



## China Clean Energy Inc.

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### **FOR IMMEDIATE RELEASE**

## **China Clean Energy Announces Second Quarter 2008 Results**

- Revenue up 22.5% from first quarter 2008
- Net Income up 240.5% from first quarter 2008

Fuqing City, China – August 14, 2008 -- China Clean Energy Inc. (OTC Bulletin Board: CCGY.OB) (“China Clean Energy”, the “Company”), a leading producer of environmentally friendly specialty chemical products made from renewable resources in The People’s Republic of China (“PRC”), today reported financial results for the second quarter ended on June 30, 2008.

### **Second Quarter 2008 Highlights**

- Revenue was \$ 5.48 million, up 22.3% sequentially, and 4.3% from the second quarter of 2007
- Gross profits was \$ 1.36 million, up 30.2% sequentially, and down 5.0% from the second quarter of 2007
- Operating income totaled \$744,802, up 139.0% sequentially, and down 9.0% from the second quarter of 2007
- Net income was \$557,690 up 240.5% sequentially, and down 29.7% from the second quarter of 2007
- Earnings per share was \$0.02 in the second quarter 2008, down from \$0.04 in the second quarter of 2007

“We are very pleased with our results this quarter as we shifted our focus to our specialty chemicals business segment, increased revenue and improved our profitability significantly on a sequential basis to mitigate the loss of our biodiesel revenue following our decision to temporarily halt our biodiesel production in the first quarter of 2008,” said Mr. Tai-ming Ou, Chairman and CEO of China Clean Energy. “We are also very excited with the recent expansion of our high-purity dimer-acid capacity which we believe will allow us to produce higher value added high-performance hot-melt adhesive positioning us well to continue to grow our revenue and expand our margins as we enter the second half of 2008.”

## Second Quarter 2008 Results

Revenue for the second quarter was \$5.48 million, an increase of 22.3% from the first quarter of 2008 and 4.3% compared to the same period of last year. Revenue from the specialty chemicals segment represented 100% of total revenue, up from 88% in the first quarter of 2008 and from approximately 76% in the second quarter of 2007. The Company shipped 3,000 tons of specialty chemicals (including dimer acid, printing inks, polyamide resins, hot melt adhesives, plant asphalt). Exports accounted for 20.8% of the Company's specialty chemical shipments and 26% revenues.

Gross profit for the second quarter 2008 was \$1.36 million, up 30.2% from the first quarter of 2008 and down 5% from \$1.43 million recorded in the second quarter of 2007. Gross margin for the second quarter of 2008 was 24.8%, up from 23.3% in the first quarter of 2008 and down from 27.2% in the second quarter of 2007. The decrease in gross profit and gross margin from the comparable last year was mainly due to the increase in cost of raw materials, and the sequential improvement resulted from the Company's shift in focus to higher value unregulated specialty chemical products.

Operating expenses came in at \$613,651 for the second quarter of 2008, a 0.3% increase from \$611,802 recorded in the second quarter of 2007. The Company's operating income was \$744,802 with operating margin coming in at 13.6% for the second quarter of 2008 compared with approximately \$311,686 and 7.0% in the first quarter of 2008 and \$818,516 and 15.6% in second quarter of 2007, respectively.

Net income for the second quarter ended 2008 was \$557,690 or \$0.02 per basic and diluted earnings per share, versus net income of \$163,783, or \$0.01 per basic and diluted earnings per share in the first quarter of 2008 and \$793,110, or \$0.04 per share on both basic and diluted basis for the second quarter of 2007.

## Six Months 2008 Results

For the six months ended June 30, 2008, net revenue was \$9.95 million, up 5.9% from \$9.4 million in the comparable period of 2007. Gross profit for the six months ended June 30, 2008 was \$2.4 million, a decrease of 7.5% from \$2.6 million in the comparable period of 2007. The decrease was attributed to a significant increase in feedstock prices and a decrease in Chinese government export tax rebates from 13% to 5% effective on July 1, 2007. Gross margin decreased to 24.1% in the six months ended June 30, 2008 from 27.5% in the six months ended June 30, 2007. Operating income for the six months ended June 30, 2008 was \$1.1 million, down 15.0% from \$1.2 million in the comparable period in 2007. Operating margin was 10.6% for the six months ended June 30, 2008 compared to 13.2% in the comparable period in 2007. Net Income for the six months ended June 30, 2008 was \$749,227, a decrease of 37.2% from \$1.2 million in the comparable period in 2007. Basic and diluted earnings per share were \$0.03 for the six months ended in June 30, 2008 compared to \$0.06 for six months ended in June 30, 2007.

## Financial Condition

At June 30, 2008, China Clean Energy had \$7.4 million in total cash and approximately \$12.7 million in working capital, and \$0.14 million in debt. Cash flow from operations for the six months ended June 30, 2008 totaled \$165,964, down from \$0.5 million in the comparable period in

2007. Capital expenditures totaled \$6.8 million in the six months ended June 30, 2008. Shareholders' equity was \$31.5 million, compared to \$14.8 million at the end of 2007.

## **Business Outlook**

The Company continues to evaluate the biodiesel market opportunity and hopes in the future to be able to re-start its biodiesel production. At this time, waste vegetable oil feedstock prices remain high at RMB 5,000 while diesel prices which are set by the Chinese government remain at RMB 7,300 making biodiesel production unattractive. In the near term however, the Company believes the recent expansion of its high-purity dimer-acid capacity to 3,000 tons per year will allow it to expand its sales of high-performance hot-melt adhesives. The company expects to reach 100% capacity in its high-purity dimer-acid facility by first half of 2009, allowing it to increase shipments of high-performance hot-melt adhesives significantly from current levels. The Company estimates that the high performance hot melt adhesives market opportunity in China is in excess of 30,000 tons per year, with most of it currently source by imports at prices close to \$7,000 per ton.

“We are very pleased with the speed with which we have re-directed our focus and efforts to grow our specialty chemical segment and restore our margins and we have renewed confidence in our ability to execute our business plan to maintain strong financial performance in the quarters ahead. We also expect to grow revenues by 5-10% in 2008 compared to 2007,” said Mr. Tai-Ming Ou.

As was previously disclosed, China Clean Energy's new plant in Jiangyin industrial park will be able to produce either 100,000 tons of biodiesel or 100,000 tons of specialty chemicals or a combination of both. The Company believes that its ability to switch between biodiesel and specialty chemical production to take advantage of prevailing market conditions is a key strength of its business model, and an important tool for reducing risk and creating value for our shareholders.

## **Conference Call**

China Clean Energy will hold its second quarter conference call for all interested persons at 10:30 a.m. Eastern Time on August 14, 2008 to discuss its results. To participate in the live conference call, please dial the following number five to ten minutes prior to the scheduled conference call time: 1-888- 481-7939. International callers should dial +1-617-847-8707. When prompted by the operator, mention Conference Passcode 11556070. If you are unable to participate in the call at this time, a replay will be available for fourteen days starting on Thursday, August 14 at 1:00 p.m. Eastern Time. To access the replay, dial 888-286-8010 and International callers should dial 617-801-6888 and enter the passcode 69525203.

This conference call will be broadcast live over the Internet and can be accessed by all interested parties on China Clean Energy's website at <http://www.chinacleanenergyinc.com>. To listen to the live webcast, please go to China Clean Energy's website at least fifteen minutes prior to the start of the call to register, download, and install any necessary audio software. For those unable to participate during the live broadcast, a replay will be available shortly after the call on China Clean Energy's website for 90 days.

**About China Clean Energy:**

China Clean Energy, through its wholly-owned subsidiaries, Fujian Zhongde Technology Co., Ltd. and Fujian Zhongde Energy Co., Ltd, is engaged in the development, manufacturing, and distribution of specialty chemical products made from renewable resources.

*Safe Harbor Statement*

*This announcement contains forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact in this announcement are forward-looking statements, including but not limited to, the Company's ability to raise additional capital to finance the Company's activities; the effectiveness, profitability, and the marketability of its products; legal and regulatory risks; the future trading of the common stock of the Company; the period of time for which its current liquidity will enable the Company to fund its operations; the Company's ability to protect its proprietary information; general economic and business conditions; the volatility of the Company's operating results and financial condition; the Company's ability to attract or retain qualified senior management personnel and research and development staff; and other risks detailed in the Company's filings with the Securities and Exchange Commission. These forward-looking statements involve known and unknown risks and uncertainties and are based on current expectations, assumptions, estimates and projections about the Company and the industry. The Company undertakes no obligation to update forward-looking statements to reflect subsequent occurring events or circumstances, or to changes in its expectations, except as may be required by law. Although the Company believes that the expectations expressed in these forward looking statements are reasonable, they cannot assure you that their expectations will turn out to be correct, and investors are cautioned that actual results may differ materially from the anticipated results.*

—FINANCIAL TABLES FOLLOW—

CHINA CLEAN ENERGY INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME  
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
REVENUES	\$ 5,478,785	\$ 5,255,040	\$ 9,951,794	\$ 9,393,406
Less: cost of goods sold	4,120,332	3,824,722	7,550,105	6,814,671
GROSS PROFIT	<u>1,358,453</u>	<u>1,430,318</u>	<u>2,401,689</u>	<u>2,578,735</u>
OPERATING EXPENSE				
Selling and marketing	49,040	224,048	136,921	437,291
General and administrative	444,288	284,432	968,078	674,492
Depreciation and amortization	69,101	71,941	149,198	133,402
Research and development	51,222	31,381	91,004	90,885
Total operating expense	<u>613,651</u>	<u>611,802</u>	<u>1,345,201</u>	<u>1,336,070</u>
INCOME FROM OPERATIONS	<u>744,802</u>	<u>818,516</u>	<u>1,056,488</u>	<u>1,242,665</u>
OTHER INCOME (EXPENSE)				
Interest income	10,411	1,429	17,433	3,931
Interest expense	-	(26,835)	-	(52,780)
Bank fees	(7,625)	-	(7,625)	-
Foreign currency transaction loss	(47,615)	-	(77,712)	-
Loss on disposal of fixed assets	-	-	(490)	-
Total other expense	<u>(44,829)</u>	<u>(25,406)</u>	<u>(68,394)</u>	<u>(48,849)</u>
INCOME BEFORE INCOME TAXES	699,973	793,110	988,094	1,193,816
PROVISION FOR INCOME TAXES	<u>142,283</u>	<u>-</u>	<u>238,866</u>	<u>-</u>
NET INCOME	557,690	793,110	749,228	1,193,816
OTHER COMPREHENSIVE INCOME				
Foreign currency translation adjustment	<u>708,840</u>	<u>150,233</u>	<u>1,872,058</u>	<u>257,197</u>
COMPREHENSIVE INCOME	<u>\$ 1,266,530</u>	<u>\$ 943,343</u>	<u>\$ 2,621,286</u>	<u>\$ 1,451,013</u>
BASIC AND DILUTED EARNINGS PER SHARE				
Weighted average number of shares	<u>31,512,269</u>	<u>21,512,269</u>	<u>31,017,764</u>	<u>21,512,269</u>
Earnings per share	<u>\$ 0.02</u>	<u>\$ 0.04</u>	<u>\$ 0.02</u>	<u>\$ 0.06</u>

CHINA CLEAN ENERGY INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
AS OF JUNE 30, 2008 AND DECEMBER 31, 2007

<u>ASSETS</u>	June 30, 2008 (Unaudited)	December 31, 2007
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 7,387,647	\$ 1,133,555
Accounts receivable, net of allowance for doubtful accounts of \$238,759 and \$407,593, as of June 30, 2008 and December 31, 2007, respectively	1,629,377	2,795,363
Inventories	1,278,681	1,361,478
Advances for inventory purchase	2,985,454	-
Prepaid expenses and other receivables	1,142	179,815
Total current assets	<u>13,282,301</u>	<u>5,470,211</u>
PROPERTY, PLANT AND EQUIPMENT, NET	10,453,655	5,820,045
INTANGIBLE ASSETS, NET	5,163,158	4,879,635
ADVANCES ON EQUIPMENT PURCHASES	3,406,694	872,974
<b>TOTAL ASSETS</b>	<u>\$ 32,305,808</u>	<u>\$ 17,042,865</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 188,133	\$ 150,557
Customer deposits	150	181,825
Accrued liabilities	129,860	83,824
Salaries payable	35,740	31,425
Value added tax payables	22,638	320,397
Other taxes payable	17,307	13,652
Short-term bank loans	-	1,028,228
Long-term bank loans - current portion	225,413	202,792
Total current liabilities	<u>619,241</u>	<u>2,012,700</u>
<b>NONCURRENT LIABILITIES</b>		
Long-term bank loans	141,572	241,097
<b>TOTAL LIABILITIES</b>	<u>760,813</u>	<u>2,253,797</u>
<b>SHAREHOLDERS' EQUITY</b>		
Preferred stock, par value \$0.001 per share, authorized 10,000,000 shares, no shares issued and outstanding as of June 30, 2008 and December 31, 2007	-	-
Common stock, par value \$0.001 per share, authorized 90,000,000 shares, 31,512,269 and 21,512,269 shares issued and outstanding as of June 30, 2008 and December 31, 2007, respectively	31,512	21,512
Additional paid-in capital	21,159,114	7,034,473
Statutory reserves	1,195,746	785,536
Retained earnings	6,075,123	5,736,105
Accumulated other comprehensive income	3,083,500	1,211,442
	<u>31,544,995</u>	<u>14,789,068</u>
Total liabilities and shareholders' equity	<u>\$ 32,305,808</u>	<u>\$ 17,042,865</u>

CHINA CLEAN ENERGY INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007

(Unaudited)

	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 749,228	\$ 1,193,816
Adjusted to reconcile net income to cash provided by operating activities:		
Depreciation	313,931	264,231
Recovery of bad debt expense	(189,579)	
Amortization of intangible assets	107,207	98,387
Stock-based compensation expense	507,238	-
Writedown on inventory	29,043	-
Loss on disposal of assets	490	-
Changes in operating assets and liabilities		
Accounts receivable	1,497,611	(300,992)
Inventories	136,437	(82,357)
Advances for inventory purchase	(2,902,377)	(364,289)
Prepaid expenses and other receivables	183,807	(270,251)
Accounts payable	30,537	107,239
Customer deposit	(187,969)	-
Other payables and accrued liabilities	45,657	-
Value added tax payables	(309,474)	-
Income tax and other tax payables	154,177	(117,964)
Net cash provided by operating activities	<u>165,964</u>	<u>527,820</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Addition to construction in progress	(2,484,544)	-
Purchase of property and equipment	(1,950,320)	(89,805)
Proceeds from sale of equipment	1,747	-
Advances equipment purchases	(2,408,720)	(1,856,322)
Net cash used in investing activities	<u>(6,841,837)</u>	<u>(1,946,127)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Decrease due to related parties	-	(6,419)
Net proceeds from issuance of common stock	13,627,403	-
Decrease on short-term bank loan	(1,054,467)	(108,053)
(Decrease) increase on long-term bank loans	(111,805)	328,971
Net cash provided by financing activities	<u>12,461,131</u>	<u>214,499</u>
<b>EFFECT OF EXCHANGE RATE ON CASH</b>	<u>468,834</u>	<u>80,431</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	6,254,092	(1,123,377)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	1,133,555	2,241,712
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<u>\$ 7,387,647</u>	<u>\$ 1,118,335</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the period for:		
Interest expense	\$ 36,861	\$ 52,780
Income taxes	\$ 86,113	\$ -

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