CHINA NEW ENERGY POWER GROUP LIMITED

中國新能源動力集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 1041)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2012

The board of directors (the "Board") of China New Energy Power Group Limited (the "Company") is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2012.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

		Six months ended 30 June	
		2012	2011
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Continuing operations			
Turnover		**–**	–
Other income	*7*	**610**	181
Other gains and losses	*8*	**102,757**	(482,671)
Administrative expenses		**(16,527)**	(25,473)
Other expenses	*9*	**–**	(23,000)
Finance costs		**(13,547)**	(17,673)
Profit (loss) for the period from continuing operations	*9*	**73,293**	(548,636)
Discontinued operation			
Loss for the period from discontinued operation	*6*	**–**	(60,007)
Profit (loss) for the period		**73,293**	(608,643)
Other comprehensive (expense) income			
Exchange differences arising on translation to presentation currency		**(868)**	38,134
Total comprehensive income (expense) for the period		**72,425**	(570,509)

		Six months ended 30 June	
		2012	2011
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Profit (loss) for the period attributable to:			
Owners of the Company			
– from continuing operations		**74,499**	(546,463)
– from discontinued operation		**–**	(40,439)
		74,499	(586,902)
Non-controlling interests			
– from continuing operations		**(1,206)**	(2,173)
– from discontinued operation		**–**	(19,568)
		(1,206)	(21,741)
		73,293	(608,643)
Total comprehensive income (expense) attributable to:			
Owners of the Company		**73,824**	(551,021)
Non-controlling interests		**(1,399)**	(19,488)
		72,425	(570,509)
Earnings (loss) per share	*10*		
From continuing and discontinued operations			
– basic		**HK1.227 cents**	HK(12.859) cents
– diluted		**HK(0.036) cent**	HK(12.859) cents
From continuing operations			
– basic		**HK1.227 cents**	HK(11.973) cents
– diluted		**HK(0.036) cent**	HK(11.973) cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2012

	Notes	30.6.2012 HK$'000 (Unaudited)	31.12.2011 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment		**3,770**	4,118
Prepaid lease payments		**5,155**	5,230
Other investments		**–**	–
Club debenture		**–**	–
		8,925	9,348
Current assets			
Properties under development		**626,056**	576,810
Other receivables	*11*	**15,419**	25,297
Deposits and prepayments		**8,720**	7,796
Held-for-trading investments	*12*	**30,866**	43,178
Bank balances and cash		**6,854**	30,226
		687,915	683,307
Current liabilities			
Trade and other payables	*13*	**67,346**	52,144
Amounts due to directors of subsidiaries		**–**	4,388
Amounts due to non-controlling shareholders of subsidiaries		**24,475**	32,057
Obligation under finance lease		**39**	77
Convertible notes		**82,958**	595,797
Other borrowings – amount due within one year		**–**	1,523
		174,818	685,986
Net current assets (liabilities)		**513,097**	(2,679)
Total assets less current liabilities		**522,022**	6,669
Capital and reserves			
Share capital		**59,223**	35,465
Reserves		**241,173**	(244,149)
Equity (capital deficiency) attributable to owners of the Company		**300,396**	(208,684)
Non-controlling interests		**221,626**	215,353
		522,022	6,669

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules").

In preparing the condensed consolidated financial statements, the directors of the Company have given consideration to the future liquidity of the Group, despite the fact that the Group has turned around from a loss of HK$608,643,000 for the six months ended 30 June 2011 to a profit of HK$73,293,000 in the current interim period, and as of 30 June 2012, the Group has net current assets of HK$513,097,000 (net current liabilities of HK$2,679,000 at 31 December 2011). However, as at 30 June 2012, the Group has convertible notes of aggregate carrying amount of HK$82,958,000 (principal amount of HK$90,000,000), which will be due for redemption in December 2012, which exceed its cash and cash equivalent of HK$6,854,000. To address the liquidity issue, on 16 August 2012, the Company has entered into a placing agreement with a placing agent, on a best effort basis, to place new convertible notes amounting to HK$120,000,000 to raise additional funds for the Group. The proceed from the new issue will be used to repay the existing outstanding convertible notes of principal amount HK$90,000,000 and the remaining funds will be applied as general working capital. As of the date of this report, the Company has entered into a supplemental placing agreement with the placing agent, whereby the placing agent will underwrite the entire amount of the placing.

Furthermore, subsequent to the end of the reporting period, Allywing Investments Limited (a wholly-owned subsidiary of the Company) has obtained a RMB42,000,000 (approximately HK$51,850,000) term loan facility from a bank in Hong Kong (subject to fulfillment of certain precedent conditions and loan covenants as well as charges over the shares of and guarantees provided by certain subsidiaries of the Group) to finance its property development business. The management of the Company is also confident that the Group can further obtain new bank borrowings through the pledge of its equity interest in the property development project and the land use rights in the People's Republic of China (the "PRC").

The directors of the Company are of the view that funds will be available to meet the Group's financial obligations as and when they fall due in the foreseeable future, taking into account that the abovementioned measures implemented and accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain derivative financial instruments, which are measured at fair values.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2012 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011.

In the current interim period, the Group has applied, for the first time, certain amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are mandatorily effective for the current interim period.

The application of the amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. SEGMENT INFORMATION

The following is an analysis of the Group's revenue and results by reportable and operating segments:

Six months ended 30 June 2012

	Continuing operations		
	Property development	**Investment in securities**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
TURNOVER			
External sales	**–**	**–**	**–**
SEGMENT RESULT	**(3,064)**	**(12,343)**	**(15,407)**
Unallocated corporate income			**610**
Unallocated corporate expenses			**(13,432)**
Other gains and losses			**115,069**
Finance costs			**(13,547)**
Profit for the period			**73,293**

Six months ended 30 June 2011 (restated)

	Continuing operations			Discontinued operation	
	Property development	**Investment in securities**	**Total**	**Timber**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER					
External sales	–	–	–	32,328	32,328
SEGMENT RESULT	(5,486)	7,815	2,329	(55,072)	(52,743)
Unallocated corporate income			4	697	701
Unallocated corporate expenses			(42,797)	(4,437)	(47,234)
Other gains and losses			(490,499)	–	(490,499)
Finance costs			(17,673)	(1,195)	(18,868)
Loss for the period			(548,636)	(60,007)	(608,643)

Segment result represents loss or profit from each segment without allocation of interest income, central administrative costs, directors' emoluments, finance costs and other gains and losses excluding loss from held-for-trading investments, which is included in the investment in securities segment result. This is the measure regularly reported to the board of directors of the Company for the purpose of resource allocation and performance assessment.

4. RESULTS FOR THE PERIOD

The principal activities of the Group during the current interim period are investment in securities and property development business. Both of which are not affected by seasonal or cyclical factors for its operations. The principal activities of the Group during the six months ended 30 June 2011 are investment in securities, property development and timber business. The timber business was disposed of on 29 December 2011 and presented as discontinued operation.

5. TAXATION

No provision for Hong Kong Profits Tax has been made as the Company and its subsidiaries incorporated in Hong Kong have no assessable profits for both periods presented.

No provision for the PRC Enterprise Income Tax has been made as those subsidiaries established in the PRC have no assessable profits for both periods presented.

6. DISCONTINUED OPERATION/DISPOSAL OF SUBSIDIARIES

(a) Timber operation

On 18 November 2011, the Group entered into an agreement with Intelligence International Limited ("Intelligence International"), a company incorporated in the British Virgin Islands, to dispose all of its entire interests in Wood Art International Corporation ("Wood Art") and its subsidiaries (the "Wood Art Group"), which carried out all of the Group's timber operation (the "2011 Disposal"). Intelligence International is an independent third party of the Group. The 2011 Disposal was approved by the shareholders of the Company and completed on 29 December 2011. Total consideration for the 2011 Disposal amounted to HK$100,000.

The loss for the period from discontinued operation is analysed as follows:

	1.1.2011 to 30.6.2011 *HK$'000*
Loss of timber operation for the period	(60,007)

The results of the Wood Art Group for the period from 1 January 2011 to 30 June 2011, which have been included in the condensed consolidated statement of comprehensive income and presented as discontinued operation, were as follows:

	1.1.2011 to 30.6.2011 *HK$'000*
Turnover	32,328
Cost of sales	(70,563)
Gross loss	(38,235)
Other income	2,217
Selling and distribution costs	(3,165)
Administrative expenses	(19,629)
Finance costs	(1,195)
Loss for the period	(60,007)
Loss for the period attributable to:	
Owners of the Company	(40,439)
Non-controlling interests	(19,568)
	(60,007)

During the six-month period ended 30 June 2011, the Wood Art Group contributed an outflow of HK$28,462,000 to the Group's net operating cash flows, cash inflow of HK$697,000 in respect of investing activities and cash outflow of HK$1,195,000 in respect of financing activities.

(b) Disposal of TGT Holdings Corporation ("TGT") and other subsidiaries (the "2012 Disposal")

On 31 January 2012, the Group entered into an agreement with Barstow Holdings Limited ("Barstow"), a company incorporated in the British Virgin Islands, to dispose all of its entire interests in Ta Fu Strategic Investment Limited, TGT and its subsidiaries, Fulbond Business Services Limited and Fulbond Digital Systems Limited (collectively known as the "TGT Group").

Barstow is an independent third party of the Group. The 2012 Disposal was approved by the Board of Directors of the Company and completed on 31 January 2012. Total consideration for the 2012 Disposal was HK$35 in cash.

The profit for the period from disposal of subsidiaries is analysed as follows:

	1.1.2012 to 31.1.2012 *HK$'000*
Gain on disposal of subsidiaries	24,215

Analysis of assets and liabilities of the TGT Group at the date of disposal was as follows:

	31.1.2012 *HK$'000*
Other debtors and prepayments	735
Other payables	(18,221)
Amounts due to the Company	(605,832)
Amount due to the Company's subsidiaries	(8,856)
Amounts due to non-controlling shareholders of subsidiaries	(7,490)
Net liabilities disposed of	(639,664)
Less: Non-controlling interests	761
	(638,903)
Gain on disposal of subsidiaries:	
Consideration received	–
Net liabilities disposed of	638,903
Assignment of amounts due to the Company	(605,832)
Assignment of amounts due to the Company's subsidiaries	(8,856)
Gain on disposal	24,215

During the period from 1 January 2012 to 31 January 2012, the TGT Group had no contribution to the Group's cash flows.

7. OTHER INCOME

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
Continuing operations		
Interest income	**561**	15
Others	**49**	166
	610	181

8. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
Continuing operations		
Change in fair value of held-for-trading investments	**(12,312)**	7,828
Gain on disposal of subsidiaries (Note 6)	**24,215**	–
Net gain (losses) on fair value change of derivative financial instruments	**90,854**	(490,499)
	102,757	(482,671)

9. PROFIT (LOSS) FOR THE PERIOD

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
Continuing operations		
Profit (loss) for the period has been arrived at after charging:		
Release of prepaid lease payments	**49**	112
Depreciation of property, plant and equipment	**528**	207
Interest expense on convertible notes	**13,271**	17,557
Project management fee (included in other expenses) (note)	**–**	23,000

Note: On 29 November 2010, Allywing Investment Limited ("Allywing"), a wholly owned subsidiary of the Group, entered into a Management Agreement with Harvest Day Limited ("Harvest Day") pursuant to which Harvest Day agreed to provide professional management and consultancy services to Allywing in relation to the property development project which the Group is currently developing properties for sale. The fee under the Management Agreement is HK$50,000,000, payable in 3 instalments by the Group upon certain milestones being achieved in the property development project. During the six months ended 30 June 2012, the Group made no payment to Harvest Day (six months ended 30 June 2011: first instalment of HK$23,000,000 and nil in six months ended 31 December 2011). The amount of HK$23,000,000 paid by the Group was charged to profit and loss for the period.

10. EARNINGS (LOSS) PER SHARE

For continuing and discontinued operations

The calculation of the basic and diluted earnings (loss) per share attributable to owners of the Company is based on the following data:

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
Earnings (loss):		
Profit (loss) for the period attributable to owners of the Company for the purpose of basic earnings (loss) per share	**74,499**	(586,902)
Effect of dilutive potential ordinary shares:		
– Interest on convertible notes	**13,271**	–
– Change in fair value of embedded derivatives	**(90,854)**	–
Loss for the purpose of diluted loss per share	**(3,084)**	(586,902)

	Six months ended 30 June	
	2012	2011
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	**6,069,211,033**	4,564,292,763
Effect of dilutive potential ordinary shares in respect of convertible notes	**2,463,626,374**	–
Weighted average number of ordinary shares for the purpose of diluted loss per share	**8,532,837,407**	4,564,292,763

The computation of diluted loss per share for the six months period ended 30 June 2011 and 2012 did not assume the conversion of certain convertible notes since their assumed conversion would result in a decrease in the loss per share. It does not assume the exercise of the Company's outstanding share options for the six months period ended 30 June 2011 as the exercise price of those options is higher than the average market price for shares during the period.

From continuing operations

The calculation of the basic and diluted earnings (loss) per share from continuing operations attributable to the owners of the Company is based on the following data:

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
Profit (loss) for the period attributable to owners of the Company	**74,499**	(586,902)
Less: Loss for the period from discontinued operation	**–**	40,439
Profit (loss) for the purpose of basic earnings (loss) per share from continuing operations	**74,499**	(546,463)
Effect of dilutive potential ordinary shares:		
– Interest on convertible loan notes	**13,271**	–
– Change in fair value of embedded derivatives	**(90,854)**	–
Loss for the purpose of diluted loss per share from continuing operations	**(3,084)**	(546,463)

The denominators used are the same as those detailed above for both basic and diluted earnings (loss) per share from continuing and discontinued operations.

From discontinued operation

No basic or diluted earnings per share for discontinued operation for the six months ended 30 June 2012 as the Group has had no discontinued operation for the period.

Basic and diluted loss per share for discontinued operation for the six months ended 30 June 2011 was HK0.886 cent per share, based on the loss for the period from discontinued operation of HK$40,439,000 and the denominator as detailed above for basic earnings (loss) per share from continuing and discontinued operations.

The computation of diluted loss per share for the six months ended 30 June 2011 does not assume the exercise of the Company's outstanding share options as the exercise price of those options is higher than the average market price for shares during the period. It does not assume the conversion of all convertible notes for the six months ended 30 June 2011 since their assumed conversion would result in a decrease in the loss per share.

11. OTHER RECEIVABLES

The following is an analysis of other receivables at the end of the reporting period:

	30.6.2012	31.12.2011
	HK$'000	*HK$'000*
Other receivables	**143**	297
Consideration receivable for disposal of food processing and distribution operation	**15,276**	25,000
	15,419	25,297

12. HELD-FOR-TRADING INVESTMENTS

	30.6.2012	31.12.2011
	HK$'000	*HK$'000*
Held-for-trading investments include:		
Equity securities listed in Hong Kong	**30,866**	43,178

13. TRADE AND OTHER PAYABLES

The following is an analysis of trade and other payables at the end of the reporting period:

	30.6.2012	31.12.2011
	HK$'000	*HK$'000*
Trade payables, aged		
More than 180 days	**–**	4,885
	–	4,885
Amount due to former director of a subsidiary	**5,473**	5,469
Accrued expenses and other payables	**13,189**	27,407
Accrued costs for construction work	**48,684**	14,383
	67,346	52,144

INTERIM DIVIDEND

The Board did not recommend the payment of interim dividend in respect of the six months ended 30 June 2012 (six months ended 30 June 2011: Nil). Accordingly, no closure of Register of Members of the Company is proposed.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

Revenue

In the first half of year 2012, the Group did not record any revenue (1.1.2011 to 30.6.2011: approximately HK$32.33 million), this is because the Group disposed of the timber business at the end of year 2011. No gross profit or loss was therefore recorded for the reporting period (1.1.2011 to 30.6.2011: gross loss of approximately HK$38.24 million).

Segmental Results

Property development business

There was no revenue generated from the operation of property development for the reporting period (1.1.2011 to 30.6.2011: Nil) and its segmental result suffered a loss of approximately HK$3.06 million (1.1.2011 to 30.6.2011: loss of approximately HK$5.49 million).

Investment in securities business

There was no revenue generated from the operation of investment in securities for the reporting period (1.1.2011 to 30.6.2011: Nil) and its segmental loss was approximately HK$12.34 million (1.1.2011 to 30.6.2011: profit of approximately HK$7.82 million).

Timber business

Due to the completion of the disposal of the Wood Art Group on 29 December 2011, there was no revenue generated from such business during the reporting period (1.1.2011 to 30.6.2011: approximately HK$32.33 million).

No segmental result was accounted for the timber business during the reporting period as it was already disposed in the year 2011 (1.1.2011 to 30.6.2011: loss of approximately HK$55.07 million).

Cost of Sales

As the timber business had been discontinued last year and the property development project is still under construction, no cost of sales was recorded during the reporting period (1.1.2011 to 30.6.2011: approximately HK$70.56 million).

Gross Loss

Resulted from the discontinuance of the timber business and construction being progressed of the property development business, neither gross loss nor gross profit arose in the current period (1.1.2011 to 30.6.2011: gross loss of approximately HK$38.24 million).

Other Income

The Group's other income for the reporting period decreased to approximately HK$0.6 million from approximately HK$2.4 million for the corresponding period in 2011.

Other Gains and Losses

Other gains of the Group amounted to approximately HK$102.76 million for the reporting period (1.1.2011 to 30.6.2011: losses of approximately HK$482.67 million). The gains mainly consisted of the net gain on fair value change of derivative financial instruments of approximately HK$90.85 million (1.1.2011 to 30.6.2011: loss of approximately HK$490.50 million).

Selling and Distribution Costs

No selling and distribution costs were incurred by the Group for the reporting period since the disposal of the Wood Art Group (1.1.2011 to 30.6.2011: approximately HK$3.17 million).

Administrative Expenses

The Group's administrative expenses for the reporting period decreased to approximately HK$16.53 million from approximately HK$45.10 million in the corresponding period in 2011. The significant decrease was mainly due to the reduction in administrative expenses after the disposal of the deteriorated timber business.

Other Expenses

There was no other expenses incurred by the Group for the reporting period (1.1.2011 to 30.6.2011: approximately HK$23.00 million).

Finance Costs

The Group's finance costs for the reporting period decreased to approximately HK$13.55 million from approximately HK$18.87 million in the corresponding period in 2011.

Profit/Loss for the Period and Earnings/Loss Per Share

The Group's profit attributable to owners of the Company for the reporting period was approximately HK$74.50 million whereas a loss of approximately HK$586.90 million was suffered in the corresponding period last year. The change was mainly due to the net gain on fair value change of the derivative financial instruments as well as loss-cutting resulted from disposal of the deteriorated timber business in December 2011. Basic earnings per share from continuing operations of the Group was improved from loss of HK11.973 cents per share for the six months ended 30 June 2011 to earnings of HK1.227 cents per share for the six months ended 30 June 2012. Meanwhile, diluted loss per share was HK0.036 cents per share for the six months ended 30 June 2012 (1.1.2011 to 30.6.2011: loss per share HK11.973 cents).

BUSINESS REVIEW

Following the disposal of its deteriorated timber business in December 2011, the businesses and operations of the Group for the period under review were property development business and investment in securities business.

As the property development project was still in construction stage, no revenue was recorded during the reporting period. The Group effectively controlled the administrative expenses as well as managed its financial position. During the reporting period, the Group closely monitored the progress of its property development project and the measures implemented by the PRC Government on the property development markets.

Reference is made to the announcement of the Company dated 1 May 2012 in relation to the acquisition of the entire issued share capital of and assignment of the shareholder's loan in Lithium Energy Group Ltd. (the "Acquisition"). Due to the market financing and other reasons, certain conditions precedent to the completion of the Acquisition (including, among other things, the completion of the placing of shares and convertible notes of the Company and obtaining the proceeds from such placing of not less than HK$1 billion) had yet to be fulfilled (or waived by Fulbond Investments Limited (the "Purchaser"), a wholly-owned subsidiary of the Company) and accordingly, the acquisition agreement dated 13 January 2011 (as supplemented and amended by supplemental agreements dated 23 May 2011, 30 September 2011 and 30 March 2012) (collectively, the "Acquisition Agreement") was lapsed.

Property development business

According to the existing development plan, the Group will develop the site owned by a 60% owned PRC subsidiary of the Company at Xi'an city, PRC (the "Site") as an area which consists of luxury residential buildings and commercial buildings by several phases.

Major construction works for Phase 1 of the property development project started in the second quarter in this year, and as a result, the Group did not record any revenue from the property development business for the reporting period but a loss of approximately HK$3.06 million (1.1.2011 to 30.6.2011: approximately HK$5.49 million).

Investment in securities business

There was no revenue generated from the operation of investment in securities for the reporting period and its segment loss of approximately HK$12.34 million (1.1.2011 to 30.6.2011: profit of approximately HK$7.82 million) was arising from the loss on change in fair value of held-for-trading investments.

FUTURE PROSPECTS

In these few years, market regulation has become a constant phenomenon in the PRC property market. The PRC government has been repeatedly emphasising its intention for stringent implementation of control policy.

However the impacts brought about by the slowdown of the global economic recovery, the continued contagion of the European debt crisis and the emerging concerns over possible stagflation on the China economy, causing the PRC government has lowered the banks' reserve requirement ratio twice as well as lowered the benchmark interest rates for deposits and loans twice during the first seven months in 2012 in order to maintain a stable and healthy local economy.

While implementing stringent control over the property market, the PRC government has reiterated a number of times that it will support reasonable household purchases of flats by launching a series of measures such as differentiated credit and tax policies in order to ensure that first-time home buyers' loan requirements are put on priority and can be met. All these reflect that the fine-tuned policies that support rigid demand for housing by some local governments are being allowed. The Group holds a cautiously optimistic view on the PRC property market over the medium term.

Looking ahead, the Group will keep an open mind when exploring new opportunities but will acquire high potential projects on a carefully selective and prudent basis. We keep on looking for attractive investment and acquisition opportunities in various sectors, including the energy sector, in order to enhance the profitability and maximize our shareholders' value.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2012, the Group's bank balances and cash was approximately HK$6.85 million (31 December 2011: approximately HK$30.23 million), representing a decrease of 77.34%. There was no bank and other borrowings (31 December 2011: approximately HK$1.52 million).

As at 30 June 2012, the current ratio (current assets/current liabilities) was 3.94 times (31 December 2011: 1.00 times) and the net current assets amounted to approximately HK$513.10 million (31 December 2011: net current liabilities of approximately HK$2.68 million).

During the reporting period, net cash used in operating activities was approximately HK$38.05 million. The net cash generated from investing activities was approximately HK$10.10 million, mainly consisted of consideration received from disposal of food processing and distribution operation. The net cash generated from financing activities was approximately HK$5.07 million. As a result, the net decrease in cash and cash equivalents during the reporting period was approximately HK$22.88 million.

No issue and redemption of Convertible Notes

There was no issue and redemption of convertible notes during the reporting period. All operations of the Group were financed by funds generated internally.

LAPSE OF THE ACQUISITION AGREEMENT

Reference is made to the announcements of the Company dated 2 February 2011, 24 May 2011, 30 September 2011, 30 March 2012 and 1 May 2012 and the circulars of the Company dated 25 May 2011 and 24 October 2011 in relation to, inter alia, the Acquisition, which constitutes a very substantial acquisition for the Company under the Listing Rules.

Under the Acquisition Agreement entered into between the Purchaser, the vendor (Hefu Limited) and the vendor's guarantors (namely, Mr. Yeung Tsoi San, Mr. Lau Yung and Mr. Fei Phillip), if the conditions precedent as set out in the Acquisition Agreement (the "Conditions Precedent") are not fulfilled on or before 30 April 2012, the Acquisition Agreement and the transactions contemplated thereunder shall terminate and be null and void and of no further effect and no parties thereto shall have any liability to any other party, save for any antecedent breaches.

On 1 May 2012, the Company announced that, as at 30 April 2012, due to the market financing and other reasons, certain Conditions Precedent (including, among other things, the completion of the placing of shares and convertible notes of the Company and obtaining the proceeds from such placing of not less than HK$1 billion) had yet to be fulfilled (or waived by the Purchaser) and accordingly, the Acquisition Agreement was then lapsed.

RELATED PARTIES TRANSACTION

With reference to the announcement of the Company dated 29 November 2010 and the circular dated 20 December 2010, on 29 November 2010, Allywing Investments Limited ("Allywing"), a wholly owned subsidiary of the Company, entered into a management agreement (the "Management Agreement") with Harvest Day Limited ("Harvest Day"), a company of which 60% issued share capital is held by a sister of Mr. Zhang Xi, the former joint chairman and executive director of the Company, who resigned on 21 May 2012. Pursuant to the Management Agreement, Harvest Day would provide management and consultancy services to Allywing in connection with the development of the Site. Allywing would pay to Harvest Day an inclusive management fee of HK$50,000,000 by 3 installments. The resolution approving the Management Agreement and the annual caps of management fee payable to Harvest Day was passed at the special general meeting of the Company held on 6 January 2011. The first installment of HK$23,000,000 was paid on 7 January 2011 according to terms and conditions of the Management Agreement.

During the period under review, no project management fee was paid or payable under the Management Agreement.

SHARE OPTION

On 19 November 2001, a share option scheme (the "Old Scheme") was adopted, whereby the Board may, at its absolute discretion, grant options to any executive or non-executive directors of the Group, any executives and employees of the Group and any other persons who, in the sole discretion of the Board, have contributed or will contribute to the Group to subscribe for shares in the Company.

The Old Scheme expired on 18 November 2011 and the outstanding share options granted under the Old Scheme on 14 July 2008 were also lapsed on 13 July 2011.

A new share option scheme (the "New Scheme") was adopted on 25 May 2012, whereby the Board may, at its absolute discretion, grant options to any eligible participants (details of which were set out in the circular of the Company dated 24 April 2012) to subscribe for shares in the Company.

The total number of shares which may be issued upon exercise of all options to be granted under the New Scheme and any other share option schemes of the Company may not in aggregate exceed 762,429,300 shares, being 10.00% of the issued share capital of the Company as at 25 May 2012, i.e. the date of adoption of the New Scheme.

The subscription price per share on the exercise of options granted under the New Scheme shall be no less than the higher of (i) the nominal value of the shares; (ii) the closing price of the shares on the Stock Exchange on the date on which the options are granted (which must be a business day); and (iii) the average closing price of the shares on the Stock Exchange for the five business days immediately preceding the date on which the options are granted.

The purpose of the New Scheme is to attract, retain and motivate talented participants to strive for future development and expansion of the Group. The New Scheme shall be an incentive to encourage the participants to perform their best in achieving the goals of the Group and allow the participants to enjoy the results of the Company attained through their efforts and contributions.

Unless approved by shareholders in general meeting, the total number of shares issued and to be issued upon exercise of the options granted under the New Scheme (including exercised, cancelled and outstanding options) to each grantee in any 12-month period shall not exceed 1.00% of the total number of shares of the Company in issue at the relevant time.

An option may be exercised in accordance with the terms of the New Scheme at any time during the period to be notified by the Board to each grantee (provided that the period within which an option must be exercised shall not be more than ten years commencing on the date upon which the relevant option is granted) subject to any restrictions as may be imposed by the Board on the exercise of an option during the period in which an option may be exercised. A consideration of HK$1 will be payable upon acceptance of the offer.

As at the date of this announcement, the total number of shares which may be issued upon exercise of all options to be granted under the New Scheme and any other share option schemes of the Company was 762,429,300 shares, which represented 10.00% of the issued share capital of the Company as at 30 June 2012.

CAPITAL STRUCTURE

During the reporting period, certain holders of the remaining convertible notes in an aggregate principal amount of HK$306,000,000 exercised their options to convert the convertible notes into ordinary shares in the Company at a conversion price of HK$0.1 per share. As a result of the conversion of the convertible notes, the number of the Company's issued shares was increased by 3,060,000,000 shares. As at 30 June 2012, the number of the Company's issued shares was 7,624,293,000 shares.

As at 30 June 2012, the Group's gearing ratio calculated on the basis of convertible notes, bank and other borrowings of approximately HK$82.96 million (31 December 2011: approximately HK$597.32 million) and total assets of approximately HK$696.84 million (31 December 2011: approximately HK$692.66 million), was 10.64% (31 December 2011: 46.30%).

EVENT AFTER THE REPORTING PERIOD

Subsequent to 30 June 2012, the Company has issued announcements on 17 August 2012 and 27 August 2012 in connection with, inter alia, the proposed capital reorganisation and issuance of convertible notes and summary of which were as follows:

(a) The Company intends to put forward for approval by the shareholders of the Company of the proposed capital reorganisation of the Company ("Capital Reorganisation") which involves the following:

- share consolidation: every 4 existing shares of US$0.001 each in the issued share capital of the Company will be consolidated into one consolidated share of par value US$0.004;
- capital reduction: upon the share consolidation becoming effective, the par value of each issued consolidated share will be reduced from US$0.004 to US$0.001 by cancellation of US$0.003 of the paid-up capital of each issued consolidated share; and
- share premium reduction: the entire amount standing to the credit of the share premium account of the Company as at 30 June 2012 will be reduced and cancelled.

(b) On 16 August 2012, the Company has entered into a placing agreement (as supplemented and amended by a side letter dated 27 August 2012) (the "CN Placing Agreement") with Kingston Securities Limited as placing agent, pursuant to which, the Company has conditionally agreed to place convertible notes in the principal amount of HK$120,000,000 on a fully underwritten basis (the "Placing") which will carry a right to convert into conversion shares of the Company at the conversion price of, subject to adjustment, HK$0.12 per share after Capital Reorganisation becoming effective. The Group intends to apply the net proceeds obtained from the Placing for the redemption of the outstanding convertible notes and remaining proceeds as funds for business operations and development of the Group.

The proposed Capital Reorganisation and Placing are subject to approval by the Stock Exchange and the shareholders of the Company.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

There have been no significant changes in the Group's policy in terms of exchange rate exposure. The Group operates mainly in Hong Kong and the PRC. Most of the transactions are denominated in Hong Kong dollars ("HKD"), Renminbi ("RMB") and United States dollars ("USD"). The exchange rates of USD and RMB against HKD are relatively stable. Hence, the Group neither anticipate any significant exchange risk exposure nor have a foreign currency hedging policy. However, management of the Group will monitor foreign exposure closely and consider the usage of hedging instruments when necessary.

PLEDGE OF ASSETS

At the end of the reporting period, no pledge of assets was made by the Group.

EMPLOYEES AND REMUNERATION POLICIES

As of 30 June 2012, the Group had approximately 63 full time management, administrative and operation staff in the PRC and Hong Kong.

The Group provides competitive remuneration packages with attractive discretionary bonus to employees. The Group regularly reviews its remuneration packages in light of the overall development of the Group as well as the market conditions. In addition, the Group has adopted the share option scheme for eligible employees (including directors) to provide incentives to those with outstanding performance and contribution to the Group.

CHANGE OF DIRECTORSHIP

The followings are changes in the role of the directors in the Company since 1 January 2012:

– Mr. Zhang Xi, the joint chairman, an executive director of the Company and a member of the remuneration committee, resigned with effect from 21 May 2012. Mr. Ip Cheng Kuong, the joint chairman and executive director of the Company, became the sole chairman of the Company with effect from the same day.

– Mr. Fei Phillip, the vice chairman and an executive director of the Company, resigned with effect from 30 April 2012.

– Mr. Wu Zhuo Tong was appointed as a non-executive director of the Company with effect from 28 May 2012.

– Mr. Yeung Tsoi San, the chief executive officer and an executive director of the Company, was removed as chief executive officer and executive director with effect from 4 July 2012 and 12 July 2012 respectively.

CORPORATE GOVERNANCE

The Board is committed to maintaining a high standard of corporate governance in the best interests of the shareholders of the Company. The corporate governance principles adopted by the Company emphasized on a highly efficient board of directors, sound internal controls and the transparency and accountability to all shareholders of the Company.

As disclosed in the Corporate Governance Report contained in the Company's 2011 annual report, the Company has applied the principles under the Code on Corporate Governance Practices (the "Former Code"), and has been in compliance with relevant provisions of the Former Code.

The Stock Exchange has made various amendments to the Former Code set out in Appendix 14 of the Listing Rules, and the revised code, namely the "Corporate Governance Code and Corporate Governance Report" (the "Revised Code"), became effective on 1 April 2012. The Company has been in compliance with relevant provisions of the Former Code from 1 January 2012 to 31 March 2012 and the Revised Code from 1 April 2012 to 30 June 2012 (collectively, the "Codes"), save for the deviations disclosed below.

Under Code Provision A.4.1, non-executive directors ("NEDs" or individually "NED") should be appointed for a specific term, subject to re-election. Prior to 30 March 2012, all of the independent non-executive directors of the Company ("INEDs" or individually "INED") were not appointed for a specific term. However, all directors of the Company are subject to retirement and rotation once every three years in accordance with the Bye-laws of the Company. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are comparable with those in the Code.

On 30 March 2012, letters of appointment were entered into between the Company and each of the INEDs. Pursuant to the terms of the letters of appointment, all existing INEDs continue to be INEDs of the Company for a period of two years from 1 April 2012 and subject to retirement and rotation once every three years in accordance with the Bye-laws of the Company.

MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

During the reporting period, the Company has adopted a code of conduct regarding securities transactions by directors of the Company on terms no less exacting than the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in Appendix 10 to the Listing Rules. Having made specific enquiries to all directors of the Company, all directors have complied with the required standards of dealings as set out in the Model Code and the Company's own code of conduct during the reporting period.

AUDIT COMMITTEE

The audit committee comprises three INEDs, namely Ms. Ma Yin Fan, Mr. Leung Hoi Ying and Mr. Yu Pan.

During the reporting period, the audit committee of the Company has reviewed with management of the Company on internal controls and financial reporting matters related to the preparation of the unaudited condensed financial statements for the six months ended 30 June 2012.

REMUNERATION COMMITTEE

The remuneration committee comprises three INEDs, namely Ms. Ma Yin Fan, Mr. Leung Hoi Ying and Mr. Yu Pan. It is primarily responsible for offering advice to the Board on the matters pertaining to the remuneration policy and remuneration structure of the directors and senior management of the Company.

NOMINATION COMMITTEE

On 26 March 2012, the Company established a nomination committee with terms consistent with the Code Provisions A.5.1–A.5.4. The nomination committee comprises one executive director of the Company and two INEDs, namely Mr. Yeung Kwok Yu, Mr. Leung Hoi Ying and Mr. Yu Pan.

The nomination committee is primarily responsible for (i) reviewing the structure, size and composition (including the skills, knowledge and experiences) of the Board on a regular basis at least annually; (ii) making recommendations to the Board regarding on any proposed changes to the Board to complement the Company's corporate strategy; (iii) identifying individuals suitably qualified to become members of the Board and select or make recommendations to the Board on the selection of individuals nominated for directorships; (iv) assessing the independence of independent non-executive directors; and (v) making recommendations to the Board on relevant matters relating to the appointment or reappointment of directors and succession planning for directors, in particular the chairman and the chief executive officer.

REVIEW OF ACCOUNTS

The audit committee has reviewed with management and the external auditor the accounting principles and practices adopted by the Group and discussed internal controls, and financial reporting matters including the review of the unaudited interim financial statements for the period under review. The external auditor has reviewed the interim financial information for the six months ended 30 June 2012 in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

For the six months ended 30 June 2012, neither the Company nor any of its subsidiaries had purchased, sold, or redeemed any listed securities of the Company.

PUBLICATION OF UNAUDITED INTERIM RESULTS

This announcement is also published on the website of the Stock Exchange at www.hkex.com.hk. The interim report will be despatched to the shareholders of the Company and published on the website of the Stock Exchange and on the Company's website at www.cnepgl.com in due course.

By Order of the Board of
China New Energy Power Group Limited
Yeung Kwok Yu
Executive Director

Hong Kong, 27 August 2012

As at the date of this announcement, the executive directors of the Company are Mr. Ip Cheng Kuong, Ms. Catherine Chen, Mr. Chiu Kong, Mr. Yeung Kwok Yu, Mr. Kwan Kam Hung, Jimmy, Mr. Wah Wang Kei, Jackie and Mr. Chen Guang Lin; the non-executive director of the Company is Mr. Wu Zhuo Tong; and the independent non-executive directors of the Company are Ms. Ma Yin Fan, Mr. Leung Hoi Ying and Mr. Yu Pan.