

CVC Sustainable Investments

Financial Report

for the year ended 30 June 2011



CVC Sustainable Investments Limited
and its Stapled Entity



Dear Shareholder

On behalf of the Board of Directors, I present the annual report for the stapled entities CVC Sustainable Investments Limited and CVC Sustainable Investments No. 2 Limited (“CVC Sustainable Investments” or “CVCSI”).

During the year CVCSI generated a loss of \$3,224,793 following the loss in 2009 of \$842,948. This is a disappointing result and the Board and Management are evaluating different strategic options for the fund. As highlighted in investor updates Philip Galloway was appointed as Portfolio Manager during the year with the objective of developing these options. Mr Galloway has held senior level executive positions with global companies and has since set up highly successful geothermal projects in Australia. Philip has been making considerable progress towards positioning CVCSI for change in the post-GFC economic environment.

During the financial year the security price of CVCSI has fallen from 14.99 cents to 8.76 cents as at 30 June 2011. This fall has been predominantly attributed to a fall in the share price of the Environmental Group Limited (EGL) which has resulted in a 3.09 cent fall in CVCSI’s security price; the requirement to impair the carrying value of the deferred tax assets in accordance with accounting standards has had an impact of 2.55 cents; and the appreciation of the Australian Dollar against the United States Dollar resulting in a fall in value of HydroChile Pty Limited, which has had an impact of 0.60 cents.

EGL experienced an unprofitable year which is primarily due to the impact of the Queensland floods resulting in delays and deferment of key mining services projects. The outlook for the 2012 is considered positive as EGL has entered the current financial year with a strong order book.

CVCSI has entered into a conditional agreement to sell its shareholding in Pro-Pac Packaging Limited at a price of 45 cents per share. Subject to the successful completion of the transaction CVCSI will receive proceeds of \$989,768. This will be considered a remarkable outcome and underscores the confidence held by CVCSI in the progress of Pro-Pac over the years, especially considering the sale of the asset, if accepted, will be at a premium.

We are happy to report that during the year HydroChile Pty Limited has successfully completed the financing of its two ‘run-of-river’ hydropower plants, San Andres (40MW) and El Paso (40MW), in December 2010. The cost of the two projects is currently estimated to be around US\$250 million, with construction well underway on the San Andreas project, with an expected completion date of June 2012, and the El Paso project expected to be completed in January 2013. The size of these two projects and the amount of clean energy generated supports the value of CVCSI’s involvement in this Australian company.

As part of the strategic review of CVCSI the Board approved the timely sale of the shares in Dolomatrix International Limited to CVC Limited. The sale and the price negotiated and determined on an ‘arms length’ basis realising a significant amount of cash to allow CVCSI to extinguish the loan with CVC Limited as well as provide funds to be applied in the future plans for CVCSI.

The strategic review has come to a point where the Board can now review the possible options available for the future of CVCSI to achieve the best outcome for all shareholders. The options for CVCSI include:

- A return of capital;
- An in-specie distribution of some or all of the assets;
- A buy-back facility for those who would like to participate; and/or
- A revised business opportunity that may see the introduction of new shareholders.

The Board does not envisage that CVCSI will continue with the previous strategy of investing in early stage companies with environmental objectives. Instead, the Board is actively pursuing and evaluating alternatives that fit the current investment situation with the understanding that investors in CVCSI continue to support the company because they are seeking to support environmentally sustainable/resource efficient opportunities. In response to this interest CVCSI has been examining a number of projects that are capable of contributing to a cleaner future and preserve resources for the generations that will follow us.

The Board expects to be in a position shortly to notify shareholders of the proposed changes to enable a transition to either implement new opportunities for CVCSI or otherwise to implement the initiatives identified.

In September this year, Mr Phillip Toyne advised the Board that he wished to resign as a director of CVCSI. On behalf of the Board I wish to take this opportunity to thank Mr Toyne for all his efforts and contribution to CVCSI over the years.



Vanda Gould
Chairman

**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**

DIRECTORS' REPORT

For the Year Ended 30 June 2011

The Directors present the report of CVC Sustainable Investments Limited and its stapled entity (the "Group") for the year ended 30 June 2011, 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, Cyclopharm Limited, Villa World Group, 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 and Greens Foods 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 2011

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	2	4
Mr M Fogarty	1	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	1	1
Mr V R Gould	1	1
Mr A D H Beard	1	1

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 \$3,224,793 for the year (2010: \$842,948).

Dividends

No dividends have been declared, paid or provided during the year ended 30 June 2011.

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

The Group sold its investment in Dolomatrix International Limited to CVC Limited on an arm's length basis on 14 February 2011 for \$3,200,932. As part of the terms of the sale the outstanding loan of \$1,217,892 with CVC Limited was extinguished.

The investment in The Environmental Group Limited resulted in a total contribution to loss of \$2,259,131 which includes a share of equity accounted loss of \$263,938 plus an impairment charge of \$1,995,193 as a result of the fall in share price during the year.

During the year, the Group issued 106,331 stapled securities to new investors and in accordance with the management agreement 15,949 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 2011

Options over Stapled Securities

CVC Managers Pty Limited, the manager of the Group, has been issued 3,183,974 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 \$80,489 has been credited to the options reserve and charged as a cost of the capital raising on the date of grant. The amount of \$288 has been credited to the share options reserve during the financial year.

As at 30 June 2011, 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
31 August 2020	4.68 cents	6,217	14.91 cents
30 November 2020	4.07 cents	9,732	12.70 cents
		3,183,974	

Directors' Interests in Shares and Options of the Group

Messrs Gould, Read and Beard have an indirect interest in the 10,846,336 shares in the Group held by CVC Limited.

Messrs Gould and Beard have an indirect interest in the 6,295,220 stapled securities and 3,183,974 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

Since the end of the financial year, a conditional agreement was reached to sell the Group's investment in Pro-Pac Packaging Limited at a price of 45 cents per share subject to the successful completion of the transaction, which will achieve a pre-tax profit of \$528,648.

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 2011

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, Mr Toyne received \$12,000 in remuneration in relation to director's fees. 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 15 September 2011.

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 2011

	Notes	2011 \$	2010 \$
INCOME			
Interest received		28,677	747
Net gain on sale of investment		-	89,977
Impairment recovery		1,130,311	3,723
Dividends received		180,008	188,026
Total income		1,338,996	282,473
Share of net (loss)/profit of associate accounted for using the equity method	8	(263,938)	229,915
EXPENSES			
Audit fees	4	38,900	34,600
Director's fees		11,009	11,009
Impairment of investments in associated entities	8	1,995,193	993,772
Impairment of unlisted investments		-	230,592
Insurance		7,511	9,030
Borrowing costs		59,576	101,445
Legal fees		3,109	2,279
Management and consulting fees		273,416	264,080
Printing		1,772	12,614
Share registry		10,506	11,478
Other expenses		34,514	18,182
Loss before related income tax expense		(1,360,448)	(1,176,693)
Income tax expense/(benefit)	5	1,864,345	(333,745)
Net loss		(3,224,793)	(842,948)
Net loss attributable to owners of the parent	12	(940,726)	(348,493)
Net loss attributable to non-controlling interest	13	(2,284,067)	(494,455)

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 2011

	2011 \$	2010 \$
Net loss	(3,224,793)	(842,948)
Other comprehensive income for the year		
- Movements in fair values of "available-for-sale" financial assets recognised directly in equity	(453,752)	1,721,845
- Movements in fair values of "available-for-sale" financial assets transferred to other comprehensive income on realisation	(1,584,512)	(435)
- Income tax on items taken directly to or from equity	719,861	(475,451)
Other comprehensive income for the year, net of tax	(1,318,403)	1,245,959
Total comprehensive (loss)/income for the year	(4,543,196)	403,011
Attributable to:		
Owners of the parent	(1,149,971)	(116,317)
Non-controlling interest	(3,393,225)	519,328
	(4,543,196)	403,011

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 2011

	Notes	2011 \$	2010 \$
CURRENT ASSETS			
Cash and cash equivalents	17	1,699,977	5,877
Trade and other receivables	6	6,126	138,913
Financial assets	7	571,866	-
Total current assets		<u>2,277,969</u>	<u>144,790</u>
NON-CURRENT ASSETS			
Financial assets	7	3,064,547	7,704,366
Investments accounted for using the equity method	8	1,088,738	3,347,869
Deferred tax assets	5	-	1,373,464
Total non-current assets		<u>4,153,285</u>	<u>12,425,699</u>
TOTAL ASSETS		<u>6,431,254</u>	<u>12,570,489</u>
CURRENT LIABILITIES			
Trade and other payables	9	32,273	263,016
Total current liabilities		<u>32,273</u>	<u>263,016</u>
NON-CURRENT LIABILITIES			
Loans payable	10	-	1,150,315
Deferred tax liabilities	5	-	220,521
Total non-current liabilities		<u>-</u>	<u>1,370,836</u>
TOTAL LIABILITIES		<u>32,273</u>	<u>1,633,852</u>
NET ASSETS		<u>6,398,981</u>	<u>10,936,637</u>
EQUITY			
Contributed equity	11	6,457,809	6,452,221
Accumulated losses	12	(4,226,244)	(3,285,518)
Other reserves	14	1,254,973	1,464,201
Total parent entity interest		<u>3,486,538</u>	<u>4,630,904</u>
Non-controlling interest	13	2,912,443	6,305,733
TOTAL EQUITY		<u>6,398,981</u>	<u>10,936,637</u>

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 2011

	Contributed equity	Accumulated losses	Market value reserve	Options reserve	Owners of the parent	Non- controlling interest	Total
	\$	\$	\$		\$	\$	\$
At 1 July 2010	6,452,221	(3,285,518)	1,385,539	78,662	4,630,904	6,305,733	10,936,637
Loss for the year	-	(940,726)	-	-	(940,726)	(2,284,067)	(3,224,793)
Other comprehensive income	-	-	(209,245)	-	(209,245)	(1,109,158)	(1,318,403)
Total comprehensive income for the year	-	(940,726)	(209,245)	-	(1,149,971)	(3,393,225)	(4,543,196)
Other movements in equity:							
Grant of options	-	-	-	288	288	399	687
Income tax effect of derecognition of deferred tax balances	-	-	-	(271)	(271)	(8,189)	(8,460)
Transactions with shareholders:							
New stapled securities issued	5,876	-	-	-	5,876	8,124	14,000
Costs of capital raising	(288)	-	-	-	(288)	(399)	(687)
At 30 June 2011	6,457,809	(4,226,244)	1,176,294	78,679	3,486,538	2,912,443	6,398,981

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 2011 (Continued)

	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 CASH FLOWS

For the Year Ended 30 June 2011

	Notes	2011 \$	2010 \$
Cash flows from operating activities			
Cash receipts in the course of operations		111,987	-
Cash payments in the course of operations		(586,828)	(188,812)
Interest received		24,825	747
Dividend received		180,008	188,026
Income tax refunded		-	4,942
		<hr/>	<hr/>
Net cash flows (used in)/provided by operating activities	17	(270,008)	4,903
		<hr/>	<hr/>
Cash flows from investing activities			
Proceeds from sale of investments		1,983,040	670,010
Payments for investments		(42,037)	(757,704)
Loans repaid		1,105	-
		<hr/>	<hr/>
Net cash flows provided by/(used in) investing activities		1,942,108	(87,694)
		<hr/>	<hr/>
Cash flows from financing activities			
Shares issued		14,000	80,000
Payments for capital raising costs		-	(49,239)
Proceeds from borrowing		-	581,000
Borrowing repaid		8,000	(535,000)
		<hr/>	<hr/>
Net cash flows provided by financing activities		22,000	76,761
		<hr/>	<hr/>
Net decrease in cash and cash equivalents held		1,694,100	(6,030)
Cash and cash equivalents at the beginning of the financial year		5,877	11,907
		<hr/>	<hr/>
Cash and cash equivalents at the end of the financial year	17	1,699,977	5,877
		<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 2011

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 Australian Accounting Standards 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 the Australian Accounting Interpretations. 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 2010:

AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139] effective for 1 January 2010.

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2011 reporting period:

AASB 9 Financial Instruments was released in late 2009 and is mandatory for periods beginning on or after 1 January 2013. The Standard will require two measurement models: amortised cost and fair value. Application of the standard is not expected to have a significant impact on the financial statements.

AASB 124 Related Party Disclosures which has been recently issued but is effective for reporting periods commencing on or after 1 January 2011. Application of the standard will not have a material impact on the amounts recognised in the financial statements.

AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139] which has been recently issued but is effective for reporting periods commencing on or after 1 July 2011. Application of the standard is not expected to have a significant impact on the financial statements.

AASB 128 Investments in Associates and Joint Ventures was released in August 2011 and is mandatory for periods beginning on or after 1 January 2013. Application of the standard is not expected to have a significant impact on the financial statements.

AASB 13 Fair Value Measurement was released in September 2011 and is mandatory for periods beginning on or after 1 January 2013. Application of the standard will not have a material impact on the amounts recognised in the financial statements.

CVC SUSTAINABLE INVESTMENTS LIMITED

AND ITS STAPLED ENTITY

Notes to the Financial Statements For the Year Ended 30 June 2011

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 For the Year Ended 30 June 2011

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 For the Year Ended 30 June 2011

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

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Notes to the Financial Statements For the Year Ended 30 June 2011

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 For the Year Ended 30 June 2011

NOTE 2: PARENT COMPANY INFORMATION

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

	2011 \$	2010 \$
Current assets	577,821	127,416
Total assets	<u>3,508,640</u>	<u>5,000,322</u>
Current liabilities	22,102	148,897
Total liabilities	<u>22,102</u>	<u>369,418</u>
Net assets	<u><u>3,486,538</u></u>	<u><u>4,630,904</u></u>
Contributed equity	6,457,809	6,452,221
Retained earnings	(4,226,244)	(3,287,057)
Other reserves	<u>1,254,973</u>	<u>1,465,740</u>
Equity	<u><u>3,486,538</u></u>	<u><u>4,630,904</u></u>
Net loss after tax	<u><u>(940,726)</u></u>	<u><u>(372,199)</u></u>

Note 3: Dividends

No dividends have been declared, paid or provided by the Group for the period ended 30 June 2011.

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

	2011 \$	2010 \$
CVC Sustainable Investments Limited	234,194	216,178
CVC Sustainable Investments No. 2 Limited	<u>234,937</u>	<u>175,807</u>
	<u><u>469,131</u></u>	<u><u>391,985</u></u>

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

Notes to the Financial Statements For the Year Ended 30 June 2011

Note 4: Auditor's Remuneration

The auditor of the Group is HLB Mann Judd.

	2011 \$	2010 \$
Amounts received or due and receivable by the auditors of the Group:		
Audit or review of the financial report	38,900	34,600
	<u>38,900</u>	<u>34,600</u>

The auditor received no other benefits.

Note 5: Income Tax

(a) Income tax expense

Accounting loss before income tax	(1,360,448)	(1,176,693)
	<u>(1,360,448)</u>	<u>(1,176,693)</u>
Income tax benefit at the statutory income tax rate of 25%	(340,112)	(294,173)
Adjustments in respect of current income tax of previous years	-	8,355
Reduced PDF tax rate on net investment income	(21,101)	6,435
Franked dividends received	(69,640)	(54,362)
Deferred tax not recognised	2,295,198	-
	<u>1,864,345</u>	<u>(333,745)</u>
Income tax expense/(benefit)	1,864,345	(333,745)
	<u>1,864,345</u>	<u>(333,745)</u>
The major components of income tax expense/(benefit) are:		
Deferred income tax	1,864,345	(342,100)
Adjustments in respect of current income tax of previous years	-	8,355
	<u>1,864,345</u>	<u>(333,745)</u>
Income tax expense/(benefit) reported in the statement of financial performance	1,864,345	(333,745)
	<u>1,864,345</u>	<u>(333,745)</u>

CVC SUSTAINABLE INVESTMENTS LIMITED

AND ITS STAPLED ENTITY

Notes to the Financial Statements For the Year Ended 30 June 2011

Note 5: Income Tax (Cont.)

(b) Deferred income tax

	2011	2010
	\$	\$
Deferred income tax at 30 June related to the following items:		
Deferred tax assets:		
- Cost of capital raising	20,695	35,383
- Provision and accrued expenses	5,749	85,293
- Unrealised loss on investments	1,227,803	459,261
- Carried forward losses	990,244	793,527
- Deferred tax assets not recognised	(2,244,491)	-
	-	1,373,464
	-	1,373,464
Deferred tax liabilities:		
- Unrealised profit on shares	134,958	220,521
- Deferred tax liabilities no recognised	(134,958)	-
	-	220,521
	-	220,521

Note 6: Trade and Other Receivables

Current

Accounts receivable	-	123,185
Other receivables	6,126	15,728
	6,126	138,913
	6,126	138,913

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 For the Year Ended 30 June 2011

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

	2011 \$	2010 \$
Current		
Listed shares at market value	<u>571,866</u>	<u>-</u>
Non-current		
Unlisted shares in other corporations	3,792,410	4,101,852
Listed shares at market value	2,729	4,333,106
Impairment	<u>(730,592)</u>	<u>(730,592)</u>
	<u>3,064,547</u>	<u>7,704,366</u>

Unlisted shares in other corporations comprise:

- 20% shareholding in Wind Corporation Australia Limited at a fair value of \$1,236,395 (2010: \$1,223,270). 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 \$1,689,348 (2010: \$2,128,582);
- 1% shareholding in BioPower Systems Pty Limited at a realisable value of \$19,408 (2010: \$19,408).
- 1% shareholding in Biodiesel Producers Limited with a realisable value of \$116,667 (2010: 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 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 (2010: \$230,592).

Biodiesel Producers Limited

The carrying value of Biodiesel Producers Limited is based on a conditional offer that has been received from Australian Renewable Fuels Limited. The determination of the fair value has resulted in an impairment charge of \$500,000 (2010: \$500,000) and a revaluation of \$116,667 which has been included in market value reserve.

(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 For the Year Ended 30 June 2011

Note 8: Investments accounted for using the equity method

	2011 \$	2010 \$
Equity accounted shares in listed associated entity	1,088,738	3,347,869

Details of the associated entity is as follows:

	Ownership interest		Investment carry value	
	2011 %	2010 %	2011 \$	2010 \$
The Environmental Group Limited	34.4	34.4	1,088,738	3,347,869

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

	2011 \$	2010 \$
<i>Reconciliation:</i>		
Balance at the beginning of the year	3,347,869	4,034,286
New interests acquired	-	158,207
Share of associates (loss)/profit before tax	(371,445)	312,043
Share of associates tax benefit/(expense)	107,507	(82,128)
Share of associates reserve	-	(80,767)
Impairment	(1,995,193)	(993,772)
Balance at the end of the year	1,088,738	3,347,869

Summarised financial information

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

	2011 \$'000	2010 \$'000
Extract from associate's statement of financial position:		
Current assets	9,678	12,376
Non-current assets	16,353	14,254
	26,031	26,630
Current liabilities	8,163	7,806
Non-current liabilities	697	886
	8,860	8,692
Net assets	17,171	17,938
Extract from the associate's statement of comprehensive income:		
Revenue	28,282	31,197
Net (loss)/profit	(767)	599

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

Notes to the Financial Statements For the Year Ended 30 June 2011

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 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 \$1,995,193 (2010: \$993,772).

Note 9: Trade and Other Payables

	2011	2010
	\$	\$
Sundry creditors and accruals	<u>32,273</u>	<u>263,016</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>-</u>	<u>1,150,315</u>
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(a) During the year, a transaction was completed such that the Groups investment in Dolomatrix International Limited was sold to CVC Limited and the outstanding loan of \$1,217,892 was extinguished. Refer Note 16.

Note 11: Contributed Equity

	2011		2010	
	No of Shares	\$	No of Shares	\$
Ordinary shares				
Balance at the beginning of the year	72,946,058	6,452,221	72,429,564	6,443,964
New stapled securities issued	106,331	5,876	516,494	31,857
Costs of capital raising	-	(288)	-	(27,765)
Income tax on costs of capital raising	-	-	-	4,165
Balance at the end of the year	<u>73,052,389</u>	<u>6,457,809</u>	<u>72,946,058</u>	<u>6,452,221</u>

Note 12: Accumulated Losses

	2011	2010
	\$	\$
Balance at the beginning of the year	(3,285,518)	(2,937,025)
Net loss from operating activities	(940,726)	(348,493)
Balance at the end of the year	<u>(4,226,244)</u>	<u>(3,285,518)</u>

CVC SUSTAINABLE INVESTMENTS LIMITED

AND ITS STAPLED ENTITY

Notes to the Financial Statements For the Year Ended 30 June 2011

Note 13: Non-controlling Interest

Reconciliation of non-controlling interest in stapled entities

	2011	2010
	\$	\$
Balance at the beginning of the year	6,305,733	5,820,878
Share of net loss	(2,284,067)	(494,455)
Shares issued by stapled entity	7,725	16,016
Other reserves	(1,116,948)	963,294
	<hr/>	<hr/>
Balance at the end of the year	2,912,443	6,305,733
	<hr/> <hr/>	<hr/> <hr/>

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

Share capital	7,430,432	7,422,706
Accumulated losses	(4,581,598)	(2,297,531)
Other reserve	63,609	1,180,558
	<hr/>	<hr/>
	2,912,443	6,305,733
	<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

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Notes to the Financial Statements For the Year Ended 30 June 2011

Note 14: Other Reserves

	Options reserve \$	Market value reserve \$	Total other reserves \$
Year ended 30 June 2011:			
Balance at the beginning of the year	78,662	1,385,539	1,464,201
Change in fair value of "available-for-sale" assets	-	(453,752)	(453,752)
Transferred to other comprehensive income on realisation	-	(1,584,512)	(1,584,512)
Income tax effect	(8,460)	719,861	711,401
Grant of options	687	-	687
Transferred to other comprehensive income on realisation – non-controlling interest	-	1,584,512	1,584,512
Grant of options – non-controlling interest	(399)	-	(399)
Income tax effect – non-controlling interest	8,189	(475,354)	(467,165)
	<u>78,679</u>	<u>1,176,294</u>	<u>1,254,973</u>

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
	<u>78,662</u>	<u>1,385,539</u>	<u>1,464,201</u>

CVC SUSTAINABLE INVESTMENTS LIMITED

AND ITS STAPLED ENTITY

Notes to the Financial Statements For the Year Ended 30 June 2011

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 2011, 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
31 August 2020	4.68 cents	6,217	14.91 cents
30 November 2020	4.07 cents	9,732	12.70 cents
		3,183,974	

**CVC SUSTAINABLE INVESTMENTS LIMITED
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Notes to the Financial Statements For the Year Ended 30 June 2011

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 1 year or less \$	1 to 5 years \$	Non- interest bearing \$	Total \$
2011						
Financial assets						
Cash and cash equivalents	17	185,199	1,514,778	-	-	1,699,977
Trade and other receivables	6	-	-	-	6,126	6,126
<hr/>						
Financial liabilities						
Trade and other payables	9	-	-	-	32,273	32,273
<hr/>						
2010						
Financial assets						
Cash and cash equivalents	17	5,877	-	-	-	5,877
Trade and other receivables	6	-	-	-	138,913	138,913
<hr/>						
Financial liabilities						
Trade and other payables	9	-	-	-	263,016	263,016
Loans payable	10	-	-	1,150,315	-	1,150,315
<hr/>						

**CVC SUSTAINABLE INVESTMENTS LIMITED
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Notes to the Financial Statements For the Year Ended 30 June 2011

Note 15: Financial Instruments (Cont.)

(a) Interest rate risk (cont.)

The Company holds a significant amount of cash balances in the financial year 2011 which are exposed to movements in interest rates. To reduce the risk the Company typically deposits uncommitted cash in high interest rate accounts with financial institutions. Receivables and payables are non-interest bearing.

Sensitivity

At reporting date, if interest rates had been 50 basis points lower (2010: 50 basis points higher*) and the other variables were held constant, then the impact of the Company would be:

	Decrease of 50 bp 2011 \$	Increase of 50 bp* 2010 \$
Net loss (a)	(2,920)	-
Equity decrease (a)	(2,920)	-

a) *Considering the quantum of the cash balance in absolute terms as well as relative terms, the impact of interest rate changes is not considered material for the 2010 financial year.

(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.

Sensitivity

Listed Securities--Current

Since the end of the financial year, an agreement was reached to sell the Company's investment in Pro-Pac Packaging Limited at a price of 45 cents per share subject to the successful completion of the transaction, the impact will be:

	\$
2011	
Pre-tax profit	528,648
Equity increase	417,902
	<u> </u>

Listed Securities--Current

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% \$
2011		
Net profit/(loss)	108,874	(108,874)
Equity increase/(decrease)	109,147	(109,147)
2010		
Net profit/(loss)	237,878	(237,878)
Equity increase/(decrease)	551,348	(551,348)

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

Notes to the Financial Statements For the Year Ended 30 June 2011

Note 15: Financial Instruments (Cont.)

(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:

- Deposits with financial institutions, which are mitigated by the requirement that deposits are only held with institutions with an "investment grade" credit rating.

(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 \$
2011				
Trade and other payables	32,273	-	-	32,273
2010				
Trade and other payables	263,016	-	-	263,016
Loans payable	-	-	1,150,315	1,150,315

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Notes to the Financial Statements For the Year Ended 30 June 2011

Note 15: Financial Instruments (Cont.)

(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 2011				
Financial assets				
<i>“Available-for-sale” investments</i>				
Listed shares at market value	574,595	-	-	574,595
Unlisted shares at realisable value	-	-	3,061,818	3,061,818
	<u>574,595</u>	<u>-</u>	<u>3,061,818</u>	<u>3,636,413</u>
Year ending 30 June 2010				
Financial assets				
<i>“Available-for-sale” investments</i>				
Listed shares at market value	4,333,106	-	-	4,333,106
Unlisted shares at realisable value	-	-	3,371,260	3,371,260
	<u>4,333,106</u>	<u>-</u>	<u>3,371,260</u>	<u>7,704,366</u>

Reconciliation of Level 3 fair value movements:

	2011 \$	2010 \$
Balance at the beginning of the year	3,371,260	3,722,723
Revaluation	(309,442)	(107,483)
Impairment	-	(243,980)
Balance at the end of the year	<u>3,061,818</u>	<u>3,371,260</u>

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Notes to the Financial Statements For the Year Ended 30 June 2011

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:

	2011 \$	2010 \$
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 \$273,416 (2010: \$264,080) 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 21 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. During the year, an additional \$8,000 was drawn on the loan and interest of \$59,576 was accrued. A transaction was completed such that the Groups investment in Dolomatrix Limited was sold to CVC Limited and the outstanding loan of \$1,217,892 was extinguished.

The investment in The Environmental Group Limited resulted in a total contribution to loss of \$2,259,131 which includes a share of equity accounted loss of \$263,938 plus an impairment charge of \$1,995,193 as a result of the fall in share price 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, no establishment fees (2010: \$68,576) were paid or are payable to the Investment Manager as a result of capital raised.

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Notes to the Financial Statements For the Year Ended 30 June 2011

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:

	2011 \$	2010 \$
Cash on hand	1,699,977	5,877
Cash and cash equivalents	1,699,977	5,877

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	(3,224,792)	(842,948)
Adjustments for		
Net gain on sale of equity investments	-	(89,977)
Equity accounted loss/(profit)	263,938	(229,915)
Impairment recoveries	(1,130,311)	(3,723)
Impairment of investments	1,995,193	1,224,364
Interest expense not paid	59,576	101,445
Movement in income tax expense	-	4,183
Change in operating assets and liabilities:		
Decrease/(Increase) in receivables	121,990	(1,495)
(Decrease)/Increase in sundry creditors and accruals	(219,946)	175,956
Movement in current tax assets	-	4,942
Movement in deferred tax balances	1,864,344	(337,929)
Cash flows (used in)/provided by operating activities	(270,008)	4,903
<i>Non-cash investing and financing activities</i>		
Value of options issued for no cash consideration (a)	687	3,557

(a) Refer note 14 for additional information

Note 18: Segment Information

The Group predominantly operates in investment activities in Australia.

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Notes to the Financial Statements For the Year Ended 30 June 2011

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

Since the end of the financial year, a conditional agreement was reached to sell the Group's investment in Pro-Pac Packaging Limited at a price of 45 cents per share subject to the successful completion of the transaction, which will achieve a pre-tax profit of \$528,648.

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 \$3,061,818. 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 \$1,088,738. The recoverable amount has been assessed in note 8.

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Notes to the Financial Statements For the Year Ended 30 June 2011

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

- (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 cents and the Group has determined that this is the best indicator of value for EGL at 30 June 2011. These factors have been used in determining the value at note 8.

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DIRECTORS' DECLARATION

For the Year Ended 30 June 2011

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 2011 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 15 September 2011.

V R Gould
Director

A D H Beard
Director

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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 2011, 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
15 September 2011

**CVC SUSTAINABLE INVESTMENTS LIMITED
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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 2011, 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 33.

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.

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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 15 September 2011, 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 2011 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
15 September 2011
Partner**

P B Meade