

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

Final Results for the Year Ended 31 December 2013

The Board of CNE (AIM:CNEL), the AIM quoted engineering and technology solutions provider to the bioenergy sector, presents its final results for the year ended 31 December 2013.

Highlights:

- Total order book is RMB 672million (c. £67.2 million)
- Contract to build 2nd Generation biorefinery for Jilin Province New Tian Long Alcohol Co., Ltd.
- Repayment of all long-term debt, including repayment of bonds to Citadel
- Total revenues were RMB 44million (c. £4.4 million) a decrease of 70.0% from RMB 146million (c. £14.6m)

Mr. Yu commented “2013 was a transition year for CNE as we restructured our finances and refocused our business development activities on international market opportunities. I am pleased to report that our order book is RMB 672million (c. £67.2 million) and that in addition to China, we are now actively working on projects in South East Asia, Africa and Eastern Europe. This continues to give the Board strong confidence in our future prospects”.

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Chairman’s Statement

I am pleased to present the annual report and financial statements of China New Energy Limited (the “Company” or “CNE”) and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2013.

Financial Review

For the year ended 31 December 2013, the Group’s total revenues were RMB 44million (c. £4.4 million) a decrease of 70.0% from RMB 146million (c. £14.6m), which is a result of a slowdown of sales of biorefineries in developed countries. CNE’s management responded to the changing market conditions and we have refocused our business development activities on the emerging markets of South East Asia, Eastern Europe and Africa, and I am pleased to report that the group secured new contracts in 2013 up to a total value of RMB 656.9million (c. £65.7 million) and our total order book is RMB 672million (c. £67.2 million), which continues to give the Board strong confidence in our future prospects.

2013 was very much a transition year for CNE as we sought to restructure our finances. Firstly, CNE has fully repaid our bonds to Citadel and I am pleased to report that CNE has no outstanding bonds or loans, and as a result of this debt restructuring we recorded an exceptional income of RMB 24.8million (c. £2.48 million). Secondly, we tried to achieve our goal of acquiring an operating biorefinery with the purpose of delivering a second revenue stream to the Company as well as providing a case study for our advanced 2nd generation cellulosic biorefinery technology. During the year we entered into an agreement to acquire a 75% interest in Harbin China Distillery Company Limited, but we later decided not to complete the transaction. However, it still remains a goal of the board to acquire an operating biorefinery, which we expect will help us deliver more consistent annual revenues.

The gross profit for the year was RMB 2.3million (c. £0.23 million) down from RMB 26million (c. £2.6million), which is in line with the decreased revenues. The selling and administrative expenses decreased by 20.4% from RMB 19.6million (c. 1.96million) to RMB 15.6million (c. £1.56million), and other operating increased by 13% from RMB 1.5million (c. 0.15million) to RMB 1.7million (c. £0.17million), excluding the non-recurring items of RMB 33.8million (c. £ 3.38million) for bad debts provision and RMB 30.8million (c. £3.08million) for impairments loss to investment.

For the year 2013, the company recorded a net loss for the year of RMB 59.2m (c. £5.92million), a decrease from a net profit of RMB 26.2million (c. £2.62million).

Operational Review

The Group principally provides EPC (Equipment, Procurement and Construction) services and VAS (Value Added Service) to ethanol and biobutanol producers. The EPC team primarily design and build commercial-scale biorefineries that convert feedstock into ethanol for both the biofuel and edible alcohol markets, whilst the VAS team provide services and technology to optimise the ethanol production at existing biorefineries.

CNE is a market leader in China at designing and building 1st Generation biorefineries that convert agricultural feedstock such as corn, cassava and sugarcane into ethanol. We have completed more than 100 Generation 1 projects in China and around the world, but the market is now evolving as our customers in China and other developed nations seek to use cellulosic (non-food) feedstock such as corn-stover in 2nd Generation biorefineries.

It is a priority for CNE to commercialise this 2nd generation technology, as we believe this will stimulate demand for building new biorefineries in China and around the world. I am pleased to report that during the year we entered into an agreement with our existing client Jilin Province New Tian Long Alcohol Co., Ltd. (“NTLA”) to provide specialist technology and services to assist in building a new, 2nd Generation biorefinery with a production capacity of 50,000 tonnes per year. NTLA is one of the largest ethanol producers in China and they have chosen CNE as their development partner in a multi-phase contract with the initial contract phase being RMB 10million (approx. £1m) to CNE over a 2 year period. This is a significant milestone for CNE as the contract will help CNE secure its position as a leader in the commercialisation of 2nd Generation biorefinery technology.

The market for 1st Generation biorefineries has notably shifted from developed countries such as China to developing countries in SE Asia, Africa and Eastern Europe. CNE has refocused our sales and marketing activities to service these markets and during the year I am pleased to report that we completed the first biorefinery for UBBE in Thailand. This 1st Generation biorefinery with a production capacity of 100,000 tonnes of bioethanol was formally opened by Princess Sirindhorn of Thailand following a two year construction period and six month commissioning and handover phase. The project has proved to be a good reference, and contributed to CNE winning extensive new business including:

- UBBE in Thailand have ordered a second biorefinery with a production capacity of 100,000 tonnes of bioethanol per year. The new project will replicate the existing biorefinery and is expected to commence in late 2014, and forecast to complete by 2016, with a contract value for the Company of approximately RMB100million (£10million).
- Visontai Bioetanol Fejlesztő Korlátolt felelősségű Társaság (“Visontai”) and Helvéciai Biouzemanyag Termelő es Kereskedő Kft. (“Helvéciai”) in Hungary have ordered two biorefineries with a combined production capacity of approximately 100,000 tonnes of ethanol per year. The value of the contracts to CNE are €72m (approx. £60m) over a 4 year period. As part of the tendering process, CNE has already completed the design for both the projects. The first project is expected to complete within two years, entering full commercial production in 2017. The progress of construction will be subject to Visontai and Helvéciai completing their fundraising milestones.
- Sunbird Bioenergy Africa Limited (“Sunbird”) have entered into an MOU with CNE to design and build a flagship biorefinery in Nigeria with the possibility to extend this initial project to include a further nine biorefineries. The value of the initial project for the Company is expected to be in the region of RMB 150million (c. £15million). The first project will convert cassava feedstock into 100,000 tonnes of anhydrous ethanol per year. CNE will supply its proprietary pre-treatment, fermentation, distillation and dehydration technology to the project and the local project partner, OBAX World Limited, will complete the local civil engineering and construction of the biorefinery.

Whilst in the long-term it is our objective to sell 2nd Generation biorefineries to our existing customers, in the short-term we are providing VAS services including advanced fermentation and energy efficiency technologies that increase

the profitability of their existing biorefineries. In 2013, CNE was recognised by the China Alcoholic Drinks Association's ("CADA") and received their annual award for Science and Technology Improvement for an energy efficiency project completed for Jilin Province New Tian Long Wine Co., Ltd. The recognition has been received in respect of the Company's patented Five-Tower Two-stage Differential Pressure Distillation Equipment & Process for Superfine-grade Edible Alcohol technology (Patent Number ZL 2007 1 0030550.8).

Research & Development

A major goal of CNE remains to commercialise second-generation technology that converts cellulosic biomass (agricultural waste) into fuel grade ethanol and butanol. During the year, our R&D team made significant progress in developing new processes that will help achieve that goal, and we applied for two new invention patents. One of which is a method for producing Alga with wastewater from bio-butanol production, and the other is a fermentation method for the production of Welan Gum. The Group now holds a total of 26 patents and intends to remain a leading developer of intellectual property in the bioenergy sector.

Outlook

The Board believes that market for our products and services will continue to grow. We remain committed to completing the transition of our business and our strategy remains to focus on the following:

1. Commercialising 2nd generation biofuel technology, and building commercial scale 2nd Generation biorefineries in China and other developed countries.
2. Maximising the potential for our 1st Generation technology, and building commercial scale 1st Generation biorefineries in SE Asia, Africa and Eastern Europe.
3. Acquiring and operating our own biorefinery, which we can use as a test-bed for our 2nd generation technology, as well as an additional revenue stream that will provide consistent annual revenues to the business.

In general, I am optimistic about the Group's prospects in 2014 and beyond. We continue to expect challenges due to the global economic climate, but the general outlook for our industry is very exciting as it transitions to second-generation technology. The Board and Management are feeling energized and committed to deliver growth this year, and build a strong foundation for sustainable growth in the future.

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

Yu Weijun
Chairman

CONSOLIDATED AND COMPANY STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 31 DECEMBER 2013

	Group		Company	
	As at 31 December		As at 31 December	
	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets				
Property, plant and equipment	11,747	11,245	-	-
Intangible assets	6,392	4,760	-	-
Trade receivables	3,523	3,523	-	-
Investment in subsidiary	-	-	89,922	89,922
Investment	150	30,950	-	-
	21,812	50,478	89,922	89,922
Current assets				
Inventories	15,698	12,286	-	-
Due from customers for construction contracts	48,516	86,832	-	-
Trade and other receivables	42,249	50,429	3,702	6,449
Notes receivable	1,000	7,600	-	-

Cash and cash equivalents	15,198	11,310	3,731	45
	<u>122,661</u>	<u>168,457</u>	<u>7,433</u>	<u>6,494</u>
Current liabilities				
Borrowings	6,600	-	-	-
Trade and other payables	88,702	95,901	13,153	19,460
Due to customers for construction contracts	15,414	10,525	-	-
Notes payable	-	5,404	-	-
Income tax payable	8,767	9,020	18	18
Convertible bonds	-	25,081	-	25,081
	<u>119,483</u>	<u>145,931</u>	<u>13,171</u>	<u>44,559</u>
Net current (liabilities)/assets	3,178	22,526	(5,738)	(38,065)
Non-current liabilities				
Deferred tax liabilities	815	859	-	-
	<u>815</u>	<u>859</u>	<u>-</u>	<u>-</u>
Net assets	24,175	72,145	84,184	51,857
Equity				
Share capital	1,214	1,134	1,214	1,134
Share premium	49,118	39,171	49,118	39,171
Combination reserve	(33,156)	(33,156)	-	-
Statutory reserve	12,328	12,328	-	-
Convertible bonds reserve	-	6,549	-	6,549
Warrant reserve	1,673	1,673	1,673	1,673
Own shares	(5,853)	(5,853)	-	-
Accumulated earnings/(losses)	(24,690)	27,954	8,638	(19,154)
Foreign currency translation reserve	23,541	22,345	23,541	22,484
	<u>24,175</u>	<u>72,145</u>	<u>84,184</u>	<u>51,857</u>

**CONSOLIDATED AND COMPANY STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013**

	Group		Company	
	Year ended 31 December		Year ended 31 December	
	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	43,817	146,154	-	-
Cost of sales	<u>46,155</u>	<u>(120,177)</u>	<u>-</u>	<u>-</u>
Gross (loss) / profit	(2,338)	25,977	-	-
Other operating income	1,147	5,330	-	244
Selling and distribution expenses	(3,626)	(3,394)	-	-
Administrative expenses	(11,987)	(16,172)	(2,968)	(960)
Other operating expenses	(1,695)	(1,490)	-	-
Interest expenses	(995)	(1,435)	(655)	(902)
Loss on disposal of investment	-	(924)	-	(924)
Bad debt (provision)/write back	(33,772)	19,105	-	-
Impairment loss on investment	(30,800)	(750)	-	-
Gain on redemption of Citadel bond	24,866	-	24,866	-
Profit before income tax	(59,200)	26,247	21,243	(2,542)
Income tax expense	<u>7</u>	<u>(4,495)</u>	<u>-</u>	<u>-</u>

Profit for the financial year attributable to owners of the company	(59,193)	21,752	21,243	(2,542)
Other comprehensive income:				
Exchange difference arising on translating foreign operations	1,196	(1,348)	1,196	(1,209)
Total comprehensive income for the financial year	(57,997)	20,404	22,439	(3,751)
Total comprehensive income attributable to owners of the company	(57,997)	20,404	22,439	(3,751)
Earnings per share (RMB)				
Basic	<u>RMB (0.185)</u>	<u>RMB 0.077</u>		
Diluted	<u>RMB (0.190)</u>	<u>RMB 0.075</u>		

**CONSOLIDATED AND COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013**

	Group		Company	
	As at 31 December		As at 31 December	
	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
<i>Operating activities</i>				
Profit/ before income tax	(59,200)	26,247	21,243	(2,542)
Adjustments for:				
Depreciation and amortisation	2,219	2,104	-	-
Administrative expenses-issue of shares to employees	-	2,207	-	-
Bad debt (provision)/written back	33,772	(19,105)	-	-
Loss/(gain) on disposal of property, plant and equipment	(223)	70	-	-
Loss/(gain) on disposal of financial assets	-	924	-	924
Redemption of Citadel bond	(24,866)	-	(24,866)	-
Interest income	(153)	(394)	-	-
Interest expenses	995	1,435	655	902
Impairment of investment	30,800	750	-	-
<i>Operating cash flows before movements in working capital</i>	(16,656)	14,238	(2,968)	(716)
Inventories	(3,412)	11,068	-	-
Construction work-in-progress	29,108	6,880	-	-
Trade and other receivables	(11,495)	(6,549)	113	1,620
Notes receivables	6,600	(4,450)	-	-
Trade and other payables	(1,117)	(4,900)	(1,629)	426
Notes payables	(5,404)	679	-	-
Cash generated from/(used in) operations	(2,376)	16,966	(4,484)	1,330
Income taxes paid	(246)	(182)	-	-
<i>Net cash from/(used in) operating activities</i>	(2,622)	16,784	(4,484)	1,330

Investing activities

Proceeds from disposal of property, plant and equipment	-	-	-	-
Proceeds from disposal of financial assets	-	6,257	-	6,257
Acquisition of property, plant and equipment	(2,956)	(3,375)	-	-
Acquisition of intangible assets	(1,831)	(739)	-	-
Net cash outflow from acquisition of subsidiary	-	-	-	-
Payment for associated company in the course of acquisition	-	-	-	-
Net cash from/(used in) investing activities	(4,787)	2,143	-	6,257

CONSOLIDATED AND COMPANY STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2013

	Group		Company	
	As at 31 December		As at 31 December	
	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Financing activities				
Short-term borrowing	6,600	(6,500)	-	-
Proceeds from issuance of shares	10,027	586	10,027	586
Proceeds from issuance/ (redemption) of convertible bonds	(4,488)	(8,171)	(4,488)	(8,171)
Dividend received	-	-	2,634	-
Interest received	153	394	-	-
Interest paid	(995)	(613)	(3)	(80)
Net cash from/(used in) financing activities	11,297	(14,304)	8,170	(7,665)
Net increase/(decrease) in cash and cash equivalents	3,888	4,623	3,686	(78)
Cash and bank balances at beginning of year	11,310	6,682	45	118
Effect of foreign exchange rate changes in cash and bank balances	-*	5	-*	5
Cash and cash equivalents at end of year	15,198	11,310	3,731	45

*amount less RMB 1,000

Notes to the financial statements

1. General

The Company ("CNE") (Registration Number 93306) was incorporated in Jersey on 2 May 2006 as an investment holding Company with its registered office at Ordnance House, 31 Pier Road, St Helier, Jersey JE4 8PW.

The principal activities of the main subsidiary, Guangdong Zhongke Tianyuan New Energy Science and Technology Co Ltd., ("ZKTY") are engaged in turnkey technology solutions to manufacturers of ethanol, edible alcohol and acetic acid from a range of bio-resources including corn, sugarcane, cassava and other bio-resources. On 28 September 2010, the Group acquired Guangdong Boluo Jiumeng High Technology Engineering Co. Ltd, ("Boluo"), a company engaged in the fabrication and manufacture of equipment.

The principal place of business is located at Wushan, Tianhe District, Guangzhou, People's Republic of

China (“PRC”).

2. Basis of preparation

The consolidated financial information have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (“IFRS”) issued by the International Accounting Standards Board (“IASB”), including related Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

The individual financial information of each group entity are measured and presented in the currency of the primary economic environment in which the entity operates (its functional currency). The consolidated financial information of the CNE Group are presented in Chinese Renminbi (“RMB”), which is the presentation currency for the consolidated and Company financial statements. The functional currency of the Company is British pound sterling (“GBP”). As the CNE Group mainly operates in the PRC, RMB is used as the presentation currency of the CNE Group. All financial information presented in RMB has been recorded to the nearest thousand.

The consolidated financial information incorporates the financial information of the Company and its subsidiaries. The Subsidiaries are entities (including special purposes entities) over which the Company has the power to govern the financial operating policies, generally accompanied by a shareholding giving rise to the majority of the voting rights, as to obtain benefits from their activities.

New IFRS standards and interpretations newly adopted

China New Energy prepares its financial statements in accordance with applicable International Financial Reporting Standards (IFRS) and interpretations issued by the International Accounting Standards Board as adopted by the European Union.

The Group has adopted the following new and amended IFRS standards and IFRIC interpretations:

- Amendments to IAS 12 “Deferred tax: Recovery of Underlying Assets”; and
- Amendments to IAS 1 “Presentation of items of Other Comprehensive Income”

The adoption of these revised standards has not had a material impact for the Group’s result for the year and equity.

3. Earnings per share

The calculation for earnings per share (basic and diluted) for the relevant period is based on the profit after income tax attributable to equity holder for the years ended 31 December 2012 and 2013 are as follows:

	Earnings RMB’000	Weighted average number of shares ’000	Earnings per share RMB
2013			
Basic	(59,194)	320,314	(0.185)
Diluted	(59,194)	312,234	(0.190)
2012			
Basic	21,752	312,211	0.070
Diluted	21,752	320,291	0.068

The weighted average of ordinary shares for diluted earnings per share reconciles to the weighted

average number of ordinary shares for basic earnings per share as follows:

	2013 '000	2012 '000
Weighted average number of ordinary shares used in the calculation of basic earnings per share	320,314	312,211
Dilutive effect of EBT	8,080	8,080
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	328,394	320,291

In order to show results from operating activities on a comparable basis, an adjusted profit after tax per share has been calculated which excludes the EBT charge where the relevant shares are satisfied by issues of new shares:

	2013 RMB'000	2012 RMB'000
(Loss)/ profit for the year	(59,194)	21,752
Add back: EBT charge	-	2,207
	(59,194)	23,959

	Adjusted Earnings RMB'000	Weighted average number of shares '000	Earnings per share
2013			
Basic adjusted	(59,194)	320,314	(0.185)
Diluted adjusted	(59,194)	328,393	(0.180)
2012			
Basic adjusted	23,959	312,211	0.077
Diluted adjusted	23,959	320,291	0.075

At 31 December 2013, 2.96million warrants (2012: 2.96million) were excluded from the diluted weighted average number of ordinary shares calculation as their effect would have been anti-dilutive.

The average market value of the Company's shares for purposes of calculating the dilutive effect of the warrants was based on quoted market prices for the period during which the warrants were outstanding.

4. Emphasis of Matter

Included in the independent auditor's report to shareholders in the financial statements for the year ended 31 December 2013, which should be read in full for the context and references, is the following emphasis of matter:

"In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in note 3.2 to the financial statements concerning two key sources of estimation uncertainty: the allowance made for "trade and other receivables" and "construction contracts". For these items, the company has made allowance for impairments of RMB 63.1 million and RMB 19.8 million, respectively. The amounts of these impairment charges, taken together with current

market conditions, are indicative of the high degree of uncertainty, which attaches to these estimates. Although we consider that reasonable estimates have been made, the actual amount that will ultimately be recovered from trade and other receivables and from construction contracts cannot presently be determined.”

5. Notice of AGM and Posting of Accounts

The annual general meeting will be held at 8th Floor, Technology Integration Building of GIEC, No. 4 Nengyuan Road, Wushan, Tianhe District, Guangzhou, China, on 27 June 2014 at 4.00pm Beijing time (9.00am London time).

The Company will send notification to all shareholders on or before the 6th of June of the Notice of AGM together with a copy of the Company's annual report for the year ended 31 December 2013. The documents will also be available on the Company's website: www.chinanewenergy.co.uk