



CHINA ENERGY LIMITED
(Company Registration No: 200510060K)

**FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT FOR THE THREE MONTHS
ENDED 30 JUNE 2014**

**PART I - INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1, Q2 & Q3),
HALF-YEAR AND FULL-YEAR RESULTS**

- 1(a) An income statement and statement of comprehensive income, or a statement of comprehensive income for the group, together with a comparative statement for the corresponding period of the immediately preceding financial year.**

CONSOLIDATED INCOME STATEMENT

	Note	Group			Group		
		For the 3 months ended			For the 6 months ended		
		30-Jun-14	30-Jun-13	Changes	30-Jun-14	30-Jun-13	Changes
		RMB'000	RMB'000	%	RMB'000	RMB'000	%
Sales		395,788	390,589	1.3	801,688	864,185	(7.2)
Cost of sales		(402,653)	(405,531)	(0.7)	(841,525)	(879,310)	(4.3)
Gross loss		(6,865)	(14,942)	(54.1)	(39,837)	(15,125)	163.4
Other income		2,083	4,366	(52.3)	6,485	6,536	(0.8)
Interest income		5,076	3,373	50.5	8,316	4,471	86.0
Expenses							
- Selling and distribution		(4,215)	(3,952)	6.7	(7,691)	(7,055)	9.0
- Administrative		(33,497)	(24,146)	38.7	(65,887)	(51,469)	28.0
- Interest		(32,755)	(29,075)	12.7	(68,034)	(60,390)	12.7
Loss before income tax	(a)	(70,173)	(64,376)	9.0	(166,648)	(123,032)	35.5
Income tax expense		-	-	N.M	-	-	N.M
Loss attributable to equity holders of the Company		(70,173)	(64,376)	9.0	(166,648)	(123,032)	35.5

These figures have not been audited.

N.M: Not meaningful

Statement of Comprehensive Income

	Group			
	For the 3 months ended		For the 6 months ended	
	30-Jun-14	30-Jun-13	30-Jun-14	30-Jun-13
	RMB'000	RMB'000	RMB'000	RMB'000
Loss for the financial period	(70,173)	(64,376)	(166,648)	(123,032)
Other comprehensive gain, after tax:				
Items that may be reclassified subsequently to profit or loss				
Exchange differences on consolidation	17	552	20	933
	17	552	20	933
Total comprehensive loss for the financial period and total comprehensive loss attributable to owners	(70,156)	(63,824)	(166,628)	(122,099)

Notes to Consolidated Income Statement

(a) Loss before income tax

Loss before income tax was arrived at after charging (crediting) the following items:

	Group			Group		
	For the 3 months ended			For the 6 months ended		
	30-Jun-14	30-Jun-13	Changes	30-Jun-14	30-Jun-13	Changes
	RMB'000	RMB'000	%	RMB'000	RMB'000	%
Depreciation of property, plant and equipment	19,050	18,865	1.0	38,108	38,067	0.1
Amortisation of land use rights	1,335	1,503	(11.2)	2,671	3,007	(11.2)
Amortisation of intangible assets	-	17	(100.0)	1	34	(97.1)
Loss on disposal of property, plant and equipment	397	90	341.1	1,117	129	765.9
Allowance for impairment of trade receivables - net	-	-	N.M	-	-	N.M
Allowance for impairment in inventories	186	1,161	(84.0)	2,664	1,335	99.6
Adjustment for (over)/under provision of tax in respect of prior years	-	-	N.M	-	-	N.M
Foreign exchange loss (gain) - net	716	(1,620)	N.M	1,080	(2,273)	N.M
The following items were written off against the respective allowances made						
Bad debts - net	-	-	N.M	-	-	N.M
Inventories	2,478	174	1,324.1	7,945	174	4,466.1

1(b)(i) A statement of financial position (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year.

	Group		Company	
	30-Jun-14	31-Dec-13	30-Jun-14	31-Dec-13
	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS				
Non-current assets				
Property, plant and equipment	1,596,491	1,526,012	-	-
Land use rights	212,349	215,020	-	-
Intangible assets	1	2	-	-
Investment in subsidiaries	-	-	51,641	266,324
	<u>1,808,841</u>	<u>1,741,034</u>	<u>51,641</u>	<u>266,324</u>
Current assets				
Inventories	140,556	151,280	-	-
Trade and other receivables	314,406	272,727	9,377	2,269
Income tax recoverable	14,005	14,005	-	-
Other current assets	118,416	118,854	134	53
Cash and bank balances	693,264	659,989	5,743	3,876
	<u>1,280,647</u>	<u>1,216,855</u>	<u>15,254</u>	<u>6,198</u>
Total assets	<u><u>3,089,488</u></u>	<u><u>2,957,889</u></u>	<u><u>66,895</u></u>	<u><u>272,522</u></u>
EQUITY AND LIABILITIES				
EQUITY				
Share capital and reserves				
Share capital	1,135,287	1,135,287	1,135,287	1,135,287
Reserves	(1,062,267)	(895,639)	(1,081,779)	(864,575)
Total equity	<u>73,020</u>	<u>239,648</u>	<u>53,508</u>	<u>270,712</u>
LIABILITIES				
Current liabilities				
Trade and other payables	2,233,122	1,888,965	13,387	1,810
Short-term bank loans	664,000	705,000	-	-
Deferred income	39,640	39,640	-	-
Provisions	79,706	84,636	-	-
	<u>3,016,468</u>	<u>2,718,241</u>	<u>13,387</u>	<u>1,810</u>
Total liabilities	<u>3,016,468</u>	<u>2,718,241</u>	<u>13,387</u>	<u>1,810</u>
Total equity and liabilities	<u><u>3,089,488</u></u>	<u><u>2,957,889</u></u>	<u><u>66,895</u></u>	<u><u>272,522</u></u>

1(b)(ii) Aggregate amount of group's borrowings and debt securities.

- Amount repayable in one year or less, or on demand
- Amount repayable after one year

	Group 30-Jun-14		Group 31-Dec-13	
	Secured RMB'000	Unsecured RMB'000	Secured RMB'000	Unsecured RMB'000
Bank loans	200,000	464,000	200,000	505,000
Of which:				
Amount due within 1 year	200,000	464,000	200,000	505,000
Amount due after 1 year	-	-	-	-
	200,000	464,000	200,000	505,000

The RMB 200.0 million loan ("Existing Loan") is jointly secured by (i) a corporate guarantee from Jiutai Energy Technology Co., Ltd., a wholly-owned subsidiary of the Company, (ii) a personal guarantee from Mr Cui Lianguo, the controlling shareholder, the Chairman and Chief Executive Officer ("CEO") of the Company; and (iii) land use rights and property, plant and equipment of Jiutai Energy (Guangzhou) Co., Ltd., ("Jiutai Guangzhou") a wholly-owned subsidiary of the Group ("Existing Securities").

Subsequent to 30 June 2014, Jiutai Guangzhou made scheduled repayments of the Existing Loans and obtained new credit facilities which amounted to RMB 300.0 million, of which RMB 200.0 million pertained to loan facilities and RMB 100.0 million pertained to trade financing facilities ("New Facilities"). The securities provided for the New Facilities is the same as the Existing Securities.

Under the New Facilities, Jiutai Guangzhou obtained RMB 200.0 million in new loans ("New Loans"). The New Loans had a tenure of two years, due in August 2016.

1(c) A statement of cash flow (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

CONSOLIDATED STATEMENT OF CASH FLOWS

	For the 3 months ended		For the 6 months ended	
	30 June 2014	30 June 2013	30 June 2014	30 June 2013
	Note	RMB'000	RMB'000	RMB'000
Cash flows from operating activities				
Loss before income tax		(70,173)	(64,376)	(166,648)
Adjustments for:				(123,032)
Interest expenses		32,755	29,075	60,390
Depreciation of property, plant and equipment		19,050	18,865	38,108
Net loss on disposal of property, plant and equipment		397	90	1,117
Amortisation of land use rights		1,335	1,503	2,671
Effects of foreign exchange on translation		16	552	21
Amortisation of intangible assets		-	17	1
Unrealised exchange loss on loan from related parties		30	159	30
Interest income		(5,076)	(3,373)	(8,316)
Operating cash flow before working capital changes		(21,666)	(17,488)	(64,982)
Change in operating assets and liabilities				(24,943)
Inventories		(44,583)	38,270	10,724
Trade and other receivables		(18,555)	(22,648)	(41,020)
Other current assets		(4,988)	3,398	2,839
Trade and other payables		(76,367)	(136,632)	(27,540)
Cash (used in) generated from operations		(166,159)	(135,100)	(119,979)
Interest income received		5,045	3,702	7,657
Net cash (used in) generated by operating activities		(161,114)	(131,398)	(112,322)
Cash flows from investing activities				
Purchase of property, plant and equipment		(36,469)	(62,084)	(122,766)
Proceeds from disposal of property, plant and equipment		430	168	896
Net cash used in investing activities		(36,039)	(61,916)	(121,870)
Cash flows from financing activities				
(Repayment of) Proceeds from bank loans - net		(66,000)	50,000	(41,000)
Advances (Repayment of advances) from related parties - net		286,660	(78,136)	379,064
Decrease (Increase) in restricted bank deposits		16,140	73,092	(54,411)
Interest expense paid		(34,897)	(25,818)	(70,597)
Net cash generated from financing activities		201,903	19,138	213,056
Net increase (decrease) in cash and cash equivalents		4,750	(174,176)	(21,136)
Cash and cash equivalents at beginning of the financial period		69,440	326,500	95,326
Cash and cash equivalents at end of the financial period	(i)	74,190	152,324	74,190
Note (i): Cash and cash equivalents at end of financial period consist of:				
Cash and bank balances		693,264	623,192	693,264
Less: Restricted bank deposits		(619,074)	(470,868)	(619,074)
Cash and cash equivalents at end of the financial period		74,190	152,324	74,190

1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

	Share capital	Statutory reserves#	Warrant reserve	Share option reserve	Revaluation reserve	Currency translation reserve	Accumulated losses	Total equity
<u>Group</u>	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance as at 1 January 2014	1,135,287	74,241	4,360	12,993	40,854	15,465	(1,043,552)	239,648
Total comprehensive loss for the first quarter ended 31 March 2014	-	-	-	-	-	3	(96,475)	(96,472)
Balance as at 31 March 2014	1,135,287	74,241	4,360	12,993	40,854	15,468	(1,140,027)	143,176
Total comprehensive loss for the second quarter ended 30 June 2014	-	-	-	-	-	17	(70,173)	(70,156)
Transfer of warrant reserve upon the expiry of warrants	-	-	(4,360)	-	-	-	4,360	-
Balance as at 30 June 2014	1,135,287	74,241	-	12,993	40,854	15,485	(1,205,840)	73,020
Balance as at 1 January 2013	1,135,287	73,475	4,360	12,993	40,854	14,555	(765,467)	516,057
Total comprehensive loss for the first quarter ended 31 March 2013	-	-	-	-	-	381	(58,656)	(58,275)
Balance as at 31 March 2013	1,135,287	73,475	4,360	12,993	40,854	14,936	(824,123)	457,782
Total comprehensive loss for the second quarter ended 30 June 2013	-	-	-	-	-	552	(64,376)	(63,824)
Balance as at 30 June 2013	1,135,287	73,475	4,360	12,993	40,854	15,488	(888,499)	393,958
Transfer to statutory reserve in accordance with statutory requirements	-	795	-	-	-	-	(795)	-
Total comprehensive loss for the third quarter ended 30 September 2013	-	-	-	-	-	21	(77,523)	(77,502)
Balance as at 30 September 2013	1,135,287	74,270	4,360	12,993	40,854	15,509	(966,817)	316,456
Total comprehensive loss for the fourth quarter ended 31 December 2013	-	-	-	-	-	(44)	(76,764)	(76,808)
Adjustment to statutory reserve in accordance with statutory requirements	-	(29)	-	-	-	-	29	-
Balance as at 31 December 2013	1,135,287	74,241	4,360	12,993	40,854	15,465	(1,043,552)	239,648

Company	Share capital	Statutory reserves#	Warrant reserve	Share option reserve	Revaluation reserve	Currency translation reserve	Accumulated losses	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance as at 1 January 2014	1,135,287	-	4,360	12,993	-	(18,252)	(863,676)	270,712
Total comprehensive income for the first quarter ended 31 March 2014	-	-	-	-	-	4,281	(823)	3,458
Balance as at 31 March 2014	1,135,287	-	4,360	12,993	-	(13,971)	(864,499)	274,170
Total comprehensive loss for the second quarter ended 30 June 2014 ##	-	-	-	-	-	1,626	(222,288)	(220,662)
Transfer of warrant reserve upon the expiry of warrants	-	-	(4,360)	-	-	-	4,360	-
Balance as at 30 June 2014	1,135,287	-	-	12,993	-	(12,345)	(1,082,427)	53,508
Balance as at 1 January 2013	1,135,287	-	4,360	12,993	-	10,932	(671,661)	491,911
Total comprehensive loss for the first quarter ended 31 March 2013	-	-	-	-	-	(8,948)	(820)	(9,768)
Balance as at 31 March 2013	1,135,287	-	4,360	12,993	-	1,984	(672,481)	482,143
Total comprehensive income for the second quarter ended 30 June 2013	-	-	-	-	-	(18,009)	29,105	11,096
Balance as at 30 June 2013	1,135,287	-	4,360	12,993	-	(16,025)	(643,376)	493,239
Total comprehensive loss for the third quarter ended 30 September 2013 ###	-	-	-	-	-	1,595	(206,567)	(204,972)
Balance as at 30 September 2013	1,135,287	-	4,360	12,993	-	(14,430)	(849,943)	288,267
Total comprehensive loss for the fourth quarter ended 31 December 2013 ####	-	-	-	-	-	(3,822)	(13,733)	(17,555)
Balance as at 31 December 2013	1,135,287	-	4,360	12,993	-	(18,252)	(863,676)	270,712

These items represent amounts set aside for the reserve fund and enterprise expansion fund, in compliance with local laws in the PRC, where subsidiaries of the Group operate. The reserve fund can only be used, upon approval by the relevant authority, to offset prior year's losses or to increase capital, while the enterprise expansion fund can only be used to increase capital, upon approval by the relevant authority.

The total comprehensive loss for 2QFY2014 included a RMB 220.5 million of impairment in the Company's investments in its subsidiaries. This impairment has no effect on the results of the Group.

###The total comprehensive loss for 3QFY2013 included a RMB 205.8 million of impairment in the Company's investments in its subsidiaries. This impairment has no effect on the results of the Group.

The total comprehensive loss for 4QFY2013 included a RMB 12.6 million of impairment in the Company's investments in its subsidiaries. This impairment has no effect on the results of the Group.

- 1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles as well as the number of shares held as treasury shares, if any, against the total number of issued shares excluding treasury shares of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.**

Share Capital

<u>Issued and fully paid</u>	<u>No. of Shares</u>	<u>RMB'000</u>
Balance as at 30 June 2014 and 31 March 2014	<u>1,252,885,000</u>	<u>1,135,287</u>

On 7 April 2009, the Company issued 10 million warrants, convertible into 10 million ordinary shares in the Company, in relation to services performed in connection with the restructuring of loans (see Announcement dated 8 April 2009). As at 30 June 2014, no warrants (30 June 2013: 10 million) were outstanding. The 10 million warrants had expired on 4 April 2014.

As at 30 June 2014, a total of 26 million (30 June 2013: 26 million) share options were granted under the China Energy Employee Share Option Scheme ("ESOS") to directors and employees of the Group. During the three-month financial period ended 30 June 2014, no shares (2QFY2013: Nil) were issued by virtue of the exercise of share options granted under the ESOS and no share options to take up unissued shares in the Company were cancelled under the ESOS.

Upon the exercise of the warrants and share options, the number of shares in issue would be 1,278,885,000 (30 June 2013: 1,288,885,000).

- 1(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year.**

As at 30 June 2014 and 31 December 2013, there were no treasury shares.

- 1(d)(iv) A statement showing all sales, transfers, disposal, cancellation and/or use of treasury shares as at the end of the current financial period reported on.**

Not applicable.

- 2. Whether the figures have been audited or reviewed and in accordance with which auditing standard or practice.**

The figures have not been reviewed or audited.

- 3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of a matter).**

Not applicable

4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.

In accordance with the requirements of the Singapore Financial Reporting Standards ("FRS"), with effect from 1 January 2014, the Group adopted the following revised FRSs, which are relevant to the Group and effective for the annual period beginning on 1 January 2014.

FRS 27 (Revised)	Separate Financial Statements
FRS 110	Consolidated Financial Statements
FRS 112	Disclosures of Interests in Other Entities
Amendments to FRS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to FRS 36	Recoverable Amount Disclosure for Non-Financial Assets

The adoption of the revised accounting standards did not have any significant effect on the results of the Group.

Other than that described above, the Group has applied the same accounting policies and methods of computation to the financial statements for the current financial period as those applied to the audited financial statements for the financial year ended 31 December 2013.

5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.

Not applicable.

6. Earnings per ordinary share of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends.

	Group			
	For the 3 months ended 30-Jun-14	30-Jun-13	For the 6 months ended 30-Jun-14	30-Jun-13
Net loss attributable to members of the Company (RMB'000)	<u>(70,173)</u>	(64,376)	<u>(166,648)</u>	(123,032)
Weighted average number of ordinary shares in issue for the computation of basic loss per share ('000)	<u>1,252,885</u>	1,252,885	<u>1,252,885</u>	1,252,885
Weighted average number of ordinary shares in issue for the computation of diluted loss per share ('000)	<u>1,252,885</u>	1,252,885	<u>1,252,885</u>	1,252,885
Basic loss per share (RMB cents)	<u>(5.6)</u>	(5.1)	<u>(13.3)</u>	(9.8)
Diluted loss per share (RMB cents)	<u>(5.6)</u>	(5.1)	<u>(13.3)</u>	(9.8)

On 7 April 2009, the Company issued 10 million warrants in connection with services performed for the restructuring of loans (see Announcement dated 8 April 2009). The 10 million warrants are convertible into 10 million ordinary shares of the Company upon payment of the exercise price. As at 30 June 2014, no (30 June 2013: 10 million) warrants were outstanding. The 10 million warrants had expired on 4 April 2014.

As at 30 June 2014, under the ESOS, the Company had 26 million (30 June 2013: 26 million) share options issued and outstanding. Each share option is convertible into one ordinary share of the Company upon payment of the exercise price.

Diluted loss per share were the same as basic loss per share because the warrants and the share options were anti-dilutive.

7. Net asset value (for the issuer and group) per ordinary share based on total number of issued shares excluding treasury shares of the issuer at the end of the:-

- (a) current financial period reported on; and
(b) immediately preceding financial year.

	30-Jun-14		31-Dec-13	
	Group	Company	Group	Company
Net assets (RMB'000)	73,020	53,508	239,648	270,712
Number of ordinary shares ('000)	1,252,885	1,252,885	1,252,885	1,252,885
Net Asset Value per share (RMB cents)	<u>5.8</u>	<u>4.3</u>	<u>19.1</u>	<u>21.6</u>

8. A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business, it must include a discussion of the following:-

- (a) any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and
(b) any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.

Consolidated Income Statement – second quarter ended 30 June 2014 (“2QFY2014”) performance

(a) Sales and gross profit margin

Sales increased by 1.3% or RMB 5.2 million from RMB 390.6 million in 2QFY2013 to RMB 395.8 million in 2QFY2014. In 2QFY2014, sales of dimethyl ether (“DME”) and methanol amounted to RMB 319.9 million (80.8%) and RMB 75.9 million (19.2%) respectively. In 2QFY2013, sales of DME and methanol amounted to RMB 378.0 million (96.8%) and RMB 12.6 million (3.2%) respectively.

	3 months ended		
	30-Jun-14	30-Jun-13	Change %
Volume of DME sold	88,580	108,320	(18.2)
Average price of DME sold (RMB/ton)	3,610	3,490	3.4

The RMB 5.2 million increase in sales was attributable largely to the RMB 63.3 million increase in sales of methanol, which was offset partly by a RMB 58.1 million decrease in sales of DME. The increase in sale of methanol was attributable to the increase in volume of methanol sold as more methanol were purchased from third parties and a related party, Jiutai Energy (Inner Mongolia) Co., Ltd. ("Jiutai Inner Mongolia"), for trading purposes.

The decrease in sales of DME was attributable largely to a 18.2% reduction in the volume of DME sold from approximately 108,320 tons in 2QFY2013 to approximately 88,580 tons in 2QFY2014. The 3.4% increase in the average selling price of DME from RMB 3,490/ton in 2QFY2013 to RMB 3,610/ton in 2QFY2014 was unable to offset the full impact of the reduction in the volume of DME sold.

The gross loss margin decreased from 3.8% in 2QFY2013 to 1.7% in 2QFY2014 due largely to the increase in the price spread between DME and methanol. In 2QFY2014, the increase in the average selling price of DME was more than the increase in the price of methanol (feedstock for DME).

(b) Other income

Other income decreased by RMB 2.3 million from RMB 4.4 million in 2QFY2013 to RMB 2.1 million in 2QFY2014. The decrease was attributable largely to a RMB 2.3 million reduction in foreign exchange gain.

(c) Interest income

Interest income increased by RMB 1.7 million from RMB 3.4 million in 2QFY2013 to RMB 5.1 million in 2QFY2014. The increase was attributable largely to an increase in the average balance of interest-bearing restricted deposits placed with the banks for the purpose of utilisation of trade financing facilities.

(d) Expenses

Expenses increased by RMB 13.3 million from RMB 57.2 million in 2QFY2013 to RMB 70.5 million in 2QFY2014. The increase was attributable largely to a RMB 9.4 million increase in administrative expenses and a RMB 3.7 million increase in interest expense.

The RMB 9.4 million increase in administrative expenses was attributable largely to a RMB 4.8 million increase in research and development expenses, a RMB 1.1 million increase in staff cost as a result of salary adjustments, a RMB 0.9 million increase in professional fees in relation to the Delisting Proposal (as defined in the Company's announcement dated 11 November 2013) and a RMB 0.7 million increase in contributions to defined contribution plan due to increase in the contribution rates.

The RMB 3.7 million increase in interest expense was due largely to an increase in the utilisation of trade financing facilities which resulted in a RMB 3.2 million increase in interest expense.

(e) Loss attributable to shareholders of the Company

The Group incurred a net loss attributable to shareholders of the Company and a total comprehensive loss of RMB 70.2 million in 2QFY2014.

The RMB 5.8 million increase in net loss attributable to shareholders of the Company was attributable to a RMB 13.3 million increase in expenses and a RMB 2.3 million decrease in other income which were offset partly by a RMB 1.7 million increase in interest income and a RMB 8.1 million reduction in gross loss.

Consolidated Income Statement – first half ended 30 June 2014 (“1HFY2014”) performance

(a) Sales and gross profit margin

Sales decreased by 7.2% or RMB 62.5 million from RMB 864.2 million in 1HFY2013 to RMB 801.7 million in 1HFY2014. In 1HFY2014, sales of DME and methanol amounted to RMB 634.0 million (79.1%) and RMB 167.7 million (20.9%) respectively. In 1HFY2013, sales of DME and methanol amounted to RMB 826.1 million (95.6%) and RMB 38.1 million (4.4%) respectively.

	6 months ended		
	30-Jun-14	30-Jun-13	Change %
Volume of DME sold	168,770	231,290	(27.0)
Average price of DME sold (RMB/ton)	3,760	3,570	5.3

The RMB 62.5 million decrease in sales was attributable largely to a RMB 192.1 million decrease in sales of DME, which was offset partly by a RMB 129.6 million increase in sales of methanol. The decrease in sales of DME was attributable largely to a 27.0% decrease in the volume of DME sold from approximately 231,290 tons in 1HFY2013 to approximately 168,770 tons in 1HFY2014. The 5.3% increase in the average selling price of DME from RMB 3,570/ton in 1HFY2013 to RMB 3,760/ton in 1HFY2014 was unable to offset the full impact of the reduction in the volume of DME sold.

The increase in sale of methanol was attributable to the increase in volume of methanol sold as more methanol were purchased from third parties and a related party, Jiutai Inner Mongolia, for trading purposes.

The gross loss margin increased from 1.8% in 1HFY2013 to 5.0% in 1HFY2014 due largely to the decrease in the price spread between DME and methanol. In 1HFY2014, the increase in the average selling price of DME was less than the increase in the price of methanol (feedstock for DME).

(b) Interest income

Interest income increased by RMB 3.8 million from RMB 4.5 million in 1HFY2013 to RMB 8.3 million in 1HFY2014. The increase was attributable largely to an increase in the average balance of interest-bearing restricted deposits placed with the banks for the purpose of utilisation of trade financing facilities.

(c) Expenses

Expenses increased by RMB 22.7 million from RMB 118.9 million in 1HFY2013 to RMB 141.6 million in 1HFY2014. The increase was attributable largely to a RMB 14.4 million increase in administrative expenses and a RMB 7.6 million increase in interest expense.

The RMB 14.4 million increase in administrative expenses was attributable largely to a RMB 7.4 million increase in research and development expenses, a RMB 2.4 million increase in staff cost as a result of salary adjustments, a RMB 1.4 million increase in contributions to defined contribution plan due to increase in the contribution rates and a RMB 1.1 million increase in professional fees in relation to the Delisting Proposal (as defined in the Company's announcement dated 11 November 2013).

The RMB 7.6 million increase in interest expense was due largely to an increase in the utilisation of trade financing facilities which resulted in a RMB 7.9 million increase in interest expense.

(d) Loss attributable to shareholders of the Company

The Group incurred a net loss attributable to shareholders of the Company and a total comprehensive loss of RMB 166.6 million 1HFY2014.

The RMB 43.6 million increase in net loss attributable to shareholders of the Company was attributable largely to a RMB 22.7 million increase in expenses, a RMB 24.7 million increase in gross loss, which were offset partly by a RMB 3.8 million increase in interest income.

Consolidated Statement of Financial Position as at 30 June 2014

Other current assets of RMB 118.4 million pertained largely to prepayments for land use rights, raw materials and prepaid interest (for trade financing facilities), which amounted to RMB 46.1 million, RMB 46.5 million and RMB 22.9 million respectively.

Trade and other payables of RMB 2.233 billion pertained largely to RMB 645.3 million in interest-free advances from related parties, Jiutai Inner Mongolia and New Energy Ltd., RMB 1.385 billion in trade financing facilities payables, RMB 144.5 million in trade payables and advance payments from customers and RMB 34.5 million in payables to construction contractors.

As at 30 June 2014, the Group's net current liabilities amounted to RMB 1.736 billion (31 December 2013: RMB 1.501 billion). Subject to continuing support from the banks and related parties, the Directors are of the view that the Company and the Group will be able to meet their debts as and when they fall due. The ability of the Group to continue as a going concern is dependent on its ability to meet its day-to-day working cash flow requirements from a combination of the working capital generated from operations and financing from banks and related parties. In the assessment of the going concern assumption, management prepared a cash flow projection and the Directors of the Company are of the opinion that the Group has adequate resources to continue as a going concern for the foreseeable future.

The Directors are of the opinion that the Group has continuing support from the banks and related parties, as shown by the following:-

- (a) During 1HFY2014, the Group obtained new loans amounting to RMB 259.0 million and made scheduled repayments amounting to RMB 300.0 million. The banks that provided the new loans to the Group are banks that have existing banking relationships with the Group;
- (b) During 1HFY2014, Shandong Jiutai Chemical Technology Co., Ltd. ("Jiutai Chemical"), New Energy Ltd. and Jiutai Inner Mongolia, related parties of the Company, continued to grant interest-free advances to the Group. As at 30 June 2014, RMB 645.3 million of interest-free advances from Jiutai Inner Mongolia and New Energy Ltd. remained outstanding;
- (c) In the course of management's dealing with its bankers, no matters have been drawn to its attention to indicate that the bankers intend to terminate their existing banking relationships with the Group; and
- (d) Lianguo Holdings Limited, a related party, had provided a letter of financial support to the Company stating that financial support from related parties, for a period of not less than one year from 11 April 2014, will be available to the Group so long as Mr Cui Lianguo remains as the controlling shareholder (having an interest in at least 15% of the Company's issued capital) or the largest shareholder of the Company.

There was no material variance in the Group's statement of financial position items between 30 June 2014 and 31 December 2013 except for the following:

- (a) Property, plant and equipment increased by RMB 70.5 million. This increase was attributable to net additions of RMB 108.6 million which was offset partly by depreciation of RMB 38.1 million.
- (b) Inventories decreased by RMB 10.7 million. This decrease was due largely to a RMB 23.3 million decrease in the stock of DME which was offset partly by a RMB 11.7 million increase in the stock of methanol held as at 30 June 2014.
- (c) Trade and other receivables increased by RMB 41.7 million. This increase was attributable largely to a RMB 34.5 million increase in value-added tax recoverable.
- (d) Cash and bank balances increased by RMB 33.3 million. This increase was attributable largely to a RMB 54.4 million increase in restricted deposits placed with the banks for the utilisation of trade financing facilities which was offset partly by a RMB 21.1 million decrease in cash and cash equivalents.
- (e) Trade and other payables increased by RMB 344.2 million. This increase was attributable largely to a RMB 379.1 million net increase in interest-free advances from related parties (Jiutai Chemical, New Energy Ltd. and Jiutai Inner Mongolia), a RMB 44.6 million increase in trade payables and advance payments by customers which were offset partly by a RMB 73.2 million decrease in trade financing facilities payables.
- (f) As at 30 June 2014, the Group's short-term bank loans amounted to RMB 664.0 million. Bank loans decreased by RMB 41.0 million. In 1HFY2014, the Group obtained new loans amounting to RMB 259.0 million and made scheduled repayments amounting to RMB 300.0 million.

- (g) Provisions decreased by RMB 4.9 million. The provisions were made in relation to unbilled amounts for contracts signed and/or work done to date in relation to Methanol Phase III, which the Group intended to terminate. During 1HFY2014, payments amounting to RMB 4.9 million were made.
- 9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.**
- Not applicable.
- 10. A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.**
- The PRC government has been searching for alternative sources of energy to reduce air pollution and decrease the country's reliance on imported oil. Currently, about 50% of the country's oil requirement is imported. From a national security perspective, being able to ensure the security of its energy supply is a matter of vital concern to the PRC government. As the PRC has the third-largest coal reserves in the world, the country's long-term objective is to transform these reserves into a clean and efficient form of energy for the household market (as a replacement for LPG and natural gas) as well as for the transportation industry (as a replacement for diesel).
- As an alternative fuel, DME is an appropriate solution in the PRC government's search for clean fuel.
- Currently, our annual production capacities for DME and methanol are 750,000 tons and 80,000 tons respectively.
- The utilisation rate of our in-house methanol plant will be determined largely by the price spread between methanol and anthracite coal (feedstock for methanol). The methanol plant's output will be utilised largely by our DME plant in Linyi, Shandong Province.
- The price spread between DME and methanol (feedstock for DME) and the sales volume of DME will determine the results of our DME operations.
- 11. If a decision regarding dividend has been made:**
- (a) **Whether an interim (final) ordinary dividend has been declared (recommended); and**
- None.
- (b) **(i) Amount per share**
- Not applicable.
- (ii) Previous corresponding period**
- Not applicable.

- (c) Whether the dividend is before tax, net of tax or tax exempt. If before tax or net of tax, state the tax rate and the country where the dividend is derived. (If the dividend is not taxable in the hands of shareholders, this must be stated).

Not applicable.

- (d) The date the dividend is payable.

Not applicable.

- (e) The date on which Registrable Transfers received by the company (up to 5.00pm) will be registered before entitlements to the dividend are determined.

Not applicable.

12. If no dividend has been declared (recommended), a statement to that effect

No dividend has been declared or recommended for the financial period ended 30 June 2014.

13. If the Group has obtained a general mandate from shareholders for IPTs, the aggregate value of such transactions as required under Rule 920(1)(a)(ii). If no IPT mandate has been obtained, a statement to that effect.

Name of interested person	Aggregate value of all interested person transactions during the financial period under review (excluding transactions less than S\$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)		Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than S\$100,000)	
	Six Months ended		Six Months ended	
	30-Jun-14 RMB'000	30-Jun-13 RMB'000	30-Jun-14 RMB'000	30-Jun-13 RMB'000
Shandong Jiutai Chemical Technology Co., Ltd.				
Rental paid/payable	1,200	1,200	-	-
Jiutai Energy Inner Mongolia Co., Ltd.				
Purchase of methanol	-	-	32,600	-
Sale of property, plant and equipment	256	-	-	-
Sale of materials	219	-	-	-
Compensation income	-	-	5,079	2,241
Shandong Jiutai Industrial Gas Co., Ltd				
Rental income	204	-	-	-
Sale of electricity	368	-	-	-
Sale of materials	1	-	-	-

Compensation income was accrued in accordance with the DME agreement dated 8 January 2010.

14. Negative assurance

We, Cui Lianguo and Wong William, being two directors of China Energy Limited (“Company”), do hereby confirm on behalf of the Board of Directors of the Company that, to the best of our knowledge, nothing has come to the attention of the board of directors of the Company which may render the financial results for the second quarter ended 30 June 2014 to be false or misleading in any material aspects.

On behalf of the Board of Directors

Cui Lianguo
Executive Chairman and CEO

Wong William
Executive Director

BY ORDER OF THE BOARD

Cui Lianguo
14 August 2014