

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

**CHINA NEW ENERGY LIMITED**  
**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

## COMPANY INFORMATION

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

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## CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2014

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### Financial review

For the year ended 31 December 2014, the group's total revenue was RMB57 million (c. £5.9 million), an increase of 29.5% from RMB44 million (c. £4.5million).

We are pleased to see signs of a recovery within the global ethanol market. Over the last few years the industry has faced many headwinds due to the global economy and, not least, due to the recent fall in oil prices. The management team of China New Energy Ltd ("the Company" or "CNE") has responded to this by focussing on emerging markets that benefit most from ethanol production including South East Asia, Eastern Europe and Africa. I am very pleased that this strategy is beginning to gain traction and that the group, being CNE and its subsidiary, secured new contracts in 2014 of RMB84.8 million (c. £8.7 million) and our total order book balance is now RMB533 million (c. £55 million).

The gross profit for the year was RMB4.3 million (c. £0.44 million) up from gross loss of RMB2.3 million (c. £0.24 million), which is in line with the increased revenue. Through cost cutting measures, the selling and administrative expenses decreased by 5.7% from RMB15.6 million (c. £1.6 million) to RMB14.7 million (c £1.52 million). The net overprovision of bad debts in the previous year of RMB7 million (c. £0.72 million) is reversed compared to impairment of RMB33.8 million (c. £3.38 million) in 2013.

For the year 2014, the company recorded a net loss for the year of RMB8.5 million (c. £0.87 million), a decrease from a net loss of RMB 59.2 million (c. £6.1 million).

### Products and Services

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 1<sup>st</sup> Generation biorefineries that convert agricultural feedstock such as corn, cassava and sugarcane into ethanol. We have completed more than 100 1<sup>st</sup> Generation projects in China and around the world.

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 and municipal waste in 2<sup>nd</sup> Generation biorefineries. It remains a priority for CNE to commercialise the 2<sup>nd</sup> Generation technology, as we believe this will stimulate demand for building new biorefineries in China and around the world.

### Group Strategy and Sales Pipeline

The Group's strategy remains to:

- 1) Acquire equity interest in biorefinery projects. The board seeks to diversify from EPC contracts where income can be uneven, and develop operating businesses with consistent recurring income.
- 2) Sell VAS and maintenance services to existing customers. In particular the board sees opportunity to sell energy efficiency technology to reduce the operating costs for current customers.
- 3) Sell EPC contracts to develop biorefinery projects. The company is focusing on 1<sup>st</sup> Generation projects in emerging countries in Africa, Eastern Europe and South East Asia and 2<sup>nd</sup> Generation projects in China and other mature markets.

**CHAIRMAN'S STATEMENT (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

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I am pleased to report that CNE is making progress in all 3 areas. Most significantly we are making progress to our goal of delivering consistent recurring income. After the yearend, CNE acquired a 24% stake in the Visontai Bioetanol Fejlesztő Korlátolt Felelősségű Társaság ("Visontai") bioenergy project that we are developing in Hungary. The completed biorefinery is expected to produce 150 million litres of bioethanol per year, which will be sold to the international market. Total gross EPC income from the contract is expected to be €34 million from which c.€11 million will be due to local contractors. Once the biorefinery is commissioned, CNE expects to earn a recurring income from the sales of ethanol in 2017 and beyond.

We also continue to make progress on our sales pipeline of EPC contracts, particular in South East Asia and Sub-Saharan Africa. CNE recently completed the design and construction of UBE's cassava-to-ethanol biorefinery in Thailand. Since opening, the project has won many accolades for the positive impact on the local community including: creating 600 jobs at the biorefinery, creating economic opportunities for 10,000 cassava out-growers and reducing the local cost of petrol. As a result of this, UBE has commissioned a second project from CNE. To meet local environmental legislation, UBE is currently conducting an Environmental Impact Assessment ("EIA") for the new project. UBE has reported to CNE that it expects to gain regulatory approval and commence the project in 2015.

In Sub-Saharan Africa, CNE entered into a development partnership with Sunbird Bioenergy Africa ("Sunbird") in 2013 with the intention of developing an initial 120 million litre per year cassava-to-ethanol biorefinery in Nigeria with an additional 9 projects forecast across the region. In Nigeria, Sunbird and the local development partner OBAX World Wide Limited ("OBAX") reported that they have completed the land and agricultural survey and crop enumeration of the 20,000 Ha of land for the project and are awaiting the final certificate of occupancy from the Ministry of Agriculture and Rural Development. Sunbird and OBAX have met the conditions needed for the certificate of occupancy and expect it to be granted imminently. It is likely that the project will commence in 2015 and CNE will be responsible for the design and biorefinery technology.

During the period, CNE reviewed Sunbird's project pipeline for the region and met with key stakeholders in Zambia and Zimbabwe. As in Thailand, employment and energy security were identified as the key drivers for bioenergy projects in the region. Sunbird has been awarded an investment license by the Zambian Development Agency for US\$150 million to build a cassava to ethanol biorefinery and cassava plantation. CNE is optimistic about tendering for a part of this business in due course.

**Research and development**

A major goal of CNE remains to commercialise 2<sup>nd</sup> 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 and achieved recognition as a provincial R&D centre from previous city's level. We applied for four new invention patents. The group now holds a total of 29 patents and intends to remain a leading developer of intellectual property in the bioenergy sector.

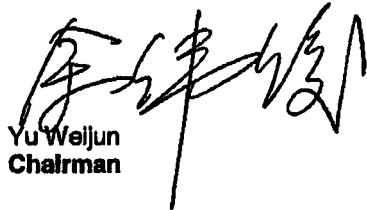
**Outlook**

In general, I am optimistic about the group's prospects in 2015 and beyond. CNE has the strongest order book and sales pipeline that we have had in recent years for our EPC services, and we are making steady progress towards our goal of owning a biorefinery project and delivering a recurring income from the sales of ethanol. There is no doubt that there will be challenges due to the global economic climate and the unstable oil price. However, 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.

**CHAIRMAN'S STATEMENT (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

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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.



Handwritten signature of Yu Weijun in black ink, consisting of stylized Chinese characters.

Yu Weijun  
Chairman

24 June 2015

**DIRECTORS' REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2014**

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The Directors present their report and financial statements for the year ended 31 December 2014.

**Principal activities**

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.

The principal activity of the company is an investment holding.

**Business review**

The company recorded an increase of 29.5% in revenue to RMB 57.3 million for the financial year 2014 ("FY2014"), reflecting the increased volume of contracts signed and executed. The total value of contracts secured in FY2014 was RMB84.8 million. It shows the business growth is not so active in the year, with the downturn of ethanol market investment.

Our contracts' gross profit also increased to RMB 4.3 million in FY2014 compare to a gross loss of RMB2.3 million in FY2013. This back in gross profit margin was also very low margins projects and high costs to complete projects in the economic environment.

A net overprovision of bad debts in previous year of RMB7 million (c. £0.72 million) was reversed compared to impairment of RMB33.8 million (c. £3.38million) last year.

Loss for the year is RMB 8.4 million represented a weak capital investment in the industry, especially in the Chinese domestic market.

**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 27 and 28.

**Results and dividends**

The financial results of the group are set out on page 11.

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

**DIRECTORS' REPORT (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

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**Events after the reporting period**

Events after the reporting period have been disclosed in Note 31.

**Directors' interests**

The following directors have held office during the period and their interests as at 29 May 2015, 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 holdings
Yu Weijun * (Re-appointed 27 June 2014)	90,932,440	23.10%
Tang Zhaoxing ** (Re-appointed 19 July 2013)	48,000,000	12.19%
Richard Bennett (Re-appointed 19 July 2013)	-	-
Chen Yong (resigned 30 June 2014)	-	-

\* Held through Leader Vision Investments Limited and Tewin Capital Holding Limited

\*\* Held through Asia Tianxing Investment Limited

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 group'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 2014 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 2014 was 251 days (2013: 304 days).

**Going concern**

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

After making enquiries, the directors consider that the company and the group have 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.



**DIRECTORS' REPORT (cont'd)  
FOR THE YEAR ENDED 31 DECEMBER 2014**

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**Financial risk management**

Details of the group's financial risk management objectives, policies and strategies are set out in Note 27.

**Statement of directors' responsibilities**

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

- select suitable accounting policies and then apply them consistently;
- make 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 auditors**

The directors have confirmed that:

- ♦ so far as each director is aware, there is no relevant audit information of which the company's auditors 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.

**Auditors**

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  
24 June 2015

## **CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2014**

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### **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 23 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 one non-executive director.

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 auditors and, in consultation with the auditors, 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 accounts 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 Yu Weijun and Tang Zhaoxing, with Yu Weijun 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.

**CORPORATE GOVERNANCE STATEMENT (cont'd)  
FOR THE YEAR ENDED 31 DECEMBER 2014**

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**Directors**

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

**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 29 May 2015, the company had been notified of the following beneficial interest of 3% or more in its shares:

<b>Name of holder</b>	<b>Number of ordinary shares</b>	<b>Percentage of holdings</b>
Leader Vision Investments Limited (Yu Weijun)	64,000,000	16.26%
Asia Tianxing Investment Limited (Tang Zhaoxing)	48,000,000	12.19%
Best Full Investments Limited (Liang Hongtao)	48,000,000	12.19%
Jet-Air (HK) Limited	44,652,107	11.34%
Cobalt Ventures Limited	40,398,640	10.26%
Tewin Capital Holding Limited (Yu Weijun)	26,932,440	6.84%
Mr Qiu Weiming	14,000,000	3.56%

## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF CHINA NEW ENERGY LIMITED**

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We have audited the financial statements of China New Energy Limited for the year ended 31 December 2014, which comprise the consolidated and company statement of financial position, the consolidated and company statement of profit or loss and other comprehensive income, the consolidated and company statement of changes in equity, the consolidated and company statement of cash flows and the related notes.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRS") 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 ("APB") 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](http://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 2014 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 IFRS 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, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received any information or explanations that was necessary for our audit.



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

Quadrant House  
4 Thomas More Square  
London E1W 1YW  
24 June 2015

*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; and legislation governing the preparation and dissemination of financial statements may differ from one jurisdiction to another.*

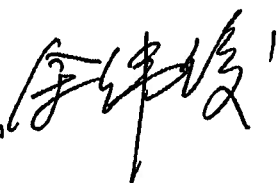
**CONSOLIDATED AND COMPANY STATEMENT OF FINANCIAL POSITION  
AT 31 DECEMBER 2014**

	Note	Group		Company	
		As at 31 December		As at 31 December	
		2014	2013	2014	2013
		RMB'000	RMB'000	RMB'000	Restated RMB'000
<b>Non-current assets</b>					
Property, plant and equipment	4	7,900	11,747	-	-
Intangible assets	5	8,138	6,392	-	-
Trade receivables	10	3,523	3,523	-	-
Investment in subsidiary	6	-	-	37,141	44,253
Investment	7	-	150	-	-
		<u>19,561</u>	<u>21,812</u>	<u>37,141</u>	<u>44,253</u>
<b>Current assets</b>					
Inventories	8	11,841	15,698	-	-
Due from customers for construction contracts	9	38,075	48,516	-	-
Trade and other receivables	10	45,167	43,249	3,631	3,702
Cash and cash equivalents	11	14,875	15,198	4,497	3,731
		<u>109,958</u>	<u>122,661</u>	<u>8,128</u>	<u>7,433</u>
<b>Current liabilities</b>					
Borrowings	12	6,600	6,600	-	-
Trade and other payables	13	77,452	88,693	11,063	13,153
Due to customers for construction contracts	9	14,040	15,414	-	-
Income tax payable		8,776	8,776	17	18
		<u>106,868</u>	<u>119,483</u>	<u>11,080</u>	<u>13,171</u>
<b>Net current assets/(liabilities)</b>		<u>3,090</u>	<u>3,178</u>	<u>(2,952)</u>	<u>(5,738)</u>
<b>Non-current liabilities</b>					
Deferred tax liabilities	23	815	815	-	-
		<u>815</u>	<u>815</u>	<u>-</u>	<u>-</u>
<b>Net assets</b>		<u>21,836</u>	<u>24,175</u>	<u>34,189</u>	<u>38,515</u>
<b>Equity</b>					
Share capital	14	1,325	1,214	1,325	1,214
Share premium	14	54,925	49,118	54,925	49,118
Combination reserve	16	(33,156)	(33,156)	-	-
Statutory reserve	18	12,328	12,328	-	-
Warrant reserve	17	1,673	1,673	1,673	1,673
Own shares	19	-	(5,853)	-	-
Accumulated losses		(38,895)	(24,690)	(17,182)	(8,101)
Foreign currency translation reserve	15	23,636	23,541	(6,552)	(5,389)
		<u>21,836</u>	<u>24,175</u>	<u>34,189</u>	<u>38,515</u>

The notes on pages 16 to 50 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 24 June 2015.

Yu Weijun  
Director



**CONSOLIDATED AND COMPANY STATEMENT OF PROFIT OR LOSS AND OTHER  
COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2014**

	Note	Group		Company	
		Year ended 31 December 2014	2013	Year ended 31 December 2014	2013 Restated
		RMB'000	RMB'000	RMB'000	RMB'000
Revenue	30	57,309	44,367	-	-
Cost of sales		(53,010)	(46,705)	-	-
<b>Gross profit/(loss)</b>		4,299	(2,338)	-	-
Other operating income	20	323	1,147	-	-
Selling and distribution expenses		(3,200)	(3,626)	-	-
Administrative expenses		(11,517)	(11,987)	(3,332)	(2,969)
Other operating expenses	21	(1,857)	(1,695)	-	-
Finance costs		(791)	(995)	(8)	(655)
Bad debts provision (net)		6,970	(33,772)	-	-
Impairment loss on investment		(150)	(30,800)	-	(16,738)
Impairment loss on PPE		(1,500)	-	-	-
Impairment on inventories		(1,031)	-	-	-
Other gains and losses	19	-	24,866	(5,741)	24,866
<b>(Loss)/profit before tax</b>	22	<b>(8,454)</b>	<b>(59,200)</b>	<b>(9,081)</b>	<b>4,504</b>
Income tax expense	23	(10)	7	-	-
<b>(Loss)/profit for the year attributable to owners of the company</b>		<b>(8,464)</b>	<b>(59,193)</b>	<b>(9,081)</b>	<b>4,504</b>
<b>Other comprehensive income</b> <i>Items that may be reclassified subsequently to profit or loss</i>					
Exchange difference arising on translating foreign operations		95	1,196	(1,163)	(37)
Exchange difference on cancellation of EBT		112	-	-	-
Other comprehensive income for the year		207	1,196	(1,163)	(37)
<b>Total comprehensive income for the year attributable to owners of the company</b>		<b>(8,257)</b>	<b>(57,997)</b>	<b>(10,244)</b>	<b>4,467</b>
<i>Loss per share (RMB)</i>	24				
Basic		(0.023)	(0.185)		
Diluted		(0.023)	(0.190)		
<i>Loss per share (Pence)</i>					
Basic		(0.242)	(1.847)		
Diluted		(0.242)	(1.894)		

Exchange rate £1: RMB9.6841 (2013: £1: RMB10.0056)

The notes on pages 16 to 50 form part of these financial statements.

All amounts are derived from continuing operations.

**CONSOLIDATED AND COMPANY STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2014**

Group	Share capital	Share premium	Combination reserve	Statutory reserve	Convertible bonds	Own shares & Warrant reserve	Accumulated losses	Foreign currency translation reserve	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Balance at 31 December 2012</b>	<b>1,134</b>	<b>39,171</b>	<b>(33,156)</b>	<b>12,328</b>	<b>6,549</b>	<b>(4,180)</b>	<b>27,954</b>	<b>22,345</b>	<b>72,145</b>
Loss for the year	-	-	-	-	-	-	(59,193)	-	(59,193)
Other comprehensive income	-	-	-	-	-	-	-	1,196	1,196
Total comprehensive income for the year	-	-	-	-	-	-	(59,193)	1,196	(57,997)
Issue of shares, net of share issue cost	80	9,947	-	-	-	-	-	-	10,027
Redemption of convertible bonds	-	-	-	-	(6,549)	-	6,549	-	-
<b>Balance at 31 December 2013</b>	<b>1,214</b>	<b>49,118</b>	<b>(33,156)</b>	<b>12,328</b>	<b>-</b>	<b>(4,180)</b>	<b>(24,690)</b>	<b>23,541</b>	<b>24,175</b>
Loss for the year	-	-	-	-	-	-	(8,464)	-	(8,464)
Other comprehensive income	-	-	-	-	-	-	-	207	207
Total comprehensive income for the year	-	-	-	-	-	-	(8,464)	207	(8,257)
Issue of shares, net of share issue cost	111	5,807	-	-	-	-	-	-	5,918
Cancellation of EBT	-	-	-	-	-	5,853	(5,741)	(112)	-
<b>Balance at 31 December 2014</b>	<b>1,325</b>	<b>54,925</b>	<b>(33,156)</b>	<b>12,328</b>	<b>-</b>	<b>1,673</b>	<b>(38,895)</b>	<b>23,636</b>	<b>21,836</b>

**CONSOLIDATED AND COMPANY STATEMENT OF CHANGES IN EQUITY (cont'd)  
FOR THE YEAR ENDED 31 DECEMBER 2014**

Company	Share capital RMB'000	Share premium RMB'000	Convertible bonds RMB'000	Warrant reserve RMB'000	Accumulated losses RMB'000	Foreign currency translation reserve RMB'000	Total RMB'000
Balance at 31 December 2012, as previously reported	1,134	39,171	6,549	1,673	(19,154)	22,484	51,857
Prior year adjustment	-	-	-	-	-	(27,836)	(27,836)
Restated balance at 31 December 2012	<u>1,134</u>	<u>39,171</u>	<u>6,549</u>	<u>1,673</u>	<u>(19,154)</u>	<u>(5,352)</u>	<u>24,021</u>
Profit for the year	-	-	-	-	4,504	-	4,504
Other comprehensive income	-	-	-	-	-	(37)	(37)
Total comprehensive income for the year	-	-	-	-	4,504	(37)	4,467
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	<u>1,214</u>	<u>49,118</u>	<u>-</u>	<u>1,673</u>	<u>(8,101)</u>	<u>(5,389)</u>	<u>38,515</u>
Loss for the year	-	-	-	-	(9,081)	-	(9,081)
Other comprehensive income	-	-	-	-	-	(1,163)	(1,163)
Total comprehensive income for the year	-	-	-	-	(9,081)	(1,163)	(10,244)
Issue of shares, net of share issue cost	111	5,807	-	-	-	-	5,918
Balance at 31 December 2014	<u>1,325</u>	<u>54,925</u>	<u>-</u>	<u>1,673</u>	<u>(17,182)</u>	<u>(6,552)</u>	<u>34,189</u>



**CONSOLIDATED AND COMPANY STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2014**

	Group		Company	
	As at 31 December		As at 31 December	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Operating activities</b>				
(Loss)/profit before tax	(8,454)	(59,200)	(9,081)	4,504
Adjustments for:				
Depreciation and amortisation	2,619	2,219	-	-
Bad debt provision (net)	(6,970)	33,772	-	-
Loss/(gain) on disposal of PPE	2	(223)	-	-
Redemption of Citadel bond	-	(24,866)	-	(24,866)
Interest income	(92)	(153)	-	-
Interest expenses	791	995	-	655
Impairment of inventories	1,031	-	-	-
Impairment of PPE	1,500	-	-	-
Impairment of investment	150	30,800	-	16,738
Cancellation of EBT	-	-	5,477	-
Exchange difference	207	-	472	-
<b>Operating cash flows before movements in working capital</b>	(9,216)	(16,656)	(3,132)	(2,969)
Decrease/(increase) in inventories	2,826	(3,412)	-	-
Decrease in due from customers for construction contract	10,283	24,219	-	-
(Increase)/decrease in trade and other receivables	(9,125)	(4,895)	71	113
Increase/(decrease) in trade and other payables	2,529	(6,521)	(2,091)	(1,628)
(Decrease)/increase in due to customers for construction contract	(809)	4,889	-	-
Cash used in operations	(3,512)	(2,376)	(5,152)	(4,484)
Income taxes paid	(10)	(246)	-	-
<b>Net cash used in operating activities</b>	<b>(3,522)</b>	<b>(2,622)</b>	<b>(5,152)</b>	<b>(4,484)</b>
<b>Investing activities</b>				
Purchase of property, plant and equipment	(71)	(2,956)	-	-
Expenditure on intangible assets	(1,949)	(1,831)	-	-
<b>Net cash used in investing activities</b>	<b>(2,020)</b>	<b>(4,787)</b>	<b>-</b>	<b>-</b>

**CONSOLIDATED AND COMPANY STATEMENT OF CASH FLOWS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

	<b>Group</b>		<b>Company</b>	
	<b>As at 31 December</b>		<b>As at 31 December</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
<b><i>Financing activities</i></b>				
Proceeds from borrowings	6,600	6,600	-	-
Repayment of borrowings	(6,600)	-	-	-
Proceeds from issuance of shares	5,918	10,027	5,918	10,027
Redemption of convertible bonds	-	(4,488)	-	(4,488)
Dividend received	-	-	-	2,634
Interest received	92	153	-	-
Interest paid	(791)	(995)	-	(3)
<b><i>Net cash from financing activities</i></b>	<b>5,219</b>	<b>11,297</b>	<b>5,918</b>	<b>8,170</b>
<b><i>Net (decrease)/increase in cash and cash equivalents</i></b>	<b>(323)</b>	<b>3,888</b>	<b>766</b>	<b>3,686</b>
Cash and cash equivalents at beginning of year	15,198	11,310	3,731	45
Effect of exchange rate changes	-	-	-	-
<b><i>Cash and cash equivalents at end of year</i></b>	<b>14,875</b>	<b>15,198</b>	<b>4,497</b>	<b>3,731</b>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2014**

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**1. General information**

The company (or "CNE") with registration number 93306 was incorporated in Jersey on 2 May 2006 as an investment holding company. The company is domiciled in Jersey with its registered office at Queensway House, Hilgrove Street, St Helier, Jersey JE1 1ES.

The principal activities of its 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.

The principal place of business is located at No 4, Nengyuan Road, Wushan, Tianhe District, Guangzhou, People's Republic of China ("PRC").

**2. Summary of significant accounting policies**

**2.1. Basis of preparation**

The consolidated financial statements 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 consolidated financial statements incorporate the financial information of the company and its subsidiaries ("the group"). 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.

The individual financial statements 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 statements of the 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 group mainly operates in the PRC, RMB is used as the presentation currency of the group. All financial information presented in RMB has been recorded to the nearest thousand.

The group has adopted all relevant standards effective for accounting periods beginning on or after 1 January 2014.

As at end of the reporting year, the group has not adopted the following standard as it is either not effective or not applicable to the group's business.

**Standards, amendments and interpretations**

- Defined Benefit Plans: Employee Contributions (Amendments to IAS 19) – EU effective date 1 February 2015, early adoption is permitted effective date 1 July 2014;
- Annual Improvements to IFRSs 2010-2012 Cycle (2013) – EU effective date 1 February 2015, early adoption is permitted effective date 1 July 2014;
- Annual Improvements to IFRSs 2011-2013 Cycle (2013) – EU effective date 1 February 2015, early adoption is permitted effective date 1 July 2014.

**2. Summary of significant accounting policies (cont'd)**

**2.1. Basis of preparation (cont'd)**

**Standards, amendments and interpretations (not yet endorsed by EU at 11 May 2015)**

- IFRS 9 Financial Instruments (July 2014);
- IFRS 14 Regulatory Deferral Accounts (January 2014);
- IFRS 15 Revenue from Contracts with Customers (May 2014);
- Annual improvements to IFRSs 2012 – 2014 Cycle (September 2014);
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (September 2014);
- Amendments to IAS 27: Equity Method in Separate Financial Statements (August 2014);
- Amendments to IAS 16 and IAS 41: Bearer Plants (June 2014);
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation (May 2014);
- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations (May 2014);
- Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception (December 2014);
- Amendments to IAS 1: Disclosure Initiative (December 2014).

There are no other standards, amendments and interpretations in issue but not yet adopted that the directors anticipate will have material effect on the reported income or net assets of the group.

**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 statements of the subsidiary companies are prepared for the same reporting period as that of the company, using consistent accounting policies. Where necessary, the accounting policies of the subsidiaries are changed to ensure consistency with the policies adopted by other members of the group.

**2. Summary of significant accounting policies (cont'd)**

**2.3. Business combinations involving entities not under common control**

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 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 Business Combinations are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held-for-sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognised and measured at the lower of cost and fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the 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 profit or loss.

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

**2.4. Business combinations involving entities under common control**

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 determining the appropriate accounting treatment for the acquisition of ZKTY, the directors concluded that this transaction fell outside the scope of IFRS 3.

**2. Summary of significant accounting policies (cont'd)**

**2.4. Business combinations involving entities under common control (cont'd)**

However, the transaction described above represents a combination of entities under common control.

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

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

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

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

**2.5. Investment in associates**

The group's investment in associates is 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 profit or loss 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 profit or loss. 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 profit or loss.

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 profit or loss.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
FOR THE YEAR ENDED 31 DECEMBER 2014**

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**2. Summary of significant accounting policies (cont'd)**

**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:

Plant and machinery	5 – 10 years
Motor vehicles	5 – 10 years
Office equipment	3 – 5 years
Buildings and leasehold improvement	20 years

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 profit or loss.

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 profit or loss using the straight-line method over their estimated useful lives of 3 -10 years.

Land use rights

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

Patent rights

Patent rights acquired are initially recognised at cost less accumulated amortisation and accumulated impairment losses. These costs are amortised to the statement of profit or loss within administrative expenses using the straight-line method over 10 years.

**2. Summary of significant accounting policies (cont'd)**

**2.7. Intangible assets (cont'd)**

Internally generated intangible assets – research and development expenditure

Research expenditure is recognised as an expense as incurred.

Costs incurred on development projects are recognised as internally generated intangible assets only if all of the following conditions are met by the group:

- the technical feasibility of completing the intangible assets so that it will be available for use or sales;
- its intention to complete the intangible asset and use or sell it;
- its ability to use or sell the intangible assets;
- it is probable that the intangible asset created will generate future economic benefits;
- the availability of adequate technical financial and other resources to complete the development and use or sell the intangible assets; and
- its ability to measure reliably the expenditure attributable to the intangible assets during its development.

Internally generated intangible assets are amortised on a straight-line basis over their estimated useful lives, from the date the intangible is ready for use. Amortisation charge is recognised in the statement of profit or loss within administrative expenses.

**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 profit or loss, 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 profit or loss, 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 (cont'd)**

**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 profit or loss 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 using the liability method for all temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised for the temporary differences arising from the initial recognition of goodwill, the initial recognition of assets and liabilities in a transaction which is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, at the end of the reporting period.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

**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 profit or loss.

**Financial assets**

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

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

**2. Summary of significant accounting policies (cont'd)**

**2.10. Financial instruments (cont'd)**

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 ("FVTPL")**

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

**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 financial assets**

Available-for-sale financial assets 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 profit or loss.

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 those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investment have been affected.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis that share similar credit risk characteristics.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

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**2. Summary of significant accounting policies (cont'd)**

**2.10. Financial instruments (cont'd)**

The carrying amount of the financial assets is reduced by the impairment loss directly for all financial assets 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 profit or loss.

When available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases which can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss 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 securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under fair value adjustment reserve. In respect of available-for-sale debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition.

**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 profit or loss or other financial liabilities.

Financial liabilities are classified as fair value through profit or loss 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 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.

**2. Summary of significant accounting policies (cont'd)**

**2.10. Financial instruments (cont'd)**

Derecognition of financial liabilities

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

**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 end of the reporting period ("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 at the end of the reporting period 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 end of the reporting period, 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. Summary of significant accounting policies (cont'd)**

**2.14. Leases**

Operating Leases

Rentals payable under operating leases are charged to profit or loss 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 profit or loss 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.

**2.15. 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.

**2.16. Retirement benefit costs**

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

Contributions to defined contribution plans are recognised as an expense in the profit or loss in the same financial year as the employment that gives rise to the contributions.

**2.17. 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.

**2. Summary of significant accounting policies (cont'd)**

**2.17. Compound financial instruments (cont'd)**

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.

**2.18. Revenue recognition**

Revenue from construction contracts

The group's policy for recognition of revenue from construction contracts is described in note 2.12 above.

Interest income

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

Income from sale of scrap materials

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

**2.19. Foreign currencies**

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 reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. 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 from the settlement of monetary items, and on the translation of monetary items, are included in profit or loss for the reporting year. Exchange difference arising on the translation of non-monetary items carried at fair value are included in profit or loss for the reporting period except for the differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. Exchange differences arising from such non-monetary items are 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 reporting period. 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 profit or loss in the period in which the foreign operation is disposed of.

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

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

**2. Summary of significant accounting policies (cont'd)**

**2.20. Segment reporting**

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

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

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

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

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

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

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 group's construction in progress at the reporting period 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 (cont'd)**

**3.2 Key sources of estimation uncertainty (cont'd)**

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 profit or loss. 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 including impairment are disclosed in note 10. 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.

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 (to) customers at the end of the reporting period are disclosed in note 9 including allowance for impairment. There is material uncertainty to fully recover costs of each contract.

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 amount of the intangible assets at the end of the reporting period is RMB8.14 million (2013: RMB6.39 million).



**3. Critical accounting judgements and key sources of estimation uncertainty (cont'd)**

**3.2 Key sources of estimation uncertainty (cont'd)**

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 at the period end is RMB7.9 million (2013: RMB11.7 million) after an impairment loss of RMB1.5 million (2013: Nil) recognised in the period.

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 period end. The carrying amount of the group's inventories at the year end is RMB11.8 million (2013: RMB15.7 million) after inventories written down of RMB1.03 million (2013: RMB Nil).

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 impairment provision is required against the carrying value on the investment. The carrying amounts of the group's investment are disclosed in note 7.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**4. Property, plant and equipment**

	<b>Plant and machinery</b>	<b>Motor vehicles</b>	<b>Office equipment</b>	<b>Buildings and leasehold improvement</b>	<b>Total</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
<b>As at 31 December 2013</b>					
<b>Cost</b>					
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
<b>Accumulated depreciation and impairment</b>					
At 1 January 2013	4,215	2,200	311	57	6,783
Charge for the year	792	1,043	171	14	2,020
On disposals	(18)	(606)	(80)	(25)	(729)
At 31 December 2013	4,989	2,637	402	46	8,074
<b>Carrying amount</b>					
At 31 December 2013	5,242	6,228	241	36	11,747
<b>As at 31 December 2014</b>					
<b>Cost</b>					
At 1 January 2014	10,231	8,865	643	82	19,821
Additions	39	-	32	-	71
Disposals	(18)	-	-	-	(18)
Adjustments	136	-	-	-	136
Reclassification	(6,162)	-	(3)	6,165	-
At 31 December 2014	4,226	8,865	672	6,247	20,010
<b>Accumulated depreciation and impairment</b>					
At 1 January 2014	4,989	2,637	402	46	8,074
Impairment loss	-	1,500	-	-	1,500
Charge for the year	768	1,512	136	-	2,416
On disposals	(16)	-	-	-	(16)
Adjustment	136	-	-	-	136
Reclassification	(3,413)	-	(96)	3,509	-
At 31 December 2014	2,464	5,649	442	3,555	12,110
<b>Carrying amount</b>					
At 31 December 2014	1,762	3,216	230	2,692	7,900

*Assets pledged as security*

Land use right (note 5) and buildings with carrying value of approximate RMB5.6 million have been pledged to secure the borrowings of the group (Note 12).

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**5. Intangible assets**

	<b>Software</b>	<b>Patent</b>	<b>Technology Knowhow</b>	<b>Land use right</b>	<b>Development cost</b>	<b>Total</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
<b>Cost</b>						
As at 1 January 2013	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
Additions	-	-	-	-	1,949	1,949
Disposals	(10)	-	(250)	-	-	(260)
As at 31 December 2014	60	1,283	-	3,613	4,208	9,164
<b>Accumulated amortisation</b>						
As at 1 January 2013	43	81	250	510	-	884
Charge for the year	6	110	-	83	-	199
As at 31 December 2013	49	191	250	593	-	1,083
Charge for the year	6	114	-	83	-	203
On disposals	(10)	-	(250)	-	-	(260)
As at 31 December 2014	45	305	-	676	-	1,026
<b>Carrying amount</b>						
As at 31 December 2013	21	1,092	-	3,020	2,259	6,392
As at 31 December 2014	15	978	-	2,937	4,208	8,138

The group obtained the right to occupy the land at Continental High & New Technology Industry Development Zone, Boluo, Guangdong Province, PRC for a period of 50 years from July 2010. The remaining period of amortisation is approximate 36 years.

The group undertakes development projects to improve and upgrade its technology and engineering solutions in the field of bioethanol production. Once the certificate has been obtained, the development costs incurred will be transferred to patent.

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.

Amortisation of intangible assets is included in the profit or loss within administrative expenses.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**6. Investment in subsidiary**

	<b>RMB'000</b>
<b>Cost</b>	
At 1 January 2013	89,922
Exchange differences	(28,313)
<b>At 31 December 2013</b>	<u>61,609</u>
Disposals **	(5,477)
Exchange differences	(2,276)
<b>At 31 December 2014</b>	<u><u>53,856</u></u>
<b>Accumulated impairment losses</b>	
At 1 January 2013	-
Impairment loss recognised in the year	16,738
Exchange differences	(19,719)
<b>At 31 December 2013 previously disclosed</b>	<u>(2,981)</u>
Prior year adjustment	20,337
<b>At 31 December 2013 restated</b>	<u>17,356</u>
Exchange differences	(641)
<b>At 31 December 2014</b>	<u><u>16,715</u></u>
<b>Carrying amount</b>	
At 31 December 2014	<u><u>37,141</u></u>
At 31 December 2013 restated	<u><u>44,253</u></u>

\*\* On 19 August 2014, the China New Energy Limited Employee Benefit Trust (Note 19) which was established in March 2011 has been cancelled.

The details of the subsidiary are as follows:

<b>Name / place of incorporation</b>	<b>Principal activity</b>	<b>Effective equity interest held by the group</b>	
		<b>As at 31 December 2014</b>	<b>2013</b>
Guangdong Zhongke Tianyuan New Energy Science and Technology Co Ltd ("ZKTY") / PRC	Provision of engineering, procurement and construction services to ethanol producers	100%	100%
Guangdong Boluo Jiuneng High Technology Engineering Co Ltd ("Boluo") / PRC	Fabrication and manufacture of equipment in accordance with project requirements and designs of ZKTY and provision of services to ZKTY	100%	100%

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**7. Investment**

	<b>Group</b>	
	<b>Year ended 31 December</b>	
	<b>2014</b>	<b>2013</b>
	<b>RMB'000</b>	<b>RMB'000</b>
<b>Cost</b>		
As at 1 January	31,700	31,700
Acquired during the year	-	-
As at 31 December	<u>31,700</u>	<u>31,700</u>
<b>Impairment losses</b>		
As at 1 January	31,550	750
Impairment loss recognised in the year	150	30,800
As at 31 December	<u>31,700</u>	<u>31,550</u>
As at 31 December	-	<u>150</u>

Investment in unquoted company is as follow:

<b>Name / place of incorporation</b>	<b>Principal activity</b>	<b>Effective equity interest held by the group</b>	
		<b>As at 31 December 2014</b>	<b>2013</b>
Jilin Tianshun Biochemical Technology Co Ltd ("Jilin Tianshun") / PRC	Provision of research and development achievements of grain deep and technical service	34%	34%
Songyuan Laihe Chemicals Co., Ltd ("Songyuan") / PRC	Manufacturer of biobutanol	2.83%*	4.63%

The group does not consolidate the results of Jilin Tianshun as the directors are of the opinion the group has no significant influence over the Board of Jilin Tianshun.

Investment in Jilin Tianshun and Songyuan carry almost zero intrinsic value due to its accumulated trading loss and its ability to return to profitability in the near future. Accordingly, 100% impairment loss was recognised.

**8. Inventories**

	<b>Group</b>	
	<b>As at 31 December</b>	
	<b>2014</b>	<b>2013</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Raw materials	4,621	7,644
Work-in-progress	7,220	8,054
	<u>11,841</u>	<u>15,698</u>

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**8. Inventories (cont'd)**

The cost of inventories recognised as expense during the year and included in "Cost of sales" amounted to RMB53 million (2013: RMB46 million).

The cost of inventories recognised as expense includes RMB1.03 million (2013: RMB Nil) in respect of write-down of inventory to net realisable value.

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

	<b>Group</b>	
	<b>As at 31 December</b>	
	<b>2014</b>	<b>2013</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Aggregate costs incurred plus profits less recognised losses to date	307,708	313,757
Less: progress billings	(272,641)	(260,901)
	35,067	52,856
Allowance for impairment	(11,032)	(19,754)
	<u>24,035</u>	<u>33,102</u>
<u>Presented as:</u>		
Due from customers for construction contracts	38,075	48,516
Due to customers for construction contracts	(14,040)	(15,414)
	<u>24,035</u>	<u>33,102</u>

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

	<b>Group</b>	
	<b>As at 31 December</b>	
	<b>2014</b>	<b>2013</b>
	<b>RMB'000</b>	<b>RMB'000</b>
At beginning of the year	19,754	5,657
Transfer to trade receivables (Note 10)	(8,315)	-
Impairment losses reversed	(564)	-
Allowance for impairment	157	14,097
At end of the year	<u>11,032</u>	<u>19,754</u>

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**10. Trade and other receivables**

	<b>Group</b>		<b>Company</b>	
	<b>As at 31 December</b>		<b>As at 31 December</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
<b><u>Current</u></b>				
Trade receivables	96,316	81,865	-	-
Allowance for impairment	(72,886)	(63,120)	-	-
	<u>23,430</u>	<u>18,745</u>	-	-
Due from group undertakings	-	-	3,631	3,682
Due from related parties	8,019	8,073	-	-
Notes receivables	500	1,000	-	-
Others receivables	4,918	6,106	-	20
Advance to suppliers	8,140	9,183	-	-
Prepayments	160	142	-	-
	<u>45,167</u>	<u>43,249</u>	<u>3,631</u>	<u>3,702</u>
<b><u>Non-current</u></b>				
Trade receivables	3,523	3,523	-	-
	<u>3,523</u>	<u>3,523</u>	<u>-</u>	<u>-</u>

Included in other receivables amount of RMB1.1 million (2013: RMB1 million) retention monies held by customers for contract works.

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:

	<b>Group</b>	
	<b>As at 31 December</b>	
	<b>2014</b>	<b>2013</b>
	<b>RMB'000</b>	<b>RMB'000</b>
<b><u>Current</u></b>		
Face value	96,772	82,321
Discount on trade receivables	(456)	(456)
Fair value	<u>96,316</u>	<u>81,865</u>
<b><u>Non-current</u></b>		
Face value	3,776	3,776
Discount on trade receivables	(253)	(253)
Fair value	<u>3,523</u>	<u>3,523</u>

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**10. Trade and other receivables (cont'd)**

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

	<b>Group</b>	
	<b>As at 31 December</b>	
	<b>2014</b>	<b>2013</b>
	<b>RMB'000</b>	<b>RMB'000</b>
At beginning of the year	63,120	41,723
Transfer from amount due from customers for construction contracts (Note 9)	8,315	-
Allowance during the year	2,951	22,797
Impairment losses reversed	(1,500)	(1,400)
At end of the year	<u>72,886</u>	<u>63,120</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.

Movements in allowance for doubtful debts in advance to suppliers and other receivables are as follows:

	<b>Group</b>	
	<b>As at 31 December</b>	
	<b>2014</b>	<b>2013</b>
	<b>RMB'000</b>	<b>RMB'000</b>
At beginning of the year	-	-
Allowance during the year	5,756	-
At end of the year	<u>5,756</u>	<u>-</u>

**11. Cash and cash equivalents**

	<b>Group</b>		<b>Company</b>	
	<b>As at 31 December</b>		<b>As at 31 December</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Cash at bank and on hand	<u>14,875</u>	<u>15,198</u>	<u>4,497</u>	<u>3,731</u>

The currency profiles of the group's cash and cash equivalents at the end of the reporting periods are disclosed in Note 27.

**12. Borrowings**

This is renewable bank borrowings obtained from Ping An Bank, PRC. The interest rate paid is fixed at 8.4% (2013: 8.4%). The borrowing is secured on the group's buildings and land use right.



**NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**13. Trade and other payables**

	Group As at 31 December		Company As at 31 December	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Trade payables	34,767	38,452	-	-
Other payables				
- Advance from customer	15,957	16,454	-	-
- Other payables and accruals	10,480	5,922	317	321
- VAT payables	14,939	26,183	-	-
- Due to group undertakings	-	-	10,185	11,991
- Due to directors	1,309	1,682	561	841
	<u>77,452</u>	<u>88,693</u>	<u>11,063</u>	<u>13,153</u>

Included in other payables, loan from a business partner of RMB3.5 million, interest is charged at 10% per annum and repayable within one year.

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

**14. Share capital**

	Number of Shares	Share Capital		Share premium	
		£'000	RMB'000	£'000	RMB'000
<b>As at 31 December 2012</b>	<b>316,616,862</b>		<b>1,134</b>		<b>39,171</b>
Placing on 4 Nov 2013	10,000,000	2	24	248	2,425
<i>Less: share issue costs</i>				(17)	(171)
Placing on 25 Nov 2013	8,571,429	2	21	298	2,966
<i>Less: share issue costs</i>				(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	247	2,474
<b>As at 31 December 2013</b>	<b>348,962,101</b>		<b>1,214</b>		<b>49,118</b>
Placing on 29 Sept 2014	44,652,107	11	111	584	5,807
<b>As at 31 December 2014</b>	<b>393,614,208</b>		<b>1,325</b>		<b>54,925</b>

On 4 November 2013, the company placed 10,000,000 new ordinary shares of 0.025p each 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 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 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 at a price of 3.5 pence per share, raising gross proceeds of £248,750 for the Company.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**14. Share capital (cont'd)**

On 29 September 2014, the company placed 44,652,107 new ordinary shares of 0.025p each at a price of 1.332 pence per share, raising gross proceeds of £594,766 for the company.

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

**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.

**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. Warrant 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 RMB1,673,000 which was calculated using the Black Scholes option pricing model.

As at 31 December 2014, none of the above warrants had been exercised.

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

	<u>2014</u>		<u>2013</u>	
	<b>Average exercise price in £ per share GBP</b>	<b>Number of shares</b>	<b>Average exercise price in £ per share GBP</b>	<b>Number of shares</b>
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.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

**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 enterprise 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.

**19. Other gains and losses**

Employee Benefit Trust ("EBT")

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 EBT that had vested to employees. On 19 August 2014, the EBT has been cancelled which resulted a loss of RMB5.7 million recognised in profit or loss of the company.

Convertible bonds

In December 2013, the group redeemed the remaining balance of US\$0.72 million, and met all the conditions to cancel the convertible bond of US\$4 million (RMB25 million in equivalent), which has resulted a gain of RMB24.9 million recognised in profit or loss.

**20. Other operating income**

	Group	
	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Interest income	92	153
Sale of scrap materials	171	23
Gain on disposal of property, plant and equipment	-	242
Subsidy income	10	729
Sundry income	50	-
	323	1,147

**21. Other operating expenses**

	Group	
	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Research and development expense	1,142	1,301
Bank charges	224	103
Foreign currency exchange loss	139	1
Others	352	290
	1,857	1,695

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**22. (Loss)/profit before tax**

	<b>Group</b>	
	<b>Year ended 31 December</b>	
<b>Loss before taxation is arrived at after charging/(crediting):</b>	<b>2014</b>	<b>2013</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Staff costs including directors remuneration	8,128	8,807
Depreciation of property, plant and equipment	2,416	2,020
Net loss/(gain) on disposal of property, plant and equipment	2	(223)
Amortisation of intangible assets	203	199
Gain on redemption of Citadel bond	-	(24,866)
Impairment of inventories	1,031	-
Impairment of investment	150	30,800
Impairment of PPE	1,500	-
Bad debts provision	8,864	36,894
Reversal of bad debts provision	(2,064)	(1,400)
Deferred VAT adjustment related to bad debts provision	(13,770)	(1,722)
Operating lease	497	536
Auditors Remuneration:		
Audit Services	305	302
Non audit services	457	314

**23. Income tax expense**

	<b>Group</b>	
	<b>Year ended 31 December</b>	
	<b>2014</b>	<b>2013</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Current income tax	10	37
Deferred tax	-	(44)
Income tax recognised in profit or loss	10	(7)

The company is regarded as resident for tax purposes in Jersey and on the basis that the company is neither a financial services company nor a utility company for the purposes of the Income Tax (Jersey) Law 1961, as amended; the company is subject to income tax in Jersey at a rate of zero per cent.

The operating subsidiaries are regarded as residents for the tax purposes in PRC and subject to national income tax rate at 25% (2013: 25%). The main operating subsidiary, ZKTY is entitled to a reduction in tax rate at 15% due to its high technology enterprise status. Accordingly, the tax rate used for the reconciliation below is the preferential rate of 15% (2013: 15%).

A reconciliation of income tax expense applicable to profit before tax on at the statutory income tax rate to income tax expenses at the effective income tax rate of the group is as follows:

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

**23. Income tax expense (cont'd)**

	<b>Group</b>	
	<b>Year ended 31 December</b>	
	<b>2014</b>	<b>2013</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Loss before tax	(8,454)	(59,200)
Income tax using PRC tax rate of 15% (2013: 15%)	(1,268)	(8,880)
<i>Tax effects of:</i>		
- Non-deductible expenses	97	-
- Zero tax rate	1,362	(3,174)
- Unrelieved tax losses carried forward	2,047	3,188
- Preferential tax rate	200	82
- Change in unrecognised temporary difference	(1,009)	8,821
- Other adjustment	(950)	-
- Deferred tax movement		(44)
- Tax losses utilised	(469)	-
	<u>10</u>	<u>(7)</u>

Movements in deferred tax asset are as follows:

	<b>Group</b>	
	<b>Year ended 31 December</b>	
	<b>2014</b>	<b>2013</b>
	<b>RMB'000</b>	<b>RMB'000</b>
At beginning of the year	200	200
Utilised in the year	(23)	(23)
At end of the year	<u>177</u>	<u>177</u>

Deferred tax assets are recognised for all unutilised tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Under the current tax law in PRC, the unutilised tax losses can only be carried forward for five years. Due to the uncertain of future economic benefit, no deferred tax asset has been recognised.

Movements in deferred tax liabilities are as follows:

	<b>Group</b>	
	<b>Year ended 31 December</b>	
	<b>2014</b>	<b>2013</b>
	<b>RMB'000</b>	<b>RMB'000</b>
At beginning of the year	922	1,059
Reversal for the year	-	(67)
At end of the year	<u>922</u>	<u>992</u>
Net deferred tax liabilities	<u>(815)</u>	<u>(815)</u>

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**24. Loss per share**

The calculation of loss per share is based on group's loss for the year and the weighted average number of shares in issue after adjusting for movement in own shares during the financial year. There is no potential dilutive share or share options outstanding and therefore, the diluted loss per share is the same as basic loss per share.

	Loss RMB'000	Weighted average number of shares '000	Loss per share RMB
<b>2014</b>			
Basic	(14,205)	361,318	(0.039)
Diluted	(14,205)	361,318	(0.039)
<b>2013</b>			
Basic	(59,193)	320,314	(0.185)
Diluted	(59,193)	312,234	(0.190)

**25. Operating lease commitments**

At the end of the reporting period, 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	
	2014 RMB'000	2013 RMB'000
Within one year	759	668
After one year but before five years	24	645
	783	1,313

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.

**26. 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.

At the end of reporting period, the group has a non-trade receivable due from Guangdong Zhongke Tianyuan Regeneration Energy Co., Ltd of RMB8,019,000 (2013: RMB8,073,000). Guangdong Zhongke Tianyuan Regeneration Energy Co., Ltd is a company controlled by Mr Yu Weijun and Mr Tang Zhaoxing. Both are directors of the company.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**26. Significant related party transactions (cont'd)**

b) Key management personnel compensation is analysed as follows:

	<b>Year ended 31 December</b>	
	<b>2014</b>	<b>2013</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Remuneration (short term employment benefits)	1,472	1,554
	<u>1,472</u>	<u>1,554</u>

c) Directors' emoluments

Breakdown of directors' remuneration for the year as follow:

	<b>2014</b>	<b>2013</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Yu Weijun	615	544
Tang Zhaoxing	615	544
Chen Yong	48	97
Richard Bennett	194	369
Aggregate emoluments	1,472	1,554

**27. 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.

At the end of the reporting 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.

At the end of the reporting period, the cash and bank balances as detailed in Note 11 to the financial statements, are held in major financial institutions which are regulated and located in the PRC, which management believes are of high credit quality. The management does not expect any losses arising from non-performance by these counterparties.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

**27. Financial risk management (cont'd)**

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

	<u>As at 31 December</u>	
	<b>2014</b>	<b>2013</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Cash and cash equivalents	14,875	15,198
Trade and other receivables	45,167	43,249
	<u>60,042</u>	<u>58,447</u>

At the end of reporting period 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 53.5% (2013: 45.4%) of the total trade and other receivables. The aggregate of the single customer's trade receivable is more than 10% were amounting to RMB10.2 million (2013: RMB8.9 million)

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>	
	<b>2014</b>	<b>2013</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Less than 30 days	4,032	3,293
31-60 days	2,281	-
Over 60 days	17,573	15,908
	<u>23,886</u>	<u>19,201</u>

Trade receivables that are impaired

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

	<u>As at 31 December</u>	
	<b>2014</b>	<b>2013</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Over 60 days	72,886	63,120
	<u>72,886</u>	<u>63,120</u>



**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

**27. Financial risk management (cont'd)**

**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.

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

<b>At 31 December 2014</b>	<b>RMB'000</b>	<b>£'000</b>	<b>US\$'000</b>	<b>EUR'000</b>	<b>Total</b>
<b>Financial assets</b>					
Trade and other receivables	45,167	-	-	-	45,167
Cash and bank balances	10,340	4,486	36	13	14,875
<b>Financial liabilities</b>					
Trade and other payables	76,559	878	-	-	77,437
<b>Net financial assets</b>	(21,052)	3,608	36	13	(17,395)
Less: Net financial assets denominated in the functional currency	(21,052)	-	-	-	(21,052)
<b>Net currency exposure</b>	-	3,608	36	13	3,657

<b>At 31 December 2013</b>	<b>RMB'000</b>	<b>£'000</b>	<b>US\$'000</b>	<b>EUR'000</b>	<b>Total</b>
<b>Financial assets</b>					
Trade and other receivables	43,249	-	-	-	43,249
Cash and bank balances	11,419	3,667	97	15	15,198
<b>Financial liabilities</b>					
Trade and other payables	87,842	860	-	-	88,702
<b>Net financial assets</b>	(33,174)	2,807	97	15	(30,255)
Less: Net financial assets denominated in the functional currency	(33,174)	-	-	-	(33,174)
<b>Net currency exposure</b>	-	2,807	97	15	2,919

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**27. Financial risk management (cont'd)**

**Currency risk (cont'd)**

**Sensitivity analysis**

If the £ sterling, US\$ and EUR 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:

	<b>Years ended 31 December</b>	
	<b>2014</b>	<b>2013</b>
	<b>RMB'000</b>	<b>RMB'000</b>
<i>£ against RMB</i>		
- strengthen	328	255
- weaken	(401)	(312)
<i>US\$ against RMB</i>		
- strengthen	3	9
- weaken	(4)	(11)
<i>EUR against RMB</i>		
- strengthen	1	1
- weaken	(1)	(2)

**Interest rate risk**

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

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

**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:

	<b>Less than one year RMB'000</b>	<b>Total RMB'000</b>
<b><u>31 December 2014</u></b>		
Borrowing	6,600	6,600
Trade and other payables	77,437	77,437
	<u>84,037</u>	<u>84,037</u>
<b><u>31 December 2013</u></b>		
Borrowing	6,600	6,600
Trade and other payables	88,702	88,702
	<u>95,302</u>	<u>95,302</u>

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

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**27. Financial risk management (cont'd)**

**Commodity price risk**

The group has commodity price risk as steel is one of the main components of raw materials. Metals are traded commodities and their prices are subject to the fluctuations of the world commodity markets. Any significant increases in the prices for metals will have a material adverse impact on the financial position and results of operation. The 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. 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 earnings/(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 80% 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 the period end were as follows:

	<b>Year ended 31 December</b>	
	<b>2014</b>	<b>2013</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Total debt	106,868	119,483
Less: Cash and bank balances	(14,875)	(15,198)
Net debt	<u>91,993</u>	<u>104,285</u>
Total equity	<u>21,836</u>	<u>24,175</u>
Total capital	<u>113,829</u>	<u>128,460</u>
Gearing ratio	<u>81%</u>	<u>81%</u>

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
FOR THE YEAR ENDED 31 DECEMBER 2014**

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**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.

**Fair value hierarchy**

The group's and the company's financial instruments carried at fair value are analysed as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3: Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

As at reporting date, the group and the company do not have any financial instruments classified as Level 1, Level 2 and Level 3.

**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 group's revenue breakdown by geographical location is determined based on its customers' country of incorporation. The 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.

	<b>Year ended 31 December</b>	
	<b>2014 RMB'000</b>	<b>2013 RMB'000</b>
PRC	44,802	46,517
Myanmar	12,507	-
Romania	-	(197)
Thailand	-	(1,953)
	<b>57,309</b>	<b>44,367</b>

**Business segment**

The 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 group does not have separately reportable business segments under IFRS 8 *Segmental Reporting*. Nonetheless the group's revenue and results can be classified into the following streams:

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
FOR THE YEAR ENDED 31 DECEMBER 2014**

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**30. Segment reporting (cont'd)**

**Business segment (cont'd)**

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

	<b>EPC activities RMB'000</b>	<b>VAS RMB'000</b>	<b>Total RMB'000</b>
<b>Revenue</b>			
Year ended 31 December 2014	56,690	619	57,309
Year ended 31 December 2013	<u>36,221</u>	<u>8,146</u>	<u>44,367</u>
<b>Results</b>			
Year ended 31 December 2014	4,093	206	4,299
Year ended 31 December 2013	(3,285)	947	(2,338)

**Information about major customers**

Included in revenue arising from the sales of project of approximate RMB30 million (2013: RMB22 million) which arose from sales to group's 4 largest customers.

**31. Events after the balance sheet date**

On 6 March 2015, a Sale and Purchase Agreement was signed in which the company acquired 24 per cent. of the issued equity of the Visontai Ethanol Development Company Limited ("Visontai") bioethanol project in Hungary for EUR250,000.

The group was contracted by Visontai to design and construct a biorefinery to convert corn feedstock into 150,000 litres per day of ethanol. Under the terms of supplementary contractual arrangements made, the company has the option to conditionally subscribe for, and to acquire, additional equity in Visontai. Accordingly, the company has exercised this right and subscribed for 24 per cent. of the equity of Visontai for EUR250,000. Subject to certain contract provisions, the company has the right to further enlarge its holding, by acquisition of shares, up to 50 per cent. of the equity of Visontai for a further payment of EUR250,000.

The contract value for the group is approximately EUR34 million.