

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

**CHINA NEW ENERGY LIMITED**  
**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

## COMPANY INFORMATION

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<b>Directors</b>	Yu Weijun Tang Zhaoxing Richard Bennett Nicolas Brooks	Executive Chairman Chief Executive Officer Non-Executive Director 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 Cheyne House Crown Court 62-63 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 2017**

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### **Financial review**

For the year ended 31 December 2017, the Group's total revenue was RMB252.4 million (c. £28.7 million), an increase of 221% from RMB78.6 million (c. £8.7 million).

We are pleased to report that CNE has significantly grown its revenues and underlying profitability. The growth in business performance is mostly attributed to a change of policy in China to increase the production of fuel ethanol, which resulted in winning and delivering a number of high profile contracts with a mix of existing and new customers, including Jilin Boda Biochemical Ltd, COFCO Anhui, Liaoyuan Jiufeng Biotech, and COFCO Guangxi amongst others.

The gross profit for the year was RMB73.6 million (c. £8.4 million) up 175% from a gross profit of RMB26.8 million (c. £3.0 million).

For the year 2017, the group recorded a profit of RMB30.1 million (c. £3.4 million) up 734% from a profit of RMB3.6 million (c. £0.4 million) substantially improving on a solid performance in 2016.

### **Sales pipeline**

We entered 2018 with a strong order book of RMB63.7 million (c. £7.3 million), which includes the balance of started but not completed contracts from 2017. We continue to believe the change of policy in China to increase the production of fuel ethanol will drive sales opportunities for a significant number of new ethanol projects in China over the next 5 years. As a market leader, that has contributed technology and services to 60% of China's ethanol projects, CNE is ideally positioned to capitalise upon this market growth opportunity.

### **Products and services**

The Group principally provides EPC (Equipment, Procurement and Construction) services and VAS (Value Added Services) to ethanol and biochemical producers. The EPC team primarily designs and builds commercial-scale biorefineries that convert feedstock into ethanol and other biochemicals for both the biofuel, and food & beverage (alcohol) market sectors, whilst the VAS team provides services and technology to optimise the ethanol and biochemical production and energy efficiency of existing biorefineries.

### **Market**

CNE is a market leader in China at designing and building biorefineries that convert agricultural feedstock such as corn, cassava and sugarcane into ethanol for the fuel and food & beverage (alcohol) market sectors and has supplied technology and services to more than 200 projects in China and around the world.

For the past few years, mostly due to the low-oil price, the demand for new 1<sup>st</sup> generation biorefinery projects had stalled. However, both the increase in oil price and the change of policy in China to increase fuel ethanol production, is again creating demand for CNE's core technology and services.

The rise in oil price is also leading to renewed interest in 2<sup>nd</sup> generation biorefinery technology. China, the EU and other developed nations have for a long time sought to broaden the range of biofuel feedstocks to include non-food materials such as corn stover and municipal waste. The rise in oil price, and new technology, is once again making these feedstocks cost competitive.

CNE has also taken notice of the market growth opportunities for biochemicals. Both the rising oil price, and consumer demand for items such as bioplastics is driving demands for biochemicals that can be produced as an extension to CNE's core fermentation and distillation technologies.

As a market leader in ethanol biorefinery process technologies CNE is actively exploring various 2<sup>nd</sup> generation and other biochemical technologies which are nearing commercialisation in order to extend the Company's solutions to respond to these important market trends.

**CHAIRMAN'S STATEMENT (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

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**Group strategy**

The Group's strategy is to:

- 1) Sell engineering and construction contracts to develop biorefinery and biochemical projects. The Company is focusing on fuel, biochemical and food & beverage (alcohol) projects in China and other developed markets, and 1<sup>st</sup> generation biorefinery projects in emerging markets including Africa, Eastern Europe and Asia.
- 2) Sell VAS and maintenance services to existing and new customers. In particular, the board sees opportunities to sell energy efficiency technology to reduce operating costs for customers.
- 3) Maintain our cost leadership position in the industry through relentless focus on operational efficiency in order to support project developers competing in a (relatively) low crude oil price environment.
- 4) Commercialise 2<sup>nd</sup> generation and biochemical technologies to enable our clients to further add-value to organic feedstocks and produce a wider range of biofuel and biochemical products.
- 5) Where appropriate, explore acquiring equity interest in selected biorefinery projects. The board seeks to broaden from engineering and construction contracts where income can be uneven and develop operating businesses with consistent recurring income.

**Business development**

The business development team shall continue to focus on both domestic and international market opportunities. The development of international market opportunities has taken longer than expected, but the team maintain their business development momentum such as speaking at international sugar and ethanol conferences, and continue to make proposals and develop the sales pipeline, particularly in South Asia and Sub-Saharan Africa. The Company believes that the agreements previously announced with Sunbird Bioenergy Africa and with Supercare Group remain viable projects and look forward to commencing their development once they have achieved financial closure with their respective investors.

**Outlook**

I am optimistic about the Group's prospects in 2018 and beyond. The positive change of fuel ethanol policy in China, combined with the development of new international markets and the emergence of new technology via in-house and partnerships has resulted in a strong platform from which to develop further growth. Consequently, I believe the outlook is for sustained profitability.

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



Yu Weijun  
Chairman

28 June 2018

## **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017**

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The Directors present their report, together with the audited financial statements for China New Energy Limited ('the Company') and its subsidiary undertakings (together 'the Group') for the year ended 31 December 2017.

### **Principal activities**

The principal activity of the Company is an investment holding company.

The Group's principal activity is providing technology solutions to manufacturers of ethanol, edible alcohol and other biochemicals from a range of organic feedstock including corn, sugarcane, cassava, corn-stover (agricultural waste) and other bio-resources.

### **Business review**

The Group recorded an increase of 221% in revenue to RMB252.4million for the financial year 2017 ("FY2017"), reflecting most contracts signed in 2017 were substantially completed in the FY2017 reporting period. The total value of contracts secured in FY2017 was RMB359 million.

Our contracts' gross profit also increased to RMB73.6million in FY2017 compared to a gross profit of RMB27million in FY2016. This year's gross profit margin was 29% compared to the previous year's 34%.

Profit for the year of RMB30.1million represented a demonstration of continued growth from the platform created in 2016, with sales success being recorded across a range of existing and new customer projects.

During the year, in addition to fulfilling projects won at the end of 2016 and early 2017, business and technology development activities continued in China and internationally. Presence at international conferences led to business development leads which appear promising, and the Company is well positioned given its market leadership position in China to take full advantage of new and expansion projects in the high potential ethanol market domestically.

### **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, retain and improve its current position in the 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.

Group's financial risk management objectives, policies and strategies are set out in note 29 to the financial statements. In addition, the risk profile and financial instruments of the Group are set out in notes 29 and 30 to the financial statements.

Note: The exchange rate used in 2017 is £1:RMB 8.7869 (2016: £1:RMB 8.9844).

**DIRECTORS' REPORT (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**Results and dividends**

The financial results of the Group are set out on page 17.

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

**Directors' interests**

The following directors have held office during the period under review and their interests as at 31 December 2017, 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:

Name of Directors	Number of shares	% of issued share capital
Yu Weijun *	90,932,440	18.52%
Tang Zhaoxing **	48,000,000	9.77%
Richard Bennett	325,732	0.066%
Nicholas Brooks	405,000	0.082%

\* Held through Leader Vision Investments Limited and WB Nominees Limited

\*\* Held through Vidacos Nominees Limited

Name of Directors	Number of share options	Expiry date
Yu Weijun	3,070,352	20/10/2020
Tang Zhaoxing	3,070,352	20/10/2020
Richard Bennett	3,070,352	20/10/2020
Nicholas Brooks	3,070,352	20/10/2020

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.

**Directors' remuneration**

	2017 RMB'000	2016 RMB'000
Yu Weijun	564	548
Tang Zhaoxing	563	548
Richard Bennett	174	180
Nicholas Brooks (appointed 28 October 2016)	180	37
<b>Total</b>	<b>1,481</b>	<b>1,313</b>

**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.

**DIRECTORS' REPORT (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

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**Payments to suppliers**

The Group's policy for the year ended 31 December 2017 is to settle the terms of payment with suppliers when agreeing the terms of the business transactions:

- To ensure that suppliers are aware of the terms of payments by the inclusion of the relevant terms in contracts; and
- To 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 2017 was 100 days (2016: 252 days).

**Substantial shareholders**

The Group had been notified of the following beneficial interest of 3% or more in its shares as at 18 June 2018

Name of shareholders	Number of shares	% of issued share capital
Leader Vision Investments Limited (Yu Weijun) *	64,000,000	13.03%
Vidacos Nominees Limited (Tang Zhaoxing)	48,000,000	9.77%
Best Full Investments Limited (Liang Hongtao)	48,000,000	9.77%
Jet-Air (HK) Limited	44,652,107	9.09%
W B Nominees Limited (Yu Weijun) *	26,932,440	5.49%
Pershing Nominees Limited (Jiang Xinchun)	25,100,000	5.13%

\* Both held shares for Mr Yu Weijun, aggregated % of issued share capital is 18.52%

\*\*Jiang Xinchun also holds other shares of 7,000,000 by his name of Mr Xinchun Jiang, totalling 32,100,000 shares with an aggregated % of issued share capital of 6.53%

**Going concern**

The financial statements have been prepared assuming the Group will continue as a going concern.

During the year ended 31 December 2017, the Group made a profit of RMB30.1million, including a provision on a court case of RMB5.9million (note 14), research and development expense of RMB1.2million (note 21). At the year-end date, the Group had net assets of RMB41.3million (2016: net assets of RMB4.6million), of which RMB19.4million (2016: RMB13.9million) was cash in bank (note 11), including a restricted cash of RMB11.2million (2016: RMB11.2million).

The Group has a cash balance of RMB1.5 million at 30 April 2018, the restricted cash of RMB11.2million was repaid to the court. The Directors consider that the Group has adequate resources, especially with sufficient cash in bank, to continue in operational existence for at least the next twelve months from the date of approval of these financial statements.

The Group's existing business made significantly increased operating profits to the year end 31 December 2017. Whilst there continues to be uncertainty in the renewables industry, together with working capital risks linked to the industry practice of phased contractual payments for projects, the Directors consider that the underlying economic environment for the sector in 2018 is improving compared to earlier years. The Group is continuing to evaluate new funding options. Currently operations are partially relying on project payments in advance from customers and phased payments to suppliers, which gives a degree of uncertainty in the future going concern. This is because there can be no guarantee that required funds availability is synchronised perfectly with cash requirements to fund suppliers. Consequently, a material uncertainty exists that may cast doubt on the Group's ability to continue to operate as planned and to be able to meet its commitments and discharge its liabilities in the normal course of business for a period not less than twelve months for the date of this report.

The financial statements do not include the adjustments that would result if the Group was unable to continue in operation.



**DIRECTORS' REPORT (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

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**Events after the reporting period**

Subsequent to the year end the Company purchased 46,808,809 of its ordinary shares at a purchase price of 1.2 pence per share from Mr. Lv Jingbin for a total cash consideration of £561,705 and transferred the shares into treasury. Mr. Lv then no longer had an interest in the Company.

**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**

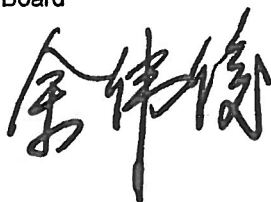
The directors have confirmed that:

- 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

28 June 2018

## **CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017**

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### **Principles of Corporate Governance**

As a Group listed on AIM, the Group 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.

The directors acknowledge the importance of the Code and intend to apply its principles so far as is practicable taking into account the Group's size and stage of development.

The Group has two UK based non-executive directors, Richard Bennett and Nicholas Brooks.

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 and Nicholas Brooks, determines and examines any matters relating to the financial affairs of the Group 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 Group and ensures they are properly monitored and reported on.

### **Remuneration Committee**

The Remuneration Committee, which comprises Yu Weijun and Richard Bennett and Nicholas Brooks, with Yu Weijun acting as Chairman, is responsible for making recommendations to the Board on the Group'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, option schemes and compensation payments.

### **The Board**

The Board is responsible to shareholders for the proper management of the Group. The two UK based 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 frequent basis since its listing on the AIM Market. The Board is responsible for overall strategy, reviewing management accounts, approval of major capital expenditure projects and consideration of significant financing matters.

### **Directors**

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

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

**CORPORATE GOVERNANCE STATEMENT (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

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**Internal controls**

The directors are responsible for the Group's system of internal controls and reviewing its effectiveness. The Board has designed the Group'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 Group'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 Group.

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

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**Opinion**

We have audited the financial statements of China New Energy Limited ("the Company") for the year ended 31 December 2017 which comprise the Consolidated and Company Statements of Financial Position, the Consolidated and Company Statements of Profit or Loss and Other Comprehensive Income, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Statements of Cash Flows and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs), as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the Group and Company's affairs as at 31 December 2017 and of the Group and Company's profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs, as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Material uncertainty related to going concern and recoverability of trade receivables**

We have considered the adequacy of the disclosure in note 2.2 in the financial statements concerning the Group's ability to continue as a going concern and the disclosures in note 10 in the financial statements concerning the Group's ability to recover its trade receivables. The Group made a net profit of RMB30.1 million during the year ended 31 December 2017. The Group had cash and cash equivalents (including bank overdraft) of RMB 721,000 at year end, which excludes a restricted cash balance of RMB 11.2million which was frozen at the year-end by a court order and has been utilised in 2018 to settle a legal case (see note 14). As set out in note 10 to the financial statements, at 31 December 2017 the Group had outstanding trade receivables of RMB67 million, including significant amounts which are past their due by collection dates.

The continued high level of long outstanding receivables indicates an increased degree of uncertainty as to when and whether the debts may be collectible in full and casts doubt on the Group's policies and procedures for effective debt collection. The directors have reviewed the outstanding receivables in detail and made impairment provisions against receivables that they believe are at risk of not being received in full. The directors therefore are of the opinion that the unprovided receivables will be collected in full and they are making efforts to do so.

The Group's operations are partially funded by project payments in advance from customers and receipts from customers for completed contract billings.

These conditions, along with other matters explained in note 2.2 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Company's and Group's ability to continue as a going concern.

The financial statements do not include adjustments that would result from further impairment of trade receivables if the Group were unable to collect its debts in full and also do not include the adjustments (such as the impairment of other assets) that would result if the Company and Group were unable to continue as a going concern. Our opinion is not modified in respect of these matters.

**INDEPENDENT AUDITORS' REPORT (cont'd)**  
**TO THE SHAREHOLDERS OF CHINA NEW ENERGY LIMITED**

**Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

***Our assessment of risks of material misstatements***

We identified the following risks of material misstatement that we believe had the greatest impact on our overall audit strategy and scope, the allocation of resources in the audit and directing the efforts of the engagement team. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
<p><b><i>Accounting for construction contracts - Revenue recognition</i></b></p> <p>The Group recognised revenue of RMB 252million from construction contracts using the percentage of completion method for the financial year ended 31 December 2017. The percentage of completion is measured by reference to contract costs incurred compared to estimated total costs for the contracts. The determination of the contract revenues and contract costs requires significant management estimates, which may have a material impact on the amounts of contract work-in-progress, contract revenue, contract cost and profits recognised during the year. Accordingly, we have identified this as a key audit matter.</p>	<p>We obtained an understanding and reviewed, on a sample basis, the key financial controls surrounding management's internal costing and revenue recognition process put in place to estimate contract revenues, costs and profit margin. We tested the mathematical accuracy of contract revenues, costs and profits based on the percentage of completion calculations. Where there has been a significant change in management's estimates of such revenues, costs and profit margins, we enquired with management the rationale of such changes and obtained supporting documentation to corroborate management's explanation. We reviewed the projects and discussed with the management on the progress of significant contracts to determine if there are any changes such as delays, penalties, overruns where it is probable that total contract costs will exceed total contract revenue and require the recognition of foreseeable losses on such contracts.</p> <p>Information regarding the Group's contract work-in-progress and revenue from construction contracts is disclosed in notes 9 and 32 to the financial statements.</p>

**INDEPENDENT AUDITORS' REPORT (cont'd)**  
**TO THE SHAREHOLDERS OF CHINA NEW ENERGY LIMITED**

<p><b><i>Recoverability of trade receivables</i></b></p> <p>We identified the recoverability of trade receivables as a key audit matter due to the significance of the balance to the consolidated financial statements as a whole, combined with the significant degree of judgements made by the management in assessing the impairment of accounts receivables and determining the allowance for doubtful debts.</p> <p>As at 31 December, 2017, the carrying amounts of accounts receivables was RMB67million, net of an impairment of doubtful debts of RMB10million for the year ended 31 December 2017 (including adjustments arising during our audit work) as disclosed in note 10 to the consolidated financial statements.</p>	<p>Our procedures in relation to the recoverability of trade receivables included:</p> <ul style="list-style-type: none"> <li>• Obtaining an understanding on how the allowance for doubtful debts is estimated by the management and assessing the management's process in determining the estimated future cash flows of trade receivables;</li> <li>• Discussing with the management and reviewing trade receivables with limited cash settlements, during the year or subsequent to the end of the reporting period;</li> <li>• Checking the aging analysis and subsequent settlement of the trade receivables, on a sample basis, to source documents including invoices and bank statements; and</li> <li>• Assessing the reasonableness of allowance for doubtful debts for trade receivables with reference to the history of defaults or delays in payments, settlement records, subsequent settlements and aging analysis of the trade receivables on a sample basis.</li> </ul> <p>The Group has discussed its trade receivables in note 10, and the directors are confident that outstanding receivables will be collected from customers and are making efforts to do so.</p> <p>The continued high level of long outstanding receivables indicates an increased degree of uncertainty as to whether the debts may be collectible in full and may cast doubt on the Group's policies and procedures for effective debt collection.</p> <p>Accordingly there is a material uncertainty on the timing of trade receivables collections – as set out in the 'Material uncertainty related to going concern and recoverability of trade receivables' paragraph of the audit report.</p>
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**INDEPENDENT AUDITORS' REPORT (cont'd)**  
**TO THE SHAREHOLDERS OF CHINA NEW ENERGY LIMITED**

<p><b>Management override of controls</b></p> <p>Intrinsically there is always a risk of material misstatement due to fraud as a result of possible override of internal controls by management or by those charged with governance.</p>	<p>We reviewed the nominal ledger accounts, journals and cash transactions to identify any unusual or exceptional transactions. We investigated and tested a sample of items to ensure amounts paid during the year related to business expenses and that transactions were appropriate.</p> <p>We reviewed and enquired into the accounting systems, processes, controls and segregation of duties that existed in the Company and the Group.</p> <p>We also evaluated whether there was evidence of bias by the directors that represented a risk of material misstatement of fraud. During our audit we found no evidence of management override of internal controls by the directors or management.</p>
<p><b>Going concern</b></p> <p>The Company and Group is still in its growth phase and is therefore dependent on cash funded by project payments in advance from customers and receipts from customers for completed contract billings. There is a risk that delayed cash receipts from contract customers could result in a material uncertainty that may cast doubt on the Group's ability to continue as a going concern.</p>	<p>We reviewed the Group's cash flow forecasts for the period to 30 June 2019. Despite the return to profitability during 2017 the Group had cash and cash equivalents of RMB 721,000 (including a short term bank loan of RMB7.4 million) at the year-end, which excluded a restricted cash balance of RMB 11.2million which was frozen at the year-end by a court order and has been utilised in 2018 to settle a legal case (see note 14).</p> <p>The forecasts indicate that further the Group is dependent on prompt receipt of funds from contract customers to cover both the operational and contract costs.</p> <p>The Group has discussed its going concern in note 2.2 to the financial statements, and the directors are confident that sufficient funds will be received from customers in time for the Group to continue as a going concern.</p> <p>There is however a going concern risk and therefore no guarantee that sufficient funds will be received as and when required. Accordingly there is a material uncertainty that may cast significant doubt on the Company's and Group's ability to continue as a going concern – as set out in the 'Material uncertainty related to going concern and recoverability of trade receivables' paragraph of the audit report.</p>

**INDEPENDENT AUDITORS' REPORT (cont'd)**  
**TO THE SHAREHOLDERS OF CHINA NEW ENERGY LIMITED**

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**Our application of materiality**

The scope and focus of our audit was influenced by our assessment and application of materiality. We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on our audit and on the financial statements.

We define financial statement materiality as the magnitude by which misstatements, including omissions, could reasonably be expected to influence the economic decisions taken on the basis of the financial statements by reasonable users.

We also determine a level of performance materiality which we use to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

Overall materiality	We determined materiality for the financial statements as a whole to be RMB 2.5 million.
How we determine it	Based on a materiality model using an average of benchmark amounts of revenue, profit before tax, gross assets and net assets.
Rationale for benchmarks applied	We believe an averaging model to be the most appropriate benchmarks due to the size, growth stage, increase in profitability and the nature of the Company and Group.
Performance materiality	On the basis of our risk assessment, together with our assessment of the Company's control environment, our judgement is that performance materiality for the financial statements should be 75% of materiality, and was set at RMB 1.87million.

We agreed with the Audit Committee that we would report to them all misstatements over RMB100,000 identified during the audit, as well as differences below that threshold that, in our view, warrant reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

**An overview of the scope of our audit**

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account an understanding of the structure of the Company and the Group, their activities, the accounting processes and controls, and the industry in which they operate. Our planned audit testing was directed accordingly and was focused on areas where we assessed there to be the highest risk of material misstatement.

Our Group audit scope includes all of the group companies. At the Parent Company level, we also tested the consolidation procedures. The audit team met and communicated regularly throughout the audit with those charged with governance in order to ensure we had a good knowledge of the business of the Group. During the audit we reassessed and re-evaluated audit risks and tailored our approach accordingly.

The audit testing included substantive testing on significant transactions, balances and disclosures, the extent of which was based on various factors such as our overall assessment of the control environment, the effectiveness of controls and the management of specific risk.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant findings, including any significant deficiencies in internal control that we identify during the audit.



**INDEPENDENT AUDITORS' REPORT (cont'd)**  
**TO THE SHAREHOLDERS OF CHINA NEW ENERGY LIMITED**

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**Other information**

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Matters on which we are required to report by exception**

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

- adequate accounting records have not been kept by the Company, or 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 all the information and explanations we require for our audit.

**Responsibilities of directors**

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

**INDEPENDENT AUDITORS' REPORT (cont'd)**  
**TO THE SHAREHOLDERS OF CHINA NEW ENERGY LIMITED**

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**Use of our report**

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.



Colin Wright  
(Senior Statutory Auditor)  
For and on behalf of  
**UHY Hacker Young**

Chartered Accountant  
Statutory Auditor

Quadrant House  
4 Thomas More Square  
London E1W 1YW

28<sup>th</sup> June 2018

*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.*

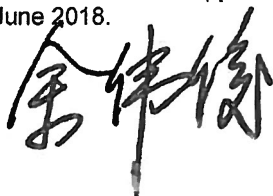
**CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION**  
**AT 31 DECEMBER 2017**

	Note	Group		Company	
		As at 31 December		As at 31 December	
		2017	2016	2017	2016
		RMB'000	RMB'000	RMB'000	RMB'000
<b>Non-current assets</b>					
Property, plant and equipment	5	3,854	4,774	-	-
Intangible assets	6	15,814	14,541	-	-
Investments in subsidiaries	7	-	-	9,107	8,851
		<u>19,668</u>	<u>19,315</u>	<u>9,107</u>	<u>8,851</u>
<b>Current assets</b>					
Inventories	8	18,745	3,438	-	-
Construction work-in-progress in excess of progress billings	9	55,866	35,713	-	-
Trade and other receivables	10	92,791	73,217	8,620	3,717
Cash and cash equivalents	11	8,168	2,654	240	1,808
Restricted cash at bank	11	11,200	11,200	-	-
		<u>186,770</u>	<u>126,222</u>	<u>8,860</u>	<u>5,525</u>
<b>Current liabilities</b>					
Borrowings	12	7,447	-	-	-
Trade and other payables	13	96,632	91,976	6,327	6,867
Progress billings in excess of construction work-in-progress	9	31,055	30,215	-	-
Provision for liabilities	14	15,873	10,000	-	-
Income tax payable		12,014	8,776	-	-
		<u>163,021</u>	<u>140,967</u>	<u>6,327</u>	<u>6,867</u>
<b>Net current assets/(liabilities)</b>		<u>23,749</u>	<u>(14,745)</u>	<u>2,533</u>	<u>(1,342)</u>
<b>Non-current liabilities</b>					
Deferred tax liability	25	2,125	-	-	-
		<u>2,125</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net assets</b>		<u>41,292</u>	<u>4,570</u>	<u>11,640</u>	<u>7,509</u>
<b>Equity</b>					
Share capital	15	1,541	1,441	1,541	1,441
Share premium	15	68,830	62,905	68,830	62,905
Combination reserve	16	(33,156)	(33,156)	-	-
Statutory reserve	17	12,328	12,328	-	-
Share-based payment reserve	18	528	-	528	-
Retained losses		(32,954)	(63,039)	(51,919)	(49,157)
Foreign currency translation reserve	19	24,175	24,091	(7,340)	(7,680)
		<u>41,292</u>	<u>4,570</u>	<u>11,640</u>	<u>7,509</u>

The notes on pages 22 to 56 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 28 June 2018.

Yu Weijun  
Director



**CONSOLIDATED AND COMPANY STATEMENTS OF PROFIT OR LOSS AND OTHER  
COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2017**

		<b>Group</b>		<b>Company</b>	
	<b>Note</b>	<b>Year ended 31 December</b>		<b>Year ended 31 December</b>	
		<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
		<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
<b>Revenue</b> – project revenue	32	252,400	78,584	-	-
Cost of sales – costs of construction		(178,802)	(51,828)	-	-
<b>Gross profit</b>		<b>73,598</b>	<b>26,756</b>	<b>-</b>	<b>-</b>
Selling and distribution expenses		(5,890)	(4,868)	-	-
Administrative expenses		(5,044)	(7,576)	(2,314)	(2,309)
Share-based payments	18	(528)	-	(528)	-
Other income	20	7,642	3,204	-	-
Other expenses	21	(7,150)	(9,696)	-	-
Provisions – receivables & contracts	10	(26,828)	(2,715)	-	(1,665)
Impairment loss on investment		-	-	-	(1,846)
<b>Operating profit/(loss)</b>		<b>35,800</b>	<b>5,105</b>	<b>(2,842)</b>	<b>(5,820)</b>
Interest income		57	55	-	2
Finance costs	22	(666)	(1,549)	80	(917)
<b>Profit/(loss) before tax</b>	23	<b>35,191</b>	<b>3,611</b>	<b>(2,762)</b>	<b>(6,735)</b>
Income tax expense	25	(2,981)	-	-	-
Deferred tax expense	25	(2,125)	-	-	-
<b>Profit/(loss) for the year attributable to owners of the Group</b>		<b>30,085</b>	<b>3,611</b>	<b>(2,762)</b>	<b>(6,735)</b>
<b>Other comprehensive income</b>					
Exchange difference: on translating foreign operations		84	405	340	(938)
<b>Total comprehensive income for the year attributable to owners of the Group</b>		<b>30,169</b>	<b>4,016</b>	<b>(2,422)</b>	<b>(7,673)</b>
<i>Earnings per share (RMB)</i>					
Basic	26	0.07	0.009		
Diluted	26	0.06	0.009		
<i>Earnings per share (Pence)</i>					
Basic		0.80p	0.097p		
Diluted		0.68p	0.097p		

Exchange rate £1: RMB8.7869 (2016: £1: RMB8.9844)

The notes on pages 22 to 56 form part of these financial statements.

All amounts are derived from continuing operations.

**CONSOLIDATED AND COMPANY STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2017**

Group	Share capital RMB'000	Share premium RMB'000	Combination reserve RMB'000	Statutory reserve RMB'000	Share-based payment reserve RMB'000	Retained losses RMB'000	Foreign currency translation reserve RMB'000	Total equity RMB'000
<b>Balance at 31 December 2015</b>	<b>1,357</b>	<b>56,696</b>	<b>(33,156)</b>	<b>12,328</b>	<b>1,673</b>	<b>(68,323)</b>	<b>23,686</b>	<b>(5,739)</b>
Profit for the year	-	-	-	-	-	3,611	-	3,611
Other comprehensive income	-	-	-	-	-	-	405	405
Transfer share-based payment reserve	-	-	-	-	(1,673)	1,673	-	-
Total comprehensive income for the year	-	-	-	-	(1,673)	5,284	405	4,016
Issue of shares, net of share issue cost	84	6,209	-	-	-	-	-	6,293
<b>Balance at 31 December 2016</b>	<b>1,441</b>	<b>62,905</b>	<b>(33,156)</b>	<b>12,328</b>	<b>-</b>	<b>(63,039)</b>	<b>24,091</b>	<b>4,570</b>
Profit for the year	-	-	-	-	528	30,085	-	30,613
Other comprehensive income	-	-	-	-	-	-	84	84
Total comprehensive income for the year	-	-	-	-	528	30,085	84	30,697
Issue of shares, net of share issue cost	100	5,925	-	-	-	-	-	6,025
<b>Balance at 31 December 2017</b>	<b>1,541</b>	<b>68,830</b>	<b>(33,156)</b>	<b>12,328</b>	<b>528</b>	<b>(32,954)</b>	<b>24,175</b>	<b>41,292</b>

**CONSOLIDATED AND COMPANY STATEMENTS OF CHANGES IN EQUITY (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

Company	Share capital RMB'000	Share premium RMB'000	Share-based payment reserve RMB'000	Retained losses RMB'000	Foreign currency translation reserve RMB'000	Total equity RMB'000
<b>Balance at 31 December 2015</b>	<b>1,357</b>	<b>56,696</b>	<b>1,673</b>	<b>(44,095)</b>	<b>(6,742)</b>	<b>8,889</b>
Loss for the year	-	-	-	(6,735)	-	(6,735)
Other comprehensive income	-	-	-	-	(938)	(938)
Transfer share-based payment reserve	-	-	(1,673)	1,673	-	-
Total comprehensive income for the year	-	-	(1,673)	(5,062)	(938)	(7,673)
Issue of shares, net of share issue cost	84	6,209	-	-	-	6,293
<b>Balance at 31 December 2016</b>	<b>1,441</b>	<b>62,905</b>	<b>-</b>	<b>(49,157)</b>	<b>(7,680)</b>	<b>7,509</b>
Loss for the year	-	-	528	(2,762)	-	(2,234)
Other comprehensive income	-	-	-	-	340	340
Total comprehensive income for the year	-	-	528	(2,762)	340	(1,894)
Issue of shares, net of share issue cost	100	5,925	-	-	-	6,025
<b>Balance at 31 December 2017</b>	<b>1,541</b>	<b>68,830</b>	<b>528</b>	<b>(51,919)</b>	<b>(7,340)</b>	<b>11,640</b>

**CONSOLIDATED AND COMPANY STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

	<b>Group</b>		<b>Company</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
<b><i>Operating activities</i></b>				
Profit/(loss) before tax	35,191	3,611	(2,762)	(6,735)
Adjustments for:				
Depreciation and amortisation	1,846	2,565	-	-
Share-based payments	528	-	528	-
(Gain)/loss on disposal of plant & equipment	(20)	1,548	-	-
Gain on disposal of intangible assets	-	(2,359)	-	-
Interest income	(57)	(55)	-	(2)
Interest expenses	666	537	-	-
Impairment of inventories	-	242	-	-
Impairment of plant & equipment	-	(366)	-	-
Impairment of investment	-	-	-	1,846
Exchange difference	84	405	84	313
<b><i>Operating cash flows before movements in working capital</i></b>	<b>38,238</b>	<b>6,128</b>	<b>(2,150)</b>	<b>(4,578)</b>
(Increase)/decrease in inventories	(15,307)	6,258	-	-
Increase in construction contracts work-in-progress (net)	(19,313)	(2,824)	-	-
(Increase)/decrease in trade and other receivables	(19,574)	(27,065)	(4,903)	2,178
Increase/(decrease) in trade and other payables	4,913	11,786	(540)	(4,893)
Increase in provision for liabilities	5,873	-	-	-
Restricted cash frozen by court (note 14)	-	(11,200)	-	-
<b><i>Net cash used by operating activities</i></b>	<b>(5,170)</b>	<b>(16,917)</b>	<b>(7,593)</b>	<b>(7,293)</b>
<b><i>Investing activities</i></b>				
Purchase of property, plant and equipment	(413)	(1,965)	-	-
Expenditure on intangible assets additions	(1,864)	(3,701)	-	-
<b><i>Net cash used in investing activities</i></b>	<b>(2,277)</b>	<b>(5,666)</b>	<b>-</b>	<b>-</b>

**CONSOLIDATED AND COMPANY STATEMENTS OF CASH FLOWS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

	<b>Group</b>		<b>Company</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</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 disposal of plant & equipment	98	-	-	-
Proceeds from issue of shares	6,025	6,293	6,025	6,293
Interest received	57	55	-	2
Interest paid	(666)	(537)	-	-
<b><i>Net cash from financing activities</i></b>	<b>5,514</b>	<b>5,811</b>	<b>6,025</b>	<b>6,295</b>
<b><i>Net decrease in cash and cash equivalents</i></b>	<b>(1,933)</b>	<b>(16,772)</b>	<b>(1,568)</b>	<b>(998)</b>
Cash and cash equivalents at beginning of year	2,654	19,426	1,808	2,806
<b><i>Cash and cash equivalents at end of year</i></b> <b><i>(Note 11)</i></b>	<b>721</b>	<b>2,654</b>	<b>240</b>	<b>1,808</b>

Cash and cash equivalents shown above excludes restricted cash at bank of RMB11.2 million which has been frozen under a court order and has been used subsequent to the year end to settle a court case (notes 14 & 33). The restricted cash at bank has been shown separately on the consolidated statement of financial position.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents at 31 December 2017 comprise the cash and cash equivalents shown in the consolidated statement of financial position of RMB8.168 million less short term bank loans of RMB7.447 million (note 12), resulting in RMB721,000 shown above (note 11).



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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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 the Group. The subsidiaries are entities (including special purposes entities) over which the Group 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 and functional currency of the Group financial statements as the Group mainly operates in the PRC. All financial information presented in RMB has been recorded to the nearest thousand.

The Group has adopted all relevant IFRS standards effective for accounting periods beginning on or after 1 January 2017.

As at end of the reporting year, the Group has not adopted the following IFRS standards as they are either not yet effective or not applicable to the Group's business.

**IFRS Standards, amendments and interpretations**

- Annual improvements to IFRS Standards 2014-2016 Cycle: Amendments to IFRS 1 and IAS 28 (applicable for annual periods beginning on or after 1 January 2018)
- Annual improvements to IFRS Standards 2015-2017 Cycle (applicable for annual periods beginning on or after 1 January 2019, but not yet endorsed in the EU)
- IFRS 9 Financial Instruments and subsequent amendments (applicable for annual periods beginning on or after 1 January 2018)
- IFRS 15 Revenue from Contracts with Customers (applicable for annual periods beginning on or after 1 January 2018)
- IFRS 16 Leases (applicable for annual periods beginning on or after 1 January 2019)
- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions (applicable for annual periods beginning on or after 1 January 2018)
- Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (applicable for annual periods beginning on or after 1 January 2018)
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (applicable for annual periods beginning on or after 1 January 2018, but not yet endorsed in the EU)
- IFRIC 23 Uncertainty over Income Tax Treatments (applicable for annual periods beginning on or after 1 January 2019, but not yet endorsed in the EU)

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

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

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

Except for IFRS 9, IFRS 15 and IFRS 16, the Directors expect that the adoption of the other standards above will have no material impact on the financial statements in the period of initial application. The nature of the impending changes in accounting policy on adoption of IFRS 9, IFRS 15 and IFRS 16 are described below.

**IFRS 9: Financial instruments**

IFRS 9 introduces new requirements for classification and measurement of financial assets, impairment of financial assets and hedge accounting. Financial assets are classified according to their contractual cash flow characteristics and the business model under which they are held. The impairment requirements in IFRS 9 are based on an expected credit loss model and replace the IFRS 39 incurred loss model. Adopting the expected credit losses requirements will require the Group to make changes to its current systems and processes.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required but comparative information is not compulsory. The Group is currently gathering data as part of the assessment to quantify the impact, if any, on its financial statements.

**IFRS 15: Revenue from contracts with customers**

IFRS 15 establishes a five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue when the promised goods and services are transferred to the customer i.e. when performance obligations are satisfied.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018. The Group is currently gathering data as part of the assessment to quantify the impact, if any, on its financial statements. The actual impact of adoption on IFRS 15 is dependent on many factors, including the stage of completion of the long term construction projects on transition, the accounting elections and the judgements that the Group will make in the future.

**IFRS 16: Leases**

IFRS 16 requires lessees to recognise most leases on balance sheets to reflect the rights to use the leased assets and the associated obligations for lease payments, as well as the corresponding interest expense and depreciation charges. The standard includes two recognition exemptions for lessees – leases of "low value" assets and short-term leases. The new IFRS 16 standard is effective for annual periods beginning on or after 1 January 2019.

The Group plans to adopt the new standard on the required effective date. The Group expects the adoption of the new standard will result in increase in total assets and liabilities, EBITDA and gearing ratio.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**2.2 Going concern**

The financial statements have been prepared assuming the Group will continue as a going concern.

During the year ended 31 December 2017, the Group made a profit of RMB 30.1million, including a provision on a court case of RMB 5.8million (note 14), research and development expense of RMB 1.2million (note 21). At the year-end date, the Group had net assets of RMB 41.3million (2016: net assets of RMB4.6million), of which RMB19.4million (2016: RMB13.9million) was cash in bank (note 11), including a restricted cash of RMB11.2million (2016: RMB11.2million).

The Group has a cash balance of RMB1.5 million at 30 April 2018, the restricted cash of RMB11.2million was repaid to the court.

The Directors consider that the Group has adequate resources, especially with sufficient cash in bank, to continue in operational existence for at least the next twelve months from the date of approval of these financial statements.

The Group's existing business made significantly increased operating profits to the year end 31 December 2017. Whilst there continues to be uncertainty in the renewables industry, together with working capital risks linked to the industry practice of phased contractual payments for projects, the Directors consider that the underlying economic environment for the sector in 2018 is improving compared to earlier years. The Group is continuing to evaluate new funding options. Currently operations are partially relying on project payments in advance from customers and phased payments to suppliers, which gives a degree of uncertainty in the future going concern. This is because there can be no guarantee that required funds availability is synchronised perfectly with cash requirements to fund suppliers. Consequently, a material uncertainty exists that may cast doubt on the Group's ability to continue to operate as planned and to be able to meet its commitments and discharge its liabilities in the normal course of business for a period not less than twelve months for the date of this report.

The financial statements do not include the adjustments (such as impairment of assets) that would result if the Group was unable to continue in operation.

**2.3 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 Group, 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)**

**2.4 Business combinations**

**2.4.1 *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.

**2.4.2 *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.

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 in a prior year, the directors concluded that this transaction fell outside the scope of IFRS 3 and the transaction described above represents a combination of entities under common control.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**2.5 Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. The cost of property, plant and equipment includes its purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Dismantlement, removal or restoration costs are included as part of the cost of property, plant and equipment if the obligation for dismantlement, removal or restoration is incurred as a consequence of acquiring or using the property, plant and equipment.

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

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.

**2.6 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.

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

**2.6 Intangible assets (cont'd)**

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 10-20 years. Internally generated patent rights are normally transferred from intangible assets once the patent is granted and amortised on a straight-line basis over their estimated useful lives.

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.

**2.7 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.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**2.8 Income tax**

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported 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 Group 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.

**2.9 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.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**2.9 Financial instruments (cont'd)**

**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

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.



**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**2.9 Financial instruments (cont'd)**

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.

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.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**2.9 Financial instruments (cont'd)**

Financial liabilities

Financial liabilities are classified as either financial liabilities or other financial liabilities at fair value through profit or loss 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.

Derecognition of financial liabilities

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

**2.10 Inventories**

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

**2.11 Construction contracts and work-in-progress**

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 (mainly during early stages of contracts), contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable and 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.

**Contract revenue** – Contract revenue corresponds to the initial amount of revenue agreed in the contract and any variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue; and they are capable of being reliably measured.

**Contract costs** – Contract costs include costs that relate directly to the specific contract and costs that are attributable to contract activity in general and can be allocated to the contract. Costs that relate directly to a specific contract comprise: site labour costs (including site supervision); costs of materials used in construction; costs of design, and technical assistance that is directly related to the contract.

**Construction work-in-progress** - is carried at the net amount of project cost plus attributable profits less recognised losses, net of progress billings and allowance for foreseeable losses. It is presented in the statement of changes in financial position as a current asset under "construction work-in-progress in excess of progress billings" or as a current liability under "progress billings in excess of construction work-in-progress", as applicable.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**2.11 Construction contracts and work-in-progress (cont'd)**

Project cost includes materials cost, direct labour cost and other project-related expenses incurred during the project period. The project is considered complete when all significant identifiable costs attributable to the project have been incurred. Provision for anticipated losses on uncompleted contracts is made in the period in which such losses are determined.

**2.12 Cash and cash equivalents**

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

For the purpose of the consolidated statement of cash flows, cash and cash equivalents also include bank overdrafts and short term bank loans that form an integral part of the Group's cash management.

**2.13 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.

**2.14 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.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

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

**2.15 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.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**2.16 Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is made. Revenue is measured at the fair value of consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

Revenue from construction contracts

The Group's policy for recognition of revenue from construction contracts is described in note 2.11 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.

**2.17 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 (RMB) 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.

**2.18 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. The Group's revenue, assets, liabilities and capital expenditure are 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' (note 32).

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

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

The preparation of the Group's consolidated financial statements requires management and directors to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of each reporting period. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

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

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimates, which have the most significant effect on the amounts recognised in the consolidated 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.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**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.

Provisions 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 and revenue recognition

The Group recognises contract revenue to the extent of contract costs incurred where it is probable those costs will be recoverable or based on the stage of completion method depending on whether the outcome of the contract can be measured reliably. Estimation is required in determining the stage of completion, the estimated total contract revenue and estimated total contract cost, as well as the recoverability of the contract cost incurred.

Estimation of total contract revenue also includes an estimation of the variation works that are recoverable from the customers. In making the judgement, the Group relies on past experience. Estimated total contract cost for construction contract comprises direct costs attributable to the construction of each project. In estimating the total budgeted costs for construction contracts,

For the financial year ended 31 December 2017, the Group recorded revenue of RMB252 million from its construction contracts. The carrying amount of the Group's construction work-in-progress at the end of the reporting period is disclosed in note 9 to the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

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**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 RMB3.9 million (2016: RMB4.8 million).

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 RMB18.8 million (2016: RMB3.4 million).

**4. Comparative figures and reclassification**

Certain reclassifications have been made to the prior year's financial statements to enhance comparability with the current year's results.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**5. Property, plant and equipment - Group**

	Plant and machinery	Motor vehicles	Office equipment	Buildings & leasehold improvements	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Cost</b>					
At 1 January 2016	3,198	7,865	798	6,247	18,108
Additions	29	1,900	36	-	1,965
Impairment adjustment	-	366	-	-	366
Disposals	-	(1,740)	-	-	(1,740)
At 31 December 2016	3,227	8,391	834	6,247	18,699
Additions	131	213	69	-	413
Disposals	-	(600)	-	-	(600)
At 31 December 2017	3,358	8,004	903	6,247	18,512
<b>Accumulated depreciation</b>					
At 1 January 2016	2,167	5,936	532	3,586	12,221
Charge for the year	636	1,157	72	31	1,896
On disposals	-	(192)	-	-	(192)
At 31 December 2016	2,803	6,901	604	3,617	13,925
Charge for the year	300	600	58	297	1,255
On disposals	-	(522)	-	-	(522)
At 31 December 2017	3,103	6,979	662	3,914	14,658
<b>Carrying value</b>					
At 31 December 2017	255	1,025	241	2,333	3,854
At 31 December 2016	424	1,490	230	2,630	4,774

Assets pledged as security - Land use right and buildings in Boluo with a carrying amount of RMB2.3 million have been pledged to secure borrowings of the Group (note 12).



**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**6. Intangible assets - Group**

	Computer software RM'000	Patents RM'000	Land use rights RM'000	Development costs RM'000	Total RM'000
<b>Cost</b>					
As at 1 January 2016	60	2,908	3,613	6,914	13,495
Additions	-	-	-	3,701	3,701
Disposals	-	(722)	-	-	(722)
Transfer	-	4,750	-	(4,750)	-
As at 31 December 2016	60	6,936	3,613	5,865	16,474
Additions	-	-	-	1,864	1,864
As at 31 December 2017	60	6,936	3,613	7,729	18,338
<b>Accumulated amortisation</b>					
As at 1 January 2016	51	535	759	-	1,345
Charge for the year	6	580	83	-	669
On disposals	-	(81)	-	-	(81)
As at 31 December 2016	57	1,034	842	-	1,933
Charge for the year	3	508	80	-	591
On disposals	-	-	-	-	-
As at 31 December 2017	60	1,542	922	-	2,524
<b>Carrying value</b>					
At 31 December 2017	-	5,394	2,691	7,729	15,814
At 31 December 2016	3	5,902	2,771	5,865	14,541

The Group obtained the right to occupy the land at Continental High & New Technology Industry Development Zone, Boluo, Guangdong Province, PRC through its subsidiary undertaking Boluo (note 7).

The land use rights were acquired in July 2000 for a period of 50 years. On 12 October 2010 Boluo was acquired by ZKTY (note 7) and the land use rights were revalued to reflect the market value. The revaluation amount at the date of acquisition was treated as "deemed cost". The remaining period of amortisation of the land use rights is approximate 33 years.

The Group undertakes development projects to improve and upgrade its technology and engineering solutions in the field of bioethanol production. Once the patent certificate has been obtained, the development costs incurred will be assessed for impairment and transferred to patents, and then amortised over their useful life.

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 2017**

**7. Investment in subsidiary**

	<b>Company RMB'000</b>
<b>Cost</b>	
At 1 January 2016	53,503
Exchange differences	(6,012)
<b>At 31 December 2016</b>	<b>47,491</b>
Exchange differences	1,375
<b>At 31 December 2017</b>	<b>48,866</b>
<b>Accumulated impairment losses</b>	
At 1 January 2016	41,555
Impairment	1,846
Exchange differences	(4,761)
<b>At 31 December 2016</b>	<b>38,640</b>
Exchange differences	1,119
<b>At 31 December 2017</b>	<b>39,759</b>
<b>Carrying amount</b>	
At 31 December 2017	<b>9,107</b>
At 31 December 2016	<b>8,851</b>

The details of the subsidiaries are as follows:

Name / place of incorporation	Principal activity	Effective equity interest held by the Group	
		As at 31 December	
		2017	2016
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 2017**

**8. Inventories**

	<b>Group</b>	
	<b>As at 31 December</b>	
	<b>2017</b>	<b>2016</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Raw materials (see below)	9,362	2,404
Work-in-progress	9,383	1,034
	<u>18,745</u>	<u>3,438</u>

As discussed in note 14 and 33, the Group lost a court case in December 2017 with a customer, Tangshan Chenhong, and has a provision of RMB15.9 million to settle the case. As part of the settlement the Group also received a return of inventories of RMB6.6 million which is included in raw materials shown above.

**9. Construction contracts work-in-progress**

	<b>Group</b>	
	<b>As at 31 December</b>	
	<b>2017</b>	<b>2016</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Construction work-in-progress in excess of progress billings	55,866	35,713
Progress billings in excess of construction work-in-progress	(31,055)	(30,215)
	<u>24,811</u>	<u>5,498</u>

**10. Trade and other receivables**

	<b>Group</b>		<b>Company</b>	
	<b>As at 31 December</b>		<b>As at 31 December</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Trade receivables (net of impairments)	67,053	49,766	-	-
Other receivables	8,029	9,768	4,989	86
Advance to suppliers (net of impairments)	3,939	2,818	-	-
Due from Group undertakings	-	-	3,631	3,631
Due from related parties	3,481	10,595	-	-
Notes receivables	10,115	100	-	-
Prepayments	174	170	-	-
	<u>92,791</u>	<u>73,217</u>	<u>8,620</u>	<u>3,717</u>

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

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

The carrying amounts of trade and other receivables approximate their fair values and are non-interest bearing.

Trade receivable as security - included in the trade receivables is an amount of RMB9.5 million which has been pledged to secure borrowings of the Group (note 12).

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

Movements in impairments in doubtful debts in trade receivables are as follows:

	Group As at 31 December	
	2017 RMB'000	2016 RMB'000
Impairments during the year	10,994	966

Movements in impairments in doubtful debts in advances to suppliers and other receivables are as follows:

	Group As at 31 December	
	2017 RMB'000	2016 RMB'000
Allowance during the year	23	1,749
Reversal during the year	-	(3,493)

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

	As at 31 December	
	2017 RMB' 000	2016 RMB' 000
Less than 1 year	61,620	37,180
1-2 years (net of impairments)	5,392	10,343
Over 2 years	41	2,243
	67,053	49,766

At 31 December 2017, the Group had trade receivables of RMB 67million, net of impairments made against certain slow paying receivables. The continued high level of long outstanding receivables indicates an increased degree of uncertainty as to whether the debts may be collectible in full. All of the trade receivables have been reviewed for indicators of impairment and impairment provisions of RMB 10.9million have been made against receivables thought to be at risk of not being received in full. The directors believe that the unprovided receivables will be collected in full and they are making every effort to do so. The directors are also putting in place improved debt collection procedures and a formal debt provision policy.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**11. Cash and cash equivalents**

	<b>Group</b>		<b>Company</b>	
	<b>As at 31 December</b>		<b>As at 31 December</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Cash at bank and on hand	8,168	2,654	240	1,808

In addition to the above cash and cash equivalents, the Group has restricted cash at bank of RMB11.2 million which has been frozen under a court order and has been used subsequent to the year end to settle a court case (notes 14 & 33). The restricted cash at bank has been shown separately on the consolidated statement of financial position.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents at 31 December 2017 comprise the above cash and cash equivalents of RMB8.168 million less short term bank loans of RMB7.447 million (note 12), resulting in RMB721,000.

The currency profiles of the Group's cash and cash equivalents at the end of the year are disclosed in note 29.

**12. Borrowings**

**Secured - at amortised cost**

	<b>Group</b>		<b>Company</b>	
	<b>As at 31 December</b>		<b>As at 31 December</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Bank loans – short term	7,447	-	-	-

The loans are repayable in one year with annual interest rate of 6.09% and are secured by the Group's land use right in Boluo (note 5) and trade receivables with COFCO Anhui (note 10).

**13. Trade and other payables**

	<b>Group</b>		<b>Company</b>	
	<b>As at 31 December</b>		<b>As at 31 December</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Trade payables	49,042	35,663	-	-
Other payables:				
- Advance from customers	6,876	15,246	-	-
- Other payables and accruals	16,716	15,270	444	277
- VAT payables	21,434	24,254	-	-
- Due to Group undertakings	-	-	4,337	5,656
- Due to directors	2,564	1,543	1,546	934
	<u>96,632</u>	<u>91,976</u>	<u>6,327</u>	<u>6,867</u>

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

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**14. Provision for liabilities**

	<b>Group</b>		<b>Company</b>	
	<b>As at 31 December</b>		<b>As at 31 December</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Provisions for court case	<u>15,873</u>	<u>10,000</u>	<u>-</u>	<u>-</u>

The movements in provisions during the year are as follows:

	<b>Group</b>	
	<b>As at 31 December</b>	
	<b>2017</b>	<b>2016</b>
	<b>RMB'000</b>	<b>RMB'000</b>
At beginning of the year	10,000	6,680
Settlement of the court case	-	(4,290)
Reversal of last year's over provision	-	(2,390)
Provided during the year for Tangshan Chenhong court case	<u>5,873</u>	<u>10,000</u>
At end of the year	<u>15,873</u>	<u>10,000</u>

The current year's provision shown above of RMB15.9 million was provided for a court case with a customer, Tangshan Chenhong, due to dispute over quality of work provided in 2012 (note 33). The expense is included in 'other expenses' (note 21). The final court decision was received in December 2017. RMB11.2 million was frozen from the Group's bank account during 2016 and subsequent to the year end the RMB11.2 million was taken in settlement of the court order in March 2018. As part of the settlement the Group also received a return of inventories of RMB6.6 million which is included in raw materials inventories (note 8).

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**15. Share capital – Company and Group**

	Number of shares	Share capital		Share premium	
		£'000	RMB'000	£'000	RMB'000
<b>As at 31 December 2014</b>	<b>393,614,208</b>		<b>1,325</b>		<b>54,925</b>
Placing on 29 Dec 2015	13,333,333	3	32	197	1,886
<b>As at 31 December 2015</b>	<b>406,947,541</b>		<b>1,357</b>		<b>56,696</b>
Placing on 30 June 2016	37,500,000	9	84	741	6,610
<i>Less: share issue costs</i>				(45)	(401)
<b>As at 31 December 2016</b>	<b>444,447,541</b>		<b>1,441</b>		<b>62,905</b>
Placing on 22 March 2017	46,808,809	12	100	690	5,925
<b>As at 31 December 2017</b>	<b>491,256,350</b>		<b>1,541</b>		<b>68,830</b>

On 29 September 2014, the Group 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 Group.

On 29 December 2015, the Group placed 13,333,333 new ordinary shares of 0.025p each at a price of 1.5 pence per share, raising gross proceeds of £200,000 for the Group.

On 30 June 2016, the Group placed 37,500,000 new ordinary shares of 0.025p each at a price of 2.0 pence per share, raising gross proceeds of £750,000 for the Group.

On 22 March 2017, the Group placed 46,808,809 new ordinary shares of 0.025p each at a price of 1.5 pence per share, raising gross proceeds of £702,132 for the Group.

The Group has one class of ordinary shares which carry rights to dividends.

**16. Combination reserve**

Combination reserve represents the differences between the nominal amount of 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 2.4.2.

**17. 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.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**18. Share-based payments**

On 23 October 2017, the Group granted two unapproved share option schemes for the long-term incentive of directors and senior employees of the Group. An aggregate of 39,300,508 options were granted to allow directors and senior employees to acquire ordinary shares at a price of 1.5 pence per share subject to vesting conditions under these schemes. The options may be exercised at any time from the date of vesting to the date of their expiry on 20 October 2020.

*Fair value of share options granted in the year*

The fair value of the options was RMB 528,356, which was calculated using the Black Scholes option pricing model. The share-based payment charge is included within expenses in the consolidated statement of profit or loss and other comprehensive income and in the share-based payment reserve in equity.

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

	<b>2017</b>
	<b>Number of</b>
	<b>options</b>
At beginning of the year	-
Granted	39,300,508
Executed	-
Expired	-
At end of year	<u>39,300,508</u>

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

Exercise price	£0.015
Time to maturity	2.5 years
Expected volatility	20%
Risk-free interest rate	5%

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

**19. 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.



**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**20. Other income**

	<b>Group</b>	
	<b>Year ended 31 December</b>	
	<b>2017</b>	<b>2016</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Sale of scrap materials	-	600
Subsidy income	875	221
Equipment received from settlement of court case (note 8 & 14)	6,630	-
Sundry income	137	2,383
	<u>7,642</u>	<u>3,204</u>

**21. Other expenses**

	<b>Group</b>	
	<b>Year ended 31 December</b>	
	<b>2017</b>	<b>2016</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Research and development expensed	1,248	1,187
Costs of scrap materials	-	331
Loss on disposal of property, plant and equipment	-	568
Reversal of overprovided provision	-	(2,390)
Other	29	-
Provision for liability and court case (note 14 & 33)	5,873	10,000
	<u>7,150</u>	<u>9,696</u>

**22. Finance costs**

	<b>Group</b>	
	<b>Year ended 31 December</b>	
	<b>2017</b>	<b>2016</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Interest expenses	712	537
Foreign currency exchange (loss)/gain	(80)	1,002
Bank charges	34	10
	<u>666</u>	<u>1,549</u>

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**23. Profit before tax**

	<b>Group</b>	
	<b>Year ended 31 December</b>	
<b>Profit before taxation is arrived at after charging/(crediting):</b>	<b>2017</b>	<b>2016</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Inventory write offs	28,890	5,298
Staff costs including directors' remuneration	9,482	8,574
Depreciation of property, plant and equipment	1,255	1,896
Net (gain)/loss on disposal of property, plant and equipment	(20)	1,548
Net loss/(gain) on disposal of intangible assets	-	(2,359)
Amortisation of intangible assets	591	669
Impairment of inventories	-	242
Impairment of property, plant and equipment	-	(366)
Bad debts and other provisions	26,828	2,715
Reversal of provisions	-	(3,493)
Operating lease expense	684	589
Auditors' remuneration	320	287

**24. Employee benefit expense**

	<b>2017</b>	<b>2016</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Wages and salaries	9,482	8,574
Social security costs	2,669	2,157
	<u>12,151</u>	<u>10,731</u>
Included in:		
Cost of sales	1,942	1,590
Selling and distribution expenses	2,503	2,666
Administrative expenses	3,108	2,914
Research and development costs (note 21)	1,929	1,404
	<u>9,482</u>	<u>8,574</u>
	<b>Number</b>	<b>Number</b>
Average number of employees	79	84

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**25. Income tax expense**

	<b>Group</b>	
	<b>Year ended 31 December</b>	
	<b>2017</b>	<b>2016</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Current income tax	2,981	-
Current year deferred tax	2,125	-
Total tax charge for year	5,106	-

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

The operating subsidiaries are regarded as resident for the tax purposes in PRC and subject to national income tax rate at 25% (2016: 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% (2016: 15%). Tax losses carried forward in the subsidiary Boluo amounted to RMB7 million at the year end. No deferred tax asset has been provided on these tax losses.

Reconciliation of the total tax charge for the year at the effective tax rate is as follows:

	<b>Group</b>	
	<b>Year ended 31 December</b>	
	<b>2017</b>	<b>2016</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Profit before tax	35,191	3,611
Income tax using PRC tax rate of 15% (2016: 15%)	5,278	542
<i>Tax effects of:</i>		
- Non-deductible expenses	1,029	280
- Zero tax rate	335	1,683
- Other adjustment	(257)	(131)
- Tax losses utilised	(1,279)	(2,374)
	5,106	-

The movements in deferred tax liabilities for the year are as follows:

	<b>Group</b>	
	<b>Year ended 31 December</b>	
<b>Deferred tax liabilities</b>	<b>2017</b>	<b>2016</b>
	<b>RMB'000</b>	<b>RMB'000</b>
At beginning of the year	-	-
Deferred tax provision for the year – current tax	2,125	-
At end of the year	2,125	-

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**26. Earnings/(loss) per share**

The calculation of earnings per share is based on Group's profit 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 earnings per share is the same as basic earnings per share.

	Profit	Weighted average number of shares	Earnings per share
	RMB'000	'000	RMB
<b>2017</b>			
Basic	30,085	449,012	0.07
Diluted	30,085	488,312	0.06
<b>2016</b>			
Basic	3,611	412,591	0.009
Diluted	3,611	412,591	0.009

**27. Operating lease commitments**

At the end of the year, 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	
	2017	2016
	RMB'000	RMB'000
Within one year	975	455
After one year but before five years	504	646
	<u>1,479</u>	<u>1,101</u>

Operating lease payments represent rents payable by the Group for office premises and other operating facilities. Leases are negotiated for an average term of 6 months to 2 years and rentals are fixed during the term of lease.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**28. 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 of RMB3,103,825 (2016: RMB10,595,000) and a non-trade receivable of RMB377,203 (2016: RMB11,440), due from Guangdong Zhongke Tianyuan Regeneration Energy Co., Ltd and Guangdong Tianyuan Green Food Co., Ltd respectively. Both companies are controlled by Mr Yu Weijun and Mr Tang Zhaoxing, whom are directors of the Group.

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

	<b>Year ended 31 December</b>	
	<b>2017</b>	<b>2016</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Directors' remuneration (short term employment benefits)	1,481	1,313
	<u>1,481</u>	<u>1,313</u>

Breakdown of directors' remuneration is detailed in Directors' Report.

**29. 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 Group 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 2017**

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

**Credit risk (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:

	<b>As at 31 December</b>	
	<b>2017</b>	<b>2016</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Cash and cash equivalents	8,168	2,654
Trade and other receivables	92,791	73,217
	<b>100,959</b>	<b>75,871</b>

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 73.7% (2016: 70.4%) of the total trade and other receivables. The aggregate of the single customer's trade receivable of more than 10% were amounting to RMB31.8 million (2016: RMB22.0 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 are disclosed in note 10.

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.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**29. 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 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:

<u>At 31 December 2017</u>	RMB'000	£'000	US\$'000	EUR'000	Total
<b>Financial assets</b>					
Trade and other receivables	87,802	4,989	-	-	92,791
Cash and bank balances	19,125	235	6	2	19,368
<b>Financial liabilities</b>					
Trade and other payables	93,826	2,806	-	-	96,632
<b>Net financial assets</b>	13,101	2,418	6	2	15,527
Less: Net financial assets denominated in the functional currency	(13,101)	-	-	-	(13,101)
<b>Net currency exposure</b>	-	2,418	6	2	2,426

<u>At 31 December 2016</u>	RMB'000	£'000	US\$'000	EUR'000	Total
<b>Financial assets</b>					
Trade and other receivables	73,132	85	-	-	73,217
Cash and bank balances	12,016	1,803	33	2	13,854
<b>Financial liabilities</b>					
Trade and other payables	100,765	1,211	-	-	101,976
<b>Net financial assets</b>	(15,617)	677	33	2	(14,905)
Less: Net financial assets denominated in the functional currency	(15,617)	-	-	-	(15,617)
<b>Net currency exposure</b>	-	677	33	2	712

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**29. Financial risk management (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>2017</b>	<b>2016</b>
	<b>RMB'000</b>	<b>RMB'000</b>
<i>£ against RMB</i>		
- strengthen	220	392
- weaken	(269)	(479)
<i>US\$ against RMB</i>		
- strengthen	1	3
- weaken	(1)	(4)
<i>EUR against RMB</i>		
- strengthen	0.18	0.18
- weaken	(0.22)	(0.22)

**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 Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's objective is to maintain a balance between continuity of funding and flexibility through financial support of business partners and suppliers.

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 advance payments from customers.

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 2017</u></b>		
Borrowing	7,447	7,447
Trade and other payables	96,636	96,636
	<u>104,083</u>	<u>104,083</u>
<b><u>31 December 2016</u></b>		
Borrowing	-	-
Trade and other payables	91,976	91,976
	<u>91,976</u>	<u>91,976</u>



**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**29. 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.

**30. 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 Group, comprising share capital, share premium, combined reserve, statutory reserve, warrant reserve, foreign currency translation reserve, and accumulated 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 in 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>2017</b>	<b>2016</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Total debt	163,021	140,970
Less: Cash and bank balances (excluding restricted cash)	(8,168)	(2,654)
Net debt	154,853	138,318
Total equity	41,292	4,570
Total capital	196,145	142,886
Gearing ratio	0.79	0.97

The ratio measured Group's capital structure at year end. The Directors consider that the Group has improved its proportion of debt versus equity.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**31. 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 Group'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 Group do not have any financial instruments classified as Level 1, Level 2 and Level 3.

**32. 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.

Geographical segment	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
PRC	250,623	66,671
Canada	1,684	11,196
Myanmar	-	349
Thailand	93	335
Cambodia	-	33
	<u>252,400</u>	<u>78,584</u>

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**Business segment**

The Group's revenue, assets, liabilities and capital expenditure are 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 can be classified into the following streams:

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

	<b>EPC activities RMB'000</b>	<b>VAS RMB'000</b>	<b>Total RMB'000</b>
<b>Revenue</b>			
Year ended 31 December 2017	133,018	117,382	250,400
Year ended 31 December 2016	51,965	26,619	78,584

**Information about major customers**

Included in revenue arising from the sales of project of approximate RMB206.7 million (2016: RMB55.6 million) which arose from sales to Group's 5 top largest customers.

**33. Litigation and legal case liability**

At year end, the Group had settled a legal case with a customer, Tangshan Chenhong Industry Co. Ltd ('TSCH'), relating to a quality dispute in relation to a project in 2012. The full amount of RMB15.8 million has been provided in provisions for liabilities according to the final court order (note 14) with the expense included in 'other expenses' (note 21).

As part of the settlement the Group also received a return of inventories valued at RMB6.6 million from Tangshan Chenhong (note 8).

RMB11.2 million was frozen from the Group's bank account during 2016 and subsequent to the year end the RMB11.2 million was deducted from the Group's bank accounts in settlement of the court order in March 2018. The RMB11.2 million has been treated as restricted cash at bank in these financial statements (note 11).

**34. Subsequent events**

Subsequent to the year end the Company purchased 46,808,809 of its ordinary shares at a purchase price of 1.2 pence per share from Mr. Lv Jingbin for a total cash consideration of £561,705 and transferred the shares into treasury. Mr. Lv then no longer has an interest in the Company.