

CHINA NEW ENERGY LIMITED

Company Registration No. 93306 (Jersey)

**CHINA NEW ENERGY LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

CHINA NEW ENERGY LIMITED

COMPANY INFORMATION

Directors	Yu Weijun Tang Zhaoxing Chen Yong Richard Bennett	Executive Chairman Chief Executive Officer Non-Executive Director Non-Executive Director
Company secretary	Computershare Company Secretarial Services (Jersey) Limited	
Registered office	Queensway House Hilgrove Street St Helier JE1 1ES	
Business address	8 Floor, Technology Integration Building of GIEC, No 4, Nengyuan Rd, Wushan, Tianhe District, Guangzhou 510640 P.R. China	
Registered number	93306 (Jersey)	
Auditors	UHY Hacker Young LLP Quadrant House 4 Thomas More Square London E1W 1YW	
Nominated adviser	Daniel Stewart Becket House 36 Old Jewry London EC2R 8DD	
Broker	Cairn Financial Advisers LLP 61 Cheapside London EC2V 6AX	
Registrars	Computershare Investor Services (Jersey) Limited Queensway House Hilgrove Street St. Helier Jersey JE1 1ES	
Website	http://www.chinanewenergy.co.uk/	

CHINA NEW ENERGY LIMITED

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CHINA NEW ENERGY LIMITED

CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2013

For the year ended 31 December 2013, the Group's total revenues were RMB 44million (c. £4.4 million) a decrease of 70.0% from RMB 146million (c. £14.6m), which is a result of a slow down of sales of biorefineries in developed countries. CNE's management responded to the changing market conditions and we have refocused our business development activities on the emerging markets of South East Asia, Eastern Europe and Africa, and I am pleased to report that the group secured new contracts in 2013 up to a total value of RMB 656.9million (c. £65.7 million) and our total order book is RMB 672million (c. £67.2 million), which continues to give the Board strong confidence in our future prospects.

2013 was very much a transition year for CNE as we sought to restructure our finances. Firstly, CNE has fully repaid our bonds to Citadel and I am pleased to report that CNE has no outstanding bonds or loans, and as a result of this debt restructuring we recorded an exceptional income of RMB 24.8million (c. £2.48 million). Secondly, we tried to achieve our goal of acquiring an operating biorefinery with the purpose of delivering a second revenue stream to the Company as well as providing a case study for our advanced 2nd generation cellulosic biorefinery technology. During the year we entered into an agreement to acquire a 75% interest in Harbin China Distillery Company Limited, but we later decided not to complete the transaction. However, it still remains a goal of the board to acquire an operating biorefinery, which we expect will help us deliver more consistent annual revenues.

The gross profit for the year was RMB 2.3million (c. £0.23 million) down from RMB 26million (c. £2.6million), which is in line with the decreased revenues. The selling and administrative expenses decreased by 20.4% from RMB 19.6million (c. 1.96million) to RMB 15.6million (c. £1.56million), and other operating increased by 13% from RMB 1.5million (c. 0.15million) to RMB 1.7million (c. £0.17million), excluding the non-recurring items of RMB 33.8million (c. £ 3.38million) for bad debts provision and RMB 30.8million (c. £3.08million) for impairments loss to investment.

For the year 2013, the company recorded a net loss for the year of RMB 59.2m (c. £5.92million), a decrease from a net profit of RMB 26.2million (c. £2.62million).

Operational Review

The Group principally provides EPC (Equipment, Procurement and Construction) services and VAS (Value Added Service) to ethanol and biobutanol producers. The EPC team primarily design and build commercial-scale biorefineries that convert feedstock into ethanol for both the biofuel and edible alcohol markets, whilst the VAS team provide services and technology to optimise the ethanol production at existing biorefineries.

CNE is a market leader in China at designing and building 1st Generation biorefineries that convert agricultural feedstock such as corn, cassava and sugarcane into ethanol. We have completed more than 100 Generation 1 projects in China and around the world, but the market is now evolving as our customers in China and other developed nations seek to use cellulosic (non-food) feedstock such as corn-stover in 2nd Generation biorefineries.

It is a priority for CNE to commercialise this 2nd generation technology, as we believe this will stimulate demand for building new biorefineries in China and around the world. I am pleased to report that during the year we entered into an agreement with our existing client Jilin Province New Tian Long Alcohol Co., Ltd. ("NTLA") to provide specialist technology and services to assist in building a new, 2nd Generation biorefinery with a production capacity of 50,000 tonnes per year. NTLA is one of the largest ethanol producers in China and they have chosen CNE as their development partner in a multi-phase contract with the initial contract phase being RMB 10million (approx. £1m) to CNE over a 2 year period. This is a significant milestone for CNE as the contract will help CNE secure its position as a leader in the commercialisation of 2nd Generation biorefinery technology.

CHINA NEW ENERGY LIMITED

CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2013

The market for 1st Generation biorefineries has notably shifted from developed countries such as China to developing countries in SE Asia, Africa and Eastern Europe. CNE has refocused our sales and marketing activities to service these markets and during the year I am pleased to report that we completed the first biorefinery for UBBE in Thailand. This 1st Generation biorefinery with a production capacity of 100,000 tonnes of bioethanol was formally opened by Princess Sirindhorn of Thailand following a two year construction period and six month commissioning and handover phase. The project has proved to be a good reference, and contributed to CNE winning extensive new business including:

- UBBE in Thailand have ordered a second biorefinery with a production capacity of 100,000 tonnes of bioethanol per year. The new project will replicate the existing biorefinery and is expected to commence in late 2014, and forecast to complete by 2016, with a contract value for the Company of approximately RMB100million (£10million).
- Visontai Bioetanol Fejlesztő Korlátolt előlősségű Társaság ("Visontai") and Helvéciai Biouzemanyag Termelő es Kereskedő Kft. ("Helvéciai") in Hungary have ordered two biorefineries with a combined production capacity of approximately 100,000 tonnes of ethanol per year. The value of the contracts to CNE are €72m (approx. £60m) over a 4 year period. As part of the tendering process, CNE has already completed the design for both the projects. The first project is expected to complete within two years, entering full commercial production in 2017. The progress of construction will be subject to Visontai and Helvécia completing their fundraising milestones.
- Sunbird Bioenergy Africa Limited ("Sunbird") have entered into an MOU with CNE to design and build a flagship biorefinery in Nigeria with the possibility to extend this initial project to include a further nine biorefineries. The value of the initial project for the Company is expected to be in the region of RMB 150million (c. £15million). The first project will convert cassava feedstock into 100,000 tonnes of anhydrous ethanol per year. CNE will supply its proprietary pre-treatment, fermentation, distillation and dehydration technology to the project and the local project partner, OBAX World Limited, will complete the local civil engineering and construction of the biorefinery.

Whilst in the long-term it is our objective to sell 2nd Generation biorefineries to our existing customers, in the short-term we are providing VAS services including advanced fermentation and energy efficiency technologies that increase the profitability of their existing biorefineries. In 2013, CNE was recognised by the China Alcoholic Drinks Association's ("CADA") and received their annual award for Science and Technology Improvement for an energy efficiency project completed for Jilin Province New Tian Long Wine Co., Ltd. The recognition has been received in respect of the Company's patented Five-Tower Two-stage Differential Pressure Distillation Equipment & Process for Superfine-grade Edible Alcohol technology (Patent Number ZL 2007 1 0030550.8).

Research & Development

A major goal of CNE remains to commercialise second-generation technology that converts cellulosic biomass (agricultural waste) into fuel grade ethanol and butanol. During the year, our R&D team made significant progress in developing new processes that will help achieve that goal, and we applied for two new invention patents. One of which is a method for producing Alga with wastewater from bio-butanol production, and the other is a fermentation method for the production of Welan Gum. The Group now holds a total of 26 patents and intends to remain a leading developer of intellectual property in the bioenergy sector.

CHINA NEW ENERGY LIMITED

**CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2013**

Outlook

The Board believes that market for our products and services will continue to grow. We remain committed to completing the transition of our business and our strategy remains to focus on the following:

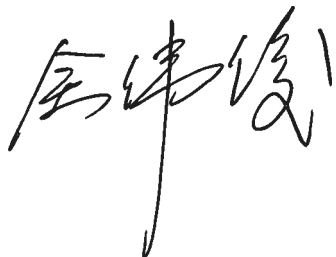
1. Commercialising 2nd generation biofuel technology, and building commercial scale 2nd Generation biorefineries in China and other developed countries.
2. Maximising the potential for our 1st Generation technology, and building commercial scale 1st Generation biorefineries in SE Asia, Africa and Eastern Europe.
3. Acquiring and operating our own biorefinery, which we can use as a test-bed for our 2nd generation technology, as well as an additional revenue stream that will provide consistent annual revenues to the business.

In general, I am optimistic about the Group's prospects in 2014 and beyond. We continue to expect challenges due to the global economic climate, but the general outlook for our industry is very exciting as it transitions to second-generation technology. The Board and Management are feeling energized and committed to deliver growth this year, and build a strong foundation for sustainable growth in the future.

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

Yu Weijun
Chairman

26 May 2014



CHINA NEW ENERGY LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2013

The Directors present their report and financial statements for the year ended 31 December 2013.

Principal activities

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

Business review

The Company recorded a decrease of 70% in revenue to RMB 43.8million for the financial year 2013, reflecting the decreased volume of contracts signed and executed. The total value of contracts secured in FY2013 was RMB 656.9million, up 294.3% from RMB 166.6million in FY2012.

With the downturn of ethanol market investment, our contracts' gross profit also decreased to gross loss of RMB 2.3million in FY2013, down 109% from RMB 26million in FY2012. This decline in gross profit margin was mainly attributed to the few very low margins projects and costs overrun at the large project.

Other operating income decreased from RMB 5.3million in FY2012 to RMB 1.1million in FY2013. However, there is an exceptional income of RMB 24.8million, debt restructuring income from the bond settlement with Citadel.

Loss for the year is RMB 59.2million represented a weak capital investment in the industry, especially in the Chinese domestic market, and the result of a big amount of impairment for the bad debts in the year.

Risks and uncertainties

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

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

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

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

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

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

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

Results and dividends

The consolidated revenue and loss for the year amounted to RMB 43.8 million (2012: RMB 146.2 million) and RMB 59.2 million (2012: profit for the year of RMB 21.8million) respectively, as set out in the Consolidated Statement of Comprehensive Income.

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

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DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

Post balance sheet events

Events after the balance sheet date have been disclosed in note 32.

Directors' interests

The following Directors have held office during the period and their interests as at 31 December 2013, all of which are beneficial unless otherwise stated, whether direct or indirect, of the Directors and their families in the issued share capital of the Company and options over Ordinary Shares which had been granted, are as follows:

Director	Number of Ordinary Shares	Percentage of Ordinary Shares
Yu Weijun	90,932,440	26.06%
Tang Zhaoxing (Re-appointed 19 July 2013)	48,000,000	13.76%
Chen Yong	-	
Richard Bennett (Re-appointed 19 July 2013)	-	-

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

Employment policies

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

Payments to suppliers

The Company's policy for the year ended 31 December 2013 is to settle the terms of payment with suppliers when agreeing the terms of the business transactions:

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

The number of days of trade purchases outstanding for the group as at 31 December 2013 was 304 days (2012: 113 days).

Impairment of investment

The Group assesses the impairment of investment whenever events or changes in circumstances suggest that the carrying amount of the asset may not be recoverable or may have been impaired. Accordingly the impairment is provided on investment in Songyuan Laihe Chemicals Co., Limited and Jilin Tianshun technology company limited.

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DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

Going concern

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

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

Financial Risk Management

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

Statement of Directors' responsibilities

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

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

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

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

Statement of disclosure to auditor

The Directors have confirmed that:

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

CHINA NEW ENERGY LIMITED

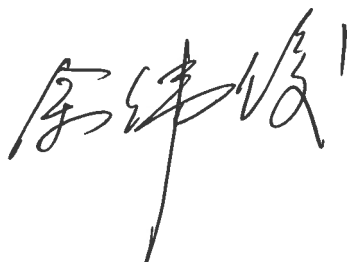
DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2013

Auditor

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

By order of the Board

Yu Weijun
Director
26 May 2014

A handwritten signature in black ink, appearing to be '余伟俊' (Yu Weijun), written in a cursive style.

CHINA NEW ENERGY LIMITED

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2013

Principles of Corporate Governance

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

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

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

Audit Committee

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

Remuneration Committee

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

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

AIM Compliance Committee

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

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

The Board

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

CHINA NEW ENERGY LIMITED

CORPORATE GOVERNANCE STATEMENT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

Directors

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

Internal controls

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

The key elements of the control systems in operation are:

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

Relations with shareholders

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

Substantial shareholders

As at 11 February 2014, the Company had been notified of the following beneficial interest of 3% or more in its shares:

Name of holder	Number of Ordinary Shares	Percentage of Ordinary Shares
Leader Vision Investment Limited (Yu Weijun)	64,000,000	18.34%
Asia Tianxing Investment Limited (Tang Zhaoxing)	48,000,000	13.76%
Best Full Investments Limited (Liang Hongtao)	48,000,000	13.76%
Cobalt Ventures Limited	40,398,640	11.58%
Tewin Capital Holding Limited (Yu Weijun)	26,932,440	7.72%
Mr Weiming Qiu	14,000,000	4.01%

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

We have audited the Financial Statements of China New Energy Limited for the year ended 31 December 2013, which comprise the Group and Company Statement of Comprehensive Income, Group and Company Statement of Financial Position, Group and Company Statement of Cashflows, Group and Company Statement of Change in Equity and the related notes.

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

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

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

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2013 and of the group's loss and parent company's loss for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

Matter on which we are required to report by exception

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

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

Emphasis of matter

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in note 3.2 to the financial statements concerning two key sources of estimation uncertainty: the allowance made for "trade and other receivables" and "construction contracts". For these items, the company has made allowance for impairments of RMB 63.1 million and RMB 19.8 million, respectively. The amounts of these impairment charges, taken together with current market conditions, are indicative of the high degree of uncertainty which attaches to these estimates. Although we consider that reasonable estimates have been made, the actual amount that will ultimately be recovered from trade and other receivables and from construction contracts cannot presently be determined.



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

Quadrant House
4 Thomas More Square
London E1W 1YW
26 May 2014

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

CHINA NEW ENERGY LIMITED

CONSOLIDATED AND COMPANY STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	Group		Company	
		As at 31 December		As at 31 December	
		2013	2012	2013	2012
		RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets					
Property, plant and equipment	4	11,747	11,245	-	-
Intangible assets	5	6,392	4,760	-	-
Trade receivables	10	3,523	3,523	-	-
Investment in subsidiary	6	-	-	65,590	89,922
Investment	7	150	30,950	-	-
		<u>21,812</u>	<u>50,478</u>	<u>65,590</u>	<u>89,922</u>
Current assets					
Inventories	8	15,698	12,286	-	-
Due from customers for construction contracts	9	48,516	86,832	-	-
Trade and other receivables	10	42,249	50,429	3,702	6,449
Notes receivable	28	1,000	7,600	-	-
Cash and cash equivalents	11	15,198	11,310	3,731	45
		<u>122,661</u>	<u>168,457</u>	<u>7,433</u>	<u>6,494</u>
Current liabilities					
Borrowings		6,600	-	-	-
Trade and other payables	12	88,702	95,901	13,153	19,460
Due to customers for construction contracts	9	15,414	10,525	-	-
Notes payable		-	5,404	-	-
Income tax payable		8,767	9,020	18	18
Convertible bonds	13	-	25,081	-	25,081
		<u>119,483</u>	<u>145,931</u>	<u>13,171</u>	<u>44,559</u>
Net current (liabilities)/assets		3,178	22,526	(5,738)	(38,065)
Non-current liabilities					
Deferred tax liabilities	24	815	859	-	-
		<u>815</u>	<u>859</u>	<u>-</u>	<u>-</u>
Net assets		24,175	72,145	58,852	51,857
Equity					
Share capital	14	1,214	1,134	1,214	1,134
Share premium	14	49,118	39,171	49,118	39,171
Combination reserve	16	(33,156)	(33,156)	-	-
Statutory reserve	18	12,328	12,328	-	-
Convertible bonds reserve	13	-	6,549	-	6,549
Warrant reserve	17	1,673	1,673	1,673	1,673
Own shares	19	(5,853)	(5,853)	-	-
Accumulated earnings/(losses)		(24,690)	27,954	(8,101)	(19,154)
Foreign currency translation reserve	15	23,541	22,345	14,948	22,484
		<u>24,175</u>	<u>72,145</u>	<u>58,852</u>	<u>51,857</u>

The notes on pages 22 to 64 form part of these financial statements.

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 26 May 2014.

Yu Weijun
Director



CHINA NEW ENERGY LIMITED

CONSOLIDATED AND COMPANY STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	Group		Company	
		Year ended 31 December		Year ended 31 December	
		2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Revenue	20	43,817	146,154	-	-
Cost of sales		<u>(46,155)</u>	<u>(120,177)</u>	-	-
Gross (loss) / profit		(2,338)	25,977	-	-
Other operating income	21	1,147	5,330	-	244
Selling and distribution expenses		(3,626)	(3,394)	-	-
Administrative expenses		(11,987)	(16,172)	(2,969)	(960)
Other operating expenses	22	(1,695)	(1,490)	-	-
Interest expenses		(995)	(1,435)	(655)	(902)
Loss on disposal of investment		-	(924)	-	(924)
Bad debt (provision)/write back		(33,772)	19,105	-	-
Impairment loss on investment		(30,800)	(750)	(16,738)	-
Gain on redemption of Citadel bond	13	24,866	-	24,866	-
Profit before income tax	23	<u>(59,200)</u>	<u>26,247</u>	<u>4,504</u>	<u>(2,542)</u>
Income tax expense	24	<u>7</u>	<u>(4,495)</u>	-	-
Profit for the financial year attributable to owners of the company		(59,193)	21,752	4,504	(2,542)
Other comprehensive income:					
Exchange difference arising on translating foreign operations		<u>1,196</u>	<u>(1,348)</u>	<u>(7,397)</u>	<u>(1,209)</u>
Total comprehensive income for the financial year		<u>(57,997)</u>	<u>20,404</u>	<u>(2,893)</u>	<u>(3,751)</u>
Total comprehensive income attributable to owners of the company		<u>(57,997)</u>	<u>20,404</u>	<u>(2,893)</u>	<u>(3,751)</u>
Earnings per share (RMB)					
Basic	25	<u>RMB (0.185)</u>	<u>RMB 0.077</u>		
Diluted	25	<u>RMB (0.190)</u>	<u>RMB 0.075</u>		

The notes on pages 22 to 64 form part of these financial statements.

All amounts are derived from continuing operations.

CHINA NEW ENERGY LIMITED

CONSOLIDATED AND COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013

Group	Note	Share capital RMB'000	Share premium RMB'000	Combination reserve RMB'000	Statutory reserve RMB'000	Convertible bonds RMB'000	Own shares & warrants reserve RMB'000	Accumulated earnings/(losses) RMB'000	Foreign currency translation reserve RMB'000	Total RMB'000
Balance at 31 December 2011		1,118	38,601	(33,156)	9,856	6,549	(4,180)	6,467	23,693	48,948
Profit for the year		-	-	-	-	-	-	21,752	-	21,752
Exchange difference arising on the translation of overseas subsidiaries		-	-	-	-	-	-	-	-	-
Total comprehensive income for the year		-	-	-	-	-	-	-	(1,348)	(1,348)
Issue of shares, net of share issue cost		16	570	-	-	-	-	21,752	(1,348)	20,404
Employee Benefit Trust charges		-	-	-	-	-	-	-	-	586
Transfer to statutory reserve		-	-	-	2,472	-	-	2,207	-	2,207
Balance at 31 December 2012		1,134	39,171	(33,156)	12,328	6,549	(4,180)	27,954	22,345	72,145
Profit for the year		-	-	-	-	-	-	(59,193)	-	(59,193)
Exchange difference arising on the translation of overseas subsidiaries		-	-	-	-	-	-	-	-	-
Total comprehensive income for the year		-	-	-	-	-	-	-	1,196	1,196
Issue of shares, net of share issue cost		80	9,947	-	-	-	-	(59,193)	1,196	(57,997)
Redemption of Citadel bonds		-	-	-	-	(6,549)	-	-	-	10,027
Balance at 31 December 2013		1,214	49,118	(33,156)	12,328	-	(4,180)	(24,690)	23,541	24,175

CHINA NEW ENERGY LIMITED

CONSOLIDATED AND COMPANY STATEMENT OF CHANGES IN EQUITY (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2013

Company	Note	Share capital RMB'000	Share premium RMB'000	Convertible bonds reserve RMB'000	Warrant reserve RMB'000	Accumulated earnings/(losses) RMB'000	Foreign currency translation reserve RMB'000	Total RMB'000
Balance at 31 December 2011		1,118	38,601	6,549	1,673	(16,612)	23,693	55,022
Profit for the year		-	-	-	-	(2,542)	-	(2,542)
Exchange difference arising on the translation of overseas subsidiaries		-	-	-	-	-	(1,209)	(1,209)
Total comprehensive income for the year		-	-	-	-	(2,542)	(1,209)	(3,751)
Issue of shares, net of share issue cost		16	570	-	-	-	-	586
Balance at 31 December 2012		1,134	39,171	6,549	1,673	(19,154)	22,484	51,857
Profit for the year		-	-	-	-	4,504	-	4,504
Exchange difference arising on the translation of overseas subsidiaries		-	-	-	-	-	(7,536)	(7,536)
Total comprehensive income for the year		-	-	-	-	4,504	(7,536)	(3,032)
Issue of shares, net of share issue cost		80	9,947	-	-	-	-	10,027
Redemption of convertible bonds		-	-	(6,549)	-	6,549	-	-
Balance at 31 December 2013		1,214	49,118	-	1,673	(8,101)	14,948	58,852

CHINA NEW ENERGY LIMITED

**CONSOLIDATED AND COMPANY STATEMENT OF CHANGES IN EQUITY (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2013**

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

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

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

Convertible bond reserve: The equity component of the convertible loan notes represents the remaining equity component of convertible notes which have not redeemed.

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

Accumulated earnings/(losses): The accumulated earnings/(losses) represent the profits and losses retained in the current and previous period.

Foreign currency translation reserve: The foreign currency translation reserve represents the exchange gains and losses resulting from translating foreign currency amounts to the reporting currency.

The notes on page 22 to 64 form part of these financial statements.

All amounts are derived from continuing operations.

Own shares relate to the holding of 8,079,728 (2012: 8,079,728) unallocated and unvested ordinary shares in the Company by the Employee Benefit Trust, representing 2.3% per cent (2012: 2.6%) of the ordinary shares in issue at 23 May 2011.

CHINA NEW ENERGY LIMITED

CONSOLIDATED AND COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013

	Group		Company	
	As at 31 December 2013	As at 31 December 2012	As at 31 December 2013	As at 31 December 2012
	RMB'000	RMB'000	RMB'000	RMB'000
Operating activities				
Profit/ before income tax	(59,200)	26,247	4,504	(2,542)
Adjustments for:				
Depreciation and amortisation	2,219	2,104	-	-
Administrative expenses-issue of shares to employees	-	2,207	-	-
Bad debt (provision)/written back	33,772	(19,105)	-	-
Loss/(gain) on disposal of property, plant and equipment	(223)	70	-	-
Loss/(gain) on disposal of financial assets	-	924	-	924
Redemption of Citadel bond	(24,866)	-	(24,866)	-
Interest income	(153)	(394)	-	-
Interest expenses	995	1,435	655	902
Impairment of investment	30,800	750	16,738	-
Operating cash flows before movements in working capital	(16,656)	14,238	(2,969)	(716)
Inventories	(3,412)	11,068	-	-
Construction work-in-progress	29,108	6,880	-	-
Trade and other receivables	(11,495)	(6,549)	113	1,620
Notes receivables	6,600	(4,450)	-	-
Trade and other payables	(1,117)	(4,900)	(1,628)	426
Notes payables	(5,404)	679	-	-
Cash generated from/(used in) operations	(2,376)	16,966	(4,484)	1,330
Income taxes paid	(246)	(182)	-	-
Net cash from/(used in) operating activities	(2,622)	16,784	(4,484)	1,330
Investing activities				
Proceeds from disposal of property, plant and equipment	-	-	-	-
Proceeds from disposal of financial assets	-	6,257	-	6,257
Acquisition of property, plant and equipment	(2,956)	(3,375)	-	-
Acquisition of intangible assets	(1,831)	(739)	-	-
Net cash outflow from acquisition of subsidiary	-	-	-	-
Payment for associated company in the course of acquisition	-	-	-	-
Net cash from/(used in) investing activities	(4,787)	2,143	-	6,257

CHINA NEW ENERGY LIMITED

CONSOLIDATED AND COMPANY STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2013

	Group		Company	
	As at 31 December		As at 31 December	
	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
<i>Financing activities</i>				
Short-term borrowing	6,600	(6,500)	-	-
Proceeds from issuance of shares	10,027	586	10,027	586
Proceeds from issuance/ (redemption) of convertible bonds	(4,488)	(8,171)	(4,488)	(8,171)
Dividend received	-	-	2,634	-
Interest received	153	394	-	-
Interest paid	(995)	(613)	(3)	(80)
<i>Net cash from/(used in) financing activities</i>	11,297	(14,304)	8,170	(7,665)
<i>Net increase/(decrease) in cash and cash equivalents</i>	3,888	4,623	3,686	(78)
Cash and bank balances at beginning of year	11,310	6,682	45	118
Effect of foreign exchange rate changes in cash and bank balances	-*	5	-*	5
<i>Cash and cash equivalents at end of year</i>	15,198	11,310	3,731	45

*amount less RMB 1,000

CHINA NEW ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

1. General

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

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

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

2. Summary of significant accounting policies

2.1. Basis of preparation

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

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

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

New IFRS standards and interpretations newly adopted

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

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

- Amendments to IAS 12 "Deferred tax: Recovery of Underlying Assets"; and
- Amendments to IAS 1 "Presentation of items of Other Comprehensive Income"

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

2. Summary of significant accounting policies (continued)

2.1. Basis of preparation (continued)

New IFRS standards and interpretations not yet adopted

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

- Amendments to IFRS 7, IAS 1, IAS 19, IAS 27, IAS 32, IAS 36 and IAS 39;
- IFRS 9 Financial Instruments ;
- IFRS 10 Consolidated Financial Statements;
- IFRS 11 Joint Arrangement;
- IFRS 12 Disclosure of Interests in Other Entities;
- IFRS 13 Fair Value Measurement;

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

Going concern

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

2.2. Basis of consolidation

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

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

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

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.

2. Summary of significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

2. Summary of significant accounting policies (continued)

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

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

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

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

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

2.5. Investments in associates

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

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

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

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

2. Summary of significant accounting policies (continued)

2.6. Property, plant and equipment

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

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

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

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

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

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

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

2.7. Intangible assets

Computer software

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

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

Land use rights

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

2. Summary of significant accounting policies (continued)

2.7. Intangible assets (continued)

Patent rights

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

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

2.8. Impairment of tangible and intangible assets excluding goodwill

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

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

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

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

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

2. Summary of significant accounting policies (continued)

2.9. Income tax

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

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

Deferred tax is recognised on the differences between the carrying amounts of assets and liabilities in the financial information and the corresponding tax bases used in the computation of taxable profit, and 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 the Statement of Comprehensive Income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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

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

2. Summary of significant accounting policies (continued)

2.10. Financial instruments

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

Effective interest method

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

Financial assets

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

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

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

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

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

Financial assets at fair value through profit and loss

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

2. Summary of significant accounting policies (continued)

2.10. Financial instruments (continued)

Loans and receivables

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

Available for Sale Investments

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

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

Impairment of financial assets

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

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

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

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

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

2. Summary of significant accounting policies (continued)

2.10. Financial instruments (continued)

Derecognition of financial assets

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

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

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

Other financial liabilities

Trade and other payables

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

Derecognition of financial liabilities

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

2. Summary of significant accounting policies (continued)

2.11. Inventories

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

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

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

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

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

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

2.13. Cash and cash equivalents

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

2.14. Incentive scheme charge

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

2. Summary of significant accounting policies (continued)

2.15. Leases

Operating Leases

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

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

2.16. Provisions

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

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

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

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

2.17. Share capital

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

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

2.18. Own shares

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

2. Summary of significant accounting policies (continued)

2.19. Retirement benefit costs

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

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

2.20. Compound financial instruments

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

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

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

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

2.21. Revenue recognition

Revenue from construction contracts

Please refer to Note 2.12 "Contract to construct specialised equipment" for the accounting policy for revenue recognition from construction contracts.

Interest income

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

Income from sale of scrap materials

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

2. Summary of significant accounting policies (continued)

2.22. Foreign currency transactions and translation

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

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

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

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

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

2.23. Segment reporting

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

2.24. Research and development expenditure

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

3. Critical accounting judgements and key sources of estimation uncertainty

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

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

3.1 Critical judgements in applying the entity's accounting policies

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

Impairment of financial assets

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

Deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that the taxable profit will be available against which the deferred tax asset recognised can be utilised. Management's judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future tax planning strategies.

Impairment of construction in progress

Provision for impairment on construction in progress is made when the construction project is suspended for a long period; the construction project is technically and physically obsolete and its economic benefits to the Group is uncertain; or other evidences can prove the existence of the decline in value of construction project. An impairment loss is recognised individually for the shortfall of the recoverable amount of construction in progress below its carrying amount. The carrying amounts of the CNE Group's, construction in progress as at 31 December 2012 and 2013 are disclosed in Note 9.

3.2 Key sources of estimation uncertainty

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

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

3.2 Key sources of estimation uncertainty (continued)

Allowance for trade and other receivables

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

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

The allowance policy for doubtful debts of the Group is based on the ageing analysis and management's ongoing evaluation of the recoverability of the outstanding receivables. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the assessment of the creditworthiness and the past collection history of each customer. If the financial conditions of these customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The carrying amounts of the Group's trade and other receivables as at 31 December 2013 and 2012 were RMB 42.2 million and RMB 50.4 million, after bad debt provision of RMB 63.1 million and RMB 41.7 million, respectively. The current market conditions indicate that there is material uncertainty regarding the recoverability of trade receivables.

Construction contracts

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

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

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

The Group's accounting approach reflects a sound judgement as potential losses on contract are being considered and reflected with its probability immediately upon occurrence while contract revenue which cannot be estimated reliably is realised only after confirmed by written agreement. The carrying amounts of the Group's construction contracts due from customers as at 31 December 2013 and 2012 were RMB 33.1 million and RMB 76.3 million, after allowance for impairment (irrecoverable costs) of RMB 19.8 million and RMB 5.7 million, respectively. There is material uncertainty to fully recover costs of each contract.

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

3.2 Key sources of estimation uncertainty (continued)

Impairment of intangible assets

Determining whether intangible assets are impaired requires an estimation of the value in use of the cash-generating units ("CGU") to which intangible assets have been allocated. The value-in-use calculation requires the entity to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value. No impairment loss was recognised during the financial year. The carrying amounts of the intangible assets as at 31 December 2012 and 2013 were RMB 4.8million and RMB 6.4million respectively.

Depreciation of property, plant and equipment

The Group depreciates the property, plant and equipment, using the straight-line method, over their estimated useful lives after taking into account of their estimated residual values. The estimated useful life reflects management's estimate of the period that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. The residual value reflects management's estimated amount that the Group would currently obtain from the disposal of the asset, after deducting the estimated costs of disposal, as if the asset were already of the age and in the condition expected at the end of its useful life. Changes in the expected level of usage and technological developments could affect the economics, useful lives and the residual values of these assets which could then consequentially impact future depreciation charges. The carrying amounts of the Group's property, plant and equipment as at 31 December 2012 and 2013 were RMB 11.2million and RMB 11.7million respectively.

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer demand and competitor actions in response to severe industry cycle. Management reassesses these estimates at each balance sheet date. The carrying amount of the Group's inventories as at 31 December 2012 and 2013 were RMB 12.3million and RMB 15.7million respectively.

Share-based payment

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

Impairment of investment

The Group follows the guidance of IAS 36 to determine when the investment is impaired. This determination requires significant judgment. In making this judgment, the group evaluates, among other factors, the duration and extent to which the investment is less than its cost and the recoverable amounts, including factors such as market conditions, changes in business, operational strategies and significant changes expected to take place in the near future.

The directors are of the opinion that the Group's interest in the investee will not generate profit and cash flows in the near future. Accordingly, an impairment provision is required against the carrying value on the investment. The carrying amount of the Group's investment as at 31 December 2012 and 2013 were RMB 31million and RMB 0.2million respectively.

CHINA NEW ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2013

4. Property, plant and equipment

	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Leasehold improvements RMB'000	Total RMB'000
As at 31 December 2012					
Cost					
At 1 January 2012	9,663	4,432	743	463	15,301
Additions	468	2,683	221	3	3,375
Disposals	-	(28)	(264)	(356)	(648)
At 31 December 2012	10,131	7,087	700	110	18,028
Accumulated depreciation					
At 1 January 2012	3,278	1,548	388	199	5,413
Charge for the year	937	673	160	178	1,948
Disposals	-	(21)	(237)	(320)	(578)
At 31 December 2012	4,215	2,200	311	57	6,783
Net book value					
At 31 December 2012	5,916	4,887	389	53	11,245
As at 31 December 2013					
Cost					
At 1 January 2013	10,131	7,087	700	110	18,028
Additions	124	2,800	32	-	2,956
Disposals	(24)	(1,022)	(89)	(28)	(1,163)
At 31 December 2013	10,231	8,865	643	82	19,821
Accumulated depreciation					
At 1 January 2013	4,215	2,200	311	57	6,783
Charge for the year	792	1,043	171	14	2,020
Disposals	(18)	(606)	(80)	(25)	(729)
At 31 December 2013	4,989	2,637	402	46	8,074
Net book value					
At 31 December 2013	5,242	6,228	241	36	11,747

The company holds no fixed assets.

CHINA NEW ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2013

5. Intangible assets

	Computer software	Patent	Technology Knowhow	Land use management	Development cost	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost						
As at 1 January 2012	70	70	250	3,613	902	4,905
Additions	-	-	-	-	739	739
Transfer	-	731	-	-	(731)	-
As at 31 December 2012	70	801	250	3,613	910	5,644
Additions	-	-	-	-	1,831	1,831
Transfer	-	482	-	-	(482)	-
As at 31 December 2013	70	1,283	250	3,613	2,259	7,475
Accumulated amortisation						
As at 1 January 2012	37	14	250	427	-	728
Amortisation for the year	6	67	-	83	-	156
As at 31 December 2012	43	81	250	510	-	884
Amortisation for the year	6	110	-	83	-	199
As at 31 December 2013	49	191	250	593	-	1,083
Carrying amount						
As at 31 December 2012	27	720	-	3,103	910	4,760
As at 31 December 2013	21	1,092	-	3,020	2,259	6,392

The company holds no intangible assets.

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

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

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

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

CHINA NEW ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2013

6. Investment in subsidiary (Company)

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
As at 1 January and 31 December	61,609	62,087
Permanent diminution		
Charge for the year	17,356	-
Exchange difference	(20,337)	(27,835)
As at 31 December	(2,981)	(27,835)
As at 31 December	64,590	89,922

*The permanent diminution charge includes RMB 14,911,000 to offset the translation reserve.

The details of the subsidiary are as follows:

Name of subsidiary/ place of incorporation	Principal activity	Effective equity interest held by the Group	
		As at 31 December	
		2013	2012
Guangdong Zhongke Tianyuan New Energy Science and Technology Co Ltd / The PRC	Provision of engineering, procurement and construction services to ethanol producers.	100%	100%
Guangdong Boluo Jiuneng High Technology Engineering Co Ltd / The PRC	Fabrication and manufacture of equipment in accordance with project requirements and designs of ZKTY and provision of services to ZKTY	100%	100%
China New Energy Limited Employee Benefit Trust	The Trust is established with a view to providing benefits for the employees and officers of the Company, its holding company and its subsidiaries.	-	-

CHINA NEW ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2013

7. Investment

	Group	
	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Cost		
As at 1 January	31,700	1,700
Acquired during the year	-	30,000
As at 31 December	31,700	31,700
Impairment losses		
As at 1 January	750	-
Impairment loss for the year	30,800	750
As at 31 December	31,550	750
As at 31 December	150	30,950

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

Name of subsidiary/ place of incorporation	Principal activity	Effective equity interest held by the Group	
		As at 31 December	
		2013	2012
Jilin Tianshun Bio- chemical Technology Co Ltd / The PRC	Provision of R&D achievements of grain deep and technical service	34%	34%
Songyuan Laihe Chemicals Co., Limited	Manufacturer of biobutanol	4.63%*	2.86%

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

In 2012, the Group has subscribed 4.63% of the share capital amounting RMB 89.4 million of Songyuan Laihe Chemicals Co., Limited ("Songyuan Laihe") for RMB 30 million as part of debts settlement for construction fund owed by Songyuan Laihe. The shareholdings are currently held in nominee entrusted to an individual, PRC national and also the employee of the Group.

Following the new share placement at Songyuan Laihe, its share capital has increased from RMB 89.4 million to RMB 510 million, the Group's effective equity interest has then diluted from 4.63% to 2.86% as results of enlarged share capital.

*In 2013, one of the Songyuan Laihe's institutional investor had withdrawn the capital. The share capital of Songyuan Laihe had reduced and reversed back to RMB 89.4m, the Group's effective equity interest has then returned to 4.63%. As result of this capital reduction, the directors are of the opinion that Songyuan Laihe investments carry almost zero intrinsic value due to the its accumulated trading loss and its ability to return to profitability in the near future accordingly 100% impairment loss was recognised.

CHINA NEW ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2013

8. Inventories

	Group As at 31 December	
	2013 RMB'000	2012 RMB'000
Raw materials	7,644	7,404
Work-in-progress	8,054	4,881
	15,698	12,285

The cost of inventories recognised as expense and included in "cost of sales" in 2012 and 2013 amounted to RMB 89.3million and RMB 20.1million, respectively.

9. Due from/to customers for construction contracts

	Group As at 31 December	
	2013 RMB'000	2012 RMB'000
Aggregate costs incurred and profits recognised to - date	313,757	816,238
Less: Progress billings on outstanding contracts as at the year end	(260,901)	(734,273)
	52,856	81,965
Allowance for impairment	(19,754)	(5,657)
	33,102	76,308
<u>Presented as:</u>		
Due from customers for construction contracts	48,516	86,832
Due to customers for construction contracts	(15,414)	(10,525)
	33,102	76,307

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	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
At beginning of the year	5,657	5,657	-	-
Allowance for impairment	14,097	-	-	-
At end of the year	19,754	5,657	-	-

CHINA NEW ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2013

10. Trade and other receivables

	Group As at 31 December		Company As at 31 December	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
<u>Current</u>				
Trade receivables	81,865	80,762	-	-
Allowance for impairment of receivables	(63,120)	(41,723)	-	-
	18,745	39,039	-	-
Due from group undertakings	-	-	3,702	6,449
Due from related parties	8,073	2,423	-	-
VAT recoverable	-	-	-	-
Others receivables	6,106	1,828	-	-
Deposits	9,183	6,967	-	-
Prepayments	142	172	-	-
	42,249	50,429	3,702	6,449
<u>Non-current</u>				
Trade receivables	3,523	3,523	-	-
	3,523	3,523	-	-

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

Other receivables comprise loans to employees.

As at 31 December 2012 and 2013 retention monies held by customers for contract work amounted to RMB 2million and RMB 1million, respectively.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2013

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	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Current				
Face value	82,321	81,309	-	-
Discount on trade receivables	(456)	(547)	-	-
Fair value	<u>81,865</u>	<u>80,762</u>	<u>-</u>	<u>-</u>
Non-current				
Face value	3,776	3,776	-	-
Discount on trade receivables	(253)	(253)	-	-
Fair value	<u>3,523</u>	<u>3,523</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	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
At beginning of the year	41,723	60,828	-	-
Allowance during the year	22,797	-	-	-
Write off	(1,400)	(19,105)	-	-
At end of the year	<u>63,120</u>	<u>41,723</u>	<u>-</u>	<u>-</u>

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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11. Cash and cash equivalents

	Group As at 31 December		Company As at 31 December	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Cash at bank and on hand	15,198	11,310	3,731	45

The currency profiles of the CNE Group's cash and cash equivalents as at 31 December 2012 and 2013 are disclosed in Note 28.

12. Trade and other payables

	Group As at 31 December		Company As at 31 December	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Trade payables	38,452	37,406	-	-
Other payables				
- Advance deposit from customer	16,454	14,660	-	-
- Other payables and accruals	5,931	10,889	321	5,044
- VAT payables	26,183	29,278	-	-
- Interest payables	-	2,603	-	2,603
- Due to group undertakings	-	-	11,991	11,588
- Due to directors	1,682	1,065	841	225
	<u>88,702</u>	<u>95,901</u>	<u>13,153</u>	<u>19,460</u>

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

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

13. Convertible bonds

On 30 July 2007, the Company entered into a subscription agreement with Citadel. Under the subscription agreement, Citadel subscribed for an aggregate principal amount of US\$ 12million 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\$ 8million to Citadel as full redemption of the principal amount of US\$ 12million.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2013

13. Convertible bonds (continued)

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\$ 4million would be paid to Citadel and that the Convertible Bonds would be cancelled. However, as the Reverse Acquisition did not occur, Citadel continues to hold an aggregate principal amount of US\$8 million of Convertible Bonds (the "Debt Principal"). Therefore, the parties wished to restructure the Debt Principal and entered into a term sheet relating to the settlement of the outstanding convertible bonds dated 10 September 2010 (the "Term Sheet").

On 21 December 2010, the Company and Citadel recorded the terms agreed for the full and final settlement of the Debt Principal on a binding basis (the "Settlement Agreement"). The settlement agreement transfers US\$ 4million into interest-bearing (10% p.a.) non-convertible bonds of US\$ 1million and US\$ 3million principals, also cancels the convertible bond of US\$ 4million (RMB 25million in equivalent) once a number of conditions are fulfilled. During the period, US\$ 0.5million was paid.

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

In 2012, US\$ 1.28million non-convertible bond principal was repaid and remaining balance will be settled in the following year based on an extended agreement.

In December 2013, the Group redeemed the remaining balance of US\$0.72million and met all the conditions to cancel the convertible bond of US\$ 4million (RMB 25million in equivalent), which has been recognised in the Statement of Comprehensive Income.

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		Company	
	As at 31 December		As at 31 December	
	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Face value of convertible	-	31,630	-	31,630
Equity conversion component	-	(6,549)	-	(6,549)
Fair value of debt	-	25,081	-	25,081
Represented by:				
Current	-	25,081	-	25,081
Fair value of debt	-	25,081	-	25,081

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2013

14. Share capital

	Number of Shares	Share Capital		Share premium	
		£ '000	RMB '000	£ '000	RMB '000
As at 1 January 2012	310,616,862		1,118		38,601
Placing on 25 Sept 2012	6,000,000	2	16	59	601
Less share issue costs				(3)	(31)
As at 31 December 2012	316,616,862		1,134		39,171
Placing on 4 Nov 2013	10,000,000	3	24	248	2,425
Less share issue costs				(17)	(171)
Placing on 25 Nov 2013	8,571,429	2	21	298	2,966
Less share issue costs				(21)	(209)
Placing on 26 Nov 2013	6,666,667	2	17	248	2,462
Placing on 29 Nov 2013	7,107,143	2	18	246	2,474
As at 31 December 2013	348,962,101		1,214		49,118
Total shares in issue	348,962,101				

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

On 4 November 2013, the company placed 10,000,000 new ordinary shares of 0.025p each ("Ordinary Shares") at a price of 2.5 pence per share, raising gross proceeds of £250,000 for the Company.

On 25 November 2013, the company placed 8,571,429 new ordinary shares of 0.025p each ("Ordinary Shares") at a price of 3.5 pence per share, raising gross proceeds of £300,000 for the Company.

On 26 November 2013, the company placed 6,666,667 new ordinary shares of 0.025p each ("Ordinary Shares") at a price of 3.75 pence per share, raising gross proceeds of £250,000 for the Company.

On 29 November 2013, the company placed 7,107,143 new ordinary shares of 0.025p each ("Ordinary Shares") at a price of 3.5 pence per share, raising gross proceeds of £248,750 for the Company.

The substantial shareholders have not changed from 31 December 2013.

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

CHINA NEW ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2013**

15. Foreign currency translation reserve

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

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

16. Combination reserve

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

17. Warrants reserve

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

As at 31 December 2013, none of the above warrants had been exercised.

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

	2013		2012	
	Average exercise price in £ per share GBP	Number of shares	Average exercise price in £ per share GBP	Number of shares
At beginning of the year	0.07	2,966,845	0.07	2,966,845
Granted	-	-	-	-
Forfeited	-	-	-	-
Executed	-	-	-	-
Expired	-	-	-	-
At end of year	<u>0.07</u>	<u>2,966,845</u>	<u>0.07</u>	<u>2,966,845</u>

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

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

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

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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18. 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.

19. Employee Benefit Trust

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

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

Income statement charge

	Group		Company	
	As at 31 December		As at 31 December	
	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Original scheme	-	2,207	-	-

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

20. Revenue

	Group	
	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Contract revenue	44,367	146,561
Less: sales tax and other added taxes	(550)	(407)
	<u>43,817</u>	<u>146,154</u>

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2013**

21. Other operating income

	Group	
	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Interest income	153	393
Sale of scrap materials	23	321
Gain on disposal of property, plant and equipment	242	226
Subsidy income	729	571
Sundry income	-	3,819
	<u>1,147</u>	<u>5,330</u>

22. Other operating expenses

	Group	
	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Research and development expense	1,301	967
Bank charges	103	513
Foreign currency exchange loss	1	-
Others	290	10
	<u>1,695</u>	<u>1,490</u>

23. Profit/(loss) before income tax

	Group	
	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Profit before taxation is arrived at after charging:		
Staff costs including directors remuneration	8,807	8,406
Depreciation of property, plant and equipment	2,020	1,948
Net (gain)/ loss on disposal of property, plant and equipment	(223)	70
Amortisation of intangible assets	199	156
Operating lease	536	545
Auditors Remuneration:		
Audit Services	302	300
Non audit services	314	-
	<u>314</u>	<u>-</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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24. Income tax expense

	Group	
	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Current income tax	37	(4,549)
Deferred tax asset	(44)	54
Current income tax	(7)	(4,495)

The Company is regarded as resident for the tax purposes in Jersey. There are no application taxes in Jersey for the company.

Reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rate for the years ended 31 December 2012 and 2013 are as follows:

	Group	
	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Profit before income tax	(59,200)	26,997
Income tax using PRC tax rate of 15% (2012: 15%)	(8,880)	4,050
Tax effects of:		
- Non-deductible expenses	-	381
- Tax exempt	(3,174)	161
- Unrelieved tax losses carried forward	3,188	(43)
- Difference in foreign tax rate	82	-
- Change in unrecognised temporary difference	8,821	-
- Other adjustment	-	-
- Deferred tax movement	(44)	(54)
	(7)	4,495

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

Movements in deferred tax asset are as follows:

	Group	
	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
At beginning of the year	200	261
Tax paid	-	-
Utilised in the year	(23)	(61)
At end of the year	177	200

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2013

24. Income tax expense (continued)

Movements in deferred tax liabilities are as follows:

	Group	
	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
At beginning of the year	1,059	1,174
Charged/reversal for the year	(67)	(115)
At end of the year	992	1,059
Net deferred tax assets/(liabilities)	(815)	(859)

25. Earnings per share

The calculation for earnings per share (basic and diluted) for the relevant period is based on the profit after income tax attributable to equity holder for the years ended 31 December 2012 and 2013 are as follows:

	Earnings RMB'000	Weighted average number of shares '000	Earnings per share RMB
2013			
Basic	(59,194)	320,314	(0.185)
Diluted	(59,194)	312,234	(0.190)
2012			
Basic	21,752	312,211	0.070
Diluted	21,752	320,291	0.068

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

	2013 '000	2012 '000
Weighted average number of ordinary shares used in the calculation of basic earnings per share	320,314	312,211
Dilutive effect of EBT	8,080	8,080
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	328,394	320,291

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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25. Earnings per share (continued)

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

	2013 RMB'000	2012 RMB'000
(Loss)/ profit for the year	(59,194)	21,752
Add back: EBT charge	-	2,207
	(59,194)	23,959

	Adjusted Earnings RMB'000	Weighted average number of shares '000	Earnings per share
2013			
Basic adjusted	(59,194)	320,314	(0.185)
Diluted adjusted	(59,194)	328,393	(0.180)
2012			
Basic adjusted	23,959	312,211	0.077
Diluted adjusted	23,959	320,291	0.075

At 31 December 2013, 2.96million warrants (2012: 2.96million) were excluded from the diluted weighted average number of ordinary shares calculation as their effect would have been anti-dilutive.

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

26. Operating lease commitments

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

	Group	
	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Within one year	668	485
After one year but before five years	645	367
	1,313	852

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2013

27. Significant related party transactions

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

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

As at balance sheet date, the Group has a non-trade receivable due from Bengbu Boltech Bio-technology Co., Ltd of RMB Nil (2012: RMB 123,000).

As at balance sheet date, the Group has a non-trade receivable due from Guangdong Zhongke Tianyuan Regeneration Energy Co., Ltd of RMB 8,073,000 (2012: RMB 2,300,000).

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

b) Key management personnel compensation is analysed as follows:

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Remuneration	1,554	786
Other short term benefits	-	-
	<u>1,554</u>	<u>786</u>

c) Directors' emoluments

Directors' remuneration for the year was:

	Short term employment benefits RMB'000	Post employment benefits RMB'000	Total RMB'000
2013			
Yu Weijun	544	-	544
Tang Zhaoxing	544	-	544
Chen Yong	97	-	97
Richard Bennett	369	-	369
Aggregate emoluments	<u>1,554</u>	<u>-</u>	<u>1,554</u>
2012			
Yu Weijun	299	-	299
Tang Zhaoxing	299	-	299
Chen Yong	100	-	100
Shiang Foo (resigned)	68	-	68
Richard Bennett	20	-	20
Aggregate emoluments	<u>786</u>	<u>-</u>	<u>786</u>

28. Financial risk management

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

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

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

Credit risk

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

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

As at 31 December 2012, and 2013, substantially all the cash and bank balances as detailed in Notes 11 to the financial statements, are held in major financial institutions which are regulated and located in the PRC, which management believes are of high credit quality. The management does not expect any losses arising from non-performance by these counterparties.

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

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Cash and cash equivalents	15,198	11,310
Trade and other receivables	42,249	50,429
Notes receivables	1,000	7,600
	58,447	69,339

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2013

28. Financial risk management (continued)**Credit risk (continued)**

At the balance sheet date, the Group's trade and other receivable was due from the related parties and third parties. There was significant concentration of credit risk in the Group's trade receivables as that accounted for 78.5% and 45.4% of the total trade and other receivables as at 31 December 2012 and 2013 respectively. The aggregate of the single customer's trade receivable is more than 10% were amounting to RMB 8.9m (2012: RMB 5m)

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables and amount due from customers for construction contracts. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets. The management judgments for this allowance are disclosed in note 3.2.

The allowance for impairments in respect to trade receivables and amount due from customers for construction contracts are disclosed in note 10 and note 9 respectively.

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>	
	2013 RMB'000	2012 RMB'000
Less than 30 days	3,293	5,946
31-60 days	-	3,142
Over 60 days	15,908	30,498
	<u>19,201</u>	<u>39,586</u>

Trade receivables that are impaired

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

	<u>As at 31 December</u>	
	2013 RMB'000	2012 RMB'000
Less than 30 days	-	-
31-60 days	-	-
Over 60 days	63,120	41,723
	<u>63,120</u>	<u>41,723</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2013

28. Financial risk management (continued)

Currency risk

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

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

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

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

<u>At 31 December 2013</u>	RMB'000	£'000	US\$'000	EUR'000	HK\$'000	Total
Financial assets						
Financial asset at fair value through profit and loss	-	-	-	-	-	-
Trade and other receivables	42,249	-	-	-	-	42,249
Notes receivables	1,000	-	-	-	-	1,000
Cash and bank balances	11,419	3,667	97	15	-	15,198
Financial liabilities						
Trade and other payables	87,842	860	-	-	-	88,702
Notes payables	-	-	-	-	-	-
Convertible bond	-	-	-	-	-	-
Net financial assets	(33,174)	2,807	97	15	-	(30,255)
Less: Net financial assets denominated in the functional currency	(33,174)	-	-	-	-	(33,174)
Net currency exposure	-	2,807	97	15	-	2,919

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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28. Financial risk management (continued)

Currency risk (continued)

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

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>	
	2013	2012
	RMB'000	RMB'000
£ against RMB		
- strengthen	255	(44)
- weaken	(312)	(54)
US\$ against RMB		
- strengthen	9	(2,925)
- weaken	(11)	3,575
EUR against RMB		
- strengthen	1	1
- weaken	(2)	(2)
HK\$ against RMB		
- strengthen	-	-
- weaken	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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28. Financial risk management (continued)**Interest rate risk**

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

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

Liquidity risk

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

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserve of cash to meet its liquidity requirements in the short and long term. At present, the Group is financed by equity and short term borrowing.

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

	Less than one year RMB'000	Later than one year RMB'000	Total RMB'000
<u>31 December 2013</u>			
Borrowing	6,600		6,600
Trade and other payables	88,702	-	88,702
Notes payables	-	-	-
Convertible bonds	-	-	-
	95,302	-	95,302
<u>31 December 2012</u>			
Trade and other payables	95,901	-	95,901
Notes payables	5,404	-	5,404
Convertible bonds	25,081	-	25,081
	126,386	-	126,386

Commodity price risk

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

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

28. Financial risk management (continued)**Capital risk management**

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

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

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

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

The gearing ratios as at 31 December 2012 and 2013 were as follows:

	<u>Year ended 31 December</u>	
	2013 RMB'000	2012 RMB'000
Total debt	119,483	145,931
Less: Cash and bank balances	(15,198)	(11,310)
Net debt	<u>104,285</u>	<u>134,621</u>
Total equity	<u>24,175</u>	<u>72,145</u>
Total capital	<u>128,460</u>	<u>206,766</u>
Gearing ratio	<u>81%</u>	<u>65%</u>

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

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

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2013**

29. Fair value of financial instruments

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

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

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

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

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

Group	2013	2012
	RMB'000	RMB'000
Trading investments carried at fair value through profit or loss		
As at 1 January	-	7,181
Additions in the year	-	-
Disposals in the year	-	7,181
Fair value movement during the year	-	-
As at 31 December	-	-
	2013	2012
	RMB'000	RMB'000
Listed equity securities		
Bio-Dynamic Group Limited	-	-
	-	-

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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30. Segment reporting

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

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

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
PRC	46,517	112,290
Taiwan	-	-
Romania	(197)	136
America	-	-
Thailand	(1,953)	33,728
	44,367	146,154

Business segment

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

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

	EPC activities RMB'000	VAS RMB'000	Total RMB'000
Revenue			
Year ended 31 December 2013	36,221	8,146	44,367
Year ended 31 December 2012	144,450	2,111	146,561
Results			
Year ended 31 December 2013	(3,285)	1,497	(1,788)
Year ended 31 December 2012	26,759	(374)	26,385

31. Contingent liabilities

At 31 December 2013, there were several legal cases against one of the wholly owned subsidiaries and these legal cases were involved with the customers over the disputed debts owing to the Group. Although the liability is not admitted, if defence against the action is unsuccessful, the Group could liable for the legal cost and possibly fines. Based on the legal advice, the directors are in the opinion that the outcome of the action to have a material effect on the Group's financial position.

32. Events after the balance sheet date

As announced on 18 December 2013, the Group entered into a Memorandum of Understanding ("MOU") with Sino Distillery Group Limited ("SDG"), a company listed on the Hong Kong Stock Exchange, to pursuant the acquisition of BAPP Ethanol Holdings Limited ("BAPP"), a wholly owned subsidiary of SDG. The terms of the transaction are subject to further due diligence however the consideration is expected to be approximately RMB 150million which will be satisfied by a mixture of equity and convertible bonds.

On 25 February 2014, the Group will not be progressing further with the acquisition of BAPP following results of the due diligence process.