

CIRCULAR DATED 13 AUGUST 2014

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. PLEASE READ THIS CIRCULAR CAREFULLY.

If you are in any doubt as to the course of action you should take, you should consult your stockbroker, bank manager, solicitor, accountant, tax adviser or other professional adviser immediately.

If you have sold or transferred all issued and paid-up ordinary shares in the capital of China Energy Limited (the “**Company**” or “**CEL**”), you should immediately forward this Circular together with the Notice of Extraordinary General Meeting and the accompanying proxy form to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for onward transmission to the purchaser or transferee.

The Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) assumes no responsibility for the correctness of any of the statements made, reports contained or opinions expressed in this Circular.

This Circular, the Exit Offer Letter and the Acceptance Forms (all as defined herein) shall not be construed as, may not be used for the purpose of, and do not constitute, a notice or proposal or advertisement or an offer or invitation or solicitation in any jurisdiction or in any circumstance in which such a notice or proposal or advertisement or an offer or invitation or solicitation is unlawful or not authorised, or to any person to whom it is unlawful to make such a notice or proposal or advertisement or an offer or invitation or solicitation.



CHINA ENERGY LIMITED

(Incorporated in the Republic of Singapore)
(Company Registration No. 200510060K)

CIRCULAR TO SHAREHOLDERS

IN RELATION TO

**THE PROPOSED VOLUNTARY DELISTING OF CHINA ENERGY LIMITED
PURSUANT TO RULES 1307 AND 1309 OF THE SGX-ST LISTING MANUAL**

Independent Financial Adviser to the Independent Directors of China Energy Limited

ASIAN CORPORATE ADVISORS PTE. LTD.

(Incorporated in the Republic of Singapore)
(Company Registration No. 200310232R)

IMPORTANT DATES, TIMES AND VENUE

- | | |
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| Last date and time for lodgement of proxy form | : 3 September 2014 at 4 p.m. |
| Date and time of Extraordinary General Meeting | : 5 September 2014 at 4 p.m. |
| Venue of Extraordinary General Meeting | : The Westin Singapore, Meeting Room 4,
12 Marina View,
Asia Square Tower 2,
Singapore 018961 |

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DEFINITIONS

In this Circular, the following definitions apply throughout except where the context otherwise requires:

GENERAL

“1Q2014 Results”	:	Unaudited financial statements for the three (3) months ended 31 March 2014
“Acceptance Forms”	:	FAA and/or FAT, as the case may be
“Announcement”	:	Joint announcement dated 11 November 2013 issued by the Offeror and the Company in relation to the Delisting Proposal and the Exit Offer
“Announcement Date”	:	11 November 2013, being the date of the Announcement
“Approval of Delisting Resolution Condition”	:	Has the meaning ascribed to it in section 3.6 of the Letter to Shareholders in this Circular
“Articles”	:	The articles of association of the Company, as amended from time to time up to the Latest Practicable Date
“Companies Act”	:	Companies Act, Chapter 50 of Singapore
“Consolidated NTA”	:	Has the meaning ascribed to it in section 2.2.1 of the Letter to Shareholders in this Circular
“CPF Agent Banks”	:	The banks approved by the CPF to be its agent banks, being DBS Bank Ltd, Oversea-Chinese Banking Corporation Limited and United Overseas Bank Limited as at the Latest Practicable Date
“CPFIS”	:	Central Provident Fund Investment Scheme
“CPFIS Investors”	:	Investors who purchased Shares using their CPF savings under the CPFIS
“Board”	:	The board of directors of the Company
“Circular”	:	This circular to Shareholders dated 13 August 2014 issued by the Company in relation to the Delisting
“Closing Date”	:	5.30 p.m. on 7 October 2014 or such later date(s) as may be announced from time to time by or on behalf of the Offeror, being the last day for lodgement of acceptances of the Exit Offer
“Code”	:	The Singapore Code on Take-overs and Mergers
“Company Securities”	:	(a) Shares; (b) securities which carry voting rights in CEL; and (c) convertible securities, warrants, options (including Options) or derivatives in respect of the Shares or securities which carry voting rights in CEL
“convertible securities”	:	Has the meaning ascribed to it in section 3 of Appendix I to this Circular
“Cui”	:	Cui Lianguo

DEFINITIONS

“Cui’s Shares”	:	Has the meaning ascribed to it in section 4 of the Letter to Shareholders in this Circular
“Delisting”	:	The proposed voluntary delisting of the Company from the Official List of the SGX-ST pursuant to Rules 1307 and 1309 of the Listing Manual
“Delisting Proposal”	:	The delisting proposal dated 8 November 2013 by the Offeror to the Board to seek the Delisting
“Delisting Resolution”	:	The resolution to be proposed at the EGM to approve the Delisting
“Directors”	:	The directors of the Company (including the Independent Directors) as at the Latest Practicable Date
“Dissenting Shareholders”	:	Has the meaning ascribed to it in section 8.2 of the Letter to Shareholders in this Circular
“Distributions”	:	Has the meaning ascribed to it in section 3.3.1 of the Letter to Shareholders in this Circular
“EGM”	:	The extraordinary general meeting of the Company to be held on 5 September 2014, notice of which is set out in the Notice of EGM at page N-1 of this Circular, and any adjournment thereof
“Encumbrances”	:	Has the meaning ascribed to it in section 3.3.1 of the Letter to Shareholders in this Circular
“Exit Offer”	:	The exit offer to be made by the Offeror, to acquire all the Shares in connection with the Delisting and on the terms and subject to the conditions set out in the Exit Offer Letter (including the Acceptance Forms), as such exit offer may be amended, extended and revised from time to time by the Offeror
“Exit Offer Letter”	:	The letter setting out the terms of the Exit Offer (including the Acceptance Forms), to be despatched by the Offeror to Shareholders if the Delisting Resolution is passed at the EGM
“Exit Offer Price”	:	S\$0.052 in cash for each Share tendered in acceptance of the Exit Offer
“FAA”	:	Form of Acceptance and Authorisation for Shares, to be issued to Shareholders whose Shares are deposited with CDP
“FAT”	:	Form of Acceptance and Transfer for Shares, to be issued to Shareholders whose Shares are not deposited with CDP
“FY”	:	Financial year ended or ending on, as the case may be, 31 December of a particular year as stated
“IFA Letter”	:	The letter dated 13 August 2014 from the IFA to the Independent Directors containing their advice in relation to the Exit Offer, as set out in Appendix VII to this Circular
“Independent Directors”	:	The Directors who are considered to be independent for the purposes of making recommendations to the Shareholders in relation to the Delisting Proposal and the Exit Offer, namely, Ong Kian Min, Lai Hock Meng and Leong Horn Kee

DEFINITIONS

“Irrevocable Undertaking”	:	Has the meaning ascribed to it in section 4 of the Letter to Shareholders in this Circular
“Latest Practicable Date”	:	30 July 2014, being the latest practicable date prior to the printing of this Circular
“Listing Manual”	:	The listing manual of the SGX-ST
“Memorandum and Articles of Association”	:	The memorandum and articles of association of the Company, as amended from time to time up to the Latest Practicable Date
“NTA”	:	Net tangible assets
“Offeror Related Disclosure”	:	Has the meaning ascribed to it in section 9 of Appendix I to this Circular
“Options”	:	Has the meaning ascribed to it in section 3.8.1 of the Letter to Shareholders in this Circular
“Overseas Shareholders”	:	Shareholders whose addresses are outside Singapore, as shown in the Register or, as the case may be, in the records of CDP
“PRC” or “China”	:	The People’s Republic of China
“Proxy Form”	:	Has the meaning ascribed to it in section 16.1 of the Letter to Shareholders in this Circular
“Record Date”	:	Has the meaning ascribed to it in section 3.3.1 of the Letter to Shareholders in this Circular
“Register”	:	The register of holders of the Shares, as maintained by the Share Registrar
“Relevant Directors”	:	The Directors who are exempted from making recommendations to the Shareholders in respect of the Exit Offer, namely Cui, Li Qiang and Wong William
“RMB”	:	Renminbi, the lawful currency of the PRC
“Scheme”	:	Has the meaning ascribed to it in section 3.8.1 of the Letter to Shareholders in this Circular
“Shares”	:	Issued ordinary shares in the capital of the Company
“Shareholders”	:	Registered holders of the Shares or, if the registered holder of the Shares is the CDP, depositors who have Shares entered against their names in the depository register
“SGX-ST No Objection Confirmation”	:	Has the meaning ascribed to it in the Tentative Timetable
“SGXNET”	:	A system network used by listed companies to send information and announcements to SGX-ST or any other system network prescribed by SGX-ST
“Substantial Shareholder”	:	A person who has an interest (as defined in the Companies Act) in Shares and the total votes attached to those Shares is not less than 5% of the total votes attached to all the voting Shares

DEFINITIONS

“S\$” and “cents”	:	Singapore dollars and cents, respectively, being the lawful currency of the Republic of Singapore
“US\$”	:	United States Dollars, being the lawful currency of the United States of America
“Valuation Report”	:	The valuation report from the Independent Valuer dated 13 August 2014, as set out in Appendix VIII to this Circular
“Warrants”	:	Has the meaning ascribed to it in section 3.7.1 of the Letter to Shareholders in this Circular
“%” or “per cent.”	:	Per centum or percentage

COMPANIES/ORGANISATIONS

“CDP”	:	The Central Depository (Pte) Limited
“CEL” or “Company”	:	China Energy Limited
“CPF”	:	Central Provident Fund
“Giant Energy”	:	Has the meaning ascribed to it in section 11.2.2 of the Letter to Shareholders in this Circular
“Group”	:	The Company, its subsidiaries and associated companies
“IFA” or “ACA”	:	Asian Corporate Advisors Pte. Ltd., the independent financial adviser to the Independent Directors
“Independent Auditors”	:	Moore Stephens LLP Public Accountants and Chartered Accountants of Singapore
“Independent Valuer” or “LCH”	:	LCH (Asia-Pacific) Surveyors Limited, the valuer appointed by the Independent Directors in connection with the Delisting and the Exit Offer, to issue the Valuation Report
“New Energy”	:	Has the meaning ascribed to it in section 11.2.3 of the Letter to Shareholders in this Circular
“Offeror”	:	Lianguo International Limited
“Provenance Capital”	:	Provenance Capital Pte. Ltd.
“SGX-ST”	:	Singapore Exchange Securities Trading Limited
“SIC”	:	Securities Industry Council of Singapore
“Share Registrar”	:	Boardroom Corporate & Advisory Services Pte. Ltd.

Unless otherwise defined, the terms “**acting in concert**”, “**associates**” and “**associated company**” shall have the meanings ascribed to them in the Code.

The term “**Controlling Shareholder**” shall have the meaning ascribed to it in the Listing Manual.

The terms “**depositor**” and “**depository register**” shall have the meanings ascribed to them in Section 130A of the Companies Act.

The term “**interest**” shall have the meaning ascribed to it in Section 7 of the Companies Act.

DEFINITIONS

The terms “**subsidiary**” and “**related corporation**” shall have the meanings ascribed to them in Section 5 and Section 6 of the Companies Act.

The term “**treasury shares**” shall have the meaning ascribed to it in Section 4 of the Companies Act.

References to “**you**” and “**your**” in this Circular are to the Shareholders.

Appendices. Reference to any Appendix shall refer to the Appendices of this Circular, unless otherwise specified.

Capitalised terms in the extracts. Capitalised terms used in the extracts of the Delisting Proposal shall bear the same meanings as attributed to them in this Circular, unless otherwise specified.

Headings. The headings in this Circular are inserted for convenience only and shall be ignored in construing this Circular.

Gender. Words importing the singular shall, where applicable, include the plural and *vice versa* and words importing one gender shall include the other gender. References to persons shall, where applicable, include corporations.

Rounding. Any discrepancies in this Circular between the listed amounts and the total thereof are due to rounding. Accordingly, figures shown in totals in this Circular may not be an arithmetic aggregation of the figures that precede them.

Shares in issue and treasury shares. Any reference in this Circular to the total Shares in issue as at the Latest Practicable Date is a reference to a total of 1,252,885,000 Shares. The Company does not hold any treasury shares as at the Latest Practicable Date.

Statutes. Any reference in this Circular to any enactment is a reference to that enactment as for the time being amended or re-enacted. Any word defined in the Companies Act, the Listing Manual or the Code or any statutory modification thereof and used in this Circular shall, where applicable, have the meaning assigned to it under the Companies Act, the Listing Manual or the Code or any statutory modification thereof, as the case may be, unless the context otherwise requires.

Time and date. Any reference to a time of day and date in this Circular is made by reference to Singapore time and date, unless otherwise stated.

FORWARD-LOOKING STATEMENTS

All statements other than statements of historical facts included in this Circular are or may be forward-looking statements. Forward-looking statements include but are not limited to those using words such as “aim”, “seek”, “expect”, “anticipate”, “estimate”, “believe”, “intend”, “project”, “plan”, “potential”, “strategy”, “forecast”, “possible”, “probable” and similar expressions or future or conditional verbs such as “if”, “will”, “would”, “should”, “could”, “may” or “might”. These statements reflect the Company’s current expectations, beliefs, hopes, intentions or strategies regarding the future and assumptions in light of currently available information. Such forward-looking statements are not guarantees of future results, performance, events or achievements and involve known and unknown risks and uncertainties. Accordingly, actual results may differ materially from those described in such forward-looking statements. Given the risks and uncertainties involved, Shareholders and investors should not place undue reliance on such forward-looking statements, and neither the Company nor the IFA assumes any obligation to update publicly or revise any forward-looking statement.

TENTATIVE TIMETABLE

Date of despatch of this Circular	: 13 August 2014
Last date and time for lodgement of Proxy Forms for the EGM ⁽¹⁾	: 3 September 2014 at 4 p.m.
Date and time of the EGM	: 5 September 2014 at 4 p.m.
Expected date of despatch of the Exit Offer Letter and commencement of the Exit Offer	: 15 September 2014
Expected last date of trading in the Shares on the SGX-ST prior to the Delisting	: To be announced by or on behalf of the Company
Expected Closing Date and time of the Exit Offer	: 5.30 p.m. on 7 October 2014, or such other date(s) as may be announced from time to time by the Offeror
Expected date for the Delisting of the Shares	: Approximately two (2) to three (3) weeks after the Closing Date, or such other date as may be announced from time to time by the Company
Expected date(s) for the payment of the Exit Offer Price, in respect of valid acceptances of the Exit Offer	: Within ten (10) days of the date of receipt of acceptances which are valid and complete in all respects

Note:

- (1) Proxy Forms should be duly completed and deposited at the Company's registered office at Six Battery Road #10-01 Singapore 049909, not less than 48 hours before the time appointed for holding the EGM. Completion and return of a Proxy Form will not preclude a Shareholder from attending and voting in person at the EGM in place of his proxy.

Shareholders should note that, save for the date of despatch of this Circular, the last date and time for lodgement of Proxy Forms for the EGM, and the date and time of the EGM, the above timetable is indicative only and may be subject to change and subject to receipt by the Company of the SGX-ST's approval in principle or confirmation that it has no objection to the Delisting (on such terms as the SGX-ST may impose) (the "SGX-ST No Objection Confirmation"). For events listed above which are described as "expected", please refer to future announcement(s) by or on behalf of the Company and/or the Offeror via SGXNET for the exact dates and times of such events.

Please note that the Exit Offer will only be made after the Delisting Resolution has been approved by Shareholders at the EGM in accordance with Rule 1307 of the Listing Manual. Accordingly, the Exit Offer Letter and the relevant Acceptance Forms will be despatched to Shareholders only after the Approval of Delisting Resolution Condition is satisfied.

LETTER TO SHAREHOLDERS

CHINA ENERGY LIMITED

(Incorporated in the Republic of Singapore)
(Company Registration No. 200510060K)

Board of Directors:

Cui Lianguo (Chairman and Chief Executive Officer)
Li Qiang (Executive Director and Deputy Chief Executive Officer)
Wong William (Executive Director)
Ong Kian Min (Lead Independent Director)
Lai Hock Meng (Independent Director)
Leong Horn Kee (Independent Director)

Registered Office:

Six Battery Road
#10-01
Singapore 049909

13 August 2014

To: The Shareholders of China Energy Limited

Dear Sir/Madam

PROPOSED VOLUNTARY DELISTING OF CHINA ENERGY LIMITED PURSUANT TO RULES 1307 AND 1309 OF THE LISTING MANUAL

1. INTRODUCTION

- 1.1 On the Announcement Date, the Company and the Offeror jointly announced that the Offeror had presented to the Directors the Delisting Proposal to seek the voluntary delisting of the Company from the Official List of the SGX-ST pursuant to Rules 1307 and 1309 of the Listing Manual. Under the terms of the Delisting Proposal, the Offeror will make the Exit Offer at the Exit Offer Price.

A copy of the Announcement is available on the website of the SGX-ST at <http://www.sgx.com>.

- 1.2 Having reviewed the Delisting Proposal, the Board has resolved, *inter alia*, to: (a) make an application to the SGX-ST for the Delisting; and (b) subject to the approval of the SGX-ST, convene an EGM to seek the approval of the Shareholders for the Delisting.
- 1.3 The purpose of this Circular is to provide Shareholders with information relating to the Delisting Proposal and the Exit Offer, the recommendation of the Independent Directors on the Exit Offer, and to seek Shareholders' approval at the EGM for the Delisting Resolution to be proposed at the EGM, notice of which is set out in the Notice of EGM at page N-1 of this Circular.

2. THE DELISTING PROPOSAL

Under the terms of the Delisting Proposal, the Offeror will make the Exit Offer to acquire all the Shares. The Delisting Resolution, if approved by Shareholders at the EGM in accordance with Rule 1307 of the Listing Manual, will result in the Delisting.

2.1 Rules 1307 and 1309 of the Listing Manual

2.1.1 **Rule 1307 of the Listing Manual.** Under Rule 1307 of the Listing Manual, the SGX-ST may agree to an application by the Company to delist from the Official List of the SGX-ST if:

- (i) the Company convenes an EGM to obtain Shareholders' approval for the Delisting;
- (ii) the Delisting Resolution is approved by a majority of at least 75% of the total number of Shares (excluding treasury shares) held by the Shareholders present and voting, on a poll, either in person or by proxy at the EGM (the Directors and Controlling Shareholders need not abstain from voting on the Delisting Resolution); and

LETTER TO SHAREHOLDERS

- (iii) the Delisting Resolution has not been voted against by 10% or more of the total number of Shares (excluding treasury shares) held by the Shareholders present and voting, on a poll, either in person or by proxy at the EGM.

2.1.2 Rule 1309 of the Listing Manual. In addition, under Rule 1309 of the Listing Manual, if the Company is seeking to delist from the SGX-ST:

- (i) a reasonable exit alternative, which should normally be in cash, should be offered to the Shareholders and holders of any other classes of listed securities to be delisted; and
- (ii) the Company should normally appoint an independent financial adviser to advise on the Exit Offer.

2.2 Applications to the SIC

Applications were made to the SIC to, *inter alia*, seek clarification regarding the extent to which the provisions of the Code applied to the Exit Offer. The SIC ruled on 13 August 2013 and 9 January 2014, *inter alia*, that:

2.2.1 the Exit Offer is exempted from compliance with the following provisions of the Code:

- (i) Rule 20.1 on keeping the Exit Offer open for 14 days after it has been revised;
- (ii) Rule 22 on the offer timetable;
- (iii) Rule 28 on acceptances; and
- (iv) Rule 29 on the right of acceptors to withdraw their acceptances,

subject to:

- (i) this Circular including:
 - (A) the consolidated net tangible assets per share of the Group based on the latest published accounts prior to the date of this Circular (the “**Consolidated NTA**”); and
 - (B) particulars of all known material changes as at the latest practicable date which may affect the Consolidated NTA or a statement that there are no such known material changes; and
- (ii) the Exit Offer being kept open for at least:
 - (A) 21 days after the date of the despatch of the Exit Offer Letter if the Exit Offer Letter is despatched after Shareholders’ approval for the Delisting has been obtained; or
 - (B) 14 days after the announcement of Shareholders’ approval of the Delisting if the Exit Offer Letter is despatched together with this Circular;

2.2.2 the SIC has no objection that no appropriate offer under Rule 19 of the Code will be made for the outstanding Options; and

2.2.3 the Relevant Directors are exempted from the requirement of making a recommendation to the Shareholders on the Exit Offer. However, the Relevant Directors must still assume responsibility for the accuracy of the facts stated and opinions expressed in documents and advertisements issued by, or on behalf of, the Company to the Shareholders in connection with the Exit Offer.

LETTER TO SHAREHOLDERS

2.3 Application to the SGX-ST

An application was made on behalf of the Company to the SGX-ST on 8 May 2014 to delist the Company from the Official List of the SGX-ST.

3. THE EXIT OFFER

Subject to the approval of the Delisting Resolution by Shareholders, the Offeror will make the Exit Offer to acquire all the Shares on the terms and subject to the conditions set out in this Circular, the Exit Offer Letter, the Acceptance Form(s) and on the following basis:

3.1 Exit Offer Price

For each Share: S\$0.052 in cash (the “Exit Offer Price”).

3.2 Shares

As stated in the Delisting Proposal, the Exit Offer is extended to:

3.2.1 all the Shares including Shares owned, controlled or agreed to be acquired by parties acting or presumed to be acting in concert with the Offeror; and

3.2.2 all new Shares unconditionally issued or to be issued pursuant to the valid exercise of any Options prior to the close of the Exit Offer.

3.3 No Encumbrances

As stated in the Delisting Proposal:

3.3.1 The Shares will be acquired fully paid and free from all claims, liens, equities, charges, pledges, rights of pre-emption and other encumbrances and any other third party rights or interests of any nature whatsoever (the “**Encumbrances**”), and together with all rights, benefits, entitlements and advantages attached thereto as at the Announcement Date and thereafter attaching thereto, including the right to receive and retain all dividends, rights and other distributions which may be declared, paid or made by CEL (collectively, the “**Distributions**”) (if any), on the Record Date for which falls on or after the Announcement Date. For the purpose of the Delisting Proposal, “**Record Date**” means, in relation to any Distributions, the date on which Shareholders must be registered with the Company or with CDP, as the case may be, in order to participate in such Distributions; and

3.3.2 In the event that any such Distribution has been paid by the Company to a Shareholder who accepts the Exit Offer on or after the Announcement Date, the Offeror reserves the right to reduce the Exit Offer Price payable to a Shareholder who validly accepts or has validly accepted the Exit Offer by the amount of such Distribution.

As at the Latest Practicable Date, no Distributions have been declared, paid or made, the Record Date for which falls on or after the Announcement Date.

3.4 Making of Exit Offer

The Exit Offer will only be made **after** the Delisting Resolution has been approved by Shareholders at the EGM in accordance with Rule 1307 of the Listing Manual. **Accordingly, if the Approval of Delisting Resolution Condition is not satisfied, the Exit Offer will not be made.**

When made, the Exit Offer will not be conditional upon a minimum number of acceptances being received by the Offeror.

LETTER TO SHAREHOLDERS

3.5 Acceptances

As stated in the Delisting Proposal, Shareholders may accept the Exit Offer in respect of all or part of their holdings of Shares.

3.6 Conditions for Delisting

As stated in the Delisting Proposal, the Delisting will be conditional on the approval of the Delisting Resolution by a majority of at least 75 per cent. of the total number of Shares (excluding treasury shares) held by Shareholders present and voting, on a poll, either in person or by proxy at the EGM, and the Delisting Resolution not being voted against by 10 per cent. or more of the total number of Shares (excluding treasury shares) held by the Shareholders present and voting, on a poll, either in person or by proxy, at the EGM (the “**Approval of Delisting Resolution Condition**”).

The Delisting is also conditional upon the receipt by the Company of the SGX-ST No Objection Confirmation.

Shareholders should note that under Rule 1307 of the Listing Manual, all Shareholders including the Directors and the Controlling Shareholders are entitled to vote on the Delisting Resolution. As at the Latest Practicable Date, the Offeror does not hold any Shares. However, Cui, a Director and a Controlling Shareholder, has provided an Irrevocable Undertaking to, *inter alia*, vote in favour of the Delisting Resolution at the EGM and to accept the Exit Offer in respect of all the 633,424,400 Shares owned by him (representing 50.56% of the total number of Shares of 1,252,885,000 as at the Latest Practicable Date). Further details on Irrevocable Undertaking of Cui is set out in section 4 of this Circular.

3.7 No See-Through Offer for the Warrants

As stated in the Delisting Proposal:

3.7.1 On 7 April 2009, the Company issued 10 million warrants to a bank for a nominal consideration of S\$1.00 in relation to services performed in connection with the restructuring of loans to the Company and a subsidiary (“**Warrants**”). Each Warrant entitles the holder to subscribe for one new Share at an exercise price of S\$0.13 per Share.

3.7.2 The Warrants have expired on 4 April 2014 and there are no outstanding Warrants as at the Latest Practicable Date.

As far as the Board is aware, the Offeror and parties acting in concert with it (including Cui) have not acquired any Warrants in the period commencing six (6) months preceding the Announcement Date and ending on the Latest Practicable Date.

3.8 No See-Through Offer for the Options

As stated in the Delisting Proposal:

3.8.1 As at 30 September 2013, there are 26,000,000 outstanding options to subscribe for new shares (the “**Options**”) issued under the China Energy Employee Share Option Scheme (the “**Scheme**”).

3.8.2 As the Options are not transferable under the terms of the Scheme, the Offeror will not be making an offer for the outstanding Options. However, the Exit Offer will be extended to all Shares unconditionally issued or to be issued pursuant to the valid exercise of the Options (if any) prior to the close of the Exit Offer.

LETTER TO SHAREHOLDERS

3.9 Warranty

As stated in the Delisting Proposal, acceptance of the Exit Offer by a Shareholder will be deemed to constitute an irrevocable warranty by that Shareholder that each Share in respect of which the Exit Offer is accepted is sold by him, as or on behalf of the beneficial owner(s) thereof, fully paid and free from all Encumbrances, and together with all rights, benefits and entitlements attached thereto as at the Announcement Date and thereafter attaching thereto, including the right to receive and retain all Distributions (if any) declared, paid or made by CEL, the Record Date for which falls on or after the Announcement Date.

3.10 Duration

As stated in the Delisting Proposal:

3.10.1 If the Exit Offer Letter is despatched together with this Circular, the Exit Offer will be open for acceptance by Shareholders for a period of at least 14 days after the date of announcement of Shareholders' approval of the Delisting.

3.10.2 If the Exit Offer Letter is despatched after approval of the Delisting Resolution at the EGM, the Exit Offer will be open for acceptance by Shareholders for a period of at least 21 days after the date of despatch of the Exit Offer Letter.

3.10.3 Although no extension of the Exit Offer is currently contemplated, if the Exit Offer is extended, an announcement will be made of such extension, and the Exit Offer will remain open for acceptance for such period as may be announced. If the Exit Offer is extended, Shareholders who have validly accepted the Exit Offer in respect of part of their Shares will be entitled to tender additional Shares in acceptance of the Exit Offer.

If the Delisting Resolution is approved by Shareholders at the EGM, it is expected that the Exit Offer Letter and the Acceptance Forms will be despatched on 15 September 2014 and the Closing Date of the Exit Offer will be 5.30 p.m. on 7 October 2014 or such later date(s) as may be announced from time to time by or on behalf of the Offeror.

4. IRREVOCABLE UNDERTAKING

The information relating to the Irrevocable Undertaking has been extracted from paragraph 6 of the Delisting Proposal and reproduced below.

6. Irrevocable Undertaking

The Offeror has obtained an irrevocable undertaking (the "**Irrevocable Undertaking**") from Cui to, *inter alia*, vote in favour of the Delisting Resolution at the EGM and to accept the Exit Offer in respect of all the 633,424,400 Shares owned by him ("**Cui's Shares**"), on and subject to the terms set out in the Irrevocable Undertaking. The Irrevocable Undertaking of Cui includes an agreement by Cui to either waive or defer receipt of payment of the consideration in respect of all the Shares held by him and tendered in acceptance of the Exit Offer to a date to be mutually agreed between the Offeror and Cui after the close of the Exit Offer, notwithstanding the provisions of the Code in relation to the time period in which payment should be made.

The Irrevocable Undertaking will expire on, *inter alia*, the date of the EGM if the Delisting Resolution is not approved at the EGM or the date when the Exit Offer (including any revised Exit Offer by or on behalf of the Offeror) is withdrawn, lapses or closes.

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5. INFORMATION ON THE OFFEROR

The information relating to the Offeror has been extracted from paragraph 5 of the Announcement and reproduced below.

5. Information on the Offeror

5.1 The Offeror was incorporated in the British Virgin Islands on 20 August 2007 as a special purpose vehicle. Its principal activity is that of an investment holding company. As at the Announcement Date, the Offeror has an issued and paid-up share capital of US\$1.00 comprising 1 ordinary share which is owned by Cui. As at the Announcement Date, the sole director of the Offeror is Cui.

5.2 As at the Announcement Date, the Offeror does not hold any Shares. However, Cui has a direct interest in 633,424,400 Shares, representing approximately 50.6 per cent. of the total number of issued Shares¹, and Options granted under the Scheme to subscribe for a total of 8,000,000 Shares² as at the Announcement Date.

As far as the Board is aware, the information on the Offeror in the above extract is accurate as at the Latest Practicable Date. Additional information on the Offeror is set out in **Appendix I** of this Circular.

6. INFORMATION ON THE COMPANY

CEL is a company incorporated in Singapore and is listed on the Mainboard of the SGX-ST. As at the Latest Practicable Date, the Company has an issued and paid-up share capital of S\$233,594,553 comprising 1,252,885,000 Shares.

Additional information on the Company, including a summary of the Group's financial performance for the last three financial years, namely FY2011, FY2012 and FY2013 and 1Q2014 is set out in **Appendix II** to this Circular.

¹ All references to percentage shareholding of the total number of Shares in this Announcement are based on 1,252,885,000 Shares in issue as at the Announcement Date.

² Of which: (1) 4,000,000 Shares shall be allotted at the exercise price of S\$0.184 per Share with an exercise period from 17 May 2011 to 16 May 2015; and (2) 4,000,000 Shares shall be allotted at the exercise price of S\$0.116 per Share with an exercise period from 11 May 2012 to 10 May 2016.

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7. RATIONALE FOR THE DELISTING PROPOSAL AND THE OFFEROR'S INTENTIONS RELATING TO THE COMPANY

The information relating to the Offeror's rationale for the Delisting and the Offeror's intentions relating to the Company has been extracted from paragraphs 7 and 8 of the Delisting Proposal and reproduced below.

7. Rationale for the Delisting Proposal

7.1 Compliance Costs of Maintaining Listing. CEL incurs compliance costs in maintaining its listed status. The privatisation of CEL would allow CEL to dispense with expenses relating to the maintenance of a listed status and focus its resources on its business operations.

7.2 Low Trading Liquidity of Shares. The trading volume of the Shares has been very low, with total volume of 177,347,200 Shares over the 12 months preceding the Announcement Date, representing 14.1551 per cent. of the total number of issued Shares of CEL. The daily average volume transacted over the same period was 709,389 Shares or 0.0566 per cent. of the total number of issued Shares of CEL.

Based on historical trading patterns, it is the Offeror's view that the low liquidity of the Shares is likely to continue and accordingly, the purpose of maintaining the Company's listed status for trading liquidity of the Shares does not appear to have been achieved.

7.3 Opportunity to Exit. The Group has experienced losses for the last 3 financial years. The audited consolidated net asset value per Share has decreased from RMB1.1782 per Share as at 31 December 2010 to RMB0.4119 per Share as at 31 December 2012. As at 30 September 2013, the unaudited consolidated net asset value per Share of the Group is RMB0.2526 or approximately S\$0.0515, based on the prevailing exchange rate of RMB4.9067: S\$1.00³. Through the Exit Offer, the Offeror aims to provide Shareholders with an opportunity to realise their entire investments in CEL for a cash consideration, an option which may not otherwise be readily available due to the low trading liquidity of the Shares.

7.4 No Need for Access to Capital Markets. In the last 2 years, the Company has not carried out any exercise to raise cash funding on the SGX-ST. The Company is unlikely to require access to the Singapore capital markets to finance its operations in the foreseeable future. Accordingly, it is not necessary for the Company to maintain a listing on the SGX-ST.

8. Offeror's Intentions for CEL

The Offeror currently has no intention to (i) propose any major changes to the existing businesses of the Group; (ii) redeploy the fixed assets of the Group; or (iii) discontinue the employment of the employees of the Group, other than in the ordinary course of business. Nonetheless, the Offeror retains the flexibility at any time to consider options or opportunities in relation to the Group which may present themselves, and which it may regard to be in the interests of the Company.

3 Source: Monetary Authority of Singapore as at 7 November 2013.

LETTER TO SHAREHOLDERS

8. IMPLICATIONS OF DELISTING FOR SHAREHOLDERS AND COMPULSORY ACQUISITION

8.1 Implications of Delisting for Shareholders

Shareholders should note that shares of unquoted companies are generally valued at a discount to the shares of comparable listed companies as a result of the lack of liquidity and marketability. **If the Company is delisted from the Official List of the SGX-ST, it is likely to be difficult for Shareholders who do not accept the Exit Offer to sell their Shares in the absence of a public market for the Shares as there is no arrangement for Shareholders to exit. Even if such Shareholders were able to sell their Shares, they may receive a lower price as compared to the Exit Offer Price.** Further, any transfer or sale of Shares represented by share certificates will be subject to a stamp duty.

Shareholders should also note that, under the Code, except with the consent of the SIC, neither the Offeror nor any person acting in concert with it may, within six (6) months of the closure of the Exit Offer, make a second offer to, or acquire any Shares from, any Shareholder on terms better than those made available under the Exit Offer.

As an unquoted company, the Company will no longer be obliged to comply with the listing requirements of the SGX-ST, in particular the continuing corporate disclosure requirements under Chapter 7 and Appendices 7.1 to 7.4 of the Listing Manual. Nonetheless, as a company incorporated in Singapore, the Company will still need to comply with the Companies Act and its memorandum and articles of association and the interests of Shareholders who do not accept the Exit Offer will be protected to the extent provided for by the Companies Act which includes, *inter alia*, the entitlement to be sent a copy of the profit and loss accounts and balance sheet at least 14 days before each annual general meeting, at which the accounts will be presented.

If the Company is delisted from the Official List of the SGX-ST, each Shareholder who holds Shares that are deposited with CDP and does not accept the Exit Offer will be entitled to one share certificate representing his delisted Shares. The Share Registrar will arrange to forward the share certificates to such Shareholders (who are not CPFIS Investors), by ordinary post and at the Shareholders' own risk, to their respective addresses as such addresses appear in the records of CDP for their physical safekeeping. The share certificates belonging to CPFIS Investors who do not accept the Exit Offer will be forwarded to their respective CPF Agent Banks for their safekeeping.

Shareholders who are in doubt of their position should seek independent professional advice.

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8.2 Compulsory Acquisition of Shares

8.2.1 The information relating to the rights of compulsory acquisition has been extracted from paragraph 9 of the Delisting Proposal and reproduced below.

9. Compulsory Acquisition

Pursuant to Section 215(1) of the Companies Act, Chapter 50 of Singapore (the “**Companies Act**”), if the Offeror receives valid acceptances pursuant to the Exit Offer (or otherwise acquires Shares during the period the Exit Offer is open for acceptance) in respect of not less than 90 per cent. of the total number of issued Shares (other than those already held by the Offeror, its related corporations or their respective nominees as at the date of the Exit Offer and excluding treasury shares), the Offeror will have the right to compulsorily acquire, at the Exit Offer Price, all the Shares of Shareholders who have not accepted the Exit Offer (the “**Dissenting Shareholders**”). **In such event, the Offeror intends to exercise its rights of compulsory acquisition.**

In addition, pursuant to Section 215(3) of the Companies Act, if the Offeror, its related corporations or their respective nominees acquire, pursuant to the Exit Offer, such number of Shares which, together with Shares held by the Offeror, its related corporations or their respective nominees, comprise 90 per cent. or more of the total number of Shares (excluding treasury shares), Dissenting Shareholders have the right to require the Offeror to acquire their Shares at the Exit Offer Price. Shareholders who wish to exercise such right are advised to seek their own independent legal advice.

8.2.2 In the event the requirements of Delisting under Rules 1307 and 1309 of the Listing Manual are met, but (i) the Offeror is not entitled to exercise its right of compulsory acquisition under Section 215(1) of the Companies Act; or (ii) Shareholders who have not accepted the Exit Offer are not entitled to require the Offeror to acquire their Shares at the Exit Offer Price under Section 215(3) of the Companies Act, the Company will be delisted, and Shareholders who do not accept the Exit Offer will continue to hold their Shares with the Company becoming an unlisted company.

8.2.3 Shareholders who wish to exercise their rights under Section 215(3) of the Companies Act are advised to seek independent professional advice.

9. CONFIRMATION OF FINANCIAL RESOURCES

Provenance Capital confirms that sufficient financial resources are available to the Offeror to satisfy full acceptances of the Exit Offer at the Exit Offer Price for the maximum potential Shares⁴ (excluding Cui's Shares).

⁴ Maximum potential Shares means the total number of Shares which would be in issue if all the outstanding Options which are exercisable prior to the close of the Exit Offer are validly exercised as at the close of the Exit Offer.

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10. OVERSEAS SHAREHOLDERS

10.1 Availability of Exit Offer and documents relating to the Delisting

The information relating to the availability of the Exit Offer and the documents relating to the Delisting to Overseas Shareholders has been extracted from paragraph 10 of Appendix 1 of the Delisting Proposal and reproduced below.

10. Overseas Shareholders

10.1 Overseas Shareholders. The availability of the Exit Offer to Shareholders whose addresses are outside Singapore, as shown on the register of members of the Company or in the records of CDP (as the case may be) (each, an “**Overseas Shareholder**”) may be affected by the laws of the relevant overseas jurisdictions in which they are located. Accordingly, all Overseas Shareholders should inform themselves about, and observe, any applicable requirements in the relevant overseas jurisdictions. For the avoidance of doubt, the Exit Offer shall be made to all Shareholders including those to whom the Exit Offer Letter and the relevant acceptance forms will not be sent, provided that the Exit Offer does not constitute an offer or a solicitation to any person in any jurisdiction in which such offer or solicitation is unlawful and the Exit Offer is not proposed in any jurisdiction in which the introduction or implementation of the Exit Offer would not be in compliance with the laws of such jurisdiction.

The Exit Offer (unless otherwise determined by the Offeror and permitted by applicable law and regulation) will not be made, directly or indirectly, in or into, or by the use of the mails of, or by any means or instrumentality (including, without limitation, telephonically or electronically) of interstate or foreign commerce of, or any facility of a nation, state or other securities exchange of, any jurisdiction where the making of or the acceptance of the Exit Offer would violate the law of that jurisdiction (“**Restricted Jurisdiction**”) and the Exit Offer will not be capable of acceptance by any such use, means, instrumentality or facilities.

10.2 Copies of Offer Document. Where there are potential restrictions on sending the Exit Offer Letter and the relevant acceptance forms accompanying the Exit Offer Letter to any overseas jurisdiction, the Offeror reserves the right not to send such documents to such overseas jurisdictions. Subject to compliance with applicable laws, any affected Overseas Shareholder may, nonetheless, attend in person and obtain a copy of the Exit Offer Letter and the relevant acceptance forms from the office of the Company’s share registrar, Boardroom Corporate & Advisory Services Pte. Ltd. at 50 Raffles Place, #32-01 Singapore Land Tower, Singapore 048623. Alternatively, an Overseas Shareholder may, subject to compliance with applicable laws, write to the Offeror c/o the Company’s share registrar at the above-stated address to request for the Exit Offer Letter and the relevant form(s) of acceptance to be sent to an address in Singapore by ordinary post at his own risk, up to 5 market days prior to the close of the Exit Offer.

Copies of any formal documentation relating to the Exit Offer are not being, and must not be, directly or indirectly, mailed or otherwise forwarded, distributed or sent in or into or from any Restricted Jurisdiction and will not be capable of acceptance by any such use, instrumentality or facility within any Restricted Jurisdiction and persons receiving such documents (including custodians, nominees and trustees) must not mail or otherwise forward, distribute or send them in or into or from any Restricted Jurisdiction.

10.2 Circular

This Circular does not constitute an offer to sell or the solicitation of an offer to subscribe for or buy any security, nor is it a solicitation of any vote or approval in any jurisdiction, nor shall there be any sale, issuance or transfer of the securities referred to in this Circular in any jurisdiction in contravention of applicable law and regulation. The Exit Offer will be made solely by the Exit Offer Letter and the Acceptance Forms accompanying the Exit Offer Letter, which will contain the full terms and conditions of the Exit Offer, including details as to how the Exit Offer may be accepted.

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In view of the potential restrictions on sending this Circular or any related documents to any overseas jurisdiction, the Company reserves the right not to send such documents to such overseas jurisdictions. Subject to compliance with applicable laws, any affected Overseas Shareholder may, nonetheless, attend in person and obtain a copy of this Circular during normal business hours and up to 5.30 p.m. on the Closing Date from the Share Registrar at 50 Raffles Place, #32-01 Singapore Land Tower, Singapore 048623. Alternatively, an Overseas Shareholder may, subject to compliance with applicable laws, write to the Company c/o the Share Registrar at the above-stated address to request for the Circular to be sent to an address in Singapore by ordinary post at his own risk, up to 5 market days prior to the Closing Date.

11. EXEMPTION RELATING TO DIRECTORS' RECOMMENDATION

11.1 All the Directors, except for the Relevant Directors, are independent for the purposes of the Exit Offer and are required to make a recommendation to Shareholders in respect of the Exit Offer.

11.2 An application was made to the SIC to seek the SIC's ruling that the Relevant Directors be exempted from the requirement of making a recommendation to Shareholders on the Exit Offer as they face irreconcilable conflicts of interests in relation to the Exit Offer for the reasons as set out below:

11.2.1 Cui, who is the Chairman and Chief Executive Officer of CEL, is currently the sole shareholder and director of the Offeror.

11.2.2 Li Qiang, who is the Executive Director and Deputy Chief Executive Officer of CEL, is actively assisting Cui and the Offeror with the Exit Offer including arrangements in connection with the establishment and incorporation of the Offeror and for the financing of the Exit Offer. Li Qiang is also a director and shareholder of Giant Energy Corporation (Hong Kong) Limited ("**Giant Energy**"), a company incorporated in the Hong Kong Special Administrative Region of PRC, which is controlled by Cui (who holds more than 50% of the ordinary shares in Giant Energy and is also a director of Giant Energy) and which will therefore be presumed to be a party acting in concert with the Offeror and/or Cui pursuant to Note 1 of Rule 8.3 of the Code.

11.2.3 Wong William, who is the Executive Director of CEL, is a director of New Energy Ltd ("**New Energy**"), an exempted company incorporated in the Cayman Islands, which is controlled by Cui (who is also a director of New Energy) and which will therefore be presumed to be a party acting in concert with the Offeror and/or Cui pursuant to Note 1 of Rule 8.3 of the Code. As an update, Wong William has resigned as director of New Energy on 20 February 2014.

The SIC ruled on 9 January 2014 that the Relevant Directors are exempted from the requirement of making a recommendation to Shareholders on the Exit Offer, as they face a conflict of interest in doing so being concert parties of the Offeror. However, the Relevant Directors must still assume responsibility for the accuracy of facts stated and opinions expressed in documents and advertisements issued by or on behalf of the Company in connection with the Exit Offer.

12. DISCLOSURES OF HOLDINGS AND DEALINGS IN SHARES

12.1 Interest in Shares of the Directors

The interests of the Directors who have an interest, direct or indirect, in the Shares as recorded in the Register of Directors' Shareholdings as at the Latest Practicable Date, are set out below.

Name of Director	Direct Interest		Deemed Interest	
	No. of Shares	% of Shares ⁽¹⁾	No. of Shares	% of Shares ⁽¹⁾
Cui	633,424,400	50.56	—	—
Li Qiang	506,000	0.04	—	—
Wong William	50,000	— ⁽²⁾	—	—

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Notes:

- (1) The percentage is computed based on the total of 1,252,885,000 Shares in issue as at the Latest Practicable Date.
- (2) Less than 0.01%.

12.2 Options held by the Directors

The details of the outstanding Options held by the Directors as at the Latest Practicable Date are as follows:

Options held under the Scheme			
Name of Director	No. of Shares to be allotted under the Options held by Director	Exercise price per Share	Exercise Period
Cui	4,000,000	S\$0.184	17 May 2011 to 16 May 2015
Cui	4,000,000	S\$0.116	11 May 2012 to 10 May 2016
	8,000,000		
Li Qiang	1,500,000	S\$0.265	12 January 2011 to 11 January 2015
Li Qiang	1,500,000	S\$0.175	12 November 2011 to 11 November 2015
Li Qiang	1,500,000	S\$0.060	9 December 2012 to 8 December 2016
	4,500,000		
Wong William	1,400,000	S\$0.265	12 January 2011 to 11 January 2015
Wong William	1,400,000	S\$0.175	12 November 2011 to 11 November 2015
Wong William	1,400,000	S\$0.060	9 December 2012 to 8 December 2016
	4,200,000		
Ong Kian Min	700,000	S\$0.265	12 January 2011 to 11 January 2015
Ong Kian Min	700,000	S\$0.175	12 November 2011 to 11 November 2015
Ong Kian Min	700,000	S\$0.060	9 December 2012 to 8 December 2016
	2,100,000		
Lai Hock Meng	700,000	S\$0.265	12 January 2011 to 11 January 2015
Lai Hock Meng	700,000	S\$0.175	12 November 2011 to 11 November 2015
Lai Hock Meng	700,000	S\$0.060	9 December 2012 to 8 December 2016
	2,100,000		
Leong Horn Kee	700,000	S\$0.265	12 January 2011 to 11 January 2015
Leong Horn Kee	700,000	S\$0.175	12 November 2011 to 11 November 2015
Leong Horn Kee	700,000	S\$0.060	9 December 2012 to 8 December 2016
	2,100,000		

12.3 Dealings in Company Securities by the Directors

None of the Directors have dealt for value in the Shares or any Company Securities or exercised their Options during the period commencing six (6) months prior to the Announcement Date and ending on the Latest Practicable Date.

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12.4 Interest in Shares of the Substantial Shareholders

The interests of the Substantial Shareholders in the Shares as recorded in the register of Substantial Shareholders as at the Latest Practicable Date are as set out below.

Name of Substantial Shareholder	Direct Interest		Deemed Interest	
	No. of Shares	% of Shares ⁽¹⁾	No. of Shares	% of Shares ⁽¹⁾
Cui	633,424,400	50.56	–	–
Li Qi	62,783,100	5.01	–	–
Asean China Investment Fund	62,685,000	5.00	–	–

Note:

(1) The percentage is computed based on the total of 1,252,885,000 Shares in issue as at the Latest Practicable Date.

13. ADVICE OF INDEPENDENT FINANCIAL ADVISER TO THE INDEPENDENT DIRECTORS

ACA has been appointed as the independent financial adviser to the Independent Directors. The IFA Letter setting out its advice to the Independent Directors is set out in **Appendix VII** to this Circular. Shareholders are advised to read and consider the IFA Letter in its entirety.

The information relating to the advice of ACA to the Independent Directors and the key factors taken into consideration by ACA have been extracted. Shareholders are advised to read the copy of the IFA Letter in its entirety. Section 8 of the IFA Letter has been extracted and reproduced below. Unless otherwise defined in the IFA Letter, all terms and expressions used in the extract below shall bear the same meanings as defined in the Circular and in the IFA Letter.

8. OUR OPINION

In arriving at our opinion in respect of the Exit Offer, we have taken into account, *inter alia*, the following factors which we consider to have a significant bearing on our assessment as summarised below and as elaborated elsewhere in this Letter. In view of uncertainties as expressed and confirmed by Directors and Management, as at the Latest Practicable Date, on the impact of the Technology, the patents or auxiliary patents (for use of the MEG Project or such other projects) or the rights to use the Technology in relation to the MEG Project or the MEG Project itself or the commercial use or applicability of such patents or auxiliary patents for projects of a similar or different nature or the commercial value of such patents on the Group's financial performance and financial position (including the estimated future profit or loss as well as the estimated cost to be incurred), no independent valuation report on the Technology or the MEG Project was provided to us and our views, opinion and recommendation are necessarily limited and subject to these matters or the lack of an independent valuation or such opinions from relevant technical experts. The following is purely a summary of the factors that have been highlighted in this Letter and Shareholders should be advised to read the following in conjunction with, and in the context of, the full text of this Letter:-

- (a) The rationale for the Delisting as set out in Section 7 of the Circular.

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- (b) The current financial performance and financial position of the Group. The Group had reported 5 years of consecutive losses since FY2009. In FY2013, the Group registered a loss after taxation attributable to equity holders of approximately RMB277.3 million as compared to a loss after taxation attributable to equity holders of approximately RMB285.9 million in FY2012. It is noted that the loss after tax attributable to equity holders of the Company of approximately RMB277.3 million in FY2013 was mainly attributable to, *inter alia*, the gross loss of approximately RMB11.4 million, operating expenses of approximately RMB293.7 million and offset by other items of income of approximately RMB28.1 million. The Group continued to register losses in 1Q2014 as compared to 1Q2013, with a larger loss attributable to equity holders and gross loss for 1Q2014 as compared to 1Q2013 (and with both its gross loss and net loss margins widening).

In addition, Independent Directors should note that the Group's shareholders' equity of approximately RMB239.6 million as at 31 December 2013 is lower than the loss after tax of approximately RMB277.3 million that was registered for FY2013. Shareholders' equity was further eroded in 1Q2014 due to loss incurred in 1Q2014. As at 31 March 2014, the Group's shareholders' equity was reduced to approximately RMB143.2 million. In the event that the Group continues to record losses (after FY2013 or 1Q2014 respectively) of the same magnitude as in FY2013 or 1Q2014, shareholders' equity for the Group may become negative without any capital increase.

The Group had negative working capital position of approximately RMB1.6516 billion as at 31 March 2014 and borrowings (including bills payables and interest-free advances from Jiutai Chemical) of approximately RMB2.6277 billion as at 31 March 2014 are due within the next one year. Further, Management and Directors have confirmed that given the past historical financial performance recorded, the Group's ability to manage the gross loss will continue to be challenging with the current demand and supply conditions for its raw materials/products (primarily coal and methanol), the Group's efforts to fine-tune and calibrate its manufacturing equipment and processes for viable and profitable MEG production (in the event it is successful in its optimisation of the technology, design and process to produce MEG products). The efforts to optimise the technology, design and process has been on-going for the past 2 years. The successful commercialisation of the Group's MEG production based on such technologies, will be dependent *inter alia* on the market prices for end products and the feedstock used by the Group, namely coal (both of which are subject to market and competitive forces).

We note that with these challenging conditions and in the absence of favourable market conditions as well as commercially successful optimisation or conclusion in its efforts to fine-tune the production process and availability of financial resources to finance the commercialisation in a timely manner, and unless such conditions are changed or managed (if at all possible), the Group may have to continue to operate with weak financial performance and condition, dwindling equity and working capital with increasing reliance on borrowings.

The above is assessed in conjunction with Directors' confirmation that as at the Latest Practicable Date and save for matters disclosed in this Letter and the audited financial statements for the Group for FY2013 and unaudited financial statement for 1Q2014, there has been no material changes to the Group's assets and liabilities, financial position, condition and performance or in the Group's efforts or success in the technology, design and process for production of MEG as well as its commercialisation.

- (c) The emphasis of matter relating to, *inter alia*, going concern assumption as described in AR2013 and Section 6.2 of this Letter. We note from AR2013, that for FY2013, the Group remained in a loss-making position with its current liabilities exceeding current assets by approximately RMB1.5014 billion. Given the Group's negative working capital, trend of losses and dwindling shareholders equity, there are uncertainties which may cast significant doubts as to the ability of the Group to continue as a going concern.

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- (d) For the Group's working capital and continuous operations, the Group has been relying significantly on the continuous support (including *inter alia*, guarantees, commitment and interest-free advances) from the related parties, including Mr. Cui the sole shareholder and director of the Offeror. The Management confirmed that as at 31 March 2014, Mr. Cui had provided guarantees for an aggregate amount of approximately RMB450.0 million of the Group's existing credit facilities from external lenders, and of which approximately RMB449.8 million has been utilised by the Group. We note that (i) the amount of financial supports (in terms of guarantees) provided by Mr. Cui represents approximately 3.1 times of the Group shareholder's equity of approximately RMB143.2 million as at 31 March 2014 and approximately 17.1% of the Group's total borrowings (including bills payables and interest-free advances from Jiutai Chemical); and (ii) the amount of financial supports (in terms of guarantees) provided by Mr. Cui together with the interest-free advances from Jiutai Chemical (which is controlled by Mr. Cui) represents approximately 5.6 times of the Group shareholder's equity of approximately RMB143.2 million as at 31 March 2014 and approximately 30.8% of the Group's total borrowings (including bills payables and interest-free advances from Jiutai Chemical).

We also note from the Independent Auditors' Report and the Company's announcement dated 15 May 2014 that the financial support from related parties, for a period of not less than one year from 11 April 2014, will be available so long as Mr. Cui 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.

We understand from Management and Directors and note that whilst Mr. Cui is a guarantor for approximately 19.8% of the Group's existing loans and bills payables (for which the Group is dependent on for its operations and obligations) and while banks may not allow for a termination of his continued support without recourse to the guarantor or such other arrangements that may exist with the banks, there is likewise no assurance that such commitment or support or guarantees will continue to be made available to the Group for the financial years or periods subsequent to FY2014 and thereafter (and that may include periods after the Exit Offer) and this is irrespective of the outcome of the Exit Offer. Likewise we note from confirmations from Mr. Cui to the Company, that as at the Latest Practicable Date, the Exit Offer is not made in contemplation of better terms and conditions for credit facilities for which he is a guarantor, internal or external restructuring of the Group's business or with an objective for relisting or sale of the Group or part of it. We note from confirmations from Mr. Cui to the Company that the Offeror has no intention to propose any major changes to the existing business of the Group or to relist the Company on the SGX-ST or any other stock exchange after the Delisting.

- (e) The Exit Offer Price represents a premium of approximately 126.4% over both the Group's NAV per Share or NTA before deduction of LUR per Share as at 31 March 2014 respectively. In view of the different accounting treatments of LUR across various accounting standards, on the assumption that the LUR is deemed as intangible assets and deducted from the computation of the Group's NTA, the Group's NTA after deduction of LUR per Share is negative as compared to the Exit Offer Price.

Taking into account the adjustment for the market value for the Appraised Assets, the Exit Offer Price represents a premium of approximately 388.4% over both the Group's RNAV or RNTA per Share respectively before deduction of LUR per Share as at 31 March 2014 as the RNAV and RNTA after deduction of revaluation deficit of the Appraised Assets but before deduction of LUR is approximately RMB66.4 million as compared to the value of the Company as implied by the Exit Offer Price of approximately RMB324.1 million.

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- (f) The Exit Offer Price (as set out in Section 6 of this Letter) after taking into account, *inter alia*, the following factors:-
- (i) The Exit Offer Price represents a discount of approximately 14.8% from the last transacted price of S\$0.061 per Share on the SGX-ST on 8 November 2013 (being the last Trading Day for the Shares prior to the Announcement Date).
 - (ii) The Exit Offer Price represents a discount of approximately 46.5%, 23.6%, 20.6%, and 13.0% from the VWCP for the Shares for 12-month, 6-month, 3-month and 1-month period prior to the Announcement Date respectively as the VWCP declined in general over the periods prior to the Announcement Date, and this may be reflective of the Group's deteriorating financial condition and continued losses during the 12-month period prior to the Delisting Proposal.
 - (iii) The Exit Offer Price represents a slight discount of approximately 0.5% from the VWCP for the Shares for the period commencing from the Market Day immediately after the Announcement Date and ending on the Latest Practicable Date. This may *inter alia* reflect the perception of the market and Shareholders (other than the Offeror or the Concert Parties), as the Offeror and Concert Parties as at the Latest Practicable Date holds approximately 52.23% of the Share capital with no known and announced Share transaction for the period subsequent to the Announcement.
 - (iv) As at the Latest Practicable Date, the last transacted price of S\$0.052 per Share on the SGX-ST is equivalent to the Exit Offer Price, and may reflect in general the market's perception of the acceptability of the Exit Offer or the deteriorating fundamentals. We note that, for the period immediately after the Announcement Date and ending on the Latest Practicable Date, save for the announcement of the financial results, performance and position of the Group there were no other announcements on updates for the Group's efforts on the MEG Project or transactions in Shares by the Offeror or parties acting in concert who already owns, control or have agreed to acquire approximately 52.23% of all the issued Shares and already have significant influence and control.
 - (v) The historical financial performance and position of the Group appear to be substantially weaker and less favourable than the Selected Comparable Companies with net losses, negative EBITDA and with the ratio of total borrowings to shareholders equity of approximately 9.0 times as at 31 December 2013. The Group has been loss making for the last five (5) consecutive financial years. In addition, revenues for the Group had declined significantly since FY2012 and though the losses after tax of approximately RMB285.9 million and RMB277.3 million for FY2012 and FY2013 respectively were substantially lower than the loss after tax of approximately RMB679.1 million that was recorded in FY2011, it is higher than the losses after tax of approximately RMB171.3 million and RMB145.8 million registered for in FY2009 and FY2010 respectively.

The valuation of the Group in terms of EV/EBITDA and PER ratios are negative due to the losses incurred and negative EBITDA for the Group in FY2013 and 1Q2014. For illustrative purpose only, the Selected Comparable Companies were all profitable and had traded at PERs of 6.9 times to 28.5 times (with the exception of SLC which registered losses during the period) and EV/EBITDA ratios of 4.7 times to 86.5 times.

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The valuation of the Group in terms of P/NAV and P/NTA (as implied by the Exit Offer Price, and the Group's NAV and NTA before deduction of LUR as at 31 December 2013) is within the range and slightly higher than the simple average and median for the Selected Comparable Companies (whose values for NAV and NTA for the computations above, includes LUR), notwithstanding the losses, negative EBITDA and weak financial performance and condition for the Group.

The valuation of the Group in terms of P/NAV and P/NTA (as implied by the Exit Offer Price, and the Group's NAV and NTA before deduction of LUR as at 31 March 2014 as well as the Group's RNAV and RNTA before deduction of LUR as at 31 March 2014) is higher than any of the Selected Comparable Companies (whose values for NAV and NTA for the computations above, includes LUR).

It is noted that based on their respective unaudited financial statement for 1Q2014, the Selected Comparable Companies are traded at an average P/NAV and P/NTA of approximately 1.3 times and 1.3 times respectively, and these are lower than the valuation of the Group (as implied by the Exit Offer Price, and the Group's NAV and NTA before deduction of LUR as at 31 March 2014 as well as the Group's RNAV and RNTA before deduction of LUR as at 31 March 2014).

The premium implied by the Exit Offer Price over the Group's Adjusted RNAV or RNTA before deduction of LUR per Share (as at 31 March 2014) is higher than any of the Selected Comparable Companies over their respective NTA.

The Independent Directors are advised to review the Exit Offer and valuation ratios in the context of the Group's weaker financial performance (in terms of negative ROE and negative net profit margin as well as the losses recorded in the last five consecutive financial years) and financial positions in terms of total liabilities to shareholders' equity and total borrowings to shareholders' equity, as well as the fact that as at the Latest Practicable Date, the Offeror and parties acting in concert, who already own, control or have agreed to acquire approximately 52.23% of all the issued Shares and already have significant influence and control.

- (vi) The valuation of the Company as implied by the discount of the Exit Offer Price from historical prices for Shares appears to be less favourable than the premiums recorded for both Selected Successful Delistings and the Selected Successful Privatisations. The less favourable discounts represented by the Exit Offer Price over historical market prices as compared to the Selected Successful Delistings and the Selected Successful Privatisations should be assessed in the context of the higher P/NTA (as implied by the Exit Offer Price and the Group's RNTA before deduction of LUR per Share as at 31 March 2014) as compared to the Selected Successful Privatisations and Selected Successful Delistings as well as the Group's weaker financial performance and position (as most of the companies under the Selected Successful Delistings and the Selected Successful Privatisations were profit making).

The valuation of the Company (as implied by the Exit Offer Price and the Group's Adjusted RNTA before deduction of LUR as at 31 March 2014) in terms of P/NTA of approximately 2.1 times is within the range and higher than the simple average and median for the Selected Successful Privatisations and Selected Successful Delistings.

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- (g) Our analysis as set out in section 6.7 of our Letter suggests that the Company have not paid any dividends since its IPO in 2006. Thus, a Shareholder who accepts the Exit Offer may potentially experience an increase in investment income if he re-invests the proceeds in the shares of any of the Selected Comparable Companies (save for SLC and Jiutian) or the STI ETF (based on the assumption that the Company and the relevant Selected Comparable Companies and the STI ETF maintain their respective net dividend per share at the same level as that in their last financial year).
- (h) As at the Latest Practicable Date, the Offeror and its Concert Parties owns or control approximately 52.23% of all the issued Shares. The Company's free float is approximately 37.76%. Independent Shareholders should note that the Exit Offer is made pursuant to the Delisting and that the Offeror does not intend to preserve the listing status of the Company. Accordingly, the Offeror when entitled, intends to exercise its rights to compulsorily acquire all the Shares from Shareholders who have not accepted the Exit Offer.
- (i) Shareholders should note that under Rule 1307 of the Listing Manual, all Shareholders (including the Offeror and parties acting in concert with the Offeror who hold Shares) are entitled to vote on the Delisting Resolution. As at the Latest Practicable Date, the Offeror, and its Concert Parties collectively hold an aggregate of 654,351,400 Shares, representing approximately 52.23% of the existing issued Share capital. Based on the Irrevocable Undertaking, Mr. Cui has undertaken to, *inter alia*, vote in favour of the Delisting Resolution at the EGM and to accept the Exit Offer in respect of the Cui's Shares. We further note that passing of the Delisting Resolution will still require approximately 22.77% of votes in favour the Delisting Resolution and is subject to the Delisting Resolution not being voted against by 10% or more of the total number of Shares (excluding treasury shares) held by Shareholders present and voting, on a poll, either in person or by proxy at the EGM.
- (j) The Directors have confirmed that since the Announcement Date till the Latest Practicable Date, no competing offer has been received by the Company. A competing offer for the Shares is unlikely to be forthcoming without the support of the Offeror in view of his majority control as represented by the percentage of the total number of Shares that the Offeror and its parties acting in concert hold as at the Latest Practicable Date.
- (k) The financial and Shares performance of the Group since its IPO as set out in Section 7.7 of this Letter. The Group incurred losses in the last five consecutive financial years. We note that the losses after tax for the Group of approximately RMB285.9 million and RMB277.3 million in FY2012 and FY2013 respectively were substantially lower than the loss after tax of approximately RMB679.1 million recorded in FY2011 but higher than the losses after tax of approximately RMB171.3 million and RMB145.8 million recorded in FY2009 and FY2010 respectively. In addition, the Group's market capitalisation has declined substantially from approximately S\$1.0 billion (as at IPO) to approximately S\$65.2 million as at the Latest Practicable Date.
- (l) The Group has already incurred five consecutive years of losses, and pursuant to Rule 1311 of the Listing Manual, the Group announced three (3) consecutive years of losses in FY2011, FY2012, and FY2013. As such one of the criteria as set out in Rule 1311 regarding the Watch-List status may have been fulfilled. As at the Latest Practicable Date, the market capitalisation of the Group was approximately S\$65.2 million, which is above the other watch list condition being market capitalisation of less than S\$40 million. There is no assurance that the market capitalisation for the Group will be maintained at the same levels given the historical trend of losses and the fact that the Group had incurred losses for the last five years with a loss of approximately RMB277.3 million for FY2013, which is more than the shareholders equity of approximately RMB239.6 million as at 31 December 2013 and approximately RMB143.2 million as at 31 March 2014 (with loss after tax of approximately RMB96.5 million in 1Q2014).

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Furthermore Independent Directors should note that there is no assurance that the observed average number of Shares traded on a daily basis will be maintained or that the transacted prices for the Shares will be the same and at the levels prevailing during the period commencing from the Offer Announcement Date and ending on the Latest Practicable Date or maintained or decline further in the event that the Delisting conditions is not met and the Exit Offer lapses. Given the Exit Offer, the Delisting and the trend of losses with significant support from its controlling shareholder and related company and market conditions then prevailing, in the event that the Company is placed on the watch-list and a directed delisting occurs, there is no assurance that the Offeror will make an exit offer on similar terms.

- (m) Other relevant considerations as set out in **Section 7** of this Letter.

In summary, having regard to our analysis and the consideration in this Letter (including *inter alia* its limitation and constraints) and after having considered carefully the information available to us and based on market, economic and other relevant conditions prevailing as at the Latest Practicable Date, save for the fair value of or successful realisation of the future economic benefits from the Technology or the patent or the auxiliary patents (for use of the MEG Project or such other projects) or the rights to use the Technology or the MEG Project which we understand from the Directors, cannot be currently determined in view of the uncertainties mentioned in this Letter, and subject to our terms of reference, **we are of the opinion that the financial terms for the Exit Offer is, on balance, FAIR, REASONABLE and NOT PREJUDICIAL** to the interests of the Shareholders.

For the purposes of evaluation of the Exit Offer, being the transaction that is subject of the Delisting, from a financial point of view, we have adopted the approach that the term “fair and reasonable” comprises two distinct concepts:

- (i) Whether the Exit Offer is “fair” relates to the value of the offer price which is based strictly on the evaluation of the Exit Offer Price (i.e. by looking at the financial or fundamental analyses of the Exit Offer Price as set out in this Letter and based on information known to us or which is publicly available and save for the fair value of or successful realisation of the future economic benefits from the Technology or the patent or the auxiliary patent (for use of the MEG Project or such other projects) or the rights to use the Technology or the MEG Project which we understand from the Directors, cannot be currently determined in view of the uncertainties mentioned in this Letter).
- (ii) Whether the Exit Offer is “reasonable”, after taking into consideration the actual and potential financial impact of other circumstances surrounding the Exit Offer and the Company which we consider relevant (being both quantitative and qualitative factors available and made known to us).

We consider the financial terms of the Exit Offer to be **fair**, from a financial point of view after factoring, *inter alia*, the following:

- (i) The uncertainty pertaining to the Group’s going concern and the weak historical financial performance and position of the Group, including but not limited to the fact that the Group has been loss making for the last five consecutive financial years since FY2009, the negative net working capital of approximately RMB1.6516 billion as at 31 March 2014 and borrowings (including bills payables and interest-free advances from Jiutai Chemical) of approximately RMB2.6277 billion which are due within the next one year, as well as its significant reliance on support (including but not limited guarantees and interest-free advances from the related parties, in particular Mr. Cui, who is the sole shareholder and director of the Offeror), and the fact that there is no assurance that such commitment or support or guarantees will continue to be made available to the Group in the financial years or periods subsequent to FY2014 and thereafter or sufficient for the Group’s future operations or debt servicing (or repayment) given the trend of losses with dwindling shareholders equity.

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We note the challenging conditions that the Group faces in the absence of favourable market conditions with profitability, adequate operating cash flows and self-sustaining financing without support, continued support from the existing guarantor and credit providers as well as commercially successful optimisation or conclusion in its efforts to fine-tune or calibrate the MEG production process and availability of financial resources to finance such commercialisation in a timely manner.

Barring unforeseen circumstances and unless such conditions are changed or managed (if at all possible), the Group may have to continue to operate with weak financial performance and condition, dwindling equity and working capital with increasing reliance on borrowings. There is in addition no assurance that such commitment or support or guarantees will continue to be made available to the Group for the financial years or periods subsequent to FY2014 and thereafter (and that may include periods after the Exit Offer) and this is irrespective of the outcome of the Exit Offer.

- (ii) The emphasis of matter relating to *inter alia*, the Group's going concern assumption.
- (iii) The Exit Offer Price represents a premium over the Group's RNAV per Share, RNTA before deduction of LUR per Share, Adjusted RNAV per Share, and Adjusted RNTA before deduction of LUR per Share.
- (iv) Within the range or relatively in-line valuation or favourable valuation of the Group as the case may be (and as implied by the Exit Offer Price) in terms of P/NTA and P/NAV as compared to the Selected Comparable Companies after taking into account the weaker historical financial performance and position of the Group in terms of net profit margin, ROE and significantly higher leverage as compared to the Selected Comparable Companies.
- (v) Favourable valuation of the Group (as implied by the Exit Offer Price) in terms of P/NTA as compared to the Selected Successful Delistings and the Selected Successful Privatisations considering the weak financial performance of the Group and wherein most of the companies that comprises the Selected Successful Delistings and the Selected Successful Privatisations were profitable.

We consider the Exit Offer to be **on balance reasonable and not prejudicial** to the interests of the Shareholders, from a financial point of view, for *inter alia*, the following:

- (i) We note from the Independent Auditors' Report and the Company's announcement dated 15 May 2014 that the financial support from related parties, for a period of not less than one year from 11 April 2014, will be available so long as Mr. Cui 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 is no assurance that such commitment or support or guarantees will continue to be made available to the Group in the financial years or periods subsequent to FY2014 and thereafter or sufficient for the Group's future operations or debt servicing (or repayment) given the trend of losses with dwindling shareholders equity.
- (ii) Possibility of the Group having a negative shareholders' equity in the event that the Group continues its trend of losses or if it continues to incur losses in the future or in FY2014 of the same magnitude as FY2013 without any capital increase.

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- (iii) The Directors' confirmation that there were no alternative competing offers or save as disclosed in this Letter offers to buy or invests or form partnership/alliances from any parties for the MEG Project or Technology or subsidiaries undertaking the MEG Project or owning the auxiliary patents for the MEG Project as at the Latest Practicable Date. The Offeror and Concert Parties as at the Latest Practicable Date holds approximately 52.23% of the Share capital with no known and announced Share transaction for the period subsequent to the Announcement as well as the fact that the Group is dependent on the existing guarantor for support for its credit facilities and continued financial support from related parties.
- (iv) The Exit Offer Price represents a premium over the Group's RNAV per Share, RNTA before deduction of LUR per Share, Adjusted RNAV per Share, and Adjusted RNTA before deduction of LUR per Share.
- (v) The Exit Offer represents a realistic exit opportunity for Shareholders to realise their entire investment in cash (an option which may not otherwise be readily available due to the liquidity of the Shares and the number of Shares that were historically traded). However, the Exit Offer Price is less favourable in comparison to (i) the historical prices for the Shares prior to Announcement Date (generally at a discount to the historical market prices for the Shares) and (ii) the Selected Successful Delistings and the Selected Successful Privatisations (in terms of premiums/discounts over/from the historical prices). However, we note that these statistics reflect prices of Shares with what appears low liquidity (in terms of the daily average trading volume compared to the number of Shares held by the public shareholders) and it is generally accepted that the more actively traded the Shares between willing buyer and willing seller, the greater the reliance on market prices as a determination of the fair value of the Shares.

The average number of Shares which had been traded on a daily basis appears to be low during the 12 months period preceding the Announcement Date and for the period after the Announcement Date to the Latest Practicable Date. In addition, the Exit Offer may have provided a price floor for the Shares after the Announcement Date, and hence there is no assurance that the price for the Shares will be maintained at such levels in the event that the Delisting Condition is not met or the Exit Offer lapses or after the Closing Date for the Exit Offer.

Hence, Independent Directors should advise the Independent Shareholders to be aware of possible constraints in the liquidation of their investments in the Company in the open market.

In view of the relative illiquidity, the Exit Offer nevertheless represents a realistic opportunity for Shareholders to realise all or part of their investments in the Company, which may otherwise not be possible in the open market. In addition, as at the Latest Practicable Date, the Exit Offer Price is equal to the market prices for the Shares.

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- (vi) Furthermore as the Group's ability to realise the benefits of the MEG Project and the Technology requires further investments in plant and equipment as well as cost for stabilising processes, it is not inconceivable that more investments or equity may be required before the results of the Technology or the MEG Project becomes certain or tangible for a project which we understand from the Directors is currently uncertain as to the timing and amount or type of returns. We note that as generally valuation of businesses requires *inter alia* assumption of certain drivers like volume or amount of production, cost of supply factors or factors of production or market prices of products made, complementary or substitute products/raw materials or assumption of reliability of yields/efficiency and assumptions for capital structure, tail end conditions as well as availability of capital and its attendant cost or returns demanded. Accordingly valuations of such nature are subject to assumptions made, *inter alia* both input and output factors which are invariably subject to competitive forces and market prices for coal, oil and energy and possibly sensitivities to such assumptions made. In view of the above, uncertainties expressed and confirmed to us, the Exit Offer is a realistic opportunity given the "immediate", cash nature and certainty of the Exit Offer.

ACA's RECOMMENDATION ON THE EXIT OFFER

Based on our assessment of the financial terms of the Exit Offer as set out above, we advise the Independent Directors that they should recommend that the Shareholders **VOTE IN FAVOUR** the Delisting Resolution and **ACCEPT** the Exit Offer.

In the event that Shareholders are concerned about the liquidity and the prices at which they can realise their investments in the Offer Shares (including whether they can realise their investments at prices higher than the Offer Price after deducting related expenses), acceptance of the Exit Offer will provide certainty of exit at the Exit Offer Price.

However, in the event that Shareholders are able to dispose the Offer Shares in the open market and realise their investments at prices higher than the Exit Offer Price after deducting related expenses, they should consider selling the Offer Shares in the open market.

Matters to highlight:

We would also wish to highlight the following matters which may affect the decisions or actions of Shareholders:

- (1) If they are considering selling their Offer Shares in the open market, they should be aware that the current market prices and trading volumes for the Shares, may have been supported by the Exit Offer and may not be maintained at current levels when the Exit Offer closes.
- (2) Whilst the possibility of a higher offer from a third party cannot be ruled out, as at the Latest Practicable Date, we are not aware of any publicly available evidence of an alternative offer for the Shares. Shareholders should be aware that the chances of such an alternative offer for Shares being made by a third party may be affected by the fact that the Offeror and its Concert Parties together hold approximately 52.23% of the total number of issued Shares as at the Latest Practicable Date.

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- (3) Shareholders should note that under Rule 1307 and 1309 of the Listing Manual, all Shareholders (including the Offeror and its Concert Parties who hold Shares) are entitled to vote on the Delisting Resolution. As at the Latest Practicable Date, the Offeror, and its Concert Parties collectively hold an aggregate of 654,351,400 Shares, representing approximately 52.23% of the existing issued Share capital. We note from the Circular that Mr. Cui, Li Qiang and Wong William have indicated their intentions to vote in favour of the Delisting Proposal and to accept the Exit Offer in respect of the Offer Shares held by them. On the assumption that the Offeror and its Concert Parties will vote in accordance with the requirement of the Listing Manual, we note that for the approval of the Delisting Resolution as pursuant to the Listing Manual, it will still require additional 22.77% vote in favour of the Delisting Resolution and subject to the Delisting Resolution not being voted against by 10% or more of the total number of Shares (excluding treasury shares) held by Shareholders present and voting, on a poll, either in person or by proxy at the EGM.
- (4) The Offeror does not intend to preserve the listing status of the Company. Accordingly, the Offeror when entitled, intends to exercise its rights to compulsorily acquire all the Shares from Shareholders who have not accepted the Exit Offer.
- (5) The scope of our appointment does not require us to express, and we do not express, a view on the sufficiency of the financial resources available to the Offeror to satisfy full acceptance of the Exit Offer at the Exit Offer Price for the maximum potential issued Shares (excluding Mr. Cui's Shares).
- (6) In arriving at our opinion, we wish to emphasise that the Directors have not provided us with any projections and we have, *inter alia*, relied on relevant statements contained in the Circular and/or the Company's announcements. We have arrived at these conclusions based on information made available to us as at the Latest Practicable Date and we assume no responsibility to update, review or reaffirm our opinions in the light of any subsequent development after the Latest Practicable Date.

We have not been provided with the financial statements for the Group subsequent to 1Q2014 nor had any discussion with the Directors and the Management on the Group's financial results subsequent to 1Q2014. The Directors and the Management confirmed that ACA has not been provided with financial statements for the Group subsequent to 1Q2014 and that they have not had any discussion with ACA on the Group's financial results subsequent to 1Q2014.

- (7) Our scope does not require us and we have not made any independent evaluation of the Group (including, without limitation, market value or economic or technical potential), or the Technology or the patent or the auxiliary patents (for use of the MEG Project or such other projects) or the rights to use the Technology or the MEG Project or appraisal of the Group's assets and liabilities (including without limitation, property, plant and equipment and land use rights) or contracts entered into or to be entered into by the Group and we have not been furnished with any such evaluation and appraisal in respect of assets and liabilities (if any) held or contracts entered into by the Group or the Technology or the patent or the auxiliary patents (for use of the MEG Project or such other projects) or the rights to use the Technology or the MEG Project save for the Valuation Report issued by the Independent Valuer in respect of the Appraised Assets. With respect to such valuation, we are not experts in the evaluation (including without limitation, market value or economic potential) or the Technology or the patent or the auxiliary patents (for use of the MEG Project or such other projects) or the rights to use the Technology or the MEG Project itself (including, *inter alia*, commercial viability, stage of commercialisation, market demand, overall profitability and financing of project of such nature) or appraisal of assets and liabilities (including without limitation, property, plant and equipment and land use rights) including, *inter alia*, the contracts or agreements that the Group has embarked upon or are about to embark upon and have relied on the opinion of the Directors and the financial statements (audited and unaudited), where applicable for the assessment.

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- (8) As at the Latest Practicable Date, the Directors and the Management confirmed that they are of the view that setting aside the funding issue, the MEG Project remain feasible and viable.

We had discussions with the Directors and the Management, *inter alia*, on the need for an independent valuation of the Technology or the MEG Project, as well as the status of the Technology or the MEG Project in terms of funding, technical and commercialisation feasibility, and market condition in the PRC. The Directors are of the view that the independent valuation of the Technology, or the patent or the auxiliary patents (for use of the MEG Project or such other projects), or the rights to use the technology in relation to the MEG Project or the MEG Project itself is not requisite considering, *inter alia*, the core patent of the Technology resides with the Jiaotong University hence there is no material value in the Technology (save as provided for or recorded in the audited financial statements of the Group), the implementation of the Technology for large scale commercial production would involve significant technical uncertainties, and the inability of both the Company and Mr. Cui to raise the requisite funding.

In addition, the Directors and the Management confirmed that the impact of the Technology or the patent or the auxiliary patents (for use of the MEG Project or such other projects) or the rights to use the Technology and the MEG Project on the Group's financial position and performance (including the estimated future profit or loss as well as the estimated costs to be incurred) cannot be measured with certainty as at the Latest Practicable Date given that the successful realisation of the future economic benefit of the Technology or the patent or the auxiliary patents (for use of the MEG Project or such other projects) or the rights to use the Technology or the MEG Project will depend on, *inter alia*, the ability of the Group and Mr. Cui to secure funding for the additional investments, timely and efficient execution and completion of the MEG Project, the stability of the Technology in large scale commercial production, the industry prospects, the prevailing economic and market conditions including but not limited to the costs of raw materials and selling prices in the markets which the Group operates in.

Accordingly, we expressed no views with regards to the impact of the MEG Project or the Technology or the patent or the auxiliary patents (for use of the MEG Project or such other projects) or the rights to use the Technology on the NAV or NTA or the prospects of the Group in terms of, *inter alia*, the estimated fair value or future value or profits or loss as well as the estimated future investments to be incurred and our assessment, opinion and recommendations are necessarily limited and subject to it.

- (9) The Directors have confirmed that as at the Latest Practicable Date and save for matters disclosed in the Circular, this Letter, the audited financial statements for the Group for FY2013 and the unaudited financial statements for the Group for 1Q2014, there has been no material changes to the Group's assets and liabilities, financial position, condition and performance or in the Group's efforts or success in the technology, design and process for production of MEG as well as its commercialisation.

Limitations

It is also to be noted that as trading of the Shares is subject to possible market fluctuations and accordingly, our advice on the Exit Offer does not and cannot take into account the future trading activities or patterns or price levels that may be established for the Shares since these are governed by factors beyond the ambit of our review and also such advice, if given, would not fall within our terms of reference in connection with the Exit Offer.

For our opinion and recommendation, we have not had regard to the general or specific investment objectives, financial situation, tax position, risk profiles or unique needs and constraints, or plans of any individual Shareholder and/or group of Shareholders. As different Shareholders and/or group of Shareholders would have different investment profiles and objectives, we would advise Independent Directors to recommend that any individual Shareholder and/or group of Shareholders who may require advice in the context of his specific investment portfolio, including his investment in the Company, should consult his stockbroker, bank manager, solicitor, accountant, tax adviser or other professional adviser immediately.

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14. INDEPENDENT DIRECTORS' RECOMMENDATIONS

The Independent Directors have reviewed the terms of the Delisting Proposal (including the Exit Offer) and have carefully considered the advice of ACA in its letter set out in **Appendix VII** to this Circular.

The Independent Directors concur with the recommendation of ACA in respect of the Exit Offer. Accordingly, the Independent Directors recommend that Shareholders **VOTE IN FAVOUR** of the Delisting Resolution.

In relation to the Exit Offer and in the event that the Delisting Resolution is passed and the Exit Offer is made, the Independent Directors recommend that Shareholders either **ACCEPT the Exit Offer** or sell their Shares in the open market if they are able to obtain a price higher than the Exit Offer Price (after deducting all related expenses) by doing so.

Shareholders who wish to retain all or part of their investment in their Shares are advised to take into consideration the general economic outlook and the implications of holding shares in an unlisted or delisted company as set out under section 8 of the Letter to Shareholders in this Circular in the event that the Company is delisted from the Official List of the Mainboard of the SGX-ST.

In rendering the above opinion and recommendations, the Independent Directors have not had regard to the general or specific investment objectives, financial situation, tax status or position, risk profiles or unique needs and constraints or other particular circumstances of any individual Shareholder. As each Shareholder would have different investment objectives and profiles, the Independent Directors recommend that any Shareholder who may require advice in relation to his investment portfolio should consult his stockbroker, bank manager, solicitor, accountant, tax adviser or other professional adviser immediately.

Accordingly, the Independent Directors advise that the opinion and advice of the IFA should not be relied upon by any Shareholder as the sole basis for deciding whether to vote for or against the Delisting Resolution and/or to accept or reject the Exit Offer.

15. EXTRAORDINARY GENERAL MEETING

The EGM, notice of which is set out on page N-1 of this Circular, will be held at The Westin Singapore, Meeting Room 4, 12 Marina View, Asia Square Tower 2, Singapore 018961 on 5 September 2014 at 4 p.m. for the purpose of considering and, if thought fit, passing the Delisting Resolution set out in the notice of EGM.

A depositor shall not be regarded as a Shareholder entitled to attend the EGM and to speak and vote thereat unless his name appears on the depository register, as certified by CDP at least 48 hours before the EGM.

16. ACTION TO BE TAKEN BY SHAREHOLDERS

16.1 Voting at the EGM

You will find enclosed with this Circular, the notice of EGM and proxy form ("**Proxy Form**"). If you are unable to attend the EGM and you wish to appoint a proxy to attend and vote on your behalf, you should complete and sign the Proxy Form in accordance with the instructions printed thereon.

You should then return the completed and signed Proxy Form to the Company's registered office at Six Battery Road #10-01 Singapore 049909 not later than 48 hours before the time fixed for the EGM (or any adjournment thereof). Your completion and return of the Proxy Form will not prevent you from attending and voting in person at the EGM if you subsequently so wish, in place of your proxy.

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16.2 Acceptance of the Exit Offer

Shareholders should note that the Exit Offer will only be made after the Delisting Resolution has been approved by Shareholders at the EGM in accordance with Rule 1307 of the Listing Manual. Accordingly, the Exit Offer Letter and the relevant Acceptance Forms will be despatched to Shareholders only after the Approval of Delisting Resolution Condition is satisfied. If the Delisting Resolution is not passed at the EGM, the Approval of Delisting Resolution Condition will not be fulfilled and the Exit Offer will not be made. Shareholders do not need to take any action regarding the Exit Offer until after the Delisting Resolution has been passed at the EGM and the Exit Offer Letter has been despatched to Shareholders.

If you hold Shares that are deposited with CDP, you should receive a FAA together with the Exit Offer Letter. If you do not receive the FAA, you may obtain a copy of the FAA from CDP, at 9 North Buona Vista Drive, #01-19/20, The Metropolis, Singapore 138588, upon production of satisfactory evidence that you are a depositor.

If you hold Shares that are represented by share certificate(s) and are not deposited with CDP, you should receive a FAT together with the Exit Offer Letter. If you do not receive the FAT, you may obtain a copy of the FAT from the office of the Offeror's receiving agent, Boardroom Corporate & Advisory Services Pte. Ltd., at 50 Raffles Place, #32-01 Singapore Land Tower, Singapore 048623, upon production of satisfactory evidence that you are a Shareholder.

If you are a CPFIS Investor, please refer to the separate letter from your respective CPF Agent Banks on how to accept or reject the Exit Offer under the CPFIS. CPFIS Investors are advised to consult their respective CPF Agent Banks should they require further information and if they are in any doubt as to the action they should take, CPFIS Investors should seek independent professional advice. Please refer to the Exit Offer Letter for additional information pertaining to CPFIS Investors.

The Exit Offer may only be accepted by the relevant Shareholder to whom the Exit Offer Letter is addressed.

If you wish to accept the Exit Offer, you should complete, sign and return the relevant Acceptance Form in accordance with the provisions and instructions in the Exit Offer Letter and that Acceptance Form. The detailed procedures for acceptance and additional information on settlement of the Exit Offer will be set out in the Exit Offer Letter. Additional information on the procedures for acceptance and settlement of the Exit Offer is set out in **Appendix IX** of this Circular.

If you decide not to accept the Exit Offer, you do not have to take any action. In the event that the Approval of Delisting Resolution Condition is satisfied and the SGX-ST No Objection Confirmation is received by the Company, you will continue to hold unquoted Shares in the Company as an unlisted company. **However, it is likely to be difficult for you to sell your Shares in the absence of a public market for such Shares.** If you hold Shares that are deposited with CDP, a share certificate in respect of your Shares that are deposited with CDP will be sent, by ordinary post and at your own risk, to your address as it appears in the records of CDP, after the Company has been delisted from the Official List of the SGX-ST.

LETTER TO SHAREHOLDERS

17. DIRECTORS' RESPONSIBILITY STATEMENT

The Directors (including the Relevant Directors and those who may have delegated detailed supervision of this Circular) collectively and individually accept full responsibility for the accuracy of the information given in this Circular (other than those relating to the Offeror, the parties acting in concert with it, the Exit Offer, the recommendations of the Independent Directors, the IFA Letter and the Valuation Report) and confirm after making all reasonable enquiries that, to the best of their knowledge and belief, this Circular constitutes full and true disclosure of all material facts about the Group in the context of the Delisting, all opinions expressed are fair and accurate and the Directors are not aware of any material facts the omission of which would make any statement in this Circular misleading.

In respect of the IFA Letter and the Valuation Report, the responsibility of the Directors has been to ensure that the facts stated therein with respect to the Group are, to the best of their knowledge and belief, fair and accurate in all material respects.

The recommendations of the Independent Directors to Shareholders set out in section 14 entitled "Independent Directors' Recommendations" of this Letter to Shareholders is the responsibility of the Independent Directors.

Where information in this Circular has been extracted or reproduced from published or otherwise publicly available sources or obtained from the Offeror or the parties acting in concert with it, the sole responsibility of the Directors has been to ensure that such information has been accurately and correctly extracted from such sources, or as the case may be, accurately reflected or reproduced in this Circular in its proper form and context.

18. CONSENTS

- 18.1** ACA, the independent financial adviser, has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of:

18.1.1 its name in this Circular;

18.1.2 its advice to the Independent Directors set out in section 13 of this Letter to Shareholders, the "Letter from the IFA to the Independent Directors" set out in **Appendix VII** to this Circular; and

18.1.3 the letter from the IFA in relation to the unaudited financial statements of the Group for 1Q2014 set out in **Appendix VI** to this Circular, and all references thereto in the form and context in which they appear in this Circular.

- 18.2** Moore Stephens LLP Public Accountants and Chartered Accountants of Singapore, the independent auditors, have given and have not withdrawn their written consent to the issue of this Circular with the inclusion of:

18.2.1 their names in this Circular;

18.2.2 the audited financial statements of the Group for FY2013 set out in **Appendix IV** to this Circular; and

18.2.3 the Independent Auditors' review report on the financial statements of the Group for 1Q2014 set out in **Appendix V** to this Circular, and all references thereto in the form and context in which they respectively appear in this Circular.

- 18.3** LCH, the independent valuer, has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of:

18.3.1 its name in this Circular; and

LETTER TO SHAREHOLDERS

18.3.2 the Valuation Report set out in **Appendix VIII** to this Circular, and all references thereto in the form and context in which they appear in this Circular.

18.4 Provenance Capital, which has provided the confirmation of financial resources as set out in section 9 of this Letter to Shareholders, has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of its name in this Circular, and all references thereto in the form and context in which they appear in this Circular.

19. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the Company's registered office at Six Battery Road #10-01 Singapore 049909 during normal business hours, from the date of this Circular until the date of the EGM:

19.0.1 the Memorandum and Articles of Association;

19.0.2 the letter from the Offeror to the Company dated 8 November 2013 in respect of the Delisting Proposal;

19.0.3 the letter from the IFA to the Independent Directors set out in **Appendix VII** to this Circular;

19.0.4 the audited financial statements of the Group for FY2013 set out in **Appendix IV** to this Circular;

19.0.5 the unaudited financial statements of the Group for 1Q2014 and Independent Auditors' review report on the financial statements of the Group for 1Q2014 set out in **Appendix V** to this Circular;

19.0.6 the letter from the IFA in relation to the unaudited financial statements of the Group for 1Q2014 set out in **Appendix VI** to this Circular;

19.0.7 the Valuation Report set out in **Appendix VIII** to this Circular;

19.0.8 the letters of consent referred to in section 18 of this Letter to the Shareholders; and

19.0.9 the Irrevocable Undertaking of Cui.

20. ADDITIONAL INFORMATION

Your attention is drawn to the Appendices which form part of this Circular.

Yours faithfully
For and on behalf of the Board of Directors of
CHINA ENERGY LIMITED

Ong Kian Min
Lead Independent Director

APPENDIX I – ADDITIONAL INFORMATION ON THE OFFEROR AND PARTIES ACTING IN CONCERT

1. DIRECTOR OF THE OFFEROR

The name, address and designation of the director of the Offeror as at the Latest Practicable Date are as follows:

Name	Address	Designation
Cui	Linyi City, Luozhuang District Luoba Road Central Postal Code 276017	Director

2. REGISTERED OFFICE AND PRINCIPAL ACTIVITY OF THE OFFEROR

The registered office of the Offeror is at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.

The principal activity of the Offeror is that of an investment holding company.

3. SHARE CAPITAL OF THE OFFEROR

As at the Latest Practicable Date, the Offeror has in issue 1 share¹ with a par value of US\$1.00, which is held by Cui as the sole registered shareholder of the Offeror.

As at the Latest Practicable Date, there are no outstanding instruments convertible into, rights to subscribe for, and options in respect of securities being offered for or which carry voting rights (collectively, “**convertible securities**”) affecting the shares in the Offeror.

4. SUMMARY OF FINANCIAL INFORMATION

No audited financial statements of the Offeror have been prepared since the date of its incorporation, being 20 August 2007.

5. SIGNIFICANT ACCOUNTING POLICIES

As no audited financial statements of the Offeror have been prepared since the date of its incorporation, there are no significant accounting policies to be noted.

6. MATERIAL CHANGES IN FINANCIAL POSITION

6.1 As at the Latest Practicable Date, save as a result of the making and financing of the Exit Offer, there have been no known material change in the financial position of the Offeror since 20 August 2007, being the date of its incorporation.

6.2 As at the Latest Practicable Date, save as disclosed in publicly available information of the Group (including but not limited to announcements released by the Group in respect of its financial results), as at the Latest Practicable Date, there have been, within the knowledge of the Offeror, no known material changes in the financial position of the Company since 31 December 2013, being the date of the last balance sheet of the Company laid before the Shareholders in general meeting.

¹ Source: Certificate of Incumbency of the Offeror dated 5 June 2013.

APPENDIX I – ADDITIONAL INFORMATION ON THE OFFEROR AND PARTIES ACTING IN CONCERT

7. DISCLOSURE OF SHAREHOLDINGS AND DEALINGS

7.1 Shareholdings in CEL

As at the Latest Practicable Date, save as disclosed below, none of the Offeror, its directors, parties acting or deemed to be acting in concert with the Offeror or Cui owns, controls or has agreed to acquire any Company Securities.

7.1.1 Shares

Name	Direct Interest		Deemed Interest	
	No. of Shares	% of Shares ⁽¹⁾	No. of Shares	% of Shares ⁽¹⁾
Director of the Offeror				
Cui	633,424,400	50.56	—	—
Other parties acting in concert or deemed to be acting in concert				
Li Qiang ⁽²⁾	506,000	0.04	—	—
Wong William ⁽²⁾	50,000	— ⁽³⁾	—	—
Cui Lianxin ⁽⁴⁾	20,371,000	1.63	—	—
	<u>654,351,400</u>	<u>52.23</u>	<u>—</u>	<u>—</u>

Notes:

- (1) The percentage is computed based on the total of 1,252,885,000 Shares in issue as at the Latest Practicable Date.
- (2) Section 11.2 of the Letter to Shareholders in this Circular sets out the reasons why Li Qiang and Wong William are deemed to be acting in concert with the Offeror.
- (3) Less than 0.01%.
- (4) Cui Lianxin is Cui's sibling.

7.1.2 Options

Name	No. of Shares to be allotted under the Options held	Exercise price per Share (S\$)	Exercise Period
Cui	4,000,000	0.184	17 May 2011 to 16 May 2015
Cui	<u>4,000,000</u>	0.116	11 May 2012 to 10 May 2016
	<u>8,000,000</u>		
Li Qiang	1,500,000	0.265	12 January 2011 to 11 January 2015
Li Qiang	1,500,000	0.175	12 November 2011 to 11 November 2015
Li Qiang	<u>1,500,000</u>	0.060	9 December 2012 to 8 December 2016
	<u>4,500,000</u>		
Wong William	1,400,000	0.265	12 January 2011 to 11 January 2015
Wong William	1,400,000	0.175	12 November 2011 to 11 November 2015
Wong William	<u>1,400,000</u>	0.060	9 December 2012 to 8 December 2016
	<u>4,200,000</u>		

APPENDIX I – ADDITIONAL INFORMATION ON THE OFFEROR AND PARTIES ACTING IN CONCERT

7.2 Dealings in Company Securities

7.2.1 As at the Latest Practicable Date, none of the Offeror, its directors, parties acting or deemed to be acting in concert with the Offeror or Cui has dealt for value in any Company Securities during the period commencing three (3) months prior to the Announcement Date and ending on the Latest Practicable Date.

7.2.2 As at the Latest Practicable Date, save as disclosed below, none of the Offeror, its directors, parties acting or deemed to be acting in concert with the Offeror or Cui has:

- (i) save for the Irrevocable Undertaking of Cui as disclosed in section 4 of the Letter to Shareholders in this Circular, received any irrevocable undertaking from any party to accept or reject the Exit Offer; nor
- (ii) (a) granted any security interest relating to any Company Securities to another person, whether through a charge, pledge or otherwise, (b) borrowed any Company Securities from another person (excluding borrowed Company Securities which have been on-lent or sold) or (c) lent any Company Securities to another person.

8. GENERAL

8.1 No Indemnity Agreements

To the best knowledge of the Director of the Offeror, as at the Latest Practicable Date, save for the Irrevocable Undertaking of Cui as disclosed in section 4 of the Letter to Shareholders in this Circular, neither the Offeror nor any party acting in concert with it has entered into any arrangement of the kind referred to in Note 7 on Rule 12 of the Code, including any indemnity or option arrangements, and any agreement or understanding, formal or informal, of whatever nature, relating to the Shares which may be an inducement to deal or refrain from dealing in the Shares.

8.2 No Agreement having any Connection with or Dependence upon the Exit Offer

As at the Latest Practicable Date, save for the Irrevocable Undertaking of Cui as disclosed in section 4 of the Letter to Shareholders in this Circular, there is no agreement, arrangement or understanding between (a) the Offeror or any parties acting in concert with the Offeror and (b) any of the present or recent Directors or any of the present or recent Shareholders or any other person having any connection with or dependence upon the Exit Offer or is conditional upon the Exit Offer and its outcome.

8.3 No Payment or Benefit to the Directors

As at the Latest Practicable Date, no payment or other benefit being made or given to any Director or any director of a corporation which is by virtue of Section 6 of the Companies Act deemed to be related to the Company, as compensation for loss of office or otherwise in connection with the Exit Offer.

8.4 No Agreement Conditional upon Outcome of the Exit Offer

As at the Latest Practicable Date, save for the Irrevocable Undertaking of Cui as disclosed in section 4 of the Letter to Shareholders in this Circular, there is no agreement or arrangement made between (a) the Offeror and (b) any of the Directors or any other person, in connection with or conditional upon the outcome of the Exit Offers or otherwise connected with the Exit Offer.

8.5 Transfer of Shares

As at the Latest Practicable Date, there is no agreement, arrangement or understanding whereby any Shares acquired pursuant to the Exit Offer will or may be transferred to any other person.

APPENDIX I – ADDITIONAL INFORMATION ON THE OFFEROR AND PARTIES ACTING IN CONCERT

8.6 Material Change in Information

Save as disclosed in this Circular and save for the information relating to the Offeror and the Exit Offer that is publicly available, there has been, within the knowledge of the Offeror, no material change in any information previously published by or on behalf of the Offeror during the period commencing from the Announcement Date and ending on the Latest Practicable Date.

9. RESPONSIBILITY STATEMENT FROM DIRECTOR OF THE OFFEROR

The director of the Offeror (who may have delegated detailed supervision of this Circular in so far as it relates to information on the Offeror, parties acting in concert with it and the Exit Offer (the “**Offeror Related Disclosure**”)) has taken all reasonable care to ensure that the facts stated and opinions expressed in this Circular in so far as they relate solely to the Offeror Related Disclosure, are fair and accurate and that no material facts relating solely to the Offeror Related Disclosure have been omitted from this Circular, and he accepts responsibility accordingly.

Where any information in this Circular relating solely to the Offeror Related Disclosure has been extracted from published or publicly available sources, the sole responsibility of the director of the Offeror has been to ensure through reasonable enquiries that such information is accurately extracted from such sources or, as the case may be, reflected or reproduced in this Circular.

APPENDIX II – ADDITIONAL INFORMATION ON THE COMPANY

1. DIRECTORS

The name, address and designation of the Directors as at the Latest Practicable Date are as follows:

Name	Address	Designation
Cui	Linyi City, Luozhuang District Luoba Road Central Postal Code 276017	Chairman and Chief Executive Officer
Li Qiang	Suite 501, 8 Longteng Lane Dongshan District Guangzhou	Executive Director and Deputy Chief Executive Officer
Wong William	715 Bedok Reservoir Road #05-3000 Singapore 470715	Executive Director
Ong Kian Min	16D Chatsworth Road Singapore 249778	Lead Independent Director
Lai Hock Meng	125 Jalan Jurong Kechil #05-29 Terrene at Bukit Timah Singapore 598681	Independent Director
Leong Horn Kee	1 Oriole Crescent Raffles Park Singapore 288595	Independent Director

2. REGISTERED OFFICE

The registered office of the Company is at Six Battery Road #10-01 Singapore 049909.

3. PRINCIPAL ACTIVITIES

The Company's principal activity is that of investment holding company.

4. SHARE CAPITAL

4.1 Issued Share Capital

The Company has only one class of shares, being ordinary shares. As at the Latest Practicable Date, the total number of issued Shares in the capital of the Company is 1,252,885,000 Shares. The Shares are quoted and listed on the Official List of the SGX-ST.

4.2 Capital, Dividends and Voting

The rights of Shareholders in respect of capital, dividends and voting are contained in the Articles. The provisions in the Articles relating to the rights of Shareholders in respect of capital, dividends and voting are set out in **Appendix III** to this Circular.

4.3 New Issues

No Shares have been issued by the Company since the end of the last financial year up to the Latest Practicable Date.

4.4 Convertible Securities

As at the Latest Practicable Date, save for the Options, there are no outstanding convertible securities affecting the Shares in the Company.

APPENDIX II – ADDITIONAL INFORMATION ON THE COMPANY

4.5 Transfer Restrictions

There is no restriction in the Memorandum and Articles of Association on the right to transfer any Shares, which has the effect of requiring the holders of such Shares, before transferring them, to first offer them for purchase to the Shareholders or to any other person.

5. DISCLOSURE OF INTERESTS

5.1 Shareholdings and Dealings

5.1.1 Interest of the Company in securities of the Offeror

The Company does not have any direct or deemed interest in the shares of the Offeror or convertible securities of the Offeror as at the Latest Practicable Date.

5.1.2 Dealing in securities of the Offeror by the Company

The Company has not dealt for value in the shares of the Offeror or convertible securities of the Offeror during the period commencing six (6) months prior to the Announcement Date, and ending on the Latest Practicable Date.

5.1.3 Interest of the Directors in Shares

Save as disclosed in section 12.1 of the Letter to Shareholders in this Circular, none of the Directors has any direct or deemed interest in the Shares as at the Latest Practicable Date.

5.1.4 Dealing in Shares by the Directors

Save as disclosed in section 12.3 of the Letter to Shareholders in this Circular, none of the Directors has dealt for value in the Shares during the period commencing six (6) months prior to the Announcement Date, and ending on the Latest Practicable Date.

5.1.5 Interest of the Directors in securities of the Offeror

Save for Cui's holding of the entire issued share capital of the Offeror, as disclosed in section 5 of the Letter to Shareholders in this Circular, none of the Directors has any direct or deemed interest in the shares or convertible securities of the Offeror as at the Latest Practicable Date.

5.1.6 Dealing in securities of the Offeror by the Directors

None of the Directors has dealt for value in the shares of the Offeror or convertible securities of the Offeror during the period commencing six (6) months prior to the Announcement Date, and ending on the Latest Practicable Date.

5.1.7 Shares owned or controlled by the IFA

Neither ACA, its related corporations nor funds whose investments are managed by it and its related corporations on a discretionary basis owns or controls any Shares or the shares of the Offeror as at the Latest Practicable Date.

5.1.8 Dealing in Shares owned by the IFA

Neither ACA, its related corporations nor funds whose investments are managed by it and its related corporations on a discretionary basis has dealt for value in the Shares or the shares of the Offeror during the period commencing six (6) months prior to the Announcement Date, and ending on the Latest Practicable Date.

5.2 Directors' intentions in relation to the Exit Offer

As at the Latest Practicable Date, Cui, Li Qiang and Wong William have confirmed that they intend to accept the Exit Offer in respect of 633,424,400, 506,000 and 50,000 Shares held by them respectively.

APPENDIX II – ADDITIONAL INFORMATION ON THE COMPANY

5.3 Service contracts with Directors

- 5.3.1** There are (a) no service contracts between any of the Directors or proposed directors with the Company or its subsidiaries which have more than 12 months to run and which are not terminable by the employing company within the next 12 months without paying any compensation; and (b) no such service contracts between any of the Directors or proposed directors with the Company or its subsidiaries entered into or amended during the period commencing six (6) months prior to the Announcement Date and ending on the Latest Practicable Date.
- 5.3.2** It is not proposed that any payment or other benefit be made or given to any Director or to any director of any other corporation deemed to be related to the Company by virtue of Section 6 of the Companies Act, as compensation for loss of office or as consideration for or in connection with his retirement from office or otherwise in connection with the Exit Offer.
- 5.3.3** Save as disclosed in section 4 of the Letter to Shareholders in this Circular, there is no agreement or arrangement made between any Director and any other person in connection with or conditional upon the outcome of the Exit Offer.
- 5.3.4** Save as disclosed in section 6 below, there are no other material contracts entered into by the Offeror in which any Director has a material personal interest, whether direct or indirect.

6. MATERIAL CONTRACTS WITH INTERESTED PERSONS

Save as disclosed in this Circular, on the SGXNET, in the Company's annual reports, or any publicly available information on the Company, neither the Company nor any of its subsidiaries has entered into material contracts (other than those entered into in the ordinary course of business) with persons who are interested persons¹ during the period commencing three (3) years before the Announcement Date and ending on the Latest Practicable Date other than the following:

6.1 Lease Agreements between Shandong Jiutai Chemical Industry Technology Co., Ltd. and Jiutai Energy Technology Co., Ltd.

Shandong Jiutai Chemical Industry Technology Co., Ltd. (as lessor) and Jiutai Energy Technology Co., Ltd. (as lessee) entered into land and building lease agreements on 30 September 2011 with a lease period from 1 October 2011 to 31 December 2015 at the rent of RMB1,986,000 per year.

6.2 Lease Agreements between Shandong Jiutai Chemical Industry Technology Co., Ltd. and Linyi Jiuxin Energy Co., Ltd.

Shandong Jiutai Chemical Industry Technology Co., Ltd. (as lessor) and Linyi Jiuxin Energy Co., Ltd. (as lessee) entered into land and building lease agreements on 30 September 2011 with a lease period from 1 October 2011 to 31 December 2015 at the rent of RMB414,400 per year.

6.3 Lease Agreement between Jiutai Energy Technology Co., Ltd. and Shandong Jiutai Industrial Gas Co., Ltd.

Jiutai Energy Technology Co., Ltd. (as lessor) and Shandong Jiutai Industrial Gas Co., Ltd. (as lessee) entered into a land lease agreement on 8 November 2013 with a lease period from 1 July 2013 to 31 December 2015 at the rent of RMB408,159 per year.

¹ An "interested person" is defined in the Note on Rule 23.12 of the Code to mean:

- (a) a director, chief executive officer or Substantial Shareholder of the Company;
- (b) the immediate family of a director, the chief executive officer or a Substantial Shareholder (being an individual) of the Company;
- (c) the trustees, acting in their capacity as such trustees, of any trust of which a director, the chief executive officer or a Substantial Shareholder (being an individual) and his immediate family is a beneficiary;
- (d) any company in which a director, the chief executive officer or a Substantial Shareholder (being an individual) together and his immediate family together (directly or indirectly) have an interest of 30% or more;
- (e) any company that is the subsidiary, holding company or fellow subsidiary of the Substantial Shareholder (being a company); or
- (f) any company in which a Substantial Shareholder (being a company) and any of the companies listed in (e) above together (directly or indirectly) have an interest of 30% or more.

APPENDIX II – ADDITIONAL INFORMATION ON THE COMPANY

7. MATERIAL LITIGATION

As at the Latest Practicable Date, none of the Company or its subsidiaries is engaged in any material litigation, either as plaintiff or defendant, which might materially and adversely affect the financial position of the Company or the Group, taken as a whole, and the Directors are not aware of any litigation, claims or proceedings pending or threatened against the Company or any of its subsidiaries or any facts likely to give rise to any litigation, claims or proceedings which might materially and adversely affect the financial position of the Company or the Group, taken as a whole.

8. SUMMARY OF FINANCIAL INFORMATION

8.1 Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

A summary of the audited income statement and audited consolidated statements of comprehensive income of the Group for FY2011, FY2012 and FY2013 and the unaudited consolidated income statement and unaudited consolidated statements of comprehensive income of the Group for 1Q2014 is set out below.

Consolidated Income Statement

	Audited FY2011	Audited FY2012	Audited FY2013	Unaudited 1Q2014
RMB'000				
Revenue	2,258,612	2,142,562	1,879,200	405,900
Cost of sales	(2,211,882)	(2,132,917)	(1,890,643)	(438,872)
Gross profit (loss)	46,730	9,645	(11,443)	(32,972)
Other income	3,463	16,155	17,102	4,402
Interest income	6,706	15,577	11,026	3,240
Expense:				
- Selling and distribution	(11,961)	(11,403)	(14,795)	(3,476)
- Administrative	(102,522)	(109,061)	(103,515)	(32,390)
- Interest	(116,306)	(131,460)	(121,323)	(35,279)
- Others	(500,816)	(73,914)	(54,079)	–
Loss before income tax	(674,706)	(284,461)	(277,027)	(96,475)
Income tax	(4,357)	(1,419)	(292)	–
Loss attributable to equity holders of the Company	(679,063)	(285,880)	(277,319)	(96,475)
Loss per Share (RMB cents) – basic and diluted	(54.2)	(22.8)	(22.1)	(7.7)

Consolidated Statement of Comprehensive Income

Loss for the financial year/period	(679,063)	(285,880)	(277,319)	(96,475)
Other comprehensive income (expense) net of tax :				
Items that may be reclassified subsequently to profit or loss:				
Exchange difference arising on consolidation	129	(1,076)	910	3
Total comprehensive loss for the financial year/period attributable to equity holders of the Company	(678,934)	(286,956)	(276,409)	(96,472)

APPENDIX II – ADDITIONAL INFORMATION ON THE COMPANY

The above summary of the audited consolidated income statement and audited consolidated statement of comprehensive income of the Group for FY2011, FY2012 and FY2013 and the unaudited consolidated income statement and unaudited consolidated statement of comprehensive income of the Group for 1Q2014 should be read together with the audited financial statements of the Group for the relevant years and related notes thereto, copies of which are available for inspection at the Company's registered office at Six Battery Road, #10-01, Singapore 049909.

8.2 Statement of Financial Position

A summary of the audited consolidated statement of financial position of the Group as at 31 December 2013 and unaudited consolidated statement of financial position of the Group as at 31 March 2014 is set out below.

	Audited 31 December 2013 RMB'000	Unaudited 31 March 2014 RMB'000
ASSETS		
Non-current assets		
Property, plant and equipment	1,526,012	1,581,056
Land use rights	215,020	213,684
Intangible assets	2	1
	<u>1,741,034</u>	<u>1,794,741</u>
Current assets		
Inventories	151,280	95,973
Trade and other receivables	272,727	295,820
Income tax recoverable	14,005	14,005
Other current assets	118,854	111,495
Cash and bank balances	659,989	704,654
	<u>1,216,855</u>	<u>1,221,947</u>
TOTAL ASSETS	<u>2,957,889</u>	<u>3,016,688</u>
EQUITY AND LIABILITIES		
Share capital and reserves attributable to equity holders of the Company		
Share capital	1,135,287	1,135,287
Reserves	(895,639)	(992,111)
Total equity	<u>239,648</u>	<u>143,176</u>
Current liabilities		
Trade and other payables	1,888,965	2,024,166
Short-term bank loans	705,000	730,000
Deferred income	39,640	39,640
Provisions	84,636	79,706
	<u>2,718,241</u>	<u>2,873,512</u>
TOTAL LIABILITIES	<u>2,718,241</u>	<u>2,873,512</u>
TOTAL EQUITY AND LIABILITIES	<u>2,957,889</u>	<u>3,016,688</u>

The above summary of the audited consolidated statement of financial position of the Group as at 31 December 2013 and unaudited consolidated statement of financial position of the Group as at 31 March 2014 should be read together with the audited financial statements of the Group for the FY2013 and related notes thereto, copies of which are available for inspection at the Company's registered office at Six Battery Road, #10-01, Singapore 049909.

APPENDIX II – ADDITIONAL INFORMATION ON THE COMPANY

The audited financial statements of the Group as at 31 December 2013 is set out in **Appendix IV** to this Circular. The unaudited financial statements of the Group for 1Q2014 is set out in **Appendix V** to this Circular.

The net asset value per Share of the Group based on the latest published accounts as at 31 March 2014 (the “**Consolidated Group NAV per Share**”) is RMB0.114 or approximately S\$0.02, based on the prevailing exchange rate of RMB4.9751: S\$1.00². Based on the latest published accounts as at 31 March 2014, the Consolidated NTA per Share of the Group is RMB0.114 or approximately S\$0.02, based on the prevailing exchange rate of RMB4.9751: S\$1.00². The Consolidated Group NAV per Share and the Consolidated NTA per Share of the Group as at 31 March 2014 were calculated based on the issued share capital of 1,252,885,000 Shares.

As at the Latest Practicable Date, the Directors are not aware of any fact or circumstance that would result in any material change to the Consolidated Group NTA per Share as at 31 March 2014.

8.3 Significant Accounting Policies and Changes

A summary of the significant accounting policies of the Group is set out in Note 2 to the audited financial statements of the Group for FY2013, as set out in the annual report of the Company for FY2013, copies of which are available for inspection at the Company’s registered office at Six Battery Road, #10-01, Singapore 049909.

As at the Latest Practicable Date, there is no change in the accounting policy of the Company which will cause the figures as disclosed in this Circular not to be comparable to a material extent.

8.4 Material Changes

Save as disclosed in publicly available information on the Company (including but not limited to announcements released by the Company in respect of its financial results such as the audited financial statements of the Group for FY2013 dated 11 April 2014 and set out in **Appendix IV** to this Circular and the unaudited consolidated financial statements of the Group for 1Q2014 as announced on 15 May 2014 and set out in **Appendix V** of this Circular), as at the Latest Practicable Date, there have been no known material changes in the financial position of the Company since 31 December 2013, being the date to which the Company’s last published audited accounts were made up.

2 Source: Monetary Authority of Singapore as at the Latest Practicable Date.

APPENDIX II – ADDITIONAL INFORMATION ON THE COMPANY

9. Share Prices

The closing prices of the Shares as listed on the SGX-ST on (a) the last trading day prior to the Announcement Date was S\$0.061 per Share; and (b) the Latest Practicable Date was S\$0.052 per Share.

The following table sets out the highest, lowest and last closing prices of the Shares as listed on the SGX-ST on a monthly basis from May 2013 (being 6 calendar months preceding the Announcement Date) to the Latest Practicable Date:

	Highest closing price S\$	Lowest closing price S\$	Last closing price S\$
May 2013	0.074	0.062	0.071
June 2013	0.080	0.068	0.079
July 2013	0.078	0.062	0.069
August 2013	0.068	0.062	0.062
September 2013	0.072	0.060	0.063
October 2013	0.063	0.056	0.056
November 2013	0.065	0.052	0.054
December 2013	0.057	0.054	0.056
January 2014	0.056	0.052	0.052
February 2014	0.051	0.051	0.052
March 2014	0.052	0.051	0.052
April 2014	0.053	0.046	0.052
May 2014	0.053	0.051	0.052
June 2014	0.052	0.051	0.052
Latest Practicable Date	0.052	0.052	0.052

During the period commencing six (6) calendar months preceding the Announcement Date and ending on the Latest Practicable Date (being 11 May 2013 to 30 July 2014, both dates inclusive), the highest closing price and the lowest closing price of the Shares on the SGX-ST are as follows:

	Price S\$	Date(s) of transaction
Highest closing price	0.080	3 June 2013 and 27 June 2013
Lowest closing price	0.046	21 April 2014

APPENDIX III – RIGHTS OF SHAREHOLDERS IN RESPECT OF CAPITAL, VOTING AND DIVIDENDS

The rights of Shareholders in respect of capital, voting and dividends are contained in the Articles, the relevant provisions of which are set out below:

Rights in respect of capital

5. Subject to the Statutes, no shares may be issued without the prior approval of the Company in General Meeting but subject thereto and to these Articles relating to new shares and to any special right attached to any share for the time being issued, the Directors may allot (with or without conferring any right of renunciation), grant options over or otherwise dispose of the same to such persons on such terms and conditions (including such consideration) and at such time as the Directors determine Provided Always that the rights attaching to shares of a class other than ordinary shares shall be expressed in the resolution creating the same.
- Shares under control of Company in General Meeting.
- 5A. (a) Shares which the Company purchases or otherwise acquires may be held as Treasury Shares in accordance with the provisions of these Articles and the Act;
- (b) Where the shares purchased or otherwise acquired are held as Treasury Shares by the Company, the Company shall be entered in the Register of Members as the member holding the Treasury Shares; and
- (c) The Company shall not exercise any right in respect of treasury shares other than as provided by the Act. Subject thereto, the Company may hold or deal with its treasury shares in the manner authorised by, or prescribed pursuant to, the Act.
- 6(1). The Company in General Meeting may by Ordinary Resolution authorise the Directors to exercise any power of the Company to issue shares, such authority being confined to a particular exercise of that power or generally. Any such authority may be unconditional or subject to conditions and shall continue in force until the conclusion of the Annual General Meeting commencing next after the date on which the approval was given or the expiration of the period within which the next Annual General Meeting after that date is required by law to be held whichever is the earlier but may be previously revoked or varied by the Company in General Meeting Provided Always that no shares may be issued to transfer a controlling interest without prior approval of the Company in General Meeting.
- Authority of Directors to issue shares.
- 6(2). Subject to the terms and conditions of any application for shares, the Directors shall allot shares applied for within ten Market Days of the closing date (or such other period as may be approved by the Exchange) of any such application. The Directors may, at any time after the allotment of any share but before any person has been entered in the Register as the holder thereof or before such share is entered against the name of a Depositor in the Depository Register, as the case may be, recognise a renunciation thereof by the allottee in favour of some other person and may accord to any allottee of such share a right to effect such renunciation upon and subject to such terms and conditions as the Directors may think fit.

APPENDIX III – RIGHTS OF SHAREHOLDERS IN RESPECT OF CAPITAL, VOTING AND DIVIDENDS

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| 7. | Any share in the Company may be issued with such preferred, qualified, deferred or other special rights, privileges and conditions or such restrictions, whether in regard to dividend, return of capital, voting or otherwise, as the Company may from time to time by Ordinary Resolution determine, and subject to the Statutes, the Company may issue preference shares which are or, at the option of the Company, are liable to be redeemed on such terms and in such manner as the Company before the issue thereof may by Ordinary Resolution determine. | Company may issue shares with preferred, qualified, deferred and other special rights. |
| 8. | The Company shall have the power to issue further preference capital ranking equally with or in priority to the preference capital then already issued. | Issue of further preference shares. |
| 9. | Subject to the provisions of the Statutes, all or any of the special rights or privileges for the time being attached to any preference share for the time being issued may from time to time (whether or not the Company is being wound up) be modified, affected, altered or abrogated and preference capital other than redeemable preference shares may be repaid if authorised by a Special Resolution passed by holders of such preference shares at a special meeting called for the purpose. To any such special meeting, all provisions of these Articles as to General Meetings of the Company shall mutatis mutandis apply but so that the necessary quorum shall be two persons at least holding or representing by proxy not less than one third of the issued preference shares concerned and that every holder of the preference shares concerned shall be entitled on a poll to one vote for every such share held by him and that any holder of the preference shares concerned present either in person or by proxy may demand a poll Provided Always that where the necessary majority for such a Special Resolution is not obtained at the meeting, consent in writing if obtained from holders of three-fourths of the preference shares concerned within two months of the meeting shall be as valid and effectual as a Special Resolution carried at the meeting. | Alteration of rights of preference shareholders. |
| 10. | Preference shareholders shall have the same rights as ordinary Members as regards the receiving of notices, reports and balance sheets and the attending of General Meetings of the Company. Preference shareholders shall also have the right to vote at any meeting convened for the purpose of reducing the capital of the Company or winding up or sanctioning the sale of the undertaking of the Company or where the proposal to be submitted to the meeting directly affects their rights and privileges or when the dividend on the preference shares is more than six months in arrears. | Rights of preference shareholders. |
| 11. | If by the conditions of allotment of any share, the whole or part of the amount or issue price thereof shall be payable by instalments, every such instalment shall, when due, be paid to the Company by the holder for the time being of the share or his legal personal representative. | Instalments of shares. |

APPENDIX III – RIGHTS OF SHAREHOLDERS IN RESPECT OF CAPITAL, VOTING AND DIVIDENDS

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| 12. | The Company may pay a commission to any person in consideration of his subscribing, or agreeing to subscribe, whether absolutely or conditionally, for any share in the capital of the Company but such commission shall not exceed ten per cent of the price at which the shares are issued or an amount equivalent thereof. Any such commission may be paid in whole or in part in cash or fully or partly paid shares of the Company at par as may be arranged, and the Company may, in addition to, or in lieu of, such commission, in consideration of any person so subscribing or agreeing to subscribe, or of his procuring or agreeing to procure subscriptions, whether absolute or conditional, for any share in the Company, confer on any such person an option call within a specified time for a specified number or amount of shares in the Company at a specified price. The payment or agreement to pay a commission or the conferring of an option shall be in the discretion of the Directors on behalf of the Company. The requirements of the Statutes shall be observed, so far as applicable. | Commission for subscribing. |
| 13(1). | The Company shall not be bound to register more than three persons as the joint holders of any share except in the case of executors, administrators or trustees of the estate of a deceased Member. | Joint holders. |
| 13(2). | Subject to Article 13(1), any two or more persons may be registered as joint holders of any share and the joint holders of a share shall be severally as well as jointly liable for the payment of all instalments and calls and interest (if any) due in respect of such share. | |
| 13(3). | The joint holder first named in the Register or the Depository Register, as the case may be, shall as regards voting, proxy, service of notices and delivery of certificates and dividend warrants, be deemed to be the sole owner of such share. | |
| 14. | No person shall be recognised by the Company as holding any share upon any trust, and the Company shall not be bound by or be required in any way to recognise (even when having notice thereof) any equitable, contingent, future or partial interest in any share or any other rights in respect of any share other than an absolute right to the entirety thereof in the person (other than the depository) entered in the Register as the registered holder or in the person whose name is entered in the Depository Register in respect of that share, as the case may be, except only where these Articles otherwise provide or as required by the Statutes or pursuant to any order of Court. | No trusts recognised. |
| 15. | No person shall exercise any rights of a Member in respect of a share until his name shall have been entered in the Register as the registered holder thereof or in the Depository Register in respect of such share, as the case may be, and, unless the Directors otherwise determine, such person shall have paid all calls and other moneys for the time being due and payable on any share held by him. | Exercise of rights of Members. |

APPENDIX III – RIGHTS OF SHAREHOLDERS IN RESPECT OF CAPITAL, VOTING AND DIVIDENDS

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| 16. | <p>The Company may purchase or otherwise acquire its issued shares on such terms as the Company may think fit and in accordance with the law. Any share so purchased or acquired by the Company shall, unless held in treasury in accordance with the Act, be deemed cancelled immediately on purchase or acquisition by the Company. On the cancellation of such share, the rights and privileges attached to that share shall expire. In any other instance, the Company may hold or deal with such shares in accordance with the law (including as Treasury Share).</p> | <p>Repurchase of shares by the Company.</p> |
| 22. | <p>The Company shall have a first and paramount lien on every share (not being a fully-paid share) and all dividends or interests from time to time declared in respect thereof for all moneys (whether presently payable or not) called or payable at a fixed time, in respect of that share and for all moneys which the Company may be called upon by law to pay in respect of the shares of the Member or the deceased Member. The Directors may however waive any lien which has arisen and may resolve that any share shall for any limited period be exempt wholly or partially from the provisions of this Article 22.</p> | <p>Company's lien on shares.</p> |
| 23. | <p>For the purpose of enforcing such lien the Directors may sell all or any of the shares subject thereto in such manner as they think fit, and no sale shall be made until such time as the moneys are presently payable, and until a notice in writing stating the amount due and demanding payment, and giving notice of intention to sell in default, shall have been served in such a manner as the Directors shall think fit on the holder for the time being of the share or the person (if any) entitled by transmission to the shares, and default in payment shall have been made by him or them for seven days after such notice.</p> | <p>Right to enforce lien by sale.</p> |
| 24. | <p>The net proceeds of any such sale shall be applied in or towards the satisfaction of the amount due, and the residue (if any) shall be paid to the person whose share has been sold, his executors, administrators, trustees or assignees or as he shall direct.</p> | <p>Application of proceeds of sale.</p> |
| 25. | <p>To give effect to any such sale the Directors may authorise some person to transfer or to effect the transfer, as the case may be of the shares sold to the purchaser.</p> | <p>How sale to be effected.</p> |
| 26. | <p>The Directors may from time to time make calls upon the Members in respect of any money unpaid on their shares or on any class of shares and not by the conditions of allotment thereof made payable at fixed times, and each Member shall (subject to his having been given at least fourteen days' notice specifying the time or times and place of payment) pay to the Company at the time or times and place so specified the amount called on his shares. A call may be made payable by instalments. A call may be revoked or postponed as the Directors may determine. A call shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed.</p> | <p>Powers of Directors to make calls.</p> |
| 27. | <p>The joint holders of a share shall be jointly and severally liable to pay all calls and interest (if any) in respect thereof.</p> | <p>Joint and several liability.</p> |

APPENDIX III – RIGHTS OF SHAREHOLDERS IN RESPECT OF CAPITAL, VOTING AND DIVIDENDS

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| 28. | If before or on the day appointed for payment thereof a call payable in respect of a share is not paid, the person from whom the amount of the call is due shall pay interest on such amount at the rate of eight per cent per annum from the day appointed for payment thereof to the time of actual payment, but the Directors shall have power to waive payment of such interest or any part thereof. | Interest on unpaid calls. |
| 29. | Any sum which by the terms of allotment of a share is made payable upon issue or at any fixed date and any instalment of a call shall for all purposes of these Articles be deemed to be a call duly made and payable on the date fixed for payment, and in case of non-payment the provisions of these Articles as to payment of interest and expenses, forfeiture and the like, and all the other relevant provisions of these Articles or the Statutes shall apply as if such sum were a call duly made and notified as hereby provided. | Sums payable under terms of allotment to be deemed calls. |
| 30. | The Directors may from time to time make arrangements on the issue of shares for a difference between the holders of such shares in the amount of calls to be paid and in the time of payment of such calls. | Difference in calls between various holders. |
| 31. | The Directors may, if they think fit, receive from any Member willing to advance the same all or any part of the moneys uncalled and unpaid upon any share held by him, and upon all or any part of the moneys so advanced may (until the same would, but for the advance, become payable) pay interest at such rate not exceeding (unless the Company in General Meeting shall otherwise direct) eight per cent per annum as may be agreed upon between the Directors and the Member paying the sum in advance. Capital paid on shares in advance of calls shall not, whilst carrying interest, confer a right to participate in profits. | Payment of call in advance. |
| 32. | If any Member fails to pay the whole or any part of any call or instalment of a call on or before the day appointed for the payment of the same or any interest thereon, the Directors may at any time thereafter during such time as the call or instalment or interest remains unpaid serve a notice on such Member requiring him to pay the same, together with any interest (including interest upon interest) and expenses that may have been incurred by the Company by reason of such non-payment. | Notice to be given of intended forfeiture. |
| 33. | The notice shall name a further day (not being less than fourteen days from the date of service of the notice) and a place on and at which such call or instalment and such interest and expenses as aforesaid are to be paid. The notice shall also state that in the event of non-payment at or before the time and at the place appointed, the shares in respect of which the call was made or instalment or interest is payable shall be liable to be forfeited. | Form of notice. |
| 34. | If the requirements of any notice as aforesaid are not complied with, any share in respect of which the notice has been given, may at any time thereafter, before payment of all such calls or instalments, interests and expenses due in respect thereof, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends declared in respect of the forfeited shares and not actually paid before the forfeiture. The Directors may accept a surrender of any share liable to be forfeited hereunder. | If notice not complied with shares may be forfeited. |

APPENDIX III – RIGHTS OF SHAREHOLDERS IN RESPECT OF CAPITAL, VOTING AND DIVIDENDS

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| 35. | Any share so forfeited or surrendered shall be deemed to be the property of the Company, and the Directors may sell, re-allot, or otherwise dispose of the same in such manner as they think fit. The Company may receive the consideration, if any, given for the share on any sale or disposition thereof and may execute a transfer of the share in favour of the person to whom the share is sold or disposed. | Sale etc of forfeited and surrendered shares. |
| 36. | The Directors may at any time before any share so forfeited or surrendered shall have been sold, re-allotted or otherwise disposed of, annul the forfeiture or surrender thereof upon such conditions as they think fit. | Power to annul forfeiture. |
| 37. | For the purpose of giving effect to any sale of forfeited or surrendered shares, the Directors may authorise some person to transfer or to effect the transfer of, as the case may be, the shares sold to the purchaser. | Transfer of forfeited or surrendered shares |
| 38. | Any Member whose shares shall have been forfeited or surrendered shall cease to be a Member in respect of the forfeited or surrendered shares but shall, notwithstanding such forfeiture or surrender, be liable to pay, and shall forthwith pay to the Company all calls, instalments, interest and expenses owing upon or in respect of such shares at the time of forfeiture or surrender, together with interest thereon from the time of forfeiture or surrender until payment, at the rate of eight per cent per annum and the Directors may enforce the payment of such moneys or any part thereof if they think fit, but shall not be under any obligation so to do. Any residue after the satisfaction of the unpaid calls, accrued interest and expenses shall be paid to the person whose shares have been forfeited or surrendered, his executors, administrators, trustees or assignees or as he shall direct. | Liability on forfeited share. |
| 39(1). | A statutory declaration in writing that the declarant is a Director or the Secretary, and that a share has been duly forfeited, surrendered or sold to satisfy a lien of the Company on a date stated in the declaration shall be conclusive evidence of the facts therein stated as against all persons claiming to be entitled to the share. Such declaration and the receipt by the Company of the consideration (if any) given for the share on the sale, re-allotment or disposal thereof together with the share certificate, where the same be required, delivered to a purchaser or (where the purchaser is a Depositor) to the Depository or the allottee thereof, as the case may be, shall (subject to the execution of a transfer if the same be required) constitute a good title to the share. | Declaration by Director or Secretary conclusive of fact of forfeiture. |
| 39(2). | <p>(a) In the event of such sale, re-allotment or disposal, where the person (the "Relevant Person") to whom the share is sold, re-allotted or disposed of is not a Depositor, the share shall be registered in the Register in the name of the Relevant Person and, where the Relevant Person is a Depositor, the Company shall procure that his name be entered in the Depository Register in respect of the share so sold, re-allotted or disposed of.</p> <p>(b) The Relevant Person shall not be bound to see to the application of the purchase money (if any) nor shall his title to the share be affected by any irregularity or invalidity in the proceedings relating to the forfeiture, surrender, sale, re-allotment or disposal of the share.</p> | |

APPENDIX III – RIGHTS OF SHAREHOLDERS IN RESPECT OF CAPITAL, VOTING AND DIVIDENDS

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| 40. | <p>Save as provided by these Articles, there shall be no restriction on the transfer of fully paid shares (except where required by law or by the rules, bye-laws or listing rules of the Exchange). All transfers of shares may be effected by way of book-entry in the Depository Register Provided Always that the legal title in the shares may be transferred by the registered holders thereof by an instrument of transfer in the form approved by the Exchange. The instrument of transfer shall be left at the Office accompanied by the certificate of the shares to be transferred and such other evidence (if any) as the Directors may reasonably require to show the right of the transferor to make the transfer. The transferor shall be deemed to remain the registered holder of the shares until the name of the transferee is entered in the Register in respect thereof.</p> | <p>Shares to be transferable.</p> |
| 41. | <p>The instrument of transfer shall be signed both by the transferor and by the transferee, and it shall be witnessed Provided Always that an instrument of transfer in respect of which the transferee is the Depository shall be effective although not signed or witnessed by or on behalf of the Depository.</p> | <p>Instrument of transfer.</p> |
| 42. | <p>Shares of different classes shall not be comprised in the same instrument of transfer.</p> | <p>Only shares of same class to be in same instrument.</p> |
| 43. | <p>No share shall in any circumstances be transferred to any infant, bankrupt or person of unsound mind.</p> | <p>Restriction on transfer.</p> |
| 44(1). | <p>All instruments of transfer which are registered shall be retained by the Company, but any instrument of transfer which the Directors may refuse to register shall (except in any case of fraud) be returned to the party presenting the same.</p> | <p>Retention of Instrument of transfer and disposal of documents.</p> |
| 44(2). | <p>The Company shall be entitled to destroy:-</p> <ul style="list-style-type: none"> (a) all instruments of transfer which have been registered at any time after the expiration of six years from the date of registration thereof; (b) all dividend mandates and notifications of change of address at any time after the expiration of six years from the date of recording thereof; and (c) all share certificates which have been cancelled at any time after the expiration of six years from the date of the cancellation thereof. | |
| 44(3). | <p>It shall be conclusively presumed in favour of the Company that every entry in the Register purporting to have been made on the basis of an instrument of transfer or other document so destroyed was duly and properly made and that:</p> <ul style="list-style-type: none"> (a) every instrument of transfer so destroyed was a valid and effective instrument duly and properly registered; (b) every share certificate so destroyed was a valid and effective certificate duly and properly cancelled; and | |

APPENDIX III – RIGHTS OF SHAREHOLDERS IN RESPECT OF CAPITAL, VOTING AND DIVIDENDS

- (c) every other document hereinbefore mentioned so destroyed was a valid and effective document;

in accordance with the recorded particulars thereof in the books or records of the Company.

- 44(4). Articles 44(2) and 44(3) shall apply only to the destruction of a document in good faith and without notice of any claim (regardless of the parties thereto) to which the document might be relevant.

- 44(5). Nothing contained in this Article 44 shall be construed as imposing upon the Company any liability in respect of the destruction of any such document earlier than as aforesaid or in any other circumstance which would not attach to the Company in the absence of this Article 44, and references in this Article 44 to the destruction of any document include references to the disposal thereof in any manner.

45. The Directors may decline to accept any instrument of transfer unless:-

Fees relating to transfers.

- (a) all or any part of the stamp duty (if any) payable on each share transfer and such fee not exceeding two Singapore Dollars for each transfer or such other sum as may from time to time be prescribed by the Exchange is paid to the Company; and
- (b) such fee not exceeding two Singapore Dollars as the Directors may from time to time determine is paid to the Company in respect of the registration of any instrument of transfer, probate, letters of administration, certificate of marriage or death, power of attorney or any document relating to or affecting the title to the shares.

46. The Directors may refuse to register the transfer of shares or allow the entry of or against a person's name in the Depository Register in respect of shares transferred or to be transferred to such person:-

Power of Directors to refuse to register.

- (a) which are not fully paid up; or
- (b) on which the Company has a lien.

47. If the Directors refuse to register any transfer of any share they shall, where required by the Statutes, serve on the transferor and transferee, within one month beginning with the day on which the transfer was lodged with the Company, a notice in writing informing each of them of such refusal and of the facts which are considered to justify the refusal.

Notice of refusal to be sent by Company.

48. The Register may be closed at such times and for such periods as the Directors may from time to time determine Provided Always that the Register shall not be closed for more than thirty days in any year Provided Always that the Company shall give prior notice of such closure as may be required to the Exchange stating the period and purpose or purposes for which such closure is to be made.

Closure of the Register.

APPENDIX III – RIGHTS OF SHAREHOLDERS IN RESPECT OF CAPITAL, VOTING AND DIVIDENDS

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| 49(1). | In the case of the death of a Member the survivor where the deceased was a joint holder, and the legal personal representative of the deceased who was a sole or only surviving holder, or where such legal representative is entered in the Depository Register in respect of the shares of the deceased Member who was a Depositor, shall be the only person recognised by the Company as having any title to his shares. | Transmission of registered shares. |
| 49(2). | Nothing herein contained shall release the estate of a deceased Member from any liability in respect of any share solely or jointly held by him. | |
| 50. | Any person becoming entitled to the legal title in a share in consequence of the death or bankruptcy of a person whose name is entered in the Register may upon producing such evidence of his title as the Directors may require, have the right either to be registered himself as the holder of the share, upon giving to the Company notice in writing of such intent, or to make such transfer thereof as such deceased or bankrupt person could have made, but the Directors shall in either case have the same right to refuse or suspend registration as they would have had in the case of such transfer by such deceased or bankrupt person before the death or bankruptcy, as the case may be. | Rights of registration and transfer upon demise or bankruptcy of Member. |
| 51. | Save as otherwise provided in these Articles, a person becoming entitled to a share pursuant to Articles 49(1) and 50, shall have the right to receive and give a discharge for any dividends or other moneys payable in respect of the share, but he shall have no right to receive notice or to attend or vote at meetings of the Company, or (save as aforesaid) to any of the rights or privileges of a Member until he shall have been registered as a Member in the Register or his name shall have been entered in the Depository Register, as the case may be Provided Always that the Directors may at any time give notice requiring any such person to elect either to be registered himself or transfer the share, and if the notice is not complied with within ninety days of the date of such notice, the Directors may thereafter withhold payment of all dividends or other moneys payable in respect of the share until the requirements of the notice have been complied with. | Person registered under transmission clause entitled to dividends. |
| 52. | Subject to and in accordance with the provisions of the Act, the Company may purchase or otherwise acquire ordinary shares issued by it on such terms as the Company may think fit and in the manner prescribed by the Act. | Company may purchase its own shares. |
| 53. | The Company in General Meeting may by Ordinary Resolution convert any paid-up shares into stock and may from time to time reconvert such stock into paid-up shares. | Conversion of shares to stock. |
| 54. | When any shares have been converted into stock the several holders of such stock may transfer their respective interests therein or any part of such interests in such manner as the Company in General Meeting shall direct, but in default of any direction then in the same manner and subject to the same regulations as and subject to which the shares from which the stock arose might previously to conversion have been transferred or as near thereto as circumstances will admit. But the Directors may if they think fit from time to time fix the minimum amount of stock transferable. | Stockholders entitled to transfer interest. |

APPENDIX III – RIGHTS OF SHAREHOLDERS IN RESPECT OF CAPITAL, VOTING AND DIVIDENDS

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| 55. | The several holders of stock shall be entitled to participate in the dividends and profits of the Company according to the amount of their respective interests in such stock and such interests shall, in proportion to the amount thereof, confer on the holders thereof respectively the same rights, privileges and advantages for the purposes of voting at meetings of the Company and for other purposes as if they held the shares from which the stock arose, but so that none of such rights, privileges or advantages, except the participation in the dividends, profits and assets of the Company, shall be conferred by any such aliquot part of consolidated stock as would not, if existing in shares, have conferred such rights, privileges or advantages. | Stockholders entitled to profits. |
| 56. | All such provisions of these Articles as are applicable to paid up shares shall apply to stock and in all such provisions the words “shares” shall include “stock”, and “Depositor”, “Member” and “shareholder” shall include “stockholder”. | Definitions. |
| 57. | The Company in General Meeting may from time to time by Ordinary Resolution, whether all the shares for the time being issued have been fully paid up or not, increase its capital by the creation and issue of new shares, such aggregate increase to be of such amount and to be divided into shares of such respective amounts as the Company by the resolution authorising such increase shall direct. | Power to increase capital. |
| 58(1). | Unless otherwise determined by the Company in General Meeting or except as permitted under the Exchange's listing rules, all new shares shall, before issue, be offered to such persons who as at the date of the offer are entitled to receive notices from the Company of General Meetings, in proportion, as nearly as the circumstances admit, to the amount of the existing shares to which they are entitled. | Issue of new shares to Members. |
| 58(2). | The offer shall be made by notice specifying the number of shares offered and limiting a time within which the offer, if not accepted, will be deemed to be declined, and, after the expiration of that time, or on the receipt of an intimation from the person to whom the offer is made that he declines to accept the shares offered, the Directors may dispose of those shares in such manner as they think most beneficial to the Company. The Directors may likewise so dispose of any new share which (by reason of the ratio which the new shares bear to shares held by persons entitled to an offer of new shares) cannot, in the opinion of the Directors, be conveniently offered in the manner hereinbefore provided. | Notice of issue. |
| 59. | Subject to any directions that may be given in accordance with the powers contained in the Memorandum of Association or these Articles, any capital raised by creation of new shares shall be considered as part of the original capital and all new shares shall be subject to the same provisions with reference to the payment of calls, transfer, transmission, forfeiture, lien and otherwise as if it had been part of the original capital. | New capital considered part of original capital. |
| 60(1). | The Company may by Ordinary Resolution:-

(a) consolidate and divide all or any of its share capital; or | Alteration of capital. |

APPENDIX III – RIGHTS OF SHAREHOLDERS IN RESPECT OF CAPITAL, VOTING AND DIVIDENDS

- (b) cancel the number of shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the number of the shares so cancelled; or
- (c) sub-divide its existing shares or any of them. The resolution by which the subdivision is effected may determine that, as between the holders of the resulting shares, one or more of such shares may have any such preferred, deferred or other special rights or be subject to any restriction as the Company has power to attach to unissued or new shares; or
- (d) subject to the Statutes, convert any class of shares into any other class of shares.

60(2). The Company may by Special Resolution reduce its share capital in any manner and with and subject to any requirement authorised and consent required by law.

61. Subject to the Statutes and save as provided by these Articles, all or any of the special rights or privileges attached to any class of shares in the capital of the Company for the time being issued may, at any time, as well before as during liquidation, be modified, affected, altered or abrogated, either with the consent in writing of the holders of not less than three-fourths of the issued shares of the class or with the sanction of a Special Resolution passed at a separate General Meeting, but so that the quorum thereof shall be not less than two persons personally present and holding or representing by proxy one-third of issued shares of the class, and that any holder of shares of the class, present in person or by proxy, shall on a poll be entitled to one vote for each share of the class held or represented by him, and if at any adjourned meeting of such holders such quorum as aforesaid is not present, any two holders of shares of the class who are personally present shall be a quorum. The Directors shall comply with the provisions of Section 186 of the Act as to forwarding a copy of any such consent or Resolution to the Registrar of Companies.

Modification of class rights.

Rights in respect of voting

66. In addition to any other meetings, a General Meeting shall be held once at least in every calendar year, at such time and place as may be determined by the Directors, but so that no more than fifteen months shall be allowed to elapse between any two such General Meetings.

General Meetings.

67. The abovementioned General Meetings shall be called Annual General Meetings. All other General Meetings shall be called Extraordinary General Meetings.

Annual General Meetings.

68. The First Annual General Meeting of the Company shall be held at such time within a period of not more than eighteen months from the date of incorporation of the Company and at such time and place as the Directors may determine.

First Annual General Meeting.

69. The Directors may call an Extraordinary General Meeting of the Company whenever they think fit in accordance with the Statutes.

Directors may call Extraordinary General Meetings.

APPENDIX III – RIGHTS OF SHAREHOLDERS IN RESPECT OF CAPITAL, VOTING AND DIVIDENDS

70. The Directors shall, on the requisition of the holders of not less than one-tenth of the issued capital of the Company upon which all calls or other sums then due have been paid, forthwith proceed to convene an Extraordinary General Meeting of the Company, and in the case of such requisition the following provisions shall have effect:-
- Extraordinary General Meetings called on requisition of shareholders.
- (a) The requisition must state the objects of the meeting and must be signed by the requisitionists and deposited at the Office, and may consist of several documents in like form each signed by one or more requisitionists.
 - (b) If the Directors of the Company do not proceed to cause a meeting to be held within twenty-one days from the date of the requisition being so deposited, the requisitionists or any of them representing more than one-half of the voting rights of all of them may themselves convene the meeting, but any meeting so convened shall not be held after three months from the date of the deposit.
 - (c) In the case of a meeting at which a resolution is to be proposed as a Special Resolution the Directors shall be deemed not to have duly convened the meeting if they do not give such notice as is required by the Statutes.
 - (d) Any meeting convened under this Article by the requisitionists shall be convened in the same manner as nearly as possible as that in which meetings are to be convened by Directors.
71. Subject to the Statutes relating to the convening of meetings to pass Special Resolutions and agreements for shorter notice, at least fourteen clear days' notice in writing specifying the place, day and hour of the meeting, and in case of special business, a notice in writing setting out the general nature of such special business, accompanied by a statement regarding the effect of any proposed resolution in respect of such special business, shall be given to all Members and the Exchange other than such as are not entitled under these Articles to receive such notices from the Company. At least fourteen days notice in writing of any General Meeting shall be given and at least twenty-one days' notice in writing in the case of a Meeting to pass Special Resolution shall be given to all Members and the Exchange. Every such notice shall be published in at least one English Language daily newspaper circulating in Singapore at least fourteen clear days before the meeting. Whenever any meeting is adjourned for fourteen days or more, at least seven days' notice in writing of the place and hour of such adjourned meeting shall be given in like manner Provided Always that when a meeting is adjourned for thirty days or more, notice of the adjourned meeting shall be given as in the case of an original meeting.
- Notice of meeting.
72. Any Member entitled to be present and vote at a meeting or his proxy may submit any resolution to any General Meeting, provided that at least for the prescribed time before the day appointed for the meeting he shall have served upon the Company a notice in writing by him containing the proposed resolution, and stating his intention to submit the same. The prescribed time abovementioned shall be such that, between the date that the notice is served and the day appointed for the meeting, there shall be not less than three nor more than fourteen intervening days.
- Members may submit resolution to meeting on giving notice to Company.

APPENDIX III – RIGHTS OF SHAREHOLDERS IN RESPECT OF CAPITAL, VOTING AND DIVIDENDS

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| 73. | Upon receipt of any such notice as in the last preceding Article mentioned, the Secretary shall include in the notice of the meeting in any case where the notice of intention is received before the notice of the meeting is issued, and shall in any other case issue as quickly as possible to the Members notice that such resolution will be proposed. | Secretary to give notice to Members. |
| 74. | The accidental omission to give any notice to or non-receipt of any notice by any Member shall not invalidate the meeting or any resolution passed or proceedings at any such meeting. | Accidental omission to give notice. |
| 75. | All business shall be deemed special that is transacted at an Extraordinary General Meeting and also all business that is transacted at an Annual General Meeting with the exception of the consideration of the accounts, balance sheets and reports (if any) of the Directors and Auditors, the fixing of the remuneration of Directors, the election of Directors in the place of those retiring, the declaration of dividends and the appointment of and the fixing of the remuneration of the Auditors. | Special business. |
| 76. | Save as is herein otherwise provided, two Members present in person or by proxy shall be a quorum for a General Meeting and no business shall be transacted at any General Meeting unless the quorum is present at the commencement of the business. A corporation being a Member shall be deemed to be personally present if represented in accordance with the provisions of Article 91. | Quorum. |
| 77. | If within half an hour from the time appointed for the meeting a quorum is not present, the meeting, if convened upon the requisition of Members, shall be dissolved; in any other case it shall stand adjourned to the same day in the next week, at the same time and place. At the adjourned meeting, any two or more Members present in person or by proxy shall be a quorum. | If quorum not present. |
| 78. | The Chairman (if any) of the Board of Directors shall preside as Chairman at every General Meeting, but if there be no such Chairman, or if at any meeting he shall not be present within fifteen minutes after the time appointed for holding the same, or shall be unwilling to act as Chairman, the Members present shall choose some Director or, if no Director be present or if all the Directors present decline to take the chair, one of themselves to be Chairman of the meeting. | Chairman. |
| 79. | The Chairman may with the consent of any meeting at which a quorum is present (and shall if so directed by the meeting), adjourn the meeting from time to time and from place to place, but no business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place. | Adjournment. |
| 80. | At every General Meeting a resolution put to the vote of the meeting shall be decided on a show of hands by the Members present in person and entitled to vote, unless before or upon the declaration of the result of the show of hands a poll be demanded by:-

(a) the Chairman of the meeting; or

(b) not less than two Members present in person or by proxy and entitled to vote; or | How matters are to be decided. |

APPENDIX III – RIGHTS OF SHAREHOLDERS IN RESPECT OF CAPITAL, VOTING AND DIVIDENDS

- (c) a Member or Members present in person or by proxy, holding or representing, as the case may be:-
- (i) not less than one-tenth of the total voting rights of all Members entitled to vote at the meeting; or
 - (ii) shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.
- 81(1). If a poll is duly demanded it shall be taken in such manner as the Chairman directs, and the results of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded. Chairman's direction as to poll.
- 81(2). No poll shall be demanded on the election of a Chairman of a meeting or on a question of adjournment. A poll demanded on any other question shall be taken at such time as the Chairman of the meeting directs.
82. Unless a poll be so demanded, a declaration by the Chairman of the meeting that a resolution has been carried, or has been carried by a particular majority, or lost, or not carried by a particular majority shall be conclusive, and an entry to that effect in the minute book of the Company shall be conclusive evidence thereof, without proof of the number or proportion of the votes recorded in favour of or against such resolution. Declaration of Chairman conclusive.
- 83(1). No objection shall be raised as to the admissibility of any vote except at the meeting or adjourned meeting, as the case may be, at which the vote objected to is or may be given, tendered or cast, and every vote not disallowed at such meeting shall be valid for all purposes. Any such objection shall be referred to the Chairman of the meeting whose decision shall be final and conclusive. Objection to admissibility.
- 83(2). If any votes shall be counted which ought not to have been counted, or might have been rejected, the error shall not vitiate the result of the voting unless it be pointed out at the same meeting, or at any adjournment thereof, and unless in the opinion of the Chairman at the meeting or at any adjournment thereof as the case may be, it shall be of sufficient importance to vitiate the result of the voting. .
84. In case of an equality of votes, whether on a show of hands or on a poll, the Chairman of the meeting at which the show of hands takes place or at which the poll is demanded, as the case may be, shall have a second or casting vote. In the event of equality of votes.
- 85(1). Subject to and without prejudice to any special privileges or restriction as to voting for the time being attached to any special class of shares for the time being forming part of the capital of the Company:- Voting rights.
- (a) every Member who is present in person or by proxy shall have one vote on a show of hands, the Chairman to decide which proxy shall be entitled to vote where a Member is represented by two proxies; and

APPENDIX III – RIGHTS OF SHAREHOLDERS IN RESPECT OF CAPITAL, VOTING AND DIVIDENDS

- (b) every Member who is present in person or by proxy, in case of a poll, shall have one vote for every share which he holds or represents and upon which all calls or other sums due thereon to the Company have been paid.

85(2). For the purpose of determining the number of votes which a Member, being a Depositor, or his proxy may cast at any General Meeting upon a poll being called, the number of shares held or represented shall, in relation to the shares of that Depositor, be the number of shares entered against his name in the Depository Register as at the Cut-Off Time as certified by the Depository to the Company.

86. In the case of joint holders the vote of the senior who tenders a vote whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders; and for this purpose seniority shall be determined by the order in which the names stand in the Register or the Depository Register, as the case may be.

Right of joint holders.

87. Unless the Directors otherwise determine, no person other than a Member who shall have paid everything for the time being due from him and payable to the Company in respect of his shares, shall be entitled to be present or to vote on any question either personally or by proxy at any General Meeting.

Members only entitled to vote upon full payment.

88. A Member of unsound mind, or in respect of whom an order has been made by any Court having jurisdiction in lunacy, may vote, whether on a show of hands or on a poll by the committee, curator bonis, or other person in the nature of committee or curator bonis appointed by that Court, and any such committee, curator bonis, or other person may, on a poll, vote by proxy.

Votes of Members of unsound mind.

89. On a poll, votes may be given either personally or by proxy and a person entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

Vote personal or by proxy.

90(1). A proxy need not be a Member.

Proxies.

90(2). A Member shall not be entitled to appoint more than two proxies to attend and vote at the same General Meeting Provided Always that where the Member is a Depositor, the Company shall be entitled and bound:-

- (a) to reject any instrument of proxy lodged if the Depositor is not shown to have any shares entered against his name in the Depository Register as at the Cut-Off Time as certified by the Depository to the Company;
- (b) to accept as the maximum number of votes which in aggregate the proxy or proxies appointed by the Depositor is or are able to cast on a poll a number which is the number of shares entered against the name of that Depositor in the Depository Register as at the Cut-Off Time as certified by the Depository to the Company, whether that number be greater or smaller than the number specified in any instrument of proxy executed by or on behalf of that Depositor; and

APPENDIX III – RIGHTS OF SHAREHOLDERS IN RESPECT OF CAPITAL, VOTING AND DIVIDENDS

- (c) in determining rights to vote and other matters in respect of a completed instrument of proxy submitted to it, to have regard to the instructions (if any) given by and the notes (if any) set out in the instrument of proxy.

90(3). In any case where a form of proxy appoints more than one proxy, the proportion of the shareholding concerned to be represented by each proxy shall be specified in the form of proxy. If no proportion is specified, the Company shall be entitled to treat the first named proxy as representing the entire number of shares entered against his name in the Depository Register and any second named proxy as an alternate to the first named or at the Company's option to treat the instrument of proxy as invalid.

91. Any corporation which is a Member may, by resolution of its directors or other governing body, authorise any person to act as its representative at any meetings of the Company or any class of Members of the Company, and such representative shall be entitled to exercise the same powers on behalf of the corporation which he represents as if he had been an individual shareholder.

Corporation
may appoint
representative.

92. An instrument appointing a proxy shall be in writing in any usual or common form (including the form approved from time to time by the Depository) or in any other form which the Directors may approve and:-

Execution Of
instrument of proxy
on behalf of appointor.

(1) in the case of an individual shall be signed by the appointor or his attorney;

(2) in the case of a corporation shall be either given under its common seal or signed on its behalf by an attorney or a duly authorised officer of the corporation.

93. Where an instrument appointing a proxy is signed on behalf of the appointor by an attorney, the letter or the power of attorney or other authority, if any, or a duly certified copy thereof shall (failing previous registration with the Company) if required by law, be duly stamped and be deposited at the Office, not less than forty-eight hours before the time for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote and in default the instrument of proxy shall not be treated as valid.

Lodgement of
instrument appointing
proxy.

94. The signature on an instrument of proxy need not be witnessed.

No witness needed
for instrument of
proxy.

95. A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death of the principal or revocation of the proxy or transfer of the share in respect of which the vote is given Provided Always that no notice in writing of the death or revocation or transfer shall have been received at the Office one hour at least before the time fixed for holding the meeting.

When vote by proxy
valid though authority
revoked.

96. An instrument appointing a proxy shall be deemed to confer authority to demand or join in demanding a poll and to speak at the meeting.

Instrument deemed to
confer authority.

APPENDIX III – RIGHTS OF SHAREHOLDERS IN RESPECT OF CAPITAL, VOTING AND DIVIDENDS

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| 97. | Where the capital of the Company consists of shares of different monetary denominations, voting rights shall be prescribed in such manner that a unit of capital in each class, when reduced to a common denominator, shall carry the same voting power when such right is exercisable. | Voting in respect of shares of different monetary denominations. |
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Rights in respect of dividends

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| 135. | The profits of the Company, subject to any special rights relating thereto created or authorised to be created by these Articles and subject to the provisions of these Articles as to the reserve fund shall be divisible among the Members in proportion to the number of shares held by them respectively. | Appropriation of profits. |
| 136. | The Company in General Meeting may by Ordinary Resolution declare a dividend on or in respect of any share to the Members according to their rights and interest in the profits and may fix the time for payment. No larger dividend shall be declared than is recommended by the Directors but the Company in General Meeting may declare a smaller dividend. | Declaration of Dividend. |
| 137. | No dividend shall be payable except out of the profits of the Company. No dividend shall carry interest. | Dividend payable out of profits. |
| 138. | The declaration of the Directors as to the net profits of the Company shall be conclusive. | Declaration conclusive. |
| 139. | The Directors may from time to time pay to the Members such interim dividends as in their judgment the position of the Company justifies provided no such dividends shall be declared more than once in six months. | Interim dividend. |
| 140. | The Directors may retain any dividends on which the Company has a lien and may apply the same in or towards satisfaction of the debts, liabilities, or engagements in respect of which the lien exists. | Debts may be deducted. |
| 141. | A transfer of shares shall not pass the right to any dividend declared thereon before the registration of the transfer or the entry of the shares against the Depositor's name in the Depository Register, as the case may be. | Effect of transfer. |
| 142. | Any General Meeting declaring a dividend may direct payment of such dividend wholly or in part by the distribution of specific assets, and in particular of wholly or partly paid-up shares, debentures, or debenture stock of the Company, or wholly or partly paid-up shares, debentures, or debenture stock of any other company, or in anyone or more of such ways, and the Directors shall give effect to such resolution; and where any difficulty arises in regard to the distribution, they may settle the same as they think expedient, and in particular may issue fractional certificates, and may fix the value for distribution of such specific assets, or any part thereof and may determine that cash payments shall be made to any Member upon the footing of the value so fixed, in order to adjust the rights of all parties, and may vest any such specific assets in trustees upon such trusts for the persons entitled to the dividends as may seem expedient to the Directors. Where requisite, a proper contract shall be filed in accordance with Section 63 of the Act, and the Directors may appoint any person to sign such contract on behalf of the persons entitled to the dividend, and such appointment shall be effective. | Dividend in specie. |

APPENDIX III – RIGHTS OF SHAREHOLDERS IN RESPECT OF CAPITAL, VOTING AND DIVIDENDS

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| 143. | The Directors may retain the dividends payable upon shares in respect of which any person is under the provisions as to the transmissions of shares hereinbefore contained entitled to become a Member, or which any person under those provisions is entitled to transfer until such person shall become a Member in respect of such shares or shall duly transfer the same. | Power to retain dividends. |
| 144. | In case several persons are registered in the Register or entered in the Depository Register, as the case may be, as the holders of any share, any resolution of the Directors or the Company in General Meeting declaring a dividend on shares of any class may specify that the dividend shall be payable to such persons at the close of business on a particular date and thereupon the dividend shall be payable in accordance with their respective holdings so registered. Any person registered in the Register or in the Depository Register, as the case may be, as the holder or joint holder of any share or is entitled jointly to a share in consequence of the death or bankruptcy of the holder may give effectual receipts for dividends, bonuses, other moneys payable or properties distributable and payment on account of dividends on or in respect of such shares. | Payment to and receipt by joint holders. |
| 145. | Notice of declaration of any dividend, whether interim or otherwise, may be given by advertisement. | Notice of dividend. |
| 146. | Unless otherwise directed, any dividend may be paid by cheque, dividend warrant or Post Office Order, sent through the post to the registered address appearing in the Register or the Depository Register, as the case may be, of the Member or person entitled, or where two or more persons are registered in the Register or entered in the Depository Register, as the case may be, as joint holders or are entitled to the dividend as a result of the death or bankruptcy of the holder, to that one whose name shall stand first on the Register or the Depository Register, as the case may be, in respect thereof and every cheque, dividend warrant or Post Office Order so sent shall be made payable to the order of the person to whom it is sent or to any person and address as such Member(s) or persons(s) may direct in writing. The Company shall not be responsible for the loss of any cheque, dividend warrant or Post Office Order, which shall be sent by post duly addressed to and at the sole risk of the Member or person for whom it is intended. Payment of the cheque, dividend warrant or Post Office Order by the bank upon which they are respectively drawn shall be a full and valid discharge to the Company. Notwithstanding the provisions of these Articles, payment by the Company to the Depository of any dividend payable to a Depositor shall also be a full and valid discharge of the Company from liability to the Depositor in respect of that payment to the extent of the payment made to the Depository. | Payment by post. |
| 147. | The Depository will hold all dividend unclaimed for six years after having been declared and paid before release to the Directors, and the Directors may invest or otherwise make use of the unclaimed dividends for the benefit of the Company until claimed. | Unclaimed dividends. |

APPENDIX III – RIGHTS OF SHAREHOLDERS IN RESPECT OF CAPITAL, VOTING AND DIVIDENDS

- 148(1). The Company in General Meeting may, upon the recommendation of the Directors, resolve that it is desirable to capitalise any part of the amount for the time being standing to the credit of the Company's reserve funds or to the credit of the profit and loss account or otherwise available for distribution; and accordingly that such sum be set free for distribution amongst the holders of shares in the Register or in the Depository Register, as the case may be, who would have been entitled thereto if distributed by way of dividends and in the same proportions on condition that the same be not paid in cash but be applied either in or towards paying up any amounts for the time being unpaid on any shares held by such Members respectively or paying up on full unissued shares or debentures of the Company to be allotted and distributed credited as fully paid up to and amongst such holders or in their nominees in the proportion aforesaid or partly in the one way and partly in the other and the Directors shall give effect to such resolution.
- Capitalisation of profits and reserves.
- 148(2). Whenever such resolution as aforesaid shall have been passed, the Directors shall make all appropriations and applications of the amounts resolved to be capitalised thereby and all allotments and issues of fully paid shares or debentures, if any, and generally shall do all acts and things required to give effect thereto with full power to the Directors to make such provision for the satisfaction of the right of the holders of such shares in the Register or in the Depository Register, as the case may be, under such resolution to a fractional part of a share by the issue of fractional certificates or by payment in cash or otherwise as they think fit and also to authorise any persons to enter on behalf of such holders entitled thereto or their nominees into an agreement with the Company providing for the allotment to them respectively credited as fully paid up of any further shares to which they may be entitled upon such capitalisation; and any agreement made under such authority shall be effective and binding on all such holders and their nominees.
149. The Directors may, before declaring any dividend or bonus in respect of any class of shares out of or in respect of the earnings or profits of the Company for any yearly or other period, cause to be reserved or retained and set aside out of such sums as they may determine to form a Reserve Fund to meet contingencies or depreciation in the value of the property of the Company, or for equalising dividends or for special dividends or for distribution of bonuses or for repairing, improving and maintaining any of the property of the Company, or for such other purposes the Directors shall, in their absolute discretion, think conducive to the interest of the Company.
- Formation and object of Reserve Fund.

REPORT OF THE DIRECTORS

The directors present their report to the members together with the audited consolidated financial statements of China Energy Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for the financial year ended 31 December 2013 and the audited statement of financial position of the Company as at 31 December 2013.

1 Directors

The directors of the Company in office at the date of this report are as follows:

Cui Lianguo
Li Qiang
Wong William
Ong Kian Min
Lai Hock Meng
Leong Horn Kee

2 Arrangements to Enable Directors to Acquire Shares and Debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object was to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, other than as disclosed under the China Energy Employee Share Option Scheme in this report on Page 25.

3 Directors’ Interests in Shares or Debentures

According to the register kept by the Company for the purposes of Section 164 of the Companies Act, Chapter 50 (the “Act”), particulars of interests of directors who held office at the end of the financial year in shares or debentures of the Company and its related corporations (other than wholly-owned subsidiaries) are as follows:

	Direct interest	
	At 1 January 2013	At 31 December 2013
The Company		
<u>(Number of ordinary shares)</u>		
Cui Lianguo	633,424,400	633,424,400
Li Qiang	506,000	506,000
Wong William	50,000	50,000

There was no change in any of the above-mentioned interests between the end of the financial year and 21 January 2014.

Except as disclosed in this report, no director who held office at the end of the financial year had any interest in shares and debentures of the Company or of related corporations either at the beginning or at the end of the financial year.

Cui Lianguo, who by virtue of his interest of not less than 20% of the issued share capital of the Company, is deemed to have an interest in the whole of the issued share capital of the Company’s wholly-owned subsidiaries.

REPORT OF THE DIRECTORS

4 Directors' Contractual Benefits

Since the end of the previous financial year, no director has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member or with a company in which he has a substantial financial interest, except as disclosed in the accompanying financial statements.

5 China Energy Employee Share Option Scheme

The China Energy Employee Share Option Scheme (the "Scheme") of the Company was approved and adopted by the shareholders on 26 October 2006. On 30 April 2010, the shareholders approved an amendment to the Scheme to include the controlling shareholders and their associates as eligible participants under the Scheme.

The Scheme is administered by the Remuneration Committee whose members are:

Leong Horn Kee (Chairman)
Ong Kian Min
Lai Hock Meng

The Remuneration Committee comprises directors who may be participants of the Scheme. A member of the Remuneration Committee who is a participant of the Scheme is prohibited from being involved in the Remuneration Committee's deliberation in respect of share options to be granted to him.

The share options granted under the Scheme may have exercise prices that are, at the discretion of the Remuneration Committee, set at a price equal to the average of the last dealt prices for the shares on the Singapore Exchange Securities Trading Limited ("SGX-ST") over the five consecutive trading days immediately preceding the date of grant of that share option (the "Market Price"); or at a discount to the Market Price (subject to a maximum discount of 20%). Share options which are fixed at the Market Price ("Market Price Options") shall only be exercisable, in whole or in part, after the first anniversary of the offer date while share options fixed at a discount to the Market Price ("Discounted Options") shall only be exercisable after the second anniversary of the offer date. Share options granted under the Scheme can have a life span of up to 10 years.

Under the terms of the Scheme, offers for the grant of share options may be made at any time at the discretion of the Remuneration Committee during the period when the Scheme is in force. However, no share option shall be granted during the period of 30 days immediately preceding the date of announcement of the Group's interim or full year results. In addition, in the event that an announcement on any matter of an exceptional nature involving unpublished price sensitive information is imminent, offers to grant share options may only be made on or after the second market day from the date on which the aforesaid announcement is made.

During the financial year ended 31 December 2013, the Company did not grant any share option (2012: Nil) under the Scheme to directors and employees of the Company. All the share options granted and outstanding were Market Price Options.

REPORT OF THE DIRECTORS

5 China Energy Employee Share Option Scheme (cont'd)

During the financial year ended 31 December 2013 and 31 December 2012, no shares were issued by virtue of the exercise of share options granted under the Scheme to take up unissued shares and no share options to take up unissued shares was cancelled under the Scheme. As at 31 December 2013, there were 26 million (2012: 26 million) shares under option, the details of which are as follows:

Date of grant	Balance at 1 January 2013	Number of share options granted during the financial year	Balance at 31 December 2013	Exercise price S\$	Date of expiry
12.01.2010	6,000,000	–	6,000,000	0.265	11.01.2015
17.05.2010*	4,000,000	–	4,000,000	0.184	16.05.2015
12.11.2010	6,000,000	–	6,000,000	0.175	11.11.2015
11.05.2011#	4,000,000	–	4,000,000	0.116	10.05.2016
09.12.2011	6,000,000	–	6,000,000	0.060	08.12.2016
	26,000,000	–	26,000,000		

The information on directors of the Company participating in the Scheme are as follows:

Name of Director	Share options granted during the financial year	Aggregate share options granted since the commencement of the Scheme to the end of the financial year	Aggregate share options lapsed since the commencement of the Scheme to the end of the financial year	Aggregate share options outstanding as at the end of the financial year
Cui Lianguo**	–	8,000,000	–	8,000,000
Li Qiang	–	4,500,000	–	4,500,000
Wong William	–	4,200,000	–	4,200,000
Ong Kian Min	–	2,100,000	–	2,100,000
Lai Hock Meng	–	2,100,000	–	2,100,000
Leong Horn Kee	–	2,100,000	–	2,100,000
	–	23,000,000	–	23,000,000

* As approved by the shareholders of the Company during the Extraordinary General Meeting of the Company held on 30 April 2010, 4 million share options were granted to the controlling shareholder of the Company, Cui Lianguo.

As approved by the shareholders of the Company during the Annual General Meeting of the Company held on 29 April 2011, 4 million share options were granted to the controlling shareholder of the Company, Cui Lianguo.

No participants under the Scheme have received 5% or more of the total number of shares under option available under the Scheme.

No share option was granted to directors and employees of the parent company and its subsidiaries since the commencement of the Scheme to the end of the financial year.

REPORT OF THE DIRECTORS

6 Audit Committee

The members of the Audit Committee at the end of the financial year were as follows:

Lai Hock Meng (Chairman)
Ong Kian Min
Leong Horn Kee

All the members of the Audit Committee are independent directors. The Audit Committee carried out its functions in accordance with Section 201B(5) of the Act. In performing those functions, the Audit Committee will focus principally on assisting the Board of Directors (“Board”) in fulfilling its duties by providing an independent and objective review of the financial process, internal controls and the audit function. In performing these duties, the Audit Committee performs the following functions:

(a) Financial Reporting

The Audit Committee reviews the quarterly, half-year and full year financial results announcements with management and the external auditors, before submission to the Board for approval, focusing in particular on significant financial reporting issues and judgments; changes in accounting policies and practices; major risk areas; significant adjustments resulting from the audit; compliance with accounting standards and compliance with the Listing Manual of the SGX-ST and any other relevant statutory or regulatory requirements.

(b) External Audit

The Audit Committee reviews, with the external auditors, the audit plans, the audit report and management’s response and actions to correct any noted deficiencies in internal controls, problems and concerns, if any, arising from the review and audits. The Audit Committee reviews the independence and the qualification of the external auditors annually and recommends to the Board the appointment, re-appointment or removal of the external auditors.

(c) Internal Audit

The Audit Committee reviews, with the internal auditors, the internal audit plan, the scope and results of the internal audit including the effectiveness of the internal audit function and ensures that the internal audit function is adequately resourced and has appropriate standing within the Group and to review and ensure annually the adequacy of the internal audit function and monitor management’s response to the internal auditors’ recommendations to ensure that appropriate follow-up measures are taken.

(d) Internal Controls

The Audit Committee reviews and evaluates with the internal and external auditors (to the extent as required by them to form an audit opinion on the statutory financial statements) on the adequacy and effectiveness of the Group’s system of internal controls, including financial, operational, compliance and information technology controls. The Audit Committee may commission an independent audit on internal controls for its assurance, or where it is not satisfied with the systems of internal control.

(e) Risk Management

The Audit Committee oversees the Group’s risk management framework and policies so as to provide reasonable assurance of the risk management of the Group.

The Audit Committee ensures that a review of the adequacy and the effectiveness of the Group’s system of internal controls established by the management, which includes financial, operational, compliance and information technology controls, and risk management, is conducted by the Board and the Audit Committee in consultation with the internal and external auditors at least annually.

REPORT OF THE DIRECTORS

6 Audit Committee (cont'd)

(f) Interested Person Transactions

The Audit Committee reviews, on a quarterly basis, interested person transactions, to ensure that the Group complies with the requisite rules under Chapter 9 of the Listing Manual of the SGX-ST and the Shareholders' Mandate.

(g) Whistle-blowing

The Audit Committee reviews arrangements by which staff of the Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and ensures that arrangements are in place for the independent investigation of such matters and for appropriate follow up actions.

The Audit Committee has undertaken a review of the independence and objectivity of the external auditors. The Audit Committee is satisfied that the external auditors are independent and has recommended to the Board, the nomination of the external auditors for re-appointment at the forthcoming Annual General Meeting of the Company.

The Board has accepted the Audit Committee's recommendation that the independent auditors, Moore Stephens LLP Public Accountants and Chartered Accountants of Singapore, be nominated for re-appointment at the forthcoming Annual General Meeting of the Company.

7 Independent Auditors

The auditors, Moore Stephens LLP Public Accountants and Chartered Accountants of Singapore, have expressed their willingness to accept re-appointment.

On behalf of the board of directors,

CUI LIANGUO
Chairman

WONG WILLIAM
Executive Director

Singapore
11 April 2014

STATEMENT
BY DIRECTORS

In our opinion:

- (a) the statement of financial position of the Company and the consolidated financial statements of the Group as set out on pages 32 to 81 are drawn up so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the results of the business, changes in equity and cash flows of the Group for the financial year then ended.
- (b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the board of directors,

CUI LIANGUO
Chairman

WONG WILLIAM
Executive Director

Singapore
11 April 2014

INDEPENDENT AUDITORS' REPORT

To the Members of China Energy Limited (Incorporated in Singapore)

1. We have audited the accompanying financial statements of China Energy Limited (the “Company”) and its subsidiary companies (collectively referred to as the “Group”), as set out on pages 32 to 81, which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2013, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows of the Group for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

2. Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the “Act”) and Singapore Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets.

Auditors' Responsibility

3. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

6. In our opinion, the consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013 and the results, changes in equity and cash flows of the Group for the year ended on that date.

Emphasis of Matter

7. We draw attention to Note 2(a) to the financial statements which states that the Group incurred a net loss of RMB 277,319,000 (2012: RMB 285,880,000) and a total comprehensive loss of RMB 276,409,000 (2012: RMB 286,956,000) for the financial year ended 31 December 2013. As at 31 December 2013, the Group's current liabilities exceeded its current assets by RMB 1,501,386,000 (2012: RMB 991,553,000). These conditions indicate the existence of a material uncertainty which may cast significant doubt as to the ability of the Group to continue as a going concern.

INDEPENDENT AUDITORS' REPORT

To the Members of China Energy Limited (Incorporated in Singapore)

(cont'd)

8. The accompanying financial statements have been prepared on a going concern basis for the reasons stated in paragraphs (9) to (10) below.
9. As discussed more fully in Note 2(a) to the financial statements, 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. The financial support from related parties, for a period of not less than one year from the date of this report, will be available 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. 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.
10. As described in Note 21 and Note 22 to the financial statements, the Group has outstanding short-term bank loans amounting to RMB 705,000,000 (2012: RMB 410,000,000) and bills payables amounting to RMB 1,458,290,000 (2012: RMB 1,146,917,000) which are due in 2014 (2012: 2013). Management has held discussions with its bankers and no matters have been drawn to its attention to indicate that these banks intend to terminate their existing banking relationships with the Group.
11. In the event the Group is unable to continue as a going concern, adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are recorded in the statements of financial position. In addition, the Group may have to provide for further liabilities that might arise, and to reclassify non-current assets as current assets. No such adjustments have been made to these financial statements. Our opinion is not qualified in respect of this matter.

Report on Other Legal and Regulatory Requirements

12. In our opinion, the accounting and other records required by the Act to be kept by the Company and by the subsidiary incorporated in Singapore of which we are the auditors, have been properly kept in accordance with the provisions of the Act.

Moore Stephens LLP
Public Accountants and
Chartered Accountants

Singapore
11 April 2014

CONSOLIDATED INCOME STATEMENT

For the financial year ended 31 December 2013

		Group	
	Note	2013 RMB'000	2012 RMB'000
Revenue	4	1,879,200	2,142,562
Cost of sales		(1,890,643)	(2,132,917)
Gross (loss) profit		(11,443)	9,645
Other income	5	17,102	16,155
Interest income		11,026	15,577
Expenses:			
Selling and distribution		(14,795)	(11,403)
Administrative		(103,515)	(109,061)
Interest	6	(121,323)	(131,460)
Others	7	(54,079)	(73,914)
Loss before income tax	8	(277,027)	(284,461)
Income tax	9	(292)	(1,419)
Loss attributable to equity holders of the Company		(277,319)	(285,880)
Loss per share (RMB cents)			
- Basic and diluted	10	(22.1)	(22.8)

The accompanying notes form an integral part of these financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 31 December 2013

	Group	
	2013	2012
	RMB'000	RMB'000
Loss for the financial year	(277,319)	(285,880)
Other comprehensive income (loss), net of tax:		
Items that may be reclassified subsequently to profit or loss:		
Exchange difference arising on consolidation	910	(1,076)
Other comprehensive income (loss), net of tax	910	(1,076)
Total comprehensive loss for the financial year attributable to equity holders of the Company	(276,409)	(286,956)

The accompanying notes form an integral part of these financial statements

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2013

		Group		Company	
	Note	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
ASSETS					
Non-Current Assets					
Property, plant and equipment	11	1,526,012	1,453,488	–	–
Land use rights	12	215,020	254,055	–	–
Intangible assets	13	2	67	–	–
Investments in subsidiaries	14	–	–	266,324	514,897
		<u>1,741,034</u>	<u>1,707,610</u>	<u>266,324</u>	<u>514,897</u>
Current Assets					
Inventories	15	151,280	100,358	–	–
Trade and other receivables	16	272,727	211,567	2,269	777
Income tax recoverable		14,005	14,297	–	–
Other current assets	17	118,854	114,056	53	51
Cash and bank balances	18	659,989	651,201	3,876	601
		<u>1,216,855</u>	<u>1,091,479</u>	<u>6,198</u>	<u>1,429</u>
Total Assets		<u>2,957,889</u>	<u>2,799,089</u>	<u>272,522</u>	<u>516,326</u>
EQUITY AND LIABILITIES					
EQUITY					
Share Capital and Reserves					
Attributable to Equity					
Holders of the Company					
Share capital	19	1,135,287	1,135,287	1,135,287	1,135,287
Reserves	20	(895,639)	(619,230)	(864,575)	(643,376)
Total equity		<u>239,648</u>	<u>516,057</u>	<u>270,712</u>	<u>491,911</u>
Non-Current Liability					
Long-term bank loan	21	–	200,000	–	–
Current Liabilities					
Trade and other payables	22	1,888,965	1,544,040	1,810	24,415
Short-term bank loans	21	705,000	410,000	–	–
Deferred income	23	39,640	39,640	–	–
Provisions	24	84,636	89,352	–	–
		<u>2,718,241</u>	<u>2,083,032</u>	<u>1,810</u>	<u>24,415</u>
Total liabilities		<u>2,718,241</u>	<u>2,283,032</u>	<u>1,810</u>	<u>24,415</u>
Total Equity and Liabilities		<u>2,957,889</u>	<u>2,799,089</u>	<u>272,522</u>	<u>516,326</u>

The accompanying notes form an integral part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the financial year ended 31 December 2013

	Share capital RMB'000	Statutory reserves RMB'000	Warrant reserve RMB'000	Share option reserve RMB'000	Revaluation reserve RMB'000	Currency translation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance as at 1 January 2013	1,135,287	73,475	4,360	12,993	40,854	14,555	(765,467)	516,057
Loss for the financial year	-	-	-	-	-	-	(277,319)	(277,319)
Other comprehensive income, net of tax:								
Exchange differences on consolidation	-	-	-	-	-	910	-	910
Total comprehensive loss for the financial year	-	-	-	-	-	910	(277,319)	(276,409)
Transfer to statutory reserves in accordance with statutory requirements	-	766	-	-	-	-	(766)	-
Balance as at 31 December 2013	1,135,287	74,241	4,360	12,993	40,854	15,465	(1,043,552)	239,648
Balance as at 1 January 2012	1,135,287	73,304	4,360	11,534	40,854	15,631	(479,416)	801,554
Loss for the financial year	-	-	-	-	-	-	(285,880)	(285,880)
Other comprehensive loss, net of tax:								
Exchange differences on consolidation	-	-	-	-	-	(1,076)	-	(1,076)
Total comprehensive loss for the financial year	-	-	-	-	-	(1,076)	(285,880)	(286,956)
Transfer to statutory reserves in accordance with statutory requirements	-	171	-	-	-	-	(171)	-
Employee share option scheme - Value of employee services (Note 20)	-	-	-	1,459	-	-	-	1,459
Balance as at 31 December 2012	1,135,287	73,475	4,360	12,993	40,854	14,555	(765,467)	516,057

The accompanying notes form an integral part of these financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 31 December 2013

	Group	
	2013	2012
	RMB'000	RMB'000
Cash Flows from Operating Activities		
Loss before income tax	(277,027)	(284,461)
Adjustments for:		
Interest expense	121,323	131,460
Depreciation of property, plant and equipment	75,994	95,043
Impairment of land use rights (Note 7)	33,020	–
Property, plant and equipment written-off (Note 7)	21,059	73,914
Amortisation of land use rights	6,015	3,875
Amortisation of intangible assets	65	68
Interest income	(11,026)	(15,577)
(Gain) Loss on disposal of property, plant and equipment	(2,604)	306
Unrealised exchange gain on loans from a related party	–	(435)
Employee share option expense	–	1,459
Effects of foreign exchange on translation	911	(1,067)
Operating cash flow before working capital changes	(32,270)	4,585
Inventories	(50,922)	13,292
Trade and other receivables	(60,410)	(65,920)
Other current assets	1,820	(25,786)
Trade and other payables	271,310	151,006
Cash generated from operations	129,528	77,177
Interest received	10,276	15,132
Income tax paid	–	(3,950)
Net cash generated from operating activities	139,804	88,359
Cash Flows from Investing Activities		
Proceeds from disposal of property, plant and equipment	7,695	1,020
Purchase of property, plant and equipment	(181,022)	(67,579)
Purchase/Prepayment of land use rights	–	(5,679)
Net cash used in investing activities	(173,327)	(72,238)
Cash Flows from Financing Activities		
Proceeds from (Repayment of) bank loans – net (Note 21(d))	95,000	(230,000)
Advances from related parties - net	76,832	161,514
Interest paid	(129,521)	(128,280)
(Increase)/Decrease in restricted bank deposits	(82,863)	80,961
Deferred income received	–	39,640
Net cash used in financing activities	(40,552)	(76,165)
Net decrease in cash and cash equivalents	(74,075)	(60,044)
Cash and cash equivalents at the beginning of the year	169,401	229,445
Cash and cash equivalents at the end of the year (Note 18)	95,326	169,401

The accompanying notes form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2013

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1 General Information

China Energy Limited (the “Company”) is a public limited company incorporated and domiciled in Singapore. The Company’s registered office is Six Battery Road, #10-01, Singapore 049909 and its principal place of business is at 3 Church Street, #28-06 Samsung Hub, Singapore 049483. The Company is listed on the Singapore Exchange Securities Trading Limited (“SGX-ST”).

On 11 November 2013, the Company and Lianguo International Limited (“Offeror”) jointly announced the proposed voluntary delisting of the Company from SGX-ST pursuant to Rules 1307 and 1309 of the listing manual of the SGX-ST and the exit offer to be made by the Offeror to acquire all the issued ordinary shares in the capital of the Company held by all the shareholders of the Company.

The principal activity of the Company is that of an investment holding company. The principal activity of its subsidiaries is the production and distribution of Dimethyl Ether (“DME”).

The controlling shareholder of the Company is Cui Lianguo.

The Board of Directors has authorised the issue of the financial statements on the date of the Statement by Directors.

2 Significant Accounting Policies

(a) Basis of Preparation

These financial statements, which are expressed in Chinese Renminbi (“RMB”), have been prepared in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the “Act”) and Singapore Financial Reporting Standards (“FRS”).

The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with FRS requires management to exercise its judgment in the process of applying the Group’s accounting policies. It also requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the financial year. Although these estimates are based on management’s best knowledge of current events and actions, actual results may ultimately differ from these estimates. The areas involving a higher degree of judgment or complexity are disclosed in Note 3 to the financial statements.

Going concern assumption

The Group incurred a net loss of RMB 277,319,000 (2012: RMB 285,880,000) and a total comprehensive loss of RMB 276,409,000 (2012: RMB 286,956,000) for the financial year ended 31 December 2013. As at 31 December 2013, the Group’s current liabilities exceeded its current assets by RMB 1,501,386,000 (2012: RMB 991,553,000). These conditions indicate the existence of a material uncertainty which may cast significant doubt as to the ability of the Group to continue as a going concern.

The accompanying financial statements have been prepared on a going concern basis for the reasons stated below.

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. The financial support from related parties, for a period of not less than one year from the date of this report, will be available 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. 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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2013

2 Significant Accounting Policies (cont'd)

(a) Basis of Preparation (cont'd)

Going concern assumption (cont'd)

As described in Note 21 and Note 22 to the financial statements, the Group has outstanding short-term bank loans amounting to RMB 705,000,000 (2012: RMB 410,000,000) and bills payables amounting to RMB 1,458,290,000 (2012: RMB 1,146,917,000) which are due in 2014 (2012: 2013). Management has held discussions with its bankers and no matters have been drawn to its attention to indicate that these banks intend to terminate their existing banking relationships with the Group.

In the event the Group is unable to continue as a going concern, adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are recorded in the statements of financial position. In addition, the Group may have to provide for further liabilities that might arise, and to reclassify non-current assets as current assets. No such adjustments have been made to these financial statements.

Adoption of Revised FRS

For the financial year ended 31 December 2013, the Group has adopted the following revised and amended FRSs that are relevant and mandatory for application in the said financial year:

Amendments to FRS 1 - Presentation of Items of Other Comprehensive Income

The amendments to FRS 1 require entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to the income statement. As this is a disclosure standard, it did not have any impact on the financial position or financial performance of the Group.

FRS 113 - Fair Value Measurements

FRS 113 provides guidance on how to measure fair values including those for both financial and non-financial items and introduces significantly enhanced disclosures about fair values. It does not address or change the requirements on when fair values should be used. When measuring fair value, an entity is required to use valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. It requires disclosures of a fair value hierarchy for all assets and liabilities measured at fair value. This standard did not have any impact on the financial position or financial performance of the Group.

New and revised FRSs issued but effective after the financial year ended 31 December 2013

The relevant new and revised FRSs are as follows:

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

Improvements to FRSs January 2014

Improvements to FRS 24	Related Party Disclosures
Improvements to FRS 102	Share-based Payment
Improvements to FRS 103	Business Combinations
Improvements to FRS 108	Operating Segments

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2013

2 Significant Accounting Policies (cont'd)

(a) Basis of Preparation (cont'd)

New and revised FRSs issued but effective after the financial year ended 31 December 2013 (cont'd)

FRS 27 (Revised) - Separate Financial Statements

FRS 27 (Revised) will now solely address separate financial statements, the requirements for which are substantially unchanged. It is effective for annual periods beginning on or after 1 January 2014. The Group is of the view that this standard will not have any impact on the financial position or financial performance of the Group when implemented.

FRS 110 - Consolidated Financial Statements

FRS 110 supersedes FRS 27 - Consolidated and Separate Financial Statements and INT FRS 12 - Consolidation Special Purpose Entities, and is effective for annual periods beginning on or after 1 January 2014. It changes the definition of control and applies it to all investees to determine the scope of consolidation. FRS 110 requirements will apply to all types of potential subsidiary. FRS 110 requires an investor to reassess the decision whether to consolidate an investee when events indicate that there may be a change to one of the three elements of control, i.e. power, variable returns and the ability to use power to affect returns. The Group is of the view that this standard will not have any impact on the financial position or financial performance of the Group when implemented.

FRS 112 - Disclosures of Interests in Other Entities

Effective from 1 January 2014, it combines the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities within a comprehensive disclosure standard. It specifies minimum disclosures that an entity must provide. It requires an entity to provide summarised financial information about the assets, liabilities, profit or loss and cash flows of each subsidiary that it has non-controlling interests that is material to the reporting entity and to disclose the nature of its interests in unconsolidated structured entities and the nature of the risks it is exposed to as a result; a schedule of the impact on the parent entity is required for changes in the ownership interest in a subsidiary without a loss of control; details of any gain/loss recognised on loss of control, and the line item of the income statement in which it is recognised; year ends of subsidiaries, joint arrangements or associates if different from the parent's that are consolidated using different year ends and the reasons for using a different date. The Group is of the view that this standard will not have any impact on the financial position or financial performance of the Group when implemented.

Amendments to FRS 32 - Offsetting Financial Assets and Financial Liabilities

Amendments to FRS 32 clarifies that an entity must currently have a legally enforceable right to set-off if that right of set-off is not contingent on a future event and legally enforceable in all of the following circumstances: (i) the normal course of business; (ii) the event of default; and (iii) the event of insolvency or bankruptcy of the entity and all of the counterparties. It is effective for annual periods beginning on or after 1 January 2014. The Group is of the view that this standard will not have any impact on the financial position or financial performance of the Group when implemented.

Amendments to FRS 36 - Recoverable Amount Disclosure for Non-Financial Assets

Amendments to FRS 36 restricts the requirement to disclose the recoverable amount of an asset or Cash Generating Unit ("CGU") to periods in which an impairment loss has been recognised or reversed. The amendments also expand and clarify the disclosure requirements applicable when an asset or CGU's recoverable amount has been determined on the basis of fair value less costs of disposal. It is effective for annual periods beginning on or after 1 January 2014. The Group is of the view that this standard will not have any impact on the financial position or financial performance of the Group when implemented.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2013

2 Significant Accounting Policies (cont'd)

(a) Basis of Preparation (cont'd)

New and revised FRSs issued but effective after the financial year ended 31 December 2013 (cont'd)

Improvements to FRSs January 2014

Improvements to FRS 24 - Related Party Disclosures

The amendment clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity. In addition, an entity that uses a management entity is required to disclose the expense incurred for management services. The amendment is effective for annual periods beginning on or after 1 July 2014. The Group is of the view that this standard will not have any impact on the financial position or financial performance of the Group when implemented.

Improvements to FRS 102 - Share-based Payment

The amendment changes the definitions of 'vesting conditions' and 'market condition' and add the definitions of 'performance condition' and 'service condition' to clarify various issues, including: (i) a performance condition must contain a service condition; (ii) a performance target must be met while the counterparty is rendering a service; (iii) a performance target may relate to the operations or activities of an entity, or those of another entity in the same group; (iv) a performance condition may be a market or non-market condition; and (v) if the counterparty, regardless of the reason, ceases to provide a service during the vesting period, the service condition is not satisfied. The amendment is effective prospectively for which the grant date of the share-based transaction is on or after 1 July 2014. The Group is of the view that this standard will not have any impact on the financial position or financial performance of the Group when implemented.

Improvements to FRS 103 - Business Combinations

The amendment clarifies that the contingent consideration of an acquirer in a business combination is measured at fair value at each reporting date and changes in fair value are recognised in profit or loss in accordance with FRS 39. This amendment is effective prospectively to business combinations for which the acquisition date is on or after 1 July 2014. The Group is of the view that this standard will not have any impact on the financial position or financial performance of the Group when implemented.

Improvements to FRS 108 - Operating Segments

The amendment requires an entity to disclose the judgment made by management in applying the aggregation criteria to operating segments and clarifies that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly. The amendment is effective for annual periods beginning on or after 1 July 2014. The Group is of the view that this standard will not have any impact on the financial position or financial performance of the Group when implemented.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2013

2 Significant Accounting Policies (cont'd)

(b) Revenue Recognition

Revenue is recognised as follows:

Sale of goods

Revenue for the Group comprises the fair value of the consideration received or receivable for the sale of goods, net of value-added tax ("VAT"), rebates and discounts, and after eliminating sales within the Group. Revenue from the sale of goods is recognised when a Group entity has delivered the products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

The Group's sale of goods in the People's Republic of China ("PRC") is subject to VAT at the applicable tax rates of 17% (methanol) or 13% (DME) for the PRC domestic sales. Input VAT on purchases can be deducted from output VAT. The net amount of VAT recoverable from the tax authority is included as part of "Trade and other receivables" in the statements of financial position.

Compensation income and rental income

Compensation income and rental income are recognised in accordance with the terms of the agreements signed with the contracting parties and when the collectability of the related receivables is reasonably assured.

Interest income

Interest income earned from bank deposits is recognised using the effective interest method.

Dividend income

Dividend income is recognised when the Company's right to receive payment is established.

(c) Subsidiaries

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Investments in subsidiaries are stated at cost less accumulated impairment loss in the Company's statement of financial position. On disposal of investments in subsidiaries, the difference between net disposal proceeds and the carrying amount of the investments are recognised in the income statement.

Subsidiaries are consolidated from the date on which control is transferred to the Group to the date on which that control ceases. In preparing the consolidated financial statements, transactions, balances and unrealised gains on transactions between group companies are eliminated.

Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency of accounting policies with that of the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2013

2 Significant Accounting Policies (cont'd)

(c) Subsidiaries (cont'd)

Acquisition of businesses

The acquisition method of accounting is used to account for business combinations by the Group.

The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary.

Acquisition related costs are expensed as incurred.

Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree at the date of acquisition either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill.

Disposals of subsidiaries or businesses

When a change in the Group's ownership interest in a subsidiary results in a loss of control over the subsidiary, the assets and liabilities of the subsidiary including any goodwill are derecognised. Amounts recognised in other comprehensive income in respect of that entity are also reclassified to the income statement or transferred directly to retained earnings if required by a specific FRS.

Any retained interest in the entity is re-measured at fair value. The difference between the carrying amount of the retained investment at the date when control is lost and its fair value is recognised in the income statement.

(d) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment loss. The cost of an item of property, plant and equipment includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The projected cost of dismantlement, removal or restoration is also included as part of the cost of property, plant and equipment if the obligation for the dismantlement, removal and restoration is incurred as a consequence of acquiring or using the asset.

Depreciation is calculated on the straight-line method to write off the cost (net of residual value) of the property, plant and equipment over their estimated useful lives. The estimated useful lives are as follows:

Buildings	- 30 years
Plant and equipment	- 5, 10 or 15 years
Office equipment	- 5 years
Motor vehicles	- 10 years

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2013

2 Significant Accounting Policies (cont'd)

(d) Property, Plant and Equipment (cont'd)

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset only when it is probable that future economic benefits associated with the subsequent expenditure will flow to the Group and the cost of the subsequent expenditure can be measured reliably. Subsequent expenditure that does not meet these requirements are recognised as repair and maintenance expenses in the income statement during the financial period in which it is incurred.

On disposal of an item of property, plant and equipment, the difference between the disposal proceeds and its carrying amount is taken to the income statement.

The residual values, estimated useful lives and depreciation method of the property, plant and equipment are reviewed and adjusted as appropriate, at each reporting date.

Construction-in-progress represents property, plant and equipment under construction and is stated at cost less accumulated impairment loss. It includes costs of construction, plant and equipment, attributable borrowing costs and other direct costs. No depreciation is provided on construction-in-progress until such time it is completed and operationally ready for use.

(e) Land Use Rights

Land use rights are initially recognised at cost and subsequently carried at revalued amount less accumulated amortisation and accumulated impairment loss.

Land use rights are revalued by independent professional valuers every 5 years or as the circumstances require or whenever their carrying amounts are likely to differ materially from their revalued amounts. When the asset is revalued, any accumulated amortisation is eliminated against the gross carrying amount of the asset. The net amount is then restated to the revalued amount of the asset.

Increases in the carrying amount arising from revaluation, including currency translation differences, are recognised in the revaluation reserve, unless they offset previous decreases in the carrying amount of the same asset, in which case, they are recognised in income statement. Decreases in carrying amount that offset previous increases of the same asset are recognised against the revaluation reserve. All other decreases in carrying value are recognised as a loss in the income statement.

The land use rights are amortised to the income statement on a straight-line basis over the respective period of the land use rights.

(f) Intangible Assets

Computer software is stated at cost less accumulated amortisation and accumulated impairment loss. Amortisation is calculated on a straight-line basis to allocate the cost of the computer software over its estimated useful life of 3 or 5 years.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2013

2 Significant Accounting Policies (cont'd)

(g) Impairment of Non-Financial Assets

Property, plant and equipment, land use rights, intangible assets, investments in subsidiaries and other current assets are reviewed for impairment whenever there is any indication that these assets may be impaired. If any such indication exists, the recoverable amount (i.e. the higher of the fair value less costs of disposal and value-in-use) of the asset is estimated to determine the amount of impairment loss.

For the purpose of impairment testing of these assets, recoverable amount is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the CGU to which the asset belongs. If the recoverable amount of the asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. The impairment loss is recognised in the income statement unless the asset is carried at revalued amount, in which case, such impairment loss is treated as a revaluation decrease.

An impairment loss for an asset is reversed if, and only if, there has been a change in the estimates used to determine the assets' recoverable amount since the last impairment loss was recognised. The carrying amount of an asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss for an asset other than goodwill shall be recognised immediately in the income statement, unless the asset is carried at revalued amount in accordance with another FRS. Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase in accordance with that other FRS.

A reversal of an impairment loss on a revalued asset is recognised in other comprehensive income and increases the revaluation surplus for that asset. However, to the extent that an impairment loss on the same revalued asset was previously recognised in the income statement, a reversal of that impairment loss is also recognised in the income statement.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

(i) Trade and Other Receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the allowance for impairment is recognised in the income statement.

(j) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and at bank and short-term deposits with financial institutions. For the purposes of the consolidated statement of cash flows, cash and cash equivalents are shown net of restricted bank deposits.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2013

2 Significant Accounting Policies (cont'd)

(k) Borrowings

Borrowing costs incurred to finance the development of property, plant and equipment are capitalised during the period of time that is required to complete and prepare the asset for its intended use. The amount of borrowing cost capitalised on that asset is the actual borrowing costs incurred during the period less any investment income on the temporary investment of those borrowings. Other borrowing costs are recognised on a time-proportion basis in the income statement using the effective interest method.

Capitalisation of borrowing costs is suspended when there is no active development of the property, plant and equipment over an extended period.

Borrowings are recognised initially at fair value, net of transaction costs incurred and are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

(l) Trade and Other Payables

Trade and other payables are initially measured at fair value, and subsequently measured at amortised cost, using the effective interest method.

(m) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

(n) Income Taxes

Current income tax liabilities and assets for current and prior periods is recognised at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantially enacted by the reporting date.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences and tax losses can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2013

2 Significant Accounting Policies (cont'd)

(o) Currency Translation

Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The functional currency of the main entities of the Group is Chinese Renminbi, as it best reflects the economic substance of the underlying events and circumstances relevant to the entities. The consolidated financial statements are presented in Chinese Renminbi and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

Transactions and balances

Transactions in a currency other than the functional currency (“foreign currency”) are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Currency translation gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except for currency translation differences on the net investment in foreign entities and borrowings and other currency instruments qualifying as net investment hedges for foreign operations, which are included in the currency translation reserve within equity in the consolidated financial statements.

Non-monetary items that are measured in terms of historical cost in foreign currencies are translated using the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in foreign currencies are translated using the exchange rates at the date when the fair value was determined.

Translation of Group entities' financial statements

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate at the date of that statements of financial position;
- income and expenses for each statement presenting profit or loss and other comprehensive income (i.e. including comparatives) shall be translated at exchange rates at the date of transactions; and
- all resulting exchange differences are recognised in other comprehensive income and currency translation reserve within equity.

When a foreign operation is disposed of, such currency translation differences are recognised in the income statement as part of the gain or loss on disposal.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2013

2 Significant Accounting Policies (cont'd)

(p) Financial Assets and Liabilities

Recognition and derecognition

Financial assets are recognised on the statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. When financial assets are recognised initially, they are measured at their fair value.

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in the income statement.

Financial liabilities within the scope of FRS 39 are recognised on the statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the financial instrument.

Gains and losses of financial liabilities, other than derivatives, are recognised in the income statement when the liabilities are derecognised, and through the amortisation process.

A financial liability is derecognised when the obligation under the liability is extinguished. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Discounted cash flows are used to determine fair value for the remaining financial instruments. The carrying amount of trade and other receivables and trade and other payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(q) Operating Leases

Leases of assets in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are taken to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(r) Financial Guarantees

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due.

Financial guarantee contracts are initially recognised at their fair values plus transaction costs. Subsequent to initial recognition, financial guarantees are recognised as income in the income statement over the period of the guarantee. If it is probable that the liability will be higher than the amount initially recognised less amortisation, the liability is recorded at the higher amount with the difference charged to the income statement.

Intragroup transactions are eliminated on consolidation.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2013

2 Significant Accounting Policies (cont'd)

(s) Government Grants

Government grants are received at discretionary amounts as determined by the local PRC government. Government grants are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with the attached conditions, if any. Government grants relating to assets, are deferred and taken to the income statement over the period necessary to match them with the costs they are intended to compensate. Government grants relating to assets are included in liabilities as deferred income and are taken to the income statement on a straight-line basis over the expected useful lives of the related assets. Government grants that are not relating to assets are recognised in the income statement in the period in which they arise.

(t) Employee Compensation

(i) Defined contribution plans

The Group participates in the national schemes, such as the Central Provident Scheme and social security plans in the PRC, as defined by the laws of the countries in which it has operations. Subsidiaries, incorporated and operating in the PRC, are required to provide certain retirement plan contribution for their employees under existing regulations. Contributions are provided at rates stipulated by the PRC regulations and are managed by government agencies, which are responsible for administering these amounts for the employees. The Group has no future obligations once the contribution has been paid.

Obligations for contributions to defined contribution retirement plans are recognised as an expense in the income statement as and when they are incurred.

(ii) Share-based compensation

The Group operates the China Energy Employee Share Option Scheme ("Scheme"), an equity-settled, share-based compensation plan. The value of employee services received in exchange for the grant of share options is recognised as an expense with a corresponding increase in the share option reserve over the vesting period. The total amount to be recognised over the vesting period is determined by reference to the fair value of the share options granted on the date of the grant.

When the share options are exercised, the proceeds received (net of transaction costs) and the related balance previously recognised in the share option reserve are credited to the share capital account, when new ordinary shares are issued, or to the "treasury shares" account, when treasury shares are re-issued to the employees.

(u) Statutory Reserves

Subsidiaries which are incorporated in the PRC are required to appropriate 10% of the profit arrived at in accordance with PRC regulations for each financial year to statutory reserves. The appropriation to statutory reserves, after offsetting against any accumulated losses, must be made before the distribution of dividends to shareholders. The appropriation is required until the statutory reserves reaches 50% of the registered share capital. The statutory reserves are not distributable in the form of cash dividends.

(v) Related Parties

Parties are considered to be related if an individual or a close member of that individual's family has the ability, directly or indirectly, to control the Group's entities, exercise significant influence over the Group's entities in making financial and operating decisions; or is a member of the key management personnel of the Group's entities. Parties are also considered to be related if they are subject to common control or common significant influence and a person who has significant influence over the entity or is a member of the key management personnel of the entities. Related parties may be individuals or corporate entities.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2013

2 Significant Accounting Policies (cont'd)

(w) Segment Reporting

A business segment is a distinguishable component of the Group engaged in providing products that are subject to risks and returns that are different from those of other business segments. A geographical segment is a distinguishable component of the Group engaged in providing products within a particular economic environment that is subject to risks and returns that are different from those segments operating in other economic environments. The business segments are determined based on the Group's management and internal reporting structure.

(x) Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against the share capital account.

3 Critical Accounting Estimates, Assumptions and Judgments

In addition to Note 2(a) to the financial statements, the Group makes estimates, assumptions and judgments concerning the future. These affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses and disclosures made. These estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual results may ultimately differ from these estimates.

(a) Critical accounting estimates and assumptions

The estimates and assumptions that may have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below:

Useful lives of property, plant and equipment

As at 31 December 2013, the carrying value of the Group's property, plant and equipment amounted to RMB 1,526,012,000 (2012: RMB 1,453,488,000). The Group assesses annually the residual values and the useful lives of property, plant and equipment and if expectations differ from the original estimates due to changes in the expected level of usage and/or technological developments, such differences will impact the depreciation charges in the period in which such estimates are changed.

If the useful lives of property, plant and equipment increases/decreases by 10%, the Group's depreciation on property, plant and equipment held as at 31 December 2013 will decrease/increase by approximately RMB 2,972,000 (2012: RMB 3,071,000).

(b) Critical accounting judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have a significant effect on the amounts recognised in the financial statements:

Carrying value of non-financial assets: property, plant and equipment and investments in subsidiaries

As at 31 December 2013, the carrying value of the Group's property, plant and equipment amounted to RMB 1,526,012,000 (2012: RMB 1,453,488,000). The recoverable amount of property, plant and equipment is based on management's assessment of the value-in-use based on projected cash flows discounted at a discount rate of 7.9% (2012: 7.4%).

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2013

3 Critical Accounting Estimates, Assumptions and Judgments (cont'd)

(b) Critical accounting judgments (cont'd)

Carrying value of non-financial assets: property, plant and equipment and investments in subsidiaries (cont'd)

For the financial year ended 31 December 2013, an impairment in investments in subsidiaries amounting to RMB 218,406,000 (2012: RMB 302,333,000) was recognised in the Company's income statement. As at 31 December 2013, the Company's carrying value of investments in subsidiaries amounted to RMB 266,324,000 (2012: RMB 514,897,000). The recoverable amount of the Company's investments in subsidiaries is based on management's assessment of the value-in-use based on projected cash flows discounted at a discount rate of 7.9% (2012 : 7.4%).

The recoverable amounts of these non-financial assets can be affected by factors which are largely beyond the control of the Group, for example; stability of the industry and market demand; technical, technological, commercial and other types of obsolescence; actions by competitors or potential competitors; and changes in the legal and other regulatory framework.

Management is of the view that the incremental economic benefit of the Group's property, plant and equipment and the Company's investment in subsidiaries is not less than their carrying values.

Property, plant and equipment written-off

During the financial year ended 31 December 2012, the Group has undertaken a review of the property, plant and equipment of Methanol Phase II and DME Phase I and II (as defined in Note 7) amounting to RMB 232,681,000 and it has identified the property, plant and equipment that have to be written-off to make way for the building of a 100,000 tons per annum Monoethylene Glycol plant ("MEG Project"). Those property, plant and equipment pertaining to the gasification of coal (part of the property, plant and equipment of Methanol Phase II), property, plant and equipment that can be deployed for the MEG Project, Methanol Phase III (as defined in Note 7), property, plant and equipment shared by various segments ("Shared Assets") and other DME plants amounting to RMB 158,767,000 have been retained, the remaining property, plant and equipment amounting to RMB 73,914,000 (Note 7) were written-off. These non-financial assets retained are based on management's best estimate of the period over which these assets are expected to result in incremental economic benefits to the Group.

During the financial year ended 31 December 2013, the Group has completed the deconstruction of DME Phase I & II and Methanol Phase II. RMB 1,887,000 of property, plant and equipment pertaining to Methanol Phase II and RMB 19,172,000 of property, plant and equipment pertaining to DME Phase I & II were found to be un-deployable for MEG Project, Methanol Phase III and other DME plants. Hence, RMB 21,059,000 (Note 7) of property, plant and equipment was written-off to the consolidated income statement.

The recoverable amounts of these non-financial assets retained can be affected by factors such as the compatibility with the final design of Methanol Phase III, the maintenance of the property, plant and equipment after deconstruction, as well as factors which are largely beyond the control of the Group, for example; stability of the industry and market demand, technical, technological, commercial and other types of obsolescence.

Management is of the view that the incremental economic benefit of the property, plant and equipment retained is not less than their carrying values.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2013

3 Critical Accounting Estimates, Assumptions and Judgments (cont'd)

(b) Critical accounting judgments (cont'd)

Impairment of land use rights

During the financial year ended 31 December 2013, an independent valuer was appointed to assess the carrying value of the Group's land use rights. Based on the valuation report, an impairment amounted to RMB 33,020,000 (2012: Nil) (Note 7) was charged to the consolidated income statement for the financial year ended 31 December 2013.

As at 31 December 2013, the carrying value of the Group's land use rights amounted to RMB 215,020,000 (2012: RMB 254,055,000). The recoverable amount of land use rights is based on fair value less costs of disposal.

The recoverable amount of the land use rights can be affected by factors, which are beyond the control of the Group, including but not limited to the valuation methodology employed and comparable plots of land use rights selected by the valuer.

Management is of the view that the incremental economic benefit of the land use rights is not less than their carrying values.

4 Revenue

	Group	
	2013 RMB'000	2012 RMB'000
Sale of goods		
- DME	1,720,590	2,064,390
- Methanol	158,610	78,172
	<u>1,879,200</u>	<u>2,142,562</u>

5 Other Income

	Group	
	2013 RMB'000	2012 RMB'000
Compensation income from a related party, net of tax	9,499	8,879
Foreign exchange gain	3,135	2,394
Government grants	1,477	2,007
Sale of by-products	1,111	2,045
Rental income from a related party	204	–
Others	1,676	830
	<u>17,102</u>	<u>16,155</u>

Compensation income from a related party relates to the compensation payable by Jiutai Energy (Inner Mongolia) Co., Ltd. ("Jiutai Inner Mongolia") pursuant to the Long-Term Licensing and Supply Agreement dated 8 January 2010 ("DME Agreement") between Jiutai Inner Mongolia and the Group. Under the terms of the DME Agreement, Jiutai Inner Mongolia has to pay compensation to the Group for the use of the Group's know-how in respect of the patented DME production technology, which will be the higher of either 5% of Jiutai Inner Mongolia's aggregate sale value of DME billed to third parties or 50% of the gross profit made by Jiutai Inner Mongolia from the sale of DME to third parties.

Rental income from a related party relates to income from the lease of land to Shandong Jiutai Industrial Gas Co., Ltd.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2013

6 Interest Expenses

	Group	
	2013	2012
	RMB'000	RMB'000
Trade financing	66,514	74,143
Bank loans	44,815	49,972
Facilities fees	9,994	7,345
	<u>121,323</u>	<u>131,460</u>

7 Other Expenses

	Group	
	2013	2012
	RMB'000	RMB'000
Impairment of land use rights (Note 12)	33,020	–
Property, plant and equipment written-off (Note 11)	21,059	73,914
	<u>54,079</u>	<u>73,914</u>

Impairment of land use rights

During the financial year ended 31 December 2013, an independent valuer was appointed to assess the carrying value of the Group's land use rights. Based on the valuation report, an impairment amounted to RMB 33,020,000 (2012: Nil) was charged to the income statement for the financial year ended 31 December 2013. This impairment charge pertained to certain land use rights in Linyi (Shandong Province) and Nansha (Guangdong Province) held by the Group's subsidiaries.

Property, plant and equipment written-off

The Group had two operational methanol plants with an annual combined capacity of 250,000 tons ("Methanol Phase I & II") and it has started the construction of an additional 500,000 tons per annum ("tpa") methanol plant ("Methanol Phase III"). With the onset of the financial crisis in 2008, the Group slowed the pace of construction at Methanol Phase III to conserve cash.

The Group's methanol plants employ a coal-to-methanol technology that requires the use of a specific type of coal (feedstock) known as anthracite coal. As the technology employed for the production of methanol is dependent on the type of coal selected at the plant's design stage, it is not possible to change to another type of coal without affecting the efficiency of the plant.

In addition, the Group had five DME plants with an annual combined capacity of 900,000 tpa, three of which are located in Linyi, Shandong Province. These three plants, namely DME Phase I, II and III, have an annual capacity of 50,000 tons, 100,000 tons and 250,000 tons respectively.

On 4 January 2013, the Company announced that the Group had completed the trial production of MEG at a pilot plant in Linyi (Shandong Province) using a production technology jointly developed by the Company's wholly-owned subsidiary, Jiutai Energy Technology Co., Ltd. and Shanghai Jiaotong University ("Technology"). The Technology has been vetted by the National Energy Administration of the PRC be comparable to international advanced standards and has the potential for commercialisation.

The Board of Directors has entrusted the Chief Executive Officer, Chairman and controlling shareholder, Cui Lianguo, to source for the necessary funds to enable the Group to pursue the option of commercialising the Technology through the building of a 100,000 tpa MEG plant in Linyi ("MEG Project").

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2013

7 Other Expenses (cont'd)

Property, plant and equipment written-off (cont'd)

As part of the preparation work for the MEG Project, the Group has identified the areas occupied by Methanol Phase II (annual capacity: 170,000 tons) and DME Phase I and II as the site for the MEG Project. Hence, Methanol Phase II and DME Phase I and II were deconstructed.

As at 31 December 2012, the Group undertook a review of the property, plant and equipment of Methanol Phase II and DME Phase I and II amounting to RMB 232,681,000 and identified the property, plant and equipment that have to be written-off to make way for the MEG Project. Those property, plant and equipment pertaining to the gasification of coal (part of the property, plant and equipment of Methanol Phase II), property, plant and equipment that can be deployed for the MEG Project, Methanol Phase III, Shared Assets and other DME plants amounting to RMB 158,767,000 have been retained while the remaining property, plant and equipment amounting to RMB 73,914,000 were written-off to the income statement.

During the financial year ended 31 December 2013, the Group has completed the deconstruction of DME Phase I & II and Methanol Phase II, RMB 1,887,000 of property, plant and equipment pertaining to Methanol Phase II and RMB 19,172,000 of property, plant and equipment pertaining to DME Phase I & II were found to be un-deployable for MEG Project, Methanol Phase III and other DME plants. Hence, RMB 21,059,000 of property, plant and equipment were written-off to the income statement.

8 Loss before Income Tax

This is arrived at after charging (crediting) the following items:

	Group	
	2013	2012
	RMB'000	RMB'000
Cost of inventories sold	1,874,894	2,115,660
Depreciation of property, plant and equipment		
- included in cost of sales	67,640	86,141
- included in administrative expenses and distribution expenses	8,354	8,902
Staff salaries and related costs	74,832	72,508
Impairment of land use rights (Note 7)	33,020	–
Property, plant and equipment written-off (Note 7)	21,059	73,914
Contribution to defined contribution plans	15,019	12,722
Amortisation of land use rights	6,015	3,875
Operating lease expenses	4,689	7,440
Directors' fees	1,187	1,210
Amortisation of intangible assets	65	68
(Gain) Loss on disposal of property, plant and equipment	(2,604)	306

No non-audit expenses were paid to the external auditors for the financial years ended 31 December 2013 and 31 December 2012.

A write-down of finished goods amounting to RMB 6,802,000 (2012: RMB 1,079,000) was included in the cost of inventories sold.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2013

9 Income Tax

	Group	
	2013 RMB'000	2012 RMB'000
<i>Current income tax</i>		
Under provision in prior year - PRC	292	901
Current year		
- PRC	-	568
- Singapore	-	(50)
	<u>292</u>	<u>1,419</u>

Since the Group's operations are mainly in the PRC, a reconciliation of income tax calculated at the applicable corporate tax rate in the PRC with income tax expense is as follows:

	Group	
	2013 RMB'000	2012 RMB'000
Loss before income tax	(277,027)	(284,461)
Income tax calculated based on PRC statutory tax rate of 25% (2012: 25%)	(69,257)	(71,115)
Deferred tax benefit not recognised	54,819	36,499
Effects of differences in tax rates of entities in a different tax jurisdiction	16,134	24,716
Non-deductible expenses	3,439	10,468
Under provision in prior year	292	901
Tax exemption	(5,135)	(50)
	<u>292</u>	<u>1,419</u>

Prior to 1 January 2008, foreign invested manufacturing enterprises in the PRC were entitled to full exemption from Enterprise Income Tax ("EIT") for the first two years and a 50% reduction in the tax rate for the next three years, commencing from the first profitable year of operation after offsetting all tax losses brought forward from previous years (at most five years) ("Tax Holiday").

In March 2007, the new EIT Law, effective 1 January 2008, was adopted at the Fifth Session of the Tenth National People's Congress of the PRC to unify income tax rates on domestic and foreign enterprises, new preferential tax policies and tax deduction policies. Income tax rates for domestic and foreign enterprises were unified and set at 25%. Foreign enterprises that are enjoying preferential tax rates under the previous tax regime are given a five year transitional period before the new rate applies.

The Tax Holiday status of significant subsidiaries in the PRC are as follows:

- (i) In 2010, Jiutai Energy Technology Co., Ltd. was granted "High-Tech Status" by the local tax authority and a concessionary tax rate of 15% was applicable from financial year ("FY") 2010 to FY2012.
- (ii) Linyi Jiuxin Energy Co., Ltd.'s Tax Holiday expired in FY2011.
- (iii) Jiutai Energy (Guangzhou) Co., Ltd. did not have taxable profit in FY2012 and FY2013. Its Tax Holiday expired in FY2012.
- (iv) Jiutai Energy (Zhangjiagang) Co., Ltd. utilised deferred benefit not recognised in relation to unutilised tax losses in FY2012. It has no taxable profit in FY2013 and its Tax Holiday expired in FY2012.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2013

9 Income Tax (cont'd)

The corporate income tax rates applicable to the Company and its wholly-owned subsidiary, Jiutai International Trading Pte. Ltd., i.e. Singapore company of the Group, was 17% for FY2012 and FY2013.

The PRC statutory time limit for the utilisation of tax losses ("statutory limit") is five year from the year when such losses arises. During the financial year ended 31 December 2013, the Group's forfeited unutilised tax losses beyond the statutory limit amounted to RMB 42,989,000 (2012: RMB 28,311,000) and the related unrecognised deferred tax benefits forfeited amounted to RMB 10,747,000 (2012: RMB 7,078,000).

Subject to agreement with the relevant tax authorities, certain subsidiaries of the Group have unutilised tax losses of RMB 770,355,000 (2012: RMB 591,007,000) which are available for offset against future taxable profits provided that the provisions of the relevant tax legislation are complied with. The related deferred tax benefits of RMB 191,488,000 (2012: RMB 147,416,000) arising from the unutilised tax losses have not been recognised in the financial statements in accordance with Note 2(n).

As at 31 December 2013, the aggregate amount of temporary differences associated with undistributed earnings of the subsidiaries of the Group for which no deferred tax liability has been recognised amounted to RMB 124,736,000 (2012: RMB 173,843,000). In accordance with Note 2(n), the deferred tax liability not recognised is estimated to be RMB 6,237,000 (2012: RMB 8,692,000).

10 Loss Per Share

	Group	
	2013	2012
Net loss for the financial year attributable to equity holders of the Company (RMB)	(277,319,000)	(285,880,000)
Weighted average number of ordinary shares in issue during the financial year for the computation of basic earnings per share and diluted earnings per share	1,252,885,000	1,252,885,000
Basic and diluted loss per share (RMB cents)	(22.1)	(22.8)

(a) Basic loss per share

Basic loss per share is calculated on the Group's net loss for the financial year attributable to equity holders of the Company divided by the weighted average number of ordinary shares in issue during the financial year.

(b) Diluted loss per share

Diluted loss per share is calculated on the Group's net loss for the financial year attributable to equity holders of the Company divided by the weighted average number of ordinary shares in issue as adjusted for the effects of all dilutive potential ordinary shares during the financial year. The Company has two categories of dilutive potential ordinary shares, which are as follows:

(i) Warrants

On 7 April 2009, the Company issued 10 million warrants at a nominal consideration of S\$1 to a bank in relation to the services rendered in connection with the restructuring of loans to the Company and a subsidiary. The 10 million warrants are convertible into 10 million ordinary shares upon the payment of the exercise price of S\$0.13 per share. As at 31 December 2013, the number of warrants outstanding amounted to 10 million (2012: 10 million).

(ii) Share options

As at 31 December 2013, the number of options issued and outstanding amounted to 26 million (2012: 26 million) (Note 20).

Diluted loss per share for the financial years ended 31 December 2013 and 31 December 2012 were the same as basic loss per share as the warrants and share options were anti-dilutive.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2013

11 Property, Plant and Equipment

	Buildings RMB'000	Plant and equipment RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction- in-progress RMB'000	Total RMB'000
Group						
2013						
<u>Cost</u>						
As at 1 January 2013	310,924	1,013,139	12,864	20,634	879,293	2,236,854
Additions	621	4,400	1,200	2,518	165,930	174,669
Disposal	–	(1,452)	(564)	(2,666)	(4,627)	(9,309)
Write-off (Note 7)	–	–	–	–	(21,059)	(21,059)
Transfers	–	395	13	–	(408)	–
Transfer to construction-in-progress	(11,821)	(51,601)	(61)	–	59,816	(3,667)
Currency realignment	–	–	(31)	–	–	(31)
As at 31 December 2013	299,724	964,881	13,421	20,486	1,078,945	2,377,457
<u>Accumulated depreciation</u>						
As at 1 January 2013	45,710	366,059	9,326	9,699	–	430,794
Charge for the year	9,076	64,030	1,125	1,763	–	75,994
Disposal	–	(841)	(506)	(1,616)	–	(2,963)
Transfer to construction-in-progress	(312)	(3,335)	(14)	(6)	–	(3,667)
Currency realignment	–	–	(30)	–	–	(30)
As at 31 December 2013	54,474	425,913	9,901	9,840	–	500,128
<u>Accumulated impairment</u>						
As at 1 January 2013	6,866	44,565	–	–	301,141	352,572
Transfer	7,764	(8,882)	–	749	369	–
Disposal	–	–	–	(163)	(1,092)	(1,255)
As at 31 December 2013	14,630	35,683	–	586	300,418	351,317
<u>Net book value</u>						
As at 31 December 2013	230,620	503,285	3,520	10,060	778,527	1,526,012

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2013

11 Property, Plant and Equipment (cont'd)

	Buildings RMB'000	Plant and equipment RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction- in-progress RMB'000	Total RMB'000
Group (cont'd)						
2012						
<u>Cost</u>						
As at 1 January 2012	399,428	1,305,292	12,925	20,910	764,198	2,502,753
Additions	1,142	49,769	856	556	7,402	59,725
Disposal	(5)	(2,104)	(741)	–	(641)	(3,491)
Write-off (Note 7)	(48,481)	(105,650)	(63)	–	–	(154,194)
Write-off against accumulated impairment	–	(32,353)	–	–	(17,467)	(49,820)
Transfers	11,373	38,200	1,293	–	(50,866)	–
Transfer to construction-in- progress	(52,533)	(240,015)	(1,407)	(832)	176,667	(118,120)
Currency realignment	–	–	1	–	–	1
As at 31 December 2012	310,924	1,013,139	12,864	20,634	879,293	2,236,854
<u>Accumulated depreciation</u>						
As at 1 January 2012	53,759	466,930	8,763	8,433	–	537,885
Charge for the year	11,187	80,220	1,796	1,840	–	95,043
Disposal	–	(1,616)	(549)	–	–	(2,165)
Write-off (Note 7)	(9,744)	(57,569)	(58)	–	–	(67,371)
Write-off against accumulated impairment	–	(14,488)	–	–	–	(14,488)
Transfer	–	(465)	465	–	–	–
Transfer to construction-in- progress	(9,492)	(106,953)	(1,101)	(574)	–	(118,120)
Currency realignment	–	–	10	–	–	10
As at 31 December 2012	45,710	366,059	9,326	9,699	–	430,794
<u>Accumulated impairment</u>						
As at 1 January 2012	27,977	88,540	–	–	284,296	400,813
Write-off (Note 7)	(9,644)	(3,265)	–	–	–	(12,909)
Transfer to construction-in- progress	(11,467)	(22,845)	–	–	34,312	–
Utilisation	–	(17,865)	–	–	(17,467)	(35,332)
As at 31 December 2012	6,866	44,565	–	–	301,141	352,572
<u>Net book value</u>						
As at 31 December 2012	258,348	602,515	3,538	10,935	578,152	1,453,488

During the financial year ended 31 December 2012, as a result of the write-off (Note 7), RMB 158,767,000 of property, plant and equipment was retained, of which RMB 142,355,000 was transferred to construction-in-progress while Shared Assets amounting to RMB 16,412,000 remained in the respective categories of property, plant and equipment.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2013

11 Property, Plant and Equipment (cont'd)

As at 31 December 2013, property, plant and equipment with a net book value amounting to RMB 237,241,000 (2012: RMB 259,378,000) were pledged as security for a loan granted to a subsidiary (Note 21(b)).

During the financial year ended 31 December 2013, payables for the purchase of property, plant and equipment decreased by RMB 1,637,000 (2012: RMB 31,036,000), RMB 4,716,000 (2012: RMB 10,651,000) of additions were set-off against provisions made (Note 24) and no (2012: RMB 33,833,000) prepayment was reclassified to property, plant and equipment.

	Office equipment	
	2013	2012
	RMB'000	RMB'000
Company		
<u>Cost</u>		
As at 1 January	123	116
Currency realignment	(8)	7
As at 31 December	115	123
<u>Accumulated depreciation</u>		
As at 1 January	123	116
Currency realignment	(8)	7
As at 31 December	115	123
<u>Net book value</u>		
As at 31 December	–	–

12 Land Use Rights

	Group	
	2013	2012
	RMB'000	RMB'000
<u>Valuation</u>		
As at 1 January	263,490	133,975
Impairment (Note 7)	(33,020)	–
Revaluation adjustment	(15,450)	–
Additions	–	129,515
As at 31 December	215,020	263,490
<u>Accumulated amortisation</u>		
As at 1 January	9,435	5,560
Charge for the year	6,015	3,875
Revaluation adjustment	(15,450)	–
As at 31 December	–	9,435
<u>Net book value</u>		
As at 31 December	215,020	254,055

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2013

12 Land Use Rights (cont'd)

The Group has land use rights over plots of state-owned land in the PRC where certain production facilities reside. The land use rights are transferable and have a weighted remaining tenure of 40 years (2012: 41 years).

As at 31 December 2013, land use rights with a net book value amounting to RMB 54,779,000 (2012: RMB 68,183,000) was pledged for a bank loan (Note 21(b)).

During the financial year ended 31 December 2013, an independent valuer was appointed to assess the fair value of the Group's land use rights by reference to the market value of similar class of land in the vicinity. Based on the valuation report, an impairment amounted to RMB 33,020,000 (2012: Nil) was charged to the income statement for the financial year ended 31 December 2013. This impairment charge pertained to certain land use rights in Linyi (Shandong Province) and Nansha (Guangdong Province) held by the Group's subsidiaries.

During the financial year ended 31 December 2010, a revaluation exercise was performed by an independent professional valuer to determine the fair value of the land use rights of the Group by reference to the market value of a similar class of land in the vicinity. The revaluation surplus of RMB 40,854,000 was credited directly to revaluation reserve in shareholders' equity (Note 20). No impairment was recorded for this land use rights during the financial year ended 31 December 2013. Had the land use rights been measured at cost less accumulated depreciation, the carrying amount as at 31 December 2013 would have been RMB 177,662,000 (2012: RMB 215,823,000).

13 Intangible Assets

	Group	
	2013	2012
	RMB'000	RMB'000
<i>Computer Software</i>		
<u>Cost</u>		
As at 1 January and 31 December	358	358
<u>Accumulated amortisation</u>		
As at 1 January	291	223
Charge for the year	65	68
As at 31 December	356	291
<u>Net book value</u>		
As at 31 December	2	67

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2013

14 Investments in Subsidiaries

	Company	
	2013	2012
	RMB'000	RMB'000
<u>Cost</u>		
As at 1 January	1,572,209	1,572,209
Effects of foreign exchange on translation	(60,343)	42,877
As at 31 December	1,511,866	1,615,086
<u>Accumulated impairment</u>		
As at 1 January	1,100,189	752,526
Charge for the year (Note 3(b))	218,406	302,333
Effects of foreign exchange on translation	(73,053)	45,330
As at 31 December	1,245,542	1,100,189
<u>Net book value</u>		
As at 31 December	266,324	514,897

Details of investments in subsidiaries as at 31 December 2013 and 31 December 2012 are as follows:

Name of company	Principal activities	Country of incorporation and operation	Cost of investment by the Company		Effective equity interest held by the Group	
			2013	2012	2013	2012
			RMB'000	RMB'000	%	%
<u>Held by the Company</u>						
Jiutai Energy Technology Co., Ltd. ⁽¹⁾⁽⁴⁾	Production and distribution of methanol	PRC	771,736	771,736	100	100
Linyi Jiuxin Energy Co., Ltd. ⁽¹⁾⁽⁴⁾	Production and distribution of DME	PRC	414,506	414,506	100	100
Jiutai Energy (Guangzhou) Co., Ltd. ⁽²⁾⁽⁴⁾	Production and distribution of DME	PRC	210,842	210,842	100	100
Jiutai Energy (Zhangjiagang) Co., Ltd. ⁽²⁾⁽⁴⁾	Production and distribution of DME	PRC	168,300	168,300	100	100
Jiutai International Trading Pte. Ltd. ⁽¹⁾⁽⁴⁾	Trading of chemical related products	Singapore	6,825	6,825	100	100
<u>Held by a subsidiary</u>						
Zhangjiagang Jiutai Trading Co., Ltd. ⁽³⁾⁽⁴⁾	Trading of chemical related products	PRC	–	–	100	100
			1,572,209	1,572,209		

(1) Wholly-owned subsidiary of the Company.

(2) 45% held by the Company and 55% held by Linyi Jiuxin Energy Co., Ltd.

(3) Wholly-owned by Jiutai Energy (Zhangjiagang) Co., Ltd.

(4) All the subsidiaries are audited by Moore Stephens LLP, Singapore, for the purpose of the consolidated financial statements of the Company and its subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2013

15 Inventories

	Group	
	2013 RMB'000	2012 RMB'000
Raw materials	99,624	66,648
Finished goods	51,656	33,710
	<u>151,280</u>	<u>100,358</u>

16 Trade and Other Receivables

	Group		Company	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
VAT recoverable	235,690	174,657	–	–
Trade receivables - third parties	18,553	15,824	–	–
Bill receivables	14,421	19,516	–	–
Compensation income due from a related party (Note 26)	1,741	169	–	–
Interest receivable	1,195	445	–	–
Advances to employees	567	406	–	–
Deposits	560	550	289	303
Due from a subsidiary	–	–	1,980	474
	<u>272,727</u>	<u>211,567</u>	<u>2,269</u>	<u>777</u>

Trade and other receivables, excluding VAT recoverable, are unsecured, interest-free and repayable on demand/when due. VAT recoverable is unsecured, interest-free and available for deduction by input VAT on purchases.

17 Other Current Assets

	Group		Company	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Prepayments:				
Land use rights	46,119	46,119	–	–
Methanol and other raw materials	43,649	43,227	–	–
Interest	26,973	20,355	–	–
Coal purchases	–	1,857	–	–
Others	2,113	2,498	53	51
	<u>118,854</u>	<u>114,056</u>	<u>53</u>	<u>51</u>

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2013

17 Other Current Assets (cont'd)

Other current assets are denominated in the following currencies:

	Group		Company	
	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Chinese Renminbi	118,801	113,891	–	–
Singapore Dollar	53	165	53	51
	<u>118,854</u>	<u>114,056</u>	<u>53</u>	<u>51</u>

18 Cash and Bank Balances

	Group		Company	
	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and bank balances	419	281	5	5
Short-term deposits	659,570	650,920	3,871	596
	<u>659,989</u>	<u>651,201</u>	<u>3,876</u>	<u>601</u>

Bank balances bear interest at an effective interest rate of approximately 0.35% to 3.05% (2012: 0.35% to 3.30%) per annum. As at 31 December 2013, short-term bank deposits have an average maturity of less than six months (2012: less than six months) from the end of the financial year and the weighted average effective interest rate is approximately 1.7% (2012: 2.2%) per annum.

Notes to consolidated statement of cash flows

For the purpose of the consolidated statement of cash flows, the consolidated cash and cash equivalents comprise the following:

	Group	
	2013	2012
	RMB'000	RMB'000
Cash and bank balances	659,989	651,201
Less: Restricted deposits	(564,663)	(481,800)
	<u>95,326</u>	<u>169,401</u>

Restricted deposits are placed as securities to financial institutions for banking facilities granted to the Group, of which RMB 551,058,000 (2012: RMB 431,504,000) were used for the issuance of bills payables (Note 22).

NOTES TO THE FINANCIAL STATEMENTS

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19 Share Capital

	Group and Company 2013 and 2012	
	No. of shares	Amount RMB'000
<i>Issued and fully-paid up</i>		
As at 1 January and 31 December	1,252,885,000	1,135,287

The ordinary shares have no par value.

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restriction at general meetings of the Company and rank equally with regard to the Company's residual assets.

20 Reserves

	Group		Company	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Accumulated losses	(1,043,552)	(765,467)	(863,676)	(671,661)
Statutory reserves	74,241	73,475	–	–
Revaluation reserve	40,854	40,854	–	–
Currency translation reserve	15,465	14,555	(18,252)	10,932
Share option reserve	12,993	12,993	12,993	12,993
Warrant reserve	4,360	4,360	4,360	4,360
	(895,639)	(619,230)	(864,575)	(643,376)

Movements in reserves for the Group are set out in the consolidated statement of changes in shareholders' equity.

Statutory reserves

In accordance with the PRC's Company Law, the PRC subsidiaries are required to transfer 10% of their profit after taxation to statutory reserves (Note 2(u)).

Revaluation reserve

During the financial year ended 31 December 2010, the Group engaged an independent professional valuer to perform a valuation of the Group's land use rights (Note 12). Accordingly, a surplus on revaluation amounting to RMB 40,854,000 was recorded with a corresponding credit in the revaluation reserve.

The revaluation surplus included in equity may be transferred directly to retained earnings when the asset is derecognised.

Currency translation reserve

The currency translation reserve is used to record foreign exchange differences arising from the translation of the financial statements of entities whose functional currencies are different from that of the Group's presentation currency.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2013

20 Reserves (cont'd)

Share option reserve

During the financial year ended 31 December 2013, the Company did not grant any share option (2012: Nil) under the Scheme to directors and employees of the Company. As at 31 December 2013, 26 million (2012: 26 million) share options were issued and outstanding and each share option is convertible into one ordinary share in the Company upon the payment of the exercise price. Details and movements of the share options granted are as disclosed in paragraph 5 of the report of the directors.

No share option was cancelled or exercised during the financial year ended 31 December 2013 and 31 December 2012.

The fair values of the share options granted were determined using the Black Scholes valuation model. The significant inputs into the model were as follows:

Date of grant	Number of share options issued	Share price at date of grant S\$	Exercise price S\$	Standard deviation of share price return %	Life span of share options years	Risk free rate %	Fair value of share options charged to income statement	
							2013 RMB'000	2012 RMB'000
12.01.2010	6,000,000	0.285	0.265	77	5	0.48	–	–
17.05.2010	4,000,000	0.180	0.184	74	5	0.33	–	–
12.11.2010	6,000,000	0.170	0.175	74	5	0.40	–	–
11.05.2011	4,000,000	0.115	0.116	74	5	0.41	–	477
09.12.2011	6,000,000	0.058	0.060	80	5	0.32	–	982
Total	26,000,000						–	1,459

The volatility measured as the standard deviation of the expected share price return was estimated based on statistical analysis of the Company's closing share price on the SGX-ST since its Initial Public Offering till the date of the grant of the share option.

Warrant reserve

On 7 April 2009, the Company issued 10 million warrants at a nominal consideration of S\$1 to a bank in relation to the services rendered in connection with the restructuring of loans to the Company and a subsidiary. Each warrant entitles its holder to subscribe for one new ordinary share in the capital of the Company at an exercise price of S\$0.13 per share. The warrants, vested upon issue, will expire on the fifth anniversary of the date of issue of the warrants. The fair value of the warrants issued amounted to RMB 4,360,000 (S\$950,000) was included in the warrant reserve. No warrant was exercised since their issue.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2013

21 Bank Loans

	Group	
	2013	2012
	RMB'000	RMB'000
Current		
- Loan I	505,000	390,000
- Loan II	200,000	–
- Loan III	–	20,000
	<u>705,000</u>	<u>410,000</u>
Non-current		
- Loan II	–	200,000
	<u>–</u>	<u>200,000</u>

(a) Loan I

These bank loans, which are denominated in Chinese Renminbi, were drawn down for working capital purposes. These bank loans are secured by a combination of corporate guarantees from subsidiaries and personal guarantees from a related party (controlling shareholder), Cui Lianguo, and incurs interest at an effective interest rate of 7.0% (2012: 7.0%) per annum. The average maturity of these bank loans are 6 months (2012: 5 months) from the end of financial year.

(b) Loan II

The bank loan, which is denominated in Chinese Renminbi, was drawn down for working capital purposes. The bank loan is secured by a corporate guarantee from a subsidiary, a personal guarantee from a related party (controlling shareholder), Cui Lianguo and a subsidiary's property, plant and equipment (Note 11) and land use rights (Note 12). It incurs interest at an effective interest rate of 6.2% (2012: 6.2%) per annum and is due in July 2014.

(c) Loan III

The bank loan, which was denominated in Chinese Renminbi, was drawn down for working capital purposes. The bank loan was secured by a corporate guarantee from a subsidiary, a personal guarantee from a related party (controlling shareholder), Cui Lianguo, and a corporate guarantee from a third party. It incurred interest at an effective interest rate of 7.9% per annum and was repaid in April 2013 when due.

(d) During the financial year ended 31 December 2013, the Group obtained RMB 520,000,000 (2012: RMB 605,000,000) of new loans and made repayments amounting to RMB 425,000,000 (2012: RMB 835,000,000).

(e) As at 31 December 2013, the Group has approximately RMB 563.0 million (2012: RMB 679.2 million) of undrawn committed credit facilities in respect of which all conditions precedent had been met.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2013

22 Trade and Other Payables

	Group		Company	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Bills payables	1,458,290	1,146,917	–	–
Advances from related parties	264,165	187,333	–	8,746
Trade payables - third parties	92,230	132,694	–	–
Purchase of property, plant and equipment	41,744	43,381	–	–
Accrued expenses	23,421	20,543	1,810	1,954
Advance payments from customers	7,719	4,489	–	–
Interest payable	1,396	2,976	–	–
Due to related parties	–	5,697	–	334
VAT payables	–	10	–	–
Due to a subsidiary	–	–	–	13,381
	<u>1,888,965</u>	<u>1,544,040</u>	<u>1,810</u>	<u>24,415</u>

Bills payables are secured by bank deposits (Note 18) and a combination of guarantees from subsidiary and/or related party (controlling shareholder, Cui Lianguo) and incurs interest at 5.8% (2012: 5.3%) per annum and has an average maturity of less than 6 months (2012: less than 6 months).

The advances from related parties (entity with common shareholders), Shandong Jiutai Chemical Technology Co., Ltd. ("Jiutai Chemical") (2012: New Energy Ltd and Jiutai Chemical), is unsecured, interest-free and repayable on demand.

The amount due to related parties (entity with common shareholders and controlling shareholders), Jiutai Chemical and Cui Lianguo, was unsecured, interest-free and repayable on demand.

The amount due to a subsidiary was non-trade in nature and was unsecured, interest-free and repayable on demand.

23 Deferred Income

	Group	
	2013 RMB'000	2012 RMB'000
Deferred income	<u>39,640</u>	<u>39,640</u>

Deferred income pertained to a local PRC government subsidy that would be offset against future interest expense relating to a specific project.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2013

24 Provisions

	Group	
	2013	2012
	RMB'000	RMB'000
As at 1 January	89,352	100,003
Utilisation	(4,716)	(10,651)
As at 31 December	84,636	89,352

The provisions pertained to the estimated unbilled amount in accordance with the contracts signed and/or work done to date in relation to Methanol Phase III which the Group intends to terminate.

25 Commitments

(a) Capital commitments

Capital expenditure contracted for at the end of the financial year but not recognised in the financial statements are as follows:

	Group		Company	
	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Authorised and contracted for				
- purchase and construction of property, plant and equipment	738,738	388,176	–	–
- investments in subsidiaries	–	–	–	285,515

As at 31 December 2013, in relation to the capital expenditure authorised and contracted for the purchase and construction of property, plant and equipment, provisions amounting to RMB 84,636,000 (2012: RMB 89,352,000) were made for some of the contracts relating to Methanol Phase III which the Group intends to terminate (Note 24).

As at 31 December 2012, the Company's capital commitment relating to investments in subsidiaries amounted to RMB 285,515,000 (US\$45.36 million). This represents unpaid registered capital in subsidiaries. During the financial year ended 31 December 2013, the Company's applications to reduce the registered capital in these subsidiaries by US\$45.36 million were approved by the relevant authorities in the PRC.

(b) Operating lease commitments

Operating lease commitments of the Group and the Company represent rentals of land and property and office units ("Leased Properties"). At the end of the financial year, the future minimum rentals payable under non-cancellable operating leases are as follows:

	Group		Company	
	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	3,493	4,423	303	1,281
Between one to five years	2,793	5,876	–	324
	6,286	10,299	303	1,605

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2013

25 Commitments (cont'd)

(b) Operating lease commitments (cont'd)

The above includes the commitment for the rental of land and property from a related party (entity with common shareholders) Jiutai Chemical and the terms are summarised as follows:

- (i) the term of the lease is for a period of 10 years commencing from 1 January 2006 and the annual rent payable for the Leased Properties is subject to review every 3 years and may be adjusted based on an independent PRC valuer's assessment to ascertain the prevailing rental rates; and
- (ii) notwithstanding the above, the lease may be terminated at the option of the Group by giving at least six months' notice to the lessor.

26 Significant Related Party Transactions

In addition to the information disclosed elsewhere in the consolidated financial statements, during the financial year, the Group had significant transactions with related parties on terms agreed between the parties as follows:

	Group	
	2013	2012
	RMB'000	RMB'000
<i>With entities which have common shareholders</i>		
Advances from related parties - net	76,832	161,514
Purchase of methanol	49,732	–
Compensation income, net of tax (Note 5)	9,499	8,879
Proceeds from disposal of property, plant and equipment	4,309	28
Rental - operating lease	2,401	2,401
Rental income	204	–

Purchase of methanol

At the Company's Extraordinary General Meeting on 30 April 2010, the shareholders of the Company voted in favor of the interested person transaction ("Shareholders' Mandate") for recurring interested person transactions in relation to the methanol supply agreement dated 9 April 2010 between the Company and Jiutai Inner Mongolia, an entity with common shareholders. The total purchase of methanol from Jiutai Inner Mongolia for the financial year ended 31 December 2013 amounted to RMB 49.7 million (2012: Nil) was transacted at a 7% discount to the market price as authorised under the Shareholders' Mandate.

Compensation income

During the financial year ended 31 December 2013, compensation income (net of tax) amounting to RMB 9.5 million (2012: RMB 8.9 million) (Note 5) due from Jiutai Inner Mongolia was recorded pursuant to the DME Agreement between Jiutai Inner Mongolia and the Group. Under the terms of the DME Agreement, Jiutai Inner Mongolia has to pay compensation to the Group for the use of the Group's know-how in respect of the patented DME production technology which will be the higher of either 5% of Jiutai Inner Mongolia's aggregate sale value of DME billed to third parties or 50% of the gross profit made by Jiutai Inner Mongolia from the sale of DME to third parties.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2013

26 Significant Related Party Transactions (cont'd)

Proceeds from the disposal of property, plant and equipment

In 2013, the proceeds from the disposal of property, plant and equipment to Jiutai Inner Mongolia represent the net book value of the property, plant and equipment disposed prior to the write-off and is also the gain on disposal of these assets.

In 2012, the proceeds from the disposal of property, plant and equipment to Jiutai Inner Mongolia represent the net book value of the property, plant and equipment disposed.

Options granted by related parties

Pursuant to the DME Agreement, the Group licensed its rights to produce DME in Ordos, Inner Mongolia, to Jiutai Inner Mongolia. The Group also agreed to provide its expertise and advice to Jiutai Inner Mongolia in the construction and operation of the latter's DME production plant. In consideration, the shareholders of Jiutai Inner Mongolia agreed to grant the Company a call option and a first right of refusal (the "Call Option") to acquire, *inter alia*, the DME production plant at a price not less than the value determined by a professional valuer or an auditor mutually appointed by both parties.

Pursuant to the DME Agreement, two deeds of undertaking were also signed on 8 January 2010 in favour of the Company:

- (i) The first deed of undertaking was executed and delivered by Jiutai Inner Mongolia where Jiutai Inner Mongolia undertook, *inter alia*, to:
 - (a) exclusively sell and supply all methanol that it produces to the Group at a discounted price; and
 - (b) grant to the Company the right to require Jiutai Inner Mongolia to sell to the Company or its nominee(s), free from encumbrances, Jiutai Inner Mongolia's methanol production plant.
- (ii) The second deed of undertaking was executed and delivered by Cui Lianguo and others shareholders where they undertook to:
 - (a) procure Jiutai Inner Mongolia to comply with all of the warranties, undertakings and obligations as set out in the first deed of undertaking; and
 - (b) do all things required to grant to the Company a call option and a first right of refusal to acquire by itself or through its nominee(s) any direct or indirect interest in the issued share capital of Jiutai Inner Mongolia that Cui Lianguo and others may have, at a price to be agreed or failing an agreement, at a price to be determined by a professional valuer mutually appointed by the parties.

As at the date of this report, the Group did not exercise the options granted by related parties.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2013

26 Significant Related Party Transactions (cont'd)

Remuneration of key management personnel

The remuneration of the directors and senior personnel, who are the key management personnel of the Group are as follows:

	Group	
	2013 RMB'000	2012 RMB'000
Short-term employee benefits	8,394	6,863
Contributions to defined contribution plans	261	252
Employee share option scheme - fair value of share options issued	–	1,114
	<u>8,655</u>	<u>8,229</u>
<i>Compensation to executive directors of the Company included above</i>		
Short-term employee benefits and contribution to defined contribution plans	4,995	4,995
Employee share option scheme - fair value of share options issued	–	950
	<u>4,995</u>	<u>5,945</u>

27 Segment Information

The Group's primary format for segment reporting is based on business segments. Geographical segments are not presented as the Group operates predominantly in the PRC.

Methanol segment's results pertained to the trading of methanol, property, plant and equipment written-off, administrative expenses relating to methanol operations, impairment in land use rights and all income and expenses directly attributable to the Group's methanol operations.

DME segment's results pertained to the sale of DME, fixed cost of in-house methanol plants, property, plant and equipment written-off, impairment in land use rights and all income and expenses directly attributable to the Group's DME operation.

MEG segment has not commence operations. The assets of MEG segment pertained to the cost of trial plant capitalised and property, plant and equipment designated for the MEG Project and costs capitalised in relation to the Group's MEG Plant.

Revenue of the Group is derived largely from customers located in the PRC. For the financial year ended 31 December 2013 and 31 December 2012, there was no single customer that accounted for more than 10% of the Group's total sales.

Assets of the Group are mainly located in the PRC.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2013

27 Segment Information (cont'd)

Business Segments

	Methanol RMB'000	DME RMB'000	MEG RMB'000	Total RMB'000
31 December 2013				
Revenue	158,610	1,720,590	–	1,879,200
Segment results	(46,767)	(108,911)	–	(155,678)
Unallocated other income				3,135
Unallocated costs				(14,187)
Interest income				11,026
Interest expense				(121,323)
Loss before income tax				(277,027)
Income tax				(292)
Loss attributable to equity holders of the Company				(277,319)
Other segment items				
Capital expenditure - Property, plant and equipment				
- Allocated	68,244	3,959	99,904	172,107
- Unallocated				2,562
				174,669
Impairment of land use rights (Note 7)	21,142	11,878	–	33,020
Assets written off (Note 7)	1,887	19,172	–	21,059
Write-down of inventories	791	6,011	–	6,802
Depreciation and amortisation				
- Allocated	10,109	64,338	–	74,447
- Unallocated				7,627
				82,074
Assets and Liabilities				
Allocated assets	708,848	1,174,964	254,443	2,138,255
Unallocated assets				819,634
Total assets				2,957,889
Allocated liabilities	–	39,640	–	39,640
Unallocated liabilities				2,678,601
Total liabilities				2,718,241

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2013

27 Segment Information (cont'd)

Business Segments (cont'd)

	Methanol RMB'000	DME RMB'000	MEG RMB'000	Total RMB'000
31 December 2012				
Revenue	78,172	2,064,390	–	2,142,562
Segment results	(56,487)	(97,594)	–	(154,081)
Unallocated other income				2,394
Unallocated costs				(16,891)
Interest income				15,577
Interest expense				(131,460)
Loss before income tax				(284,461)
Income tax				(1,419)
Loss attributable to equity holders of the Company				(285,880)
Other segment items				
Capital expenditure - Property, plant and equipment and land use rights				
- Allocated	140,409	2,038	31,953	174,400
- Unallocated				14,840
				189,240
Assets written off (Note 7)	30,537	43,377	–	73,914
Write-down of inventories	–	1,079	–	1,079
Depreciation and amortisation				
- Allocated	18,776	72,351	–	91,127
- Unallocated				7,859
				98,986
Assets and Liabilities				
Allocated assets	641,752	1,168,985	162,828	1,973,565
Unallocated assets				825,524
Total assets				2,799,089
Allocated liabilities	–	39,640	–	39,640
Unallocated liabilities				2,243,392
Total liabilities				2,283,032

As at 31 December 2012, property, plant and equipment amounting to RMB 6,132,000 from the DME segment and RMB 74,963,000 from the Methanol segment were re-designated to the MEG segment as part of the MEG Project as described in Note 7.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2013

27 Segment Information (cont'd)

Business Segments (cont'd)

Unallocated other income and expenses

There is no reasonable basis to allocate foreign exchange gain or loss, interest income, interest expense and income tax expense to the different segments, and accordingly these items have been disclosed as unallocated income and unallocated costs. Unallocated costs also include administrative expenses of the Company, a Singapore subsidiary and a subsidiary in the PRC. There is no reasonable basis to allocate such administrative expenses to the respective segments.

Unallocated assets and liabilities

Certain assets of the Group that are shared between the different segments are not allocated. Other than deferred income which is specific to the DME segment, there is no reasonable basis to allocate liabilities of the Group between the different segments and accordingly the liabilities of the Group are disclosed as unallocated in the segment report.

The unallocated assets are as follows:

	Group	
	2013	2012
	RMB'000	RMB'000
Cash and bank balances	659,989	651,201
Property, plant and equipment	99,135	105,861
Trade and other receivables and other current assets	46,505	54,165
Income tax recoverable	14,005	14,297
	<u>819,634</u>	<u>825,524</u>

28 Financial Instruments

Financial Risk Management Objectives and Policies

The Group is exposed to a variety of financial risks, including the effects of interest rate risk, credit risk, currency risk and liquidity risk arising in the normal course of its business. The Group's risk management policy, which remains unchanged from the prior year, seeks to minimise the potential adverse effects from these exposures. Management continually monitors the Group's risk management process to ensure that an appropriate balance between risk and control is achieved. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Board of Directors is responsible for setting the objectives, the underlying principles of financial risk management for the Group and establishing the policies such as authority levels, oversight responsibilities, risk identification and measurement, exposure limits and hedging strategies, in accordance with the objectives and underlying principles approved.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2013

28 Financial Instruments (cont'd)

Financial Risk Management Objectives and Policies (cont'd)

(i) Credit risk

Credit risk is the potential financial loss resulting from the failure of a customer or a counterparty to settle its financial and contractual obligations to the Group as and when they fall due. The Group's policy is to enter into transactions with creditworthy counterparties so as to mitigate any significant credit risk. Any potential exposures are monitored and reported to management on a timely basis where allowances for impairment for debts are made when deemed necessary.

Financial assets that are neither past due nor impaired include bank balances and trade and other receivables. Bank balances are placed with financial institutions of high credit rating. Trade receivables are minimal as the sales are mainly transacted based on cash on delivery terms. Other receivables are mainly VAT recoverable from the PRC government.

As at 31 December 2013 and 31 December 2012, the Group and the Company does not have any significant concentrations of credit risk.

The Group and the Company does not have any financial assets that are past due and/or impaired.

(ii) Currency risk

Currency risk arises on financial instruments that are denominated in a currency other than the functional currency in which they are measured. As at 31 December 2013 and 31 December 2012, the Group and the Company do not have any significant currency risk.

The Group did not use derivative financial instruments to protect against the volatility associated with foreign currency transactions since the exposure is insignificant. Exposure to foreign currency risk is monitored on an on-going basis and the Group endeavours to keep the net exposure at an acceptable level.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2013

28 Financial Instruments (cont'd)

Financial Risk Management Objectives and Policies (cont'd)

(ii) Currency risk (cont'd)

The Group's and the Company's currency exposure based on the information provided to key management is as follows:

	Denominated in the following currencies			Total
	RMB	USD	SGD	
	RMB'000	RMB'000	RMB'000	RMB'000
Group				
At 31 December 2013				
Financial assets				
Cash and bank balances	655,684	233	4,072	659,989
Trade and other receivables	36,705	–	332	37,037
	692,389	233	4,404	697,026
Financial liabilities				
Trade and other payables	(1,877,683)	–	(3,563)	(1,881,246)
Short-term bank loans	(705,000)	–	–	(705,000)
Provisions	(84,636)	–	–	(84,636)
	(2,667,319)	–	(3,563)	(2,670,882)
Net financial (liabilities) assets	(1,974,930)	233	841	(1,973,856)
At 31 December 2012				
Financial assets				
Cash and bank balances	648,314	1,144	1,743	651,201
Trade and other receivables	36,563	–	347	36,910
	684,877	1,144	2,090	688,111
Financial liabilities				
Trade and other payables	(1,501,970)	(19,458)	(18,123)	(1,539,551)
Short-term bank loans	(410,000)	–	–	(410,000)
Provisions	(89,352)	–	–	(89,352)
Long-term bank loan	(200,000)	–	–	(200,000)
	(2,201,322)	(19,458)	(18,123)	(2,238,903)
Net financial liabilities	(1,516,445)	(18,314)	(16,033)	(1,550,792)

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2013

28 Financial Instruments (cont'd)

Financial Risk Management Objectives and Policies (cont'd)

(ii) Currency risk (cont'd)

	Denominated in the following currencies		Total
	USD RMB'000	SGD RMB'000	RMB'000
Company			
At 31 December 2013			
Financial assets			
Cash and bank balances	91	3,785	3,876
Trade and other receivables	–	2,269	2,269
	91	6,054	6,145
Financial liabilities			
Trade and other payables	–	(1,810)	(1,810)
Net financial assets	91	4,244	4,335
At 31 December 2012			
Financial assets			
Cash and bank balances	87	514	601
Trade and other receivables	–	777	777
	87	1,291	1,378
Financial liabilities			
Trade and other payables	–	(24,415)	(24,415)
Net financial assets (liabilities)	87	(23,124)	(23,037)

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2013

28 Financial Instruments (cont'd)

Financial Risk Management Objectives and Policies (cont'd)

(ii) Currency risk (cont'd)

Sensitivity analysis

The effects of a 5% change (taking into consideration both strengthening and weakening aspects) of the Singapore dollar ("SGD") and United States dollars ("USD") against the Chinese Renminbi ("RMB") at the year-end date on the results and equity are as shown below. This analysis assumes that all other variables, in particular interest and tax rates, remain constant.

	2013 (increase)/decrease loss after tax and (decrease)/increase equity RMB'000	2012 (increase)/decrease loss after tax and (decrease)/increase equity RMB'000
Group		
SGD against RMB		
- strengthened	42	(802)
- weakened	(42)	802
USD against RMB		
- strengthened	12	(916)
- weakened	(12)	916
Company		
SGD against RMB		
- strengthened	212	(1,156)
- weakened	(212)	1,156
USD against RMB		
- strengthened	5	4
- weakened	(5)	(4)

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2013

28 Financial Instruments (cont'd)

Financial Risk Management Objectives and Policies (cont'd)

(iii) Interest rate risk

Interest rate risk arises on interest-bearing financial instruments recognised in the statement of financial position. It is the risk that, changes in interest rates, will affect the Group's profit or loss or the value of its holdings of financial instruments.

Interest rate risk is managed by the Group on an on-going basis with the primary objective of limiting the extent to which net interest expense could be affected by an adverse movement in interest rates. The Group's policy is to obtain the most favorable interest rates available for its borrowings and bank deposits without increasing its foreign currency exposure. Bank deposits are placed where the interest rates are beneficial whilst at the same time mitigating the risk of market changes in interest rates.

As at 31 December 2013 and 31 December 2012, the Group's interest-bearing financial assets and financial liabilities consisting of bank deposits, bank loans and bills payables were fixed-rate in nature for the contractual period by maturity or re-pricing. Hence, the Group is not exposed to interest-rate risk. However, any changes in the market interest rate at maturity or re-pricing will result in fluctuation of the interest rate.

Sensitivity analysis

The effects of a 100 basis points change in the interest rate at maturity or re-pricing on the results and equity are as shown below. This analysis assumes that all other rates, in particular foreign currency and tax rates, remain constant.

	2013 (increase)/decrease loss after tax and (decrease)/increase equity RMB'000	2012 (increase)/decrease loss after tax and (decrease)/increase equity RMB'000
Group		
- 100 basis point increase	(11,086)	(11,063)
- 100 basis point decrease	11,086	11,072

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2013

28 Financial Instruments (cont'd)

Financial Risk Management Objectives and Policies (cont'd)

(iv) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to manage liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. In the management of its liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Where necessary, the Group will obtain interest-free advances from related parties to meet its cash flow requirements.

The table below analyses the maturity profile of the Group's and Company's financial liabilities based on contractual undiscounted cash flows:

	Within 1 year RMB'000	1 to 5 years RMB'000
Group		
2013		
Trade and other payables	1,918,356	–
Short-term bank loans	729,911	–
Provisions	84,636	–
	<u>2,732,903</u>	<u>–</u>
2012		
Trade and other payables	1,575,165	–
Short-term bank loans	421,856	–
Provisions	89,352	–
Long-term bank loan	12,300	208,200
	<u>2,098,673</u>	<u>208,200</u>
Company		
2013		
Trade and other payables	<u>1,810</u>	<u>–</u>
2012		
Trade and other payables	<u>24,415</u>	<u>–</u>

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2013

28 Financial Instruments (cont'd)

Financial Risk Management Objectives and Policies (cont'd)

(v) Capital risk

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure so as to maximise shareholder value. The Group's policy is to maintain an adequate capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Group funds its operations and growth through a mix of equity and debts. This includes the maintenance of adequate lines of credit and assessing the need to raise additional equity where required.

As disclosed in Note 20, PRC subsidiaries of the Group are required by the Foreign Enterprise Law of the PRC to contribute to and maintain a statutory reserve fund. This externally imposed capital requirement has been complied with by the applicable subsidiaries for the financial years ended 31 December 2013 and 31 December 2012. The Group is not subject to any other externally imposed capital requirements.

In the management of capital risk, management takes into consideration the net debt to total capital as well as the Group's and Company's working capital requirements. Net debt is calculated total liabilities (excluding deferred income) less cash and cash equivalents. Total capital is calculated as equity plus net debt.

	Group		Company	
	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Net debt	2,583,275	2,073,991	N.M.	23,814
Total equity	239,648	516,057	270,712	491,911
Total capital	2,822,923	2,590,048	270,712	515,725
Net debt to total capital	92%	80%	N.M.	5%

N.M.: not meaningful

There were no changes in the Group's approach to capital management during the financial year.

29 Fair Value of Assets and Liabilities

The Group categories fair value measurement using fair value hierarchy that is dependent on the valuation inputs used as follows:

- Level 1: Quoted prices (unadjusted) in active market for identical assets or liabilities that the Group can access at the measurement date,
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly or indirectly, and
- Level 3: Unobservable inputs for assets and liabilities.

Fair value measurements that use inputs of different hierarchy levels are categorise in its entirety in the same level of their fair value hierarchy as the lowest level input that is significant to the entire measurement.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2013

29 Fair Value of Assets and Liabilities (cont'd)

(a) Fair Values of Financial Instruments

Where applicable and possible, fair values have been estimated using market prices for the financial instruments. Where market prices are not available, values have been estimated using quoted prices for financial instruments with similar characteristics, or otherwise using a suitable valuation technique where it is practicable to do so. The fair value information presented represents the Group's and the Company's best estimate of those values, subject to certain assumptions and limitations.

Methodologies

The methodologies and assumptions used in estimating fair values depend on the terms and risk characteristics of the various instruments and include the following:

(i) Interest-bearing loans

The carrying value of interest-bearing bank loans that re-price within twelve months from the end of the financial year is assumed to approximate their fair values. The carrying amounts of the long-term bank loans also approximate fair value of similar instruments available at the end of the financial year.

(ii) Other financial assets and liabilities

The carrying amounts of financial assets and liabilities with a maturity of less than one year (including trade and other receivables, cash and cash equivalents and trade and other payables) are assumed to approximate their fair values because of the short period to maturity.

(b) Recurring Fair Value Measurements for Non-Financial Assets

During the financial year ended 31 December 2013, an independent valuer was appointed to assess the fair value of the Group's land use rights by reference to the market value of similar class of land in the vicinity. The land use rights as at 31 December 2013 amounted to RMB 215,020,000 was stated at fair value using Level 2 valuation input.

During the financial year ended 31 December 2013, there were no transfer between Level 1 and 2.

30 Subsequent Events

- (a) Subsequent to the financial year ended 31 December 2013 to the date of this report, the Group has rolled over bank loans amounting to RMB 100.0 million, obtained new bank loans amounting to RMB 35.0 million and made scheduled repayment of bank loans amounting to RMB 140.0 million.
- (b) On 4 April 2014, the Company announced the expiry of the 10 million warrants that were issued on 7 April 2009 (Note 20).

**APPENDIX V – UNAUDITED FINANCIAL STATEMENTS OF THE GROUP FOR
1Q2014 AND INDEPENDENT AUDITORS' REVIEW REPORT ON THE FINANCIAL
STATEMENTS OF THE GROUP FOR 1Q2014**



CHINA ENERGY LIMITED
(Company Registration No: 200510060K)

**FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT FOR THE
THREE MONTHS ENDED 31 MARCH 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		
		For the 3 months ended		
		31-Mar-14	31-Mar-13	Changes
		RMB'000	RMB'000	%
Sales		405,900	473,596	(14.3)
Cost of sales		(438,872)	(473,779)	(7.4)
Gross loss		(32,972)	(183)	17,917.5
Other income		4,402	2,170	102.9
Interest income		3,240	1,098	195.1
Expenses				
- Selling and distribution		(3,476)	(3,103)	12.0
- Administrative		(32,390)	(27,323)	18.5
- Interest		(35,279)	(31,315)	12.7
Loss before income tax	(a)	(96,475)	(58,656)	64.5
Income tax expense		-	-	N.M
Loss attributable to equity holders of the Company		(96,475)	(58,656)	64.5

This set of interim financial statements should be read in conjunction with the latest audited financial statements of the Group for the financial year ended 31 December 2013.

These figures have not been audited.

N.M: Not meaningful

**APPENDIX V – UNAUDITED FINANCIAL STATEMENTS OF THE GROUP FOR
1Q2014 AND INDEPENDENT AUDITORS’ REVIEW REPORT ON THE FINANCIAL
STATEMENTS OF THE GROUP FOR 1Q2014**

Statement of Comprehensive Income

	Group	
	For the 3 months ended	
	31-Mar-14	31-Mar-13
	RMB'000	RMB'000
Loss for the financial period	(96,475)	(58,656)
Other comprehensive gain, after tax:		
Items that may be reclassified subsequently to profit or loss		
Exchange differences on consolidation	3	381
	3	381
Total comprehensive loss for the financial period and total comprehensive loss attributable to owners	(96,472)	(58,275)

Notes to Consolidated Income Statement

(a) Loss before income tax

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

	Group		
	For the 3 months ended		
	31-Mar-14	31-Mar-13	Changes
	RMB'000	RMB'000	%
Depreciation of property, plant and equipment	19,058	19,202	(0.7)
Amortisation of land use rights	1,336	1,504	(11.2)
Amortisation of intangible assets	1	17	(94.1)
Loss on disposal of property, plant and equipment	720	39	1,746.2
Allowance for impairment of trade receivables - net	–	–	N.M
Allowance for impairment in inventories	2,478	174	1,324.1
Adjustment for (over)/under provision of tax in respect of prior years	–	–	N.M
Foreign exchange loss (gain) - net	364	(653)	N.M
The following items were written off against the respective allowances made			
Bad debts - net	–	–	N.M
Inventories	5,467	–	N.M

**APPENDIX V – UNAUDITED FINANCIAL STATEMENTS OF THE GROUP FOR
1Q2014 AND INDEPENDENT AUDITORS' REVIEW REPORT ON THE FINANCIAL
STATEMENTS OF THE GROUP FOR 1Q2014**

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	
	31-Mar-14	31-Dec-13	31-Mar-14	31-Dec-13
	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS				
Non-current assets				
Property, plant and equipment	1,581,056	1,526,012	–	–
Land use rights	213,684	215,020	–	–
Intangible assets	1	2	–	–
Investment in subsidiaries	–	–	270,549	266,324
	<u>1,794,741</u>	<u>1,741,034</u>	<u>270,549</u>	<u>266,324</u>
Current assets				
Inventories	95,973	151,280	–	–
Trade and other receivables	295,820	272,727	5,152	2,269
Income tax recoverable	14,005	14,005	–	–
Other current assets	111,495	118,854	74	53
Cash and bank balances	704,654	659,989	758	3,876
	<u>1,221,947</u>	<u>1,216,855</u>	<u>5,984</u>	<u>6,198</u>
Total assets	<u><u>3,016,688</u></u>	<u><u>2,957,889</u></u>	<u><u>276,533</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	(992,111)	(895,639)	(861,117)	(864,575)
Total equity	<u>143,176</u>	<u>239,648</u>	<u>274,170</u>	<u>270,712</u>
LIABILITIES				
Current liabilities				
Trade and other payables	2,024,166	1,888,965	2,363	1,810
Short-term bank loans	730,000	705,000	–	–
Deferred income	39,640	39,640	–	–
Provisions	79,706	84,636	–	–
	<u>2,873,512</u>	<u>2,718,241</u>	<u>2,363</u>	<u>1,810</u>
Total liabilities	<u>2,873,512</u>	<u>2,718,241</u>	<u>2,363</u>	<u>1,810</u>
Total equity and liabilities	<u><u>3,016,688</u></u>	<u><u>2,957,889</u></u>	<u><u>276,533</u></u>	<u><u>272,522</u></u>

**APPENDIX V – UNAUDITED FINANCIAL STATEMENTS OF THE GROUP FOR
1Q2014 AND INDEPENDENT AUDITORS’ REVIEW REPORT ON THE FINANCIAL
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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 31-Mar-14		Group 31-Dec-13	
	Secured RMB’000	Unsecured RMB’000	Secured RMB’000	Unsecured RMB’000
Bank loans	<u>200,000</u>	<u>530,000</u>	<u>200,000</u>	<u>505,000</u>
Of which:				
Amount due within 1 year	200,000	530,000	200,000	505,000
Amount due after 1 year	–	–	–	–
	<u>200,000</u>	<u>530,000</u>	<u>200,000</u>	<u>505,000</u>

The RMB 200.0 million long-term loan has a tenure of two years (due in July 2014) and 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., a wholly-owned subsidiary of the Group.

**APPENDIX V – UNAUDITED FINANCIAL STATEMENTS OF THE GROUP FOR
1Q2014 AND INDEPENDENT AUDITORS' REVIEW REPORT ON THE FINANCIAL
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- 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	
	31 March 2014	31 March 2013
Note	RMB'000	RMB'000
Cash flows from operating activities		
Loss before income tax	(96,475)	(58,656)
Adjustments for:		
Interest expenses	35,279	31,315
Depreciation of property, plant and equipment	19,058	19,202
Net loss on disposal of property, plant and equipment	720	39
Amortisation of land use rights	1,336	1,504
Effects of foreign exchange on translation	5	381
Amortisation of intangible assets	1	17
Unrealised exchange gain on loan from related parties	–	(159)
Interest income	(3,240)	(1,098)
Operating cash flow before working capital changes	(43,316)	(7,455)
Change in operating assets and liabilities		
Inventories	55,307	(10,884)
Trade and other receivables	(22,465)	(18,167)
Other current assets	7,827	16,571
Trade and other payables	48,827	157,943
Cash generated from operations	46,180	138,008
Interest income received	2,612	697
Net cash generated by operating activities	48,792	138,705
Cash flows from investing activities		
Purchase of property, plant and equipment	(86,297)	(13,112)
Proceeds from disposal of property, plant and equipment	466	90
Net cash used in investing activities	(85,831)	(13,022)
Cash flows from financing activities		
Proceeds from (Repayment of) bank loans - net	25,000	(10,000)
Advances from related parties - net	92,404	133,301
Increase in restricted bank deposits	(70,551)	(62,160)
Interest expense paid	(35,700)	(29,725)
Net cash generated from financing activities	11,153	31,416
Net (decrease) increase in cash and cash equivalents	(25,886)	157,099
Cash and cash equivalents at beginning of the financial period	95,326	169,401
Cash and cash equivalents at end of the financial period	69,440	326,500
Note (i): Cash and cash equivalents at end of financial period consist of:		
Cash and bank balances	704,654	870,460
Less: Restricted bank deposits	(635,214)	(543,960)
Cash and cash equivalents at end of the financial period	69,440	326,500

**APPENDIX V – UNAUDITED FINANCIAL STATEMENTS OF THE GROUP FOR
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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.

<u>Group</u>	Share capital RMB'000	Statutory reserves# RMB'000	Warrant reserve RMB'000	Share option reserve RMB'000	Revaluation reserve RMB'000	Currency translation RMB'000	Accumulated losses RMB'000	Total equity RMB'000
Balance 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 at 31 March 2014	1,135,287	74,241	4,360	12,993	40,854	15,468	(1,140,027)	143,176
Balance 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 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 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 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 at 31 December 2013	1,135,287	74,241	4,360	12,993	40,854	15,465	(1,043,552)	239,648

**APPENDIX V – UNAUDITED FINANCIAL STATEMENTS OF THE GROUP FOR
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<u>Company</u>	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 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 at 31 March 2014	1,135,287	–	4,360	12,993	–	(13,971)	(864,499)	274,170
Balance 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 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 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 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 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 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.

**APPENDIX V – UNAUDITED FINANCIAL STATEMENTS OF THE GROUP FOR
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- 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 31 March 2014 and 31 March 2013	1,252,885,000	1,135,287

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 31 March 2014, 10 million (31 March 2013: 10 million) warrants were outstanding. The 10 million warrants had expired on 4 April 2014.

As at 31 March 2014, a total of 26 million (31 March 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 31 March 2014, no shares (1QFY2013: 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 10 million warrants and 26 million share options, the number of shares in issue would be 1,288,885,000 (31 March 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 31 March 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 been reviewed by the independent auditors of the Company.

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

Please see review report from the independent auditors as enclosed in Annexure I.

**APPENDIX V – UNAUDITED FINANCIAL STATEMENTS OF THE GROUP FOR
1Q2014 AND INDEPENDENT AUDITORS’ REVIEW REPORT ON THE FINANCIAL
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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 31-Mar-14	31-Mar-13
Net loss attributable to members of the Company (RMB’000)	(96,475)	(58,656)
Weighted average number of ordinary shares in issue for the computation of basic loss per share (‘000)	1,252,885	1,252,885
Weighted average number of ordinary shares in issue for the computation of diluted loss per share (‘000)	1,252,885	1,252,885
Basic loss per share (RMB cents)	(7.7)	(4.7)
Diluted loss per share (RMB cents)	(7.7)	(4.7)

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 31 March 2014, 10 million (31 March 2013: 10 million) warrants were outstanding. The 10 million warrants had expired on 4 April 2014.

As at 31 March 2014, under the ESOS, the Company had 26 million (31 March 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 for the three-month financial period ended 31 March 2014 and 31 March 2013 were the same as basic loss per share because the warrants and the share options were anti-dilutive.

**APPENDIX V – UNAUDITED FINANCIAL STATEMENTS OF THE GROUP FOR
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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.**

	31-Mar-14		31-Dec-13	
	Group	Company	Group	Company
Net assets (RMB'000)	143,176	274,170	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)	11.4	21.9	19.1	21.6

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 – first quarter ended 31 March 2014 (“1QFY2014”) performance

- (a) **Sales and gross profit margin**

Sales decreased by 14.3% or RMB 67.7 million from RMB 473.6 million in 1QFY2013 to RMB 405.9 million in 1QFY2014. In 1QFY2014, sales of dimethyl ether (“DME”) and methanol amounted to RMB 314.1 million (77.4%) and RMB 91.8 million (22.6%) respectively. In 1QFY2013, sales of DME and methanol amounted to RMB 448.1 million (94.6%) and RMB 25.5 million (5.4%) respectively.

	3 months ended		
	31-Mar-14	31-Mar-13	Change %
Volume of DME sold	80,200	122,980	(34.8)
Average price of DME sold (RMB/ton)	3,916	3,640	7.6

The RMB 67.7 million decrease in sales was attributable largely to the RMB 134.0 million decrease in sales of DME, which was offset partly by a RMB 66.3 million increase in sales of methanol. The decrease in sales of DME was attributable largely to a 34.8% reduction in the volume of DME sold from approximately 122,980 tons in 1QFY2013 to approximately 80,200 tons in 1QFY2014. The 7.6% increase in the average selling price of DME from RMB 3,640/ton in 1QFY2013 to RMB 3,916/ton in 1QFY2014 was unable to offset the full impact of the reduction in the volume of DME sold.

The increase in the volume of methanol sold was attributable largely to the increase in purchase of methanol from a related party, Jiutai Energy (Inner Mongolia) Co., Ltd. (“Jiutai Inner Mongolia”), for trading purposes.

APPENDIX V – UNAUDITED FINANCIAL STATEMENTS OF THE GROUP FOR 1Q2014 AND INDEPENDENT AUDITORS’ REVIEW REPORT ON THE FINANCIAL STATEMENTS OF THE GROUP FOR 1Q2014

The gross loss margin increased from a near breakeven in 1QFY2013 to 8.1% in 1QFY2014 due to (i) the increase in the average selling price of DME was less than the increase in the price of methanol (feedstock for DME) which resulted in the decrease in the price spread between DME and methanol and (ii) the fixed costs associated with our methanol plant.

(b) Other income

Other income increased by RMB 2.2 million from RMB 2.2 million in 1QFY2013 to RMB 4.4 million in 1QFY2014. The increase was attributable largely to a RMB 1.7 million increase in compensation income receivable from a related party, Jiutai Inner Mongolia, in accordance with the DME supply agreement dated 8 January 2010.

(c) Interest income

Interest income increased by RMB 2.1 million from RMB 1.1 million in 1QFY2013 to RMB 3.2 million in 1QFY2014. 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 9.4 million from RMB 61.7 million in 1QFY2013 to RMB 71.1 million in 1QFY2014. The increase was attributable largely to a RMB 5.1 million increase in administrative expenses and a RMB 4.0 million increase in interest expense.

The RMB 5.1 million increase in administrative expenses was attributable largely to a RMB 2.6 million increase in research and development expenses and a RMB 1.3 million increase in staff cost as a result of salary adjustments and a RMB 0.7 million increase in contributions to defined contribution plan due to increase in the contribution rates.

The RMB 4.0 million increase in interest expense was due largely to an increase in both the average bank loan balance and the amount of trade financing facilities utilised resulting in higher interest expenses amounting to RMB 6.9 million which was offset partly by a RMB 2.9 million reduction in facility fees incurred.

(e) Loss attributable to shareholders of the Company

The Group incurred a net loss attributable to shareholders of the Company of RMB 96.5 million and a total comprehensive loss of RMB 96.5 million 1QFY2014.

The RMB 32.8 million increase in gross loss and the RMB 9.4 million increase in expenses was offset partly by a RMB 2.2 million increase in other income and a RMB 2.1 million increase in interest income, which resulted in an increase in the loss after income tax amounting to RMB 37.8 million.

Consolidated Statement of Financial Position as at 31 March 2014

Other current assets of RMB 111.5 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 41.8 million and RMB 20.9 million respectively.

Trade and other payables of RMB 2.024 billion pertained largely to RMB 358.6 million in interest-free advances from a related party, Shandong Jiutai Chemical Technology Co., Ltd (“Jiutai Chemical”), RMB 1.539 billion in trade financing facilities payables, RMB 68.0 million in trade payables and advance payments from customers and RMB 35.7 million in payables to construction contractors.

APPENDIX V – UNAUDITED FINANCIAL STATEMENTS OF THE GROUP FOR 1Q2014 AND INDEPENDENT AUDITORS' REVIEW REPORT ON THE FINANCIAL STATEMENTS OF THE GROUP FOR 1Q2014

As at 31 March 2014, the Group's net current liabilities amounted to RMB 1.652 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 1QFY2014, the Group obtained new loans amounting to RMB 85.0 million and made scheduled repayments amounting to RMB 60.0 million. The banks that provided the new loans to the Group are banks that have existing banking relationships with the Group;
- (b) During 1QFY2014, Jiutai Chemical, a related party, continued to grant interest-free advances to the Group. As at 31 March 2014, RMB 358.6 million of interest-free advances 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 31 March 2014 and 31 December 2013 except for the following:

- (a) Property, plant and equipment increased by RMB 55.0 million. This increase was attributable to net additions of RMB 74.1 million which was offset partly by depreciation of RMB 19.1 million.
- (b) Inventories decreased by RMB 55.3 million. This decrease was due largely to a RMB 39.6 million decrease in the stock of methanol (feedstock for DME) and a RMB 20.0 million decrease in the stock of DME held as at 31 March 2014.
- (c) Trade and other receivables increased by RMB 23.1 million. This increase was attributable largely to a RMB 18.3 million increase in value-added tax recoverable.
- (d) Other current assets decreased by RMB 7.4 million. This decrease was due largely to a RMB 1.9 million decrease in prepayment of raw materials and a RMB 6.1 million decrease in prepaid interest (for trade financing facilities).
- (e) Cash and bank balances increased by approximately RMB 44.7 million. This increase was attributable largely to a RMB 70.6 million increase in restricted deposits placed with the banks for the utilisation of trade financing facilities which was offset partly by a RMB 25.9 million decrease in cash and cash equivalents.

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- (f) Trade and other payables increased by RMB 135.2 million. This increase was attributable largely to a RMB 80.9 million increase in trade financing facilities payables, a RMB 92.4 million increase in interest-free advances from a related party (Jiutai Chemical) which was offset partly by a RMB 32.0 million decrease in trade payables and advance payments by customers and a RMB 6.1 million decrease in the amount payable to construction contractors.
- (g) As at 31 March 2014, the Group’s short-term bank loans amounted to RMB 730.0 million. Bank loans increased by RMB 25.0 million. In 1QFY2014, the Group obtained new loans amounting to RMB 85.0 million and made scheduled repayments amounting to RMB 60.0 million.
- (h) 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 1QFY2014, 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.

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(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 31 March 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)	
	Three Months ended 31-Mar-14 RMB'000	31-Mar-13 RMB'000	Three Months ended 31-Mar-14 RMB'000	31-Mar-13 RMB'000
Shandong Jiutai Chemical Technology Co., Ltd.				
Rental paid/payable	601	599	–	–
Jiutai Energy Inner Mongolia Co., Ltd.				
Purchase of methanol	–	–	32,599	–
Sale of property, plant and equipment	256	–	–	–
Sale of materials	219	–	–	–
Compensation income	–	–	2,580	916
Shandong Jiutai Industrial Gas Co., Ltd				
Rental income	102	–	–	–
Sale of electricity	111	–	–	–

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

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14. The Singapore Code on Take-overs and Mergers

On 11 November 2013, the Company and Lianguo International Limited (“**Offeror**”) jointly announced (“**Announcement**”) that the Offeror had presented to the directors of the Company (“**Directors**”) the Delisting Proposal (as defined in the Announcement) to seek the voluntary delisting of the Company from the Official List of the Singapore Exchange Securities Trading Limited pursuant to Rules 1307 and 1309 of the Listing Manual. Under the terms of the Delisting Proposal, the Offeror will make the Exit Offer (as defined in the Announcement) at the Exit Offer Price (as defined in the Announcement).

As such, the Company is regarded to be in an “offer period” under the Singapore Code on Take-overs and Mergers (“**Code**”). In view of the Offer, this Announcement has been reported on in accordance with Rule 25 of the Code with the following Annexures:

Annexure I - Report dated 15 May 2014 from Moore Stephens LLP Public Accountants and Chartered Accountants of Singapore (“**Independent Auditors of the Company**”), on their review of the interim financial information in this Announcement

Annexure II - Report dated 15 May 2014 from Asian Corporate Advisors Pte. Ltd., the **Independent Financial Adviser (“IFA”)** to our Directors who are considered independent for the purpose of making a recommendation to our shareholders in respect of the Offer, on their review of the interim financial information in this Announcement

15. 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 first quarter ended 31 March 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
15 May 2014

**APPENDIX V – UNAUDITED FINANCIAL STATEMENTS OF THE GROUP FOR
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Annexure 1

MOORE STEPHENS LLP
CHARTERED ACCOUNTANTS OF SINGAPORE

15 May 2014

The Board of Directors
China Energy Limited
3 Church Street
#28-06 Samsung Hub
Singapore 049483

10 Anson Road
#29-15 International Plaza
Singapore 079903

Tel: 6221 3771
Fax: 6221 3815
Email: email@moorestephens.com.sg

Dear Sirs

**REPORT ON REVIEW OF INTERIM CONDENSED FINANCIAL INFORMATION OF
CHINA ENERGY LIMITED**

Introduction

1. We have reviewed the accompanying interim condensed financial information of China Energy Limited (the “Company”) and its subsidiary companies (collectively referred to as the “Group”), as set out in Note 1, 4, 5, 6, 8 and 13 of the Company’s financial statements and dividend announcement for the three months ended 31 March 2014. The interim condensed financial information comprises the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 March 2014 and the consolidated income statement, consolidated statement of comprehensive income, statement of changes in equity of the Group and the Company, and the consolidated statement of cash flows for the three months period ended 31 March 2014, and the explanatory notes. Management is responsible for the preparation and presentation of this interim condensed financial information in accordance with Singapore Financial Reporting Standard (“FRS”) 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim condensed financial statements based on our review.

Scope of Review

2. We have conducted our review in accordance with Singapore Standard on Review Engagements (“SSRE”) 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim condensed financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Singapore Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

3. Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial information is not prepared, in all material respects, in accordance with FRS 34.

An independent
member firm of
Moore Stephens
International Limited
-members in principal
cities throughout
the world.

**APPENDIX V – UNAUDITED FINANCIAL STATEMENTS OF THE GROUP FOR
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MOORE STEPHENS LLP
CHARTERED ACCOUNTANTS OF SINGAPORE

Emphasis of Matter

4. We draw attention to Note 8 to the interim condensed financial information which states that the Group incurred a net loss of RMB 96,475,000 and a total comprehensive loss of RMB 96,472,000 for the three months financial period ended 31 March 2014. As at 31 March 2014, the Group's current liabilities exceeded its current assets by RMB 1,651,565,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt as to the ability of the Group to continue as a going concern.
5. The accompanying interim condensed financial information has been prepared on a going concern basis for the reasons stated below.
6. As discussed more fully in Note 8 to the interim condensed financial information for the three months financial period ended 31 March 2014, 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. The financial support from related parties, for a period of not less than one year from 11 April 2014 (date of audit report for financial year ended 31 December 2013), will be available 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. 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.
7. As described in Note 8 to the interim condensed financial information for the three months financial period ended 31 March 2014, the Group has outstanding short-term bank loans amounting to RMB 730,000,000 and bills payables amounting to RMB 1,539,175,000 which are due within the next 12 months. 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.
8. In the event the Group is unable to continue as a going concern, adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are recorded in the statements of financial position. In addition, the Group may have to provide for further liabilities that might arise, and to reclassify non-current assets as current assets. No such adjustments have been made to the interim condensed financial information.
9. Our conclusion is not qualified in respect of this matter.

Other Matter

10. Our audit report dated 11 April 2014 on the financial statements for the previous financial year ended 31 December 2013 also contained an emphasis of matter on the ability of the Group to continue as a going concern.

**APPENDIX V – UNAUDITED FINANCIAL STATEMENTS OF THE GROUP FOR
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MOORE STEPHENS LLP
CHARTERED ACCOUNTANTS OF SINGAPORE

Restriction on Distribution or Use

11. Our report is provided in accordance with the terms of our engagement. Our work was undertaken so that we might report to you on the interim condensed financial information for the purpose of assisting the Company to meet the requirements of paragraph 3 of Appendix 7.2 of the Singapore Exchange Securities Trading Limited's Listing Manual and for the purpose of complying with Rule 25 of the Singapore Code on Take-overs and Mergers. Our report is included in the Company's announcement of its interim condensed financial information for the information of its members. We do not assume responsibility to anyone other than the Company for our work, for our report, or for the conclusions we have reached in our report.

Moore Stephens LLP
Public Accountants and
Chartered Accountants

Singapore

APPENDIX VI – LETTER FROM THE IFA IN RELATION TO THE UNAUDITED FINANCIAL STATEMENTS OF THE GROUP FOR 1Q2014

Asian Corporate Advisors
Licensed by MAS & Authorised Continuing Sponsor

15 May 2014

The Board of Directors

China Energy Limited
6 Battery Road
#10-01
Singapore 049904

Dear Sirs

Letter on quarterly results and the announced proposed (“Delisting Proposal”) voluntary delisting of China Energy Limited (“CEL” or the “Company”) by Lianguo International Limited (“Offeror”) pursuant to Rules 1307 and 1309 of the Listing Manual of the Singapore Exchange Securities Trading Limited (“SGX-ST”)

We refer to the above announcement and the Delisting Proposal by the Offeror to make an exit offer to acquire all the issued ordinary shares in the capital of the Company, other than those already held, directly or indirectly, by the Offeror, its related corporations or their respective nominees.

This letter (“**Letter**”) is prepared and provided to the directors of the Company (“**Directors**”) for the sole purpose of complying with Rule 25.6(c) of the Singapore Code on Takeovers and Mergers (“**Code**”). On 15 May 2014, the Company announced the unaudited results of the Company for the three months ended 31 March 2014 (the “**Results**”). We have reviewed sections 1 and 8 of the Results (“**1Q Financial Information**”) for the financial performance, position and cash flow statements for the three months period ended 31 March 2014 and for the purposes of Rule 25.6(c) of the Code. Accordingly, our Letter should not be used or relied by anyone for any other purposes and is provided to the Directors for the sole purpose of complying with Rule 25.6(c) of the Code and the contents of this Letter as one of the basis for Rule 25.3 of the Code. The Results are the sole and full responsibility of the Directors. The 1Q Financial Information and the Results are not prepared or finalised in connection with or for the purposes or in contemplation of the Delisting Proposal.

ACA did not prepare or assist in the preparation of or review of the audit of the Results nor were we involved in any discussions or deliberations that led to the Results.

In the course of our evaluation, we have held discussion with certain senior management of the Company (“**Management**”) and Directors who are responsible for the preparation of the Results; and we have also examined information collated by us including the audited financial statements as well as information, written or verbal, provided to us by the Management and Directors. The Management and Directors have confirmed to ACA the accuracy, truthfulness and completeness of all written (correspondence and emails) and verbal information provided and that all material information including but not limited to the bases or assumptions for the preparation of the Results or the plans or prospects or proposals available to or known by them and the Management and Directors in connection with the Results or the redevelopment of its assets or sale of its assets or projects undertaken has been disclosed to ACA and included in the Results, that such information is fair and accurate in all material aspects and that there is no other information or fact, *inter alia*, basis of valuation or value of its assets or liabilities or the revenues or income or expenses of the Company or the Group, the omission of which would result in the Results being untrue, inaccurate or incomplete in any material aspect or misleading. In addition, the Management and Directors have confirmed that the 1Q Financial Information and the Results are not prepared or finalised in connection with or for the purposes or in contemplation of the Delisting Proposal. Accordingly, no representation or warranty, expressed or implied, is made and no responsibility is accepted by ACA concerning the truth, accuracy, completeness, adequacy or sufficiency of any bases or assumptions used for the Results, or any such information or facts as disclosed in the Results.

In addition for the review of the Results, and have relied on, *inter alia*, confirmation from the Management and Directors for the Results that to the best of their knowledge, nothing has come to the attention of the board of

Asian Corporate Advisors Pte. Ltd.
Address: 112 Robinson Road #03-02, Singapore 068902. Telephone: 6-221-0271. Facsimile: 6-227-6349.
Incorporated in Singapore. Company Registration/GST number: 20-0310232-R

APPENDIX VI – LETTER FROM THE IFA IN RELATION TO THE UNAUDITED FINANCIAL STATEMENTS OF THE GROUP FOR 1Q2014

Directors which may render the financial statements for the three months period ended 31 March 2014 to be false or misleading and the report from your auditor, Moore Stephens LLP (“**Auditor**”) where they have been engaged to review the condensed interim financial information for the three months period ended 31 March 2014 as a requirement under Rule 25.6(c) of the Code.

Save as provided in this Letter, we do not express any other views on the 1Q financial Information.

Subject to the contents of this Letter and on the bases of the procedures performed by the Directors for the financial performance, position and cash flow statements for the three months period ended 31 March 2014, nothing has come to our attention that causes us to believe that the 1Q Financial Information have not been made after due and careful enquiry.

We do not accept responsibility to any person (other than the Directors) in respect of, arising out of, or in connection with this Letter.

Yours faithfully,
For and on behalf of
ASIAN CORPORATE ADVISORS PTE. LTD.

Mr Liao H.K.
Managing Director

Ms Foo Quee Yin
Managing Director

LETTER FROM ASIAN CORPORATE ADVISORS PTE. LTD.
TO THE INDEPENDENT DIRECTORS OF CHINA ENERGY LIMITED

ASIAN CORPORATE ADVISORS PTE. LTD.

(Incorporated in the Republic of Singapore)
(Company Registration No: 200310232R)

112 Robinson Road #03-02
Singapore 068902

To:
The Independent Directors (as defined herein)
China Energy Limited
Six Battery Road
#10-01
Singapore 049909

13 August 2014

PROPOSED VOLUNTARY DELISTING OF CHINA ENERGY LIMITED

1. INTRODUCTION

On 11 November 2013 (the “**Announcement Date**”), China Energy Limited (the “**Company**” or “**CEL**”) and Lianguo International Limited (the “**Offeror**”) jointly announced that the Offeror had presented to the directors of the Company (the “**Directors**”) a formal proposal (the “**Delisting Proposal**”) to seek the voluntary delisting of the Company (the “**Delisting**”) from the Official List of the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) pursuant to Rules 1307 and 1309 of the SGX-ST Listing Manual (the “**Listing Manual**”).

In connection with the Delisting Proposal, the Offeror will make an exit offer (the “**Exit Offer**”) in cash to acquire all the issued ordinary shares (excluding treasury shares, if applicable) in the capital of the Company (the “**Shares**”), other than those Shares already held by the Offeror, its related corporations or their respective nominees (the “**Offer Shares**”). The terms and conditions of the Delisting Proposal are set out in the circular to the Shareholders of the Company dated 13 August 2014 (the “**Circular**”), at S\$0.052 in cash for each Share (the “**Exit Offer Price**”) accepted under the Exit Offer.

Asian Corporate Advisors Pte. Ltd. (“**ACA**”) has been appointed as the independent financial adviser to the directors of the Company who are considered independent (the “**Independent Directors**”) for the purpose of making a recommendation in respect of the Delisting Proposal and the Exit Offer, to the Shareholders. We note from the Circular that as at 30 July 2014 (the “**Latest Practicable Date**”), the Independent Directors of the Company comprise Messrs. Ong Kian Min, Lai Hock Meng and Leong Horn Kee. It is noted from the Circular that the Securities and Industries Council (“**SIC**”) ruled on 9 January 2014, Messrs. Cui Lianguo (“**Mr. Cui**”), Li Qiang and Wong William (the “**Relevant Directors**”) are exempted from the requirement under Rule 24.1 of the Singapore Code on Take-overs and Mergers (“**Code**”) to make a recommendation on the Exit Offer to the Shareholders as the Relevant Directors face irreconcilable conflicts of interest in doing so being concert parties of the Offeror. As disclosed under paragraph 7.1.1 of Appendix I to the Circular, the concert parties of the Offeror are Mr. Cui, Li Qiang, Wong William and Cui Lianxin (“**Concert Parties**”).

This letter (“**Letter**” or “**IFA Letter**”) and any other document, which may be issued by ACA, in respect of the Exit Offer for the purpose of revising, amending, supplementing or updating (as the case may be) and setting out, *inter alia*, our views and evaluation of the financial terms of the Delisting Proposal and the Exit Offer and our recommendations thereon, will form part of the Circular providing, *inter alia*, details of the Exit Offer, the Delisting Proposal and the recommendations of the Independent Directors with regard to the Exit Offer. Unless otherwise defined or the context otherwise requires, all terms defined in the Circular shall have the same meaning ascribed herein.

2. TERMS OF REFERENCE

ACA has been appointed to advise the Independent Directors on financial terms of the Exit Offer and whether the Shareholders should accept or reject the Exit Offer pursuant to Rule 1309(2) of the Listing Manual and Rules 7.1 and 24.1(b) of the Code. We do not warrant the merits of the Exit Offer other than to form a view as to whether the financial terms of the Exit Offer are fair and reasonable, and not prejudicial to the interest of the Shareholders. The Exit Offer is subject to the approval of the resolution at the extraordinary general meeting to be held on 5 September 2014 (“**EGM**”) to approve the Delisting (“**Delisting Resolution**”) by Shareholders on the terms and subject to the conditions of the Exit Offer Letter and the Exit Offer. We have confined our evaluation strictly and solely on the financial terms of the Exit Offer and have not taken into account the commercial risks and/or merits (if any) of the Exit Offer, or their strategic merits, or the future prospects of the Company and its subsidiaries (the “**Group**”), or the comparison with other deals involving the Shares, or the timing, or the extension of time for the Exit Offer. Such evaluation or comment remains the responsibility of the directors of the Company (“**Directors**”) and the management of the Company (“**Management**”) although we may draw upon their views or make such comments in respect thereof (to the extent deemed necessary or appropriate by us) in arriving at our view as set out in this Letter. We do not express any opinion on the relative merits of the Exit Offer as compared to any other alternative transaction. We were not requested nor were we authorised to solicit, and we have not solicited, any indications of interest from any third party with respect to the Exit Offer Shares (defined later) or assets or businesses of the Group. In addition, we do not express any views or opinion on the legality of the Exit Offer, or all other matters pertaining to the Exit Offer, or documents for the Exit Offer (the Circular and the letter from the Offeror to be issued to the Shareholders (the “**Exit Offer Letter**”)), *inter alia*, the mechanism, or processes of acceptance, its eligibility, or validity or other alternatives (if any) or the sufficiency of information or conditions on the Exit Offer and/or the Delisting which may be imposed by the SGX-ST. Our scope does not include determining the independence of the Directors for the purpose of making recommendation in respect of the Exit Offer and we do not express any views or opinion on the independence of the Directors for the purpose of making recommendation in respect of the Exit Offer.

In the course of our evaluation, we have held discussions with the Directors and Management regarding their assessment of the rationale for the Exit Offer and have examined publicly available information collated by us, including the unaudited and audited financial statements as well as information, both written and verbal, provided to us by the Directors and Management and professional advisers of the Company, including its consultants, advisers, solicitors, auditors and/or valuers (where applicable). We have not independently verified such information but have made such enquiries and used our judgement as we deemed necessary on such information, and we found no reason to doubt the reliability of the information. Accordingly, we cannot and do not, expressly or impliedly, represent or warrant, and do not accept any responsibility for the accuracy, completeness or adequacy of such information or the manner it has been classified or presented.

We have relied upon the assurance of the Directors and Management that all statements of fact, belief, opinion, and intention made by the Directors and the Management in the Circular have been reasonably made after due and careful enquiry. Accordingly, no representation or warranty, expressed and implied, is made and no responsibility is accepted by us concerning the accuracy, completeness or adequacy of such information.

Our evaluation is based solely on publicly available information and other information provided by the Company as well as the economic and market conditions prevailing as at the Latest Practicable Date, and therefore does not reflect expected financial performance after the financial period ended 31 March 2014 (“**1Q2014**”). Accordingly, we have not commented on or assessed the expected future performance or prospects of the Company or the Group, or the Offer Shares, irrespective of the outcome of the Exit Offer. Accordingly, our evaluation, opinion and recommendation do not and cannot take into account future or prospective performance, and neither are we responsible for it or for any updates pursuant to any announcements subsequent to the issuance of this Letter, or the timing of the Exit Offer, or the dates for issuance of the Circular. Accordingly, any estimates or, analysis or evaluation of the merits of the Company or the Group, or the Offer Shares in this Letter are necessary limited, and we do not warrant or represent that it is complete or in its entirety.

APPENDIX VII – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

We have not been provided with the financial statements for the Group subsequent to 1Q2014 nor had any discussion with the Directors and the Management on the Group's financial results subsequent to 1Q2014. The Directors and the Management confirmed that ACA has not been provided with financial statements for the Group subsequent to 1Q2014 and that they have not had any discussion with ACA on the Group's financial results subsequent to 1Q2014.

In the course of our evaluation, we also note that there is an emphasis of matter expressed by the independent auditors of the Company ("**Auditors**" or "**Independent Auditors**") named in the annual report of the Company for the financial year ended 31 December 2013 ("**FY2013**") ("**AR2013**" or "**Annual Report 2013**") pertaining to, *inter alia*, going concern assumption. The details of the emphasis of matter expressed by the Independent Auditors and note 2(a) to the audited financial statements of the Group for FY2013 are set out in Section 6.2 of this Letter and can be found in pages 30-31 and 37-38 of the AR2013 respectively.

Our scope does not require us and we have not made any independent evaluation of the Group (including, without limitation, market value or economic or technical potential), or the Technology (defined later), or the patent or the auxiliary patents (for use of the MEG Project or such other projects), or the rights to use the Technology in relation to the MEG Project, or the MEG Project itself (defined later), or appraisal of the Group's assets and liabilities (including, without limitation, property, plant and equipment and land use rights), or contracts entered into or to be entered into by the Group. We have not been furnished with any such evaluation and appraisal in respect of assets and liabilities (if any) held, or contracts entered or to be entered into by the Group, or the Technology, or the patent or the auxiliary patents (for use of the MEG Project or such other projects), or the rights to use the Technology in relation to the MEG Project save for the valuation report dated 13 August 2014 issued by LCH (Asia-Pacific) Surveyors Limited (the "**Independent Valuer**") in respect of the certain designated assets comprising the fixed assets (including properties (including buildings and structures), plant and equipment and land use rights) ("**Appraised Assets**") held by the subsidiaries of the Company, namely Jiutai Energy Technology Co., Ltd. ("**Jiutai Energy**"), Linyi Jiuxin Energy Co., Ltd. ("**Linyi Jiuxin**"), Jiutai Energy (Guangzhou) Co., Ltd. ("**Jiutai Guangzhou**"), and Jiutai Energy (Zhangjiagang) Co., Ltd. ("**Jiutai Zhangjiagang**"). With respect to such valuation, we are not experts in the evaluation (including, without limitation to, market value or economic potential) or the Technology, or the patent or the auxiliary patents (for use of the MEG Project or such other projects), or the rights to use the Technology in relation to the MEG Project or the MEG Project itself (including, *inter alia*, commercial viability, stage of commercialisation, market demand, overall profitability and financing of project of such nature), or appraisal of assets and liabilities (including, without limitation to, property, plant and equipment and land use rights) including, *inter alia*, the contracts or agreements that the Group has embarked upon or are about to embark upon and have relied on the opinion of the Directors and the financial statements (audited and/or unaudited), where applicable for the assessment.

The Directors are of the opinion that the values of the assets and liabilities as well as the financial performance or condition of the Company and the Group as reflected in the full year audited financial statements for the Company and the Group as at 31 December 2013 and the unaudited financial statements for the Company and the Group for 1Q2014 are true and fair. The Directors have also confirmed that to the best of their knowledge, nothing has come to their attention which may render the audited financial statements for FY2013 and unaudited financial statements for 1Q2014 to be false or misleading in any material aspect. In addition, the Directors confirmed that to the best of their knowledge and belief, such information is true, complete and accurate in all respects, and that there is no other information or fact, *inter alia*, the valuation or appraisal of assets (including the Technology or the MEG Project) and liabilities including, *inter alia*, the contracts or agreements that the Group has embarked upon or are about to embark upon, the omission of which would render those statements or information to be untrue, inaccurate, incomplete or misleading.

The Directors further confirmed that as at the Latest Practicable Date and save for matters disclosed in the Circular, this Letter, the audited financial statements for the Group for FY2013 and unaudited financial statements for the Group for 1Q2014, there has been no material changes to the Group's assets and liabilities, financial position, condition and performance or in the Group's efforts or success in the technology, design and process for production of MEG as well as its commercialisation.

APPENDIX VII – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

Our opinion in this Letter is based on economic, market, industry, monetary and other conditions (if applicable), and the information provided to us, as at the Latest Practicable Date. Accordingly, the bases or assumptions, and likewise our views, opinion or recommendation may and do change in the light of these developments which, *inter alia*, include general, as well as company-specific and industry-specific conditions, sentiments and/or factors. The Independent Directors should note that our evaluation is based solely on publicly available information, and such other information provided by the Company, its Directors and/or Management as well as the economic and market conditions prevailing as at the Latest Practicable Date, and therefore it does not reflect expected financial performance after 1Q2014, or developments (both macro and company-specific), and that these factors do and will necessarily affect the evaluation of the Exit Offer, and our recommendation, opinion or views.

The Directors have jointly and severally accepted full responsibility, as set out in the Circular, for the truth, accuracy and completeness of all information and representations as provided by the Directors and contained herein. The Directors have confirmed to ACA that to the best of their knowledge and belief, all material information including but not limited to plans or prospects or proposals involving acquisition or issuance of securities, or changes to its capital structure or the Technology or the MEG Project, available to them and the Management in connection with the Company, the Exit Offer or the Offeror or such other parties has been disclosed to ACA in its entirety and included in the Circular, that such information is true, complete and accurate in all material respects and that there is no other information or fact including the financial performance or expected future performance or future growth prospects, or restructuring plans (if applicable) of the Company and/or the Group, the omission of which would result in the facts stated and the opinions expressed by the Directors in the Circular or this Letter to be untrue, inaccurate or incomplete in any respect or misleading. Accordingly, no representation or warranty, expressed or implied, is made and no responsibility is accepted by ACA concerning the truth, accuracy, completeness or adequacy of such information or facts.

The scope of our appointment does not require us to express, and we do not express any view herein as to the feasibility or the viability of the Technology or the patent or the auxiliary patents (for use of the MEG Project or such other projects), or the rights to use the Technology in relation to the MEG Project or the MEG Project itself or the prices at which the Shares may trade after the closing of the Exit Offer or the returns that the Shareholders may have owning the Shares or rejecting or accepting the Exit Offer or in the event the listed status of the Company is not maintained or on the future financial performance of the Company or the Group or in the event that the MEG Project is completed or the plans (if any) that the Offeror may have for the Company. In rendering our advice and giving our recommendation, we have not had regard to the general or specific investment objectives, financial situation, tax position, risk profiles or unique needs and constraints or particular circumstances of any individual Shareholder. As each Shareholder would have different investment profiles and objectives, we would advise the Independent Directors to recommend that any Shareholder, who may require advice in the context of his specific investment objective(s), investment portfolio(s), including his investment in the Company, should consult his stockbroker, bank manager, solicitor, accountant, tax adviser or other professional adviser immediately.

Accordingly, any factor, assumption, or basis as well as the relative emphasis on any matter set out in this Letter on the Exit Offer, the Company and/or the Group, or the Shares which we used or may have used may differ from the relative emphasis accorded by any individual Shareholder or Independent Director, and as such the Independent Directors are advised to highlight to Shareholders as well as note for themselves that any reliance on our opinion or view or assessment, is subject to the contents of this Letter in its entirety. In addition, ACA will not be responsible or required to provide an updated assessment or opinion or views of the Exit Offer or its recommendation, following the date of the issue of this Letter.

This Letter is addressed to the Independent Directors in connection with and for the sole purposes of their evaluation of the financial terms of the Exit Offer. Whilst a copy of this Letter may be included in the Circular, neither the Company nor the Directors nor Shareholders, may reproduce, disseminate or quote from this Letter (or any part thereof) for any other purpose at any time and in any manner without the prior written consent of ACA in each specific case, except at the forthcoming EGM and for the sole purpose of the Exit Offer and the Delisting Resolution. In addition, any references to our Letter or opinion

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or views or recommendation, should not be made except with our prior consent in writing and even if made with our prior consent in writing, shall be subject to the contents of this Letter in its entirety, *inter alia*, the matters, conditions, assumptions, limitations, factors and bases as well as our terms of reference for this Letter.

3. THE DELISTING PROPOSAL AND EXIT OFFER

Under the terms of the Delisting Proposal, the Offeror is making the Exit Offer to acquire the Offer Shares. Details of the Delisting Proposal and the Exit Offer are set out in Sections 2 and 3 of the Circular, and of the key terms of the Exit Offer are set out below. We recommend that Shareholders read the terms and conditions contained therein carefully.

THE EXIT OFFER

Subject to the approval of the Delisting Resolution by Shareholders, the Offeror will make the Exit Offer to acquire all the Shares on the terms and subject to the conditions set out in this Circular, the Exit Offer Letter, the Acceptance Form(s) and on the following basis:

3.1 Exit Offer Price

For each Share: S\$0.052 in cash

3.2 Shares

As stated in the Delisting Proposal, the Exit Offer is extended to:

- 3.2.1 all the Shares including Shares owned, controlled or agreed to be acquired by parties acting or presumed to be acting in concert with the Offeror; and
- 3.2.2 all new Shares unconditionally issued or to be issued pursuant to the valid exercise of any Options prior to the close of the Exit Offer.

3.3 No Encumbrances

As stated in the Delisting Proposal:

- 3.3.1 The Shares will be acquired fully paid and free from all claims, liens, equities, charges, pledges, rights of pre-emption and other encumbrances and any other third party rights or interests of any nature whatsoever (the “**Encumbrances**”), and together with all rights, benefits, entitlements and advantages attached thereto as at the Announcement Date and thereafter attaching thereto, including the right to receive and retain all dividends, rights and other distributions which may be declared, paid or made by CEL (collectively, the “**Distributions**”) (if any), the Record Date for which falls on or after the Announcement Date. For the purpose of the Delisting Proposal, “**Record Date**” means, in relation to any Distributions, the date on which Shareholders must be registered with the Company or with CDP, as the case may be, in order to participate in such Distributions; and
- 3.3.2 **In the event that any such Distribution has been paid by the Company to a Shareholder who accepts the Exit Offer on or after the Announcement Date, the Offeror reserves the right to reduce the Exit Offer Price payable to a Shareholder who validly accepts or has validly accepted the Exit Offer by the amount of such Distribution.**

As at the Latest Practicable Date, no Distributions have been declared, paid or made, the Record Date for which falls on or after the Announcement Date.

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3.4 Making of Exit Offer

The Exit Offer will only be made **after** the Delisting Resolution has been approved by Shareholders at the EGM in accordance with Rule 1307 of the Listing Manual. **Accordingly, if the Approval of Delisting Resolution Condition is not satisfied, the Exit Offer will not be made.**

When made, the Exit Offer will not be conditional upon a minimum number of acceptances being received by the Offeror.

3.5 Acceptances

As stated in the Delisting Proposal, Shareholders may accept the Exit Offer in respect of all or part of their holdings of Shares.

3.6 Conditions for Delisting

As stated in the Delisting Proposal, the Delisting will be conditional on the approval of the Delisting Resolution by a majority of at least 75 per cent. of the total number of Shares (excluding treasury shares) held by Shareholders present and voting, on a poll, either in person or by proxy at the EGM, and the Delisting Resolution not being voted against by 10 per cent. or more of the total number of Shares (excluding treasury shares) held by the Shareholders present and voting, on a poll, either in person or by proxy, at the EGM (the **“Approval of Delisting Resolution Condition”**).

The Delisting is also conditional upon the receipt by the Company of the SGX-ST approval in principle or confirmation that it has no objection to the Delisting (on such terms as the SGX-ST may impose).

Shareholders should note that under Rule 1307 of the Listing Manual, all Shareholders including the Directors and the Controlling Shareholders are entitled to vote on the Delisting Resolution. As at the Latest Practicable Date, the Offeror does not hold any Shares. However, Mr. Cui, a Director and a Controlling Shareholder, has provided an Irrevocable Undertaking to, *inter alia*, vote in favour of the Delisting Resolution at the EGM and to accept the Exit Offer in respect of all the 633,424,400 Shares owned by him (representing 50.56% of the total number of Shares of 1,252,885,000 as at the Latest Practicable Date). Further details on Irrevocable Undertaking of Mr. Cui is set out in section 4 of the Circular.

3.7 No See-Through Offer for the Warrants

As stated in the Delisting Proposal:

3.7.1 On 7 April 2009, the Company issued 10 million warrants to a bank for a nominal consideration of S\$1.00 in relation to services performed in connection with the restructuring of loans to the Company and a subsidiary (**“Warrants”**). Each Warrant entitles the holder to subscribe for one new Share at an exercise price of S\$0.13 per Share.

3.7.2 The Warrants have expired on 4 April 2014 and there are no outstanding Warrants as at the Latest Practicable Date.

As far as the Board is aware, the Offeror and parties acting in concert with it (including Mr. Cui) have not acquired any Warrants in the period commencing six (6) months preceding the Announcement Date and ending on the Latest Practicable Date.

3.8 No See-Through Offer for the Options

As stated in the Delisting Proposal:

3.8.1 As at 30 September 2013, there are 26,000,000 outstanding options to subscribe for new shares (the **“Options”**) issued under the China Energy Employee Share Option Scheme (the **“Scheme”**).

3.8.2 As the Options are not transferable under the terms of the Scheme, the Offeror will not be making an offer for the outstanding Options. However, the Exit Offer will be extended to all Shares unconditionally issued or to be issued pursuant to the valid exercise of the Options (if any) prior to the close of the Exit Offer.

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3.9 Warranty

As stated in the Delisting Proposal, acceptance of the Exit Offer by a Shareholder will be deemed to constitute an irrevocable warranty by that Shareholder that each Share in respect of which the Exit Offer is accepted is sold by him, as or on behalf of the beneficial owner(s) thereof, fully paid and free from all Encumbrances, and together with all rights, benefits and entitlements attached thereto as at the Announcement Date and thereafter attaching thereto, including the right to receive and retain all Distributions (if any) declared, paid or made by CEL, the Record Date for which falls on or after the Announcement Date.

3.10 Duration

As stated in the Delisting Proposal:

- 3.10.1 If the Exit Offer Letter is despatched together with the Circular, the Exit Offer will be open for acceptance by Shareholders for a period of at least 14 days after the date of announcement of Shareholders' approval of the Delisting.
- 3.10.2 If the Exit Offer Letter is despatched after approval of the Delisting Resolution at the EGM, the Exit Offer will be open for acceptance by Shareholders for a period of at least 21 days after the date of despatch of the Exit Offer Letter.
- 3.10.3 Although no extension of the Exit Offer is currently contemplated, if the Exit Offer is extended, an announcement will be made of such extension, and the Exit Offer will remain open for acceptance for such period as may be announced. If the Exit Offer is extended, Shareholders who have validly accepted the Exit Offer in respect of part of their Shares will be entitled to tender additional Shares in acceptance of the Exit Offer.

If the Delisting Resolution is approved by Shareholders at the EGM, it is expected that the Exit Offer Letter and the Acceptance Forms will be despatched on 15 September 2014 and the Closing Date of the Exit Offer will be 5.30 p.m. on 7 October 2014 or such later date(s) as may be announced from time to time by or on behalf of the Offeror.

3.11 Applications to the SIC

Applications were made to the SIC to, *inter alia*, seek clarification regarding the extent to which the provisions of the Code applied to the Exit Offer. The SIC ruled on 13 August 2013 and 9 January 2014, *inter alia*, that:

3.11.1 the Exit Offer is exempted from compliance with the following provisions of the Code:

- (a) Rule 20.1 on keeping the Exit Offer open for 14 days after it has been revised;
- (b) Rule 22 on the offer timetable;
- (c) Rule 28 on acceptances; and
- (d) Rule 29 on the right of acceptors to withdraw their acceptances,

subject to:

- (a) the Circular including:
 - (A) the consolidated net tangible assets per share of the Group based on the latest published accounts prior to the date of the Circular (the “**Consolidated NTA**”); and
 - (B) particulars of all known material changes as at the latest practicable date which may affect the Consolidated NTA or a statement that there are no such known material changes; and

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(b) the Exit Offer being kept open for at least:

- (A) 21 days after the date of the despatch of the Exit Offer Letter if the Exit Offer Letter is despatched after Shareholders' approval for the Delisting has been obtained; or
- (B) 14 days after the announcement of Shareholders' approval of the Delisting if the Exit Offer Letter is despatched together with the Circular;

3.11.2 the SIC has no objection that no appropriate offer under Rule 19 of the Code will be made for the outstanding Options; and

3.11.3 the Relevant Directors are exempted from the requirement to make a recommendation to the Shareholders on the Exit Offer. Nevertheless, the Relevant Directors must still assume responsibility for the accuracy of the facts stated and opinions expressed in documents and advertisements issued by, or on behalf of, the Company to the Shareholders in connection with the Exit Offer.

3.12 Application to the SGX-ST

An application was made on behalf of the Company to the SGX-ST on 8 May 2014 to delist the Company from the Official List of the SGX-ST.

4. INFORMATION ON THE OFFEROR

Information on the Offeror has been extracted from section 5 of the Circular and reproduced below in italic, and all terms and expressions used in the extract below shall bear the same meanings as attributed to them in the Circular unless otherwise stated. Additional information on the Offeror is set out in **Appendix I** to the Circular.

“5. INFORMATION ON THE OFFEROR

The information relating to the Offeror has been extracted from paragraph 5 of the Announcement and reproduced below.

5. Information on the Offeror

5.1 *The Offeror was incorporated in the British Virgin Islands on 20 August 2007 as a special purpose vehicle. Its principal activity is that of an investment holding company. As at the Announcement Date, the Offeror has an issued and paid-up share capital of US\$1.00 comprising 1 ordinary share which is owned by Cui. As at the Announcement Date, the sole director of the Offeror is Cui.*

5.2 *As at the Announcement Date, the Offeror does not hold any Shares. However, Cui has a direct interest in 633,424,400 Shares, representing approximately 50.6 per cent. of the total number of issued Shares¹, and Options granted under the Scheme to subscribe for a total of 8,000,000 Shares² as at the Announcement Date.*

*As far as the Board is aware, the information on the Offeror in the above extract is accurate as at the Latest Practicable Date. Additional information on the Offeror is set out in **Appendix I** of this Circular.”*

1 All references to percentage shareholding of the total number of issued Shares in this Announcement are based on 1,252,885,000 Shares in issue as at the Announcement Date.

2 Of which: (1) 4,000,000 Shares shall be allotted at the exercise price of S\$0.184 per Share with an exercise period from 17 May 2011 to 16 May 2015; and (2) 4,000,000 Shares shall be allotted at the exercise price of S\$0.116 per Share with an exercise period from 11 May 2012 to 10 May 2016.

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5. INFORMATION ON THE COMPANY

Information and additional general information on the Company are set out in Section 6 and Appendix II of the Circular.

6. FINANCIAL ASSESSMENT OF THE EXIT OFFER

In assessing the financial terms of the Exit Offer from a financial point of view, we have taken into account the following pertinent factors as well as others in the Letter, which we consider will have a significant bearing on our assessment:

- (i) Rationale for the Delisting;
- (ii) Financial performance and position of the Group;
- (iii) The Group's net asset value ("**NAV**") and net tangible assets ("**NTA**");
- (iv) Relative valuation analysis;
- (v) Market quotation and trading activity of the Shares;
- (vi) Comparison with recent successful delisting and privatisation transactions of other companies listed on the SGX-ST;
- (vii) Dividend track record of the Group; and
- (viii) Other relevant considerations.

These factors are discussed in greater detail in the ensuing paragraphs.

In our assessment of the Exit Offer, we have applied certain valuation ratios in assessing the reasonableness of the Exit Offer Price. A brief description of such valuation ratios are as follows:–

- (i) **EV/EBITDA**

"**EV**" or "**Enterprise Value**" is defined as the sum of a company's market capitalisation, preferred equity, minority interests, short-term and long-term debts less its cash and cash equivalents. "**EBITDA**" stands for earnings before interest, tax, depreciation and amortisation but after share of associates' and joint ventures' income but excluding exceptional items.

The "**EV/EBITDA**" multiple is an earnings-based valuation methodology that does not take into account the capital structure of a company as well as its interest, taxation, depreciation and amortisation charges. Therefore, it serves as an illustrative indicator of the current market valuation of the business of a company relative to its pre-tax operating cash flow and performance.
- (ii) **Price-to-Earnings ("PER")**

The PER is a widely used earnings-based valuation methodology that illustrates the ratio of the current market price of a company's shares relative to its net earnings per share. Unlike the EV/EBITDA multiple, the PER is based on the net earnings attributable to shareholders after interest, taxation, depreciation and amortisation expenses. As such, the PER is affected by the capital structure of a company, tax position as well as its depreciation and goodwill policies.

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- (iii) **Price-to-NTA (“P/NTA”)** The P/NTA ratio is the ratio of the relevant prices of the shares to the net tangible asset value of the relevant companies. It is an asset-based valuation methodology that illustrates the ratio of the current market valuation of a company relative to its asset backing as measured in terms of its NTA value. The NTA of a company provides an estimate of its value assuming a hypothetical sale of all its tangible assets, the proceeds of which are first used to repay the liabilities and obligations of that company with the balance available for distribution to its shareholders. The NTA-based approach is widely used for valuing the shares of property-based companies as their tangible asset backings are perceived as providing support for the value of their shares.
- (iv) **Price-to-NAV (“P/NAV”)** The P/NAV ratio is the ratio of the relevant prices of the shares to the net asset value of the relevant companies. It is an asset based valuation methodology that illustrates the ratio of the current market valuation of a company relative to its tangible and intangible asset backing as measured in terms of its NAV value.
- The NAV of a company provides an estimate of its value assuming a hypothetical sale of all its tangible and intangible assets, the proceeds of which are first used to repay the liabilities and obligations of that company with the balance available for distribution to its shareholders.

In assessing the financial terms of the Exit Offer, we have taken into account the following pertinent factors (as well as others in this Letter), which we consider will have a significant bearing on our assessment.

6.1 Rationale for the Delisting Proposal and the Offeror’s intentions relating to the Company

The rationale for the Delisting and Offeror’s intentions relating the Company set out in italics below has been extracted from Section 7 of the Circular. All terms and expressions used in the extract below shall have the same meanings as those defined in the Circular, unless otherwise stated.

“7. RATIONALE FOR THE DELISTING PROPOSAL AND THE OFFEROR’S INTENTIONS RELATING TO THE COMPANY

The information relating to the Offeror’s rationale for the Delisting and the Offeror’s intentions relating to the Company has been extracted from paragraphs 7 and 8 of the Delisting Proposal and reproduced below.

7. Rationale for the Delisting Proposal

7.1 Compliance Costs of Maintaining Listing. *CEL incurs compliance costs in maintaining its listed status. The privatisation of CEL would allow CEL to dispense with expenses relating to the maintenance of a listed status and focus its resources on its business operations.*

7.2 Low Trading Liquidity of Shares. *The trading volume of the Shares has been very low, with total volume of 177,347,200 Shares over the 12 months preceding the Announcement Date, representing 14.1551 per cent. of the total number of issued Shares of CEL. The daily average volume transacted over the same period was 709,389 Shares or 0.0566 per cent. of the total number of issued Shares of CEL.*

Based on historical trading patterns, it is the Offeror’s view that the low liquidity of the Shares is likely to continue and accordingly, the purpose of maintaining the Company’s listed status for trading liquidity of the Shares does not appear to have been achieved.

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7.3 Opportunity to Exit. *The Group has experienced losses for the last 3 financial years. The audited consolidated net asset value per Share has decreased from RMB1.1782 per Share as at 31 December 2010 to RMB0.4119 per Share as at 31 December 2012. As at 30 September 2013, the unaudited consolidated net asset value per Share of the Group is RMB0.2526 or approximately S\$0.0515, based on the prevailing exchange rate of RMB4.9067: S\$1.00³. Through the Exit Offer, the Offeror aims to provide Shareholders with an opportunity to realise their entire investments in CEL for a cash consideration, an option which may not otherwise be readily available due to the low trading liquidity of the Shares.*

7.4 No Need for Access to Capital Markets. *In the last 2 years, the Company has not carried out any exercise to raise cash funding on the SGX-ST. The Company is unlikely to require access to the Singapore capital markets to finance its operations in the foreseeable future. Accordingly, it is not necessary for the Company to maintain a listing on the SGX-ST.*

8. Offeror's Intentions for CEL

The Offeror currently has no intention to (i) propose any major changes to the existing businesses of the Group; (ii) redeploy the fixed assets of the Group; or (iii) discontinue the employment of the employees of the Group, other than in the ordinary course of business. Nonetheless, the Offeror retains the flexibility at any time to consider options or opportunities in relation to the Group which may present themselves, and which it may regard to be in the interests of the Company."

6.2 Financial performance and position of the Group

A summary of the unaudited consolidated financial statements for 1Q2014 and for the three months period ended 31 March 2013 ("1Q2013") and the audited consolidated financial statements of the Group for FY2013, FY2012 and FY2011 are set out below. The following summary of financial information should be read together with Appendix IV and V of the Circular, including the notes thereto.

Review of Financial Performance

Summarised Consolidated Statement of Income

Figures in RMB'000	Unaudited 1Q2014	Unaudited 1Q2013	Audited FY2013	Audited FY2012	Audited FY2011
Sales	405,900	473,596	1,879,200	2,142,562	2,258,612
Cost of sales	(438,872)	(473,779)	(1,890,643)	(2,132,917)	(2,211,882)
Gross (loss)/profit	(32,972)	(183)	(11,443)	9,645	46,730
Loss before income tax	(96,475)	(58,656)	(277,027)	(284,461)	(674,706)
Loss attributable to equity holders of the Company	(96,475)	(58,656)	(277,319)	(285,880)	(679,063)

1Q2014 vs. 1Q2013

The Group's sales decreased by approximately RMB67.7 million or 14.3% from approximately RMB473.6 million in 1Q2013 to approximately RMB405.9 million in 1Q2014. In 1Q2014, sales of Dimethyl Ether ("DME") and methanol amounted to approximately RMB314.1 million (or approximately 77.4% of the total sales) and approximately RMB91.8 million (or approximately 22.6% of the total sales) respectively. In 1Q2013, sales of DME and methanol amounted to approximately RMB448.1 million (or approximately 94.6% of the total sales) and approximately RMB25.5 million (or approximately 5.4% of the total sales) respectively.

³ Source: Monetary Authority of Singapore as at 7 November 2013.

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The RMB67.7 million decrease in sales was largely attributable to the RMB134.0 million decrease in sales of DME, which was partially offset by RMB66.3 million increase in sales of methanol. The decrease in sales of DME was largely attributable to a 34.8% reduction in the volume of DME sold from approximately 122,980 tons in 1Q2013 to approximately 80,200 tons in 1Q2014. The 7.6% increase in the average selling price of DME from RMB3,640/ton in 1Q2013 to RMB3,916/ton in 1Q2014 was unable to offset the full impact of the reduction in the volume of DME sold.

The increase in the volume of methanol sold was attributable largely to the increase in purchase of methanol from a related party, Jiutai Energy (Inner Mongolia) Co., Ltd. (“**Jiutai Inner Mongolia**”), for trading purposes.

The gross loss margin increased from a near breakeven in 1Q2013 to 8.1% in 1Q2014 due to (i) the increase in the average selling price of DME was less than the increase in the price of methanol (feedstock for DME) which resulted in the decrease in the price spread between DME and methanol and (ii) the fixed costs associated with the methanol plant.

Other income increased by approximately RMB2.2 million from approximately RMB2.2 million in 1Q2013 to approximately RMB4.4 million in 1Q2014. The increase was attributable largely to a RMB1.7 million increase in compensation income receivable from a related party, Jiutai Inner Mongolia, in accordance with the DME supply agreement dated 8 January 2010.

Interest income increased by approximately RMB2.1 million from approximately RMB1.1 million in 1Q2013 to approximately RMB3.2 million in 1Q2014. The increase was attributable mainly 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.

Expenses increased by approximately RMB9.4 million from approximately RMB61.7 million in 1Q2013 to approximately RMB71.1 million in 1Q2014. The increase was attributed mainly to a RMB5.1 million increase in administrative expenses and a RMB4.0 million increase in interest expense.

The RMB5.1 million increase in administrative expenses was attributed mainly to a RMB2.6 million increase in research and development expenses and a RMB1.3 million increase in staff cost as a result of salary adjustments and a RMB0.7 million increase in contributions to defined contribution plan due to increase in the contribution rates.

The RMB4.0 million increase in interest expense was due largely to an increase in both the average bank loan balance and the amount of trade financing facilities utilised resulting in higher interest expenses amounting to approximately RMB6.9 million which was offset partly by a RMB 2.9 million reduction in facility fees incurred.

The Group incurred a net loss attributable to shareholders of the Company of approximately RMB96.5 million and a total comprehensive loss of approximately RMB96.5 million in 1Q2014.

The RMB32.8 million increase in gross loss and the RMB9.4 million increase in expenses was offset partly by a RMB2.2 million increase in other income and a RMB2.1 million increase in interest income, which resulted in an increase in the loss after income tax amounting to RMB37.8 million.

FY2013 vs. FY2012

The Group recorded sales of approximately RMB1.8792 billion in FY2013, a decline of 12.3% from approximately RMB2.1426 billion in FY2012. The decline was mainly attributable to the decrease in sales of DME of approximately RMB343.8 million, partially offset by an increase in sales of methanol of approximately RMB80.4 million.

The decrease in DME sales was attributed to both the reduction in the volume of DME sold as well as the decrease in the average selling price of DME. The average selling price of DME decreased by 1.8% from RMB3,830/ton in FY2012 to RMB3,760/ton in FY2013, while the volume of DME sold decreased by 15.1% from 539,000 tons in FY2012 to 457,350 tons in FY2013.

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The sales mix between DME and methanol in FY2013 was approximately 91.6% and 8.4% respectively as compared to approximately 96.4% and 3.6% respectively in FY2012.

Cost of sales decreased by approximately RMB242.3 million or 11.4% from approximately RMB2.1329 billion in FY2012 to approximately RMB1.8906 billion in FY2013 which was generally in line with the decline in sales. We note that the gross profit decline significantly from approximately RMB9.6 million to gross loss of approximately RMB11.4 million, mainly due to the larger decrease in unit price of DME as compared to the decrease in the price of methanol (feedstock for DME), implying that the Group is making loss for each unit of DME sold.

The Group's other income (comprising compensation income from a related party⁴, foreign exchange gain, sale of by-products, government grants, and others) saw an increase of approximately RMB0.9 million or 5.9% from approximately RMB16.2 million in FY2012 to approximately RMB17.1 million in FY2013. The increase is largely due to increase in compensation from Jiutai Inner Mongolia and foreign exchange gain, partially offset by the decline in subsidy income from the local PRC government and reduction in sales of by-products.

Interest income decreased by approximately RMB4.6 million or 29.2% from approximately RMB15.6 million in FY2012 to approximately RMB11.0 million in FY2013, attributable to a decrease in the average balance of interest-bearing restricted deposits placed with the banks for the utilisation of trade financing facilities.

Total expenses (comprising selling and distribution expenses, administrative expenses, interest expenses and other charges) decreased by approximately RMB32.1 million from approximately RMB325.8 million in FY2012 to approximately RMB293.7 million in FY2013, largely attributable to a RMB19.8 million decrease in other expenses (mainly due to a decrease in write-off of property, plant and equipment pertaining to DME Phase I & II of approximately RMB52.9 million, offset by a RMB33.0 million increase in impairment for land use rights), a RMB10.1 million reduction in interest expense and a RMB5.5 million reduction in administrative expenses which amounted to approximately RMB35.4 million and was offset partly by a RMB3.4 million increase in selling and distribution expenses.

The decrease in interest expenses was due largely to a reduction in the average bank loan balances and a decrease in interest rates for trade financing activities.

The RMB5.5 million decrease in administrative expenses was largely due to a RMB8.4 million decrease in external consultancy fees, a RMB2.9 million decrease in the loss on disposal of property, plant and equipment, a RMB1.5 million reduction in the fair value of share options charged to the income statement. These decreases amounted to RMB12.8 million which was offset partly by a RMB5.0 million increase in amortisation of land use rights and research and development and a RMB2.3 million increase in payment to defined contribution plans.

The Group's loss attributable to equity holders of the Company decreased by approximately RMB8.6 million or 3.0% from approximately RMB285.9 million in FY2012 to approximately RMB277.3 million in FY2013. This decrease was due to a RMB32.1 million reduction in expenses, a RMB0.9 million increase in other income and a RMB1.1 million decrease in income tax expense which amounted to approximately RMB34.1 million, offset partly by a RMB4.6 million decrease in interest income and a RMB21.1 million decrease in gross profit.

4 Compensation income from a related party relates to the compensation payable by Jiutai Inner Mongolia pursuant to the Long-Term Licensing and Supply Agreement dated 8 January 2010 between Jiutai Inner Mongolia and the Group. Under the terms of the DME Agreement, Jiutai Inner Mongolia has to pay the Group compensation for the use of the Group's know-how in respect of the patented DME production technology, which will be the higher of either 5% of Jiutai Inner Mongolia's aggregate sale value of DME billed to third parties or 50% of the gross profit made by Jiutai Inner Mongolia from the sale of DME to third parties.

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FY2012 vs. FY2011

The Group reported sales of approximately RMB2.1426 billion, which represents a decrease of approximately RMB116.1 million or 5.1% from approximately RMB2.2586 billion in FY2011. This decrease was attributable to a RMB131.4 million decrease in sales of DME which was offset partly by a RMB15.3 million increase in the sale of methanol.

The decrease in DME sales was attributed to both the reduction in the volume of DME sold as well as the decrease in the average selling price of DME. The average selling price of DME decreased by 5.2% from RMB4,040/ton in FY2011 to RMB3,830/ton in FY2012, while the volume of DME sold decreased by 0.8% from 543,470 tons in FY2011 to 539,000 tons in FY2012.

The sales mix between DME and methanol in FY2012 was approximately 96.4% and 3.6% respectively as compared to approximately 97.2% and 2.8% respectively in FY2011.

Cost of sales decreased by approximately RMB79.0 million or 3.6% due largely to the decrease in the volume of DME sold. The Group achieved a gross profit margin of 0.5% in FY2012 as compared with a gross profit margin of 2.1% in FY2011, attributable largely to a reduction of the spread between the average selling price of DME against the cost of methanol (feedstock for DME), implying that the decrease in the average selling price of DME was greater than the decrease in the price of methanol.

The Group's other income increased by approximately RMB12.7 million from approximately RMB3.5 million in FY2011 to approximately RMB16.2 million in FY2012. This increase was due largely to a RMB7.1 million increase in compensation income from a related party, Jiutai Inner Mongolia in accordance with the DME supply agreement dated 8 January 2010, a RMB1.8 million increase in subsidy income from the local PRC government, a RMB1.7 million increase in the sale of by-products and a RMB1.6 million increase in foreign exchange gains.

Interest income increased by approximately RMB8.9 million from approximately RMB6.7 million in FY2011 to approximately RMB15.6 million in FY2012, which was attributable to an increase in the average balance of interest-bearing restricted deposits placed with the banks for the utilisation of trade financing facilities.

Total expenses (comprising selling and distribution expenses, administrative expenses, interest expenses and other charges) decreased by approximately RMB405.8 million from approximately RMB731.6 million in FY2011 to approximately RMB325.8 million in FY2012, largely attributed to a RMB426.9 million decrease in other expenses (mainly due to the absence of impairment of property, plant and equipment in FY2012 of approximately RMB400.8 million, absence of provisions in FY2012 pertaining to the estimated unbilled amount in accordance with the contracts signed to date for unusable assets of approximately RMB100.0 million, offset by a RMB73.9 million increase in property, plant and equipment written-off), which was offset partly by a RMB15.2 million increase in interest expenses and a RMB6.5 million increase in administrative expenses.

The increase in interest expenses was due largely to the higher interest incurred for trade financing activities as a result of an increase in interest rates as well as an increase in the amount of trade financing facilities utilised.

The RMB6.5 million increase in administrative expenses was due largely to a RMB10.0 million increase in staff costs and related expenses and a RMB8.4 million increase in external consultant fees. The total increase of approximately RMB18.4 million was offset partly by a RMB8.4 million decrease in loss on disposal of property, plant and equipment, a RMB2.9 million decrease in the fair value of employee share options charged to the income statement and a RMB0.7 million reduction in depreciation.

The Group's loss attributable to equity holders of the Company decreased by approximately RMB393.2 million from approximately RMB679.1 million in FY2011 to approximately RMB285.9 million in FY2012. This decrease was due to a RMB405.8 million reduction in expenses, a RMB12.7 million increase in other income, a RMB8.9 million increase in interest income and a RMB2.9 million decrease in income tax expense. The total decreases amounted to RMB430.3 million and was offset partly by a RMB37.1 million decrease in gross profit.

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The following table summarises the gross profit, profit before and after tax margins for the Group:-

Profitability Margins	Unaudited 1Q2014	Unaudited 1Q2013	Audited FY2013	Audited FY2012	Audited FY2011
Gross (loss)/profit margin	(8.12)%	(0.04)%	(0.61)%	0.45%	2.07%
Loss before tax margin	(23.77)%	(12.39)%	(14.74)%	(13.28)%	(29.87)%
Loss after tax margin	(23.77)%	(12.39)%	(14.76)%	(13.34)%	(30.07)%

From the table above, we note that gross profit margin declined from approximately 2.07% in FY2011 to approximately 0.45% in FY2012 and subsequently turned into a gross loss margin of approximately 0.61% in FY2013 and 8.12% in 1Q2014. Meanwhile, the Group's loss before and after tax margin have improved in FY2012 but subsequently widened in FY2013 and 1Q2014. We note that the Group has been in the loss making positions in the last five (5) consecutive financial years with declining sales since FY2012 and notwithstanding the losses after tax of approximately RMB285.9 million and RMB277.3 million in FY2012 and FY2013 respectively were substantially lower than the loss after tax of approximately RMB679.1 million recorded in FY2011 but were still higher than the losses after tax of approximately RMB171.3 million and RMB145.8 million recorded in FY2009 and FY2010 respectively. In 1Q2014, the Group recorded a loss after tax of approximately RMB96.5 million.

Review of financial positions

Summarised Consolidated Statement of Financial Position

Figures in RMB'000	Unaudited 31 March 2014	Audited 31 December 2013	Audited 31 December 2012	Audited 31 December 2011
Non-current assets	1,794,741	1,741,034	1,707,610	1,692,605
Current assets	1,221,947	1,216,855	1,091,479	1,310,505
Non-current liabilities	—	—	200,000	500,000
Current liabilities	2,873,512	2,718,241	2,083,032	1,701,556
Total borrowings (including bills payables but excluding interest-free advances from Jiutai Chemical)	2,269,175	2,163,290	1,756,917	1,693,980
Total borrowings (including bills payables and interest-free advances from Jiutai Chemical)	2,627,736	2,429,447	1,937,496	1,713,480
Shareholders' equity	143,176	239,648	516,057	801,554
Net working capital	(1,651,565)	(1,501,386)	(991,553)	(391,051)

31 March 2014 vs. 31 December 2013

Assets

Other current assets of approximately RMB111.5 million pertained largely to prepayments for land use rights, raw materials and prepaid interest (for trade financing facilities), which amounted to approximately RMB46.1 million, RMB41.8 million and RMB 20.9 million respectively.

Property, plant and equipment increased by approximately RMB55.0 million to approximately RMB1.5811 billion, attributable to net additions of approximately RMB74.1 million which was offset partly by depreciation of approximately RMB19.1 million.

Inventories decreased by approximately RMB55.3 million, due mainly to a RMB39.6 million decrease in the stock of methanol (feedstock for DME) and a RMB20.0 million decrease in the stock of DME held as at 31 March 2014.

Trade and other receivables increased by approximately RMB23.1 million which was attributable largely to a RMB18.3 million increase in value-added tax recoverable.

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Cash and bank balances increased by approximately RMB44.7 million, largely attributable to a RMB70.6 million increase in restricted deposits placed with the banks for the utilisation of trade financing facilities which was offset partially by a RMB25.9 million decrease in cash and cash equivalent.

Liabilities

Trade and other payables of approximately RMB2.0242 billion pertained largely to approximately RMB358.6 million in interest-free advances from a related party, Shandong Jiutai Chemical Technology Co., Ltd. (“**Jiutai Chemical**”), approximately RMB1.5392 billion in trade financing facilities payables, approximately RMB68.0 million in trade payables and advance payments from customers and approximately RMB35.7 million in payables to construction contractors. Trade and other payables increased by approximately RMB135.2 million. This increase was attributable largely to a RMB80.9 million increase in trade financing facilities payables, a RMB92.4 million increase in interest-free advances from a related party (Jiutai Chemical) which was offset partially by RMB32.0 million decrease in trade payables and advance payments by customers and a RMB6.1 million decrease in the amount payable to construction contractors.

Bank loans increased by approximately RMB25.0 million. In 1Q2014, the Group obtained new loans amounting to approximately RMB85.0 million and made scheduled repayments amounting to approximately RMB60.0 million.

Provisions decreased by approximately RMB4.9 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 intends to terminate. During 1Q2014, payments amounting to approximately RMB4.9 million were made.

As at 31 March 2014, the Group’s negative working capital amounted to approximately RMB1.6516 billion (31 December 2013: RMB 1.5014 billion). We note the Group’s total borrowing (including bills payables and interest-free advances from Jiutai Chemical, which is controlled by Mr. Cui) amounted to approximately RMB2.6277 billion as at 31 March 2014 and this total borrowing is all due within one year.

We also note as at 31 March 2014, the Group’s cash and bank balance amounted to approximately RMB704.7 million and the Group’s net cash flow generated from operating activities of approximately RMB48.8 million in 1Q2014 (or approximately RMB195.2 million on annualised basis), are not sufficient to cover the amount of total borrowings (including bills payables and interest-free advances from Jiutai Chemical) of approximately RMB2.6277 billion which are all due within one year.

We understand from the Management that Mr. Cui provides guarantee for an aggregate amount of approximately RMB450.0 million of the Group’s existing credit facilities from external lenders, and of which approximately RMB449.8 million has been utilised by the Group as at 31 March 2014. We note that (i) the amount of financial supports (in terms of guarantees) provided by Mr. Cui represents approximately 3.1 times of the Group shareholder’s equity of approximately RMB143.2 million as at 31 March 2014 and approximately 17.1% of the Group’s total borrowings (including bills payables and interest-free advances from Jiutai Chemical); and (ii) the amount of financial supports (in terms of guarantees) provided by Mr. Cui together with the interest-free advances from Jiutai Chemical (which is controlled by Mr. Cui) represents approximately 5.6 times of the Group shareholder’s equity of approximately RMB143.2 million as at 31 March 2014 and approximately 30.8% of the Group’s total borrowings (including bills payables and interest-free advances from Jiutai Chemical).

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	As at 31 March 2014 (RMB million)
External Borrowing	
Bank Loan – Secured ⁽¹⁾	200.0
Bank Loan – Unsecured	530.0
Bills payable ⁽²⁾	1,539.2
Related Party Borrowing	
Interest-free advances from Jiutai Chemical ⁽³⁾	358.6
TOTAL BORROWINGS	2,627.7
Guarantee by Cui	450.0
As % of total borrowings	17.1%
As % of total external borrowings	19.8%
Guarantee by Cui & Related Party Borrowing	808.6
As % of total borrowings	30.8%

Notes:

- (1) The RMB200.0 million term loan is due in July 2014 and is jointly secured by (i) a corporate guarantee from Jiutai Energy, a wholly-owned subsidiary of the Company, (ii) a personal guarantee from Mr Cui; and (iii) land use rights and property, plant and equipment of Jiutai Guangzhou, a wholly-owned subsidiary of the Group. The net book value of land use rights and property, plant and equipment pledged under the RMB200 million term loan was approximately RMB286.1 million as at 31 March 2014.
- (2) Bills payables are secured by bank deposits of approximately RMB618.2 million as at 31 March 2014 and a combination of guarantees from subsidiary and/or related party (being Mr. Cui).
- (3) Advances from Jiutai Chemical are unsecured, interest-free and repayable on demand.
- (4) The figures and computation above are subject to rounding.

We wish to highlight that the shareholders' equity of approximately RMB143.2 million as at 31 March 2014 is lower than the loss after tax of approximately RMB277.3 million recorded in FY2013. Given the loss in first quarter of FY2014 of approximately RMB96.5 million and in the event that the Group continued to record loss (after FY2013 or 1Q2014) with the same magnitude as in FY2013 or 1Q2014, the shareholders' equity for the Group may become negative without any capital increase.

We note from the Company's announcement dated 15 May 2014, as at 31 March 2014, the Group's net current liabilities amounted to RMB1.6516 billion (31 December 2013: RMB1.5014 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 1Q2014, the Group obtained new loans amounting to RMB85.0 million and made scheduled repayments amounting to RMB60.0 million. The banks that provided the new loans to the Group are banks that have existing banking relationships with the Group;
- (b) During 1Q2014, Jiutai Chemical, a related party, continued to grant interest-free advances to the Group. As at 31 March 2014, RMB358.6 million of interest-free advances remained outstanding;

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- (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.

We understand from Management and Directors and note that whilst Mr. Cui is a guarantor for approximately 19.8% of the Group's existing bank loans and bills payable (for which the Group is dependent on for its operations and obligations) and while banks may not allow for a termination of his continued support without recourse to the guarantor or such other arrangements that may exist with the banks, there is likewise no assurance that such commitment or support or guarantees will continue to be made available to the Group for the financial years or periods subsequent to FY2014 and thereafter (and that may include periods after the Exit Offer) and this is irrespective of the outcome of the Exit Offer or will be sufficient for the Group's future operations or debt servicing (or repayment) given the trend of losses with dwindling shareholders equity.

The Directors further confirmed that as at the Latest Practicable Date and save for matters disclosed in the Circular, this Letter, the audited financial statements for the Group for FY2013 and unaudited financial statements for the Group for 1Q2014, there has been no material changes to the Group's assets and liabilities, financial position, condition and performance.

We have not been provided with the financial statements for the Group subsequent to 1Q2014 nor had any discussion with the Directors and the Management on the Group's financial results subsequent to 1Q2014. The Directors and the Management confirmed that ACA has not been provided with financial statements for the Group subsequent to 1Q2014 and that they have not had any discussion with ACA on the Group's financial results subsequent to 1Q2014.

31 December 2013 vs. 31 December 2012

Assets

Other current assets of approximately RMB118.9 million pertained largely to prepayments for land use rights, raw materials and prepaid interest (for trade financing facilities), which amounted to approximately RMB46.1 million, RMB43.6 million and RMB20.5 million respectively.

Property, plant and equipment increased by approximately RMB72.5 million. This increase was attributable to a RMB169.6 million net increase in property, plant and equipment which was offset partly by a RMB21.1 million in write-off and a RMB76.0 million in depreciation.

Land use rights decreased by approximately RMB39.0 million. This decrease was attributable to a RMB6.0 million routine amortisation and a RMB33.0 million impairment charge.

Inventories increased by approximately RMB50.9 million. This increase was due largely to a RMB27.0 million increase in methanol and a RMB18.6 million increase in the stock of DME held as at year end.

Trade and other receivables increased by approximately RMB61.2 million. This increase was attributable largely to a RMB61.0 million increase in value-added tax recoverable.

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Liabilities

Trade and other payables of RMB1.8890 billion pertained largely to RMB266.2 million in interest-free advances from a related party, Jiutai Chemical RMB1.4583 billion in trade financing facilities payable, RMB99.9 million in trade payables and advance payments from customers and RMB41.7 million in payables to construction contractors. Trade and other payables increased by RMB344.9 million. This increase was attributable largely to a RMB311.4 million increase in trade financing facilities payables and a RMB85.6 million increase in interest-free advances from a related party (Jiutai Chemical). These increases amounted to RMB397.0 million were offset partly by a RMB37.2 million reduction in trade payables and advance payments by customers and a RMB8.7 million reduction interest-free advances from a related party (New Energy Ltd).

Bank loans increased by RMB95.0 million. In FY2013, the Group repaid bank loans amounted to RMB425.0 million and obtained new loans amounting to RMB520.0 million.

Provisions decreased by RMB4.7 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 FY2013, payments amounting to RMB4.7 million were made in relation to such contracts and/or work done.

We note as at 31 December 2013, the Group has in aggregate amount of borrowings (excluding short-term financing such as bills payables) of approximately RMB705.0 million, of which RMB200.0 million is jointly secured by (i) a corporate guarantee from Jiutai Energy, a wholly-owned subsidiary of the Company, (ii) a personal guarantee provided by Mr. Cui, the controlling shareholder, the Chairman and the Chief Executive Officer of the Company, and (iii) land use rights and property, plant and equipment of a wholly-owned subsidiary of the Group. Mr. Cui is also the sole shareholder and director of the Offeror. We understand from the discussions with the Directors and the Management that while the Group has been relying on commitment or support or guarantees provided by its related parties (in particular Mr. Cui), there is thus no assurance that such commitment or support or guarantees will continue to be made available to the Group for the financial years or periods subsequent to FY2014 and thereafter (and that may include periods after the Exit Offer) or will be sufficient for the Group's future operations or debt servicing (or repayment) given the trend of losses with dwindling shareholders equity. We also note from the Independent Auditors' report dated 11 April 2014 ("**Independent Auditors' Report**") on the Group's and Company's financial statements for FY2013 that the financial support from related parties, for a period of not less than one year from 11 April 2014, will be available so long as Mr. Cui 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. The Group's total borrowing including bills payables and interest-free advances from a related party, Jiutai Chemical (which is a company controlled by Mr. Cui), the Group's total borrowing amounted to approximately RMB2.4294 billion as at 31 December 2013 and this total borrowing is all due within 1 year. We also note as at 31 December 2013, cash and bank balance amounted to approximately RMB660.0 million and the Group generated a net cash flow from operating activities of approximately RMB139.8 million in FY2013, which are not sufficient to cover the amount of total borrowings (including bills payables and interest-free advances from Jiutai Chemical) which is due within 1 year of approximately RMB2.4294 billion.

As at 31 December 2013, the Group reported a negative working capital of approximately RMB1.5014 billion as compared to approximately RMB991.6 million as at 31 December 2012, due to increasing utilisation of short-term financing such as bills payables, and increasing borrowings which will be due within one year.

As at 31 December 2013, the gearing ratios as represented by total liabilities to shareholder's equity ratio was 11.3 times, and total borrowings (including bills payables and interest-free advances from Jiutai Chemical) to shareholders' equity ratio was 10.1 times. It appears that the Group has extremely high gearing ratio and is currently being financed largely by the banks (with substantial amount guaranteed by, *inter alia*, Mr. Cui). We understand from the Management that Mr. Cui provides guarantee for an aggregate amount of approximately RMB850.0 million of the Group's existing credit facilities, and of which approximately RMB725.3 million has been utilised by the Group as at 31 December 2013). We note that

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the amount of financial supports (in terms of guarantees) provided by Mr. Cui, represents approximately 3.5 times of the Group shareholder's equity of approximately RMB239.6 million as at 31 December 2013. Based on the discussion with the Directors and Management, we understand that the existing financing facilities from the banks depend on the continuing supports from the controlling shareholder and related parties. As such, without the supports from the controlling shareholder and related parties, there is uncertainty surrounding Group's ability to make repayment on the existing loans and short-term financing when due.

The Directors confirmed that as at the Latest Practicable Date and save for matters disclosed in the Circular, this Letter and the audited financial statements for the Group for FY2013, there has been no material changes to the Group's assets and liabilities, financial position, condition and performance.

31 December 2012 vs. 31 December 2011

Assets

Property, plant and equipment decreased by RMB110.6 million. This decrease was attributable to a RMB73.9 million in write-off and depreciation of RMB95.0 million which were offset partly by net additions of RMB58.3 million (including a RMB33.8 million reclassification from other current assets). Depreciation reduced by RMB9.0 million from RMB104.1 million in FY2011 to RMB95.0 million in FY2012. This decrease was attributable largely to the impairment charge on the property, plant and equipment for Methanol Phase I & II during FY2011.

Land use rights increased by RMB125.6 million. This increase was attributable largely to the reclassification of RMB129.5 million in prepayments for land use rights for Methanol Phase III from other current assets to land use rights upon the receipt of the title deed.

Inventories decreased by RMB13.3 million. This decrease was due largely to a RMB10.4 million decrease in the stock of methanol and a RMB7.1 million decrease in the stock of DME. These decreases were offset partly by a RMB3.2 million increase in the stock of coal held as at year end.

Trade and other receivables increased by RMB66.4 million. This increase was attributable largely to a RMB42.4 million increase in value-added tax recoverable and a RMB25.2 million increase in trade receivables. These increases were offset partly by a RMB1.6 million decrease in compensation income receivable from a related party, Jiutai Inner Mongolia.

Other current assets of RMB114.1 million pertained largely to prepayments for land use rights, raw materials and prepaid interest (for trade financing facilities), which amounted to RMB46.1 million, RMB45.1 million and RMB20.4 million respectively. Other current assets decreased by RMB133.6 million. This decrease was due largely to a reduction of RMB157.7 million in prepayment for land use rights (of which RMB129.5 million was reclassified to land use rights and a RMB33.8 million was reclassified to property, plant and equipment) which was offset partly by a RMB28.3 million increase in prepayments for raw materials.

Liabilities

Bank loans decreased by RMB230.0 million due largely to a RMB300.0 million decrease in long-term bank loan. In FY2012, the Group repaid bank loans amounted to RMB835.0 million and obtained new loans amounting to RMB605.0 million.

In May 2012, the Group made an early repayment of the RMB500.0 million long-term loan from China Construction Bank – Nansha Branch (as announced on 22 May 2012). The repayment was made using a combination of the Group's internally generated funds and interest-free advances from a related party, Jiutai Chemical, in which the controlling shareholder of the Company, Cui, has a controlling stake.

In FY2012 China Construction Bank – Nansha Branch granted a RMB200.0 million long-term working capital loan (as announced on 27 August 2012) to the Group.

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Trade and other payables of approximately RMB1.5440 billion pertained largely to RMB180.6 million in interest-free advances from a related party, Jiutai Chemical (a company controlled by Mr. Cui), RMB1.1469 billion in trade financing facilities payable, RMB137.2 million in trade payables and advance payments from customers and RMB43.4 million in payables to construction contractors. Trade and other payables increased by RMB282.5 million. This increase was attributable largely to a RMB292.9 million increase in trade financing facilities payables and a RMB161.1 million increase in interest-free advances from a related party. These increases were offset partly by a RMB142.0 million reduction in trade payables and advance payments by customers and a RMB31.0 million reduction in construction payables.

Deferred income increased by RMB39.6 million. This item pertained to a government subsidy that would be offset against future interest expenses relating to a specific project.

Provisions decreased by RMB10.7 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 FY2012, payments amounting to RMB10.7 million were made in relation to such contracts and/or work done.

We note that the Group reported a negative working capital of approximately RMB991.6 million as at 31 December 2012. The Group's total borrowing (including bills payables and interest-free advances from Jiutai Chemical) was approximately RMB1.9375 billion. The gearing ratio in terms of total liabilities to shareholder's equity increased from 2.7 times as at 31 December 2011 to 4.4 times as at 31 December 2012 due to the increase in the total liabilities and the decline in the shareholders' equity as a result from the loss in FY2012.

Emphasis of Matter

We note that the Independent Auditors' Report contained an emphasis of matter relating to the going concern assumption. The following paragraphs as set out in italics below are extracted from the Auditors' Report (page 30 and 31 of the AR2013) and note 2(a) to the audited financial statements of the Group for FY2013. We recommend that Independent Directors advise Shareholders to read this section of the AR2013 carefully:-

“Emphasis of Matter

7. *We draw attention to Note 2(a) to the financial statements which states that the Group incurred a net loss of RMB 277,319,000 (2012: RMB 285,880,000) and a total comprehensive loss of RMB 276,409,000 (2012: RMB 286,956,000) for the financial year ended 31 December 2013. As at 31 December 2013, the Group's current liabilities exceeded its current assets by RMB 1,501,386,000 (2012: RMB 991,553,000). These conditions indicate the existence of a material uncertainty which may cast significant doubt as to the ability of the Group to continue as a going concern.*
8. *The accompanying financial statements have been prepared on a going concern basis for the reasons stated in paragraphs (9) to (10) below.*
9. *As discussed more fully in Note 2(a) to the financial statements, 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. The financial support from related parties, for a period of not less than one year from the date of this report, will be available 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. 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.*
10. *As described in Note 21 and Note 22 to the financial statements, the Group has outstanding short-term bank loans amounting to RMB 705,000,000 (2012: RMB 410,000,000) and bills payables amounting to RMB 1,458,290,000 (2012: RMB 1,146,917,000) which are due in 2014 (2012: 2013). Management has held discussions with its bankers and no matters have been drawn to its attention to indicate that these banks intend to terminate their existing banking relationships with the Group.*

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11. *In the event the Group is unable to continue as a going concern, adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are recorded in the statements of financial position. In addition, the Group may have to provide for further liabilities that might arise, and to reclassify non-current assets as current assets. No such adjustments have been made to these financial statements. Our opinion is not qualified in respect of this matter.*

Going concern assumption

The Group incurred a net loss of RMB 277,319,000 (2012: RMB 285,880,000) and a total comprehensive loss of RMB 276,409,000 (2012: RMB 286,956,000) for the financial year ended 31 December 2013. As at 31 December 2013, the Group's current liabilities exceeded its current assets by RMB 1,501,386,000 (2012: RMB 991,553,000). These conditions indicate the existence of a material uncertainty which may cast significant doubt as to the ability of the Group to continue as a going concern.

The accompanying financial statements have been prepared on a going concern basis for the reasons stated below.

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. The financial support from related parties, for a period of not less than one year from the date of this report, will be available 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. 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.

As described in Note 21 and Note 22 to the financial statements, the Group has outstanding short-term bank loans amounting to RMB 705,000,000 (2012: RMB 410,000,000) and bills payables amounting to RMB1,458,290,000 (2012: RMB 1,146,917,000) which are due in 2014 (2012: 2013). Management has held discussions with its bankers and no matters have been drawn to its attention to indicate that these banks intend to terminate their existing banking relationships with the Group.

In the event the Group is unable to continue as a going concern, adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are recorded in the statements of financial position. In addition, the Group may have to provide for further liabilities that might arise, and to reclassify non-current assets as current assets. No such adjustments have been made to these financial statements."

The Directors confirmed that as at the Latest Practicable Date and save for matters disclosed in this Letter and the audited financial statements for the Group for FY2013 and unaudited financial results announcements for the period ended 31 March 2014, there has been no material changes to the Group's assets and liabilities, financial position, condition and performance.

We wish to highlight that as at 31 March 2014, the Group has a negative working capital of approximately RMB1.6516 billion, and total borrowings (including interest-free advances from Jiutai Chemical and short-term trade financing such as bills payables) of approximately RMB2.6277 billion. We understand from the Management that Mr. Cui provides guarantee for an aggregate amount of approximately RMB450.0 million of the Group's existing bank loans and bills payable from external lenders (of which approximately RMB449.8 million has been utilised by the Group as at 31 March 2014). We note that the amount of financial supports (in terms of guarantees) provided by Mr. Cui, represents approximately 3.1 times of the Group shareholder's equity of approximately RMB143.2 million as at 31 March 2014. In addition, a related party (Jiutai Chemical) also provided financial support in terms of interests-free advances and as at 31 March 2014 approximately RMB358.6 million of such advances remained outstanding. As such, without the continuous support from the controlling shareholder and related parties, there is significant doubt on the Group's ability to make repayment on existing loans and short-term financing facilities when due. We also note from the Independent Auditors' Report and the Company's announcement dated 15 May 2014

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that the financial support from related parties, for a period of not less than one year from 11 April 2014, will be available so long as Mr. Cui 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.

6.3 NAV and NTA Analysis

The NAV based approach of valuing a company or group is based on the aggregate value of all the assets of the company in their existing condition, after deducting the sum of all liabilities of the company and minorities' interests. The NAV based approach is meaningful as it shows the extent to which the value of each share is backed by both tangible and intangible assets and would be relevant in the event that the company or group decides to realise or convert the use of all or most of its assets. The NAV based approach in valuing a company may provide an estimate of the value of a company or group assuming the hypothetical sale of all its assets (including any intangible assets, including but not limited to, goodwill, trademarks and brand names) in an orderly manner and/or over a reasonable period of time at the aggregate value of the assets used in the computation of the NAV, the proceeds of which are used to settle the liabilities, minority interest and obligation of the company or group with the balance to be distributed to its shareholders. However the NAV approach does not take into account or consideration the hypothetical sale of assets in a non-orderly manner and/or over a short period of time. It does not illustrate the values of which assets may actually be realised or disposed.

The NTA based approach of valuing a company or group is based on the aggregate value of all the assets of the company in their existing condition, after deducting the sum of all liabilities and intangible assets of the company. The NTA based approach is meaningful as it shows the extent to which the value of each share is backed by tangible assets and would be relevant in the event that the company or group decides to realise or convert the use of all or most of its assets. The NTA based approach in valuing a company may provide an estimate of the value of a company or group assuming the hypothetical sale of all its assets (other than intangible assets) in an orderly manner and/or over a reasonable period of time at the aggregate value of the assets used in the computation of the NTA, the proceeds of which are used to settle the liabilities, minority interest and obligation of the company or group with the balance to be distributed to its shareholders. However, the NTA based approach does not take into account or considering the presence of any intangible assets, including but not limited to, goodwill, trademarks and brand names, nor does it take into account the hypothetical sale of assets in a non-orderly manner and/or over a short period of time. It does not illustrate the values of which assets may actually be realised or disposed.

NAV and NTA of the Group

In assessing the Exit Offer Price of S\$0.052 for each Offer Share, in relation to the NAV and NTA per Share of the Group as at 31 March 2014, we have reviewed the unaudited statement of financial position of the Group as at 31 March 2014 to determine whether there are any assets that are of an intangible nature and as such would not appear in a valuation based on the NTA approach, but would be included in the NAV approach. Save as disclosed in the unaudited statement of financial position of the Group as at 31 March 2014 and in the Circular, the Directors have confirmed, that as at the Latest Practicable Date, to the best of their knowledge and based on disclosures made available to them, there are no other intangible assets or tangible assets which ought to be disclosed in such unaudited statement of financial position as at 31 March 2014 in accordance with Singapore Financial Reporting Standards and which have not been so disclosed and where such intangible or tangible assets would have had a material impact on the overall financial position of the Group as at Latest Practicable Date.

The Directors have also confirmed that as at the Latest Practicable Date, there were no material contingent liabilities, bad or doubtful debts, unrecorded earnings, expenses, assets or liabilities which could have a material impact on the NAV or NTA of the Group as at 31 March 2014, save as disclosed in the unaudited financial statement of the Group as at 31 March 2014 as well as the Circular. In addition, the Directors are of the opinion that save as disclosed in the Circular, the values of the assets (other than those for which valuation has been conducted, where applicable), and liabilities as well as financial performance or condition of the Group as disclosed and reflected in the unaudited financial statements of the Group as at 31 March 2014 are true and fair. Lastly, the Directors confirmed that to the best of their knowledge or belief that such information is true, complete and accurate in all respects and that there is no other information or fact, the omission of which would render those statements or information, including our references, as well as analysis of such information to be untrue, inaccurate, incomplete in any respect, or misleading.

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Unaudited Consolidated Statement of Financial Position as at 31 March 2014 ⁽¹⁾	RMB'000
Non-current assets	
Property, plant and equipment	1,581,056
Land use rights (“LUR”)	213,684
Intangible assets	1
	1,794,741
Current assets	
Inventories	95,973
Trade and other receivables	295,820
Other current assets	111,495
Income tax recoverable	14,005
Cash and bank balances	704,654
	1,221,947
Current liabilities	
Trade and other payables	2,024,166
Deferred income	39,640
Short-term bank loans	730,000
Provisions	79,706
	2,873,512
Net assets value (“NAV”) attributable to shareholders of the Company as at 31 March 2014	143,176
Less: Intangible assets	(1)
Net Tangible Assets (“NTA before deduction of LUR”) as at 31 March 2014 ⁽²⁾	143,175
Less: LUR	(213,684)
Net Tangible Liabilities (“NTL”) excluding LUR (“NTL after deduction of LUR”) as at 31 March 2014	(70,509)
NAV per Share (RMB) ⁽³⁾	0.114
NAV per Share (S\$) ^{(3) (4)}	0.023
NTA before deduction of LUR per Share (RMB) ⁽³⁾	0.114
NTA before deduction of LUR per Share (S\$) ^{(3) (4)}	0.023
NTL after deduction of LUR per Share (RMB) ⁽³⁾	n.m.⁽⁵⁾
NTL after deduction of LUR per Share (S\$) ^{(3) (4)}	n.m.⁽⁵⁾
Exit Offer Price (S\$)	0.052
Premium of the Exit Offer Price over the Group’s NAV per Share	126.4%
Premium of the Exit Offer Price over the Group’s NTA before deduction of LUR per Share	126.4%
Premium of the Exit Offer Price over the Group’s NTL after deduction of LUR per Share	n.m.⁽⁵⁾
Cash and bank balances (RMB'000)	704,654
Cash and bank balances per Share (RMB) ⁽³⁾	0.562
Cash and bank balances per Share (S\$) ^{(3) (4)}	0.113
Exit Offer Price less cash and bank balances per Share (S\$)	n.m.⁽⁵⁾
NAV per Share less cash and bank balances per Share (S\$)	n.m.⁽⁵⁾
NTA before deduction of LUR per Share less cash and bank balances per Share (S\$)	n.m.⁽⁵⁾
NTA after deduction of LUR per Share less cash and bank balances per Share (S\$)	n.m.⁽⁵⁾
Premium/(discount) of Exit Offer Price less cash and bank balances per Share over/to the Group’s NAV per Share less cash and bank balances per Share	n.m.⁽⁵⁾
Premium/(discount) of Exit Offer Price less cash and bank balances per Share over/to the Group’s NTA before deduction of LUR per Share less cash and bank balances per Share	n.m.⁽⁵⁾
Premium/(discount) of Exit Offer Price less cash and bank balances per Share over/to the Group’s NTA (excluding LUR) per Share less cash and bank balances per Share	n.m.⁽⁵⁾

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Notes:

- (1) *The figures above are based on the Group's unaudited financial statement for the financial year ended 31 March 2014. The figures and computations above are subject to rounding.*
- (2) *This computation of NTA is consistent with the Singapore Financial Reporting Standard ("FRS").*
- (3) *The figures are computed based on the Company's issued Share capital of 1,252,885,000 Shares as at the Latest Practicable Date.*
- (4) *S\$:RMB exchange rate of approximately 4.9751 as at Latest Practicable Date.*
- (5) *n.m. not meaningful.*

For illustrative purposes only, the Exit Offer Price represents a premium of approximately 126.4% over both the Group's NAV per Share as at 31 March 2014 and the Group's NTA before deduction of LUR per Share as at 31 March 2014. In view of the different accounting treatments for the LUR across various accounting standards⁵, throughout our evaluation, we have also considered the NTA of the Group based on the assumption that the LUR is deemed as intangible asset. Based on the assumption that the LUR is deemed as intangible assets and hence it is deducted from the computation of the Group's NTA, the Group's NTA after deduction of LUR per Share is negative. As at 31 March 2014, cash and bank balances for the Group of approximately RMB704.7 million is less than the amount of short-term borrowings of approximately RMB730.0 million, thus the analysis of Exit Offer Price less cash and bank balances is not meaningful, notwithstanding the fact that cash and bank balances per Share is higher than the Exit Offer Price, NAV and NTA per Share.

The Group's revalued NAV and NTA

We have taken into consideration any tangible assets of the Group which should be valued and reflected at a different amount from the amount that is recorded in the unaudited financial statements of the Group as at 31 March 2014. The Company has commissioned the Independent Valuer to conduct, in connection with the Exit Offer, an independent valuation of the Appraised Assets of the Group. The Valuation Report, including *inter alia*, its assumptions, methodology and limitations, are set out in **Appendix VIII** of the Circular. Independent Directors should advise the Shareholders to read the Valuation Report set out in **Appendix VIII** of the Circular in its entirety.

We wish to highlight that the Appraised Assets with a net book value of approximately RMB1.7947 billion as at 31 March 2014, comprising all properties (including buildings and structures), plant and equipment and land use rights of the Group as at 31 March 2014 (save for certain assets belonging to Jiutai International Pte Ltd amounted to approximately RMB7,000). The Appraised Assets accounted for nearly 100.0% of the Group's non-current assets and approximately 59.5% of the Group's total assets as at 31 March 2014. The Independent Directors have confirmed that they are aware of and satisfied with the selection of the Appraised Asset for the valuation exercise.

We understand that the Independent Directors had reviewed the Valuation Report to understand the assumptions, methodology used and the information relied upon by the Independent Valuer in arriving at the valuation of the Appraised Assets. The Independent Directors have reviewed information made available to them as a whole and are of the opinion that the assumptions and methodology of the Valuation Report are reasonable.

As set out in the Valuation Report, the Independent Valuer is of the opinion that the appraised fair market value of the Appraised Assets as at 31 March 2014 was reasonably represented by the amount of RMB1,717,920,000. In addition, we understand from the Management that the net book value of the Appraised Assets as at 31 March 2014 is approximately RMB1.7947 billion. Accordingly, assuming that there is no deferred tax asset/liability on the revalued Appraised Assets, there is a revaluation deficit of approximately RMB76.8 million arising from the Appraised Assets.

5 There are differences in terms of accounting treatments of LUR under China accounting standard ("China GAAP") and Singapore FRS, whereby under China GAAP LUR is cited as an example of intangible assets and majority of the companies reporting under China GAAP would classify LUR under the intangible assets, whereas in accordance with Singapore FRS, the LUR is presented separately from the intangible assets.

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For illustrative purpose only, the revaluation deficit has been calculated and presented in the table below assuming a hypothetical sale of the Appraised Assets at the market value above (as ascribed by the Independent Valuer), and as well as estimates to the effects of the deficits (based on the Appraised Assets as at 31 March 2014). In addition, it is assumed that there is no deferred tax asset/liability on the revalued Appraised Assets.

The Appraised Assets ⁽¹⁾	RMB'000
Fair Market Value of the Appraised Assets (as at 31 March 2014)	1,717,920
Less: net book value of the Appraised Assets (as at 31 March 2014)	(1,794,733)
Revaluation deficit ⁽²⁾	(76,813)
NAV of the Group as at 31 March 2014	143,176
less: Revaluation deficit	(76,813)
Revalued NAV of the Group ("RNAV")	66,363
RNAV per Share (RMB) ⁽³⁾	0.053
RNAV per Share (S\$) ⁽³⁾⁽⁴⁾	0.0106
NTA of the Group as at 31 March 2014	143,175
less: Revaluation deficit	(76,813)
Revalued NTA of the Group ("RNTA before deduction of LUR")	66,362
RNTA before deduction of LUR per Share (RMB) ⁽³⁾	0.053
RNTA before deduction of LUR per Share (S\$) ⁽³⁾⁽⁴⁾	0.0106
NTL after deduction of LUR of the Group as at 31 December 2013	(70,509)
less: Revaluation deficit	(76,813)
Revalued Net Tangible Liabilities after Deduction of LUR of the Group ("RNTL after deduction of LUR")	(147,322)
RNTL after deduction of LUR per Share (RMB) ⁽³⁾	n.m. ⁽⁵⁾
RNTL after deduction of LUR per Share (S\$) ⁽³⁾⁽⁴⁾	n.m. ⁽⁵⁾
Exit Offer Price (S\$)	0.052
Premium of Exit Offer Price over the RNAV per Share	388.4%
Premium of Exit Offer Price over the RNTA before deduction of LUR per Share	388.4%
Premium of Exit Offer Price over the RNTL after deduction of LUR per Share	n.m. ⁽⁵⁾

Notes:

- (1) The figures above are based on the Group's unaudited financial statement for as at 31 March 2014. The above computation is subject to rounding.
- (2) Assuming that there is no deferred tax asset/liability for the Appraised Assets.
- (3) The figures are computed based on the Company's issued Share capital of 1,252,885,000 Shares as at the Latest Practicable Date.
- (4) S\$:RMB exchange rate of 4.9751 as at the Latest Practicable Date.
- (5) n.m. not meaningful

Based on the table above, it is estimated that the Group's RNAV per Share and RNTA before deduction of LUR per Share of the Group would be approximately S\$0.0106 and the Exit Offer Price represents a premium of approximately 388.4% from both the Group's RNAV and RNTA per Share respectively before deduction of LUR per Share as at 31 March 2014. In view of the different accounting treatments for LUR across various accounting standards, we have also considered the RNTA of the Group based on the assumption that the LUR is deemed as intangible assets and hence, it is deducted from the computation of RNTA. The Group's RNTA after deduction of LUR per Share is negative. Independent Directors should note that the comparison of the Offer Price and the Group's RNAV per Share or RNTA before deduction

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of LUR per Share or RNTL after deduction of LUR per Share should be assessed in the context of the fact that the selected comparable companies as set out in Section 6.4 of this Letter trade on average at premium of approximately 29.2% over their respective NTA while the Group's historical financial performance and position are generally weaker than the selected comparable companies as set out in Section 6.4 of this Letter.

We note from the Valuation Report that the Independent Valuer ascribed no commercial value to various properties and structures and various work-in-progress items held by Jiutai Energy which were built on leased land owned by the related parties as well as various work-in-progress held by Jiutai Guangzhou for the purpose of its DME Phase II future expansion (on the basis that no agreement on the land use rights has been signed). It is noted that as at 31 March 2014, the aggregate book value of these various properties and structures, work-in-progress items held by Jiutai Energy and various work-in-progress held by Jiutai Guangzhou is approximately RMB88.6 million (which have value-in-use approximating their net book values). For illustrative purpose only, if the book value of these various properties and structures, work-in-progress items held by Jiutai Energy and various work-in-progress held by Jiutai Guangzhou had been included, the fair market value for the Appraised Assets would have been approximately RMB1.8065 billion and hence, there would be a revaluation surplus of approximately RMB11.8 million and both the Group's adjusted RNAV ("**Adjusted RNAV**") per Share and adjusted RNTA ("**Adjusted RNTA**") before deduction of LUR per Share would have been S\$0.025. The premium represented by the Exit Offer Price would have been approximately 109.2% over both the Group's Adjusted RNAV per Share and Adjusted RNTA per before deduction of LUR per Share and this premium is higher than the average trading premium for the selected comparable companies (set out in Section 6.4 of this Letter) over their respective NTA.

In view of the different accounting treatments for LUR across various accounting standards, on the assumption that the LUR is deemed as intangible assets and deducted from the computation of the Group's NTA, the Group's Adjusted RNTA after deduction of LUR per Share is negative.

The Directors have confirmed that to their best knowledge and belief, as at the Latest Practicable Date, other than the revaluation deficits/surplus arising in respect of the Appraised Assets, there are no material differences between the realisable value of the Group's assets and their respective book values as at 31 March 2014 which would have a material impact on the Group's RNAV and RNTA.

We have not been provided the potential tax credit/liabilities that may arise on the hypothetical disposal of the Appraised Assets. The aforesaid tax credit/liabilities will not crystallise if the Group does not dispose of its interests in the Appraised Assets. We also note that the Company and/or the Offeror has no immediate plans to dispose of the Appraised Assets and the Appraised Assets will continue to be used for the current business and purpose and as such, the aforesaid tax credit/liabilities are not likely to crystallise.

While the RNAV and RNTA per Share is a relevant basis for comparison, Independent Directors should note that it is not necessarily that the Appraised Assets can be realised at the fair market value of the Appraised Assets as ascribed by the Independent Valuer and any tax liabilities arising from the sale of the Appraised Assets may vary depending on prevailing market and economic conditions.

The above computations and analysis are meant as an illustration and it does not necessary mean or imply that the net realisable value of the Group is as stated above. It also does not imply that the assets or properties of the Group can be disposed of at the estimated value indicated above and that after payment of all liabilities and obligations, the values or amounts as indicated for the respective types of NTA and is realisable or distributable to the shareholders of the Group or the Company.

It should be noted that the NTA basis of valuation provides an estimate of the value of a hypothetical sale of all its tangible assets over a reasonable period of time and is only relevant in the event that the Group decides to change the nature of its business or to release or convert the uses of all its assets. The NTA basis of valuation, however, does not necessarily reflect the value of the Group as a going concern nor can it capture or illustrate any value for the Group's goodwill or branding. In addition, it does not illustrate the values at which the assets may actually be realised or disposed of.

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6.4 Relative valuation analysis

In evaluating the Exit Offer Price, we have considered the financial performance, financial positions and valuation statistics of selected comparable companies that may, in our view, be broadly comparable to the core businesses of the Group, which are in the manufacturing and sales of methanol and DME related chemical products (the “**Selected Comparable Companies**”).

The Selected Comparable Companies have been identified after a search was carried out on the SGX-ST, Hong Kong Stock Exchange (“**HKSE**”), Shanghai Stock Exchange (“**SSE**”) and Shenzhen Stock Exchange (“**SZSE**”) and evaluation of the companies operating in the same industry as the Group. We have had discussions with the Directors and Management of the Company about the suitability and reasonableness of these Selected Comparable Companies acting as a basis for comparison with the core businesses of the Group. The Management is of the view that there is no direct comparable company and that the Selected Comparable Companies may differ from the Group in terms of the business segments and operations, the contribution of the DME-related products as compared to the total revenue, the size of business as well as market capitalisation. Nevertheless, based on our limited assessments and publicly available information, the Selected Comparable Companies may be broadly comparable given that they have methanol and DME-related products (notwithstanding it may not be a significant contributor to the revenue of the Selected Comparable Companies) and are involved, to various extent, either in upstream and/or downstream business activities. We have thus included the comparison of the financial performance, financial position and valuation statistics of the Selected Comparable Companies against those of the Group. Relevant information has been extracted from the annual reports and/or public announcements of the Selected Comparable Companies. The Selected Comparable Companies may or may not have similar business operations or similar assets as the Group, accounting policies with respect to the values for which the assets or the revenue and cost are recorded or the relevant financial period compared may differ from the Group.

We advise Independent Shareholders to note that there may not be any company listed on any relevant stock exchange that is directly comparable to the Group in terms of size, diversity of business activities and products/services, branding, geographical spread, track record, prospects, operating and financial leverage, risk profile, quality of earnings and accounting, listing status and such other relevant criteria. We wish to highlight that it may be difficult to place reliance on the comparison of valuation statistics for the Selected Comparable Companies as the business of the Selected Comparable Companies, its capital structures, growth rates, operating and financial leverage, taxation and accounting policies as well as the liquidity of these shares and the demand/supply conditions for these shares and that of the Group may differ. As such, any comparison made herein is necessarily limited and serves only as an illustrative guide and any conclusion drawn from the comparison may not necessarily reflect the perceived or implied market valuation (as the case may be) of the Group as at the Latest Practicable Date.

Independent Directors should note that the prices at which shares trade include factors other than historical financial performance, and some of these, *inter alia*, include prospects real or perceived of financial performance or historical share price performance or demand and supply conditions of the shares as well as the relative liquidity of the shares and the market capitalisation or the relative sentiments of the market for the shares.

Selected Comparable Companies	Market capitalisation (\$ million)	Principal activities
China Petroleum & Chemical Corporation (“ CPCC ”) <i>Listed on the HKSE and SSE</i>	127,242.2	The group engages in exploration and mining of original oil and natural gas, processing and production of oil products and manufacturing and distribution of chemical production and operations in China. Among other products, the group offers methanol, and methanol related products.
Sichuan Lutianhua Co. Inc (“ SLC ”) <i>Listed on the SZSE</i>	566.8	The group principally engaged in the production and sale of fertilisers and chemical raw materials. The Company's main products include urea, compound fertilisers, methanol, concentrated nitric acid, ammonium nitrate, DME, liquefied petroleum gas, and other chemicals.

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Selected Comparable Companies	Market capitalisation (\$ million)	Principal activities
China Shenhua Energy Company Limited (“Shenhua”) <i>Listed on the HKSE and SSE</i>	62,679.1	The group is an integrated coal-based energy company focusing on the coal and power businesses in China. The Company also owns and operates an integrated coal transportation network consisting of dedicated rail lines and port facilities. The group also engages methanol, and methanol downstream products.
Jiutian Chemical Group Ltd. (“Jiutian”) <i>Listed on the SGX-ST</i>	121.8	The group manufactures chemicals. The Company produces and sells methanol, methylamine, dimethylformamide and gas

Source: Bloomberg, SGX-ST, HKSE, SSE, SZSE and respective companies’ website

The following tabulates the salient ratios for comparative financial performance and position for the Selected Comparable Companies: -

Selected Comparable Companies	Financial Year End	ROE ⁽¹⁾ (%)	Net profit margin ⁽²⁾ (%)	Asset turnover ⁽³⁾ (times)	Total liabilities ⁽⁴⁾ /shareholders’ equity ⁽⁵⁾ (times)	Total borrowings ⁽⁶⁾ /shareholders’ equity ⁽⁵⁾ (times)
CPCC	31-Dec-13	11.8%	2.3%	2.1	1.3	0.6
SLC	31-Dec-13	Negative ⁽⁷⁾	Negative ⁽⁷⁾	0.3	5.5	4.7
Shenhua	31-Dec-13	16.3%	15.9%	0.6	0.6	0.3
Jiutian	31-Dec-13	4.8%	2.2%	0.8	1.8	0.1
MAXIMUM		16.3%	15.9%	2.1	5.5	4.7
MINIMUM		4.8%	2.2%	0.3	0.6	0.1
MEDIAN		11.8%	2.3%	0.7	1.6	0.4
SIMPLE AVERAGE		11.0%	6.8%	0.9	2.3	1.4
The Group	31-Dec-13	Negative⁽⁸⁾	Negative⁽⁸⁾	0.6	11.3	9.0

Source: The latest annual reports or latest announced unaudited full year financial statements of respective companies. The ratios for CPCC, SLC, Shenhua and Jiutian are based on the audited financial statements for the financial year ended on 31 December 2013. For the Group the ratios are computed based on the audited financial statements for the financial year ended 31 December 2013.

Notes:

- (1) The return on equity (“ROE”) is based on the ratio of the consolidated net profits after tax attributable to the shareholders to the consolidated shareholders equity excluding minority interest of the respective companies.
- (2) Net profit margin is the ratio of the consolidated net profits after tax attributable to shareholders to the total consolidated revenue of the respective companies.
- (3) Asset turnover is the ratio of the total consolidated revenue to the total consolidated assets of the respective companies.
- (4) Total liabilities include all the liabilities of the respective companies but exclude any contingent liabilities.
- (5) Shareholders’ equity is the consolidated shareholders’ funds excluding minority interest of the respective companies as at the respective financial year end of the Selected Comparable Companies and the Group.
- (6) Total borrowings include all bank loans and borrowings as well as hire purchase obligations and interest bearing debts, short-term financing such as bills/notes payable.
- (7) SLC reported a loss attributable to the owners of the company of approximately RMB60.0 million. Hence SLC’s ROE and net profit margin ratios are negative and not meaningful.
- (8) In FY2013, the Group reported a loss attributable to the Shareholders of the Company of approximately RMB277.3 million. Hence the Group’s ROE and net profit margin ratios are negative and not meaningful.

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Relative Performance of the Group

For illustrative purposes only, we note the following:

The Group reported a loss of approximately RMB277.3 million in FY2013, and hence its ROE and net profit margin are negative and less favourable than any of the Selected Comparable Companies, which were all profitable during the respective last financial year (save for SLC) with ROE ranging from 4.8% to 16.3% and net profit margin ranging from 2.2% to 15.9%. We note that the Group's negative ROE of approximately 115.7% and negative net profit margin of approximately 14.8% are less favourable than SLC's negative ROE of approximately 15.3% and negative net profit margin of approximately 7.3%. We note that the Group has been loss making for the last five (5) consecutive financial years with sales declining since FY2012. In addition though the losses after tax of approximately RMB285.9 million and RMB277.3 million for FY2012 and FY2013 respectively were substantially lower than the loss after tax of approximately RMB679.1 million recorded for FY2011, the losses for last two financial years were still higher than the losses after tax of approximately RMB171.3 million and RMB145.8 million recorded in FY2009 and FY2010 respectively. In 1Q2014, the Group recorded a loss after tax of approximately RMB96.5 million.

The Group's asset turnover ratio is within the range but lower than the median and simple average for the Selected Comparable Companies. In terms of financial position, the Group's ratios for both total liabilities to shareholders' equity and total debt to shareholders' equity in FY2013 are substantially higher than any the Selected Comparable Companies.

In summary, the historical financial performance of the Group as reflected by its ROE, and net profit margin appear to be weaker and less favourable than any of the Selected Comparable Companies whilst in terms of asset turnover, the Group's ratio is within the range but less favourable than the simple average and median for the Selected Comparable Companies. In addition, the Group's financial position in terms of financial leverage as reflected by both the ratio of total liabilities to shareholders' equity and total borrowings to shareholders' equity in FY2013 are substantially higher and less favourable than any of the Selected Comparable Companies.

It is noted that as at 31 March 2014, the Group's total borrowing (including bill payables and interest-free advances from Jiutai Chemical, a company controlled by Mr. Cui) amounted to approximately RMB2.6277 billion which is approximately 18.4 times the Group's shareholders' equity of approximately RMB143.2 million as at 31 March 2014.

Based on our discussions with the Directors and Management, we understand that the Group's existing financing facilities from banks depends on the continuing support from its controlling shareholder and related parties. The Directors have confirmed that without the supports from the Company's controlling Shareholder and related corporations, the Group's ability to repay its existing loans and short-term financing when due is uncertain. While the Group has been relying on commitment or support or guarantees provided by its related parties (in particular Mr. Cui), there is no assurance that such commitment or support or guarantees will be made available to the Group for the financial year subsequent to FY2014 and thereafter.

We note from the Independent Auditors' Report and the Company's announcement dated 15 May 2014 that the financial support from related parties, for a period of not less than one year from 11 April 2014, will be available so long as Mr. Cui 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.

The following valuation statistics for the Selected Comparable Companies are based on their respective closing prices as at the Latest Practicable Date, while those for the Group is based on the prices as implied by the last transacted price as at the Latest Practicable Date and the Exit Offer Price. All the valuation statistics are computed on a historical basis using financial data and information obtained from their latest publicly available unaudited financial statements for the latest full year or audited financial statements from their annual reports or result announcements.

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The following table tabulates the comparative valuation statistics for the Selected Comparable Companies and the Group and should be evaluated in the context of their relative financial performance:-

Selected Comparable Companies	Market Capitalisation (S\$' million)	EV/ EBITDA (times)	PER ⁽¹⁾ (times)	P/NAV ⁽²⁾ (times)	P/NTA ⁽³⁾ (times)	Premium/ (discount) over/from NTA
CPC	127,242.2	5.5	9.4	1.1	1.2	15.7%
SLC	566.8	86.5	Negative ⁽⁷⁾	1.4	1.5	49.7%
Shenhua	62,679.1	4.7	6.9	1.1	1.1	13.2%
Jiutian	121.8	12.3	28.5	1.4	1.4	38.1%
MAXIMUM	127,242.2	86.5	28.5	1.4	1.5	49.7%
MINIMUM	121.8	4.7	6.9	1.1	1.1	13.2%
MEDIAN	31,622.9	8.9	9.4	1.3	1.3	26.9%
SIMPLE AVERAGE	47,652.5	27.2	15.0	1.3	1.3	29.2%
The Group						
Exit Offer Price⁽⁴⁾						
Based on FY2013	65.2	Negative⁽⁵⁾	Negative⁽⁵⁾	1.4	1.4	35.3%
Based on 1Q2014	65.2	Negative⁽⁵⁾	Negative⁽⁵⁾	2.3	2.3	126.4%
Based on RNAV & RNTA before deduction of LUR as at 31 March 2014						
	65.2	Negative⁽⁵⁾	Negative⁽⁵⁾	4.9	4.9	388.4%
Last transacted price as at the Latest Practicable Date⁽⁶⁾						
	65.2	Negative⁽⁵⁾	Negative⁽⁵⁾	4.9	4.9	388.4%

Notes:

- (1) The PERs for the Selected Comparable Companies are based on the earnings per share as reflected in their latest announced unaudited full year financial statements or audited financial statements from their annual reports as at the respective financial year end.
- (2) The P/NAV ratios for the Selected Comparable Companies are based on their respective NAV values as set out in their latest available announced unaudited full year financial statements or audited financial statements from their annual reports.
- (3) The P/NTA ratios for the Selected Comparable Companies are based on their respective NTA values as set out in their latest available announced unaudited full year financial statements or audited financial statements from their annual reports.
- (4) For the Group, the computations for PER, EV/EBITDA, P/NTA and P/NAV ratios are based on the market capitalisation based on the Exit Offer Price, the Group's NAV and NTA before deduction of LUR as at 31 December 2013 and 31 March 2014 as well as the Group's RNAV and RNTA before deduction of LUR as at 31 March 2014.
- (5) The Group reported a loss attributable to equity shareholders of approximately RMB277.3 million in FY2013 and RMB96.5 million in 1Q2014 and EBITDA was approximately negative RMB84.7 million in FY2013 and negative RMB44.0 million in 1Q2014, hence the Group's PER and EV/EBITDA ratios are negative and not meaningful.
- (6) For the Group, the computations for PER, EV/EBITDA, P/NTA and P/NAV ratios are based on the market capitalisation based on the last transacted price as at the Latest Practicable Date, the Group's RNAV and RNTA before deduction of LUR as at 31 March 2014.
- (7) SLC reported a loss attributable to owners of the company approximately RMB60.0 million, hence SLC's PER ratio is negative and not meaningful.

Relative valuation for the Group

For illustrative purpose only, we note the following: -

- The market capitalisation of the Group (as implied by the last transacted price as at the Latest Practicable Date and the Exit Offer Price) is significantly lower than any of the Selected Comparable Companies. We note that trading statistics for companies with higher market capitalisation may be different than those with lower market capitalisation and this may be attributable to the relative liquidity in terms of number or value of shares traded as well as relative interest in the shares of companies with larger market capitalisations.

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- (ii) The Group reported a loss attributable to the shareholders of the Company of approximately RMB277.3 million in FY2013 and RMB96.5 million in 1Q2014 and EBITDA was approximately negative RMB84.7 million in FY2013 and negative RMB44.0 million in 1Q2014, hence the Group's PER and EV/EBITDA ratios are negative and not meaningful. For illustrative purpose only, the Selected Comparable Companies are traded at PER between 6.9 times to 28.5 times and EV/EBITDA between 4.7 times to 86.5 times.
- (iii) The valuation of the Group in terms of P/NAV and P/NTA (as implied by the Exit Offer Price, and the Group's NAV and NTA before deduction of LUR as at 31 December 2013) is within the range and slightly higher than the simple average and median for the Selected Comparable Companies (whose values for NAV and NTA for the computations above, includes LUR) notwithstanding the losses, negative EBITDA and weak financial performance and condition for the Group.
- (iv) The valuation of the Group in terms of P/NAV and P/NTA (as implied by the Exit Offer Price, and the Group's NAV and NTA before deduction of LUR as at 31 March 2014 as well as the Group's RNAV and RNTA before deduction of LUR as at 31 March 2014) is higher than any of the Selected Comparable Companies (whose values for NAV and NTA for the computations above, includes LUR). We wish to highlight that based on their respective unaudited financial statement for 1Q2014, the Selected Comparable Companies are traded at an average P/NAV and P/NTA of approximately 1.3 times and 1.3 times respectively, and these are lower than the valuation of the Group (as implied by the Exit Offer Price, and the Group's NAV and NTA before deduction of LUR as at 31 March 2014 as well as the Group's RNAV and RNTA before deduction of LUR as at 31 March 2014).
- (v) As set out in Section 6.3 of this Letter, the Exit Offer Price represents a premium of approximately 109.2% over the Group's Adjusted RNTA before deduction of LUR per Share of approximately S\$0.025 and this premium is higher than any of the Selected Comparable Companies. Further, in view of the different accounting treatments for LUR across various accounting standards, on the assumption that the LUR is deemed as intangible asset and deducted from the computation of the Group's NTA, the Group's Adjusted RNTA after deduction of LUR per Share is negative. For illustrative only, the Selected Comparable Companies are traded at P/NTA of between 1.1 to 1.7 times (where LURs of the Selected Comparable Companies have also been treated as intangible assets and deducted for the purpose of computation of NTAs of Selected Comparable Companies).

In summary, the valuation of the Group (as implied by the Exit Offer Price and the last transacted price for the Shares as at the Latest Practicable Date) in terms of PER and EV/EBITDA ratios are negative due to loss and negative EBITDA recorded by the Group in FY2013 and 1Q2014 and hence the comparison with the Selected Comparable Companies in terms of PER and EV/EBITDA ratios are not meaningful as the Selected Comparable Companies were all profitable, save for SLC which was loss making, during the period under review. However, the valuation of the Group as implied by the Exit Offer Price in terms of P/NAV and P/NTA ratios (as implied by the Exit Offer Price, and the Group's NAV and NTA before deduction of LUR as at 31 March 2014 as well as the Group's RNAV and RNTA before deduction of LUR as at 31 March 2014) appears to be significantly higher and more favourable than any of the Selected Comparable Companies. The premium as implied by the Exit Offer Price over the Group's Adjusted RNTA before deduction of LUR is higher than any of the Selected Comparable Companies over their respective NTA.

Independent Directors are advised to review the Exit Offer and valuation ratios in conjunction with the Group's weak financial performance (in terms of negative ROE and negative net profit margin as well as the losses recorded in the last five consecutive financial years) and financial position in terms of total liabilities to shareholders' equity and total borrowings to shareholders' equity, as well as the fact that as at the Latest Practicable Date, the Group relies on the commitment or support or guarantee provided by its related party and controlling Shareholder and the fact that the Offeror and parties acting in concert owns, control or have agreed to acquire approximately 52.23% of all the issued Shares, already significant influence and control.

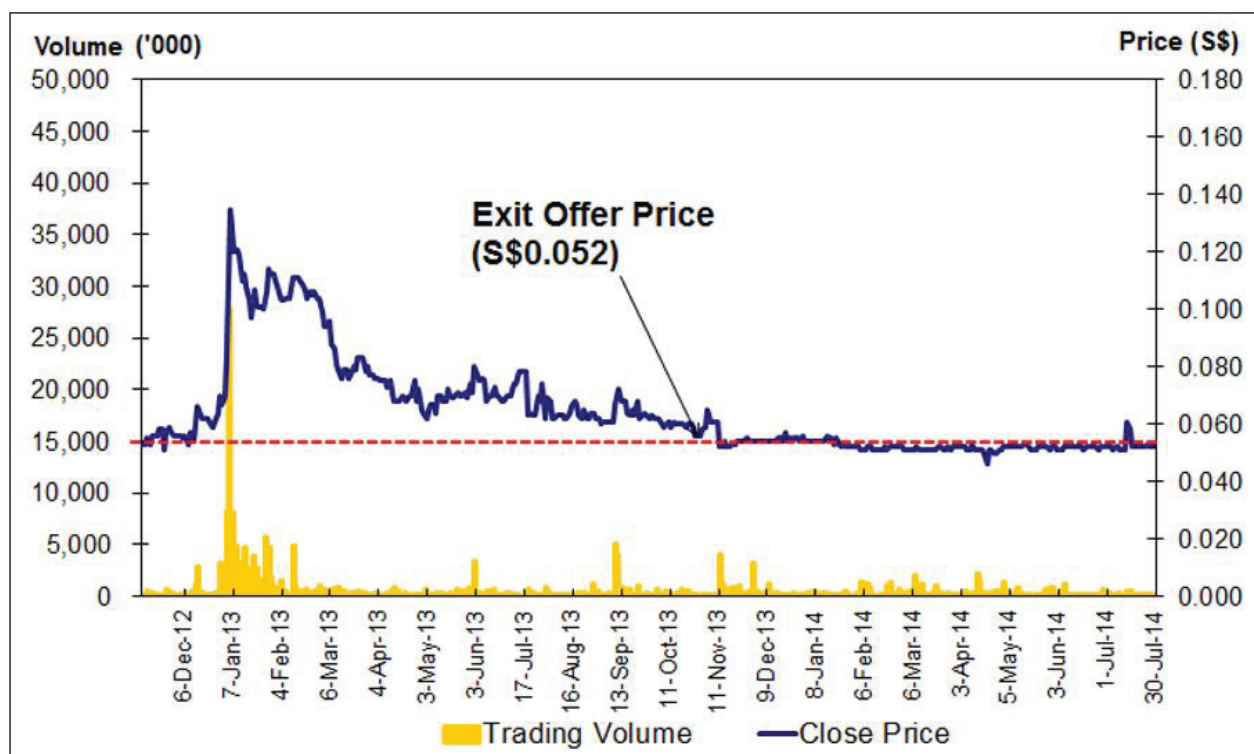
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We also wish to highlight that the NAV and NTA based approach of valuing a company is dependent on factors that may differ for each Selected Company including, *inter alia*, factors such as depreciation policies. As such, the comparison of the NAV and NTA of the Group with those of the Selected Comparable Companies is necessarily limited and such comparison is made for illustrative purposes only. In addition, as all the ratios and tools used invariably uses the price of the shares, they may or may not take into account any relative or perceived or actual risk premiums or demand and supply conditions for those shares which may or may not have been fundamentally justified. In addition, as these are tools or ratios that are based on historical financial performance or position, they may or may not reflect the anticipated financial performance and the mix of its activities or the relative contributions in terms of assets, financial performance may differ.

Independent Directors should note that the prices at which shares trade include factors other than historical financial performance, and some of these, *inter alia*, include prospects real or perceived of financial performance or historical share price performance or demand and supply conditions of the shares as well as the relative liquidity of the shares and the market capitalisation or the relative sentiments of the market for the shares.

6.5 Market quotation and trading activities for the Shares

The historical price chart (based on the closing prices together with the number of Shares traded on a daily basis) for the Shares during the period commencing from 12 November 2012 (being the Market Day 12 months prior to the Announcement Date) and ending on the Latest Practicable Date is set out below:-



Source: SGX-ST

For the period commencing from 12 November 2012 and ending on 11 November 2013, being the Announcement Date (both dates inclusive), we note that the closing prices of the Shares were always higher than the Exit Offer Price (save on 26 November 2012). The trading for the Shares was halted on the Announcement Date. For the said period, the highest transacted prices for the Shares were S\$0.151. We observed that from 12 November 2013 (being the Market Day subsequent to the Announcement Date till 30 July 2014 (being the Latest Practicable Date), the closing prices for the Shares were below the Exit Offer Price on 52 Market Days out of the total 180 Market Days. We further note that the Share price has fallen from S\$0.061 as at 8 November 2013 (being the last Trading Day prior to the Announcement Date) to close at S\$0.052 on the Latest Practicable Date, which represents a decrease of 14.8%.

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As a general market comparison and observation, the FTSE Straits Times Index (“**FTSE STI**”) rose by approximately 6.0% for the period commencing from 12 November 2012 and ending on 11 November 2013, being the Announcement Date, and subsequently increased by approximately 5.2% from 12 November 2013 to the Latest Practicable Date. For the same period commencing from 12 November 2012 and ending on 11 November 2013, being the Announcement Date, the price for the Shares rose by approximately 15.1% and subsequently declined by approximately 14.8% from 12 November 2013 till the Latest Practicable Date. We observed that the Shares have outperformed the FTSE STI for the 12 months period prior to the Announcement Date. However, for the period commencing from the Announcement Date till the Latest Practicable Date the Shares have underperformed the FTSE STI.

The above chart and the analysis below is presented for illustrative purposes only, and they are by no means representative of the future trading performance or prices of the Shares.

The volume-weighted closing price (“**VWCP**”), the highest and lowest transacted prices and trading volume for the Shares from 12 November 2012 to the Latest Practicable Date are set out below:-

	VWCP ⁽¹⁾ per Share (\$)	Premium/ (Discount) of the Exit Offer Price over/ from the VWCP per Share (%)	Lowest transacted price (\$)	Highest transacted price (\$)	Average daily trading volume ⁽²⁾ (Shares)	Average daily trading volume as % of public Shareholders float ⁽³⁾ (%)
For the period prior to the Announcement Date (11-November-2013)						
Last 12 months	0.097	(46.5)%	0.050	0.151	723,012	0.15%
Last 6 months	0.068	(23.6)%	0.054	0.086	327,262	0.07%
Last 3 months	0.065	(20.6)%	0.054	0.075	377,531	0.08%
Last 1 month	0.060	(13.0)%	0.054	0.065	181,789	0.04%
Last transacted price on 8 November 2013 (being the Trading Day immediately preceding the Announcement Date) ⁽⁴⁾	0.061	(14.8)%	0.061	0.061	130,000	0.03%
For the period after the Announcement up to the Latest Practicable Date (30-July-2014)						
Till the Latest Practicable Date	0.0523	(0.5)%	0.045	0.061	368,956	0.08%
The Latest Practicable Date ⁽⁵⁾	0.0520	0.0%	0.052	0.052	140,000	0.03%

Source: SGX-ST

Notes:

- (1) The VWCP had been weighted based on the last transacted prices of the Shares and traded volumes for the relevant trading days for each of the periods.
- (2) The average daily trading volume of the Shares is calculated based on the total number of Shares traded during the period divided by the number of Market Days during that period.
- (3) Public Shareholders float refers to the approximately 473,065,500 Shares or approximately 37.76% of the issued Shares held by Shareholders, other than the Substantial Shareholders (including the Offeror and parties acting in concert) and Directors as at the Latest Practicable Date and as enumerated in the Circular.
- (4) This represents the last transacted price instead of VWCP for the Shares on 8 November 2013, being the last market day on which there were trades on the SGX-ST prior to the Announcement Date. The trading for the Shares was halted on the Announcement Date.
- (5) This represents the last transacted price instead of VWCP and trading volume for the Shares on 30 July 2014, being the Latest Practicable Date.

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Based on a general observation of the chart above and after taking into account the summary of the transacted prices for the Shares, we note that the Exit Offer Price represents:

- (i) a discount of approximately 14.8% from the last transacted price of S\$0.061 per Share on the SGX-ST on 8 November 2013 (being the last Trading Day for the Shares prior to the Announcement Date). The trading for the Shares was halted on the Announcement Date;
- (ii) a discount of approximately 46.5%, 23.6%, 20.6%, and 13.0% from the VWCP for the Shares for the 12-month, 6-month, 3-month and 1-month period prior to the Announcement Date respectively as the VWCP declined in general over the periods prior to the Announcement Date, and this may be reflective of the Group's deteriorating financial condition and continued losses during the 12-month period prior to the Delisting Proposal;
- (iii) a slight discount of approximately 0.5% from the VWCP for the Shares for the period commencing from the Market Day immediately after the Announcement Date and ending on the Latest Practicable Date. This may *inter alia* reflect the perception of the market and Shareholders (other than the Offeror or the Concert Parties), as the Offeror and Concert Parties as at the Latest Practicable Date holds approximately 52.23% of the Share capital with no known and announced Share transaction for the period subsequent to the Announcement; and
- (iv) as at the Latest Practicable Date, the last transacted price of S\$0.052 per Share on the SGX-ST is equivalent to the Exit Offer Price, and may reflect in general the market's perception of the acceptability of the Exit Offer or the deteriorating fundamentals.

For illustrative purpose only, based on the number of Shares traded on a daily basis during the period commencing from 12 November 2012 and ending on the Latest Practicable Date, we note that:-

- (i) from 12 November 2012 to 11 November 2013, being the Announcement Date (both dates inclusive), the Shares were traded on 235 Trading Days out of the total 250 Market Days during the period, with the total number of Shares traded being approximately 180.0 million and an average daily trading volume of approximately 723,012 Shares, which represents 0.058% of the issued Share capital as at the Latest Practicable Date or approximately 0.015% of the issued Share capital held by Shareholders other than the Substantial Shareholders (including the Offeror and Concert Parties) and the Directors as at the Latest Practicable Date; and
- (ii) for the period commencing from 12 November 2013, being the Market Day immediately after the Announcement Date till the Latest Practicable Date (both dates inclusive), the Shares were traded on 170 Trading Days out of the total 180 Market Days during the period, with the total number of Shares traded being approximately 66.4 million and an average daily trading volume of approximately 368,956 Shares, which represents 0.03% of the issued Share capital as at the Latest Practicable Date or approximately 0.08% of the issued Share capital held by Shareholders other than the Substantial Shareholders (including the Offeror and Concert Parties) and the Directors as at the Latest Practicable Date.

We note that whilst the Shares had been traded on most days for the period analysed, the number of Shares traded during the 1 year period prior to the Announcement Date is relatively low as compared to the number of issued Shares as at the Latest Practicable Date. It is generally accepted that the more actively traded the Shares, the greater reliance on market prices as a determination of the fair value of the Shares between willing buyer and willing seller.

We also note that the number of Shares that were traded on a daily basis after the Announcement Date till the Latest Practicable Date is lower as compared to the number of Shares that were traded on a daily basis during the 1 year period prior to the Announcement Date. On 12 November 2013 (being the Market Day immediately after the Announcement Date), the Share price decreased by S\$0.009 or approximately 14.8%, and the transacted prices for the Shares continued to fluctuate around the Exit Offer Price level for the period commencing on the Market Day immediately after the Announcement Date up to the Latest Practicable Date.

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We observed that for the past 12 months prior to the Announcement Date, the Share price has increased by 15.1% from S\$0.053 per Share on 12 November 2012 to S\$0.061 per Share on 8 November 2013, being the last transacted price immediately prior to the Announcement Date. For the same period, FTSE STI increased by 6.0%. The Share has outperformed the index in the past 12 month prior to the Announcement Date.

We note on 4 January 2013, the Company received queries from the SGX-ST regarding a substantial increase in the price of Shares from the closing price of S\$0.085 on 3 January 2013 to the highest transacted price of S\$0.151 and close price of S\$0.135 on 4 January 2013. In its response, the Company announced, *inter alia*, the Group had completed trial production of Monoethylene Glycol (“**MEG**”) at a pilot plant in Linyi (Shandong Province) using a production technology of coal to MEG (the “**Technology**”) jointly developed by the Company’s wholly-owned subsidiary, Jiutai Energy and Shanghai Jiaotong University. The Technology had been vetted by the National Energy Administration of the People’s Republic of China (国家能源局) (the “**PRC NEA**”) and was assessed to be comparable to international advanced standards had the potential for commercialisation. The terms of use of the Technology are still under discussion. In relation to the commercialisation of the Technology, the Group was still in the midst of exploring all the options that were available to the Group had the potential for commercialisation. The impact of the Technology, if any, on the future performance of the Group was uncertain. In addition, the Company also announced that there was an article in Lianhe Zaobao (联合早报) dated 4 January 2013 in which Company’s name was mentioned (“**Article**”). The Article was not solicited or authorised by the Company in any way. The Company had no comment on the Article.

Further details on the MEG Project are discussed in Section 7.10 of this Letter.

Furthermore, we observed that the Share price has declined by 14.8% from the closing price of S\$0.061 as at 8 November 2013 to close at S\$0.052 on the Latest Practicable Date. As mentioned earlier, the prices for the Shares had, from the Announcement Date till the Latest Practicable Date, underperformed the FTSE STI for the said period. The relatively worse performance of the Shares as compared to the FTSE STI and the relatively lower average daily trading volume subsequent to the Announcement Date (as compared to the 12-months period prior to the Announcement Date) may, *inter alia*, have been affected by the Announcement and the Exit Offer. As such, there is no assurance that the observed the average number of Shares traded on a daily basis will be maintained or that the transacted prices for the Shares will be the same and at the levels prevailing during the period commencing from the Offer Announcement Date and ending on the Latest Practicable Date or decline further in the event that the Delisting conditions (set out in Section 3.6 of the Circular) is not met and the Exit Offer lapses.

The Independent Directors should also note that the past trading performance for the Shares may not be relied upon as an indication or promise of its future trading performance.

6.6 Comparison with recent successful delisting and privatisation transactions of other companies listed on the SGX-ST

We note from Sections 7 and 8 of the Circular that the Offeror does not intend to preserve the listing status of the Company. Accordingly, the Offeror when entitled, intends to exercise its rights to compulsorily acquire all the Shares from Shareholders who have not accepted the Exit Offer.

For the purpose of providing an illustrative guide as to whether the financial terms of the Exit Offer are fair and reasonable, we have compared the Exit Offer with other selected successful delisting transactions under Rule 1307 and 1309 of the Listing Manual ("**Selected Successful Delistings**") for companies listed on the SGX-ST, which have been announced since January 2011 and which has since been completed. In addition, we have also compared the Exit Offer with selected successful privatisation transactions ("**Selected Successful Privatisations**") for companies listed on the SGX-ST, which have been announced since January 2011 and which has since been completed and whose offer may be considered similar or comparable to the Delisting and Exit Offer and where the offeror intended to privatise the target company. Accordingly, we have excluded offers where the offeror intended to maintain the listing status of the target company. For these excluded offers, the financial terms of their offers could possibly include different rationale, valuation and terms that are more or less aligned with the respective intended motives of the offeror.

In making the comparison herein, we wish to highlight that the companies selected and covered herein are not directly comparable to the Company and may largely differ from the Company in terms of, *inter alia*, size and scale of operations, composition of business activities and specialisation, asset base, geographical spread, track record, financial performance, capital structure, operating and financial leverage, risk profile, liquidity, accounting policies, future prospects and other relevant criteria.

The data used in the table and the companies listed below have been compiled from publicly available information and serves as a guide as to the premium/(discount) in connection with privatisations or delistings of companies listed on the SGX-ST without regard to their specific industry characteristics or other considerations. Each of the offer or Selected Successful Privatisations or Selected Successful Delistings must be judged on its own commercial and financial merits. The lists of target companies involved in the Selected Successful Delistings and Selected Successful Privatisations are by no means exhaustive and as such any comparison made only serves as an illustration.

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Comparison with the Selected Successful Delistings

Company	Date of announcement	% shareholding of the offeror and concert parties at the start of transaction	Financial position at start of transaction	Premium/Discount of the offer price from/over			
				Last transacted price prior to announcement (%)	VWAP for 1 month prior to announcement (%)	VWAP for 3 month prior to announcement (%)	P/NTA ⁽¹⁾ (times)
Time Watch Investments Ltd.	19-Jan-11	62.12%	Profitable	14.9	28.0	35.7	1.3
EDMI Limited	28-Mar-11	62.48%	Profitable	16.8 ⁽²⁾	23.9	22.8	1.5
CMZ Holdings Ltd	3-Aug-11	90.09%	Profitable	24.2	32.9	26.7	1.2
Centraland Limited	12-Aug-11	86.09%	Profitable	11.1	n.a.	11.1	1.2
Wanxiang International Limited	11-Oct-11	89.17%	Profitable	43.9	61.3	56.3	1.4
CHT Holdings Ltd	31-Oct-11	58.76%	Profitable	100.0	57.2	63.0	0.5
Leeden Limited	8-Nov-11	59.60%	Profitable	35.7	37.4	28.3	1.4
China Animal Healthcare Ltd	22-May-12	67.11%	Profitable	27.7	30.8	31.4	5.2
Cerebos Pacific Limited	1-Aug-12	82.58%	Profitable	22.7	22.9	23.9	5.6
Gul Technologies Singapore Ltd	23-Sep-12	86.44%	Profitable	40.6	57.6	71.2	1.8
Synear Food Holding Limited	15-Oct-12	50.13%	Profitable	10.1	20.8	31.0	0.4
Hup Soon Global Corporation Limited	8-Feb-13	94.93%	Profitable	0.0	(3.0)	1.0	0.5
Pan Pacific Hotels Group Limited	10-May-13	81.57%	Profitable	9.0	8.2	6.1	1.7
Armstrong Industrial Corporation Limited	20-Jun-13	46.54%	Profitable	5.9	14.0	17.0	2.0
Sound Global Ltd.	28-Jun-13	56.20%	Profitable	22.8	18.9	22.6	1.5
Superior Multi-Packaging Limited	6-Sep-13	90.74%	Loss	0.0	0.5	10.8	1.0
Internet Technology Group Limited	25-Sep-13	61.40%	Loss	35.3	9.0	5.7	0.9
Consciencefood Holdings Limited	28-Sep-13	55.59%	Profitable	23.5	23.3	18.0	0.9
Medi-Flex Limited	11-Oct-13	79.82%	Profitable	15.4	21.0	27.1	3.2
Devotion Energy Group Limited	7-Oct-13	43.41%	Profitable	23.4	24.2	25.0	0.8
WBL Corporation Limited	19-Nov-13	96.31%	Profitable	27.5	26.2	24.3	1.4
Chemoil Energy Limited	25-Feb-14	89.20%	Profitable	29.0	31.1	32.5	1.1
Asia Power Corporation Limited	24-Mar-14	89.52%	Profitable	0.0	1.2	1.4	0.6
China XLX Fertiliser Ltd.	31-Mar-14	38.58%	Profitable	23.1	28.9	24.8	0.8
HIGH		96.31%		100.0	61.3	71.2	5.6
LOW		38.58%		0.0	(3.0)	1.0	0.4
SIMPLE AVERAGE		71.60%		23.4	25.1	25.7	1.6
MEDIAN		73.47%		23.0	23.9	24.6	1.3
The Group	11-Nov-13	52.23%	Loss	(14.8)	(13.0)⁽³⁾	(20.6)⁽³⁾	4.9⁽⁴⁾

Source: SGX-ST announcements, offer documents and circulars to shareholders in relation to the respective transaction and Bloomberg.

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Notes:

- (1) *P/NTA ratios are based the offer price and NTA per share or where applicable revalued NTA per share for the respective companies.*
- (2) *Based on the theoretical ex-dividend price of the shares of EDM Limited after adjusting for the final dividend.*
- (3) *Based on the VWCP for the Shares for the 1-month and 3-month period prior to the Announcement Date.*
- (4) *For the Group, the P/NTA is computed based on the Exit Offer Price and the Revalued NTA before deduction of LUR per Share.*

For illustration purposes only, we note that most of the Selected Successful Delistings involved delisting of profitable companies, whilst the Group has been in the loss making positions in the last five (5) consecutive financial years.

We note the following:-

- (i) The Selected Successful Delistings involved transactions where the offeror has already control or statutory control ranging between 38.58% to 96.31% or on average 71.60% at the start of the transaction. Meanwhile for the Delisting, the Offeror controls or owns approximately 52.23% of the issued Shares as at the Latest Practicable Date.
- (ii) The discounts of approximately 14.8%, 13.0% and 20.6% implied by the Exit Offer Price from the last transacted price for the Shares prior to the Announcement Date, the VWCP for the Shares for 1-month and 3-month period prior to the Announcement Date respectively are less favourable than any of the Selected Successful Delistings. For illustrative purpose only, on average, the exit offer price for the Selected Successful Delistings represents a premium of approximately 23.4%, 25.1% and 25.7% over the last transacted price, the VWAP for 1-month and 3-month period prior to the announcement of delisting respectively.
- (iii) The Group's valuation in terms of P/NTA ratio (as implied by the Exit Offer Price and the Group's RNTA before deduction of LUR per Share as at 31 March 2014) of approximately 4.9 times is within the range and substantially higher than the median and simple average for the Selected Successful Delisting.
- (iv) We note that the Exit Offer Price is approximately 2.1 times the Group's Adjusted RNTA before deduction of LUR and this is within the range and higher than the simple average and median for the Selected Successful Delistings.

In summary, the valuation of the Company as implied by the Exit Offer Price appears to be less favourable than any for the Selected Successful Delistings in terms of comparing it with the historical prices. However, in terms of P/NTA multiple, the valuation of the Company (as implied by the Exit Offer Price and the Group's RNTA as well as Adjusted RNTA before deduction of LUR) appears to be higher and more favourable than the simple average and median for the Selected Successful Delistings.

The discount of the Exit Offer Price to the historical prices should be viewed in the context of, *inter alia*, the Group's weak financial position and performance (with losses in the last five consecutive financial years), significant reliance on the continuous financial support from the controlling Shareholder and related corporations (including but not limited to the extension of financial support in the form of personal guarantee for a substantial amount of Group's existing loan facilities) as well as the fact that the Selected Successful Delistings involve mostly delisting of profitable companies (save for Superior Multi-Packaging Limited and Internet Technology Group Limited).

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Comparison with the Selected Successful Privatisations

Company	Date of announcement	% shareholding of the offeror and concert parties at the start of transaction	Financial position at start of transaction	Premium/Discount of the offer price from/over				P/NTA ⁽¹⁾ (times)
				Last transacted price prior to announcement	VWAP for 1 month period prior to announcement		VWAP for 3 month period prior to announcement	
					(%)	(%)		
Kim Eng Holdings Limited	6-Jan-11	44.63%	Profit	55.8	62.6	67.9	1.9	
Sinomem Technology Limited	5-Mar-11	56.05%	Profit	28.4	33.9	34.5	1.3	
Passion Holdings Limited	9-Mar-11	58.50%	Profit	23.8	28.1	27.4	1.1	
Qualitas Medical Group Limited	15-Mar-11	39.04%	Profit	25	25.3	49.1	1.8	
JK Yaming International Holdings Ltd	4-May-11	58.97%	Profit	4.8	4.7	7.5	1.5	
Allgreen Properties Ltd	23-May-11	55.58%	Profit	39.1	40.6	45.3	1.0	
Portek International Limited	13-Jul-11	4.82%	Profit	97.2	96.9	122.9	3.7	
C & O Pharmaceutical Technology Holdings Ltd	1-Aug-11	58.17%	Profit	11.1	16.8	20.2	3.3	
Asia Environment Holdings Ltd	23-Aug-11	52.79%	Loss Full Year Interim Profitable	33.3	24.0	21.0	1.0	
Heng Long International Ltd	7-Oct-11	73.70%	Profit	76.5	98.7	106.9	1.9	
Unidux Electronics Ltd	28-Oct-11	69.14%	Profit	104.3	178.4	99.7	1.0	
SMB United Limited	31-Oct-11	37.42%	Profit	33.3	45.5	50.9	1.4	
China Healthcare Ltd	5-Mar-12	71.15%	Profit	16.7	19.4	23.4	2.2	
Adampak Ltd	2-Apr-12	52.28%	Profit	21.7	33.8	38.2	2.0	
Juken Technology Limited	16-May-12	29.21%	Profit	28.6	26.8	24.1	1.0	
Brothers (Holdings) Limited	30-May-12	50.60%	Profit	44.4	43.7	39.0	0.8	
Hersing Corporation Limited	8-Aug-12	70.33%	Profit	21.1	21.3	18.5	1.1	
Asia Pacific Breweries Limited	18-Aug-12	81.56%	Profit	52.8	53.6	55.2	n.a. ⁽²⁾	
Sakari Resources Limited	27-Aug-12	45.43%	Profit	27.5	33.8	38.7	n.a. ⁽²⁾	
Luye Pharma Group Ltd.	28-Aug-12	92.63%	Profit	16.1	20.4	20.4	3.9	
Harry's Holding Ltd.	10-Nov-12	45.91%	Profit	53.3	57.1	72.2	1.5	
China Farm Equipment Limited	3-Dec-12	87.71%	Profit	7.7	2.8	4.2	1.1	
SC Global Developments Ltd	5-Dec-12	53.59%	Profit	49.4	57.2	58	0.8	

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Company	Date of announcement	% shareholding of the offeror and concert parties at the start of transaction	Financial position at start of transaction	Premium/Discount of the offer price from/over			P/NTA ⁽¹⁾ (times)
				Last transacted price prior to announcement (%)	VWAP for 1 month period prior to announcement (%)	VWAP for 3 month period prior to announcement (%)	
Kinergy Ltd	14-Dec-12	82.94%	Profit	38.9	37.4	35.1	0.7
Rokko Holdings Ltd.	17-Dec-12	77.44%	Profit	57.1	54.9	50.7	0.6
WBL Corporation Ltd	30-Jan-13	39.54%	Profit	18.9	17.7	15.8	1.3
PCA Technology Limited	1-Feb-13	70.77%	Profit	11.1	1.4	13.5	0.8
Tsit Wing International Holdings Limited	11-Jun-13	54.24%	Profit	36.7	36.7	36.2	1.1
Guthrie GTS Ltd	21-Jun-13	69.20%	Profit	21.4	21.9	19.7	0.9
Food Junction Holdings Limited	24-Jun-13	61.42%	Loss	40.1	37.8	37.1	1.4
Viz Branz Limited ⁽³⁾	5-Jul-13	58.09%	Profit	15.0 ⁽³⁾	17.9 ⁽³⁾	17.4 ⁽³⁾	2.4 ⁽³⁾
Berger International Limited	21-Aug-13	75.82%	Profit	78.6	67.8	86.6	2.8
Superbowl Holdings Limited	7-Oct-13	71.53%	Profit	15.4	34.9	41.0	0.6
People's Food Holdings Limited	19-Oct-13	71.15%	Profit	2.6	4.2	10.0	1.2
Singapore Land Limited	24-Feb-14	80.46%	Profit	11.2	16.9	13.9	0.7
CapitaMall Asia Limited	14-Apr-14	65.00%	Profit	23	27	25.5	0.8
ASJ Holdings Limited	7-May-14	28.01%	Loss	18.2	43.7	55.4	0.7
HIGH		92.63%		104.3	178.4	122.9	3.9
LOW		4.82%		2.6	1.4	4.2	0.6
SIMPLE AVERAGE		59.32%		34.1	39.1	40.6	1.5
MEDIAN		58.50%		27.5	33.8	36.2	1.1
The Group	11-Nov-13	52.23%	Loss	(14.8)	(13.0) ⁽⁴⁾	(20.6) ⁽⁴⁾	4.9 ⁽⁵⁾

Source: SGX-ST announcements, offer documents and circulars to shareholders in relation to the respective transaction and Bloomberg.

Notes:

- (1) P/NTA ratios are based the offer price and NTA per share or where applicable revalued NTA per share for the respective companies.
- (2) n.a. means not available
- (3) For Viz Branz Limited, the figures computed are based on the revised final offer price of S\$0.815, which was announced on 1 August 2013.
- (4) Based on the VWCP for the Shares for the 1-month and 3-month period prior to the Announcement Date.
- (5) For the Group, the P/NTA is computed based on the Exit Offer Price and the RNTA before deduction of LUR per Share.

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For illustration purposes only, we note majority of the Selected Successful Privatisations involve profitable companies which is different to the Delisting as the Group has been in the loss making position in the last five (5) consecutive financial years. We note that Exit Offer Price represents discount of approximately 14.8%, 13.0%, and 20.6% over the last transacted price prior to the Announcement, VWAP of 1 month, and VWAP of 3 month respectively which are less favourable than any of the Selected Successful Privatisations. For illustrative purpose only, on average, the offer price for the Selected Successful Privatisations represents a premium of approximately 34.4%, 39.2% and 40.0% over the last transacted price prior to the announcement of privatisation, the VWAP for 1-month and 3-month period prior to the announcement of privatisation respectively;

In addition, we note that Exit Offer Price implies a P/NTA ratio of approximately 4.9 times (based on the Group's RNTA before deduction of LUR as at 31 March 2014) is higher than any of the Selected Successful Privatisations. We note that the Exit Offer Price is approximately 2.1 times of the Group's Adjusted RNTA before deduction of LUR and this is within the range and higher than the median and simple average for the Selected Successful Privatisations.

The relatively less favourable price discount represented by the Exit Offer Price over historical market prices as compared to the Selected Successful Privatisations should be assessed in the context of the higher P/NTA as implied by the Exit Offer Price and the Group's RNTA before deduction of LUR per Share or the Group's Adjusted RNTA before deduction of LUR as compared to the simple average and median for the Selected Successful Privatisations and the weak financial performance (with losses in the last five consecutive financial years) and position of the Group and its significant reliance on the continuous financial support from the controlling Shareholder and related parties, as well as the fact that the Selected Successful Privatisations involve mostly privatisation of profitable companies (save for Food Junction Holdings Limited and ASJ Holdings Limited). In addition, the comparison on the premiums over the historical market prices are subject to the relative market valuation of the respective companies at that particular point in time and relative desire of the respective offeror to privatise the respective target companies.

Independent Directors should note that the level of premium (if any) an acquirer would normally pay for acquiring and/or privatizing a listed company (as the case may be) varies in different circumstances depending on, *inter alia*, the attractiveness of the underlying business to be acquired, the synergies to be gained by the acquirer from integrating the target company's businesses with its existing business, the possibility of a significant revaluation of the assets to be acquired, the availability of substantial cash reserves, the liquidity in the trading of the target company's shares, the presence of competing bids for the target company, the extent of control the acquirer already has in the target company and prevailing market expectations. Consequently, each Selected Successful Delistings and Selected Successful Privatisations has to be judged on its own merits (or otherwise).

The list of Selected Successful Delistings and Selected Successful Privatisations indicated herein has been compiled based on publicly available information as at the Latest Practicable Date. The above table captures only the premium/discounts implied by the offer prices in respect of the Selected Successful Delistings and Selected Successful Privatisations over the aforesaid periods and does not highlight bases other than the aforesaid in determining an appropriate premium/discount for the recent Selected Successful Delistings and Selected Successful Privatisations. It should be noted that the comparisons are made without taking into account the total amount of the offer value of each respective Selected Successful Delistings and Selected Successful Privatisations or the relative efficiency of information or the underlying liquidity of the shares of the relevant companies or the performance of the shares of the companies or the quality of earnings prior to the relevant announcement and the market conditions or sentiments when the announcements were made or the desire or the relative need for control leading to compulsory acquisition.

We wish to highlight that the Company is not in the same industry and does not conduct the same businesses as the other companies in the list of Selected Successful Delistings and Selected Successful Privatisations and would not, therefore, be directly comparable to the list of companies in terms of, *inter alia*, geographical markets, composition of business activities, scale of business operations, risk profile, asset base, valuation methodologies adopted, accounting policies, track record, future prospects, market/industry size, political risk, competitive and

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regulatory environment, financial positions and other relevant criteria. In addition, the list of the Selected Successful Delistings and Selected Successful Privatisations is by no means exhaustive and as such any comparison made only serves as an illustration. Accordingly, Independent Directors should note that the above comparisons only serve as a general guide to provide an indication of the premium or discount in connection with the Selected Successful Delistings and Selected Successful Privatisations. Therefore, any comparison of the Delisting with the Selected Successful Delistings and Selected Successful Privatisations is for illustration purposes only. Conclusions drawn from the comparisons made may not necessarily reflect any perceived market valuation for the Company.

6.7 Dividend Track Record

For the purpose of assessing the Delisting Proposal, we have considered the dividend track record of the Company against the potential returns which a Shareholder may potentially obtain by re-investing the proceeds from the Exit Offer in other comparable investments.

Historical dividends paid by the Company

The Company had not declared any dividends for the last five (5) financial years and since its initial public offering. Based on our discussions with the Directors, we understand that the Company does not have a policy for dividend payments based either on a fixed rate of dividend payments or a dividend payout ratio.

Investments in selected alternative investments

Shareholders who accept the Exit Offer at the Exit Offer Price may re-invest the proceeds from the Exit Offer in selected alternative equity investments including the Selected Comparable Companies and/or a broad market index instrument such as the STI Exchange Traded Fund (“STI ETF”).

For illustrative purposes only, the dividend yield for the selected alternative equity investments based on their ordinary cash dividends as declared for each of their most recent financial year are as follows:

<u>Selected Comparable Companies</u>	<u>Financial Year End</u>	<u>Net dividend yield⁽¹⁾</u> <u>(%)</u>
CPCC	31-Dec-13	4.6%
SLC	31-Dec-13	0.0%
Shenhua	31-Dec-13	6.0%
Jiutian	31-Dec-13	0.0%
Average		2.7%
STI ETF	30-Jun-13	2.5%
The Company	31-Dec-13	0.0%

Notes:

- (1) Net dividend yield for each selected alternative equity investment is based on the net dividend per share divided by the closing market price for each share on the Latest Practicable Date (or where there was no trading on such date, the last available closing market price prior thereto). The aforementioned net dividend yield computed may differ from the actual dividend yield which will vary depending on the actual cost of investment paid by the individual investor.

The above analysis suggests that a Shareholder who accepts the Exit Offer may potentially experience an increase in investment income if he re-invests the proceeds in the shares of any of the Selected Comparable Companies (save for SLC and Jiutian) or the STI ETF. This is on the assumption that the Company and the relevant Selected Comparable Companies and the STI ETF maintain their respective net dividend per share at the same level as that in their last financial year.

We wish to highlight that the above dividend analysis serves only as an illustrative guide and is not an indication of the future dividend policy for the Company or the Selected Comparable Companies or the STI ETF. Furthermore, an investment in the equity of the Selected Comparable Companies or the STI ETF also presents different risk-return profiles as compared to an investment in the Shares. Moreover, there is no assurance that the Company or any of the above selected alternative equity investments will continue to pay or not to pay any dividends in the future and/or maintain the level of dividends paid in past periods.

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In addition, as at the Latest Practicable Date, local commercial banks in Singapore offered gross interest rates of approximately 0.25% per annum to depositors who deposit an amount of up to S\$50,000 for a period of 12 months. For illustrative purposes only, a Shareholder who accepts the Exit Offer for 1,000 Offer Shares at the Exit Offer Price of S\$0.052 and who decide to reinvest the proceeds in a 12-month Singapore Dollar fixed deposit with a local commercial bank in Singapore should expect to receive gross interest income of approximately S\$0.13 per annum as at the Latest Practicable Date. On the basis that no dividends have been declared with respect to the last few financial years, the Shareholders should therefore expect an increase in their investment income by accepting the Exit Offer and depositing the proceeds from the Exit Offer in a 12-month Singapore Dollar fixed deposit account with a local commercial bank in Singapore. The dividend paid for any share is dependent, *inter alia*, on the financial performance, growth rates, prospect, and financial performance of the company. In addition, the Shareholders are advised to note that there is no assurance that there will be any dividends payable on the Shares after the completion of the Exit Offer.

7. OTHER RELEVANT CONSIDERATIONS

7.1 Existing shareholding structure of the Company and implication of the Offeror's substantial interest in the Company

The shareholding structure of the Company as at the Latest Practicable Date is outlined below:

	As at the Latest Practicable Date			
Name	Direct Interest	Deemed Interest	Total Interest	% of the issued Share capital as at the Latest Practicable Date ⁽¹⁾
<u>Offeror and Parties Acting in Concert</u>				
Cui Lianguo	633,424,400	—	633,424,400	50.56%
Li Qiang	506,000	—	506,000	0.04%
Wong William	50,000	—	50,000	0.00% ⁽²⁾
Cui Lianxin ⁽³⁾	20,371,000	—	20,371,000	1.63%
Total			654,351,400	52.23%
<u>Directors</u>				
Cui Lianguo	633,424,400	—	633,424,400	50.56%
Li Qiang	506,000	—	506,000	0.04%
Wong William	50,000	—	50,000	0.00% ⁽²⁾
Ong Kian Min	—	—	—	—
Lai Hock Meng	—	—	—	—
Leong Horn Kee	—	—	—	—
<u>Substantial Shareholders other than Directors</u>				
Li Qi	62,783,100	—	62,783,100	5.01%
Asean China Investment Fund	62,685,000	—	62,685,000	5.00%
Public Shareholders⁽⁴⁾			473,065,500	37.76%
Total Issued Shares			1,252,885,000	100.0%

Notes:

(1) The percentage is computed based on the total of 1,252,885,000 Shares in issue as at the Latest Practicable Date

(2) less than 0.01%

(3) Cui Lianxin is Cui Lianguo's sibling.

(4) Public Shareholders float refers to the approximately 473,065,500 Shares or approximately 37.76% of the issued Shares held by Shareholders, other than the Substantial Shareholders (including the Offeror and parties acting in concert) and Directors as at the Latest Practicable Date.

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As at the Latest Practicable Date, the Offeror and its Concert Parties owns, control or have agreed to acquire approximately 52.23% of all the issued Shares. In addition, we note from the Circular that the Offeror does not intend to preserve the listing status of the Company. Accordingly, the Offeror when entitled, intends to exercise its rights to compulsorily acquire all the Shares from Shareholders who have not accepted the Exit Offer.

We understand from the discussion with the Directors and Section 4 of the Circular that the Offeror has obtained an irrevocable undertaking (the “**Irrevocable Undertaking**”) from Mr. Cui to, *inter alia*, vote in favour of the Delisting Resolution at the EGM and to accept the Exit Offer in respect of all the 633,424,400 Shares owned by him (“**Cui’s Shares**”), on and subject to the terms set out in the Irrevocable Undertaking. The Irrevocable Undertaking of Mr. Cui includes an agreement by Mr. Cui to either waive or defer receipt of payment of the consideration in respect of all the Shares held by him and tendered in acceptance of the Exit Offer to a date to be mutually agreed between the Offeror and Mr. Cui after the close of the Exit Offer, notwithstanding the provisions of the Code in relation to the time period in which payment should be made.

As at the Latest Practicable Date, the Offeror and its Concert Parties own, control or have agreed to acquire 654,351,400 Shares, representing approximately 52.23% of the existing issued Share capital, and has statutory control of the Company, which places the Offeror in a position to significantly influence, *inter alia*, the management, operating and financial policies of the Company and is in a position to pass all ordinary resolutions on matters in which the Offeror and its Concert Parties do not have an interest or any ordinary resolutions that do not require the Offeror and its Concert Parties to abstain from voting, at general meetings of Shareholders.

7.2 Listing Manual requirements for the Delisting

In accordance with the Listing Manual, the Delisting Proposal is subject to, *inter alia*, the following:

- (a) the Delisting Resolution is approved by a majority of at least 75% of the total number of issued Shares (excluding treasury shares) held by the Shareholders present and voting, on a poll, either in person or by proxy at the EGM; and
- (b) the Delisting Resolution is not voted against by 10% or more of the total number of issued Shares (excluding treasury shares) held by the Shareholders present and voting, on a poll, either in person or by proxy at the EGM.

Shareholders should note that under Rule 1307 of the Listing Manual, all Shareholders (including the Offeror and parties acting in concert with the Offeror who hold Shares) are entitled to vote on the Delisting Resolution.

As at the Latest Practicable Date, the Offeror, and persons acting in concert with it collectively hold an aggregate of 654,351,400 Shares, representing approximately 52.23% of the existing issued Share capital. As highlighted in Section 7.1 of this Letter, we note, based on the Irrevocable Undertaking that Mr. Cui has undertaken to, *inter alia*, vote in favour of the Delisting Resolution at the EGM and to accept the Exit Offer in respect of the Cui’s Shares. We further note from Appendix II of the Circular that as at the Latest Practicable Date, Cui, Li Qiang and Wong William have confirmed that they intend to accept the Exit Offer in respect of 633,424,400, 506,000 and 50,000 Shares held by them respectively.

On the assumption that the Offeror and Concert Parties will vote in accordance with the requirement of the Listing Manual, we note that the Delisting Resolution will still require approximately 22.77% of votes in favour of the Delisting Resolution to satisfy one of the conditions (namely condition (a) above) for the passing of the Delisting Resolution pursuant to the Listing Manual. We further note that passing of the Delisting Resolution is subject to the resolution not being voted against by 10% or more of the total number of Shares (excluding treasury shares) held by Shareholders present and voting, on a poll, either in person or by proxy at the EGM. We note from the Circular, save for the aforementioned Irrevocable Undertaking from Mr. Cui, there is no other undertaking from any other shareholders.

7.3 Compulsory Acquisition

As at the Latest Practicable Date, the Offeror and its parties acting in concert hold approximately 52.23% of the total number of issued Shares. The Company's public Shareholders is approximately 37.76%. From the Latest Practicable Date to the close of the Exit Offer, the Offeror and/or his Concert Parties can or may also acquire such additional number of Shares from the market, if they so deem fit.

Information relating to the compulsory acquisition of Shares by the Offeror have been extracted from Section 8.2 of the Circular and reproduced below, and all terms and expressions used in the extract below shall bear the same meanings as attributed to them in the Circular unless otherwise stated:

“8.2 Compulsory Acquisition of Shares

8.2.1 *The information relating to the rights of compulsory acquisition has been extracted from paragraph 9 of the Delisting Proposal and reproduced below.*

9. Compulsory Acquisition

*Pursuant to Section 215(1) of the Companies Act, Chapter 50 of Singapore (the “**Companies Act**”), if the Offeror receives valid acceptances pursuant to the Exit Offer (or otherwise acquires Shares during the period the Exit Offer is open for acceptance) in respect of not less than 90 per cent. of the total number of issued Shares (other than those already held by the Offeror, its related corporations or their respective nominees as at the date of the Exit Offer and excluding treasury shares), the Offeror will have the right to compulsorily acquire, at the Exit Offer Price, all the Shares of Shareholders who have not accepted the Exit Offer (the “**Dissenting Shareholders**”). **In such event, the Offeror intends to exercise its rights of compulsory acquisition.***

In addition, pursuant to Section 215(3) of the Companies Act, if the Offeror, its related corporations or their respective nominees acquire, pursuant to the Exit Offer, such number of Shares which, together with Shares held by the Offeror, its related corporations or their respective nominees, comprise 90 per cent. or more of the total number of Shares (excluding treasury shares), Dissenting Shareholders have the right to require the Offeror to acquire their Shares at the Exit Offer Price. Shareholders who wish to exercise such right are advised to seek their own independent legal advice.

8.2.2 *In the event the requirements of Delisting under Rules 1307 and 1309 of the Listing Manual are met, but (i) the Offeror is not entitled to exercise its right of compulsory acquisition under Section 215(1) of the Companies Act; or (ii) Shareholders who have not accepted the Exit Offer are not entitled to require the Offeror to acquire their Shares at the Exit Offer Price under Section 215(3) of the Companies Act, the Company will be delisted, and Shareholders who do not accept the Exit Offer will continue to hold their Shares with the Company becoming an unlisted company.*

8.2.3 **Shareholders who wish to exercise their rights under Section 215(3) of the Act are advised to seek independent professional advice.”**

7.4 Implications of the Delisting for the Shareholders

The implications of the Delisting for the Shareholders set out in italics below have been extracted from the Circular. All terms and expressions used in the extract below shall have the same meanings as those defined in the Circular, unless otherwise stated. We recommend that Independent Directors advise the Shareholders to read Section 8.1 of the Circular carefully with respect to the implications of the Delisting.

“8.1 Implications of Delisting for Shareholders

*Shareholders should note that shares of unquoted companies are generally valued at a discount to the shares of comparable listed companies as a result of the lack of liquidity and marketability. **If the Company is delisted from the Official List of the SGX-ST, it is likely to be difficult for Shareholders who do not accept the Exit Offer to sell their Shares in the absence of a public market for the Shares as there is no arrangement for Shareholders to exit. Even if such Shareholders were able to sell their Shares, they may receive a lower price as compared to the Exit Offer Price.** Further, any transfer or sale of Shares represented by share certificates will be subject to a stamp duty.*

Shareholders should also note that, under the Code, except with the consent of the SIC, neither the Offeror nor any person acting in concert with it may, within six (6) months of the closure of the Exit Offer, make a second offer to, or acquire any Shares from, any Shareholder on terms better than those made available under the Exit Offer.

As an unquoted company, the Company will no longer be obliged to comply with the listing requirements of the SGX-ST, in particular the continuing corporate disclosure requirements under Chapter 7 and Appendices 7.1 to 7.4 of the Listing Manual. Nonetheless, as a company incorporated in Singapore, the Company will still need to comply with the Companies Act and its memorandum and articles of association and the interests of Shareholders who do not accept the Exit Offer will be protected to the extent provided for by the Companies Act which includes, inter alia, the entitlement to be sent a copy of the profit and loss accounts and balance sheet at least 14 days before each annual general meeting, at which the accounts will be presented.

If the Company is delisted from the Official List of the SGX-ST, each Shareholder who holds Shares that are deposited with CDP and does not accept the Exit Offer will be entitled to one share certificate representing his delisted Shares. The Share Registrar will arrange to forward the share certificates to such Shareholders (who are not CPFIS Investors), by ordinary post and at the Shareholders' own risk, to their respective addresses as such addresses appear in the records of CDP for their physical safekeeping. The share certificates belonging to CPFIS Investors who do not accept the Exit Offer will be forwarded to their respective CPF Agent Banks for their safekeeping.

Shareholders who are in doubt of their position should seek independent professional advice.”

7.5 The Offeror's intentions for the Company

We note from Section 7 of the Circular that the Offeror currently has no intention to (i) propose any major changes to the existing businesses of the Group; (ii) redeploy the fixed assets of the Group; or (iii) discontinue the employment of the employees of the Group, other than in the ordinary course of business. Nonetheless, the Offeror retains the flexibility at any time to consider options or opportunities in relation to the Group which may present themselves, and which it may regard to be in the interests of the Company.

Mr. Cui also confirmed to the Board that:

- (i) the Exit Offer is not made in contemplation of better terms and conditions for credit facilities for which he is a guarantor, internal or external restructuring of the Group's business or with an objective for relisting or sale of the Group or part of it;
- (ii) the Offeror has no intention to propose any major changes to the existing businesses of the Group or to relist the Company on the SGX-ST or any other stock exchange after the Delisting; and
- (iii) the Offeror has no intention to re-deploy the fixed assets of the Group for any purpose, other than in the ordinary course of business of the Group.

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7.6 Absence of competing offers

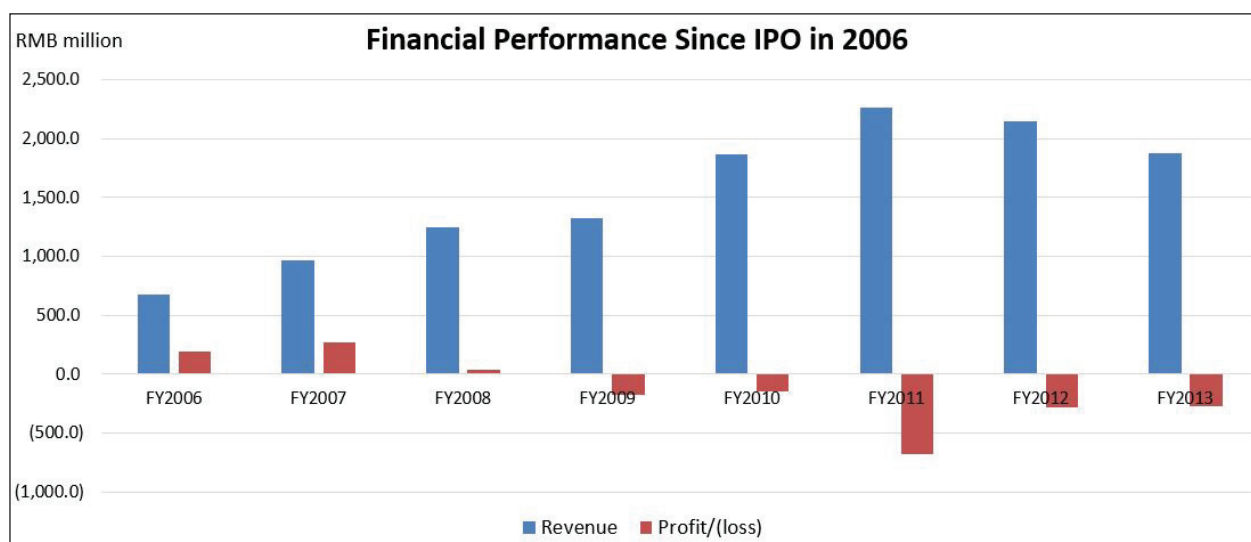
The Directors have confirmed that since the Announcement Date till the Latest Practicable Date, no competing offer has been received by the Company.

As at the Latest Practicable Date, the Offeror and its parties acting in concert hold approximately 52.23% of the total number of issued Shares. Under such circumstances, a competing offer for the Shares is unlikely to be forthcoming without the support of the Offeror in view of his majority control as represented by the percentage of the total number of Shares that the Offeror and its parties acting in concert hold as at the Latest Practicable Date.

7.7 Financial and Shares Performance since Initial Public Offering (“IPO”)

We note the Shares were officially listed on SGX-ST Mainboard on 21 December 2006 (“IPO Date”) at an issue price of S\$0.83 per Share, and subsequent to the IPO Date the Company has not conducted any corporate action involving issuance of Shares (save for issuance of the Warrants and Options).

The table below indicates the financial performance of the Group in terms of annual revenue and net profit (loss) after tax since IPO Date till the end of FY2013.



Source: the Group's annual reports

For illustrative purpose only, we note that:-

- The annual revenue of the Group increased from approximately RMB680.1 million in FY2006 to approximately RMB2.2586 billion in FY2011 but subsequently declined to approximately RMB2.1426 billion and RMB1.8792 billion in FY2012 and FY2013 respectively;
- The net profit after tax of the Group increased from approximately RMB191.5 million in FY2006 to approximately RMB265.0 million in FY2007 and subsequently declined to approximately RMB40.4 million in FY2008. Subsequent to FY2008, the Group recorded 5 years of consecutive losses from FY2009 to FY2013. We note that the losses after tax for the Group of approximately RMB285.9 million and RMB277.3 million for FY2012 and FY2013 respectively were substantially lower than the loss after tax of approximately RMB679.1 million recorded in FY2011 but higher than the losses after tax of approximately RMB171.3 million and RMB145.8 million recorded for FY2009 and FY2010 respectively.

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In summary, the historical performance of the Group in terms of revenue was generally on an upward trend between FY2006 and FY2011, and subsequently it experienced a declining trend between FY2011 and FY2013. The Group was profitable from FY2006 to FY2008, but subsequent to FY2008 the Group incurred consecutive losses from FY2009 to FY2013. With the significant amount of losses incurred, the Group's shareholders equity has dwindled significantly to approximately RMB239.6 million as at 31 December 2013. In the event that the Group's financial performance does not improve or if it continues to incur losses, its shareholders equity may be negative or "wiped-off".

Below is the table illustrates the historical market capitalisation of the Group since IPO Date to 31 December 2013:



Source: S&P Capital IQ

For illustration purpose only, we note that market capitalisation of the Group as implied by the IPO price of S\$0.83 per Share was approximately S\$1.0 billion, and subsequently it rose to its historical high of approximately S\$2.3 billion on 5 June 2007. The Group's market capitalisation has since been on a declining trend. As at the Latest Practicable Date, the market capitalisation of the Group was only approximately S\$65.2 million.

In addition, we also note that historically, the Shares were thinly traded. The daily average trading volume of the Shares, for the period commencing from 12 November 2012 (being the 12 month period prior to the Announcement Date) and ending on the Latest Practicable Date, was approximately 574,457 Shares, which represents approximately 0.12% of the issued Share capital held by Shareholders other than the Substantial Shareholders (including the Offeror and Concert Parties) and the Directors as at the Latest Practicable Date. In view of the limited liquidity for the Shares, the historically transacted prices for the Shares may not be a meaningful indicator of intrinsic value of the Shares.

7.8 Potential Watch-List Status and the Implication

7.8.1 Potential Watch-List Status

Pursuant to Rules 1311 of the Listing Manual, SGX-ST will place an issuer on the watch-list, if it records:-

- (1) pre-tax losses for the three (3) most recently completed consecutive financial years (based on the latest announced full year consolidated accounts, excluding exceptional or non-recurrent income and extraordinary items); and

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- (2) an average daily market capitalisation of less than \$40 million over the last 120 market days on which trading was not suspended or halted. For the purpose of this rule, trading is deemed to be suspended or halted if trading is ceased for a full market day.

On 29 February 2012, the Group announced that it had recorded three (3) consecutive years of losses for FY2009, FY2010 and FY2011. The market capitalisation of the Group as at 29 February 2012 based on the last market day on which trading was not suspended or halted, was S\$76.4 million.

On 4 March 2013, the Group announced, for the second time, that it had recorded three (3) consecutive years of losses for FY2010, FY2011 and FY2012. The market capitalisation of the Group as at 1 March 2013, the last market day on which trading was not suspended or halted, was S\$125.3 million.

On 1 March 2014, the Group announced, for the third time, that it had recorded three (3) consecutive years of losses for FY2011, FY2012 and FY2013. The market capitalisation of the Group as at 28 February 2014, the last market day on which trading was not suspended or halted, was S\$65.2 million.

We note that the Group had recorded five (5) consecutive years of the losses since FY2009. This appears to satisfy the loss condition as set out in Rule 1311(1) (stated above). We note that the market capitalisation of the Group has always been higher than S\$40 million and appears above the threshold as set out in Rule 1311. Although as at the Latest Practicable Date, the market capitalisation of the Group is approximately S\$65.2 million (higher than S\$40 million), there is no assurance that the market capitalisation for the Group will be maintained at the same levels given the historical trend of losses and the fact that the Group had incurred losses for the last five years with a loss of approximately RMB277.3 million for FY2013, which is more than the shareholders equity of approximately RMB239.6 million as at 31 December 2013.

For illustrative purpose only, we note that as at the Latest Practicable Date, the Selected Comparable Companies are traded, on average, at approximately 1.3 times of their respective NTA. In the event that the Group would also be traded at 1.3 times of its RNTA before deduction of LUR as at 31 March 2014, the market capitalisation of the Group would be approximately S\$17.3 million, which is below the S\$40 million threshold.

We wish to highlight to the Independent Directors that given the Group's current weak financial performance and position, without the continuous support from the controlling Shareholder and related parties there is no assurance that the Group will have sufficiency of working capital or cash to support its operations or repay its debt obligations as they become due or that its shareholders equity will not be wiped off.

Although the Exit Offer Price of S\$0.052 may provide support to the prices of the Shares and sustain the market capitalisation for the Group above S\$40 million, there is no assurance that the historical average number of Shares traded on a daily basis will be maintained or that the transacted prices for the Shares will be the same and at the levels prevailing during the period commencing from the Offer Announcement Date and ending on the Latest Practicable Date or maintained or decline further in the event that the Delisting conditions is not met and the Exit Offer lapses.

7.8.2 Implication of Watch-List Company

Pursuant to Rule 1315 of the Listing Manual, an issuer must take active steps to meet the requirements of Rule 1314. If the issuer fails to submit an application pursuant to Rule 1314 within 24 months of the date on which it was placed on the watch-list, the SGX-ST may either remove the issuer from the Official List, or suspend trading of the listed securities of the issuer (without the agreement of the issuer) with a view to removing the issuer from the Official List. Given the Exit Offer, the Delisting and the trend of losses with significant support from its controlling Shareholder and related company and the market conditions then prevailing, in the event that the Company is placed on the watch-list and a directed delisting occurs, there is no assurance that the Offeror will make an exit offer on similar terms.

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7.9 Material Litigation

We note from Appendix II of the Circular that as at the Latest Practicable Date, none of the Company or its subsidiaries is engaged in any material litigation, either as plaintiff or defendant, which might materially and adversely affect the financial position of the Company or the Group, taken as a whole, and the Directors are not aware of any litigation, claims or proceedings pending or threatened against the Company or any of its subsidiaries or any facts likely to give rise to any litigation, claims or proceedings which might materially and adversely affect the financial position of the Company or the Group, taken as a whole.

7.10 MEG Project

The following section, which is based on representations and confirmations from the Management and the Directors to us, provides a background and the current status of the Group's monoethylene glycol project and is presented herein for an understanding on the development of the status of the said project.

We understand from the discussions with the Directors and the Management that in March 2009, the Company's wholly-owned subsidiary, Jiutai Energy, signed an agreement with Shanghai Jiaotong University ("**Jiaotong University**") to develop a new production technique for monoethylene glycol ("**MEG**"). Subsequently, on 3 November 2010, the Board approved the budget of RMB39.0 million for a construction of a pilot trial plant ("**Pilot Plant**") for the MEG project ("**MEG Project**") with a capacity of 2,000 ton per annum. On 28 February 2012, with the approval from the Board, the budget had been revised upward to RMB76.0 million.

The coal to MEG production technique ("**Technology**"), which was developed by Jiaotong University in collaboration with Jiutai Energy, was examined by the National Energy Administration of the People's Republic of China (国家能源局) (the "**PRC NEA**") and the PRC NEA had on 12 October 2012 issued a certificate on the Technology (the "**Certificate**") that, *inter alia*, the Technology was assessed to be comparable to international advanced standards had the potential for commercialisation. The purposes of obtaining the Certificate were first to obtain an independent validation of the feasibility of the Technology used in the Pilot Plant, and secondly to enhance its attractiveness and credibility to the banks in its effort to obtain funding for the MEG Project. The Management has represented to us, based on the Certificate, that:

- (i) Subject to conditions, including but not limited to market, capacity, price and government policies, once the Technology matures, the application of the Technology in the next three to five years should be quite broad;
- (ii) Based on the results from the Pilot Plant and computer software simulation of the production process of MEG production plant with a capacity of 400,000 tons ("**Plant**") per annum and the feasibility study of the Plant with an estimated initial investment of approximately RMB1.0 billion, there would be savings of approximately 40% and 60% for steam and electricity respectively as compared to other publicly known production processes and cost of investment for the Plant could be recovered within three years. These factors formed, amongst others, the basis of the view expressed in the Certificate that the Technology is at the forefront of coal to MEG production techniques, technically reasonable and commercially feasible.
- (iii) The main technical and commercial indicators from the Pilot Plant are found to be comparable to the international advanced standards and the result of the Pilot Plant has potential for commercial production.

On 7 November 2012, after due deliberation, the Board was of the view that the construction of the MEG production plant was the most viable strategy for the Group as MEG, which has higher gross profit margin as compared to methanol, would rejuvenate under-utilised Methanol Phase II Plant; replace the Group's loss making methanol business; and form a new revenue stream for the Group. We understand from the discussion with the Directors that based on the then available information presented by and the internal computation performed by the Management in November 2012, the MEG Project appears to be feasible with a positive net present value as at that time. Subsequently, on 18 December 2012, the Board approved a budget of approximately RMB660.0 million of additional investment for the MEG Project.

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We note on 4 January 2013, the Company received queries from the SGX-ST regarding a substantial increase in the price of Shares from the closing price of S\$0.085 on 3 January 2013 to the highest transacted price of S\$0.151 and close price of S\$0.135 on 4 January 2013. In its response, the Company highlighted that, *inter alia*, the Group had completed trial production of MEG at a pilot plant in Linyi (Shandong Province) using the Technology. The Technology had been vetted by the PRC NEA to be comparable to international advanced standards and had the potential for commercialisation. The terms of use of the Technology were still under discussion. In relation to the commercialisation of the Technology, the Group was still in the midst of exploring all the options that were available to the Group. The impact of the Technology, if any, on the future performance of the Group was uncertain. In addition, the Company also noted that there was an article in Lianhe Zaobao (联合早报) dated 4 January 2013 in which the Company's name was mentioned (“**Article**”). The Article was not solicited nor authorised by the Company and the Company did not comment on the Article.

On 1 March 2013, the Company announced its results for FY2012 and included the following information on the MEG Project:-

“Notes to Consolidated Income Statement

1(a) Background information relating to the Group's Methanol Assets

The Group has two operational methanol plants with an annual combined capacity of 250,000 tons (“Methanol Phase I & II”) and it has started the construction of an additional 500,000 tons per annum (“tpa”) plant (“Methanol Phase III”). All the methanol plants are held by Jiutai Energy Technology Co., Ltd. (“Jiutai Energy”), a wholly-owned subsidiary of the Company. With the onset of the financial crisis in 4QFY2008, the Group slowed the pace of construction at Methanol Phase III to conserve cash.

The Group's methanol plants employ a coal-to-methanol technology that requires the use of a specific type of coal (feedstock) known as anthracite coal. The price of anthracite coal ranged from RMB 700/ton to RMB 800/ton between FY2006 and FY2007 and had increased to an all time high of RMB 1,800/ton in FY2008. It has since stabilised at around RMB 1,400/ton to RMB 1,500/ton in FY2010 to FY2012. As the technology employed for the production of methanol is dependent on the type of coal selected at the plant's design stage, it is not possible to change to another type of coal without affecting the efficiency of the plant.

Since 4QFY2008, the price of anthracite coal (feedstock for our in-house methanol plants) has remained high. Thus, it was more cost effective for the Group to purchase methanol (feedstock for DME) from the spot market than to produce it in-house. This resulted in the under utilization of the Group's methanol production facilities, which contributed to the losses over the past four financial years.

Background information relating to the Group's DME Assets in Linyi, Shandong Province

The Group has five DME plants with an annual combined capacity of 900,000 tpa, three of which are located in Linyi, Shandong Province. These three plants are operated by the Company's wholly-owned subsidiary, Linyi Jiuxin Energy Co., Ltd. (“Jiuxin”). These three plants, namely DME Phase I, II and III, has an annual capacity of 50,000 tons, 100,000 tons and 250,000 tons respectively.

Background information relating to the Monoethylene Glycol (“MEG”) Project

MEG is used in the production of Polyester Fiber, Polyester Plastics for packaging and as antifreeze in automotive cooling systems.

On 4 January 2013, the Company announced that the Group had completed trial production of MEG at a pilot plant in Linyi (Shandong Province) using a production technology jointly developed by Jiutai Energy and Shanghai Jiaotong University (“Technology”). The Technology has been vetted by the National Energy Administration of the People's Republic of China (能源局国家) to be comparable to international advanced standards and has the potential for commercialisation.

MEG can be derived from coal, crude oil and natural gas. From a technical perspective, this is in line with our existing methanol production technique since the existing production of methanol also requires the gasification of coal. As part of the Group's efforts to diversify its products and better utilise its existing methanol plants, the Group has been exploring various options in relation to the Technology.

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The Board has entrusted the CEO, Chairman and controlling shareholder, Cui Lianguo, to source the necessary funds to enable the Group to pursue the option of commercialising the Technology through the building of a 100,000 tpa MEG plant in Linyi (“MEG Project”). As part of the preparation work for the MEG Project, the Group has identified the areas currently occupied by Methanol Phase II (annual capacity: 170,000 tons) and DME Phase I and II (annual combined capacity: 150,000 tons) as the site for the MEG Project. Hence, Methanol Phase II and DME Phase I and II will be deconstructed.

The Group has undertaken a review of the property, plant and equipment of Methanol Phase II and DME Phase I and II and it has identified the assets that have to be written off to make way for the MEG Project. Those assets pertaining to the gasification of coal (part of the property, plant and equipment of Methanol Phase II), assets that can be deployed for the MEG project, Methanol Phase III and other DME plants have been retained while the remaining assets were written off (“Write-off”).

Subsequent to the Write-off, the Group’s methanol and DME capacities are as follows:

<i>tons/annum</i>	Linyi (Shandong)	Nansha (Guangdong)	Zhangjiagang (Jiangsu)	Total
DME	250,000	200,000	300,000	750,000
Methanol	80,000	–	–	80,000

(i) Information relating to the Write-off amounting to RMB 73.9 million in 4QFY2012 and FY2012

Other expenses for 4QFY2012 and FY2012 consisted of a RMB 73.9 million in assets written off in preparation for the launch of the MEG Project. The details of the Write-off are as follows:

RMB’000	Net book value as at 31 December 2012 prior to the write off	Amount written off	Proportion of assets written off
Methanol Phase II assets	161,741	30,537	19%
DME Phase I and II assets	70,940	43,377	61%
Total	232,681	73,914	32%

On 1 March 2014, the Company announced its results for FY2013 and included the following information on the MEG Project:-

“Information relating to the write-off amounting to RMB 21.1 million during FY2013 and RMB 73.9 million in FY2012

In the fourth quarter ended 31 December 2012 (“4QFY2012”) the Group announced that in preparation for the launch of the Monoethylene Glycol (“MEG”) Project, the Group undertook a review of the property, plant and equipment of Methanol Phase II and DME Phase I and II and identified the assets that had to be written off to make way for the MEG Project. Those assets pertaining to the gasification of coal (part of the property, plant and equipment of Methanol Phase II); assets that can be deployed for the MEG project, Methanol Phase III and other DME plants have been retained while the remaining assets were written off. As a result, the Group wrote-off assets amounting to RMB 73.9 million, of which RMB 30.5 million pertained to Methanol Phase II and RMB 43.4 million pertained to DME Phase I & II. Please refer to the results announcement dated 1 March 2013.

In the third quarter ended 30 September 2013 (“3QFY2013”), the Group has completed the deconstruction of DME Phase I & II and Methanol Phase II, RMB 1.9 million of assets pertaining to Methanol Phase II and RMB 19.2 million of assets pertaining to DME Phase I & II were found to undeployable for MEG Project, Methanol Phase III and other DME plants. Hence, RMB 21.1 million of assets was written-off to the consolidated income statement.

The RMB 19.2 million of DME Phase I & II assets written-off pertained largely to reactors and storages facilities. These assets were originally assessed to be usable by other DME plants. However, subsequent to the completion of their deconstruction they were assessed as unusable. Please refer to the results announcement dated 8 November 2013.”

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Costs capitalised as at the 31 March 2014

Based on the information provided by the Management, we tabulate below the approved budget and the amount of cost that pertains to the MEG Project (which was capitalised as at 31 March 2014):-

Figures in RMB'000	Approved Budget	Amount Capitalised
Existing Methanol Phase II to be deployed to MEG	93,206	71,754
Additional Investment	659,974	231,083
DME Phase I & II to be deployed to MEG	–	5,952
Total	753,180	308,789

In addition to the above, Directors have confirmed that as at 31 December 2013, the Group has signed contracts relating to structural work and equipment purchases which resulted in additional capital commitment of approximately RMB248.2 million. During FY2013, approximately RMB99.9 million was incurred in relation to the MEG project and this was largely financed by interest-free advances from related parties. Currently, the construction pace of the MEG Project is determined by the amount of available funding from related parties and the progress on the finalization of the Technology. Based on the Company's projection, on the basis the funding is forthcoming, the individual systems testing may be delayed until 2015.

In the event that the funding is not forthcoming, the progress of MEG Project will be delayed and will be subjected to risks of technology obsolescence, changes in MEG prices and cost structure, which will affect the viability of the MEG Project.

As at 31 March 2014, the amount capitalized amounted to approximately RMB308.8 million as compared to approximately RMB254.4 million as at 31 December 2013. The increase is mainly attributable to structural work and downpayment for equipment.

Status of the MEG Project

The Management has informed us that as at the Latest Practicable Date, the Group has not finalised the MEG Project and the production of MEG has not commenced for the following reasons, *inter alia*,:-

- (i) The Group has not been able to secure sufficient funding to fully develop the Group's MEG production facilities for commercial production and there has been no offer in any form from any financial institution or potential investors for the Group's MEG production facility as a result of the continued losses suffered by the Group and its weak financial position as well as the technical and commercial uncertainties, viability of the MEG Project and its profitability, scalability and ability to service the debt and interests, banks and potential investors are not willing to support the MEG Project.

Mr. Cui has also confirmed to the Board of Directors that despite he has been tasked by the Board to source for funding for the Group's MEG Project, he has not been successful in securing funding in any form nor offer to acquire or invests or form partnership/alliances for the Technology or the MEG Project or subsidiaries undertaking the MEG Project or owning the auxiliary patents for the MEG Project as currently, financial institutions and/or other investors are not prepared to provide the necessary financing. Based on the confirmation from Mr Cui, the Management is of the view that financing from financial institutions (with or without support of related parties) for the MEG Project is difficult within the next one year.

Subsequent to obtaining the Certificate and the Appraisal Certificate for Scientific and Technological Achievements (No. [2012] 1453) issued by Department of Science & Technology of Shandong Province (the "**Appraisal Certificate**"), there are still difficulties encountered by the Company in securing the needed financing for the construction of the MEG Plant. The Management understands from the lenders and investors approached that as there are significant technical uncertainties for full scale production for the MEG Project and as its cash flow or profitability or ability to service debt obligations will be dependent on the then prevailing market conditions when such uncertainties are resolved, it is currently at the present state of development where financial institutions and other investors are not prepared to provide the necessary financing.

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Mr. Cui has also confirmed to the Board of Directors that none of the related parties of the Group has embarked on the construction of any MEG plants based on the Technology.

- (ii) The transmittance of the MEG produced by the Pilot Plant has not been stable and has yet to achieve standards required for commercial products.
- (iii) During FY2013, approximately RMB99.9 million was incurred in relation to the MEG project and this was largely financed by interest-free advances from related parties of the Group. Currently, the construction pace of the MEG Project is determined by the amount of available funding from related parties and the progress on the finalisation of the Technology Package. We understand from Directors and Management that as the funding for the MEG Project is not available, testing for each of individual systems may be delayed until 2015.
- (iv) The Management has confirmed that the Group has not finalized the design for the MEG Project as the Technology Package is still not finalized and the production of MEG has not commenced.

As at the Latest Practicable Date, the Directors and the Management are of the view that setting aside the funding issue, the MEG Project remain feasible and viable.

We had discussions with the Directors and the Management, *inter alia*, on the need for an independent valuation of the Technology or the MEG Project, as well as the status of the Technology or the MEG Project in terms of funding, technical and commercialisation feasibility, and market condition in the PRC. On the valuation for the Technology and the MEG Project, the Directors and the Management have represented the following:-

- (i) The core patent for the Technology is owned by Jiaotong University. Despite the fact that the Group has developed some auxiliary patents as a result of the trial production, these patents do not have any value independent of the core patent owned by Jiaotong University and cannot be used on its own or sold to any third party without the consent/concurrence of Jiaotong University and the use of these patents, as far as the Management and the Directors are aware, is strictly restricted to the Technology for which Jiaotong University has obtained and is the registered owner of the patent. The auxiliary patents are registered in the name of Jiutai Energy.
- (ii) Notwithstanding the views expressed in the Certificate and the Appraisal Certificate that the Technology employed by the Pilot Plant is economically feasible and possesses the technological requisites for large scale commercialization, the Directors and the Management are of the opinion that the implementation of the Technology for large scale commercial production would involve significant technical uncertainties, *inter alia*, uncertainties in scalability, stability of the Technology in large scale commercial production, fine-tuning and calibration of production equipment, and fluctuation in the costs of raw materials and selling prices (after relevant government subsidy, if any) as well as the uncertainty in the amount of time required to calibrate and optimise the production.

These factors have resulted in significant uncertainties as to the ability of the Technology and the MEG Project in securing financing as well as achieving economically viable results. Such uncertainties in cost for production and operation of the MEG Project would have significant influence on the ability of the MEG Plant to produce at yields desired and profitability/cash flows required for it to secure loans or financing from financial institutions even after taking into account, where applicable, any governmental subsidies or grants. Furthermore, as there are significant technical uncertainties for full scale production for the MEG Project and as its ability to obtain financing or profitability or ability to service debt obligations will be dependent on the then prevailing market conditions, it is currently at the present state of development not able to obtain financing.

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- (iii) Based on the budget for the MEG Plant, the additional investment required for the MEG plant with an annual capacity of 100,000 tons would be approximately RMB660.0 million. The Directors and the Management are of the view that given the current financial position and performance of the Group and taking into account the current banking environment in the PRC, it would be difficult to raise such amount of capital.

The Directors, the Management and Mr. Cui confirmed that as at the Latest Practicable Date that they have not been able to secure sufficient funding to fully develop the Group's MEG production facilities for commercial production and there has been no offer in any form from any financial institution or potential investors. Furthermore based on the discussions with potential valuers, Management and Directors understand that given the limited nature and use of the patents or the auxiliary patent (for use of the MEG Project or such other projects) developed by the Group the valuation of such patents will not yield any meaningful results.

Mr. Cui has also confirmed that despite he has been tasked by the Board of the Company to source for funding for the Group's MEG Project, he has not been successful in securing any funding in any forms or offer to acquire or invest or form partnership for the Technology or the MEG Project or subsidiaries undertaking the MEG Project or owning the auxiliary patents for the MEG Project by any third parties. Management is not aware of the availability of any funding or support from any governmental agency for the implementation of the Technology and the MEG Project including its financing.

In view of the above the Directors are of the view that given the present stage of development, uncertainties in relation to the use of the Technology and the MEG Project, Jiaotong University's ownership of the core patent for the Technology and limited nature and use of the patents or the auxiliary patent (for use of the MEG Project or such other projects) developed by the Group, the inability to raise financing (debt or equity or hybrids), there is no material value in the Technology, save for the amounts provided for or recorded in the audited financial statements of the Group, being capitalization of the cost incurred to date. Accordingly, the Directors have not commissioned an independent valuation of the Technology or the MEG Project. In addition, the Directors and the Management have confirmed that the impact of the Technology or the patent or the auxiliary patent (for use of the MEG Project or such other projects) or the rights to use the Technology or the MEG Project on the Group's financial position and performance (including the estimated future profit or loss as well as the estimated costs to be incurred) cannot be measured with certainty as at the Latest Practicable Date given that the successful realisation of the future economic benefit of the Technology or the patent or the auxiliary patent (for use of the MEG Project or such other projects) or the rights to use the Technology in relation to the MEG Project or the MEG Project itself will depend on, *inter alia*, the following matters:-

- (a) the ability of the Group and Mr. Cui to secure funding or financing for the additional investment and if such financing is obtained, the appropriate returns that justifies the risk involved;
- (b) timely, efficient execution and completion of the MEG Project including the design, construction and customisation needed for full scale commercial production as well as the attendant cost involved after taking into account the time needed for fine tuning, adjustments, re-engineering of the process for use in the MEG Project;
- (c) the yet to be achieved stability of the Technology for use in large scale commercial production;
- (d) the industry prospects, economic and market conditions prevailing at the time of full scale commercial production including but not limited to the costs of raw materials and selling prices in the markets which the Group operates in.

We note, as represented and confirmed by Management and Directors:

- (a) the inability of the Group to stabilise the production process for the Technology and the MEG Project;

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- (b) the limited nature and use of the patents or the auxiliary patent (for use of the MEG Project or such other projects) developed by the Group;
- (c) the uncertainty with respect to the time taken to stabilise the Technology or production process and launch of full commercial production;
- (d) the time required after stabilisation of the Technology for the design and construction of the plant for commercial production as well as the capital intensive nature of the MEG Project and requirements for financing;
- (e) the inability of the Group to raise financing and currently “unbankable” nature of the MEG Project;
- (f) the competitive nature of the industry that the Group operates in and the influence of domestic and international prices of MEG and substitute/complementary products on the revenues/cost structure for the MEG Project and the uncertainties in achieving economically viable results.

Furthermore, the impact of the fair value of the MEG Project on the Group is subject to assumptions of future prices of “feedstock” and selling prices of MEG produced or processed prevailing at time of launch of commercial production as well as ability to raise financing, interest rates and required return on capital. Given the Group’s current weak financial performance and high leverage there are uncertainties as to ability of the Group to raise the required financing and participate meaningfully in the MEG Project which is capital intensive in nature. As the Group’s ability to realise the benefits of the MEG Project and the Technology requires further investments in plant and equipment as well as cost for stabilising processes, it is not inconceivable that more investments or equity may be required before the results of the Technology or the MEG Project becomes certain or tangible for a project which we understand from the Directors is currently uncertain as to the timing and amount or type of returns.

Accordingly, we expressed no views with regards to the impact of the MEG Project or the Technology or the patent or the auxiliary patent (for use of the MEG Project or such other projects) or the rights to use the Technology on the NAV or NTA or the prospects of the Group in terms of, *inter alia*, the estimated fair value or future value or profits or loss as well as the estimated future investments to be incurred and our assessment, opinion and recommendations are necessarily limited and subject to it.

The Directors confirmed that, save as disclosed in the Company’s announcements on the SGX-ST, annual reports as well as the Circular, the Company and its subsidiaries are not pursuing any other projects.

8. OUR OPINION

In arriving at our opinion in respect of the Exit Offer, we have taken into account, *inter alia*, the following factors which we consider to have a significant bearing on our assessment as summarised below and as elaborated elsewhere in this Letter. In view of uncertainties as expressed and confirmed by Directors and Management, as at the Latest Practicable Date, on the impact of the Technology, the patents or auxiliary patents (for use of the MEG Project or such other projects) or the rights to use the Technology in relation to the MEG Project or the MEG Project itself or the commercial use or applicability of such patents or auxiliary patents for projects of a similar or different nature or the commercial value of such patents on the Group’s financial performance and financial position (including the estimated future profit or loss as well as the estimated cost to be incurred), no independent valuation report on the Technology or the MEG Project was provided to us and our views, opinion and recommendation are necessarily limited and subject to these matters or the lack of an independent valuation or such opinions from relevant technical experts. The following is purely a summary of the factors that have been highlighted in this Letter and Shareholders should be advised to read the following in conjunction with, and in the context of, the full text of this Letter:-

- (a) The rationale for the Delisting as set out in Section 7 of the Circular.

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- (b) The current financial performance and financial position of the Group. The Group had reported 5 years of consecutive losses since FY2009. In FY2013, the Group registered a loss after taxation attributable to equity holders of approximately RMB277.3 million as compared to a loss after taxation attributable to equity holders of approximately RMB285.9 million in FY2012. It is noted that the loss after tax attributable to equity holders of the Company of approximately RMB277.3 million in FY2013 was mainly attributable to, *inter alia*, the gross loss of approximately RMB11.4 million, operating expenses of approximately RMB293.7 million and offset by other items of income of approximately RMB28.1 million. The Group continued to register losses in 1Q2014 as compared to 1Q2013, with a larger loss attributable to equity holders and gross loss for 1Q2014 as compared to 1Q2013 (and with both its gross loss and net loss margins widening).

In addition, Independent Directors should note that the Group's shareholders' equity of approximately RMB239.6 million as at 31 December 2013 is lower than the loss after tax of approximately RMB277.3 million that was registered for FY2013. Shareholders' equity was further eroded in 1Q2014 due to loss incurred in 1Q2014. As at 31 March 2014, the Group's shareholders' equity was reduced to approximately RMB143.2 million. In the event that the Group continues to record losses (after FY2013 or 1Q2014 respectively) of the same magnitude as in FY2013 or 1Q2014, shareholders' equity for the Group may become negative without any capital increase.

The Group had negative working capital position of approximately RMB1.6516 billion as at 31 March 2014 and borrowings (including bills payables and interest-free advances from Jiutai Chemical) of approximately RMB2.6277 billion as at 31 March 2014 are due within the next one year. Further, Management and Directors have confirmed that given the past historical financial performance recorded, the Group's ability to manage the gross loss will continue to be challenging with the current demand and supply conditions for its raw materials/products (primarily coal and methanol), the Group's efforts to fine-tune and calibrate its manufacturing equipment and processes for viable and profitable MEG production (in the event it is successful in its optimisation of the technology, design and process to produce MEG products). The efforts to optimise the technology, design and process has been on-going for the past 2 years. The successful commercialisation of the Group's MEG production based on such technologies, will be dependent *inter alia* on the market prices for end products and the feedstock used by the Group, namely coal (both of which are subject to market and competitive forces).

We note that with these challenging conditions and in the absence of favourable market conditions as well as commercially successful optimisation or conclusion in its efforts to fine-tune the production process and availability of financial resources to finance the commercialisation in a timely manner, and unless such conditions are changed or managed (if at all possible), the Group may have to continue to operate with weak financial performance and condition, dwindling equity and working capital with increasing reliance on borrowings.

The above is assessed in conjunction with Directors' confirmation that as at the Latest Practicable Date and save for matters disclosed in this Letter and the audited financial statements for the Group for FY2013 and unaudited financial statement for 1Q2014, there has been no material changes to the Group's assets and liabilities, financial position, condition and performance or in the Group's efforts or success in the technology, design and process for production of MEG as well as its commercialisation.

- (c) The emphasis of matter relating to, *inter alia*, going concern assumption as described in AR2013 and Section 6.2 of this Letter. We note from AR2013, that for FY2013, the Group remained in a loss-making position with its current liabilities exceeding current assets by approximately RMB1.5014 billion. Given the Group's negative working capital, trend of losses and dwindling shareholders equity, there are uncertainties which may cast significant doubts as to the ability of the Group to continue as a going concern.

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- (d) For the Group's working capital and continuous operations, the Group has been relying significantly on the continuous support (including *inter alia*, guarantees, commitment and interest-free advances) from the related parties, including Mr. Cui the sole shareholder and director of the Offeror. The Management confirmed that as at 31 March 2014, Mr. Cui had provided guarantees for an aggregate amount of approximately RMB450.0 million of the Group's existing credit facilities from external lenders, and of which approximately RMB449.8 million has been utilised by the Group. We note that (i) the amount of financial supports (in terms of guarantees) provided by Mr. Cui represents approximately 3.1 times of the Group shareholder's equity of approximately RMB143.2 million as at 31 March 2014 and approximately 17.1% of the Group's total borrowings (including bills payables and interest-free advances from Jiutai Chemical); and (ii) the amount of financial supports (in terms of guarantees) provided by Mr. Cui together with the interest-free advances from Jiutai Chemical (which is controlled by Mr. Cui) represents approximately 5.6 times of the Group shareholder's equity of approximately RMB143.2 million as at 31 March 2014 and approximately 30.8% of the Group's total borrowings (including bills payables and interest-free advances from Jiutai Chemical).

We also note from the Independent Auditors' Report and the Company's announcement dated 15 May 2014 that the financial support from related parties, for a period of not less than one year from 11 April 2014, will be available so long as Mr. Cui 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.

We understand from Management and Directors and note that whilst Mr. Cui is a guarantor for approximately 19.8% of the Group's existing loans and bills payables (for which the Group is dependent on for its operations and obligations) and while banks may not allow for a termination of his continued support without recourse to the guarantor or such other arrangements that may exist with the banks, there is likewise no assurance that such commitment or support or guarantees will continue to be made available to the Group for the financial years or periods subsequent to FY2014 and thereafter (and that may include periods after the Exit Offer) and this is irrespective of the outcome of the Exit Offer. Likewise we note from confirmations from Mr. Cui to the Company, that as at the Latest Practicable Date, the Exit Offer is not made in contemplation of better terms and conditions for credit facilities for which he is a guarantor, internal or external restructuring of the Group's business or with an objective for relisting or sale of the Group or part of it. We note from confirmations from Mr. Cui to the Company that the Offeror has no intention to propose any major changes to the existing business of the Group or to relist the Company on the SGX-ST or any other stock exchange after the Delisting.

- (e) The Exit Offer Price represents a premium of approximately 126.4% over both the Group's NAV per Share or NTA before deduction of LUR per Share as at 31 March 2014 respectively. In view of the different accounting treatments of LUR across various accounting standards, on the assumption that the LUR is deemed as intangible assets and deducted from the computation of the Group's NTA, the Group's NTA after deduction of LUR per Share is negative as compared to the Exit Offer Price.

Taking into account the adjustment for the market value for the Appraised Assets, the Exit Offer Price represents a premium of approximately 388.4% over both the Group's RNAV or RNTA per Share respectively before deduction of LUR per Share as at 31 March 2014 as the RNAV and RNTA after deduction of revaluation deficit of the Appraised Assets but before deduction of LUR is approximately RMB66.4 million as compared to the value of the Company as implied by the Exit Offer Price of approximately RMB324.1 million.

- (f) The Exit Offer Price (as set out in Section 6 of this Letter) after taking into account, *inter alia*, the following factors:-
- (i) The Exit Offer Price represents a discount of approximately 14.8% from the last transacted price of S\$0.061 per Share on the SGX-ST on 8 November 2013 (being the last Trading Day for the Shares prior to the Announcement Date).

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- (ii) The Exit Offer Price represents a discount of approximately 46.5%, 23.6%, 20.6%, and 13.0% from the VWCP for the Shares for 12-month, 6-month, 3-month and 1-month period prior to the Announcement Date respectively as the VWCP declined in general over the periods prior to the Announcement Date, and this may be reflective of the Group's deteriorating financial condition and continued losses during the 12-month period prior to the Delisting Proposal.
- (iii) The Exit Offer Price represents a slight discount of approximately 0.5% from the VWCP for the Shares for the period commencing from the Market Day immediately after the Announcement Date and ending on the Latest Practicable Date. This may *inter alia* reflect the perception of the market and Shareholders (other than the Offeror or the Concert Parties), as the Offeror and Concert Parties as at the Latest Practicable Date holds approximately 52.23% of the Share capital with no known and announced Share transaction for the period subsequent to the Announcement.
- (iv) As at the Latest Practicable Date, the last transacted price of S\$0.052 per Share on the SGX-ST is equivalent to the Exit Offer Price, and may reflect in general the market's perception of the acceptability of the Exit Offer or the deteriorating fundamentals. We note that, for the period immediately after the Announcement Date and ending on the Latest Practicable Date, save for the announcement of the financial results, performance and position of the Group there were no other announcements or updates for the Group's efforts on the MEG Project or transactions in Shares by the Offeror or parties acting in concert who already owns, control or have agreed to acquire approximately 52.23% of all the issued Shares and already have significant influence and control.
- (v) The historical financial performance and position of the Group appear to be substantially weaker and less favourable than the Selected Comparable Companies with net losses, negative EBITDA and with the ratio of total borrowings to shareholders equity of approximately 9.0 times as at 31 December 2013. The Group has been loss making for the last five (5) consecutive financial years. In addition, revenues for the Group had declined significantly since FY2012 and though the losses after tax of approximately RMB285.9 million and RMB277.3 million for FY2012 and FY2013 respectively were substantially lower than the loss after tax of approximately RMB679.1 million that was recorded in FY2011, it is higher than the losses after tax of approximately RMB171.3 million and RMB145.8 million registered for in FY2009 and FY2010 respectively.

The valuation of the Group in terms of EV/EBITDA and PER ratios are negative due to the losses incurred and negative EBITDA for the Group in FY2013 and 1Q2014. For illustrative purpose only, the Selected Comparable Companies were all profitable and had traded at PERs of 6.9 times to 28.5 times (with the exception of SLC which registered losses during the period) and EV/EBITDA ratios of 4.7 times to 86.5 times.

The valuation of the Group in terms of P/NAV and P/NTA (as implied by the Exit Offer Price, and the Group's NAV and NTA before deduction of LUR as at 31 December 2013) is within the range and slightly higher than the simple average and median for the Selected Comparable Companies (whose values for NAV and NTA for the computations above, includes LUR), notwithstanding the losses, negative EBITDA and weak financial performance and condition for the Group.

The valuation of the Group in terms of P/NAV and P/NTA (as implied by the Exit Offer Price, and the Group's NAV and NTA before deduction of LUR as at 31 March 2014 as well as the Group's RNAV and RNTA before deduction of LUR as at 31 March 2014) is higher than any of the Selected Comparable Companies (whose values for NAV and NTA for the computations above, includes LUR).

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It is noted that based on their respective unaudited financial statement for 1Q2014, the Selected Comparable Companies are traded at an average P/NAV and P/NTA of approximately 1.3 times and 1.3 times respectively, and these are lower than the valuation of the Group (as implied by the Exit Offer Price, and the Group's NAV and NTA before deduction of LUR as at 31 March 2014 as well as the Group's RNAV and RNTA before deduction of LUR as at 31 March 2014).

The premium implied by the Exit Offer Price over the Group's Adjusted RNAV or RNTA before deduction of LUR per Share (as at 31 March 2014) is higher than any of the Selected Comparable Companies over their respective NTA.

The Independent Directors are advised to review the Exit Offer and valuation ratios in the context of the Group's weaker financial performance (in terms of negative ROE and negative net profit margin as well as the losses recorded in the last five consecutive financial years) and financial positions in terms of total liabilities to shareholders' equity and total borrowings to shareholders' equity, as well as the fact that as at the Latest Practicable Date, the Offeror and parties acting in concert, who already own, control or have agreed to acquire approximately 52.23% of all the issued Shares and already have significant influence and control.

- (vi) The valuation of the Company as implied by the discount of the Exit Offer Price from historical prices for Shares appears to be less favourable than the premiums recorded for both Selected Successful Delistings and the Selected Successful Privatisations. The less favourable discounts represented by the Exit Offer Price over historical market prices as compared to the Selected Successful Delistings and the Selected Successful Privatisations should be assessed in the context of the higher P/NTA (as implied by the Exit Offer Price and the Group's RNTA before deduction of LUR per Share as at 31 March 2014) as compared to the Selected Successful Privatisations and Selected Successful Delistings as well as the Group's weaker financial performance and position (as most of the companies under the Selected Successful Delistings and the Selected Successful Privatisations were profit making).

The valuation of the Company (as implied by the Exit Offer Price and the Group's Adjusted RNTA before deduction of LUR as at 31 March 2014) in terms of P/NTA of approximately 2.1 times is within the range and higher than the simple average and median for the Selected Successful Privatisations and Selected Successful Delistings.

- (g) Our analysis as set out in section 6.7 of our Letter suggests that the Company have not paid any dividends since its IPO in 2006. Thus, a Shareholder who accepts the Exit Offer may potentially experience an increase in investment income if he re-invests the proceeds in the shares of any of the Selected Comparable Companies (save for SLC and Jiutian) or the STI ETF (based on the assumption that the Company and the relevant Selected Comparable Companies and the STI ETF maintain their respective net dividend per share at the same level as that in their last financial year).
- (h) As at the Latest Practicable Date, the Offeror and its Concert Parties owns or control approximately 52.23% of all the issued Shares. The Company's free float is approximately 37.76%. Independent Shareholders should note that the Exit Offer is made pursuant to the Delisting and that the Offeror does not intend to preserve the listing status of the Company. Accordingly, the Offeror when entitled, intends to exercise its rights to compulsorily acquire all the Shares from Shareholders who have not accepted the Exit Offer.

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- (i) Shareholders should note that under Rule 1307 of the Listing Manual, all Shareholders (including the Offeror and parties acting in concert with the Offeror who hold Shares) are entitled to vote on the Delisting Resolution. As at the Latest Practicable Date, the Offeror, and its Concert Parties collectively hold an aggregate of 654,351,400 Shares, representing approximately 52.23% of the existing issued Share capital. Based on the Irrevocable Undertaking, Mr. Cui has undertaken to, *inter alia*, vote in favour of the Delisting Resolution at the EGM and to accept the Exit Offer in respect of the Cui's Shares. We further note that passing of the Delisting Resolution will still require approximately 22.77% of votes in favour the Delisting Resolution and is subject to the Delisting Resolution not being voted against by 10% or more of the total number of Shares (excluding treasury shares) held by Shareholders present and voting, on a poll, either in person or by proxy at the EGM.
 - (j) The Directors have confirmed that since the Announcement Date till the Latest Practicable Date, no competing offer has been received by the Company. A competing offer for the Shares is unlikely to be forthcoming without the support of the Offeror in view of his majority control as represented by the percentage of the total number of Shares that the Offeror and its parties acting in concert hold as at the Latest Practicable Date.
 - (k) The financial and Shares performance of the Group since its IPO as set out in Section 7.7 of this Letter. The Group incurred losses in the last five consecutive financial years. We note that the losses after tax for the Group of approximately RMB285.9 million and RMB277.3 million in FY2012 and FY2013 respectively were substantially lower than the loss after tax of approximately RMB679.1 million recorded in FY2011 but higher than the losses after tax of approximately RMB171.3 million and RMB145.8 million recorded in FY2009 and FY2010 respectively. In addition, the Group's market capitalisation has declined substantially from approximately S\$1.0 billion (as at IPO) to approximately S\$65.2 million as at the Latest Practicable Date.
 - (l) The Group has already incurred five consecutive years of losses, and pursuant to Rule 1311 of the Listing Manual, the Group announced three (3) consecutive years of losses in FY2011, FY2012, and FY2013. As such one of the criteria as set out in Rule 1311 regarding the Watch-List status may have been fulfilled. As at the Latest Practicable Date, the market capitalisation of the Group was approximately S\$65.2 million, which is above the other watch list condition being market capitalisation of less than S\$40 million. There is no assurance that the market capitalisation for the Group will be maintained at the same levels given the historical trend of losses and the fact that the Group had incurred losses for the last five years with a loss of approximately RMB277.3 million for FY2013, which is more than the shareholders equity of approximately RMB239.6 million as at 31 December 2013 and approximately RMB143.2 million as at 31 March 2014 (with loss after tax of approximately RMB96.5 million in 1Q2014).
- Furthermore Independent Directors should note that there is no assurance that the observed average number of Shares traded on a daily basis will be maintained or that the transacted prices for the Shares will be the same and at the levels prevailing during the period commencing from the Offer Announcement Date and ending on the Latest Practicable Date or maintained or decline further in the event that the Delisting conditions is not met and the Exit Offer lapses. Given the Exit Offer, the Delisting and the trend of losses with significant support from its controlling shareholder and related company and market conditions then prevailing, in the event that the Company is placed on the watch-list and a directed delisting occurs, there is no assurance that the Offeror will make an exit offer on similar terms.
- (m) Other relevant considerations as set out in **Section 7** of this Letter.

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In summary, having regard to our analysis and the consideration in this Letter (including *inter alia* its limitation and constraints) and after having considered carefully the information available to us and based on market, economic and other relevant conditions prevailing as at the Latest Practicable Date, save for the fair value of or successful realisation of the future economic benefits from the Technology or the patent or the auxiliary patents (for use of the MEG Project or such other projects) or the rights to use the Technology or the MEG Project which we understand from the Directors, cannot be currently determined in view of the uncertainties mentioned in this Letter, and subject to our terms of reference, **we are of the opinion that the financial terms for the Exit Offer is, on balance, FAIR, REASONABLE and NOT PREJUDICIAL** to the interests of the Shareholders.

For the purposes of evaluation of the Exit Offer, being the transaction that is subject of the Delisting, from a financial point of view, we have adopted the approach that the term “fair and reasonable” comprises two distinct concepts:

- (i) Whether the Exit Offer is “fair” relates to the value of the offer price which is based strictly on the evaluation of the Exit Offer Price (i.e. by looking at the financial or fundamental analyses of the Exit Offer Price as set out in this Letter and based on information known to us or which is publicly available and save for the fair value of or successful realisation of the future economic benefits from the Technology or the patent or the auxiliary patent (for use of the MEG Project or such other projects) or the rights to use the Technology or the MEG Project which we understand from the Directors, cannot be currently determined in view of the uncertainties mentioned in this Letter).
- (ii) Whether the Exit Offer is “reasonable”, after taking into consideration the actual and potential financial impact of other circumstances surrounding the Exit Offer and the Company which we consider relevant (being both quantitative and qualitative factors available and made known to us).

We consider the financial terms of the Exit Offer to be **fair**, from a financial point of view after factoring, *inter alia*, the following:

- (i) The uncertainty pertaining to the Group’s going concern and the weak historical financial performance and position of the Group, including but not limited to the fact that the Group has been loss making for the last five consecutive financial years since FY2009, the negative net working capital of approximately RMB1.6516 billion as at 31 March 2014 and borrowings (including bills payables and interest-free advances from Jiutai Chemical) of approximately RMB2.6277 billion which are due within the next one year, as well as its significant reliance on support (including but not limited guarantees and interest-free advances from the related parties, in particular Mr. Cui, who is the sole shareholder and director of the Offeror), and the fact that there is no assurance that such commitment or support or guarantees will continue to be made available to the Group in the financial years or periods subsequent to FY2014 and thereafter or sufficient for the Group’s future operations or debt servicing (or repayment) given the trend of losses with dwindling shareholders equity.

We note the challenging conditions that the Group faces in the absence of favourable market conditions with profitability, adequate operating cash flows and self-sustaining financing without support, continued support from the existing guarantor and credit providers as well as commercially successful optimisation or conclusion in its efforts to fine-tune or calibrate the MEG production process and availability of financial resources to finance such commercialisation in a timely manner.

Barring unforeseen circumstances and unless such conditions are changed or managed (if at all possible), the Group may have to continue to operate with weak financial performance and condition, dwindling equity and working capital with increasing reliance on borrowings. There is in addition no assurance that such commitment or support or guarantees will continue to be made available to the Group for the financial years or periods subsequent to FY2014 and thereafter (and that may include periods after the Exit Offer) and this is irrespective of the outcome of the Exit Offer.

- (ii) The emphasis of matter relating to *inter alia*, the Group’s going concern assumption.

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- (iii) The Exit Offer Price represents a premium over the Group's RNAV per Share, RNTA before deduction of LUR per Share, Adjusted RNAV per Share, and Adjusted RNTA before deduction of LUR per Share.
- (iv) Within the range or relatively in-line valuation or favourable valuation of the Group as the case may be (and as implied by the Exit Offer Price) in terms of P/NTA and P/NAV as compared to the Selected Comparable Companies after taking into account the weaker historical financial performance and position of the Group in terms of net profit margin, ROE and significantly higher leverage as compared to the Selected Comparable Companies.
- (v) Favourable valuation of the Group (as implied by the Exit Offer Price) in terms of P/NTA as compared to the Selected Successful Delistings and the Selected Successful Privatisations considering the weak financial performance of the Group and wherein most of the companies that comprises the Selected Successful Delistings and the Selected Successful Privatisations were profitable.

We consider the Exit Offer to be **on balance reasonable and not prejudicial** to the interests of the Shareholders, from a financial point of view, for *inter alia*, the following:

- (i) We note from the Independent Auditors' Report and the Company's announcement dated 15 May 2014 that the financial support from related parties, for a period of not less than one year from 11 April 2014, will be available so long as Mr. Cui 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 is no assurance that such commitment or support or guarantees will continue to be made available to the Group in the financial years or periods subsequent to FY2014 and thereafter or sufficient for the Group's future operations or debt servicing (or repayment) given the trend of losses with dwindling shareholders equity.
- (ii) Possibility of the Group having a negative shareholders' equity in the event that the Group continues its trend of losses or if it continues to incur losses in the future or in FY2014 of the same magnitude as FY2013 without any capital increase.
- (iii) The Directors' confirmation that there were no alternative competing offers or save as disclosed in this Letter offers to buy or invests or form partnership/alliances from any parties for the MEG Project or Technology or subsidiaries undertaking the MEG Project or owning the auxiliary patents for the MEG Project as at the Latest Practicable Date. The Offeror and Concert Parties as at the Latest Practicable Date holds approximately 52.23% of the Share capital with no known and announced Share transaction for the period subsequent to the Announcement as well as the fact that the Group is dependent on the existing guarantor for support for its credit facilities and continued financial support from related parties.
- (iv) The Exit Offer Price represents a premium over the Group's RNAV per Share, RNTA before deduction of LUR per Share, Adjusted RNAV per Share, and Adjusted RNTA before deduction of LUR per Share.
- (v) The Exit Offer represents a realistic exit opportunity for Shareholders to realise their entire investment in cash (an option which may not otherwise be readily available due to the liquidity of the Shares and the number of Shares that were historically traded). However, the Exit Offer Price is less favourable in comparison to (i) the historical prices for the Shares prior to Announcement Date (generally at a discount to the historical market prices for the Shares) and (ii) the Selected Successful Delistings and the Selected Successful Privatisations (in terms of premiums/discounts over/from the historical prices). However, we note that these statistics reflect prices of Shares with what appears low liquidity (in terms of the daily average trading volume compared to the number of Shares held by the public shareholders) and it is generally accepted that the more actively traded the Shares between willing buyer and willing seller, the greater the reliance on market prices as a determination of the fair value of the Shares.

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The average number of Shares which had been traded on a daily basis appears to be low during the 12 months period preceding the Announcement Date and for the period after the Announcement Date to the Latest Practicable Date. In addition, the Exit Offer may have provided a price floor for the Shares after the Announcement Date, and hence there is no assurance that the price for the Shares will be maintained at such levels in the event that the Delisting Condition is not met or the Exit Offer lapses or after the Closing Date for the Exit Offer.

Hence, Independent Directors should advise the Independent Shareholders to be aware of possible constraints in the liquidation of their investments in the Company in the open market.

In view of the relative illiquidity, the Exit Offer nevertheless represents a realistic opportunity for Shareholders to realise all or part of their investments in the Company, which may otherwise not be possible in the open market. In addition, as at the Latest Practicable Date, the Exit Offer Price is equal to the market prices for the Shares.

- (vi) Furthermore as the Group's ability to realise the benefits of the MEG Project and the Technology requires further investments in plant and equipment as well as cost for stabilising processes, it is not inconceivable that more investments or equity may be required before the results of the Technology or the MEG Project becomes certain or tangible for a project which we understand from the Directors is currently uncertain as to the timing and amount or type of returns. We note that as generally valuation of businesses requires *inter alia* assumption of certain drivers like volume or amount of production, cost of supply factors or factors of production or market prices of products made, complementary or substitute products/raw materials or assumption of reliability of yields/efficiency and assumptions for capital structure, tail end conditions as well as availability of capital and its attendant cost or returns demanded. Accordingly valuations of such nature are subject to assumptions made, *inter alia* both input and output factors which are invariably subject to competitive forces and market prices for coal, oil and energy and possibly sensitivities to such assumptions made. In view of the above, uncertainties expressed and confirmed to us, the Exit Offer is a realistic opportunity given the "immediate", cash nature and certainty of the Exit Offer.

ACA's RECOMMENDATION ON THE EXIT OFFER

Based on our assessment of the financial terms of the Exit Offer as set out above, we advise the Independent Directors that they should recommend that the Shareholders **VOTE IN FAVOUR** the Delisting Resolution and **ACCEPT** the Exit Offer.

In the event that Shareholders are concerned about the liquidity and the prices at which they can realise their investments in the Offer Shares (including whether they can realise their investments at prices higher than the Exit Offer Price after deducting related expenses), acceptance of the Exit Offer will provide certainty of exit at the Exit Offer Price.

However, in the event that Shareholders are able to dispose the Offer Shares in the open market and realise their investments at prices higher than the Exit Offer Price after deducting related expenses, they should consider selling the Offer Shares in the open market.

Matters to highlight:

We would also wish to highlight the following matters which may affect the decisions or actions of Shareholders:

- (1) If they are considering selling their Offer Shares in the open market, they should be aware that the current market prices and trading volumes for the Shares, may have been supported by the Exit Offer and may not be maintained at current levels when the Exit Offer closes.
- (2) Whilst the possibility of a higher offer from a third party cannot be ruled out, as at the Latest Practicable Date, we are not aware of any publicly available evidence of an alternative offer for the Shares. Shareholders should be aware that the chances of such an alternative offer for Shares being made by a third party may be affected by the fact that the Offeror and its Concert Parties together hold approximately 52.23% of the total number of issued Shares as at the Latest Practicable Date.

APPENDIX VII – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

- (3) Shareholders should note that under Rule 1307 and 1309 of the Listing Manual, all Shareholders (including the Offeror and its Concert Parties who hold Shares) are entitled to vote on the Delisting Resolution. As at the Latest Practicable Date, the Offeror, and its Concert Parties collectively hold an aggregate of 654,351,400 Shares, representing approximately 52.23% of the existing issued Share capital. We note from the Circular that Mr. Cui, Li Qiang and Wong William have indicated their intentions to vote in favour of the Delisting Proposal and to accept the Exit Offer in respect of the Offer Shares held by them. On the assumption that the Offeror and its Concert Parties will vote in accordance with the requirement of the Listing Manual, we note that for the approval of the Delisting Resolution as pursuant to the Listing Manual, it will still require additional 22.77% vote in favour of the Delisting Resolution and subject to the Delisting Resolution not being voted against by 10% or more of the total number of Shares (excluding treasury shares) held by Shareholders present and voting, on a poll, either in person or by proxy at the EGM.
- (4) The Offeror does not intend to preserve the listing status of the Company. Accordingly, the Offeror when entitled, intends to exercise its rights to compulsorily acquire all the Shares from Shareholders who have not accepted the Exit Offer.
- (5) The scope of our appointment does not require us to express, and we do not express, a view on the sufficiency of the financial resources available to the Offeror to satisfy full acceptance of the Exit Offer at the Exit Offer Price for the maximum potential issued Shares (excluding Mr. Cui's Shares).
- (6) In arriving at our opinion, we wish to emphasise that the Directors have not provided us with any projections and we have, *inter alia*, relied on relevant statements contained in the Circular and/or the Company's announcements. We have arrived at these conclusions based on information made available to us as at the Latest Practicable Date and we assume no responsibility to update, review or reaffirm our opinions in the light of any subsequent development after the Latest Practicable Date.

We have not been provided with the financial statements for the Group subsequent to 1Q2014 nor had any discussion with the Directors and the Management on the Group's financial results subsequent to 1Q2014. The Directors and the Management confirmed that ACA has not been provided with financial statements for the Group subsequent to 1Q2014 and that they have not had any discussion with ACA on the Group's financial results subsequent to 1Q2014.

- (7) Our scope does not require us and we have not made any independent evaluation of the Group (including, without limitation, market value or economic or technical potential), or the Technology or the patent or the auxiliary patents (for use of the MEG Project or such other projects) or the rights to use the Technology or the MEG Project or appraisal of the Group's assets and liabilities (including without limitation, property, plant and equipment and land use rights) or contracts entered into or to be entered into by the Group and we have not been furnished with any such evaluation and appraisal in respect of assets and liabilities (if any) held or contracts entered into by the Group or the Technology or the patent or the auxiliary patents (for use of the MEG Project or such other projects) or the rights to use the Technology or the MEG Project save for the Valuation Report issued by the Independent Valuer in respect of the Appraised Assets. With respect to such valuation, we are not experts in the evaluation (including without limitation, market value or economic potential) or the Technology or the patent or the auxiliary patents (for use of the MEG Project or such other projects) or the rights to use the Technology or the MEG Project itself (including, *inter alia*, commercial viability, stage of commercialisation, market demand, overall profitability and financing of project of such nature) or appraisal of assets and liabilities (including without limitation, property, plant and equipment and land use rights) including, *inter alia*, the contracts or agreements that the Group has embarked upon or are about to embark upon and have relied on the opinion of the Directors and the financial statements (audited and unaudited), where applicable for the assessment.

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- (8) As at the Latest Practicable Date, the Directors and the Management confirmed that they are of the view that setting aside the funding issue, the MEG Project remain feasible and viable.

We had discussions with the Directors and the Management, *inter alia*, on the need for an independent valuation of the Technology or the MEG Project, as well as the status of the Technology or the MEG Project in terms of funding, technical and commercialisation feasibility, and market condition in the PRC. The Directors are of the view that the independent valuation of the Technology, or the patent or the auxiliary patents (for use of the MEG Project or such other projects), or the rights to use the technology in relation to the MEG Project or the MEG Project itself is not requisite considering, *inter alia*, the core patent of the Technology resides with the Jiaotong University hence there is no material value in the Technology (save as provided for or recorded in the audited financial statements of the Group), the implementation of the Technology for large scale commercial production would involve significant technical uncertainties, and the inability of both the Company and Mr. Cui to raise the requisite funding.

In addition, the Directors and the Management confirmed that the impact of the Technology or the patent or the auxiliary patents (for use of the MEG Project or such other projects) or the rights to use the Technology and the MEG Project on the Group's financial position and performance (including the estimated future profit or loss as well as the estimated costs to be incurred) cannot be measured with certainty as at the Latest Practicable Date given that the successful realisation of the future economic benefit of the Technology or the patent or the auxiliary patents (for use of the MEG Project or such other projects) or the rights to use the Technology or the MEG Project will depend on, *inter alia*, the ability of the Group and Mr. Cui to secure funding for the additional investments, timely and efficient execution and completion of the MEG Project, the stability of the Technology in large scale commercial production, the industry prospects, the prevailing economic and market conditions including but not limited to the costs of raw materials and selling prices in the markets which the Group operates in.

Accordingly, we expressed no views with regards to the impact of the MEG Project or the Technology or the patent or the auxiliary patents (for use of the MEG Project or such other projects) or the rights to use the Technology on the NAV or NTA or the prospects of the Group in terms of, *inter alia*, the estimated fair value or future value or profits or loss as well as the estimated future investments to be incurred and our assessment, opinion and recommendations are necessarily limited and subject to it.

- (9) The Directors have confirmed that as at the Latest Practicable Date and save for matters disclosed in the Circular, this Letter, the audited financial statements for the Group for FY2013 and the unaudited financial statements for the Group for 1Q2014, there has been no material changes to the Group's assets and liabilities, financial position, condition and performance or in the Group's efforts or success in the technology, design and process for production of MEG as well as its commercialisation.

Limitations

It is also to be noted that as trading of the Shares is subject to possible market fluctuations and accordingly, our advice on the Exit Offer does not and cannot take into account the future trading activities or patterns or price levels that may be established for the Shares since these are governed by factors beyond the ambit of our review and also such advice, if given, would not fall within our terms of reference in connection with the Exit Offer.

For our opinion and recommendation, we have not had regard to the general or specific investment objectives, financial situation, tax position, risk profiles or unique needs and constraints, or plans of any individual Shareholder and/or group of Shareholders. As different Shareholders and/or group of Shareholders would have different investment profiles and objectives, we would advise Independent Directors to recommend that any individual Shareholder and/or group of Shareholders who may require advice in the context of his specific investment portfolio, including his investment in the Company, should consult his stockbroker, bank manager, solicitor, accountant, tax adviser or other professional adviser immediately.

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9. ACTION TO BE TAKEN BY SHAREHOLDERS

Information on the actions to be taken by Shareholders is set out in Section 16 of the Circular. Shareholders are advised to read Section 16 of the Circular carefully and in its entirety.

This Letter is addressed to the Independent Directors in connection with and for the sole purposes of their evaluation of the financial terms of the Exit Offer. Whilst a copy of this Letter may be included in the Circular, neither the Company nor the Directors nor Shareholders, may reproduce, disseminate or quote from this Letter (or any part thereof) for any other purpose at any time and in any manner without the prior written consent of ACA in each specific case, except at the forthcoming EGM and for the sole purpose of the Exit Offer and the Delisting Resolution. This opinion is governed by, and construed in accordance with, the laws of Singapore, and is strictly limited to the matters and the scope of our appointment stated herein and does not apply by implication to any matter. Nothing herein shall confer or be deemed or is intended to confer any right of benefit to any third party and the Contracts (Rights of Third Parties) Act 2001 and any re-enactment thereof shall not apply.

The recommendations made by the Independent Directors to the Shareholders in relation to the Exit Offer and issue of the Circular (as well as any information therein) shall remain the sole responsibility of the Independent Directors and the Directors respectively.

Yours faithfully,
For and on behalf of
ASIAN CORPORATE ADVISORS PTE. LTD.

H.K. LIAU
MANAGING DIRECTOR

FOO QUEE YIN
MANAGING DIRECTOR

APPENDIX VIII – VALUATION REPORT FROM THE INDEPENDENT VALUER



13 August 2014

The Independent Directors
China Energy Limited
Six Battery Road
#10-01
Singapore 049909

Dear Sirs,

1. INSTRUCTIONS

With reference to the instructions of The Independent Directors of China Energy Limited (the “Instructing Party”) to us to value certain designated assets (the “Appraised Assets”) (to be detailed in later part of this report) and presented to us as those held by China Energy Limited (hereinafter referred to as the “Company” or “China Energy”) and its subsidiaries (collectively together with the Company hereinafter referred to as the “Group”), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of their values as at 31 March 2014 (the “relevant valuation date”).

We have prepared this summary valuation report of the Appraised Assets for inclusion in the Company’s circular to its shareholders in relation to the proposed delisting of the Company pursuant to Rules 1307 and 1309 of the Singapore Exchange Securities Trading Limited. All the terms used without definition as well as the assumptions and caveats adopted herein shall have the same meanings as in the detailed valuation report submitted to the Instructing Party at today’s date.

2. DESCRIPTION OF THE APPRAISED ASSETS

The Appraised Assets comprise the properties (including buildings and structures), plant and equipment and land use rights held by the subsidiaries of the Group, namely,

- Jiutai Energy Technology Co., Ltd. (久泰能源科技有限公司) (“Jiutai Energy”)
- Linyi Jiuxin Energy Co., Ltd. (臨沂久新能源有限公司) (“Linyi Jiuxin”)
- Jiutai Energy (Guangzhou) Co., Ltd. (久泰能源(廣州)有限公司) (“Jiutai Guangzhou”)
- Jiutai Energy (Zhangjiagang) Co., Ltd. (久泰能源(張家港)有限公司) (“Jiutai Zhangjiagang”)

The Appraised Assets are being utilised by the Group in the manufacture and sale of methanol and dimethyl ether (DME). The Appraised Assets were inspected in the Group’s production facilities under the companies and locations detailed hereinafter:

2.1 Jiutai Energy

As of the relevant valuation date Jiutai Energy was manufacturing methanol only. During our inspection, we noted that the methanol synthesis and distillation sections of Phase II methanol plant were dismantled. We understand that a new mono-ethylene glycol (MEG) plant will be constructed.

Based on the information provided to us during our on-site inspection, we understand that test production of methanol started in late 2003 with full commercial production commencing in 2004. Its production capacity as at the relevant valuation date was about 80,000 tons per year.

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The Appraised Assets comprise certain designated plant and machinery, such as production plant and equipment, office furniture and equipment, motor vehicles, land use rights and properties, and construction-in-progress (CIP). They are located at middle Luoba Road, Luozhuang District, Linyi City, Shandong Province, the PRC, 276017.

The land use rights comprise various parcels of adjoining lands having a total site area of approximately 276,879.80 square meters ("sq.m.") pursuant to 21 various State-owned Land Use Rights Certificates for land use terms with the latest term till 21 November 2053 with construction work in progress on the land. Jiutai Energy also occupies a factory complex which is held under lease agreement.

According to the information available to us, the CIP comprised an amount of approximately RMB 50,296,000 as at the relevant valuation date for various buildings and structures which were built on the leased land held by related parties.

2.2 Linyi Jiuxin

Linyi Jiuxin is engaged in the manufacturing of DME. Based on the information provided to us during our on-site inspection, we understand that commercial production of DME commenced in 2007 and its production capacity as at the relevant valuation date was about 250,000 tons per year. We also noted that Phases I and II of DME production were dismantled.

The Appraised Assets comprise certain designated plant and machinery such as production plant and equipment, office furniture and equipment, motor vehicles, land use rights and properties, and CIP. They are located at Shuangyuehu Office, Luozhuang District, Linyi City, Shandong Province, the PRC, 276017.

The land use rights comprise a parcel of land having a site area of approximately 108,679.50 sq. m. held under a State-owned Land Use Rights Certificate for a land use term till 24 November 2056 with 9 major buildings and structures erected thereon. They were all completed in between 2007 and 2008, and have a total gross floor area of approximately 16,956.18 sq. m.

2.3 Jiutai Guangzhou

Jiutai Guangzhou is engaged in the manufacturing of DME. Based on the information provided to us during our on-site inspection, we understand that commercial production of DME commenced in 2007 and its production capacity as at the relevant valuation date was about 200,000 tons per year.

The Appraised Assets comprise certain designated plant and machinery such as production plant and equipment, office furniture and equipment, motor vehicles, land use rights and properties, and CIP. They are located at No. 5, Xiaohu South 2nd Road, Xiaohu Island, Huangge Town, Nansha District, Guangzhou, Guangdong Province, the PRC, 511455.

The land use rights comprise a parcel of land having a site area of approximately 80,979.70 sq. m. with 13 major buildings and structures erected thereon held under a Realty Title Certificate for a land use term till 16 March 2056. They were completed in 2009 and have a total gross floor area of approximately 20,030.97 sq. m.

According to the information available to us, the CIP comprised an amount of approximately RMB 3,766,000 as at the relevant valuation date for professional fees paid in relation to its DME Phase II future expansion.

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2.4 Jiutai Zhangjiagang

Jiutai Zhangjiagang is engaged in the manufacture of DME. Based on the information provided to us during our on-site inspection, we understand that commercial production of DME commenced in 2007 and its production capacity as at the relevant valuation date was about 300,000 tons per year.

The Appraised Assets comprise certain designated plant and machinery such as production plant and equipment, office furniture and equipment, motor vehicles, land use rights and properties, and CIP. They are located at southern side of Beijing Road, eastern side of Donghai Road, Yangzijiang International Chemistry Industrial Zone, Zhangjiagang City, Jiangsu Province, the PRC, 215634.

The land use rights comprise a parcel of land having a site area of approximately 100,000 sq. m. held under a State-owned Land Use Rights Certificate for a land use term till 29 April 2057 with 16 various major buildings and structures held under 4 various Building Ownership Certificates erected thereon. They were completed in between 2008 and 2013, and have a total gross floor area of approximately 24,320.56 sq. m.

3. OBSERVATIONS

We conducted our on-site physical inspection of the Appraised Assets from 5 to 13 January 2014. Based on our inspection and discussions with relevant personnel of the Group, we are of the opinion that the Appraised Assets are in generally good to fair condition. The real properties were occupied by the Group for production, warehouse and ancillary office purposes as at the relevant valuation date. We did not observe any significant deferred maintenance being experienced by the Appraised Assets.

4. EXCLUSIONS

This valuation is limited to the Appraised Assets described above and was based on the list of Appraised Assets provided to us. Other assets such as spare parts, supplies, inventories, materials on hand, and all other tangible assets that are current in nature and intangible assets that might exist were excluded.

5. BASIS OF VALUATION

5.1 Plant and Equipment

We have valued the plant and equipment on the basis of Fair Market Value in Continued Use with Assumed Earnings which is defined by the American Society of Appraisers as “an opinion, expressed in terms of money, at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts, as of a specific date and assuming that the business earnings support the value reported, without verification”.

It further assumes the continued operation of the business in the same location and that permitted use is granted in accordance with local land use classifications.

In arriving at an estimate of fair market value on the basis of continued use, we have assumed that the plant and equipment will be used for the purpose for which it was designed and built or to which it is currently adopted. It is not intended to represent the amount that might be realised from piecemeal disposition of the plant and equipment in the open market or for other alternate use.

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This investigation is concerned solely with the values of the plant and equipment and our opinion of values is not related to or dependent upon the earning capacity of the business presently in use. It is assumed that prospective earnings are adequate to support the concluded value of the plant and equipment appraised plus the value of the other assets that were not included in this valuation and sufficient net working capital.

The basis of value being adopted in this valuation generally uses the same Market Value definition adopted in the International Valuation Standards (IVS), IVS 220-Plant and Equipment, issued by the International Valuation Standards Council (IVSC), with the scope of works assuming valuation in place as part of a business as a going concern and that earning will support the value.

5.2 Properties and Land Use Rights (“Real Estate Assets”)

According to the IVS of which the HKIS Valuation Standards, 2012 Edition (the “HKIS Standards”) published by the Hong Kong Institute of Surveyors (the “HKIS”) follow, there are two valuation bases in valuing Real Estate Assets, namely market value basis and valuation bases other than market value. In this engagement, we have provided our opinion of values of the properties (including buildings and structures) and land use rights on market value basis in continued use.

The term “Market Value” is defined as “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

6. VALUATION METHODOLOGY

There are three generally accepted approaches to value, namely:

6.1 The Cost Approach

The cost approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets including costs of transportation, installation, commissioning and consultants’ fees. Adjustment is then made for accrued depreciation from physical deterioration, condition, utility, age and functional and economic/external obsolescence.

6.2 The Market Approach

The market approach considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised assets relative to the market comparative.

6.3 The Income Approach

The income approach is the present worth of the future economic benefits of ownership. This approach is generally applied to investment properties, general-use properties where there is an established and identifiable rental market or to an aggregation of assets in an entire business enterprise including working capital and tangible and intangible assets.

In all situations, all approaches to value must be considered, as one or more may be applicable to the appraised assets. In some situations, elements of the three approaches may be combined to reach a value conclusion. However, the relative strength, applicability, and significance of the approaches and their resulting values must be analysed and reconciled.

7. VALUATION ANALYSIS**7.1 Plant and Equipment**

In arriving at our opinion of values, we conducted an on-site physical inspection and held discussions with relevant personnel of the Group to understand the scope of the plant and equipment, type of installations involved, their actual condition, specifications, usage and maintenance history.

After gathering sufficient information about the plant and equipment, we conducted our independent research of the current equipment prices and construction costs, the situation of the used or second-hand machinery market and relevant industry information. On-site and independently gathered information were then analysed to select an appropriate valuation approach.

We considered all three approaches to value and found the cost and market approaches are the most appropriate to reach a value conclusion for the plant and equipment. We found the income approach inappropriate in this instance due to the lack of sufficient discreet financial information to properly analyse the contribution of the plant and equipment to the overall cash flow of the business.

To value assets using the cost and market approaches, we have taken into consideration the following :

- the extent, character and utility of the plant and equipment;
- current replacement cost or reproduction cost of the plant and equipment;
- used and new equipment dealer's prices;
- generally accepted useful or economic lives;
- the cost of comparable used machines, with positive or negative adjustment to the market price to reflect the difference in condition and utility between the item being valued and its normal comparative; and
- depreciation profile of similar used machines.

Due to the specialised nature of the plant and equipment and lack of reliable used market information in China, we have generally used the cost approach in arriving at our valuation. In using this approach, we estimated the gross current replacement cost of the plant and equipment by taking into consideration their current equipment prices, transportation cost, installation cost, design and engineering costs and other indirect costs. This was then depreciated using useful life data from the American Society of Appraisers and other reliable sources and adjusted to account for our observations of the actual physical condition based on our on-site inspection and obsolescence.

Assets with some identifiable used market data such as generators and compressors, forklifts and motor vehicles were valued using the market approach.

In using the market approach, we researched and analysed market prices of similar equipment being offered in the used market with adjustments to consider the age, condition, features, manufacturer, location of sale and prevailing market conditions. Tax, freight and installation costs, if necessary, with age adjustment are calculated separately in this instance. Depending on the quality of information available, we arrived at our valuation using direct matching, comparable matching and percent of cost analysis.

7.2 Real Estate Assets

In valuing the Real Estate Assets of the Group, we have considered two approaches, namely Market Approach and the Depreciated Replacement Cost (the DRC) Approach which is an application of the Cost Approach in our valuation.

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The Market Approach (also known as Sales Comparison Approach) under the premises of vacant possession considers the sales, listings or offering of similar or substitute properties and related market data and establishes a value estimate by processes involving comparison. The underlying assumption is that an investor will pay no more for a property than he or she would have to pay for a similar of property of comparable utility.

The DRC Approach is a procedural valuation approach and is an application of the Cost Approach. The use of this method requires an estimate of the market value of the land use rights for its existing use, and an estimate of the new replacement cost of the properties and other site works from which deductions are then made to allow for age, condition, and functional obsolescence taken into account of the site formation cost and those public utilities connection charges to the properties. The market value of the land use rights has been determined from market-based evidences by analysing similar sales or offerings or listings of comparable lands and considering the relevant standard benchmark land price. Appropriate adjustments on various factors including but not limited to location, land usage, remaining lease terms, have been made to reflect the differences between the subject land and the comparable land properties.

In considering the properties, the gross replacement cost of the properties should take into consideration everything which is necessary to complete the construction from a new green field site to provide buildings and structures as they are, at the relevant valuation date, fit for and capable of being occupied and used for the current use. These costs to be estimated are not to erect buildings and structures in the future but have the buildings and structures available for occupation at the relevant valuation date, the work having commenced at the appropriate time.

The valuation of the Real Estate Assets by using DRC Approach is on the assumption that the assets are subject to service potential of the entity from the use of assets as a whole paying due regard to the total assets employed.

We need to state that the values assessed may not necessarily be intended to represent the amount that might be realised from disposition of land use rights or various building(s) of the Real Estate Assets on piecemeal basis in the open market.

In valuing the Real Estate Assets, we have assumed that the Group has free and uninterrupted rights to use the Real Estate Assets for the whole of the unexpired terms as granted and has the rights to freely assign, let or mortgage the Real Estate Assets (except for those buildings and structures erected on leased land). We have also assumed that any premiums payable have already been paid in full.

In our valuation, we have assigned no commercial value to various buildings and structures which are held by Jiutai Energy and are built on leased land held by related parties due to their restriction on transferability. However, no commercial value does not mean that there is no value in the use of the buildings and structures to Jiutai Energy. For information purpose, as at the relevant valuation date, we considered the value in the use of these buildings and structures was approximately its book value of RMB 34,517,000.

Unless otherwise stated, we have not carried out a valuation on a redevelopment basis and the study of possible alternative development options and the related economics do not come within the scope of our work.

7.3 Construction-in-progress (“CIP”)

CIP are normally valued using audited costs as of the relevant valuation date without any adjustment for depreciation since these are relatively new and are based on current costs. In our valuation, we discussed with relevant personnel of the Group to understand the cost adjustments made to reflect the long construction period relating to Jiutai Energy’s methanol Phase III including those equipment in Jiutai Energy’s methanol Phase II and Linyi Jiuxin’s DME Phases I and II transferred to CIP.

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Based on our discussions, we understand that adjustments were made to the costs incurred in methanol Phase III to reflect the long construction period and write-offs were made to those works that will not be used as a result of the change in the technology to be employed in the production process. We also reviewed the net book values of the portion of Jiutai Energy's methanol Phase II and Linyi Jiuxin's DME Phases I and II equipment transferred to CIP using the cost approach. Based on the adjustments made to the costs of methanol Phase III and since we found no significant difference between the net book values and our cost approach estimates for Jiutai Energy's methanol Phase II and Linyi Jiuxin's DME Phases I and II, we have adopted the adjusted costs of CIP without any depreciation adjustment in our valuation. Works relating to MEG project were observed to be fairly recent and were accepted to represent their value as of the relevant valuation date.

In our valuation, we have assigned no commercial value to various CIP items (various buildings and structures) of Jiutai Energy which were built on the leased land held by related parties due to their restriction on transferability. However, no commercial value does not mean that there is no value in the use of the CIP items to Jiutai Energy. For information purpose, as at the relevant valuation date, we considered the value in the use of such CIP items to approximate its book value of RMB 50,296,000.

We have also assigned no commercial value to various CIP items of Jiutai Guangzhou for professional fees paid in relation to its DME Phase II future expansion. Since no agreement on the land use rights has been signed, no commercial value was assigned. However, no commercial value does not mean that there is no value in the use of such CIP items to Jiutai Guangzhou. For information purpose, as at the relevant valuation date, we considered the value in the use of such CIP items to approximate its book value of RMB 3,766,000.

8. VALUATION COMMENTS

We reviewed historical accounting records, technical specifications and other documents relating to the Appraised Assets and provided by the relevant personnel of the Group. Though we have not carried out an independent investigation of the said information, we found no reason not to rely to a considerable extent on such information in arriving at our opinion of values.

We have assumed that all material information that would affect the values of the Appraised Assets has been properly disclosed.

We confirm that we have no present or contemplated future interest in the Appraised Assets or any other interests that may prevent our having arrived at a fair and unbiased assessment of values.

No deduction has been made in our valuation in respect of any outstanding amounts owing under any finance lease or hire purchase agreement, if any. The assets have been valued as being wholly-owned and free of all encumbrances. We have not investigated the titles to or any liabilities affecting the Real Estate Assets, plant and equipment.

In relation to Rule 26.3 of The Singapore Code on Takeovers and Mergers which concerns the potential tax liabilities of the assets being valued to be sold, we were advised by the Group that the potential tax liabilities including value added tax and related surcharge which may arise from the sale of the Appraised Assets is about 19.04% and Enterprise Income Tax on the taxable income from the sale of the assets is about 25%. While we understand that the Appraised Assets are held by the Group for its own use, we were advised by the Group that it has no intention to place them for sale on the market. As such, no potential tax liabilities would be crystallised in respect of the Appraised Assets and we have not taken into account any such potential tax liabilities in our valuation.

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This report has been made in conformity with the Principles of Appraisal Practice and Code of Ethics of the American Society of Appraisers, the Uniform Standards of Professional Appraisal Practice of the Appraisal Foundation and reporting guidelines under the IVS, published by the IVSC. As full board members of IVSC, the standards set out by the American Society of Appraisers and the Appraisal Foundation are consistent with the IVS.

This valuation report is subject to our standard General Assumptions and Limiting Conditions as attached in Annexure I.

9. OPINION OF VALUES

Based on the above, we are of the opinion that as at the relevant valuation date, the appraised Fair Market Value of the Appraised Assets was reasonably represented by the amount of **RENMINBI ONE THOUSAND SEVEN HUNDRED SEVENTEEN MILLION NINE HUNDRED AND TWENTY THOUSAND YUAN (RMB 1,717,920,000)**.

The breakdowns of value by categories are as follows:

Assets Type	Fair Market Value (RMB)
Land Use Rights	214,200,000
Property, Plant and Equipment	1,503,716,359
Total:	<u>1,717,916,359</u>
Rounded Up:	<u>1,717,920,000</u>

Yours faithfully,
For and on behalf of
LCH (Asia-Pacific) Surveyors Limited

Ho Chin Choi, Joseph
BSc PgD MSc RPS(GP)
Managing Director

Contributing Valuers:

Rolando Arcaya *BSME ASA*
Elsa Ng Hung Mui *BSc MSc RPS(GP)*
Sam Ngai Yat Lun *BSc*
Ivan Mak Kin Hong *BSc*

APPENDIX VIII – VALUATION REPORT FROM THE INDEPENDENT VALUER

Qualification Statements of the Valuers:

1. *Sr Joseph Ho Chin Choi has been conducting assets valuations and advisory work in Hong Kong, Macau, Taiwan, mainland China, Japan, South East Asia, Finland, Canada, Germany, Guyana and the United States of America for various purposes since 1988. He obtained the Examination Certificate of the Uniform Standards of Professional Appraisal Practice issued by the American Society of Appraisers in 1996. He has extensive experience in the valuation of various types of intangible assets and power plants, toll road, health products and foodstuffs, mineral resources, agricultural property assets, financial services, luxurious consumer goods, pharmaceutical and biotechnology, electronic consumer products manufactory, telecommunication, media and information technology related businesses for the listed companies in Hong Kong, Taiwan, Singapore, Canada and the United States of America. At present, he is a valuer on the List of Property Valuers for Undertaking Valuation for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers published by the HKIS.*
2. *Mr. Rolando R. Arcaya is an Accredited Senior Member (ASA) of the American Society of Appraisers and a Member of the Royal Institution of Chartered Surveyors in the discipline of machinery and equipment valuation. He specializes in the valuation of machinery and equipment in power projects, light and heavy industrial manufacturing plants, consumer products manufacturing, forest products manufacturing and special assets like moulds, stocks and inventories. He has over 25 years of valuation experience of which over 20 years were spent in Hong Kong and mainland China.*
3. *Sr Elsa Ng Hung Mui has been conducting valuation of real properties in Hong Kong and mainland China since 1994. She obtained a Master Degree of Science in Finance and involved in various financial assets valuations and man-made forests in the past years. At present, she is a valuer in the List of Property Valuers for Undertaking Valuation for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers published by the HKIS.*

General Assumptions and Limiting Conditions

This valuation report is made subject to the following General Assumptions and Limiting Conditions:

1. No investigation has been made of, and no responsibility is assumed for, the legal description or for legal matters, including title or encumbrances. Titles to the assets are assumed to be good and marketable unless otherwise stated. The assets are further assumed to be free and clear of any or all liens, easements or encumbrances, unless otherwise stated.
2. Information furnished by others, upon which all or portions of this report is based, is believed to be reliable but has not been verified except as set forth in this report. No warranty is given as to the accuracy of such information.
3. This report has been made only for the purposes stated and shall not be used for any other purpose. Neither this report nor any portions thereof (including, without limitation, any conclusions as to value or the identity of LCH (Asia-Pacific) Surveyors Limited (“LCH”) or any individuals signing or associated with this report or the professional associations or organisations with which they are affiliated), shall be disseminated to third parties by any means without the prior written consent and approval of LCH.
4. Neither LCH nor any individuals signing or associated with this report shall be required by reason of this report to give further consultation, testimony, or appear in court or other legal proceedings, unless prior specific arrangements have been made.
5. No responsibility is taken for changes in market conditions, and no obligation is assumed to revise this report to reflect events or conditions that occur subsequent to the appraisal date hereof.
6. The date of value to which the opinions expressed in this report apply is set forth in this report.
7. Unless otherwise stated, it is assumed that all required licenses, certificates, consents, or other legislative or administrative authority from any local, state, or national government or private entity or organisation have been or can readily be obtained or renewed for any use on which the value estimates contained in this report are based.
8. Full compliance with all applicable state and local zoning, use, environmental, and similar laws and regulations is assumed unless otherwise stated.
9. Responsible ownership and competent management are assumed.
10. In connection with this assignment, the Instructing Party agrees to indemnify and hold harmless LCH and its personnel from any claims, liabilities, costs and expenses (including, without limitation, attorneys’ fees and the time of LCH personnel involved) brought against, paid or incurred by LCH at a time and in any way based on the information made available in connection with LCH’s work product except to the extent any such losses, expenses, damages or liabilities are ultimately determined to be the result of gross negligence of the LCH engagement team in conducting its work.
11. LCH’s maximum liability relating to services rendered under this report (regardless of form of action, whether in contract, negligence or otherwise) shall be limited to the charges paid to LCH for the portion of its services or work products giving rise to liability. In no event shall LCH be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, lost profits, opportunity costs, etc.), even if it has been advised of their possible existence.

APPENDIX VIII – VALUATION REPORT FROM THE INDEPENDENT VALUER

12. We retain a copy of this report in our files, together with the information provided to us for the purposes of this engagement. We considered these records confidential, and do not permit access to them by anyone, with the exception for law enforcement or court order, without the Instructing Party's authorisation and prior arrangement made with us. Moreover, we will add the name of the Company into our client list for our future reference.

APPENDIX IX – PROCEDURES FOR ACCEPTANCE OF THE EXIT OFFER

PLEASE TAKE NOTE THAT APPROVING THE DELISTING RESOLUTION AT THE EGM DOES NOT AUTOMATICALLY MEAN THAT YOU HAVE ACCEPTED THE EXIT OFFER.

1. PROCEDURES FOR ACCEPTANCE OF THE EXIT OFFER BY DEPOSITORS WHOSE SECURITIES ACCOUNTS ARE AND/OR WILL BE CREDITED WITH SHARES

1.1 Depositors whose Securities Accounts are credited with Shares

If you have Shares standing to the credit of the balance of your Securities Account, you should receive the Exit Offer Letter together with the FAA. If you do not receive the FAA, you may obtain a copy of such FAA, upon production of satisfactory evidence that you are a Shareholder from CDP at 9 North Buona Vista Drive, #01-19/20, The Metropolis, Singapore 138588 or the Share Registrar at 50 Raffles Place #32-01, Singapore Land Tower, Singapore 048623. If you wish to accept the Exit Offer, you should complete and sign the FAA in accordance with the provisions and instructions herein and in the Exit Offer Letter and the provisions and instructions printed on the FAA (which provisions and instructions shall be deemed to form part of the terms of the Exit Offer) and forward the duly completed and signed FAA, **either by hand to:**

LIANGUO INTERNATIONAL LIMITED

c/o The Central Depository (Pte) Limited
9 North Buona Vista Drive
#01-19/20, The Metropolis
Singapore 903934

or by post (in the enclosed pre-addressed envelope) at your own risk, to:

LIANGUO INTERNATIONAL LIMITED

c/o The Central Depository (Pte) Limited
Robinson Road Post Office,
P.O. Box 1984,
Singapore 903934

so as in either case to arrive not later than 5:30 p.m. on the Closing Date.

If you have sold or transferred all your Shares, you need not forward the Exit Offer Letter and/or the FAA to the purchaser or the transferee (the “**Purchaser**”) as arrangements will be made by CDP for a separate Exit Offer Letter and FAA to be sent to the Purchaser. Purchasers should note that CDP will, for and on behalf of the Offeror, send a copy of the Exit Offer Letter and the FAA by ordinary post at the Purchasers’ own risk to their respective addresses as maintained in the records of CDP.

If you wish to accept the Exit Offer, you must insert in the FAA the number of Shares in respect of which the Exit Offer is accepted, which should not exceed the number of Shares standing to the credit of the “Free Balance” of your Securities Account as at 5:00 p.m. on the date of receipt by CDP (the “**Date of Receipt**”) (or in the case where the Date of Receipt is on the Closing Date, 5:30 p.m. on the Closing Date), for and on behalf of the Offeror, of the relevant FAA in respect of which the Exit Offer is accepted, provided always that such Date of Receipt must fall on or before the Closing Date.

If the number of Shares in respect of which the Exit Offer is accepted, as inserted by you in the FAA, exceeds the number of Shares standing to the credit of the “Free Balance” of your Securities Account as at 5:00 p.m. on the Date of Receipt (or, in the case where the Date of Receipt is on the Closing Date, 5:30 p.m. on the Closing Date), or if no such number of Shares is inserted in the FAA by you, then **YOU SHALL BE DEEMED TO HAVE ACCEPTED THE EXIT OFFER IN RESPECT OF ALL THE SHARES STANDING TO THE CREDIT OF THE “FREE BALANCE” OF YOUR SECURITIES ACCOUNT AS AT 5:00 P.M. ON THE DATE OF RECEIPT (OR IN THE CASE WHERE THE DATE OF RECEIPT IS ON THE CLOSING DATE, 5:30 P.M. ON THE CLOSING DATE), PROVIDED ALWAYS THAT THE DATE OF RECEIPT IS ON OR BEFORE THE CLOSING DATE.**

APPENDIX IX – PROCEDURES FOR ACCEPTANCE OF THE EXIT OFFER

1.2 Depositors whose Securities Accounts will be credited with Shares

If you have purchased additional Shares on the SGX-ST, you should also receive the Exit Offer Letter together with a FAA. You may accept the Exit Offer in respect of such additional Shares only **AFTER** the “Free Balance” of your Securities Account has been credited with such number of Shares. The provisions and instructions set out in paragraph 1(a) above in this **Appendix IX** shall apply in the same way to your acceptance(s) in respect of such additional Shares. If you do not receive that FAA, you may obtain such a FAA upon production of satisfactory evidence that you have purchased the Shares on the SGX-ST, from CDP at 9 North Buona Vista Drive, #01-19/20, The Metropolis, Singapore 138588.

If upon receipt by CDP, for and on behalf of the Offeror, of the FAA, it is established that the Shares have not been, or will not be, credited to the “Free Balance” of your Securities Account (as, for example, where you sell or have sold such Shares), your acceptance is liable to be rejected and none of CDP and the Offeror accepts any responsibility or liability for the consequences of such a rejection.

IF YOU PURCHASE SHARES ON THE SGX-ST ON A DATE NEAR TO THE CLOSING DATE, YOUR ACCEPTANCE IN RESPECT OF SUCH SHARES WILL BE REJECTED IF THE “FREE BALANCE” OF YOUR SECURITIES ACCOUNT IS NOT CREDITED WITH SUCH SHARES BY 5:30 P.M. ON THE CLOSING DATE. NONE OF CDP AND THE OFFEROR ACCEPTS ANY RESPONSIBILITY OR LIABILITY FOR THE CONSEQUENCES OF SUCH A REJECTION.

1.3 Depositors whose Securities Accounts are and will be credited with Shares

If you have Shares credited to the “Free Balance” of your Securities Account, and have purchased additional Shares on the SGX-ST which are in the process of being credited to the “Free Balance” of your Securities Account, you may accept the Exit Offer in respect of the Shares already standing to the credit of the “Free Balance” of your Securities Account and may accept the Exit Offer in respect of the additional Shares purchased which are in the process of being credited to your Securities Account only **AFTER** the “Free Balance” of your Securities Account has been credited with such number of Shares. If such number of additional Shares purchased is not credited to the “Free Balance” of your Securities Account by 5:30 p.m. on the Closing Date, your acceptance in respect of such Shares is liable to be rejected. None of CDP and the Offeror accepts any responsibility or liability for the consequences of such a rejection.

1.4 General

Depository agents (as defined under Section 130A of the Companies Act) may also accept the Exit Offer via the SGX-SSH service provided by CDP as listed in Schedule 3 of the Terms and Conditions for User Services for Depository Agents (the “**Electronic Acceptance**”). Such Electronic Acceptances must be submitted **NOT LATER THAN 5.30 P.M. ON THE CLOSING DATE**. CDP will be authorised by the Offeror to receive Electronic Acceptances on its behalf. Such Electronic Acceptances will be deemed irrevocable and subject to each of the terms and conditions contained in the FAA and the Exit Offer Letter as if the FAA had been duly completed and submitted to CDP.

No acknowledgement will be given for any submission of a FAA made by hand or by post to CDP or deposited into drop-boxes located at CDP’s premises.

For reasons of confidentiality, CDP will not entertain telephone enquiries relating to the number of Shares credited to your Securities Account. You can verify such number (i) through CDP Online if you have registered for CDP Internet Access Service or (ii) through CDP Phone Service if you have a T-Pin. Alternatively, you may proceed to CDP in person with your identity card or passport to verify the number of Shares credited to your Securities Account.

APPENDIX IX – PROCEDURES FOR ACCEPTANCE OF THE EXIT OFFER

If you accept the Exit Offer in accordance with the terms of the Exit Offer Letter and the FAA, CDP will send you a notification letter stating the number of Shares debited from your Securities Account together with payment of the Exit Offer Price by way of a cheque in Singapore currency drawn on a bank operating in Singapore for the appropriate amount, or in such other manner as you may have agreed with CDP for the payment of any cash distributions.

All communications, certificates, notices, documents and remittances to be delivered or sent to you will be sent to you by ordinary post to your address as maintained in the records of CDP and at your own risk. The Offeror or CDP shall not be liable for any loss in transmission of the FAA. The election made or deemed to be made by you in the FAA shall be deemed to be irrevocable and any instructions received by the Offeror or CDP after the FAA has been received shall be disregarded.

If you do not have any existing Securities Account in your name as at the time and date of acceptance of the Exit Offer, your acceptance as contained in the FAA will be rejected.

2. PROCEDURES FOR ACCEPTANCE OF THE EXIT OFFER BY SHAREHOLDERS WHO HOLD SHARES WHICH ARE NOT DEPOSITED WITH CDP

If you hold Shares which are not deposited with CDP, you are entitled to receive the Exit Offer Letter together with the FAT. If you do not receive the FAT, you may obtain a copy of such FAT, upon production of satisfactory evidence that you are a Shareholder from the office of the Offeror's receiving agent, Boardroom Corporate & Advisory Services Pte. Ltd. at 50 Raffles Place #32-01, Singapore Land Tower, Singapore 048623. If you wish to accept the Exit Offer, you should complete and sign the FAT in accordance with the provisions and instructions herein and in the Exit Offer Letter and the provisions and instructions printed on the FAT (which provisions and instructions shall be deemed to form part of the terms of the Exit Offer) and forward, at your own risk, the duly completed and signed FAT, together with the relevant share certificate(s), other document(s) of title and/or any other relevant document(s) required by the Offeror, by hand or by post to:

LIANGUO INTERNATIONAL LIMITED

c/o Boardroom Corporate & Advisory Services Pte. Ltd.
50 Raffles Place
#32-01 Singapore Land Tower
Singapore 048623

so as to arrive not later than 5:30 p.m. on the Closing Date.

If you are recorded in the Register of Members of CEL as holding Shares but do not have the relevant share certificate(s) relating to such Shares, you, at your own risk, are required to procure CEL to issue such share certificate(s) in accordance with the Memorandum and Articles of Association of CEL and then deliver such share certificate(s) in accordance with the procedures set out in the Exit Offers Letter and the FAT. If your Shares are represented by share certificate(s) which are not registered in your own name, you must send in the relevant share certificate(s), other document(s) of title and/or any other relevant document(s) required by the Offeror together with a duly completed and signed FAT accompanied by transfer form(s), duly executed by the person registered with CEL as the holder of the Shares, with the particulars of the transferee left blank (to be completed by the Offeror or a person authorised by it).

If you wish to accept the Exit Offer, you must insert in the FAT the number of Shares in respect of which the Exit Offer is accepted, which should not exceed the number of Shares represented by the share certificate(s) and/or other document(s) of title accompanying the FAT.

APPENDIX IX – PROCEDURES FOR ACCEPTANCE OF THE EXIT OFFER

If the number of Shares in respect of which the Exit Offer is accepted, as inserted by you in the FAT, exceeds the number of Shares represented by the share certificate(s) and/or other document(s) of title accompanying the FAT, or if no such number of Shares is inserted in the FAT by you, then **YOU SHALL BE DEEMED TO HAVE ACCEPTED THE EXIT OFFER IN RESPECT OF ALL THE SHARES REPRESENTED BY THE SHARE CERTIFICATE(S) AND/OR OTHER DOCUMENT(S) OF TITLE ACCOMPANYING THE FAT.**

No acknowledgement of receipt of any FAT, share certificate(s), other document(s) of title, transfer form(s) and/or any other relevant document(s) required by the Offeror will be given.

The election made or deemed to be made by you in the FAT shall be deemed to be irrevocable and any instructions or FAT received by the Offeror or Boardroom Corporate & Advisory Services Pte. Ltd. after the FAT has been received shall be disregarded.

All communications, certificates, notices, documents and remittances to be delivered or sent to you will be sent to you (or your designated agent or, in the case of joint accepting Shareholders who have not designated any agent, to the one first named in the Register of Members of CEL) by ordinary post to your address as it appears in the Register of Members of CEL at your own risk (or, for the purpose of remittances only, to such different name and address as may appear in the FAT and at your own risk).

3. OTHER RELEVANT INFORMATION IN RESPECT OF THE PROCEDURES FOR ACCEPTANCE

If you hold the share certificate(s) of some of the Shares beneficially owned by you and if you have deposited the rest of the Shares beneficially owned by you with CDP, you are required to complete the FAT in respect of the Shares represented by share certificate(s) and the FAA in respect of the Shares which are deposited with CDP, if you wish to accept the Exit Offer in respect of all such Shares. Both the FAT and the FAA must be completed, signed and accompanied by the relevant documents and sent to the Offeror in accordance with the respective procedures for acceptance set out above in paragraphs 1 and 2 of this **Appendix IX.**

If you hold the share certificate(s) of the Shares beneficially owned by you and you wish to accept the Exit Offer in respect of such Shares, you **SHOULD NOT** deposit the share certificate(s) with CDP during the period commencing on the date of the EGM and ending on the Closing Date (both dates inclusive) as the “Free Balance” of your Securities Account may not be credited with the relevant number of Shares in time for you to accept the Exit Offer.

Delivery of the duly completed and signed FAA and/or FAT to CDP and/or, as the case may be, Boardroom Corporate & Advisory Services Pte. Ltd. for and on behalf of the Offeror, shall be conclusive evidence in favour of the Offeror, Boardroom Corporate & Advisory Services Pte. Ltd. and CDP of the right and title of the person(s) signing it to deal with the same and with the Shares to which it relates.

Acceptances in the form of FAA and/or FAT received by the Offeror, CDP and/or Boardroom Corporate & Advisory Services Pte. Ltd., on a Saturday, Sunday or public holiday will only be processed and validated on the next business day.

If you wish to accept the Exit Offer, it is your responsibility to ensure that the FAA or the FAT is accurately completed in all respects, signed and all required documents are provided. The Offeror, Boardroom Corporate & Advisory Services Pte. Ltd. and/or CDP will be authorised and entitled, at their sole and absolute discretion, to reject any acceptance that does not comply with the provisions and instructions contained herein, in the Exit Offer Letter and in the FAA or the FAT (as the case may be), or which is otherwise incomplete, incorrect, unsigned, incorrectly completed, illegible or invalid in any respect. Any decision to reject the FAA or the FAT on the grounds that it has been incompletely, incorrectly or invalidly signed, completed or submitted will be final and binding, and none of CDP, Boardroom Corporate & Advisory Services Pte. Ltd. and the Offeror accepts any responsibility or liability for the consequences of such a decision.

APPENDIX IX – PROCEDURES FOR ACCEPTANCE OF THE EXIT OFFER

4. SETTLEMENT

Subject to the receipt by the Offeror of valid acceptances, complete in all respects, signed and in accordance with the instructions given herein and in the Exit Offer Letter and the relevant FAA and/or FAT (as the case may be) and in the case of a depositor, the receipt by the Offeror of confirmation satisfactory to it that the relevant number of Shares are standing to the credit of the “Free Balance” of the depositor’s Securities Account at the relevant time(s), remittances in the form of cheques in Singapore currency drawn on a bank operating in Singapore for the appropriate amounts will be despatched to the accepting Shareholder (or, in the case of a Shareholder holding share certificate(s) which is not deposited with CDP, his designated agent, if any) at his address as maintained in the records of CDP or the Register of Members of CEL by ordinary post and at the risk of the accepting Shareholder or in such other manner as he may have agreed with CDP for the payment of any cash distributions, as soon as practicable but in any event in respect of acceptances of the Exit Offer which are valid and complete in all respects and are received before the Exit Offer closes, within 10 days of the date of such receipt.

In the case of a depositor, CDP will also send a notification letter by ordinary post to you, at your address as maintained in the records of CDP, at your own risk, stating the number of Shares debited from your Securities Account.

5. INFORMATION PERTAINING TO CPFIS INVESTORS

CPFIS Investors should receive further information on how to accept the Exit Offer from their respective CPF Agent Banks after the despatch of the Exit Offer Letter and the accompanying Acceptance Forms. CPFIS Investors are advised to consult their respective CPF Agent Banks should they require further information and if they are in any doubt as to the action they should take, CPFIS Investors should seek independent professional advice. CPFIS Investors who do not receive any documents from their CPF Agent Banks within 10 days after the EGM should contact their CPF Agent Banks.

CPFIS Investors who wish to accept the Exit Offer are to reply to their respective CPF Agent Banks accordingly by the deadline stated in the letter from their respective CPF Agent Banks. CPFIS Investors who accept the Exit Offer will receive the payment of the Exit Offer Price for their Shares in their CPFIS accounts.

6. NO RIGHT OF WITHDRAWAL

ALL ACCEPTANCES OF THE EXIT OFFER SHALL BE IRREVOCABLE.

NOTICE OF EXTRAORDINARY GENERAL MEETING

CHINA ENERGY LIMITED

(Incorporated in the Republic of Singapore)

(Company Registration No.: 200510060K)

Notice of Extraordinary General Meeting

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of the members of China Energy Limited (the “**Company**”) will be held at The Westin Singapore, Meeting Room 4, 12 Marina View, Asia Square Tower 2, Singapore 018961 on 5 September 2014 at 4 p.m. for the purpose of considering and, if thought fit, passing the following resolution, to be passed in accordance with the requirements of the Listing Manual of the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”):

That:

- (a) the voluntary delisting of the Company from the Official List of the SGX-ST under Rules 1307 and 1309 of the listing manual of the SGX-ST (the “**Delisting Proposal**”), pursuant to which Lianguo International Limited will make the Exit Offer (as defined in the Circular) to the shareholders of the Company on the basis of S\$0.052 in cash for each ordinary share in the capital of the Company and on the terms and conditions as set out in the Circular, be approved; and
- (b) the directors of the Company and each of them be authorised and empowered to complete and to do all such acts and things as they may consider necessary or expedient to give effect to the Delisting Proposal and/or this Resolution, with such modification thereto (if any) as they shall think fit in the interests of the Company.

For the purposes of this Resolution, the Circular refers to the circular to shareholders of the Company dated 13 August 2014.

By Order of the Board

Chew Kok Liang
Company Secretary
13 August 2014

Singapore

Notes:

- (1) A member of the Company entitled to vote at the above Extraordinary General Meeting (“**EGM**”) shall not be entitled to appoint more than two proxies to attend and vote on his/her behalf. Such proxy need not be a member of the Company.
- (2) If the appointer is a corporation, the instrument appointing a proxy shall be either given under its common seal or signed on its behalf by an attorney or a duly authorised officer of the corporation.
- (3) The instrument appointing the proxy should be deposited at the Company’s registered office at Six Battery Road #10-01 Singapore 049909, not less than 48 hours before the time appointed for holding the EGM. Completion and return of a proxy form will not preclude a shareholder from attending and voting in person at the EGM in place of his proxy.

Personal data privacy:

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the EGM and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member’s personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the EGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the EGM (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the “**Purposes**”), (ii) warrants that where the member discloses the personal data of the member’s proxy(ies) and/or representatives to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representatives for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representatives for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member’s breach of warranty.

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PROXY FORM

CHINA ENERGY LIMITED

(Company Registration No. 200510060K)
(Incorporated In the Republic of Singapore)

IMPORTANT:

- For investors who have used their CPF monies to buy China Energy Limited's shares, this Circular is forwarded to them at the request of their CPF Agent Banks and is sent solely FOR INFORMATION ONLY. This Proxy Form is not valid for use by CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them.
- CPF investors who wish to attend the Meeting as an observer must submit their requests through their CPF Agent Banks within the time frame specified. If they also wish to vote, they must submit their voting instructions to the CPF Agent Banks within the time frame specified to enable them to vote on the CPF investor's behalf.

Personal data privacy

By submitting an instrument appointing a proxy(ies) and/or representative(s), the member accepts and agrees to the personal data privacy terms set out in the Notice of Extraordinary General Meeting dated 13 August 2014.

PROXY FORM

(Please see notes overleaf before completing this Form)

I/We, _____

of _____

being a member/members* of China Energy Limited (the "Company"), hereby appoint:

Name	NRIC/Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

and/or (delete as appropriate)

Name	NRIC/Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

or failing the person, or either or both of the persons, referred to above, the Chairman of the Extraordinary General Meeting (the "Meeting") as my/our* proxy/proxies* to vote for me/us on my/our behalf at the Meeting to be held at The Westin Singapore, Meeting Room 4, 12 Marina View, Asia Square Tower 2, Singapore 018961 on 5 September 2014 at 4 p.m. and at any adjournment thereof. I/We* direct my/our* proxy/proxies* to vote for or against the Resolution proposed at the Meeting as indicated hereunder. If no specific direction as to voting is given or in the event of any other matter arising at the Meeting and at any adjournment thereof, the proxy/proxies will vote or abstain from voting at his/her* discretion.

No.	Resolution	For	Against
1	To approve the proposed voluntary delisting of the Company from the Official List of the Singapore Exchange Securities Trading Limited ("SGX-ST") pursuant to Rules 1307 and 1309 of the listing manual of the SGX-ST		

Voting on the Resolution will be conducted by way of poll. If you wish to exercise all your votes "For" or "Against", please mark a tick [✓] in the box provided. Alternatively, please indicate the number of votes as appropriate.

Dated this _____ day of _____ 2014

Total number of Shares in:	No. of Shares
(a) CDP Register	
(b) Register of Members	

Signature of Shareholder(s)
or Common Seal of Corporate Shareholder

*Delete where inapplicable



PROXY FORM

Notes:

1. Please insert the total number of shares held by you. If you have shares entered against your name in the Depository Register (as defined in Section 130A of the Companies Act, Chapter 50 of Singapore), you should insert that number of shares. If you have shares registered in your name in the Register of Members, you should insert that number of shares. If you have shares entered against your name in the Depository Register and shares registered in your name in the Register of Members, you should insert the aggregate number of shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the shares held by you.
2. A member of the Company entitled to attend and vote at a Meeting of the Company is entitled to appoint one or two proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.
3. Where a member appoints two proxies, the proportion of his/her shareholding (expressed as a percentage of the whole) to be represented by each proxy shall be specified. If the proportion of shareholding is not specified, the Company shall be entitled to treat the first named proxy as representing the entire number of shares entered against his/her name in the Depository Register and any second named proxy as an alternate to the first named.
4. Completion and return of this instrument appointing a proxy shall not preclude a member from attending and voting at the Meeting. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the Meeting in person, and in such event, the Company reserves the right to refuse to admit any person or persons appointed under the instrument of proxy to the Meeting.
5. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at Six Battery Road #10-01 Singapore 049909 not less than 48 hours before the time appointed for the Meeting.
6. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its common seal or under the hand of an attorney or duly authorised officer. Where the instrument appointing a proxy or proxies is executed by an attorney on behalf of the appointor, the letter or power of attorney or a duly certified copy thereof must be lodged with the instrument.
7. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Meeting, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.

General:

The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible, or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointor, is not shown to have shares entered against his/her name in the Depository Register as at 48 hours before the time appointed for holding the Meeting, as certified by The Central Depository (Pte) Limited to the Company.

