



Crowe Clark Whitehill™

*With compliments*

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**CHINA NEW ENERGY LIMITED**

**Company Registration No. 93306 (Jersey)**

**CHINA NEW ENERGY LIMITED  
DIRECTORS' REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2009**

## CHINA NEW ENERGY LIMITED

### COMPANY INFORMATION

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<b>Directors</b>	Yu Weijun Tang Zhaoxing Chen Yong Foo Shiang Peow Richard Bennett	Executive Chairman Chief Executive Officer Non-Executive Director Non-Executive Director Non-Executive Director
<b>Secretary</b>	Matthew Bao	
<b>Company registration number</b>	93306 (Jersey)	
<b>Registered office</b>	Queensway House Hilgrove Street St Helier JE1 1ES	
<b>Auditor</b>	Crowe Clark Whitehill LLP St Bride's House 10 Salisbury Square London EC4Y 8EH	

## CHINA NEW ENERGY LIMITED

### CONTENTS

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	<b>Page</b>
Directors' report	4
Independent auditor's report	7
Consolidated and company statement of comprehensive income	9
Consolidated and company statement of financial position	10
Consolidated statement of changes in equity	11
Company statement of changes in equity	12
Consolidated and company statement of cash flows	13
Notes to the financial statements	14

## **CHINA NEW ENERGY LIMITED**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2009**

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The Directors present their report and financial statements for the year ended 31 December 2009.

#### **Principal activities**

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

#### **Business review**

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

Owing to the improved controls in construction contract costing and in working capital management during the year ended 31 December 2009, the Group's net profit margins improved from 18.8% to 25.2%. Despite the significant fall in revenue from 2008 to 2009, the Group made a profit after tax of RMB11.9 million for the year ended 31 December 2009 compared to a loss of RMB15.8 million for the year ended 31 December 2008.

#### **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.

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.

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

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

#### **Results and dividends**

The consolidated revenue and loss after taxation for the year amounted to RMB125,301,000 and RMB11,918,000 respectively as set out in the Consolidated Statement of Comprehensive Income on page 10.

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

## CHINA NEW ENERGY LIMITED

### DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2009

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#### Post balance sheet events

No significant post balance sheet events are reported.

#### Directors' interests

The following Directors have held office during the period and their interests as at 31 December 2009, 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:

<i>Director</i>		<i>Number of Ordinary Shares</i>
Yu Weijun		16,000,000
Tang Zhaoxing		12,000,000
Chen Yong (Appointed 25 March 2011)		-
Foo Shiang Peow (Appointed 25 March 2011)		-
Richard Bennett (Appointed 25 March 2011)		-
Jiang Xinchun (Resigned 18 March 2011 )		5,000,000
Qiu Weiming (Resigned 18 March 2011 )		5,000,000

#### 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 treatments, 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 views of employees into account in making decisions, and wherever possible to encourage the involvement of employees in Group's performance.

#### Payments to suppliers

The Company's policy for the year ended 31 December 2009 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
- 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 was 135 days.

#### Going concern

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

After making enquiries, the Directors consider that the 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.

**CHINA NEW ENERGY LIMITED**

**DIRECTORS' REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2009**

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**Financial instruments**

Details of the Group's financial instruments are set out in note 20.

**Statement of Directors' responsibilities**

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

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

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

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

**Statement of disclosure to auditor**

The Directors have confirmed that:

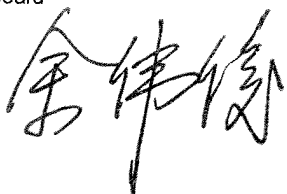
- so far as each Director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- each director has taken all the necessary steps he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

**Auditor**

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

By order of the Board

Yu Weijun  
Director  
22 April 2011



## **CHINA NEW ENERGY LIMITED**

### **Independent Auditors' Report to the Shareholders of China New Energy Limited**

We have audited the group and parent company financial statements (the "financial statements") of China New Energy Limited for the year ended 31 December 2009 which are set out pages 9 to 49. These financial statements have been prepared under the accounting policies set out therein.

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**

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies (Jersey) Law, 1991.

In addition we report to you if, in our opinion, the company has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

#### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.



## CHINA NEW ENERGY LIMITED

### Opinion

In our opinion:

- the group and parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2009 and of its profit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies (Jersey) Law, 1991.

*Crowe Clark Whitehill LLP*

Crowe Clark Whitehill LLP  
Chartered Accountants

St Bride's House  
10 Salisbury Square  
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27 April 2011

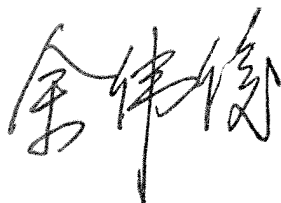
**CHINA NEW ENERGY LIMITED**

Consolidated Statements of Financial Position

	Note	Group		Company	
		As at 31 December		As at 31 December	
		2009	2008	2009	2008
		RMB'000	RMB'000	RMB'000	RMB'000
<b>Non-current assets</b>					
Property, plant and equipment	4	6,809	3,988	-	-
Intangible assets	5	108	127	-	-
Deferred tax assets	6	2,370	3,823	-	-
Trade receivables	10	7,803	-	-	-
Investment in subsidiary	7	-	-	84,069	84,069
		<u>17,090</u>	<u>7,938</u>	<u>84,069</u>	<u>84,069</u>
<b>Current assets</b>					
Inventories	8	23,570	32,976	-	-
Due from customers for construction contracts	9	53,785	38,988	-	-
Trade and other receivables	10	32,954	33,633	550	497
Notes receivables		5,299	100	-	-
Cash and cash equivalents	11	19,743	13,663	3	211
		<u>135,351</u>	<u>119,360</u>	<u>553</u>	<u>708</u>
<b>Current liabilities</b>					
Trade and other payables	12	59,240	62,650	2,618	1,203
Due to customers for construction contracts	9	36,213	20,290	-	-
Notes payables		5,491	3,421	-	-
Income tax payable	12	-	18	21	18
Convertible bonds	13	54,704	-	54,704	-
		<u>155,648</u>	<u>86,379</u>	<u>57,343</u>	<u>1,221</u>
<b>Net current (liabilities)/assets</b>		<u>(20,297)</u>	<u>32,981</u>	<u>(56,790)</u>	<u>(513)</u>
<b>Non-current liabilities</b>					
Convertible bonds	13	-	51,601	-	51,601
Deferred tax liabilities		1,055	-	-	-
		<u>1,055</u>	<u>51,601</u>	<u>-</u>	<u>51,601</u>
<b>Net (liabilities)/assets</b>		<u>(4,262)</u>	<u>(10,682)</u>	<u>27,279</u>	<u>31,955</u>
<b>Equity</b>					
Share capital	14	1,013	1,013	1,013	1,013
Share premium		29,354	29,354	29,354	29,354
Combination reserve	16	(33,156)	(33,156)	-	-
Statutory reserve	15	4,788	3,971	-	-
Convertible bonds reserve	13	9,722	9,722	9,722	9,722
Accumulated earnings/(losses)		(34,022)	(45,123)	(30,846)	(32,042)
Foreign currency translation reserve	17	18,039	25,537	18,036	23,907
		<u>(4,262)</u>	<u>(10,682)</u>	<u>27,279</u>	<u>31,955</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 22 April 2011

Yu Weijun  
Director



**CHINA NEW ENERGY LIMITED**

**Statements of Comprehensive Income**

	Note	Group		Company	
		Year ended 31 December 2009 RMB'000	Year ended 31 December 2008 RMB'000	Year ended 31 December 2009 RMB'000	Year ended 31 December 2008 RMB'000
Revenue	18	125,301	224,208	-	-
Cost of sales		(93,781)	(182,128)	-	-
Gross profit		31,520	42,080	-	-
Other operating income	19	5,563	4,587	-	324
Selling and distribution Expenses		(3,129)	(4,938)	-	-
Administrative expenses		(11,221)	(13,421)	(1,094)	(2,140)
Other operating expenses	20	(5,470)	(34,475)	5,127	(11,379)
Interest expenses		(2,837)	(9,622)	(2,837)	(9,621)
Profit/(loss) before income tax	21	14,426	(15,789)	1,196	(22,816)
Income tax expense	22	(2,508)	(8)	-	(7)
Profit/(loss) for the financial year		11,918	(15,797)	1,196	(22,823)
Other comprehensive income: Exchange difference		(5,498)	22,332	(5,870)	22,702
Total comprehensive income for the financial year		(5,498)	22,332	(4,674)	(121)
Total comprehensive income attributable to equity holder		6,420	6,535	(4,674)	(121)
Earnings/(loss) per share:					
Basic and diluted	23	1.77	(2.35)		

**CHINA NEW ENERGY LIMITED**

**Consolidated Statements of Changes in Equity**

	Share capital RMB'000	Share premium RMB'000	Combination reserve RMB'000	Statutory reserve RMB'000	Convertible bonds reserve RMB'000	Accumulated earnings/(losses) RMB'000	Foreign currency translation reserve RMB'000	Total RMB'000
Balance at 1 January 2008	1,013	29,354	(33,156)	392	29,888	(25,747)	1,205	2,949
Transfer to statutory reserve	-	-	-	3,579	-	(3,579)	-	-
Total comprehensive income for the year	-	-	-	-	-	(15,797)	22,332	6,535
Redemption of convertible bonds	-	-	-	-	(20,166)	-	-	(20,166)
Balance at 31 December 2008	1,013	29,354	(33,156)	3,971	9,722	(45,123)	23,537	(10,682)
Transfer to statutory reserve	-	-	-	817	-	(817)	-	-
Total comprehensive income for the year	-	-	-	-	-	11,918	(5,498)	6,420
Balance at 31 December 2009	1,013	29,354	(33,156)	4,788	9,722	(34,022)	18,039	(4,262)

**CHINA NEW ENERGY LIMITED**

**Company Statements of Changes in Equity**

	Share capital RMB'000	Share premium RMB'000	Combination reserve RMB'000	Statutory reserve RMB'000	Convertible bonds reserve RMB'000	Accumulated earnings/ (losses) RMB'000	Foreign currency translation reserve RMB'000	Total RMB'000
Balance at 1 January 2008	1,013	29,354	-	-	29,888	(9,219)	23,907	74,943
Total comprehensive income for the year	-	-	-	-	-	(22,823)	22,702	(121)
Redemption of convertible bonds	-	-	-	-	(20,166)	-	-	(20,166)
Balance at 31 December 2008	1,013	29,354	-	-	9,722	(32,042)	46,609	54,656
Total comprehensive income for the year	-	-	-	-	-	1,196	(5,870)	(4,674)
Balance at 31 December 2009	1,013	29,354	-	-	9,722	(30,846)	40,739	49,982

# CHINA NEW ENERGY LIMITED

## Statements of Cash Flows

	Group		Company	
	Year ended 31 December 2009	Year ended 31 December 2008	Year ended 31 December 2009	Year ended 31 December 2008
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Operating activities</b>				
Profit/(loss) before income tax	14,426	(15,789)	1,196	(22,816)
Adjustments for:				
Depreciation and amortisation	1,419	1,345	-	-
Allowance for doubtful trade receivable	3,114	269	-	-
Allowance for doubtful other receivable	-	-	-	-
Allowance for impairment/(write back)	699	24,334	-	-
Loss/(gain) on disposal of property, plant and equipment	19	(284)	-	-
Property, plant and equipment written off	-	208	-	-
Interest income	(151)	(162)	-	-
Exchange difference	(5,033)	8,844	(5,126)	1,364
Interest expenses	2,805	9,622	2,837	9,621
<b>Operating cash flows before movements in working capital</b>	17,298	28,387	(1,093)	(11,831)
Inventories	9,406	34,464	-	-
Construction work-in-progress	427	(135,861)	-	-
Trade and other receivables	(10,238)	46,885	(51)	(51)
Notes receivables	(5,199)	26,778	-	-
Trade and other payables	(3,410)	(19,097)	193	109
Notes payables	2,070	3,421	-	-
Cash generated from/(used in) operations	10,354	(15,023)	(951)	(11,773)
Income taxes paid	(18)	(8)	-	(8)
<b>Net cash from/(used in) operating activities</b>	10,336	(15,031)	(951)	(11,781)
<b>Investing activities</b>				
Proceeds from disposal of property, plant and equipment	98	1,000	-	-
Acquisition of property, plant and equipment	(4,338)	(2,074)	-	-
Interest received	151	162	-	-
<b>Net cash from/(used in) investing activities</b>	(4,089)	(912)	-	-
<b>Financing activities</b>				
Proceeds from issuance/ (redemption) of convertible bonds	-	(27,575)	-	(27,575)
<b>Net cash from/(used in) financing activities</b>	-	(27,575)	-	(27,575)
<b>Net increase/(decrease) in cash and cash equivalents</b>	6,247	(43,518)	(951)	(39,356)
Cash and bank balances at beginning of year	13,663	56,866	211	33,255
Effect of foreign exchange rate changes in cash and bank balances	(167)	315	22	(10,644)
<b>Cash and cash equivalents at end of year</b>	19,743	13,663	(718)	(16,745)

## CHINA NEW ENERGY LIMITED

### 1. General

The Company (Registration Number 93306) was incorporated in Jersey on 2 May 2006 as an investment holding Company with its registered office at Ordnance House, 31 Pier Road, St Helier, Jersey JE48PW.

The principal activities of the subsidiary, Guangdong Zhongke Tianyuan New Energy Science and Technology Co., Ltd., are engaged in turnkey technology solutions to manufacturers of ethanol, edible alcohol and acetic acid from a range of bio-resources including corn, sugarcane, cassava and other bio-resources.

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

#### **Standards, amendments and interpretations to published standards not yet effective**

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

The standards and interpretations were in issue and have not been applied in these financial statements are listed below:

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

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

## CHINA NEW ENERGY LIMITED

### 2. Summary of significant accounting policies (Continued)

#### 2.2. Basis of consolidation

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

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

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

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

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

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

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

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

The interest of minority shareholders in the acquiree is measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

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

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



**2. Summary of significant accounting policies (Continued)**

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

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

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

**2.5. Property, plant and equipment**

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

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

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

## CHINA NEW ENERGY LIMITED

### 2. Summary of significant accounting policies (Continued)

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

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

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

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

#### 2.6. Intangible assets

##### Computer software

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

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

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

#### 2.7. Impairment of tangible and intangible assets excluding goodwill

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

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

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

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

## CHINA NEW ENERGY LIMITED

### 2. Summary of significant accounting policies (Continued)

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

#### 2.8. Income tax

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

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

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

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

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

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

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

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

## CHINA NEW ENERGY LIMITED

### 2. Summary of significant accounting policies (Continued)

#### 2.9. Financial instruments

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

##### Effective interest method

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

##### Financial assets

Financial assets within the scope of IAS 39 are classified as either:

- (i) financial assets at fair value through profit or loss
- (ii) loans and receivables
- (iii) held-to-maturity investments
- (iv) available-for-sale financial assets

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

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

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

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

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

##### Loans and receivables

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

## CHINA NEW ENERGY LIMITED

### 2. Summary of significant accounting policies (Continued)

#### 2.9. Financial instruments (continued)

##### Impairment of financial assets

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

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

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

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

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

##### Derecognition of financial assets

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

#### **Financial liabilities and equity instruments**

##### Classification as debt or equity

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

##### Equity instruments

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

##### Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through comprehensive income statement or other financial liabilities.

## CHINA NEW ENERGY LIMITED

### 2. Summary of significant accounting policies (Continued)

#### 2.9. Financial instruments (continued)

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

##### Other financial liabilities

###### *Trade and other payables*

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

##### Derecognition of financial liabilities

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

#### 2.10. Inventories

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

#### 2.11. Contract to construct specialised equipment (“Construction contracts”)

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

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

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

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

## CHINA NEW ENERGY LIMITED

### 2. Summary of significant accounting policies (Continued)

#### 2.12. Cash and cash equivalents

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

#### 2.13. Leases

##### Operating Leases

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

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

#### 2.14. Provisions

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

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

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

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

#### 2.15. Share capital

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

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

#### 2.16. Retirement benefit costs

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

## CHINA NEW ENERGY LIMITED

### 2. Summary of significant accounting policies (Continued)

#### 2.16. Retirement benefit costs (continued)

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

#### 2.17. Compound financial instrument

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

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

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

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

#### 2.18. Revenue recognition

##### Revenue from construction contracts

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

##### Interest income

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

##### Income from sale of scrap materials

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

#### 2.19. Foreign currency transactions and translation

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



## CHINA NEW ENERGY LIMITED

### 2. Summary of significant accounting policies (Continued)

#### 2.19. Foreign currency transactions and translation

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

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

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

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

#### 2.20. Segment reporting

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

### 3. Critical accounting judgements and key sources of estimation uncertainty

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

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

#### 3.1 Critical judgements in applying the entity's accounting policies

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

## CHINA NEW ENERGY LIMITED

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

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

##### Impairment of financial assets

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

##### Deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that the taxable profit will be available against which the deferred tax asset recognised can be utilised. Management's judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future tax planning strategies. The carrying amount of the Group's recognised deductible temporary differences as at 31 December, 2008 and 2009 were RMB3.8 million and RMB2.4 million respectively. Management is of the view that these deferred tax assets are considered to be fully recoverable based on anticipated future profitability of the CNE Group.

##### Impairment of construction in progress

Provision for impairment on construction in progress is made when the construction project is suspended for a long period; the construction project is technically and physically obsolete and its economic benefits to the CNE Group is uncertain; or other evidences can prove the existence of the decline in value of construction project. An impairment loss is recognised individually for the shortfall of the recoverable amount of construction in progress below its carrying amount. The carrying amounts of the CNE Group's construction in progress as at 31 December 2008 and 2009 are disclosed in Note 9.

#### 3.2 Key sources of estimation uncertainty

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

##### Allowance for trade and other receivables

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

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

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

**3.2 Key sources of estimation uncertainty (Continued)**

The allowance policy for doubtful debts of the Group is based on the ageing analysis and management's ongoing evaluation of the recoverability of the outstanding receivables. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the assessment of the creditworthiness and the past collection history of each customer. If the financial conditions of these customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The carrying amounts of the Group's trade and other receivables as at 31 December 2008 and 2009 were RMB33.6 million and RMB33.0 million respectively.

Construction contracts

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

Impairment of intangible assets

Determining whether intangible assets are impaired requires an estimation of the value in use of the cash-generating units (CGU) to which intangible assets have been allocated. The value-in-use calculation requires the entity to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value. No impairment loss was recognised during the financial year. The carrying amounts of the intangible assets as at 31 December 2008, and 2009 were RMB127, 000 and RMB108, 000 respectively.

Depreciation of property, plant and equipment

The CNE Group depreciates the property, plant and equipment, using the straight-line method, over their estimated useful lives after taking into account of their estimated residual values. The estimated useful life reflects management's estimate of the period that the CNE Group intends to derive future economic benefits from the use of the CNE Group's property, plant and equipment. The residual value reflects management's estimated amount that the CNE Group would currently obtain from the disposal of the asset, after deducting the estimated costs of disposal, as if the asset were already of the age and in the condition expected at the end of its useful life. Changes in the expected level of usage and technological developments could affect the economics, useful lives and the residual values of these assets which could then consequentially impact future depreciation charges. The carrying amounts of the Group's property, plant and equipment as at 31 December 2008 and 2009 were RMB4.0 million and RMB6.8million respectively.

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

**3.2 Key sources of estimation uncertainty (Continued)**

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 2008 and 2009 were RMB30.0million and RMB23.6 million respectively.

**CHINA NEW ENERGY LIMITED**

**4. Property, plant and equipment**

	Plant and machinery	Motor vehicles	Office equipment	Leasehold improvements	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b><u>As at 31 December 2008</u></b>					
<b>Cost</b>					
At 1 January 2008	2,069	1,107	1,222	561	4,959
Additions	132	1,880	62	-	2,074
Write off	(147)	-	(6)	(270)	(423)
Disposals	-	(774)	-	-	(774)
At 31 December 2008	2,054	2,213	1,278	291	5,836
<b>Accumulated depreciation</b>					
At 1 January 2008	235	100	431	140	906
Charged for the year	364	413	230	208	1,215
Write off	(25)	-	(1)	(189)	(215)
Disposals	-	(58)	-	-	(58)
At 31 December 2008	574	455	660	159	1,848
<b>Net book value</b>					
At 31 December 2008	1,480	1,758	618	132	3,988

CHINA NEW ENERGY LIMITED

4. Property, plant and equipment (Continued)

	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Leasehold Improvement RMB'000	Total RMB'000
<b>As at 31 December 2009</b>					
<b>Cost</b>					
At 1 January 2009	2,054	2,213	1,278	291	5,836
Additions	3,286	1,040	12	-	4,338
Disposals	-	(212)	(22)	-	(234)
Reclassification	(6)	-	6	-	-
At 31 December 2009	5,334	3,041	1,274	291	9,940
<b>Accumulated depreciation</b>					
At 1 January 2009	574	455	660	159	1,848
Charged for the year	973	175	164	88	1,400
Disposals	-	(108)	(9)	-	(117)
At 31 December 2009	1,547	522	815	247	3,131
<b>Net book value</b>					
At 31 December 2009	3,787	2,519	459	44	6,809

## CHINA NEW ENERGY LIMITED

### 5. Intangible assets

	<u>As at 31 December</u>	
	2009 RMB'000	2008 RMB'000
<b>Cost</b>		
Balance at beginning of year	380	380
Additions	-	-
Balance at end of year	<u>380</u>	<u>380</u>
<b>Accumulated amortisation</b>		
Balance at beginning of year	253	123
Amortisation for the year	<u>19</u>	<u>130</u>
Balance at end of year	<u>272</u>	<u>253</u>
<b>Net book value</b>	<u><u>108</u></u>	<u><u>127</u></u>

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

### 6. Deferred tax assets

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

### 7. Investment in subsidiary

The details of the subsidiary are as follows:

<u>Name of subsidiary/ place of incorporation</u>	<u>Principal activity</u>	<u>Effective equity interest held by the CNE Group</u>	
		<u>2009</u>	<u>2008</u>
Guangdong Zhongke Tianyuan New Energy Science and Technology Co., Ltd / The PRC	Provision of engineering, procurement and construction services to ethanol producers.	100%	100%

## CHINA NEW ENERGY LIMITED

### 8. Inventories

	Group	
	As at 31 December	
	2009	2008
	RMB'000	RMB'000
Raw materials	12,182	15,276
Work-in-progress	11,388	17,700
	<u>23,570</u>	<u>32,976</u>

The cost of inventories recognised as expense and included in "cost of sales" amounted to RMB153.0 million and RMB62.4 million respectively.

### 9. Due from/to customers for construction contracts

	Group	
	As at 31 December	
	2009	2008
	RMB'000	RMB'000
Aggregate costs incurred and profits recognised to- date	591,057	615,101
Less: Progress billings	(529,424)	(553,041)
	<u>61,633</u>	<u>62,060</u>
Allowance for impairment	(44,061)	(43,362)
	<u>17,572</u>	<u>18,698</u>
<u>Presented as:</u>		
Due from customers for construction contracts	53,785	38,988
Due to customers for construction contracts	(36,213)	(20,290)
	<u>17,572</u>	<u>18,698</u>



**CHINA NEW ENERGY LIMITED**

**9. Due from/to customers for construction contracts (continued)**

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	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
At beginning of the year	43,362	19,028	-	-
Allowance for impairment/ (write back)	699	24,334	-	-
At end of the year	44,061	43,362	-	-

**10. Trade and other receivables**

	Group As at 31 December		Company As at 31 December	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
<b><u>Current</u></b>				
Trade receivables				
- Related party	-	7,307	550	497
- Third parties	65,591	46,588	-	-
	65,591	53,895	550	497
Allowance for impairment of receivables	(41,266)	(40,383)	-	-
	24,325	13,512	550	497
Other receivables				
- Deposits	6,786	6,645	-	-
- Prepayments	-	20	-	-
- VAT recoverable	-	4,325	-	-
- Due from related parties	550	5,603	-	-
- Due from shareholders	-	999	-	-
- Others	1,293	2,529	-	-
Allowance for impairment	-	-	-	-
	1,293	2,529	-	-
	32,954	33,633	550	497
<b><u>Non-current</u></b>				
Trade receivables	-	-	-	-
	-	-	-	-

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

Other receivables comprise loans to employees.

As at 31 December 2008 and 2009 retention monies held by customers for contract work amounted to RMB5.3 million and RMB6.6 million respectively.

## CHINA NEW ENERGY LIMITED

### 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	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
<b><u>Current</u></b>				
Face value	66,164	-	550	497
Discount on trade receivables	(573)	-	-	-
Fair value	<u>65,591</u>	<u>-</u>	<u>550</u>	<u>497</u>
<b><u>Non-current</u></b>				
Face value	9,214	-	-	-
Discount on trade receivables	(1,411)	-	-	-
Fair value	<u>7,803</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

	Group As at 31 December		Company As at 31 August	
	2009 RMB'000 Audited	2008 RMB'000 Audited	2009 RMB'000 Audited	2008 RMB'000 Audited
At beginning of the year	40,383	44,208	-	-
Allowance during the year	3,114	269	-	-
Write off	(2,231)	(4,094)	-	-
At end of the year	<u>41,266</u>	<u>40,383</u>	<u>-</u>	<u>-</u>

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

**CHINA NEW ENERGY LIMITED**

**11. Cash and cash equivalents**

	<b>Group</b>		<b>Company</b>	
	<b>As at 31 December</b>		<b>As at 31 December</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Cash at bank and on hand	19,743	13,663	3	211

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

**12. Trade and other payables**

	<b>Group</b>		<b>Company</b>	
	<b>As at 31 December</b>		<b>As at 31 December</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Trade payables				
- Third parties	34,754	44,854	-	-
Other payables				
- Advance deposits from customers	9,878	5,780	-	-
- Other payables and accruals	7,505	5,689	20	73
- VAT payables	5,927	3,319	20	18
- Due to related parties	532	2,078	1,954	200
- Due to directors	644	930	644	930
	59,240	62,650	2,638	1,221

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

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

## CHINA NEW ENERGY LIMITED

### 13. Convertible bonds

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

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

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

On 21 December 2010, the Company and Citadel recorded the terms agreed for the full and final settlement of the Debt Principal on a binding basis (the "Settlement Agreement").

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	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Face value of convertible bonds	64,426	61,323	64,426	61,323
Equity conversion component	(9,722)	(9,722)	(9,722)	(9,722)
Fair value of debt	<u>54,704</u>	<u>51,601</u>	<u>54,704</u>	<u>51,601</u>
Represented by:				
Current	54,704	-	54,704	-
Non-current	-	51,601	-	51,601
Fair value of debt	<u>54,704</u>	<u>51,601</u>	<u>54,704</u>	<u>51,601</u>

## CHINA NEW ENERGY LIMITED

### 14. Share capital

	Number of shares	Share capital	
		£ '000	RMB '000
At date of incorporation	2	-	-
Proceeds from shares issued	6,733,105	67	1,013
At 31 December 2008 and 2009	6,733,107	67	1,013

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

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

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

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

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

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

### 15. 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.

### 17. Foreign currency translation reserve

The foreign currency translation reserve represents exchange differences arising from the

## CHINA NEW ENERGY LIMITED

translation of the financial statements of foreign operations where functional currencies are different from that of the Group's presentation currency.

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

### 18. Revenue

	Years ended 31 December	
	2009	2008
	RMB'000	RMB'000
Contract revenue	125,301	224,208

### 19. Other operating income

	Years ended 31 December	
	2009	2008
	RMB'000	RMB'000
Interest income	151	162
Sale of scrap materials	149	140
Sundry income	137	4,285
Foreign exchange gain	5,126	-
	<u>5,563</u>	<u>4,587</u>

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

### 20. Other operating expenses

	Years ended 31 December	
	2009	2008
	RMB'000	RMB'000
Research and development expense	1,029	-
Bank charges	110	151
Foreign currency exchange loss	393	9,629
Allowance for doubtful trade receivables	3,114	269
Allowance for doubtful non-trade receivables	-	-
Allowance for impairment on due from customers	699	24,334
Technical service fee	12	92
Others	113	-
	<u>5,470</u>	<u>34,475</u>

**CHINA NEW ENERGY LIMITED**

**21. Profit/(loss) before income tax**

	Years ended 31 December	
	2009	2008
	RMB'000	RMB'000
Staff costs including directors remuneration	7,043	8,210
Depreciation of property, plant and equipment	1,400	215
Write-off of property, plant and equipment	9	716
Gain/(loss) on disposal of property, plant and equipment	19	284
Amortisation of intangible assets	19	130
Operating lease	636	508

**22. Income tax expense**

	Years ended 31 December	
	2009	2008
	RMB'000	RMB'000
Current income tax	2,508	8
Deferred tax asset	2,370	3,823
Current income tax	1,055	-

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

Movements in deferred tax asset are as follows:

	Years ended 31 December	
	2009	2008
	RMB'000	RMB'000
At beginning of the year	3,823	3,823
Tax paid	-	-
Utilised for the year	(1,453)	-
At end of the year	2,370	3,823

Movements in deferred tax liabilities are as follows:

	Years ended 31 December	
	2009	2008
	RMB'000	RMB'000
At beginning of the year	-	-
Charged/Reversal for the year	1,055	-
At end of the year	1,055	-

## CHINA NEW ENERGY LIMITED

### 22. Income tax expense (continued)

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

#### *Relationship between tax expense and accounting profit*

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

	Years ended 31 December	
	2009 RMB'000	2008 RMB'000
Profit/(loss) before income tax	14,426	(15,789)
Income tax using PRC tax rate of 33% /25%	3,607	-
Expenses not deductible for tax purposes	705	5,210
Tax exempt income	(1,804)	(5,218)
	<u>2,508</u>	<u>(8)</u>

### 23. Earnings per share

The calculation for earnings per share (basic and diluted) for the relevant period is based on the profit after income tax attributable to equity holder for the years ended 31 December 2008 and 2009 are as follows:

	Years ended 31 December	
	2009 RMB'000	2008 RMB'000
Profit/(loss) attributable to equity holders	<u>11,918</u>	<u>(15,797)</u>
Weighted average number of shares	<u>6,733</u>	<u>6,733</u>
Earnings/(loss) per share	<u>1.77</u>	<u>(2.35)</u>



## CHINA NEW ENERGY LIMITED

### 24. Operating lease commitments

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

	As at 31 December	
	2009	2008
	RMB'000	RMB'000
Within one year	552	930
After one year but before five years	577	-
	<u>1,129</u>	<u>930</u>

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

### 25. Significant related party transactions

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

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

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

	Years ended 31 December	
	2009	2008
	RMB'000	RMB'000
Related parties		
- R&D expenses	-	-
- Purchase of a motor vehicle	900	2,100
- Deposit for investment	-	-
- Subcontracting fees	1,034	1,026
- Loan to a related party	-	-
- Disposal of a motor vehicle	-	-
- Payment on behalf of a related party	(1,211)	(1,198)
- Collection on behalf by a related party	-	-
	<u>-</u>	<u>-</u>

## CHINA NEW ENERGY LIMITED

### 25. Significant related party transactions (Continued)

b) Key management personnel compensation is analysed as follows:

	Years ended 31 December	
	2009	2008
	RMB'000	RMB'000
Remuneration	1,190	787
Other term benefits	149	22
	<u>1,339</u>	<u>809</u>

### 26. Financial risk management

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

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

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

#### Credit risk

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

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

As at 31 December 2007, 2008, 2009, and 31 August 2010, substantially all the cash and bank balances as detailed in Notes 11 to the financial statements, are held in major financial institutions which are regulated and located in the PRC, which management believes are of high credit quality. The management does not expect any losses arising from non-performance by these counterparties.

## CHINA NEW ENERGY LIMITED

### 26. Financial risk management (Continued)

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

	<u>As at 31 December</u>	
	2009	2008
	RMB'000	RMB'000
Cash and cash equivalents	19,743	13,663
Trade and other receivables	32,954	33,633
Notes receivables	5,299	100
	<u>57,996</u>	<u>47,396</u>

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

#### Credit risk

##### Trade receivables that are past due but not impaired

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

	<u>As at 31 December</u>	
	2009	2008
	RMB'000	RMB'000
Less than 30 days	8,623	-
31-60 days	4,358	2,166
Over 60 days	11,344	7,493
	<u>24,325</u>	<u>9,659</u>

##### Trade receivables that are impaired

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

	<u>As at 31 December</u>	
	2009	2008
	RMB'000	RMB'000
Less than 30 days	-	-
31-60 days	-	-
Over 60 days	41,266	40,383
	<u>41,266</u>	<u>40,383</u>

## CHINA NEW ENERGY LIMITED

### 26. Financial risk management (Continued)

#### Currency risk

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

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

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

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

At 31 December 2009

#### Financial assets

Trade and other receivables	35,518	-	-	-	35,518
Notes receivables	5,299	-	-	-	5,299
Cash and bank balances	19,599	3	136	5	19,743
	60,416	3	136	5	60,560

#### Financial liabilities

Trade and other payables	56,607	-	-	-	56,607
Notes payables	5,491	-	-	-	5,491
	62,098	-	-	-	62,098

**Net financial assets** (1,682) 3 136 5 (1,538)

Less: Net financial assets  
denominated in the functional  
currency (1,682) - - - (1,682)

**Net currency exposure** - 3 136 5 144

**CHINA NEW ENERGY LIMITED**

**26. Financial risk management (Continued)**

**Currency risk (Continued)**

	<b>RMB '000</b>	<b>£ '000</b>	<b>US\$ '000</b>	<b>EUR'000</b>	<b>Total</b>
<u>At 31 December 2008</u>					
<b>Financial assets</b>					
Trade and other receivables	33,633	-	-	-	33,633
Notes receivables	100	-	-	-	100
Cash and bank balances	13,376	5	282	-	13,663
	47,109	5	282	-	47,396
<b>Financial liabilities</b>					
Trade and other payables	62,549	7	94	-	62,650
Notes payables	3,421	-	-	-	3,421
	65,970	7	94	-	66,071
<b>Net financial assets</b>	(18,861)	(2)	188	-	(18,675)
Less: Net financial assets denominated in the functional currency	18,861	-	-	-	18,861
<b>Net currency exposure</b>	<b>-</b>	<b>(2)</b>	<b>188</b>	<b>-</b>	<b>186</b>

## CHINA NEW ENERGY LIMITED

### 26. Financial risk management (Continued)

#### Currency risk (Continued)

##### *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:

	<u>Years ended 31 December</u>	
	2009	2008
	RMB'000	RMB'000
£ against RMB		
- strengthen	-	-
- weaken	-	-
US\$ against RMB		
- strengthen	14	19
- weaken	(14)	(19)

#### Interest rate risk

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

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

#### Liquidity risk

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

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

	<b>Less than one year RMB'000</b>	<b>Later than one year RMB'000</b>	<b>Total RMB'000</b>
<u>31 December 2009</u>			
Trade and other payables	59,240	-	59,240
Notes payables	5,491	-	5,491
Convertible bonds	54,704	-	54,704
	<u>119,435</u>	<u>-</u>	<u>119,435</u>

26. Financial risk management (Continued)

Liquidity risk (Continued)

	Less than one year RMB'000	Later than one year RMB'000	Total RMB'000
<u>31 December 2008</u>			
Trade and other payables	62,650	-	62,650
Notes payables	3,421	-	3,421
Convertible bonds	-	51,601	51,601
	<u>66,071</u>	<u>51,601</u>	<u>117,672</u>

Commodity price risk

The CNE 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 CNE Group's profitability will be adversely affected if the CNE Group is unable to pass on any increase in raw material prices to its customers on a timely basis or find cheaper alternative sources of supply.

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

**Capital risk management**

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

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

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

The CNE Group's strategy 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.

## CHINA NEW ENERGY LIMITED

### 26. Financial risk management (Continued)

#### Capital risk management (Continued)

The gearing ratios as at 31 December 2008 and 2009 were as follows:

	As at 31 December	
	2009 RMB'000	2008 RMB'000
Total debt	156,703	137,980
Less: Cash and bank balances	(19,743)	(13,663)
Net debt	<u>137,960</u>	<u>124,317</u>
Total equity	<u>(4,262)</u>	<u>(10,682)</u>
Total capital	<u>132,698</u>	<u>113,635</u>
Gearing ratio	<u>100%</u>	<u>100%</u>

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

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

### 27. Fair value of financial instruments

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

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

- (i) the fair value of financial assets and financial liabilities with standard terms and conditions and trade on active liquid markets are determined with reference to quoted market prices;
- (ii) the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow; and
- (iii) the fair value of derivative instruments are calculated using quoted prices. Where such prices are not available, discounted cash flow analysis is used, based on the applicable yield curve of the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.



## CHINA NEW ENERGY LIMITED

### 28. Segment reporting

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

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

	Years ended 31 December	
	2009	2008
	RMB'000	RMB'000
PRC	115,610	130,120
Taiwan	70	2,646
Romania	8,244	84,817
Russia	1,377	6,625
	125,301	224,204

#### Business segment

The CNE Group's assets, liabilities and capital expenditure are almost entirely attributable to a single business segment of provision of technology and engineering services to ethanol, ethanol downstream product and biobutanol producers. Therefore, the CNE Group does not have separately reportable business segments under IAS 14 *Segmental Reporting*. Nonetheless the CNE Group's revenue and results can be classified into the following streams:

- 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
<b>Revenue</b>			
Year ended 31 December 2009	98,761	26,540	125,301
Year ended 31 December 2008	216,508	7,700	224,208
<b>Results</b>			
Year ended 31 December 2009	22,282	9,238	31,520
Year ended 31 December 2008	47,658	300	47,958

## CHINA NEW ENERGY LIMITED

### 29. Contingencies

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

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

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

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

### 30. Subsequent events

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

### 31. Prior year adjustment

In the preparation of these financial statements, the Directors reviewed amounts due from customers from construction contracts as at 31 December 2008 and 2007 and identified errors in respect of provisions and adjustments on certain balances. As a result, adjustments relating to the year ended 31 December 2008 and 2007 amounted to RMB27,214,629 and RMB10,274,000, respectively, were made.

Furthermore, during the year ended 31 December 2008, the debt component of the US Dollar denominated convertible bonds were incorrectly translated into the presentational currency of the Company (British Pound Sterling) and of the Group (Chinese Renminbi) using historical rates. By re-translating at the year end rates as at 31 December 2008, an exchange loss amounting to RMB8,840,468 arose was posted as a prior period adjustment.

In October 2008, a redemption agreement was entered into between the Company and the convertible bond holder where the Company agreed to repay US\$8 million as full redemption of the principal amount of US\$12 million. The convertible bond was adjusted at its fair value at redemption date and as a result, an amortised expense of US\$1,084,000 (RMB9,621,470) arose. This amortised expense was not originally reflected in the financial statements for the year ended 31 December 2008.

The above adjustments were made as prior year adjustments given their nature and materiality to the respective financial statements.