



30 August 2011

**China New Energy Limited**  
**(“China New Energy” “CNE” or “the Company”)**

**Half-yearly report to 30 June 2011**

China New Energy Limited (AIM: CNE), the engineering and technology solutions provider to the bioenergy sector, announces the unaudited half-yearly results for the six months ended 30 June 2011.

**Financial Highlights**

- Revenue up 54.7% to RMB 49.2m (2010: RMB 31.8m)
- Gross profit up 60.9% to RMB 6.97m (2010: RMB 4.33m)
- Gross margins improved to 14.1% (2010: 13.6%)
- Selling & distribution expenses down 15.9 % to RMB 1.46m (2010: RMB 1.74m)
- Administrative expenses down 10% to RMB 5.9m (2010: RMB 6.7m)
- Other operating expenses of RMB 1.25m (2010: RMB 0.4m) mainly due to higher R&D spend.
- Finance expenses up RMB 1.0m due to bond related expenses
- Profit after taxation was RMB 0.8m, reversing from net loss of RMB 1.0m in 1H2010
- EPS of 0.003 RMB (2010: Loss of 0.004 RMB)

**Operational Highlights**

- RMB 168m of new contracts secured in H12011 (H12010: RMB 57m).
- Major contract in Thailand for a cassava-based ethanol project
- Significant progress in R&D activities, and commercialisation of technology converting biomass into biofuels

**Commenting on the prospects for the full year, Yu Weijun, Chairman, said:**

“Historically we complete more projects and booked more revenue in the second half of the financial year. We have secured RMB168 million of new contracts in the first half of the year, and we expect to complete these projects substantially by end of the year. Barring unforeseen circumstances such as delays and cancellations of projects, the Directors view the prospects for the full year with confidence.”

**China New Energy Limited**

Richard Bennett

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## **Chairman's Statement**

On behalf of the Board, I am very pleased to present to you the unaudited interim results for the six months period ended 30 June 2011.

### **Financial Review**

We are pleased with the results we made in the first half of the year. We have made good progress and delivered strong growth relative to the same period last year. Underpinned by the sustained recovery in global oil prices and still robust economic growth in China and South East Asia, we have witnessed growth in renewable energy, beverage and chemical industries.

On the back of strong new sales and services orders, the Group's revenue increased by 54.7% to RMB 49.2m in 1H2011 from RMB 31.8m the same period last year. The Group's gross profit grew 60.9% to RMB 6.97m in 1H2011 compared to RMB 4.33m in 1H2010; gross margins improved from 13.6% in 1H2010 to 14.1% in 1H2011. Reflecting our ability to control overheads, and despite significant increased sales, our selling and distribution expenses in 1H2011 fell by 15.9 % to RMB 1.46m from RMB 1.74 million the same period last year. Also, in spite of RMB 0.6m expense charges relating to exceptional incentives granted to employees (in the form fully issued and paid up Company shares to Employee Benefit Trust at nominal consideration), administrative expenses decreased significantly from RMB 6.7m in 1H2010 to RMB 5.9m in 1H2011.

The Group's other operating expenses were RMB 1.25m in 1H2011, up from RMB 0.4m in 1H2010. This was mainly attributable to higher research and development spending incurred during the period.

On the back of significant growth in revenue and gross margin, coupled with effort to control overheads, we managed to reverse a net loss of RMB 1.03m in 1H2010 to a net profit after tax of RMB 0.78m in 1H2011. Due to significant growth in revenue, we have a net profit of RMB 0.78m in 1H2011.

### **Operational Review**

In 1H2011, we secured a major contract in Thailand to sell products and services to Ubon Bio-ethanol Company Limited in the Ubon Ratchathani province of Thailand, for a cassava-based ethanol project which is intended to produce up to 400,000 litres per day of edible ethanol or fuel ethanol. The amount due to Guangdong Zhongke Tianyuan New Energy Science and Technology Co. Ltd ("ZKTY"), the Company's wholly owned subsidiary, under its agreement with Ubon currently totals RMB 77m. The Company has received RMB 7.7m as an initial deposit and has completed the engineering and design stages of the project. In addition, the Company is currently negotiating to provide further products and services to construct additional auxiliary facilities for the project. Our success in securing this contract is a testament to the Group's ability to design and construct high quality cassava based ethanol production facilities. We believe our success in this project will strongly position the Group to capture market share in South East Asian, where there is abundance of inexpensive cassava feedstock.

The Group has made good progress in conducting research and development activities, internally and in collaboration with external institutions. R&D has focused on the possibility of developing new processes to maximise the extraction of ethanol and other biogases from cassava, as well as cost effective and efficient ways to extract ethanol and butanol from cellulosic feedstock, such as wood waste and the non-food parts of the current crops. In particular, jointly with our collaboration partners, we have made significant advancement in converting cellulosic biomass such as corncobs and corn stovers into biobutanol. The initial pilot testing of this technology has been very encouraging and in the second half of the year we will be working towards scaling up and producing biobutanol using these biomass cellulosic feedstocks in larger and commercially viable sizes.

### **Outlook**

After the recent dramatic volatility in the global financial markets and compounded by the sovereign debt crisis in Europe, there is always some risk that we may face harder trading conditions and so we have adopted a more cautious business approach in the near term. Nevertheless, we remain positive about our prospects and outlook.

Despite recent drops on fear of worsening demand from Europe and the U.S., the current price of crude oil remains high and 30% above the last 5 years average (US\$80 per barrel), helping to increase the awareness and demand for alternative energy sources.

China is an important participant in global energy markets. In the interests of its energy security, the PRC government has enacted various laws and regulations encouraging the use of renewable energy as a substitute for fossil fuels. Bioenergy is widely considered to be one of the key alternatives to fossil fuel use because of its easy acquisition and cleaner emissions. Our strategy is to craft core competence in the provision of a full spectrum of engineering technology for the renewable fuel and chemicals sector. We strive to provide superior technology and engineering solutions from feedstock conversion to end waste management to the bioenergy and biochemical sectors, enabling producers in these sectors to produce environmentally friendlier products with improving operating margins.

The recent market turmoil may cut back resources globally, especially in the U.S. and Europe, into Research and Development activities in our industry. The Group, however, intends to continue to channel resources into research and development in biofuel production by relying on our qualified staff and by collaborating with external institutions to carry out further research and development activities. Our collaboration partners include Guangzhou Institute of Energy Conversion (“GIEC”), part of the Chinese Academy of Sciences. GIEC is a leading research institute in the PRC that specialises in the research of alternative and renewable energy technologies. We believe our close working relationship with GIEC can help to commercialise our R&D much faster and at a lower cost.

The Directors and management team are confident in the Company’s outlook and are determined to position the Group for organic growth. To strengthen our market position and to add value to our existing business, the Group is also actively exploring opportunities to expand into complimentary businesses or operations through acquisitions, joint ventures or strategic alliances. The Group looks forward to keep its shareholders duly and timely informed of such developments.

While we are adopting a more cautious business approach in view of the recent financial market turmoil, the Group is already currently exploring opportunities and negotiating new projects in the PRC and overseas with prospective customers.

### **Current trading**

Historically we complete more projects and hence booked more revenue in the second half of the financial year. As already mentioned, we have secured RMB168m of new contracts in the first half of the year, and we expect to complete these projects substantially by end of the year. Barring unforeseen circumstances such as delays and cancellations of projects, the directors view the prospects for the full year with confidence.

Yu Weijun  
Chairman

30 August 2011

## Consolidated Statement of Financial Position

	Unaudited Six months to 30 June 2011 RMB'000	Unaudited Six months to 30 June 2010 RMB'000	Audited Year to 31 December 2010 RMB'000
Note			
Non-current assets			
Property, plant and equipment	10,324	5,378	11,118
Intangible assets	3,322	103	3,370
Deferred tax assets	-	2,360	-
Trade receivables	4,402	8,159	6,601
	18,048	16,000	21,089
Current assets			
Inventories	28,476	35,805	35,026
Due from customers for construction contracts	69,193	52,346	56,735
Trade and other receivables	47,875	53,171	45,675
Notes receivables	5,140	3,500	6,893
Cash and cash equivalents	13,175	19,270	10,631
	163,859	164,092	154,960
Current liabilities			
Trade and other payables	77,341	66,381	72,959
Due to customers for construction contracts	25,572	61,079	18,725
Notes payables	3,288	1,329	8,166
Income tax payable	1,494	18	1,118
Short-term borrowing	5,000	-	5,000
Interest payable	973	-	-
Convertible bonds	46,903	51,520	49,790
	160,571	180,327	155,758
Net current (liabilities)/assets	3,288	(16,235)	(798)
Non-current liabilities			
Deferred tax liabilities	930	1,411	1,018
	930	1,411	1,018
Net (liabilities)/assets	20,406	(1,646)	19,273
Equity and reserves			
Ordinary Share	2 1,104	1,013	1,013
Share premium	2 36,748	29,354	29,354
Combination reserve	(33,156)	(33,156)	(33,156)
Warrants reserve	4 1,673	-	-
Statutory reserve	7,247	4,788	7,247
Convertible bonds reserve	3 6,549	9,722	9,722
Own shares	5 (5,853)	-	-
Accumulated earnings/(losses)	(15,047)	(35,055)	(16,442)
Foreign currency translation reserve	21,141	21,688	21,535
	20,406	(1,646)	19,273



## Consolidated Statement of Comprehensive Income

	Unaudited	Unaudited	Audited
	Six months to 30 June 2011	Six months to 30 June 2010	Year to 31 December 2010
Note	RMB'000	RMB'000	RMB'000
Revenue	49,206	31,817	138,359
Cost of sales	(42,239)	(27,488)	(98,131)
	<hr/>	<hr/>	<hr/>
Gross profit	6,967	4,329	40,228
Other operating income	4,135	3,594	464
Selling and distribution expenses	(1,459)	(1,736)	(3,909)
Administrative expenses	(5,998)	(6,651)	(10,934)
Other operating expenses	(1,250)	(390)	(2,187)
Finance expenses	(1,094)	-	-
	<hr/>	<hr/>	<hr/>
Profit/(loss) before income tax	1,301	(854)	23,662
Income tax expense	(523)	(180)	(3,623)
	<hr/>	<hr/>	<hr/>
Profit/(loss) for the financial period	778	(1,034)	20,039
	<hr/>	<hr/>	<hr/>
Other comprehensive income:			
Exchange difference	(394)	3,650	3,496
	<hr/>	<hr/>	<hr/>
Total comprehensive income for the financial year	384	2,616	23,535
	<hr/>	<hr/>	<hr/>
Total comprehensive income attributable to equity holder	384	2,616	23,535
	<hr/>	<hr/>	<hr/>
Earnings/(loss) per share (RMB):			
Basic	0.003	(0.004)	0.07
Diluted	0.003	(0.004)	0.07
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## Consolidated Statement of Cashflows

	Unaudited Six months to 30 June	Unaudited Six months to 30 June	Audited Year to 31 December
	2011 RMB'000	2010 RMB'000	2010 RMB'000
<b>Operating activities</b>			
Profit/(loss) before income tax	1,301	(853)	23,662
Adjustments for:			
Depreciation and amortisation	1,059	466	1,761
Allowance for doubtful trade receivable	-	-	502
Administrative expenses - issue of shares to employees	616	-	-
Loss/(gain) on disposal of property, plant and equipment	(190)	69	446
Goodwill on consolidation	-	-	(13)
Interest income	(282)	-	-
Finance cost	973	-	-
<b>Operating cash flows before movements in working capital</b>	<b>3,477</b>	<b>(318)</b>	<b>26,371</b>
Inventories	6,550	(12,235)	(11,456)
Construction work-in-progress	(5,611)	26,305	(20,438)
Trade and other receivables	-	(19,317)	(11,511)
Notes receivables	1,753	1,800	(1,594)
Trade and other payables	4,383	7,426	10,349
Notes payables	(4,878)	(4,162)	2,675
Deferred tax	-	-	2,370
Cash generated from/(used in) operations	<b>5,674</b>	<b>(501)</b>	<b>(3,234)</b>
Income taxes paid	(236)	28	(170)
Dividend received	-	-	-
<b>Net cash from/(used in) operating activities</b>	<b>5,445</b>	<b>(473)</b>	<b>(3,404)</b>
<b>Investing activities</b>			
Proceeds from disposal of property, plant and equipment	608	-	563
Acquisition of property, plant and equipment	(635)	-	(290)
Net cash outflow from acquisition of subsidiary	-	-	(6,067)
Interest received	-	-	-
<b>Net cash from/(used in) investing activities</b>	<b>(27)</b>	<b>-</b>	<b>(5,794)</b>
<b>Financing activities</b>			
Short-term borrowing	-	-	5,000
Proceeds from issuance of shares	132	-	-
Redemption of convertible bonds	(3,288)	-	-
Interest received	282	-	-
Proceeds from issuance/ (redemption) of convertible bonds	-	-	(4,914)
<b>Net cash from/(used in) financing activities</b>	<b>(2,874)</b>	<b>-</b>	<b>86</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>2,544</b>	<b>(473)</b>	<b>(9,112)</b>
Cash and bank balances at beginning of period	10,631	19,743	19,743
Effect of foreign exchange rate changes in cash and bank balances	-	-	-
<b>Cash and cash equivalents at end of period</b>	<b>13,175</b>	<b>19,270</b>	<b>10,631</b>

### Consolidated Statement of Changes in Equity

	Share capital RMB'000	Share premium RMB'000	Combination RMB'000	Statutory reserve RMB'000	Convertible bonds reserve RMB'000	Warrants reserve	Own shares	Accumulated earnings/(losses) RMB'000	Foreign currency translation reserve RMB'000	Total RMB'000
Balance at 31 December 2009	1,013	29,354	(33,156)	4,788	9,722	-	-	(34,022)	18,039	(4,262)
Profit for the year	-	-	-	-	-	-	-	20,039	-	20,039
Exchange difference arising on the translation	-	-	-	-	-	-	-	-	3,496	3,496
Total comprehensive income for the year	-	-	-	-	-	-	-	20,039	3,496	23,535
Transfer to statutory reserve	-	-	-	2,459	-	-	-	(2,459)	-	-
Balance at 31 December 2010	1,013	29,354	(33,156)	7,247	9,722	-	-	(16,442)	21,535	19,273
Profit for the period	-	-	-	-	-	-	-	778	-	778
Exchange difference arising on the translation	-	-	-	-	-	-	-	-	(394)	(394)
Total comprehensive income for the period	-	-	-	-	-	-	-	778	(394)	384
Issue of warrants	-	-	-	-	(3,173)	3,173	-	-	-	-
Issue of shares, net of share issue costs	70	1,562	-	-	-	(3,173)	-	-	-	(1,541)
Long term incentive scheme charge	21	5,832	-	-	-	-	(5,853)	617	-	617
Issue of warrants	-	-	-	-	-	1,673	-	-	-	1,673
Balance at 30 June 2011	1,104	36,748	(33,156)	7,247	6,549	1,673	(5,853)	(15,047)	21,141	20,406

**Notes to the Interim Financial Information - Period ended 30 June 2011**
**1. Basis of preparation**

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union. The principal accounting policies used in preparing the interim results are those the group expects to apply in its financial statements for the year ending 31 December 2011 and are unchanged from those disclosed in the group's Report and Financial Statements for the year ended 31 December 2010, except for the following additional accounting policies:

**Basis of consolidation**

The Company includes the assets and liabilities of the Employee Benefit Trust ("EBT") within its Statement of Financial Position. In the event of the winding up of the Company, neither the shareholders nor the creditors would be entitled to the assets of the EBT.

**Long-term incentive scheme charge**

The fair value of the employee services received in exchange for the grant of shares or share options is recognised as an expense.

The total amount to be expensed over the performance period, from grant date to vesting date, is determined by reference to the fair value of the shares determined at the date the employee is deemed to be fully aware of their potential entitlement and all conditions of vesting.

**Own shares**

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

This interim financial information has not been reviewed nor audited by the Company's auditors. The comparatives for the period ended 31 December 2010 are not the Company's full statutory accounts for that period but have been extracted from those financial statements. A copy of the statutory financial statements for that period, which were prepared under IFRS, has been delivered to the Companies Registry. The auditors' report on those accounts was unqualified.

Whilst the financial information included in this Interim Financial information has been prepared in accordance with the recognition and measurement criteria of IFRS, it does not include sufficient information to comply with IFRS.

This interim report was approved by the Board of directors on 22 August 2011.

**2. Ordinary shares**

	Number of Shares	Share Capital		Share premium	
		£ '000	RMB '000	£ '000	RMB '000
As at 31 December 2010	6,733,107	67	1,013	1,952	29,354
As at 21 March 2011	67,331,070	67	1,013	1,952	29,354
As at 6 May 2011	269,324,280	67	1,013	1,952	29,354
Shares issued in connection with the Placing	9,360,147	2.3	23.8	653	6,758
Share issued in settlement of fees to professional	9,920,295	2.5	25.9	692	7,161
Share issued to EES Trustees International Limited	8,079,728	2.0	20.7	564	5,836
Shares issued to Citadel pursuant to warrant agreement	7,932,412	2.0	20.7	305	3,156
Share issue costs					(15,517)
As at 30 June 2011	304,616,862	76	1,104		36,748

On 21 March 2011, pursuant to written resolutions passed by the shareholders of the Company, the Company approved (i) the subdivision of the authorised share capital of the Company into 10,000,000,000 ordinary shares of par value £0.001 each and (ii) that each existing issued ordinary share of par value £0.01 at such date be subdivided into 10 ordinary shares of par value £0.001 each, and (iii) that the Company's memorandum of association be amended to reflect the same.



On 15 April 2011, by resolutions of the Board, the Board approved the allotment of an aggregate of 2,019,932 ordinary shares of par value £0.001 each to EES Trustees International Limited at Admission, to be held on trust in accordance with the terms of the China New Energy Limited Employee Benefit Trust and to be allocated to certain named employees of the Group provided such persons remain employees of the Group on the [first] anniversary of Admission to AIM.

On 6 May 2011, pursuant to written resolutions passed by the shareholders of the Company, the Company approved (i) the subdivision of the authorized share capital of the Company into 40,000,000,000 ordinary shares of par value £0.00025 each and (ii) that each existing issued ordinary share of par value £0.001 at such date be subdivided into 4 ordinary shares of par value £0.00025 each, and (iii) that the Company's memorandum of association be amended to reflect the same.

On 16 May 2011, by resolutions of the Board, the Board approved, conditional on Admission, (i) the allotment of up to 9,360,147 Ordinary Shares free of pre-exemption in connection with the Placing; (ii) that a further 2,966,845 Ordinary Shares be at the disposal of the Board pursuant to the warrant agreement to be executed in favour of Cairn in part settlement of fees; (iii) that a further 357,142 Ordinary Shares be allotted to Cairn on Admission in part settlement of fees; (iv) that a further 1,483,425 Ordinary Shares be allotted to SVS on Admission in part settlement of fees; and (v) that a further 8,079,728 Ordinary Shares be allotted to NovusAsia Capital Limited on Admission in part settlement of fees.

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

### 3. Convertible reserve

On 9 June 2011, Citadel elected to exercise the cashless exercise mechanism in respect of its aggregate rights under the warrant. The effect of the cashless exercise mechanism results in Citadel being issued and allotted 7,932,412 new ordinary shares. The fair value of the warrants was RMB 3,172,856. Following this issue of equity, the company transferred RMB 3,172,856 to the warrants reserve from the convertible reserve.

### 4. Warrants reserve

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

### 5. Employee Benefit Trust

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

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

#### Income statement change

	Unaudited Six months to 30 June 2011 RMB'000	Unaudited Six months to 30 June 2010 RMB'000	Audited Year to 31 December 2010 RMB'000
Original scheme	617	-	-
	617	-	-

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

## 6. Earnings per share

Earnings per share ("EPS") on a basic and diluted basis are as follows:

	Earnings Six months to 30 June	Weighted average number of shares Six months to 30 June	Earnings per share Six months to 30 June	Earnings Six months to 30 June	Weighted average number of shares Six months to 30 June	Earnings per share Six months to 30 June
	2011	2011	2011	2010	2010	2010
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
	RMB'000	'000	RMB'000	RMB'000	'000	RMB'000
<b>Earnings/(loss) per share – basic</b>	<b>778</b>	<b>274,443</b>	<b>0.003</b>	(1,034)	269,324	(0.004)
Potentially dilutive shares	-	2,192		-		
<b>Earnings/(loss) per share - diluted</b>	<b>778</b>	<b>276,635</b>	<b>0.003</b>	(1,034)	269,324	(0.004)

## 7. Directors' interests

The following Directors have held office during the period and their interests as at 30 June 2011, all of which are beneficial unless otherwise stated, whether direct or indirect, of the Directors and their families in the issued share capital of the Company and options over Ordinary Shares which had been granted, are as follows:

Director	Number of Ordinary Shares	Percentage of Ordinary Shares
Yu Weijun	90,932,440	29.85%
Tang Zhaoxing	48,000,000	15.76%
Chen Yong (Appointed 25 March 2011)	-	-
Foo Shiang Peow (Appointed 25 March 2011)	8,079,728	2.65%
Richard Bennett (Appointed 25 March 2011)	-	-

## 8. Business Segment

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

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

	EPC Activities RMB'000	VAS RMB'000	Total RMB'000
<b>Revenue</b>			
Unaudited six months to 30 Jun 2011	43,803	5,403	49,206
Unaudited six months to 30 Jun 2010	25,558	6,259	31,817
Year ended 31 Dec 2010	110,435	27,923	138,358
<b>Results</b>			
Unaudited six months to 30 Jun 2011	5,835	903	6,738
Unaudited six months to 30 Jun 2010	3,625	705	4,330
Year ended 31 Dec 2010	35,429	4,856	40,285

