172,856.

On 14 December 2011, the company placed 6,000,000 new ordinary shares of 0.025p each ("Ordinary Shares") at a price of 5 pence per share, raising gross proceeds of £300,000 for the Company (the "Placing")

On 25 September 2012, the company placed 6,000,000 new ordinary shares of 0.025p each ("Ordinary Shares") at a price of 1 pence per share, raising gross proceeds of £60,000 for the Company (the "Placing")

The substantial shareholders have not changed from 31 December 2012.

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

15. Statutory reserve

(a) Statutory surplus reserve

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

(b) Statutory public welfare fund

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

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

16. Combination reserve

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

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. Warrants reserve

On 23 May 2011, the Company issued 2,966,845 warrants for services provided to the Company. The fair value of the warrants was RMB 1,673,000 which was calculated using the Black Scholes method.

As at 31 December 2012, none of the above warrants had been exercised.

Details of the warrants outstanding during the year are as follows:

	2012		2011	
	Average exercise price in £ per share GBP	Number of shares	Average exercise price in £ per share GBP	Number of shares
At beginning of the year	0.07	2,966,845	-	-
Granted	-	-	0.07	2,966,845
Forfeited	-	-	-	-
Executed	-	-	-	-
Expired	-	-	-	-
At end of year	0.07	2,966,845	0.07	2,966,845

The estimated fair values were calculated using the Black-Scholes option pricing model. The model inputs were as follow:

Exercise price	£0.07
Expected volatility	1%
Expected dividend yield	-
Risk-free interest rate	6.65%

The expected volatility is based on the historical share prices to the management's best estimate. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restriction and behavioural considerations.

19. Employee Benefit Trust

In accordance with the requirements of SIC 12 "Consolidation-special purpose entities" and IAS 32 "Financial Instruments: Presentation", certain of the assets and liabilities of the EBT have been included in the Group's accounts resulting in the inclusion of RMB 21,000 own shares and RMB 5,832,000 share premium. This represents shares held by the Employee Benefit Trust that had not vested to employees.

On 24 March 2011, shareholders approved the establishment of the China New Energy Limited Employee Benefit Trust (the "EBT") and associated share scheme as part of the Company's employee incentive arrangements. The scheme provided for the issue of up to 8,079,728 shares to employees in respect of the one year ended 23 May 2012 for nil consideration.

Income statement charge

	Group		Company	
	As at 31 December		As at 31 December	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Original scheme	2,207	3,474	-	-

As required by SIC 12-"Consolidation – Special Purpose Entities" and IAS 32 the EBT is included in the Group's accounts, accordingly this shareholding of 8,079,728 ordinary shares is represented in the Statement of Changes In Equity as Own Shares (RMB 5,853,000).

20. Revenue

	Group	
	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Contract revenue	146,561	178,998
Less: sales tax and other added taxes	(407)	(650)
	146,154	178,348

21. Other operating income

	Group Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Interest income	393	358
Sale of scrap materials	321	205
Gain on disposal of property, plant and equipment	226	191
Subsidy income	571	42
Sundry income	3,819	-
	5,330	796

22. Other operating expenses

	Group Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Research and development expense	967	2,253
Bank charges	513	114
Foreign currency exchange loss	-	(26)
Allowance for doubtful trade receivables	-	-
Technical service fee	-	-
Others	10	-
	1,490	2,341

23. Profit/(loss) before income tax

Profit before taxation is arrived at after charging:	Group Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Staff costs including directors remuneration	8,406	8,308
Depreciation of property, plant and equipment	1,948	1,965
Gain/(loss) on disposal of property, plant and equipment	62	191
Amortisation of intangible assets	156	95
Operating lease	545	562
Fair value gain	-	531
Auditors Remuneration:		
Audit Services	300	560

24. Income tax expense

	Group Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Current income tax	(4,549)	(3,835)
Deferred tax asset	54	102
Current income tax	(4,495)	(3,733)

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.

Reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rate for the years ended 31 December 2011 and 2012 are as follows:

	Group Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Profit before income tax	26,997	25,777
Income tax using PRC tax rate of 15% (2011: 12.5%)	4,050	3,222
Tax effects of:		
- Non-deductible expenses	381	249
- Tax exempt	161	468
- Unrelieved tax losses carried forward	(43)	61
- Difference in foreign tax rate	-	(36)
- Change in unrecognised temporary difference	-	(587)
- Other adjustment	-	(104)
- Deferred tax movement	(54)	(51)
	4,495	3,222

The Group is regarded as residents for the tax purposes in PRC and subject to national income tax rate at 25%. Due to its high technology enterprise status, the subsidiary is entitled to a reduction in tax rate at 15%.

Movements in deferred tax asset are as follows:

	Group Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
At beginning of the year	261	298
Tax paid	-	-
Utilised in the year	(61)	(37)
At end of the year	200	261

24. Income tax expense (continued)

Movements in deferred tax liabilities are as follows:

	Group Year ended 31 December	
	2012 RMB'000	2011 RMB'000
At beginning of the year	1,174	1,313
Charged/reversal for the year	(115)	(139)
At end of the year	1,059	1,174
Net deferred tax assets/(liabilities)	(859)	(913)

25. 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 2011 and 2012 are as follows:

	Earnings RMB'000	Weighted average number of shares '000	Earnings per share RMB
2012			
Basic	21,752	312,211	0.070
Diluted	21,752	320,291	0.068
2011			
Basic	22,044	285,860	0.077
Diluted	22,044	292,125	0.075

The weighted average of ordinary shares for diluted earnings per share reconciles to the weighted average number of ordinary shares for basic earnings per share as follows:

	2012 '000	2011 '000
Weighted average number of ordinary shares used in the calculation of basic earnings per share	312,211	285,860
Dilutive effect of EBT	8,080	6,265
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	320,291	292,125

25. Earnings per share (continued)

In order to show results from operating activities on a comparable basis, an adjusted profit after tax per share has been calculated which excludes the EBT charge where the relevant shares are satisfied by issues of new shares:

	2012 RMB'000	2011 RMB'000
Profit for the year	21,752	22,044
Add back: EBT charge	2,207	3,474
	23,959	25,518

	Adjusted Earnings RMB'000	Weighted average number of shares '000	Earnings per share
2012			
Basic adjusted	23,959	312,211	0.077
Diluted adjusted	23,959	320,291	0.075
2011			
Basic adjusted	25,518	285,860	0.089
Diluted adjusted	25,518	292,125	0.087

At 31 December 2012, 2.96m warrants (2011: 2.96m) were excluded from the diluted weighted average number of ordinary shares calculation as their effect would have been anti-dilutive.

The average market value of the Company's shares for purposes of calculating the dilutive effect of the warrants was based on quoted market prices for the period during which the warrants were outstanding.

26. 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:

	Group Year ended 31 December 2012 RMB'000	 2011 RMB'000
Within one year	485	349
After one year but before five years	367	697
	852	1,046

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

27. Significant related party transactions

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

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

As at balance sheet date, the Group has a non-trade receivable due from Bengbu Boltech Bio-technology Co., Ltd of RMB123,000 (2011: RMB678,400).

As at balance sheet date, the Group has a non-trade receivable due from Guangdong Zhongke Tianyuan Regeneration Energy Co., Ltd of RMB 2,300,000 (2011: RMB nil).

Both Bengbu Boltech Bio-technology Co., Ltd and Guangdong Zhongke Tianyuan Regeneration Energy Co., Ltd are controlled by Mr Yu Weijun, Mr Tang Zhaoxing, Mr Weiming Qiu and Mr Xinchun Jiang, who also shareholders of CNE.

b) Key management personnel compensation is analysed as follows:

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Remuneration	786	1,519
Other short term benefits	-	18
	786	1,537

27. Significant related party transactions (continued)

c) Directors' emoluments

Directors' remuneration for the year was:

	Short term employment benefits RMB'000	Post employment benefits RMB'000	Total RMB'000
2012			
Yu Weijun	299	-	299
Tang Zhaoxing	299	-	299
Chen Yong	100	-	100
Shiang Foo	68	-	68
Richard Bennett	20	-	20
Aggregate emoluments	786	-	786
2011			
Yu Weijun	630	-	630
Tang Zhaoxing	639	18	657
Chen Yong	62	-	62
Shiang Foo	62	-	62
Richard Bennett	125	-	125
Aggregate emoluments	1,518	18	1,536

28. Financial risk management

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

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

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

Credit risk

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

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

As at 31 December 2010, and 2011, 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	
	2012	2011
	RMB'000	RMB'000
Cash and cash equivalents	11,310	6,682
Trade and other receivables	50,429	53,896
Notes receivables	7,600	3,150
	69,339	63,728

28. Financial risk management (continued)

Credit risk (continued)

At the balance sheet date, the Group's trade receivable was due from the related parties and third parties. There was significant concentration of credit risk in the Group's trade receivables as the Group's five biggest customers accounted for 70% and 63% the total receivables as at 31 December 2011 and 2012 respectively. Only one customer's trade receivable is more than 10%.

Customer	As at 31 December 2012 Balance of Trade Receivable RMB'000	 Percentage to Total
Songyuan Laihe Chemical Co., Limited	28,000	35%

Trade receivables that are past due but not impaired

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

	As at 31 December	
	2012 RMB'000	2011 RMB'000
Less than 30 days	5,946	9,727
31-60 days	3,142	22
Over 60 days	30,498	26,646
	39,586	36,395

Trade receivables that are impaired

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

	As at 31 December	
	2012 RMB'000	2011 RMB'000
Less than 30 days	-	35,389
31-60 days	-	-
Over 60 days	41,723	25,438
	41,723	60,827

28. Financial risk management (continued)

Currency risk

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

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

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

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

At 31 December 2012	RMB'000	£'000	US$'000	EUR'000	HK$'000	Total
Financial assets						
Financial asset at fair value through profit and loss	-	-	-	-	-	-
Trade and other receivables	50,429	-	-	-	-	50,429
Notes receivables	7,600	-	-	-	-	7,600
Cash and bank balances	11,221	38	36	15	-	11,310
Financial liabilities						
Trade and other payables	88,255	520	7,126	-	-	95,901
Notes payables	5,404	-	-	-	-	5,404
Convertible bond	-	-	25,081	-	-	25,081
Net financial assets	(24,409)	(482)	(32,171)	15	-	(57,047)
Less: Net financial assets denominated in the functional currency	(24,409)	-	-	-	-	(24,409)
Net currency exposure	-	(482)	(32,171)	15	-	(32,638)

28. Financial risk management (continued)

Currency risk (continued)

At 31 December 2011	RMB'000	£'000	US$'000	EUR'000	HK$'000	Total
Financial assets						
Financial asset at fair value through profit and loss	-	-	-	-	7,181	7,181
Trade and other receivables	51,378	2,518	-	-	-	53,896
Notes receivables	3,150	-	-	-	-	3,150
Cash and bank balances	6,517	110	40	15	-	6,682
Financial liabilities						
Trade and other payables	91,960	392	1,781	-	-	94,133
Notes payables	4,725		-	-	-	4,725
Convertible bond	-	-	37,758	-	-	37,758
Net financial assets	(35,640)	2,236	(39,499)	15	7,181	(65,707)
Less: Net financial assets denominated in the functional currency	(35,640)	-	-	-	-	(35,640)
Net currency exposure	-	2,236	(39,499)	15	7,181	(30,067)

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	
	2012	2011
	RMB'000	RMB'000
£ against RMB		
- strengthen	(44)	203
- weaken	(54)	(248)
US$ against RMB		
- strengthen	(2,925)	(3,591)
- weaken	3,575	4,389
EUR against RMB		
- strengthen	1	1
- weaken	(2)	(2)
HK$ against RMB		
- strengthen	-	653
- weaken	-	(798)

28. Financial risk management (continued)

Interest rate risk

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

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

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 Group's financial liabilities at the reporting date based on contractual undiscounted payments:

	Less than one year RMB'000	Later than one year RMB'000	Total RMB'000
31 December 2012			
Trade and other payables	95,901	-	95,901
Notes payables	5,404	-	5,404
Convertible bonds	25,081	-	25,081
	126,386	-	126,386
31 December 2011			
Trade and other payables	94,133	-	94,133
Notes payables	4,725	-	4,725
Convertible bonds	37,758	-	37,758
	136,616	-	136,616

Commodity price risk

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

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

28. Financial risk management (continued)

Capital risk management

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

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

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

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

The gearing ratios as at 31 December 2011 and 2012 were as follows:

	Year ended 31 December	
	2012 RMB'000	2011 RMB'000
Total debt	145,931	157,810
Less: Cash and bank balances	(11,310)	(6,682)
Net debt	134,621	151,128
Total equity	72,145	48,948
Total capital	206,766	200,076
Gearing ratio	65%	76%

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

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

29. 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.

The Group have received equity instruments as consideration in return for the provision of services. These investments are classified as held for trading and measured at fair value through profit or loss as the directors consider that these investments have been incurred principally for the purpose of selling in the near term.

The fair value of the listed equity securities are based upon their current bid prices in active markets. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. These instruments are included at level 1 in the fair value hierarchy and comprise of listed equity instruments classified as held for trading. The fair value of the other and non-current investments are included at level 2 in the fair value hierarchy and represent the latest active market transaction in the shares of these entities.

Group	**2012**	**2011**
	RMB'000	**RMB'000**
Trading investments carried at fair value through profit or loss		
As at 1 January	7,181	-
Additions in the year	-	6,650
Disposals in the year	7,181	-
Fair value movement during the year	-	531
As at 31 December	**-**	**7,181**

	2012	**2011**
Listed equity securities	**RMB'000**	**RMB'000**
Bio-Dynamic Group Limited	-	7,181
	-	**7,181**

30. Segment reporting

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

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

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
PRC	112,290	103,377
Taiwan	-	-
Romania	136	318
America	-	648
Thailand	33,728	74,005
	146,154	178,348

Business segment

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

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

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

	EPC activities RMB'000	VAS RMB'000	Total RMB'000
Revenue			
Year ended 31 December 2012	144,450	2,111	146,561
Year ended 31 December 2011	142,666	35,692	178,348
Results			
Year ended 31 December 2012	26,759	(374)	26,385
Year ended 31 December 2011	32,882	7,846	40,728

32. Contingent liabilities

At 31 December 2012, the group had contingent liabilities in respect of legal cases against one of the wholly owned subsidiaries. The directors estimate that maximum liability (if any) to be RMB 1.67m and will vigorously defend the action. As it is in the early stages no provision has been made in these financial statements.

33. Events after the balance sheet date

In accordance to the settlement agreement dated 21 December 2010, to pursuant the cancellation the remaining convertible bonds once a number of conditions are fulfilled that include the full repayment of the non-convertible bond as part of debt restructuring. These non-convertible bonds have expired as at 31 December 2012.

On 31 March 2013, the group and the bondholders have agreed to extend the non-convertible bond to the end of this year without affecting its term and conditions set within the settlement agreement.

Post year end, US$0.1 million was paid on 9 January and another US$0.1 million was paid on 8 May 2013, respectively.