

28 September 2012

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

Half-yearly report for the six months to 30 June 2012 and directorate change

China New Energy Limited (AIM: CNE), the engineering and technology solutions provider to the bioenergy sector, announces its unaudited half-yearly results for the six months ended 30 June 2012.

Financial Highlights

- Revenue of RMB 48.7m (H1 2011: RMB 49.2m)
- Gross profit of RMB 6.30m (H1 2011: RMB 6.97m)
- Cost of finance down to RMB 0.85m due to partial repayment of bond
- One-off exceptional costs amounting to RMB 3.6m incurred during first half
- Net loss of RMB 6.04m (H1 2011: RMB 0.8m profit, including RMB 4.13m from other income)
- Loss per share of RMB 0.019 (H1 2011: EPS of RMB 0.003)

Operational Highlights

- RMB 65m of new contracts secured in H1 2012 (H1 2011: RMB 154m)
- Major contracts executed in Thailand and North China
- Significant progress in cooperation with JEIC

Directorate Change

China New Energy Limited further announces that Shiang Peow Foo, who has been a Non-executive Director of the Company since its admission to AIM in May 2011, has resigned with effect from the end of the September 2012 due to other work commitments and responsibilities.

Yu Weijun, Chairman, commented:

“Despite the difficult trading conditions globally, particularly in the larger EPC contract environment, our core business continues to show resilience with our revenues remaining broadly consistent with the same period last year. Historically, we complete more projects and book more revenue in the second half of the financial year. By the end of July 2012, the Company had secured new contracts worth RMB 128m and we expect to complete these projects substantially by end of the year.”

“Looking ahead, we remain confident that biofuel will be the clear alternative to fossil oil as it is greener and readily available. We look to the long term with confidence.”

The board is sorry that Mr Foo has resigned as he has been a key member of the team for these last two years. He played a significant role in enabling the company to reach its milestone of being admitted to AIM and we appreciate his commitment to the Company during his tenure. We wish him every success in the future.”

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Chairman's Statement

On behalf of the Board, I am very pleased to present the unaudited half-yearly results for the six months period ended 30 June 2012.

Financial Review

In the first half of the year, our revenue held up well despite the weak market in the biofuel sector as a result of wider global macro-economic conditions. Given that background I believe a revenue decline of only 1% against the comparable period reflects the underlying strength of our business. Moreover, we believe a return to growth in the renewable energy, beverage and chemicals industries is not too far away and, once that recovery gets under way, we could experience a rapid improvement in our own performance.

Revenue for the six months under review was RMB 48.7m compared to RMB 49.2m in the same period last year. The Group's gross profit was RMB 6.3m (H1 2011:RMB 6.97m).

Selling and distribution expenses rose by 5.2% to RMB 1.54m from RMB 1.46 million while administrative expenses increased by 37.3% from RMB 5.9m to RMB 8.3m due to a RMB 2.21m exceptional charge relating to incentives granted to employees in 2011 through the Company's Employee Benefit Trust.

The Group's other operating expenses were down to RMB 0.6m from RMB 1.25m in 1H 2011. An investment loss of RMB 1.4m relates to the disposal of the stock of Bio-Dynamic Group Limited, which had previously issued 11,326,134 shares to the Group, in lieu of RMB6.65m of outstanding invoices to the Company in 2011.

The Company incurred two exceptional items in the period which amounted to RMB 3.6m in total, being RMB 2.2m in respect of employee incentives and RMB 1.4m in respect of a loss on investment noted above, which greatly affected the overall half year performance of the Group with a loss of RMB 6.04m (H1 2011: RMB 0.38m profit which includes a RMB 4.1m bad debt recovery).

To date, the company has repaid RMB 7.5m of Citadel's bond from a total of RMB 37.7m. During the half year, operating activities absorbed RMB 2.3m of cash which has restrained the Company's plans for expansion. The Directors are taking prudent actions to ensure that sufficient operating cash flow is maintained and working capital is being carefully managed. Further fundraising may be required in the near future.

Operational Review

In H1 2012, the Group secured additional significant contracts for its products and services in Thailand and North China, relating to Ubon Bio-ethanol Company Limited ("Ubon") in Thailand, for a cassava-based ethanol project intended to produce up to 400,000 litres per day of edible ethanol or fuel ethanol. The contracts were worth RMB 19.2m to the Company's wholly owned subsidiary, Guangdong Zhongke Tianyuan New Energy Science and Technology Co. Ltd ("ZKTY") and follows on from last year's RMB 74m contact with Ubon. 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 these contracts is a testament to the Group's ability to design and construct high quality cassava or molasses based ethanol production facilities. The Board believes that the Company's customers consider the Company to be a reliable and suitable development partner. We believe our success in this project will strongly position the Group to capture market share in South East Asia where there is abundance of inexpensive cassava feedstock.

From 2011, ZKTY has been developing a strategic cooperation with Jilin Ethanol Industrial Company Limited ("JEIC"), to exploit and commercialise bio-ethanol production technology and engineering solutions. JEIC was formed in 2011 to amalgamate a number of inefficient state-owned ethanol producers in Jilin Province. JEIC currently has an annual corn processing capacity of 2,000,000 tons, annual ethanol production capacity of 600,000 tons and a 25% shareholding over a further 500,000 tons of annual biofuel grade ethanol capacity. JEIC is targeting to increase its own annual production of ethanol to 1,000,000 tons by 2013, thereby becoming the largest ethanol producer in Asia.

As announced on 18 July 2012, ZKTY has been awarded a £7.4m (RMB 74m,including VAT) contract by JEIC to improve the production efficiency and capacity of its plants. ZKTY expects to have the bulk of the work completed by the end of this year. With the inclusion of JEIC, the total value (net of VAT) of new contracts secured in the year to July is approximately RMB128 million compared to RMB154 million for the same period last year.

Outlook

After the recent volatility in the global financial markets and the bio ethanol market downturn, there is a risk that the Group may face harder trading conditions and as a result the Board maintains it cautious business approach. Nevertheless, the Board remains positive about the Company's prospects and outlook in the biofuel industry.

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 for the bioenergy and biochemical sectors, enabling producers in these sectors to achieve environmentally friendlier products with improving operating margins.

The globally recession, especially in the U.S. and Europe, may further impede the available resources for research and development activities in our industry. The Group, however, intends to continue to channel its own resources into biofuel production research and development 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 long term 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 growth. To strengthen our market position and to add value to our existing business, the Group is also actively exploring opportunities to expand into complementary businesses or operations through acquisitions, joint ventures or strategic alliances.

While the Board maintains its cautious approach in view of the current global macro-economic conditions and a slowdown in demand for ethanol, the Group also continues to explore opportunities and negotiate new projects in the PRC and overseas with prospective customers.

Yu Weijun
Chairman

20 September 2012

Consolidated Statement of Financial Position

		Unaudited Six months to 30 June 2012	Unaudited Six months to 30 June 2011	Audited Year to 31 December 2011
	Note	RMB'000	RMB'000	RMB'000
Non-current assets				
Property, plant and equipment		9,208	10,324	9,888
Intangible assets		4,649	3,322	4,177
Trade receivables		3,523	4,402	4,402
Investments in subsidiaries		1,700	-	1,700
		<u>19,080</u>	<u>18,048</u>	<u>20,167</u>
Current assets				
Inventories		27,118	28,476	23,354
Due from customers for construction contracts		74,598	69,193	93,241
Financial asset at fair value through profit and loss		160		7,181
Trade and other receivables		68,825	47,875	53,896
Notes receivables		-	5,140	3,150
Cash and cash equivalents		3,592	13,175	6,682
		<u>174,293</u>	<u>163,859</u>	<u>187,504</u>
Current liabilities				
Trade and other payables		82,306	77,341	92,352
Due to customers for construction contracts		19,404	25,572	10,054
Notes payables		2,427	3,288	4,725
Income tax payable		4,460	1,494	4,640
Short-term borrowing		6,500	5,000	6,500
Interest payable		2325	973	1781
Convertible bonds		30,252	46,903	37,758
		<u>147,674</u>	<u>160,571</u>	<u>157,810</u>
Net current (liabilities)/assets		26,619	3,288	29,694
Non-current liabilities				
Deferred tax liabilities		909	930	913
		<u>909</u>	<u>930</u>	<u>913</u>
Net (liabilities)/assets		<u>44,790</u>	<u>20,406</u>	<u>48,948</u>
Equity and reserves				
Ordinary Share	2	1,118	1,104	1,118
Share premium		38,601	36,748	38,601
Combination reserve		(33,156)	(33,156)	(33,156)
Warrants reserve		1673	1,673	1673
Statutory reserve		9,856	7,247	9,856
Convertible bonds reserve		6,549	6,549	6,549
Own shares		(5,853)	(5,853)	(5,853)

Accumulated earnings/(losses)	2,636	(15,047)	6,467
Foreign currency translation reserve	23,366	21,141	23,693
	<u>44,790</u>	<u>20,406</u>	<u>48,948</u>

Consolidated Statement of Comprehensive Income

		Unaudited	Unaudited	Audited
		Six months to 30	Six months to 30	Year to 31
		June 2012	June 2011	December 2011
	Note	RMB'000	RMB'000	RMB'000
Revenue		48,693	49,206	178,998
Cost of sales		(42,390)	(42,239)	(138,125)
		<u> </u>	<u> </u>	<u> </u>
Gross profit		6,303	6,967	40,873
Other operating income		322	4,135	9,331
Investment Income		(1,427)		
Selling and distribution expenses		(1,535)	(1,459)	(3,430)
Administrative expenses		(8,261)	(5,998)	(15,811)
Other operating expenses		(609)	(1,250)	(2,341)
Finance expenses		(848)	(1,094)	(3,376)
Change in fair value of held for sale investments		13		531
		<u> </u>	<u> </u>	<u> </u>
Profit/(loss) before income tax		(6,043)	1,301	25,777
Income tax expense		4	(523)	(3,733)
		<u> </u>	<u> </u>	<u> </u>
Profit/(loss) for the financial period		<u>(6,038)</u>	<u>778</u>	<u>22,044</u>
Other comprehensive income:				
Exchange difference		<u>(327)</u>	<u>(394)</u>	<u>2,158</u>
Total comprehensive income for the financial year		<u>(6,365)</u>	<u>384</u>	<u>24,202</u>
Total comprehensive income attributable to equity holder		<u>(6,365)</u>	<u>384</u>	<u>24,202</u>
Earnings/(loss) per share (RMB):				
Basic	4	(0.019)	0.003	0.077
Diluted	4	<u>(0.019)</u>	<u>0.003</u>	<u>0.075</u>

Consolidated Statement of Cashflows

	Unaudited Six months to 30 June 2012 RMB'000	Unaudited Six months to 30 June 2011 RMB'000	Audited Year to 31 December 2011 RMB'000
<i>Operating activities</i>			
Profit/(loss) before income tax	(6,042)	1,301	25,777
Adjustments for:			
Depreciation and amortisation	986	1,059	2,060
Allowance for doubtful trade receivable		-	
Administrative expenses - issue of shares to employees	2,207	616	3,473
Loss/(gain) on disposal of property, plant and equipment		(190)	(419)
Fair value gain		-	(531)
Interest income	(269)	(282)	(357)
Finance cost	1,126	973	3376
	<hr/>	<hr/>	<hr/>
<i>Operating cash flows before movements in working capital</i>	(1,992)	3,477	33,379
Inventories	(3,763)	6,550	11,672
Construction work-in-progress	27,993	(5,611)	(45,177)
Trade and other receivables	(14,867)	-	(12,672)
Notes receivables	3,150	1,753	3,743
Trade and other payables	(10,382)	4,383	19,393
Notes payables	(2,298)	(4,878)	-3,441
Deferred tax			
	<hr/>	<hr/>	<hr/>
Cash generated from/(used in) operations	(2,159)	5,674	6,897
Income taxes paid	(169)	(236)	(314)
Dividend received			
<i>Net cash from/(used in) operating activities</i>	<hr/>	<hr/>	<hr/>
	(2,328)	5,445	6,583
<i>Investing activities</i>			
Proceeds from disposal of property, plant and equipment		608	917
Proceeds from trading financial assets	7,022		
Acquisition of property, plant and equipment	(278)	(635)	(1,233)
Acquisition of intangible assets			(902)
Payment for associated company in the course of acquisition			(1,700)

<i>Net cash from/(used in) investing activities</i>	6,744	(27)	(2,918)
	<hr/>	<hr/>	<hr/>
<i>Financing activities</i>			
Short-term borrowing	-	-	1,500
Proceeds from issuance of shares	-	132	2001
Redemption of convertible bonds	-	(3,288)	-
interest received	-	282	-
Proceeds from issuance/ (redemption) of convertible bonds	-	-	(9,845)
Redemption of bonds	(7,506)	-	-
Interest received	-	-	357
Interest paid	-	-	(1,595)
<i>Net cash from/(used in) financing activities</i>	<hr/>	<hr/>	<hr/>
	(7,506)	(2,874)	(7,582)
	<hr/>	<hr/>	<hr/>
<i>Net increase/(decrease) in cash and cash equivalents</i>	(3,090)	2,544	(3,917)
Cash and bank balances at beginning of period	6,682	10,631	10,631
Effect of foreign exchange rate changes in cash and bank balances	-	-	(32)
	<hr/>	<hr/>	<hr/>
<i>Cash and cash equivalents at end of period</i>	<u>3,592</u>	<u>13,175</u>	<u>6,682</u>

Consolidated Statement of Changes in Equity

	Share capital	Share premium	Combination	Statutory reserve	Convertible bonds reserve	Warrants reserve	Own shares	Accumulated earnings/(losses)	Foreign currency translation reserve	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000			RMB'000	RMB'000	RMB'000
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	-	-	-	-	-	-	-	22,044	-	22,044
Exchange difference arising on the translation	-	-	-	-	-	-	-	-	2,158	2158
Total comprehensive income for the period	1,013	29,354	(33,156)	7,247	9,722	-	-	5,602	23,693	43,475
Issue of warrants	-	-	-	-	-	-	-	-	-	-
Issue of shares, net of share issue costs	84	3,415	-	-	(3,173)	1,673	-	-	-	1,999
Shares granted to Employee Benefit Trust	21	5,832	-	-	-	-	(5,853)	3,474	-	3,474
Transfer to statutory reserve	-	-	-	2609	-	-	-	(2,609)	-	-
Balance at 31 December 2011	1,118	38,601	(33,156)	9,856	6,549	1,673	(5,853)	6,467	23,693	48,948
Profit for the period	-	-	-	-	-	-	-	(6,038)	-	-6,038
Exchange difference arising on the translation	-	-	-	-	-	-	-	-	(327)	-326.858
Total comprehensive income for the period	1,118	38,601	(33,156)	9,856	6,549	1,673	(5,853)	429	23,366	42,583
Shares granted to Employee Benefit Trust	-	-	-	-	-	-	-	2207	-	2,207
Balance at 30 June 2012	1,118	38,601	(33,156)	9,856	6,549	1,673	(5,853)	2,636	23,366	44,790

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 2012 and are unchanged from those disclosed in the group's Report and Financial Statements for the year ended 31 December 2011, 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 or audited by the Company's auditors. The comparatives for the period ended 31 December 2011 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 27 September 2012**.

2. Ordinary shares

	Number of Shares	Share Capital		Share premium	
		£ '000	RMB '000	£ '000	RMB '000
As at 31st December 2010	6,733,107	67	1,013	1,952	29,354
As at 21st 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	2.34	24.22	653	6,756
Share issued in settlement of fees to professional	9,920,295	2.48	25.66	692	7,160
Share issued to EES Trustees International Limited	8,079,728	2.02	20.90	564	5,832
Shares issued to Citadel pursuant to warrant agreement	7,932,412	1.98	20.52	305	3,152
As at 30th June 2011	304,616,862	76	1,104	4,165	52,255
Placing on 14 Dec 2011	6,000,000	1.50	15.43	258	2,650
As at 31 December 2011	310,616,862	77	1,120	4,423	54,905
As at 30 June 2012	310,616,862	77	1,120	4,423	54,905

The substantial shareholders have not changed from 31 December 2011. The Company has one class of ordinary shares which carry no right to fixed income.

3. 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	Unaudited	Audited
	Six months to 30 June 2012	Six months to 30 June 2011	Year to 31 December 2011
	RMB'000	RMB'000	RMB'000
Original scheme	2,207	617	3,474
	2,207	617	3,474

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).

4. Earnings per share

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

	Earnings	Weighted	Earning per shares	Earnings	Weighted	Earning per shares
		average number of shares			average number of shares	
	Six months to 30 June 2012	Six months to 30 June 2012	Six months to 30 June 2012	Six months to 30 June 2011	Six months to 30 June 2011	Six months to 30 June 2011
	Unaudited RMB'000	Unaudited RMB'000	Unaudited RMB'000	Unaudited RMB'000	Unaudited RMB'000	Unaudited RMB'000
Earnings/(loss)per share-basic	(6,038)	310,616,862	(0.019)	778	274,443	0.003
Potentially dilutive shares	-	-	-	-	2,192	-
Earnings/(loss)per share-diluted	(6,038)	310,616,862	(0.019)	778	276,635	0.003

5. Directors’ interests

The following Directors have held office during the period and their interests as at 30 June 2012, 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	29.27%

Tang Zhaoxing	48,000,000	15.45%
Chen Yong	-	-
Foo Shiang Peow	8,079,728	2.60%
Richard Bennett	-	-

6. 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.

Revenue	EPC	VAS	Total
	RMB'000	RMB'000	RMB'000
Unaudited six months to 30 Jun 2012	40,976	7,717	48,693
Unaudited six months to 30 Jun 2011	43,803	5,403	49,206
Year ended 31 Dec 2011	143,306	35,692	178,998
Results			
Unaudited six months to 30 Jun 2012	6,219	84	6,303
Unaudited six months to 30 Jun 2011	5,835	903	6,738
Year ended 31 Dec 2011	32,882	7,846	40,728
	=====	=====	=====