



## China Clean Energy Inc.

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## **China Clean Energy Announces Second Quarter 2010 Financial Results, Provides Guidance for Fiscal Year 2010**

**Fuqing City, China – August 16, 2010** - China Clean Energy Inc. (OTC Bulletin Board: CCGY) (“China Clean Energy”, the “Company”), a producer of biodiesel fuel and environmentally-friendly specialty-chemical products made from renewable resources in China, today reported its financial results for the second quarter ended June 30, 2010.

### **Second Quarter 2010 Highlights**

- Revenue totaled \$14.1 million, up 232% from the same period in 2009 and up 31.7% from the first quarter 2010
- Gross profit totaled \$2.7 million, up 199% from the same period in 2009 and up 84.3% from the first quarter 2010
- Gross margin was 19.4%, compared to 21.5% in the same period in 2009 and 13.8% in the first quarter 2010
- Operating income was \$2.1 million, up 334% from the same period in 2009 and up 117% from the first quarter 2010
- Net income was \$1.9 million, or \$0.06 per fully-diluted share, compared to a net loss of \$0.1 million in the second quarter 2009 and net income of \$0.4 million, or \$0.01 per fully-diluted share in the first quarter 2010
- Cash and cash equivalents totaled \$7.3 million at the end of June 2010, compared to \$4.2 million at year-end 2009 and \$5.3 million at the end of March 2010

### **Six Months 2010 Highlights**

- Revenue totaled \$24.9 million, up 252% from the same period in 2009
- Gross profit totaled \$4.2 million, up 232% from the same period in 2009
- Gross margin was 17.0%, compared to 18.0% in the same period in 2009
- Operating income was \$3.1 million, up 835% from the same period in 2009
- Net income was \$2.3 million, or \$0.07 per fully-diluted share, compared to a net loss of \$0.2 million, or \$0.01 per fully-diluted share in the six months 2009

“Our results for the second quarter exceeded our expectations as we successfully ramped-up production at

our Jiangyin plant, and benefited from the positive macroeconomic environment,” said Mr. Tai-ming Ou, China Clean Energy's Chairman and CEO. “During the quarter we also took advantage of our larger scale and improved technology to expand our customer base and improve our margins. As we look to the future, we remain confident we can sustain our growth momentum to reach full capacity at our Jiangyin plant by the end of this year. In addition, we also expect to take steps and make the necessary changes to qualify for a listing on a senior exchange.”

## **Second Quarter 2010 Results**

China Clean Energy's net revenue in the second quarter was \$14.1 million, up 232% from the second quarter 2009. The increase in revenue was driven by higher sales volume and higher average selling prices for both specialty chemicals and biodiesel product segments. Specialty chemicals sales volume was up 183% year-over-year to 7,503 tons, and average selling price was up 8.3% year-over-year to RMB 9,497 (\$1,406) per ton. Biodiesel sales volume was up 265% to 5,446 tons in the second quarter 2010, and average selling price was up 19.0% in the same period to RMB 4,605 (\$682) per ton. Specialty-chemicals and biodiesel represented 74% and 26% of net revenue in the quarter, respectively. Approximately 62% of revenue was contributed by the Jiangyin plant. Exports totaled \$3.0 million, representing 21.3% of total revenue.

Gross profit in the second quarter 2010 was \$2.7 million, up 199% from the second quarter 2009. The increase in gross profit was mostly driven by the increase in revenue. Gross margin was 19.4% in the second quarter 2010, compared to 21.5% in the same period in 2009 and 13.8% in the first quarter 2010. The year-over-year decrease in gross margin is due to the significant increase in sales volume of biodiesel, which reduced the average gross margin. The sequential increase in gross margin is the result of optimized product mix and lower raw materials prices compared to the first quarter of 2010.

Operating expense in the second quarter 2010 was \$0.6 million representing a 40.3% increase from the second quarter 2009. The increase in operating expense is the result of higher sales and marketing expense to support revenue growth as well as the increase in expenses related to the commercial operation of the Jiangyin plant. Operating income in the second quarter 2010 was \$2.1 million, up 334% from the second quarter 2009. Operating margin for the second quarter 2010 was 15.2%, compare to 11.6% in the same period of 2009.

Other income totaled \$267,098, including \$363,110 associated with change in fair value of warrant liabilities offset by \$110,536 in net interest expense. Tax provision for the quarter totaled \$462,927.

Net income for the second quarter 2010 was \$1.9 million, or \$0.06 per fully-diluted share, compared to a net loss of \$0.1 million in the second quarter 2009. Net income for the second quarter includes \$363,110 non-cash income to account for change in the value of warrant liabilities.

Adjusted net income excluding the change in the value of warrant liabilities totaled \$1.7 million or \$0.05 per fully-diluted share, an increase of 251% from \$0.5 million in the second quarter 2009, or \$0.02 per fully-diluted share. For a complete reconciliation of adjusted financial information to nearest GAAP equivalent, please see the table elsewhere in this press release.

## **Six Months 2010**

Revenue for the first six months of 2010 was \$24.9 million, up 252% from revenue of \$7.1 million for the first six months of 2009. Gross profit was \$4.2 million, up 232% from gross profit of \$1.3 million for the six months of 2009. Gross margin was 17.0%, compared to 18.0% for the first six months of 2009. Net income was \$2.3 million, or \$0.07 per fully-diluted share, compared to a net loss of \$0.2 million, or \$0.01 per fully-diluted share in the six months 2009. After adjusting for the changes in fair value of warrant liabilities and stock-based compensation, non-GAAP net income for the first six months of 2010 was \$2.5

million, or \$0.08 per fully-diluted share, an increase of 518% from \$0.4 million in the corresponding period of 2009, or \$0.01 per fully-diluted share.

### **Financial Condition**

As of June 30, 2010, China Clean Energy had \$7.3 million in total cash, approximately \$10.3 million in working capital, and \$5.0 million in total debt. Stockholders' equity at June 30, 2010 stood at \$34.2 million, or approximately \$1.1 per share.

### **Recent Developments**

In the second quarter 2010, the Company added three new clients for its biodiesel product, including Xingtai Dahai Dyestuffs & Chemicals Co., Ltd., Guangzhou Gaowang Gas Appliances Co., Ltd. and Hubei Xiangyu Chemicals Co., Ltd.. In addition, the Company cooperated with two trading companies to boost its biodiesel sales, including Wuxi Duolijia Trading Co., Ltd. and Shanghai Jinjin Trading Co., Ltd..

### **Business Outlook**

China Clean Energy's Jiangyin plant produced 4,376 tons specialty chemicals and 4,961 tons biodiesel in the second quarter 2010, representing 58% and 50% of the estimated full capacity. Jiangyin plant's output in the quarter accounted for 72.1% in total volume and 61.7% in total revenue. Management continues to expect ramp-up of the new plant to full capacity by the end of the year 2010.

Mr. Ou added, "Looking ahead, we expect the macroeconomic environment to remain positive and demand for our products to remain strong in the second half of the year. Based on our existing order book and the positive feedback from our clients, we expect to deliver revenue of approximately \$15.3 million in the third quarter 2010, representing an increase of approximately 283% over the third quarter 2009. The operating income is expected to reach \$2.4 million, representing an increase of approximately 700% over the third quarter 2009. As for the full year 2010, our revenue is expected to reach \$57 million, representing a year-over-year increase of 258%; our operating income is expected to reach \$8.2 million, representing a year-over-year increase of 811%."

### **Conference Call**

China Clean Energy will hold its second quarter 2010 conference call for all interested persons at 10:00 a.m. Eastern Time on Monday, August 16, 2010 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 (877) 411-1651. International callers should dial +1 (706) 679-8912. When prompted by the operator, mention conference pass code 90975120. If you are unable to participate in the call at this time, a replay will be available for 14 days starting on Monday, August 16, 2010, at 11:00 a.m. eastern time. To access the replay, please dial +1 (800) 642-1687, international callers dial +1 (706) 645-9291, and enter the pass code 90975120.

### **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 biodiesel and specialty chemical products made from renewable resources. For additional information please visit: <http://www.chinacleanenergyinc.com>

### **Safe Harbor Statement**

*This announcement contains forward-looking statements. All statements other than statements of historical fact in this announcement are forward-looking statements, including but not limited to, the effectiveness,*

*profitability, and the marketability of the Company's products; the future trading of the common stock of the Company; the ability of the Company to capitalize on its expanded production capacity; 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 resulting from changes in raw material prices, international oil prices and price controls imposed by the Chinese government; 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, it cannot assure you that the Company's 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  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME (LOSS)  
(UNAUDITED)

	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
REVENUES	\$ 14,140,437	\$ 4,259,747	\$ 24,878,128	\$ 7,066,009
Less: cost of goods sold	<u>11,400,938</u>	<u>3,341,962</u>	<u>20,652,433</u>	<u>5,791,892</u>
GROSS PROFIT	<u>2,739,499</u>	<u>917,785</u>	<u>4,225,695</u>	<u>1,274,117</u>
OPERATING EXPENSES				
Selling and marketing	117,435	96,370	171,481	144,426
General and administrative	442,169	297,257	874,449	738,647
Research and development	<u>34,476</u>	<u>29,688</u>	<u>44,378</u>	<u>55,612</u>
Total operating expenses	<u>594,080</u>	<u>423,315</u>	<u>1,090,308</u>	<u>938,685</u>
INCOME FROM OPERATIONS	<u>2,145,419</u>	<u>494,470</u>	<u>3,135,387</u>	<u>335,432</u>
OTHER INCOME (EXPENSE)				
Interest income (expense), net	-110,536	-397	-167,998	556
Other income (expense)	14,524	-4,821	14,641	-5,922
Change in fair value of warrants liability	<u>363,110</u>	<u>-413,662</u>	<u>5,753</u>	<u>-387,598</u>
Total other income (expenses)	<u>267,098</u>	<u>-418,880</u>	<u>-147,604</u>	<u>-392,964</u>
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	2,412,517	75,590	2,987,783	-57,532
PROVISION FOR INCOME TAXES	<u>462,927</u>	<u>152,422</u>	<u>688,021</u>	<u>162,784</u>
NET INCOME (LOSS)	1,949,590	-76,832	2,299,762	-220,316
COMPREHENSIVE INCOME (LOSS)				
Foreign currency translation adjustment	<u>29,400</u>	<u>-1,851</u>	<u>28,417</u>	<u>-47,061</u>
COMPREHENSIVE INCOME (LOSS)	<u>\$ 1,978,990</u>	<u>\$ -78,683</u>	<u>\$ 2,328,179</u>	<u>\$ -267,377</u>
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE				
Weighted average number of shares	<u>31,512,269</u>	<u>31,512,269</u>	<u>31,512,269</u>	<u>31,512,269</u>
Earnings per share	<u>\$ 0.063</u>	<u>\$ (0.002)</u>	<u>\$ 0.074</u>	<u>\$ (0.007)</u>

CHINA CLEAN ENERGY INC. AND SUBSIDIARIES  
RECONCILIATION OF ADJUSTED NET INCOME TO NET INCOME

The management of China Clean Energy uses non-GAAP adjusted net earnings to measure the performance of the Company's business internally by excluding non-recurring items as well as non-cash charges related to the warrants issued in connection with the Company's 2008 Private Placement offering. The Company's management believes that these non-GAAP adjusted financial measures allow the management to focus on managing business operating performance because these measures reflect the essential operating activities of China Clean Energy and provide a consistent method of comparison to historical periods. The Company believes that providing the non-GAAP measures - which management uses internally - to its investors is useful to investors for a number of reasons. The non-GAAP measures provide a consistent basis for investors to understand the Company's financial performance in comparison to historical periods without variation of non-recurring items and non-operating related charges. In addition, it allows investors to better evaluate the Company's performance using the same methodology and information as those used by the management. Non-GAAP measures are subject to inherent limitations because they do not include all of the expenses included under GAAP and because they involve the exercise of judgment of which charges are excluded from the non-GAAP financial measure. However, the management of China Clean Energy compensates for these limitations by providing the relevant disclosure of the items excluded.

The following table provides the non-GAAP financial measure and a reconciliation of the non-GAAP measure to the GAAP net income.

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
<b>Net Income (Loss)</b>	\$ 1,949,590	\$ (76,832)	\$ 2,299,762	\$ (220,316)
Add back (Deduct):				
Change in fair value of warrant	\$ (363,110)	\$ 413,662	\$ (5,753)	\$ 387,598
Stock-based compensation	\$ 106,315	\$ 145,429	\$ 212,630	\$ 238,523
<b>Adjusted Net Income</b>	<b>\$ 1,692,795</b>	<b>\$ 482,259</b>	<b>\$ 2,506,639</b>	<b>\$ 405,805</b>
<b>Diluted EPS</b>	\$ 0.06	\$ (0.00)	\$ 0.07	\$ (0.01)
Add back (Deduct):				
Change in fair value of warrant	\$ (0.01)	\$ 0.01	\$ (0.00)	\$ 0.01
Stock-based compensation	\$ 0.00	\$ 0.00	\$ 0.01	\$ 0.01
<b>Adjusted EPS</b>	<b>\$ 0.05</b>	<b>\$ 0.02</b>	<b>\$ 0.08</b>	<b>\$ 0.01</b>

CHINA CLEAN ENERGY INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	June 30, 2010 (Unaudited)	December 31, 2009
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 7,297,885	\$ 4,154,814
Restricted cash	397,518	-
Accounts receivable, net of allowance for doubtful accounts of \$93,870 and \$93,761	3,554,111	1,766,952
Other current assets	11,000	11,000
Deferred tax assets	69,547	69,466
Tax Receivables	206,579	-
Inventories	3,295,003	464,842
Advances for inventory purchases	145,686	188,659
Total current assets	14,977,329	6,655,733
Plant and Equipment, net	24,516,209	25,119,034
Intangible assets, net	4,768,487	4,860,645
Total assets	\$ 44,262,025	\$ 36,635,412

LIABILITIES AND SHAREHOLDERS' EQUITY

<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 1,654,486	\$ 157,433
Accrued liabilities	266,603	279,516
Customer deposits	211,910	71,090
Taxes payable	618,782	130,287
Bankers acceptances	1,060,695	-
Bank loans payable - current portion	885,748	3,080,700
Total current liabilities	4,698,224	3,719,026
Warrants liability	1,254,021	1,259,774
Bank loans payable- net of current portion	4,112,360	-
Total liabilities	10,064,605	4,978,800
<b>COMMITMENTS AND CONTINGENCIES</b>		
	-	-
<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, 2010 and December 31, 2009, respectively	-	-
Common stock, par value \$0.001 per share, authorized 90,000,000 shares, 31,512,269 shares issued and outstanding as of June 30, 2010 and December 31, 2009, respectively	31,512	31,512
Additional paid-in capital	12,633,153	12,420,523
Statutory reserves	1,630,882	1,630,882
Retained earnings	16,707,209	14,407,448
Accumulated other comprehensive income	3,194,664	3,166,247
Total shareholders' equity	34,197,420	31,656,612
Total liabilities and shareholders' equity	\$ 44,262,025	\$ 36,635,412

CHINA CLEAN ENERGY INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

	For the six months ended June 30,	
	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 2,299,762	\$ -220,316
Adjusted to reconcile net income (loss) to cash provided by (used in) operating activities:		
Depreciation	869,485	354,796
Allowance for doubtful accounts	109	-66,597
Amortization of intangible assets	135,019	108,339
Stock-based compensation expense	212,630	238,523
Writedown on inventory	0	25,475
Change in warrants liability	-5,753	387,598
Deferred tax provision	-81	0
Changes in operating assets and liabilities		
Accounts receivable	-1,787,268	-165,357
Inventories	-2,830,161	-103,928
Advances for inventory and other current assets	42,973	-605,385
Accounts payable	1,497,053	151,967
Accrued liabilities	-12,913	-169,614
Customer deposits	140,820	88,859
Taxes payables	488,495	-90,124
Taxes receivable	-206,579	0
Net cash provided by (used in) operating activities	843,591	-65,764
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Addition to construction in progress	0	-1,335,147
Purchase of equipment	-266,660	-9,878
Addition to intangibles	-42,861	0
Net cash used in investing activities	-309,521	-1,345,025
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Restricted cash	-397,518	-508,751
Proceeds from bank loans	4,122,360	3,077,970
Proceeds from banker acceptances	1,060,695	0
Short-term notes payable	0	548,568
Payments on bank loans	-2,204,952	-257,527
Net cash provided by financing activities	2,580,585	2,860,260
<b>EFFECT OF EXCHANGE RATE ON CASH</b>	28,416	168,145
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	3,143,071	1,617,616
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	4,154,814	2,913,711
<b>CASH AND CASH EQUIVALENTS, end of period</b>	\$ 7,297,885	\$ 4,531,327
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest expenses paid	\$ 148,833	\$ 18,823
Income taxes paid	\$ 301,749	\$ 116,755
Reclassification of advances of equipment purchase to construction in progress	\$ 0	\$ 3,645,958
Reclassification of advances for inventory and other assets to construction in progress	\$ 0	\$ 175,884

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