

CVC Sustainable Investments

Financial Report

for the year ended 30 June 2010



CVC Sustainable Investments Limited
and its Stapled Entity



**CVC SUSTAINABLE INVESTMENTS LIMITED
AND ITS STAPLED ENTITY**

Company Particulars

REGISTERED OFFICE:

Level 42
259 George Street
SYDNEY NSW 2000

DIRECTORS:

Vanda R Gould
John D Read
Alexander D H Beard
Phillip Toyne
Mark Fogarty

SECRETARIES:

John A H Hunter

BANKERS:

Westpac Banking Corporation Limited

AUDITORS:

HLB Mann Judd
Chartered Accountants
Level 19
207 Kent Street
Sydney NSW 2000

SHARE REGISTRY:

Gould Ralph Pty Limited
Level 42
259 George Street
SYDNEY NSW 2000

DOMICILE:

Australia

**CVC SUSTAINABLE INVESTMENTS LIMITED
AND ITS STAPLED ENTITY**

Chairman's Report

Dear Shareholder,

The global Clean Technology sector has seen dramatic growth over the past year with global investment increasing by 32% to \$381bn in calendar 2009¹. Investment growth was primarily driven by new climate and energy legislation from governments worldwide. Australia has yet to experience this investment explosion but the future for CVCSI looks very bright.

The last year has also seen a quickening of the trend by some of the world's largest companies to make material investments in the Clean Tech sector. To some extent this corporate activity by utilities, industrial conglomerates and energy companies has supported the global sector during a difficult period for stock markets.

CVCSI's business model is to

- Seek out and invest in Australian companies that create real environmental improvements;
- Actively support those companies to grow; and
- Realise value for our shareholders as company valuations via a combination of income and capital return from our investments.

We have achieved steady results in each of these three areas over the last year as follows:

- We have received dividends from Investee companies of \$188,026, a significant improvement on the \$33,999 received in the prior year; and
- We have realised investments including Energy Developments Limited, Carbon Conscious limited, Ceramic Fuel Cells Limited and other investments generating a net profit of \$89,977.

The businesses in which we have invested are focused on improving the environment in many ways, including:

- Treating waste water to remove phosphorous, ammonia and bio-solids (ASX:EGL);
- Removing 2600 tonnes per year of Sulphur Dioxide that would have been discharged to the air (ASX:EGL);
- Recycling and environmental disposal of 1.2 million fluorescent lamps (ASX:DMX); and
- Removing 1 million tonnes of non-biodegradable polystyrene packaging waste by replacing it with a bio-degradable alternative (ASX:PPG).

The CVCSI team continues to screen a large number of innovative Australian companies that are focussed on sustainable environmental improvement. In many cases these companies do not pass CVCSI's strict investment criteria; however the sector in Australia is clearly seeing an upsurge of innovation and growth and, as mentioned above, we will inevitably catch up to the worldwide trends.

Our efforts to support Investee companies have added great value through the difficult period that followed the Global Financial Crisis (GFC). This support has included assistance with building management teams, providing in depth analysis of energy markets and supporting companies to develop business plans that are appropriate for the post GFC world.

Despite poor market conditions CVCSI successfully exited a number of businesses whilst generating a total net gain of \$89,977.

The group achieved a net after tax loss of \$842,948 compared to a loss of \$2,930,116 for the prior year. Whilst an improvement, it is frustrating that impairment charges have once again resulted in a net loss for the Group. These impairment charges arise from a decline in the value of a number of investments, however the majority of the amount (\$993,772), relates to a decline in the share price of EGL, in an illiquid market, towards the end of the period. Despite this impairment, CVCSI believes that EGL has a sound business model in a growing sector with exposure to a diverse range of industries.

Over the next year, the CVCSI team will continue to realise value from its current investments while building its portfolio of sustainable investment opportunities. We expect that this will include a new focus on investing directly in green energy projects to take advantage of market and regulatory changes around Australia. This new focus would be a significant increase in scale and activity for the Group and I look forward to presenting our strategy to you in detail in the New Year.

Vanda Gould
Chairman

¹ Annual Deals Analysis 2010, Global Data Report February 2010

**CVC SUSTAINABLE INVESTMENTS LIMITED
AND ITS STAPLED ENTITY**

DIRECTORS' REPORT

For the Year Ended 30 June 2010

The Directors present the report of CVC Sustainable Investments Limited and its stapled entity (the "Group") for the year ended 30 June 2010, and the Auditors' report thereon.

Officers

The Directors and Secretaries in office at the date of this report and at any time during the year are:

Vanda Russell Gould (Chairman)

B Com (UNSW), M Com (UNSW)

Chairman of Vita Life Sciences Limited, Cyclopharm Limited, CVC Limited, CVC Private Equity Limited and CVC Property Managers Limited as Responsible Entity for CVC Property Fund and Director of numerous private and public companies including educational establishments.

John Douglas Read (Non Executive Director)

B Sc (Hons) (Cant.), MBA (AGSM).

Fellow of the Australian Institute of Company Directors.

Chairman of The Environmental Group Limited and Patrys Limited, and Director of CVC Limited, CVC Private Equity Limited and was a chairman of Pro-Pac Packaging Limited.

Alexander Damien Harry Beard (Non Executive Director and Company Secretary)

B Com (UNSW)

Fellow of the Institute of Chartered Accountants in Australia.

Member of the Australian Institute of Company Directors.

Chairman of Cellnet Limited and Director of CVC Limited, Mnet Group Limited, Amadeus Energy Limited, CVC Property Managers Limited as Responsible Entity for CVC Property Fund and CVC Private Equity Limited and was a Director of Blue Energy Limited.

Phillip Toyne (Non Executive Director)

LLB (Uni. Of Melbourne)

Former Head of the Australian Conservation Foundation. Former Deputy Secretary in the Australian Department of Environment. Director of Eco Futures Pty Ltd, Earthmark Pty Limited and ITC Limited. President of the Australian Bush Heritage Fund.

Mark Fogarty (Non Executive Director)

B Legs (Macq Uni), LLM (Environ Law) (Uni. of Syd), MMgT (MGSM)

Admitted to Practise NSW Supreme Court

Director of Asia Carbon Pacific Pty Limited.

John Andrew Hunter (Company Secretary)

B.Com. (ANU), MBA (MGSM)

Member of the Institute of Chartered Accountants in Australia.

**CVC SUSTAINABLE INVESTMENTS LIMITED
AND ITS STAPLED ENTITY**

**DIRECTORS' REPORT (Cont.)
For the Year Ended 30 June 2010**

Directors' Meetings

The number of Directors' Meetings and number of meetings attended by each of the Directors of the Group during the financial year were:

	Number of meetings attended	Number of meetings eligible to attend
Mr V R Gould	4	4
Mr J D Read	4	4
Mr A D H Beard	4	4
Mr P Toyne	4	4
Mr M Fogarty	2	4

Audit Committee Meetings

The number of Audit Committee meetings and number of meetings attended by each of the Directors of the Group during the financial year were:

	Number of meetings attended	Number of meetings eligible to attend
Mr J D Read	2	2
Mr V R Gould	1	2
Mr A D H Beard	1	2

Principal Activity

Investment in a diversified combination of established small Australian companies that offer both strong return potential and improved environmental outcomes.

Operating Results

The Group recorded a loss after tax of \$842,948 for the year (2009: \$2,930,116).

Dividends

No dividends have been declared, paid or provided during the year ended 30 June 2010.

Significant Changes in the State of Affairs of the Group

There were no significant changes in the state of affairs of the group that occurred during the year not otherwise disclosed in this report or the financial statements.

Review of Operations

During the year, the Group sold investments in Energy Developments Limited, Carbon Conscious Limited, Ceramic Fuel Cells Limited and a number of other investments realising a profit of \$89,977.

The investment in The Environmental Group Limited resulted in a total contribution to income of \$609,460 which includes a share of equity accounted income of \$229,915 plus receipt of dividends of \$158,207, however as a result of the fall in share price during the year an impairment charge of \$993,772 was recorded against the investment.

During the year, the Group issued 516,494 stapled securities to new investors and in accordance with the management agreement 77,474 options have been issued to CVC Managers Pty Limited.

**CVC SUSTAINABLE INVESTMENTS LIMITED
AND ITS STAPLED ENTITY**

**DIRECTORS' REPORT (Cont.)
For the Year Ended 30 June 2010**

Options over Stapled Securities

CVC Managers Pty Limited, the manager of the Group, has been issued 3,168,025 options in accordance with the management agreement. The options were valued using the Black-Scholes model based on the security price at which the options are exercised. As the options do not have any vesting conditions the full value of \$80,200 has been credited to the options reserve and charged as a cost of the capital raising on the date of grant. The amount of \$1,474 has been credited to the share options reserve during the financial year.

As at 30 June 2010, the following options are outstanding:

Expiry date	Option value	Number of options	Exercise price
11 December 2016	5.85 cents	28,343	21.68 cents
30 April 2017	5.80 cents	36,279	21.50 cents
31 May 2017	5.90 cents	459,746	21.86 cents
30 June 2017	5.95 cents	316,676	22.04 cents
31 July 2017	5.78 cents	168,847	21.41 cents
31 August 2017	5.79 cents	134,183	21.48 cents
30 September 2017	5.52 cents	336,301	20.47 cents
31 October 2017	5.46 cents	141,408	20.25 cents
30 November 2017	4.93 cents	736,375	18.29 cents
31 December 2017	5.49 cents	87,629	20.34 cents
31 January 2018	5.05 cents	138,115	18.72 cents
29 February 2018	5.09 cents	198,865	18.04 cents
31 March 2018	5.15 cents	61,800	17.50 cents
31 May 2018	4.91 cents	9,268	16.67 cents
30 June 2018	7.83 cents	34,091	20.13 cents
31 December 2018	4.96 cents	9,357	16.03 cents
28 February 2019	4.49 cents	42,884	15.88 cents
31 March 2019	4.75 cents	27,606	16.79 cents
30 April 2019	4.32 cents	71,977	15.63 cents
30 June 2019	4.49 cents	50,801	16.24 cents
31 July 2019	3.76 cents	20,342	15.19 cents
31 October 2019	4.68 cents	19,544	16.29 cents
28 February 2020	5.19 cents	8,555	18.06 cents
31 March 2020	4.99 cents	9,519	16.23 cents
30 April 2020	4.85 cents	9,785	15.79 cents
31 May 2020	4.99 cents	9,729	15.88 cents
		3,168,025	

Directors' Interests in Shares and Options of the Group

Messrs Gould, Read and Beard have an indirect interest in the 9,889,910 shares in the Group held by CVC Limited.

Messrs Gould and Beard have an indirect interest in the 6,295,220 stapled securities and 3,168,025 options in the Group held by CVC Managers Pty Limited.

Mr Gould has an indirect interest in 2,300 shares in the Group and Mr Beard has an indirect interest in 27,013 shares in the Group.

Events Subsequent to Balance Date

Other than as set out above, there are no other matters or circumstances that have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future financial years.

**CVC SUSTAINABLE INVESTMENTS LIMITED
AND ITS STAPLED ENTITY**

**DIRECTORS' REPORT (Cont.)
For the Year Ended 30 June 2010**

Likely Developments and Future Results

The future direction of the Group is to continue to invest in small Australian companies that offer both strong return potential and improved environmental outcomes.

The Directors are continuing to consider ways of expanding the investment capital of the Group to provide a basis for further and broader investment opportunities.

As an investment Group, the results of the Group are dependent on the timing of and opportunities for the realisation of investments. Accordingly, it is not possible at this stage to predict the future results of the Group.

Directors' Benefits

During the year \$12,000 in fees was paid to Phillip Toyne. Further information on Directors' benefits is set out in Note 16.

Indemnification and Insurance of Officers and Auditors

The Group has not, during or since the financial period, in respect of any person who is or has been an auditor or officer of the Group or a related body corporate:

- (i) Indemnified or made any relevant agreement for indemnifying against a liability, including costs and expenses in successfully defending legal proceedings; or
- (ii) Paid or agreed to pay a premium in respect of a contract insuring against a liability for the costs or expenses to defend legal proceedings.

Insurance premiums have been paid in respect of Directors' and Officers' liability insurance for Directors and Officers of the Group. In accordance with S.300 (9) of the *Corporations Act 2001* further details have not been disclosed due to confidentiality provisions contained in the insurance contract.

Auditor's Independence Declaration to the Directors of CVC Sustainable Investments Limited

A copy of the Independence Declaration given to the Directors by the lead auditor for the audit undertaken by HLB Mann Judd is included on page 35.

Signed in accordance with a resolution of the Board of Directors.

Dated at Sydney 27 September 2010.

**V R Gould
Director**

**A D H Beard
Director**

**CVC SUSTAINABLE INVESTMENTS LIMITED
AND ITS STAPLED ENTITY**

CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

For the Year Ended 30 June 2010

	Notes	2010 \$	2009 \$
INCOME			
Interest received		747	12,132
Net gain on sale of investment		89,977	1,425,237
Impairment recovery		3,723	-
Dividends received		188,026	33,999
		<hr/>	<hr/>
Total income		282,473	1,471,368
Share of net profits of associate accounted for using the equity method	8	229,915	354,316
EXPENSES			
Audit fees	4	34,600	37,250
Director's fees		11,009	11,009
Impairment of investments in associated entities		993,772	2,115,026
Impairment of listed investments		-	2,071,774
Impairment of unlisted investments		230,592	500,000
Impairment of loans and receivables		-	226,542
Insurance		9,030	5,154
Borrowing costs		101,445	184,805
Legal fees		2,279	21,850
Management and consulting fees		264,080	365,738
Net loss on sale of investments		-	352,034
Printing		12,614	26,835
Share registry		11,478	14,990
Other expenses		18,182	32,047
		<hr/>	<hr/>
Loss before related income tax expense		(1,176,693)	(4,139,370)
Income tax benefit	5	(333,745)	(1,209,254)
		<hr/>	<hr/>
Net loss		(842,948)	(2,930,116)
		<hr/>	<hr/>
Net loss attributable to owners of the parent	12	(348,493)	(608,411)
		<hr/>	<hr/>
Net loss attributable to non-controlling interest	13	(494,455)	(2,321,705)
		<hr/> <hr/>	<hr/> <hr/>

The above statement of financial performance should be read in conjunction with the notes to the financial statements set out on pages 12 to 33.

**CVC SUSTAINABLE INVESTMENTS LIMITED
AND ITS STAPLED ENTITY**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 30 June 2010

	2010	2009
	\$	\$
Net loss	(842,948)	(2,930,116)
Other comprehensive income for the year		
- Movements in fair values of "available-for-sale" financial assets recognised directly in equity	1,721,845	(431,806)
- Movements in fair values of "available-for-sale" financial assets transferred to other comprehensive income on realisation	(435)	(666,320)
- Income tax on items taken directly to or from equity	(475,451)	18,372
Other comprehensive income for the year, net of tax	1,245,959	(1,079,754)
Total comprehensive income for the period	403,011	(4,009,870)
Attributable to:		
Owners of the parent	(116,317)	(2,371,120)
Non-controlling interest	519,328	(1,638,750)
	403,011	(4,009,870)

The above statement of comprehensive income should be read in conjunction with the notes to the financial statements set out on pages 12 to 33.

**CVC SUSTAINABLE INVESTMENTS LIMITED
AND ITS STAPLED ENTITY**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2010

	Notes	2010 \$	2009 \$
CURRENT ASSETS			
Cash and cash equivalents	17	5,877	11,907
Trade and other receivables	6	138,913	126,623
Current tax assets	5	-	4,942
Total current assets		144,790	143,472
NON-CURRENT ASSETS			
Financial assets	7	7,704,366	6,190,358
Investments accounted for using the equity method	8	3,347,869	4,034,286
Deferred tax assets	5	1,373,464	1,518,988
Total non-current assets		12,425,699	11,743,632
TOTAL ASSETS		12,570,489	11,887,104
CURRENT LIABILITIES			
Trade and other payables	9	263,016	56,924
Total current liabilities		263,016	56,924
NON-CURRENT LIABILITIES			
Loans payable	10	1,150,315	1,002,871
Deferred tax liabilities	5	220,521	264,126
Total non-current liabilities		1,370,836	1,266,997
TOTAL LIABILITIES		1,633,852	1,323,921
NET ASSETS		10,936,637	10,563,183
EQUITY			
Contributed equity	11	6,452,221	6,443,964
Accumulated losses	12	(3,285,518)	(2,937,025)
Other reserves	14	1,464,201	1,235,366
Total parent entity interest		4,630,904	4,742,305
Non-controlling interest	13	6,305,733	5,820,878
TOTAL EQUITY		10,936,637	10,563,183

The above statement of financial position should be read in conjunction with the notes to the financial statements set out on pages 12 to 33.

**CVC SUSTAINABLE INVESTMENTS LIMITED
AND ITS STAPLED ENTITY**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended 30 June 2010

	Contributed equity	Accumulated losses	Market value reserve	Options reserve	Owners of the parent	Non-controlling interest	Total
	\$	\$	\$		\$	\$	\$
At 1 July 2009	6,443,964	(2,937,025)	1,153,363	82,003	4,742,305	5,820,878	10,563,183
Loss for the year	-	(348,493)	-	-	(348,493)	(494,455)	(842,948)
Other comprehensive income	-	-	232,176	-	232,176	1,013,783	1,245,959
Total comprehensive income for the year	-	(348,493)	232,176	-	(116,317)	519,328	403,011
Other movements in equity:							
Grant of options	-	-	-	1,474	1,474	2,083	3,557
Share of options reserve of associated entity	-	-	-	(5,667)	(5,667)	(75,100)	(80,767)
Income tax effect	-	-	-	852	852	22,528	23,380
Transactions with shareholders:							
New stapled securities issued	31,857	-	-	-	31,857	44,584	76,441
Costs of capital raising	(27,765)	-	-	-	(27,765)	(40,811)	(68,576)
Income tax on costs of capital raising	4,165	-	-	-	4,165	12,243	16,408
At 30 June 2010	6,452,221	(3,285,518)	1,385,539	78,662	4,630,904	6,305,733	10,936,637

The above statement of changes in equity should be read in conjunction with the notes to the financial statements set out on pages 12 to 33.

**CVC SUSTAINABLE INVESTMENTS LIMITED
AND ITS STAPLED ENTITY**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended 30 June 2010 (Continued)

	Contributed equity \$	Accumulated losses \$	Market value reserve \$	Options reserve	Owners of the parent \$	Non- controlling interest \$	Total \$
At 1 July 2008	6,292,383	(1,976,670)	2,916,072	76,708	7,308,493	7,321,045	14,629,538
Loss for the year	-	(608,411)	-	-	(608,411)	(2,321,705)	(2,930,116)
Other comprehensive income	-	-	(1,762,709)	-	(1,762,709)	682,955	(1,079,754)
Total comprehensive income for the year	-	(608,411)	(1,762,709)	-	(2,371,120)	(1,638,750)	(4,009,870)
Other movements in equity:							
Grant of options	-	-	-	4,816	4,816	4,275	9,091
Share of options reserve of associated entity	-	-	-	564	564	7,828	8,392
Income tax effect	-	-	-	(85)	(85)	(2,348)	(2,433)
Transactions with shareholders:							
New shares issued	108,996	-	-	-	108,996	96,912	205,908
Stapled securities issued under dividend reinvestment plan	71,020	-	-	-	71,020	53,054	124,074
Costs of capital raising	(33,453)	-	-	-	(33,453)	(30,197)	(63,650)
Income tax on costs of capital raising	5,018	-	-	-	5,018	9,059	14,077
Dividends paid to shareholders	-	(351,944)	-	-	(351,944)	-	(351,944)
At 30 June 2009	6,443,964	(2,937,025)	1,153,363	82,003	4,742,305	5,820,878	10,563,183

The above statement of changes in equity should be read in conjunction with the notes to the financial statements set out on pages 12 to 33.

**CVC SUSTAINABLE INVESTMENTS LIMITED
AND ITS STAPLED ENTITY**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended 30 June 2010

	Notes	2010 \$	2009 \$
Cash flows from operating activities			
Interest received		747	12,132
Dividend received		188,026	297,423
Cash receipts in the course of operations		-	149,089
Cash payments in the course of operations		(188,812)	(538,912)
Interest paid		-	(2,450)
Income tax refunded/(paid)		4,942	(491)
		<hr/>	<hr/>
Net cash flows provided by/(used in) by operating activities	17	4,903	(83,209)
		<hr/>	<hr/>
Cash flows from investing activities			
Proceeds from sale of investments		670,010	4,658,132
Payments for investments		(757,704)	(3,302,735)
		<hr/>	<hr/>
Net cash flows (used in)/provided by investing activities		(87,694)	1,355,397
		<hr/>	<hr/>
Cash flows from financing activities			
Shares issued		80,000	215,000
Payments for capital raising costs		(49,239)	(63,651)
Proceeds from borrowing		581,000	2,807,000
Borrowing repaid		(535,000)	(4,035,000)
Dividends paid		-	(227,870)
		<hr/>	<hr/>
Net cash flows provided by/(used in) financing activities		76,761	(1,304,521)
		<hr/>	<hr/>
Net decrease in cash and cash equivalents held		(6,030)	(32,333)
Cash and cash equivalents at the beginning of the financial year		11,907	44,240
		<hr/>	<hr/>
Cash and cash equivalents at the end of the financial year	17	5,877	11,907
		<hr/> <hr/>	<hr/> <hr/>

The above statement of cash flows should be read in conjunction with the notes to the financial statements set out on pages 12 to 33.

**CVC SUSTAINABLE INVESTMENTS LIMITED
AND ITS STAPLED ENTITY**

**Notes to the Financial Statements
For the Year Ended 30 June 2010**

Note 1: Statement of Accounting Policies

The significant policies which have been adopted in the preparation of this report are:

a) Basis of Preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001* and Australian Accounting Standards. The financial report has also been prepared on a historical cost basis, except for “available-for-sale” investments, which have been measured at fair value.

Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 22.

b) Statement of Compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). The financial report also complies with International Financial Reporting Standards (IFRS).

The Group has adopted the following new and amended Australian Accounting Standards and AASB interpretations as of 1 January 2009:

AASB 2007-8: Amendments to Australian Accounting Standards arising from AASB 101 effective 1 January 2009;

AASB 2007-10: Further Amendments to Australian Accounting Standards arising from AASB 101 effective 1 January 2009.

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2010 reporting periods:

AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 which have been recently issued but is effective for reporting periods commencing on or after 1 January 2013. Application of the standard will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group’s financial report.

AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139] which has been recently issued but is effective for reporting periods commencing on or after 1 January 2010. Application of the standard will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group’s financial report.

**CVC SUSTAINABLE INVESTMENTS LIMITED
AND ITS STAPLED ENTITY**

**Notes to the Financial Statements (Cont.)
For the Year Ended 30 June 2010**

Note 1: Statement of Accounting Policies (Cont.)

c) Basis of Consolidation

Stapled Entities

The consolidated financial statements comprise the financial statements of CVC Sustainable Investments Limited and the stapled entity, CVC Sustainable Investments No. 2 Limited as at 30 June from the date it was deemed that the Group had been constructed, 28 February 2007. Although CVC Sustainable Investments Limited does not have an ownership interest in CVC Sustainable Investments No. 2 Limited, in accordance with Interpretation 1002 *Post-Date-of-Transition Stapling Arrangements* CVC Sustainable Investments Limited has been identified as the acquirer and the parent entity for the purpose of preparing the consolidated financial statements and CVC Sustainable Investments No. 2 Limited is deemed to be the acquiree.

In preparing the consolidated financial statements, all inter company balances and transactions, income and expenses and profits and losses resulting from intra-group transactions have been eliminated in full and the reporting period and accounting policies of subsidiaries are consistent with those of the parent entity.

The consolidation of the stapled entity is accounted for using the purchase method of accounting which allocates the cost of the business combination to the fair value of the assets acquired and the liabilities assumed at the date of acquisition.

The net assets not held by CVC Sustainable Investments Limited are identified as non-controlling interests and presented in the consolidated statement of financial position within equity, separately from the Company's equity holders' equity. The profit of CVC Sustainable Investments No. 2 Limited is also separately disclosed as a non-controlling interest in the profit of the Group. Although a non-controlling interest has been identified the shareholders of CVC Sustainable Investments Limited are also the shareholders of CVC Sustainable Investments No. 2 Limited by virtue of the stapling arrangement dated 28 February 2007.

Associates

Associates are those entities, other than partnerships, over which Group exercises significant influence but not control. In the consolidated financial statements investments in associates are accounted for using equity accounting principles. Investments in associates are carried at the lower of the equity accounted amount and recoverable amount. The Group's equity accounted share of the associates' net profit or loss is recognised in the consolidated statement of comprehensive income from the date significant influence commences until the date significant influence ceases. The Group's equity accounted share of movements in accumulated losses from changes in accounting policies by associates is recognised directly in consolidated accumulated losses (note 12). The Group's equity accounted share of other movements in reserves of associates is recognised directly in consolidated reserves.

d) Cash and Cash Equivalents

For the statement of cash flow, cash includes cash on hand and short-term deposits with an original maturity of three months or less.

e) Revenue Recognition

(i) Interest income

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial year.

**CVC SUSTAINABLE INVESTMENTS LIMITED
AND ITS STAPLED ENTITY**

**Notes to the Financial Statements (Cont.)
For the Year Ended 30 June 2010**

Note 1: Statement of Accounting Policies (Cont.)

e) Revenue Recognition (Cont.)

(ii) Dividends

Revenue is recognised when the Group's right to receive payment is established.

(iii) Management fees

Revenue is recognised when the Group's right to receive payment is established.

f) Trade and Other Payables

Trade payables and other payables represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

g) Interest-Bearing Loans and Borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

h) Trade and Other Receivables

Receivables are recognised and carried at original invoice amount less a provision for impairment. Trade receivables are generally settled within 30 days.

A provision for impairment is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

i) Investments and Other Financial Assets

Financial assets are classified as either financial assets at fair value through profit or loss, loans and receivables, "held-to-maturity" investments, or "available-for-sale" investments. The classification depends on the purpose for which the investments were acquired. When financial assets are recognised initially, they are measured at fair value plus directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

The purchase and sale of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

"Available-for-sale" investments

"Available-for-sale" investments are those non-derivative financial assets that are designated as "available-for-sale". After initial recognition "available-for-sale" investments 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 recognised in the statement of comprehensive income.

**CVC SUSTAINABLE INVESTMENTS LIMITED
AND ITS STAPLED ENTITY**

**Notes to the Financial Statements (Cont.)
For the Year Ended 30 June 2010**

Note 1: Statement of Accounting Policies (Cont.)

i) Investments and Other Financial Assets (Cont.)

“Available-for-sale” investments (Cont.)

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For investments with no active market, fair value is determined using valuation techniques, such as discounted cash flow analysis or by reference to the investments underlying net assets. Where fair value cannot be reliably measured investments are measured at cost.

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as “available-for-sale”, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for “available-for-sale” financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in statement of comprehensive income – is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments classified as “available-for-sale” are not reversed through the statement of comprehensive income.

j) Income Tax and Other Taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities on the current period’s taxable income at the tax rates enacted by the reporting date. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which deductible temporary differences and the carry-forward of unused tax credit can be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the statement of comprehensive income.

Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST), except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

**CVC SUSTAINABLE INVESTMENTS LIMITED
AND ITS STAPLED ENTITY**

**Notes to the Financial Statements (Cont.)
For the Year Ended 30 June 2010**

Note 1: Statement of Accounting Policies (Cont.)

j) Income Tax and Other Taxes (Cont.)

Goods and Services Tax (Cont.)

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities which are recoverable from, or payable to, the taxation authority are classified as operating cash flows.

k) Contributed Equity

Issued capital is recognised at the fair value of the consideration received by the Company. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from proceeds.

l) Segment Reporting

A business segment is a distinguishable component of the entity that is engaged in providing differentiated products or services.

m) Impairment

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Non-financial assets that suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

n) Associates

Associates are those entities, other than partnerships, over which the Group exercises significant influence but not control. In the financial statements investments in associates are accounted for using equity accounting principles. Investments in associates are carried at the lower of the equity accounted amount and recoverable amount. The Group's equity accounted share of the associates' net profit or loss is recognised in the statement of comprehensive income from the date significant influence commences until the date significant influence ceases. The Group's equity accounted share of movements in accumulated losses from changes in accounting policies by associates is recognised directly in accumulated losses (note 12). The Group's equity accounted share of other movements in reserves of associates is recognised directly in reserves.

**CVC SUSTAINABLE INVESTMENTS LIMITED
AND ITS STAPLED ENTITY**

**Notes to the Financial Statements (Cont.)
For the Year Ended 30 June 2010**

NOTE 2: PARENT COMPANY INFORMATION

The salient financial information in relation to the parent company, CVC Sustainable Investments Limited, are as follows:

	2010 \$	2009 \$
Current assets	127,416	136,501
Total assets	<u>5,000,322</u>	<u>5,048,034</u>
Current liabilities	148,897	41,603
Total liabilities	<u>369,418</u>	<u>305,729</u>
Net assets	<u><u>4,630,904</u></u>	<u><u>4,742,305</u></u>
Contributed equity	6,452,221	6,443,964
Retained earnings	(3,287,057)	(2,914,858)
Other reserves	<u>1,465,740</u>	<u>1,213,199</u>
Equity	<u><u>4,630,904</u></u>	<u><u>4,742,305</u></u>
Net loss after tax	<u><u>(372,199)</u></u>	<u><u>(577,424)</u></u>

Note 3: Dividends

Dividends proposed or paid and not provided for in previous years are:

	Cents per Share	Total \$	Date of Payment	Percentage Franked
Declared and paid during the year: 2009 interim	0.50	351,944	15 December 2008	100%

No dividends have been declared, paid or provided by the Group for the period ended 30 June 2010.

Franking credits available, after allowing for the estimated year end tax amount, are:

	2010 \$	2009 \$
CVC Sustainable Investments Limited	216,178	198,637
CVC Sustainable Investments No. 2 Limited	<u>175,807</u>	<u>112,766</u>
	<u><u>391,985</u></u>	<u><u>311,403</u></u>

**CVC SUSTAINABLE INVESTMENTS LIMITED
AND ITS STAPLED ENTITY**

**Notes to the Financial Statements (Cont.)
For the Year Ended 30 June 2010**

Note 4: Auditors' Remuneration

The auditor of the Group is HLB Mann Judd.

	2010	2009
	\$	\$
Amounts received or due and receivable by the auditors of the Group:		
Audit or review of the financial report	34,600	37,250
	<u><u>34,600</u></u>	<u><u>37,250</u></u>

The auditor received no other benefits.

Note 5: Income Tax

(a) Income tax expense

Accounting loss before income tax	(1,176,693)	(4,139,370)
	<u><u>(1,176,693)</u></u>	<u><u>(4,139,370)</u></u>
Income tax benefit at the statutory income tax rate of 25%	(294,173)	(1,034,843)
Adjustments in respect of current income tax of previous years	8,355	(4,998)
Reduced PDF tax rate on net investment income	6,435	(97,259)
Franked dividends received	(54,362)	(72,337)
Other	-	183
	<u><u>(333,745)</u></u>	<u><u>(1,209,254)</u></u>
Income tax benefit	(333,745)	(1,209,254)
	<u><u>(333,745)</u></u>	<u><u>(1,209,254)</u></u>
The major components of income tax benefit are:		
Deferred income tax	(342,100)	(1,204,256)
Adjustments in respect of current income tax of previous years	8,355	(4,998)
	<u><u>(333,745)</u></u>	<u><u>(1,209,254)</u></u>
Income tax benefit reported in the statement of comprehensive income	(333,745)	(1,209,254)
	<u><u>(333,745)</u></u>	<u><u>(1,209,254)</u></u>

**CVC SUSTAINABLE INVESTMENTS LIMITED
AND ITS STAPLED ENTITY**

**Notes to the Financial Statements (Cont.)
For the Year Ended 30 June 2010**

Note 5: Income Tax (Cont.)

(b) Current tax assets

	2010 \$	2009 \$
Tax instalments receivable	-	4,942
	<u> </u>	<u> </u>

(c) Deferred income tax

Deferred income tax at 30 June related to the following items:

Deferred tax assets:

- Cost of capital raising	35,383	41,268
- Provision and accrued expenses	85,293	7,163
- Unrealised loss on shares	459,261	704,012
- Carried forward losses	793,527	766,545
	<u>1,373,464</u>	<u>1,518,988</u>

Deferred tax liabilities:

- Unrealised profit on shares	220,521	264,126
	<u> </u>	<u> </u>

Note 6: Trade and Other Receivables

Current

Accounts receivable	123,185	123,186
Other receivables	15,728	3,437
	<u>138,913</u>	<u>126,623</u>

Other receivables

Other receivables are non-interest bearing and are generally on 30 day terms.

**CVC SUSTAINABLE INVESTMENTS LIMITED
AND ITS STAPLED ENTITY**

**Notes to the Financial Statements (Cont.)
For the Year Ended 30 June 2010**

Note 7: Financial Assets – “Available-For-Sale”

	2010 \$	2009 \$
Unlisted shares in other corporations	4,101,852	4,222,723
Listed shares at market value	4,333,106	2,467,635
Impairment	(730,592)	(500,000)
	7,704,366	6,190,358

Unlisted shares in other corporations comprise:

- 20% shareholding in Wind Corporation Australia Limited at a fair value of \$1,223,270 (2009: \$1,236,658). The investment is not accounted for in accordance with AASB 128 *Investments in Associates* as one shareholder controls the remaining 80% interest so no influence is exerted on the operations of the Company;
- 7% shareholding in HydroChile Pty Limited valued at \$2,128,582 (2009: \$2,236,065);
- 1% shareholding in BioPower Systems Pty Limited at a realisable value of \$19,408 (2009: \$250,000).
- 1% shareholding in Biodiesel Producers Limited with a carrying value of nil.

Impairment of investments

Where there has been a reduction in the share price of an investment that appears to be significant or prolonged management have made an assessment as to whether an impairment is required.

(a) *Unlisted shares in other corporations*

BioPower Systems Pty Limited

The carrying value of BioPower Systems Pty Limited is based on an assessment of forecast earnings to determine fair value, using the most recent financial report. The determination of the fair value has resulted in an impairment charge of \$230,592.

Biodiesel Producers Limited

The carrying value of Biodiesel Producers Limited is based on an assessment of maintainable earnings to determine fair value, using the most recent financial report. The determination of the fair value has resulted in an impairment charge of \$500,000 (2009: \$500,000).

(b) *Listed shares at market value*

The carrying value of certain investments classified as “Listed shares at market value” has been determined by using the fair value approach. The closing “bid-price” was determined to be an appropriate indication for the fair value of the investment.

**CVC SUSTAINABLE INVESTMENTS LIMITED
AND ITS STAPLED ENTITY**

**Notes to the Financial Statements (Cont.)
For the Year Ended 30 June 2010**

Note 8: Investments accounted for using the equity method

	2010 \$	2009 \$
Equity accounted shares in listed associated entity	<u>3,347,869</u>	<u>4,034,286</u>

Details of the associated entity is as follows:

	Ownership interest		Investment carry value	
	2010 %	2009 %	2010 \$	2009 \$
The Environmental Group Limited	34.4	33.9	<u>3,347,869</u>	<u>4,034,286</u>

Movements in the carrying amount of the investments in associated entity under the equity accounting method is as follows:

	2010 \$	2009 \$
<i>Reconciliation:</i>		
Balance at the beginning of the year	4,034,286	5,586,390
New interests acquired	158,207	317,388
Share of associates profit before tax	312,043	506,956
Share of associates tax expense	(82,128)	(152,640)
Dividends received during the year	-	(219,674)
Share of associates reserve	(80,767)	8,392
Impairment	(993,772)	(2,012,526)
Balance at the end of the year	<u>3,347,869</u>	<u>4,034,286</u>

Summarised financial information

The following table illustrates summarised financial information relating to the Group's associate:

	2010 \$'000	2009 \$'000
Extract from associate's statement of financial position:		
Current assets	12,376	10,654
Non-current assets	14,254	13,881
	<u>26,630</u>	<u>24,535</u>
Current liabilities	7,806	5,831
Non-current liabilities	886	1,104
	<u>8,692</u>	<u>6,935</u>
Net assets	<u>17,938</u>	<u>17,600</u>
Extract from the associate's statement of comprehensive income:		
Revenue	31,197	38,604
Net profit	599	958

**CVC SUSTAINABLE INVESTMENTS LIMITED
AND ITS STAPLED ENTITY**

**Notes to the Financial Statements (Cont.)
For the Year Ended 30 June 2010**

Note 8: Investments accounted for using the equity method (Cont.)

Impairment of investments

Where there has been a reduction in the share price of an investment that appears to be significant or prolonged management have made an assessment as to whether an impairment is required. The carrying value of The Environmental Group Limited has been determined by using the fair value approach. The closing "bid-price" was determined to be an appropriate indication for the fair value of the investment despite the lack of active market. The determination of the fair value has resulted in an impairment charge of \$993,772 (2009: \$2,012,526).

Note 9: Trade and Other Payables

	2010	2009
	\$	\$
Sundry creditors and accruals	<u>263,016</u>	<u>56,924</u>

Trade creditors and accruals are non-interest bearing and are normally settled on 30 day terms.

Note 10: Loans Payable

Non-Current:

Loans payable to CVC Limited (a)	<u>1,150,315</u>	<u>1,002,871</u>
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(a) A \$3.3 million loan facility has been provided by CVC Limited to CVC Sustainable Investments No. 2 Limited. Interest on the loan is payable at 10% per annum. Principal and interest on the loan are to be repaid by 21 September 2012.

Note 11: Contributed Equity

	2010		2009	
	No of Shares	\$	No of Shares	\$
Ordinary shares				
Balance at the beginning of the year	72,429,564	6,443,964	70,326,268	6,292,383
New stapled securities issued	516,494	31,857	1,350,833	108,996
Stapled securities issued under dividend reinvestment plan	-	-	752,463	71,020
Costs of capital raising	-	(27,765)	-	(33,453)
Income tax on costs of capital raising	-	4,165	-	5,018
Balance at the end of the year	<u>72,946,058</u>	<u>6,452,221</u>	<u>72,429,564</u>	<u>6,443,964</u>

Note 12: Accumulated Losses

	2010	2009
	\$	\$
Balance at the beginning of the year	(2,937,025)	(1,976,670)
Net loss from operating activities	(348,493)	(608,411)
Dividends paid	-	(351,944)
Balance at the end of the year	<u>(3,285,518)</u>	<u>(2,937,025)</u>

**CVC SUSTAINABLE INVESTMENTS LIMITED
AND ITS STAPLED ENTITY**

**Notes to the Financial Statements (Cont.)
For the Year Ended 30 June 2010**

Note 13: Non-controlling Interest

Reconciliation of non-controlling interest in stapled entities

	2010	2009
	\$	\$
Balance at the beginning of the year	5,820,878	7,321,045
Share of net loss	(494,455)	(2,321,705)
Shares issued by stapled entity	16,016	128,828
Other reserves	963,294	692,710
	<hr/>	<hr/>
Balance at the end of the year	6,305,733	5,820,878
	<hr/> <hr/>	<hr/> <hr/>

The non-controlling interest at the end of the year comprises interests in

Share capital	7,422,706	7,406,690
Accumulated losses	(2,297,531)	(1,803,076)
Other reserve	1,180,558	217,264
	<hr/>	<hr/>
	6,305,733	5,820,878
	<hr/> <hr/>	<hr/> <hr/>

The net assets not held by CVC Sustainable Investments Limited are identified as non-controlling interests. The equity of CVC Sustainable Investments No. 2 Limited is held directly by shareholders and in accordance with Interpretation 1002 *Post-Date-of-Transition Stapling Arrangements* the non-controlling interest represents the balance of equity held by shareholders of CVC Sustainable Investments No. 2 Limited.

**CVC SUSTAINABLE INVESTMENTS LIMITED
AND ITS STAPLED ENTITY**

**Notes to the Financial Statements (Cont.)
For the Year Ended 30 June 2010**

Note 14: Other Reserves

	Options reserve \$	Market value reserve \$	Total other reserves \$
Year ended 30 June 2010:			
Balance at the beginning of the year	82,003	1,153,363	1,235,366
Change in fair value of "available-for-sale" assets	-	1,721,845	1,721,845
Transferred to other comprehensive income on realisation	-	(435)	(435)
Income tax effect	23,380	(475,451)	(452,071)
Grant of options	3,557	-	3,557
Share of options reserve of associated entity	(80,767)	-	(80,767)
Change in fair value of "available-for-sale" assets – non-controlling interest	-	(1,448,698)	(1,448,698)
Transferred to other comprehensive income on realisation – non-controlling interest	-	435	435
Grant of options – non-controlling interest	(2,083)	-	(2,083)
Share of options reserve of associated entity – non-controlling interest	75,100	-	75,100
Income tax effect – non-controlling interest	(22,528)	434,480	411,952
Balance at the end of the year	<u>78,662</u>	<u>1,385,539</u>	<u>1,464,201</u>
Year ended 30 June 2009:			
Balance at the beginning of the year	76,708	2,916,072	2,992,780
Change in fair value of "available-for-sale" assets	-	(431,806)	(431,806)
Transferred to other comprehensive income on realisation	-	(666,320)	(666,320)
Income tax effect	(2,433)	18,372	15,938
Grant of options	9,091	-	9,091
Share of options reserve of associated entity	8,392	-	8,392
Change in fair value of "available-for-sale" assets – non-controlling interest	-	(652,930)	(652,930)
Transferred to other comprehensive income on realisation – non-controlling interest	-	(322,719)	(322,719)
Grant of options – non-controlling interest	(4,275)	-	(4,275)
Share of options reserve of associated entity – non-controlling interest	(7,828)	-	(7,828)
Income tax effect – non-controlling interest	2,348	292,694	295,043
Balance at the end of the year	<u>82,003</u>	<u>1,153,363</u>	<u>1,235,366</u>

**CVC SUSTAINABLE INVESTMENTS LIMITED
AND ITS STAPLED ENTITY**

**Notes to the Financial Statements (Cont.)
For the Year Ended 30 June 2010**

Note 14: Other Reserves (Cont.)

Market Value Reserve

The market value reserve is used to record increments and decrements in the fair value of “available-for-sale” financial assets to the extent that they offset one another.

Options Reserve

The options reserve includes a share of the options reserve of equity accounted investments and is used to record the value of options issued to the investment manager, CVC Managers Pty Limited. As at 30 June 2010, the following options are outstanding:

Expiry date	Option value	Number of options	Exercise price
11 December 2016	5.85 cents	28,343	21.68 cents
30 April 2017	5.80 cents	36,279	21.50 cents
31 May 2017	5.90 cents	459,746	21.86 cents
30 June 2017	5.95 cents	316,676	22.04 cents
31 July 2017	5.78 cents	168,847	21.41 cents
31 August 2017	5.79 cents	134,183	21.48 cents
30 September 2017	5.52 cents	336,301	20.47 cents
31 October 2017	5.46 cents	141,408	20.25 cents
30 November 2017	4.93 cents	736,375	18.29 cents
31 December 2017	5.49 cents	87,629	20.34 cents
31 January 2018	5.05 cents	138,115	18.72 cents
29 February 2018	5.09 cents	198,865	18.04 cents
31 March 2018	5.15 cents	61,800	17.50 cents
31 May 2018	4.91 cents	9,268	16.67 cents
30 June 2018	7.83 cents	34,091	20.13 cents
31 December 2018	4.96 cents	9,357	16.03 cents
28 February 2019	4.49 cents	42,884	15.88 cents
31 March 2019	4.75 cents	27,606	16.79 cents
30 April 2019	4.32 cents	71,977	15.63 cents
30 June 2019	4.49 cents	50,801	16.24 cents
31 July 2019	3.76 cents	20,342	15.19 cents
31 October 2019	4.68 cents	19,544	16.29 cents
28 February 2020	5.19 cents	8,555	18.06 cents
31 March 2020	4.99 cents	9,519	16.23 cents
30 April 2020	4.85 cents	9,785	15.79 cents
31 May 2020	4.99 cents	9,729	15.88 cents
		3,168,025	

**CVC SUSTAINABLE INVESTMENTS LIMITED
AND ITS STAPLED ENTITY**

**Notes to the Financial Statements (Cont.)
For the Year Ended 30 June 2010**

Note 15: Financial Instruments

The Group's activities expose it to a variety of financial risks: market risk (including market price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and price risk.

The responsibility for operational risk management resides with the Board of Directors who seeks to manage the exposure of the Group. There have been no significant changes in the types of financial risks; or the Group's risk management program (including methods used to measure the risks) since the prior year.

(a) Interest rate risk

The Group's exposure to interest rate risks of financial assets and liabilities, both recognised and unrecognised at the balance date are as follows:

	Notes	Floating interest rate \$	Fixed interest rate		Non- interest bearing \$	Total \$
			1 year or less \$	1 to 5 years \$		
2010						
Financial assets						
Cash and cash equivalents	17	5,877	-	-	-	5,877
Trade and other receivables	6	-	-	-	138,913	138,913
Financial liabilities						
Trade and other payables	9	-	-	-	263,016	263,016
Loans payable	10	-	-	1,150,315	-	1,150,315
2009						
Financial assets						
Cash and cash equivalents	17	11,907	-	-	-	11,907
Trade and other receivables	6	-	-	-	126,623	126,623
Financial liabilities						
Trade and other payables	9	-	-	-	56,924	56,924
Loans payable	10	-	-	1,002,871	-	1,002,871

The Group does not hold a significant amount of cash balances and so any movements in interest rates will not have a material impact on operations.

**CVC SUSTAINABLE INVESTMENTS LIMITED
AND ITS STAPLED ENTITY**

**Notes to the Financial Statements (Cont.)
For the Year Ended 30 June 2010**

Note 15: Financial Instruments (Cont.)

(b) Market Price Risk

The Group has investments in listed securities which could be adversely affected if general equity market values were to decline. The Group does not hedge its exposure to the risk of a general decline in equity market values, believing that such strategies are not cost-effective.

At reporting date, if equity prices had been 10% higher/(lower) while all other variables were held constant the impact of the Group would be:

	Increase of 10%	Decrease of 10%
	\$	\$
2010		
Net profit/(loss)	237,878	(237,878)
Equity increase/(decrease)	551,348	(551,348)
2009		
Net profit/(loss)	286,650	(286,650)
Equity increase/(decrease)	463,179	(463,179)

(c) Credit Risk Exposure

Credit risk refers to the loss that the Group would incur if a debtor or a counterparty fails to perform under its obligations. The carrying amounts of financial assets recognised in the statement of financial position best represent the Group's maximum exposure to credit risk at reporting date. The Group seeks to limit its exposure to credit risk by performing appropriate background investigations on counterparties before entering into arrangements with them and to obtain collateral with a value in excess of the counterparty's obligations to the Group, providing a "margin of safety" against loss.

At reporting date, the Group's significant exposure of credit risk includes:

- A receivable from Wind Corporation Australia Limited, of which \$123,185 is mitigated by the Company's ownership of 20%, and that Wind Corporation Australia Limited has a significant proportion of its assets held as cash;
- Deposits with financial institutions, which are mitigated by the requirement that deposits are only held with institutions with an "investment grade" credit rating.

**CVC SUSTAINABLE INVESTMENTS LIMITED
AND ITS STAPLED ENTITY**

**Notes to the Financial Statements (Cont.)
For the Year Ended 30 June 2010**

Note 15: Financial Instruments (Cont.)

(d) Liquidity Risk

The Group manages liquidity risk by maintaining sufficient cash balances, holding liquid investments that could be realised to meet commitments. The Group continuously monitors forecast and actual cash flows and matches the maturity profiles of financial assets and liabilities.

The following table details the Group's contractual liabilities:

	Less than 6 months \$	6 months to 1 year \$	1 to 5 years \$	Total \$
2010				
Trade and other payables	263,016	-	-	263,016
Loans payable	-	-	1,150,315	1,150,315
2009				
Trade and other payables	56,924	-	-	56,924
Loans payable	-	-	1,002,871	1,002,871

(e) Fair Value

The Group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

Level 1 – the fair value is calculated using quoted prices in active markets.

Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset, either directly (as prices) or indirectly (derived from prices).

Level 3 – the fair value is estimated using inputs for the asset that are not based on observable market data.

The fair value of the financial instruments as well as the methods used to estimate the fair value are summarised in the table below.

	Quoted market price (Level 1) \$	Valuation technique – market observable inputs (Level 2) \$	Valuation technique – non market observable inputs (Level 3) \$	Total \$
Year ending 30 June 2010				
Financial assets				
“Available-for-sale” investments				
Listed shares at market value	4,333,106	-	-	4,333,106
Unlisted shares at realisable value	-	-	2,147,990	2,147,990
Unlisted shares at cost	-	-	1,223,270	1,223,270
	<u>4,333,106</u>	<u>-</u>	<u>3,371,260</u>	<u>7,704,366</u>

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**Notes to the Financial Statements (Cont.)
For the Year Ended 30 June 2010**

Note 15: Financial Instruments (Cont.)

(e) Fair Value (Cont.)

	Quoted market price (Level 1)	Valuation technique – market observable inputs (Level 2)	Valuation technique – non market observable inputs (Level 3)	Total
	\$	\$	\$	\$
Year ending 30 June 2009				
Financial assets				
“Available-for-sale” investments				
Listed shares at market value	2,467,635	-	-	2,467,635
Unlisted shares at realisable value	-	-	2,236,065	2,236,065
Unlisted shares at cost	-	-	1,486,658	1,486,658
	<u>2,467,635</u>	<u>-</u>	<u>3,722,723</u>	<u>6,190,358</u>

Reconciliation of Level 3 fair value movements:

	2010 \$	2009 \$
Balance at the beginning of the year	3,722,723	7,623,923
Sales	-	(2,009,454)
Revaluation	(107,483)	(1,150,514)
Impairment	(243,980)	(741,232)
Balance at the end of the year	<u>3,371,260</u>	<u>3,722,723</u>

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**Notes to the Financial Statements (Cont.)
For the Year Ended 30 June 2010**

Note 16: Related Parties

The compensation of the key management personnel of the Group was as follows:

- (a) Total of the income paid or payable or otherwise made available, to all key management personnel of the Group directly or indirectly from the entity or any related party:

	2010 \$	2009 \$
Mr P Toyne		
Base salary	11,009	11,009
Superannuation	991	991
	12,000	12,000
	12,000	12,000

The Group does not have a remuneration committee. Notwithstanding the objective is to continue the policy of paying sufficient competitive compensation to attract key management personnel with the necessary skills to manage the Group.

- (b) No retirement allowances were paid to key management personnel of the Group.
- (c) Except as detailed above, no other amount of remuneration is paid to key management personnel in connection with the management of the affairs of the Group.

Directors

Persons holding the positions of Directors of CVC Sustainable Investments Limited during the financial year are: V R Gould, A D H Beard, J D Read, P Toyne, and M Fogarty.

Transactions with related parties

The Group pays management fees to its investment manager calculated at 2.5% of the net assets of the company at the end of the previous financial year. During the year fees of \$264,080 (2009: \$365,738) were paid to CVC Managers Pty Limited. Messrs Beard and Gould were Directors of CVC Managers Pty Limited during the year. CVC Managers Pty Limited is a controlled entity of CVC Limited.

On 11 September 2007 CVC Sustainable Investments No. 2 Limited entered into a \$3.3 million loan agreement with CVC Limited. Interest on the loan is payable at 10% per annum. Principal and interest on the loan are to be repaid by 21 September 2012. At 30 June 2010, the total loan and interest outstanding is \$1,150,315 (2009: \$1,002,871). Messrs Beard, Gould and Read were Directors of CVC Limited during the year.

Under the terms of the prospectus issued on 22 December 2008 the Group reimbursed establishment costs of the Investment Manager. During the period, \$68,576 (2009: \$63,650) of establishment fees were paid or are payable to the Investment Manager as a result of capital raised.

**CVC SUSTAINABLE INVESTMENTS LIMITED
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**Notes to the Financial Statements (Cont.)
For the Year Ended 30 June 2010**

Note 17: Notes to the Statement of Cash Flows

Reconciliation of Cash

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following at 30 June:

	2010 \$	2009 \$
Cash on hand	5,877	11,907
Cash and cash equivalents	5,877	11,907

Cash at bank earns interest at floating rates based on daily bank deposit rates. The carrying amount of cash and cash equivalents represents fair value.

Reconciliation of net loss after income tax to net cash from operations

Net loss	(842,948)	(2,930,116)
Adjustments for		
Net gain on sale of equity investments	(89,977)	(1,073,203)
Equity accounted profit	(229,915)	(354,316)
Dividends received from equity accounted investments	-	219,674
Impairment recoveries	(3,723)	-
Impairment of loan receivable	-	226,542
Impairment of investments	1,224,364	4,686,800
Interest expense not paid	101,445	182,355
Movement in income tax expense	4,183	
Change in operating assets and liabilities:		
(Increase)/decrease in receivables	(1,495)	205,565
Increase/(decrease) in sundry creditors and accruals	175,956	(36,764)
Movement in current tax assets	4,942	(5,962)
Movement in deferred tax balances	(337,929)	(1,203,784)
Cash flows provided by/(used in) operating activities	4,903	(83,209)

Non-cash investing and financing activities

Dividends satisfied by the issue of shares under the dividend reinvestment plan	-	124,074
Value of options issued for no cash consideration (a)	3,557	9,091

(a) Refer note 14 for additional information

**CVC SUSTAINABLE INVESTMENTS LIMITED
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**Notes to the Financial Statements (Cont.)
For the Year Ended 30 June 2010**

Note 18: Segment Information

The Group predominantly operates in investment activities in Australia.

Note 19: Other Information

CVC Sustainable Investments Limited was incorporated on 21st July 1999. The Group is registered and domiciled in Australia. Its registered office and principal place of business are at Level 42, 259 George Street, Sydney, NSW 2000.

Note 20: Events Occurring after Reporting Date

Other than as set out above, there are no other matters or circumstances that have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future financial years.

Note 21: Stapled Entity

The consolidated financial statements include CVC Sustainable Investments No. 2 Limited. On 28 February 2007 a restructure was undertaken by the Company such that the share capital was reduced by an in-specie distribution of all the fully paid ordinary shares in CVC Sustainable Investments No. 2 Limited to the shareholders in the Company. An agreement was signed that has the effect of stapling the shares of CVC Sustainable Investments Limited to CVC Sustainable Investments No. 2 Limited together, and although separate legal entities are not able to be separately traded.

Although CVC Sustainable Investments Limited does not have an ownership interest in CVC Sustainable Investments No. 2 Limited, CVC Sustainable Investments Limited has been identified as the acquirer and the parent entity for the purpose of preparing the consolidated financial statements and CVC Sustainable Investments No. 2 Limited is deemed to be the acquiree.

Note 22: Critical Accounting Estimates and Judgements

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions 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.

- (a) "Available-for-sale" investments
An impairment has been raised against certain "available-for-sale" investments that have a carrying value of \$4,101,852. The recoverable amount has been assessed in note 7.
- (b) "Available-for-sale" investments
The value of Hydrochile Pty Limited shares has been determined with reference to the most recent capital raising completed by the company on 25 March 2010.
- (c) Investments accounted for using the equity method
An impairment has been raised against The Environmental Group Limited that has a carrying value of \$3,347,869. The recoverable amount has been assessed in note 8.
- (d) Absence of active market
In calculating the fair value of The Environmental Group Limited (EGL) the Group has determined that an active market does not exist for significant holdings because EGL does not trade on a daily basis; each trade that is executed, is small in size and the market capitalization is small such that larger institutions do not hold significant shareholdings. However the active market in small amounts of trading does provide a guide for valuation. EGL was trading at 4.1 cents and the Group has determined that this is the best indicator of value for EGL at 30 June 2010. These factors have been used in determining the value at note 8.

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**Notes to the Financial Statements (Cont.)
For the Year Ended 30 June 2010**

Note 22: Critical Accounting Estimates and Judgements (Cont.)

- (e) Deferred tax assets
In determining if the deferred tax assets should be impaired the future recoverability of investments held by the Group has been considered over the medium term of up to 5 years. No impairment has been raised in relation to the carrying value of deferred tax assets.

Note 23: Working Capital Deficiency

At 30 June 2010 the Group has a working capital deficiency of \$118,226 (2009: nil). The Group has an unused finance facility of \$2.15 million with CVC Limited that is available to be drawn down to meet commitments of the Group.

**CVC SUSTAINABLE INVESTMENTS LIMITED
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DIRECTORS' DECLARATION

For the Year Ended 30 June 2010

In accordance with a resolution of the Directors of CVC Sustainable Investments Limited we state that:

In the opinion of the Directors:

- (a) The financial statements and notes of the consolidated entity are in accordance with *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards (including the Australian Accounting Interpretations) and *Corporations Regulations 2001*.
- (b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1; and
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Board of Directors.

Dated at Sydney 27 September 2010.

V R Gould
Director

A D H Beard
Director

**CVC SUSTAINABLE INVESTMENTS LIMITED
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AUDITOR'S INDEPENDENCE DECLARATION

To the Directors of CVC Sustainable Investments Limited:

As lead auditor for the audit of CVC Sustainable Investments Limited for the year ended 30 June 2010, I declare that, to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is made in respect of CVC Sustainable Investments Limited and its stapled entity.

P B Meade
Partner

Sydney
27 September 2010

**CVC SUSTAINABLE INVESTMENTS LIMITED
AND ITS STAPLED ENTITY**

INDEPENDENT AUDITORS' REPORT

To the members of CVC Sustainable Investments Limited:

We have audited the accompanying financial report of CVC Sustainable Investments Limited ("the company"), which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entity it controlled during the financial year as set out on pages 6 to 34.

Director's Responsibility for the Financial Report

The Directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

In Note 1(b), the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the financial statements of CVC Sustainable Investments Limited comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our audit did not involve an analysis of the prudence of business decision made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**CVC SUSTAINABLE INVESTMENTS LIMITED
AND ITS STAPLED ENTITY**

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *corporations Act 2001*, provided to the directors of CVC Sustainable Investments Limited on 27 September 2010, would be in the same terms if provided to the directors as at the time of this auditor's report.

Audit opinion

In our opinion:

- (a) the financial report of CVC Sustainable Investments Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 1(b).

**HLB MANN JUDD
Chartered Accountants**

**Sydney
27 September 2010**

**P B Meade
Partner**

CVC Sustainable Investments Limited

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