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In considering any investment in the Company you should note that application has been made for the Existing Ordinary Shares and the Placing Shares to be admitted to trading on AIM. AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the United Kingdom Listing Authority. The rules of AIM are less demanding than those of the Official List of the UK Listing Authority. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. Each AIM company is required pursuant to the AIM Rules for Companies to have a nominated adviser. The nominated adviser is required to make a declaration to the London Stock Exchange on admission in the form set out in Schedule Two to the AIM Rules for Nominated Advisers. The duties of WH Ireland pursuant to the declaration in Schedule Two of the AIM Rules for Nominated Advisers are solely owed to the London Stock Exchange plc and to no other party. WH Ireland accepts no responsibility or liability whatsoever to any other party who relies upon that declaration. The London Stock Exchange has not itself examined or approved the contents of this document.

This document, which comprises an AIM admission document drawn up in accordance with the AIM Rules, has been issued in connection with the application for admission to trading of the entire issued and to be issued ordinary share capital of the Company to trading on AIM. This document is not a prospectus for the purposes of the Prospectus Rules, has not been prepared in accordance with the Prospectus Rules and has not been, and will not be, approved or filed with the UK Listing Authority or by any other authority which could be a competent authority in any jurisdiction for the purposes of the Prospectus Directive.

This document constitutes a prospectus for the purposes of the Isle of Man Companies Act 1931 and for the purposes of this Act is issued in connection with a private placement within the meaning of the Companies (Private Placements) (Prospectus Exemptions) Regulations 2000 and therefore, is exempt from the provisions of the said Act relating to the content of prospectuses and other technical rules.

It is expected that dealings in the Ordinary Shares will commence on AIM on 19 October 2007.

**THE WHOLE OF THE TEXT OF THIS DOCUMENT SHOULD BE READ AND YOUR ATTENTION IS DRAWN TO THE RISK FACTORS SET OUT IN PART II OF THIS DOCUMENT.**

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## **GEM BIOFUELS PLC**

*(incorporated and registered in Isle of Man with company registration no:115011C)*

ISIN: IM00B24F0V53

Placing of 5,833,334 new Ordinary Shares of 1p each at 60p per share  
and

Admission to trading on AIM

WH Ireland Limited  
Nominated Adviser and Broker

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<b>Ordinary share capital immediately following Admission</b>				
<i>Authorised</i>			<i>Issued</i>	
<i>Number</i>	<i>£</i>		<i>Number</i>	<i>£</i>
200,000,000	2,000,000	Ordinary Shares of 1p each	27,601,501	276,015

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The Directors of the Company, whose names appear on page 4, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all such reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts, and does not omit anything likely to affect the import of such information.

WH Ireland, which is authorised and regulated in the UK by the Financial Services Authority and is a member of the London Stock Exchange, is the Company's nominated adviser and broker and is acting exclusively for the Company and no one else in connection with the Placing and Admission. Accordingly, WH Ireland will not be responsible to recipients of this document for providing the protections afforded to its own clients nor for providing advice in relation to the Placing or any acquisition of Ordinary Shares in the Company. Neither the receipt of this document by any person, nor any information contained in it or supplied with it or subsequently communicated to any person in connection with the Placing or Admission constitutes, or is to be taken as constituting, the giving of investment advice by WH Ireland to any person and WH Ireland have not authorised the contents of, or any part of, this document and no liability whatsoever is accepted by WH Ireland for the accuracy of any information or opinions contained in this document or for the omission of any material information. No representation or warranty, express or implied, is made or given by or on behalf of the Company or its directors or WH Ireland or any other person as to the accuracy, completeness or fairness of the information or opinions contained in this document. Nothing in this paragraph shall exclude, however, liability for any representation or warranty made fraudulently. Any prospective investor in the Company is recommended to seek its own independent financial advice.

This document does not constitute an offer or invitation to sell or the solicitation of an offer to buy shares in any jurisdiction where such offer, invitation or solicitation is unlawful and should not be distributed directly or indirectly to any persons with addresses in the United States of America (or any of its territories or possessions), Canada, Australia, South Africa, the Republic of Ireland or Japan or to any corporation, partnership or other entity created or organised under the laws thereof, or in any other country outside the United Kingdom where such distribution may lead to a breach of any legal or regulatory requirement. The Ordinary Shares have not been and will not be registered under the applicable securities laws of the United States of America, Canada, Australia, South Africa, the Republic of Ireland or Japan.

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## PLACING STATISTICS

Number of Existing Ordinary Shares in issue immediately prior to the Placing		20,000,000
Placing Price		60p
Number of Placing Shares being issued pursuant to the Placing		5,833,334
Conversion Price		US\$0.30
Number of Conversion Shares expected to be issued at the Conversion Price		1,768,167
Gross proceeds of the Placing		£3.5 million
Estimated net proceeds of the Placing		£2.7 million
Number of Ordinary Shares in issue immediately following completion of the Placing and Admission (including the Conversion Shares)		27,601,501
Market capitalisation following completion of the Placing and Admission at the Placing Price		£16.6 million
	<i>% of Enlarged Share Capital immediately following Admission</i>	<i>% of Enlarged Share Capital assuming exercise of all options</i>
Percentage of the Enlarged Share Capital represented by:		
Existing Ordinary Shares prior to Admission	72.5	67.3
Placing Shares	21.1	19.6
Conversion Shares	6.4	6.0
AIM Symbol		GBF
ISIN number		IM00B24F0V53

## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Publication of this document	15 October 2007
Admission effective and dealings in Ordinary Shares commence on AIM	19 October 2007
CREST accounts credited (in respect of the Placing Shares and where applicable)	19 October 2007
Share certificates in respect of Placing Shares to be despatched (where applicable)	2 November 2007

Each of the times and dates above is subject to change. All times in this document are London times, unless otherwise stated.

## EXCHANGE RATES

Throughout this document (other than where otherwise indicated), the following exchange rates have been used:

US\$1	:	FMG 10,000
US\$1	:	Ar 2,000
£1	:	US\$ 2.00

## DIRECTORS AND SECRETARY

### Directors:

Simon Dennis Hunt  
Paul Raymond Benetti  
Adam William Broadhurst  
Frank Barry Tiller  
Malcolm Francis Williams  
Pritesh Ramesh Desai  
all of 34 North Quay, Douglas,  
Isle of Man IM1 4LB

Non-Executive Chairman  
Chief Executive  
Operations Director  
Finance Director  
Non-Executive Director  
Non-Executive Director

### Company Secretary:

James Cunningham-Davies

## COMPANY ADDRESSES

### Registered Office:

34 North Quay  
Douglas  
Isle of Man IM1 4LB

### Madagascar:

Lot 0104L0080A Rue Vauguier  
Tanambau-Morafeno  
Tulear Centre 601  
Madagascar

### Website:

[www.gembiofuels.com](http://www.gembiofuels.com)

## ADVISERS TO THE COMPANY

### Nominated Adviser and Broker:

WH Ireland Limited  
24 Bennetts Hill  
Birmingham B2 5QP

### Financial Adviser:

DJ Carmichael Pty Limited  
Level 11, Allendale Square  
77 St George's Terrace  
Perth WA 6000

### UK Solicitors to the Company:

Memery Crystal LLP  
44 Southampton Buildings  
London WC2A 1AP

### Solicitors to the Placing:

Shoosmiths  
Waterfront House  
Waterfront Plaza  
35 Station Street  
Nottingham NG2 3DQ

### Isle of Man Solicitors to the Company:

Dickinson Cruickshank  
33 Athol Street  
Douglas  
Isle of Man IM1 1LB

### Madagascan Solicitors to the Company:

Madagascar Conseil International  
Nouvel Immeuble NY HAVANA  
Explorer Business Park  
Ankorondrano  
Antananarivo 101

### Auditors and Tax Advisers:

Deloitte and Touche  
66-67 Athol Street  
Douglas  
Isle of Man IM99 1XJ

### Reporting Accountants and Tax Advisers:

Deloitte Touche Tohmatsu  
Level 14, Woodside Plaza  
240 St Georges Terrace  
Perth WA 6000

Deloitte & Touche  
66-67 Athol Street  
Douglas  
Isle of Man IM99 1XJ

### Registrars:

Computershare Investor Services (Channel Islands) Ltd  
Ordnance House  
31 Pier Road  
St Helier  
Jersey JE4 8PW

## DEFINITIONS

The following definitions apply throughout this document unless the context requires otherwise:

<b>“Acts”</b>	the Isle of Man Companies Acts 1931 to 2004 as amended;
<b>“Admission”</b>	admission of the Enlarged Share Capital to trading on AIM becoming effective in accordance with the AIM Rules;
<b>“AIM”</b>	the market of that name operated by the London Stock Exchange;
<b>“AIM Rules”</b>	the rules of the London Stock Exchange relating to AIM (and where the context so requires, the AIM rules for nominated advisers) as amended from time to time;
<b>“Ar” or “Ariary”</b>	the lawful currency of Madagascar;
<b>“Articles” or “Articles of Association”</b>	the articles of association of the Company adopted on 15 October 2007;
<b>“Board”</b>	the board of directors of the Company as constituted from time to time;
<b>“CGT”</b>	United Kingdom Capital Gains Tax;
<b>“Cold Filter Plug Point”</b>	the temperature at which a fuel filter will plug due to fuel components that have begun to gel;
<b>“Combined Code”</b>	the Combined Code on Corporate Governance, published in June 2006 by the Financial Reporting Council;
<b>“Code”</b>	the City Code on Takeovers and Mergers;
<b>“Communes”</b>	groups of self-governing land managers, based loosely on historic tribal/family groupings;
<b>“Company” or “GEM BioFuels”</b>	GEM BioFuels Plc, a public limited company incorporated and registered in the Isle of Man with company registration number 115011C;
<b>“Conversion”</b>	the conditional conversion of loan notes pursuant to the Loan Note Agreement;
<b>“Conversion Price”</b>	the price per share at which the loan notes issued pursuant to the Loan Note Agreement convert to Ordinary Shares;
<b>“Conversion Shares”</b>	the 1,768,167 Ordinary Shares expected to be issued to RAB on Conversion;
<b>“CREST”</b>	the electronic settlement system to facilitate the holding and transfer of title to shares in uncertificated form operated by Euroclear UK & Ireland;
<b>“CREST Regulations”</b>	the Isle of Man Uncertificated Securities Regulations 2005;
<b>“Directors”</b>	the directors of the Company as at the date of this document whose details are set out on page 4 of this document;
<b>“DTR”</b>	Disclosure and Transparency Rules Sourcebook;
<b>“EU”</b>	European Union as constituted from time to time;
<b>“€”</b>	Euro;
<b>“Enlarged Share Capital”</b>	the issued share capital of the Company immediately following Admission and Conversion;
<b>“Existing Ordinary Shares”</b>	the Ordinary Shares in issue immediately prior to Admission and Conversion;
<b>“Euroclear UK &amp; Ireland”</b>	Euroclear UK & Ireland Limited, the Central Securities Depository for the UK market and Irish securities and the operator of CREST;

<b>“FMG”</b>	the Malagasy Franc, the former currency of Madagascar, still accepted as legal tender in Madagascar;
<b>“FSA”</b>	the UK Financial Services Authority;
<b>“FSMA”</b>	Financial Services and Markets Act 2000, as amended;
<b>“Green Energy”</b>	Green Energy Madagascar sarl, a company incorporated in Madagascar with number 10 351 813 and having its address at Lot VB 81 A Ter, Ambotoroka, Antananarivo, 101 Madagascar;
<b>“Historical Financial Information”</b>	the Company’s financial statements for the period ended 31 December 2006;
<b>“Group”</b>	the Company and Green Energy;
<b>“Loan Note Agreement”</b>	the agreement entered into between the Company (1) and RAB (2) on 27 March 2007, further details of which are set out in paragraph 12.10 of Part V of this document;
<b>“London Stock Exchange”</b>	London Stock Exchange plc;
<b>“Locked-in-Shareholders”</b>	Zettai 1 Pty Ltd, Sweet Global Holdings Ltd, Diana Lalor, Adam Broadhurst and 2RS Pty Ltd;
<b>“Official List”</b>	the official list of the UK Listing Authority;
<b>“Ordinary Shares”</b>	ordinary shares of 1p each in the share capital of the Company;
<b>“Panel”</b>	the Panel on Takeovers and Mergers;
<b>“Plac ee”</b>	a person to whom Placing Shares are issued pursuant to the Placing;
<b>“Placing”</b>	the proposed placing of the Placing Shares under the Placing Agreement and conditional on Admission;
<b>“Placing Agreement”</b>	the conditional placing agreement dated 15 October 2007 between the Company (1) WH Ireland (2) and certain of the Directors (3) relating to the Placing, further details of which are set out in paragraph 12.4 of Part V of this document;
<b>“Placing Price”</b>	60 pence per Placing Share;
<b>“Placing Shares”</b>	5,833,334 new Ordinary Shares to be allotted at the Placing Price pursuant to the Placing;
<b>“Prospectus Directive”</b>	directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading;
<b>“Prospectus Rules”</b>	rules made by the FSA from time to time for the purpose of the Part VI of FSMA in relation to the offer of securities to the public and admission of securities to trading on a regulated exchange;
<b>“RAB”</b>	RAB Special Situations (Master) Fund Limited, a company incorporated in the Cayman Islands;
<b>“Registrar”</b>	Computershare Investor Services (Channel Islands) Limited of Ordnance House, 31 Pier Road, St Helier, Jersey JE4 8PW, Channel Islands;
<b>“Share Option Plans”</b>	the Company’s No. 1 Share Option Plan 2007 and No. 2 Share Option Plan 2007, further details of both being set out in paragraph 8 of Part V of this document;
<b>“Shareholder”</b>	a holder of Ordinary Shares from time to time;
<b>“t.p.a.”</b>	tonnes per annum;
<b>“UK” or “United Kingdom”</b>	the United Kingdom of Great Britain and Northern Ireland;

<b>“Uncertificated” or “in uncertificated form”</b>	recorded in the relevant register of the share or security concerned as being held in uncertificated form in CREST and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST;
<b>“United States”, “US” or “USA”</b>	the United States of America, its territories and possessions and any state of the United States or the District of Columbia and all other areas subject to its jurisdiction;
<b>“US\$” or “\$”</b>	US dollars, the lawful currency of the United States;
<b>“£”</b>	United Kingdom pounds sterling the lawful currency of the UK; and
<b>“WH Ireland”</b>	WH Ireland Limited, nominated adviser and broker to the Company on Admission.

## PART I

### INFORMATION ON GEM BIOFUELS

#### 1. Introduction

GEM BioFuels has been established to supply feedstock to the rapidly growing global biodiesel market. The Directors believe that one of the most significant potential constraints on the growth of this market is the relatively limited supply of biodiesel feedstock, and that this provides a significant commercial opportunity for the Company.

##### *Biodiesel Market*

The biodiesel market is expected by the Directors to see significant growth for at least the next three years.

- Between 1991 and 2005 production in the global biodiesel market has seen growth in excess of 45 per cent. per annum.
- Continued growth is expected to be driven by the political imperative to reduce carbon emission through, amongst other policies, the substitution of fossil fuels with sustainable green alternatives and a desire to reduce reliance on fossil fuels sourced from volatile parts of the globe.
- In the EU alone, these political drivers are expected to cause demand to grow from about 3 million t.p.a. (approximately 3.3 billion litres) in 2005 to about 10 million t.p.a. (approximately 11 billion litres) in 2010 (a growth rate of 32 per cent. per annum).

##### *Jatropha Curcas*

GEM BioFuels is initially focusing on the *Jatropha Curcas* (“*Jatropha*”) tree and the vegetable oil that is produced from its seeds. *Jatropha* is well suited to use in the production of biodiesel.

- Biodiesel produced using crude *Jatropha* oil has a lower Cold Filter Plug Point than biodiesel produced using palm oil, making it more acceptable as a biodiesel feedstock in a number of markets, particularly in Europe.
- *Jatropha* trees are suitable for cultivation in sub tropical regions, are hardy and relatively drought resistant. Compared to some other feedstocks *Jatropha* is inexpensive as the seeds and oil have limited uses as they are mildly toxic and as such are inedible.
- *Jatropha* trees do not need replanting annually and once mature, trees are expected to have a 35-40 year productive life.
- *Jatropha* seeds are relatively high yielding producing approximately one tonne of oil from every three tonnes of seed.
- *Jatropha* is not a food, its seeds and oil are mildly toxic and its use in biodiesel production does not affect the cost of living of the local population unlike palm oil, for example, which is used in domestic cooking and the price of which has risen by over 37 per cent. between April 2006 and April 2007, a rise which is, in part, believed to be due to the increased demand for palm oil from the biodiesel sector.
- Biodiesel refined from *Jatropha* oil complies with the current regulatory standards EN14214 and ASTM D 6751.

##### *Plantation Agreements*

Green Energy has entered into 18 agreements with Communes in relation to 452,500 hectares of land suitable for the establishment of plantations in Madagascar. These agreements give the Group the exclusive right to establish *Jatropha* plantations on the Communes’ land. The Group pays members of the Communes to plant and maintain the Group’s trees and to harvest the seeds. In addition Green Energy has an agreement in relation to 40,000 hectares containing natural forest, including significant numbers of mature wild *Jatropha* trees. Separately, the Company also has informal arrangements with a number of individuals for the delivery of wild seed to the Group’s storage facility.

To date approximately 13,300 hectares have been planted on 9 Commune areas. On average a *Jatropha* tree will take two to three years before it becomes productive and the Company plans to plant a further 50,000 hectares during the next rainy season — broadly October 2007 to February 2008. All work is undertaken under the supervision of the Company’s staff and the Company has established systems and procedures for managing and measuring the work undertaken.



Initially, the Company is planning to focus on sites close to metalled roads in order to facilitate transportation to its storage facilities and proposed crushing facilities.

### *Madagascar*

The Company has elected to base its initial operations in Madagascar where:

- the Jatropha tree grows wild in the south of the island;
- ownership of much of the land is in the hands of Communes, which has enabled the Company to secure plantation and collection agreements with individual villages and Communes at minimal cost;
- labour costs are relatively low; and
- the Malagasy government is actively seeking to encourage reforestation to combat soil erosion which is a major problem in the semi-arid coastal areas that are well suited to Jatropha cultivation.

### *Oil Extraction and Available Plant*

Crude jatropha oil is produced by a simple de-hulling and crushing process. Initially the Company will seek to erect a crushing plant close to its base in the southern port city of Toliara. However, as the size of the area under cultivation expands the Company plans to erect further crushing facilities closer to the main plantation areas.

The Directors expect, based on estimates that they have received, that a plant capable of processing 50,000 tonnes of seed per annum will cost approximately US\$0.7 million after allowing for construction of the plant, related tanking and other facilities. Based on these estimates the Directors believe that the associated running costs of such plant will be approximately US\$50 to US\$60 per tonne of oil produced.

Over the next five years, the Directors plan to erect sufficient crushing plant to produce approximately 135,000 t.p.a. of crude Jatropha oil.

### *Three Year Plan*

The Group already has approximately 13,300 hectares under cultivation and, based on existing agreements and planting schedules, plans to have approximately 200,000 hectares under cultivation by the end of the 2010 planting season. Based on these plans, the Directors expect that by 2010 the Group will be producing 45,000 t.p.a. of crude Jatropha oil rising to 210,000 t.p.a by 2014, as its trees mature.

### *Placing*

The Company is proposing to raise £2.7 million net of expenses through the Placing and the Directors intend to apply these funds in completing the establishment of its plantations, acquiring a crushing plant and establishing its crude oil production and funding working capital requirements.

## **2. Group History**

The business was founded in 2004 to capitalise on the opportunity presented by the local agricultural and socio-economic conditions in Madagascar to produce Jatropha oil for use as a biodiesel feedstock.

In May 2005, Paul Benetti joined the business and, following an initial investment of US\$100,000 by a group of Australian investors, the business was transferred to Green Energy, a company incorporated in August 2005. In December 2005, the Company was incorporated and acquired the beneficial ownership of the shares of Green Energy in exchange for the issue of 10,000,000 Ordinary Shares.

In December 2005, RAB were issued 10,000,000 Ordinary Shares, representing 50 per cent. of the issued share capital in the Company in exchange for an investment of US\$1,500,000. In March 2007, RAB invested a further US\$500,000 in exchange for convertible loan notes under the terms of the Loan Note Agreement. RAB also acquired an additional 10 per cent. of the issued equity from certain of the founder shareholders.

RAB is subscribing a further £650,000 in the Placing and under the terms of the agreement summarised at paragraph 12.17 of Part V of this document RAB has agreed, to convert the Loan Notes and accrued interest into 1,768,167 Ordinary Shares and to enter into the orderly market agreement summarised in paragraph 12.6 of Part V of this document.

Since the initial financing in December 2005, the Group has planted approximately 13,300 hectares of Jatropha as follows;

- 330 hectares, between February and March 2006;
- 10,353 hectares, between July and September 2006; and

- 2,617 hectares, in February 2007.

The Company has also established its local management and monitoring structure, including the appointment of Adam Broadhurst as resident Operations Director in April 2006.

### **3. Biodiesel**

#### *Technical*

Biodiesel is an alternative fuel to mineral diesel, and can be manufactured from various feedstocks, including:

- vegetable oils such as jatropha, palm, rapeseed, soy, linseed and coconut oil;
- animal fats (including tallow); or
- used cooking oils.

Biodiesel has similar chemical properties (viscosity, boiling point, density and heating value) to mineral diesel, which allows it to be blended with mineral diesel in any proportion and to be used in standard diesel engines with minor or no modification. The main benefits of biodiesel are:

- the reduction of emissions of harmful greenhouse gases, when compared to unblended mineral diesel including; carbon dioxide (an 80 per cent. reduction) and sulphur dioxide (an almost 100 per cent. reduction);
- the presence of oxygen ensures better combustion, reducing black smoke, unburnt hydrocarbons and carbon monoxide emissions;
- it is non-toxic with higher flashpoint temperatures and biodegradability than mineral diesel, making it safer than mineral diesel to store, handle, transport and use;
- it improves the lubricity of mineral diesel fuel, reducing the need for higher sulphur levels, enabling compliance with current legislation; and
- it has a higher cetane number. Biodiesel has a faster ignition than mineral diesel and has 90 per cent. of the energy.

Various countries around the world have established standards for biodiesel specifications. The EU standard for biodiesel is specified as the EN14214 standard and the US standard is ASTM D 6751.

The use of mineral diesel in the EU is governed by EN 590. Biodiesel conforming to EN14214 may be blended into mineral diesel in quantities up to 5 per cent. and the blended product will still conform to EN590. Therefore, diesel vehicles in the EU can run on a 5 per cent. biodiesel blend with full manufacturer warranties.

#### *Market*

The market for biodiesel is developing rapidly, driven by a number of factors, including:

- political pressure to find renewable alternatives to fossil fuels and ways of cutting the emission of greenhouse gases. This has resulted in measures such as the Kyoto Protocol, which has now been ratified by 162 countries, which have together pledged to cut greenhouse gas emissions by at least 5 per cent. from 1990 levels in the period from 2008 to 2012;
- the introduction by a number of countries, including the US, China and those within the EU, of tax incentives and/or penalties to encourage the increased use of biodiesel and biofuels;
- increasing demand for fossil fuels, particularly from the developing economies of India and China which has contributed to the 12 per cent. increase in crude oil prices during the period April 2005 to April 2007; and
- a positive indication from vehicle and engine manufacturers towards blending biodiesel with mineral diesel.

The Directors estimate that the global biodiesel market for 2007 is about 7 million tonnes, with various expectations of the market increasing to around 12 million tonnes by 2010. Currently the following are believed to be the principal markets for biodiesel;

- Europe  
Currently the major market. In 2005 production was estimated to be about 3 million tonnes. There is an EU directive target that 5.75 per cent. of fuel consumption should comprise biodiesel by 2010. This would increase usage to around 10 million t.p.a. However, the Directors are unsure whether this target will be achieved within the proposed timescale, but nevertheless believe that it is indicative of the expected medium term growth potential of the market;
- United States & Latin America  
It is estimated that 0.4 million tonnes of biodiesel were produced in 2005 compared with a total on-road diesel production of about 157 million tonnes. Consumption is expected to rise to about 1.4 million tonnes in 2007 and up to 2 million tonnes by 2010; and
- Asia  
Currently consuming 2 billion tonnes of fossil fuel per annum and demand is expected to double by 2025. Given the recent rises in the price of fossil fuels, there has been a strong interest in biofuels and demand is expected to rise from about 0.1 million t.p.a. in 2005 to 2.5 million t.p.a. by 2010 and China alone is planning to produce 1.8 million t.p.a. of biodiesel by 2010.

### *Production*

The worldwide biodiesel production market is fragmented, with over 100 active market participants in the EU, the USA and Australia alone, and no single company dominating production. This is a situation that the Directors believe will be perpetuated as the expected continuation of demand growth leads to new companies entering the market with additional refining capacity.

The Directors believe that within the next eighteen months there will be over 69 refineries around the world, capable of using *Jatropha* oil, with total production capacity in excess of 5.4 million t.p.a. of biodiesel. The Company has already received written expressions of interest to purchase crude *Jatropha* oil from several operators in this sector and is currently negotiating an off-take agreement for the sale of 55 per cent. of the Company's crude *Jatropha* production with one of the Places, Natural Fuel Limited ("NFL"), at an initial F.O.B. fixed price of US\$500 per tonne from Madagascar. NFL is a public company, listed on the Australian Stock Exchange, which is developing biodiesel refining facilities in Australia and Singapore with annual production capacity in excess of 700,000 t.p.a.

## **4. *Jatropha***

*Jatropha* is a small tree/shrub, growing to about 5 metres in height. It has long been used in traditional African medicine despite the fact that its seeds are mildly toxic to humans and animals. The plant is relatively drought resistant, thriving in arid and sub-tropical environments.

*Jatropha* seeds are rich in oil and were historically grown in large quantities in some areas of Africa for shipment to Europe for oil extraction and the manufacture of soap. The Directors believe that the current production of *Jatropha* seed for commercial purposes is negligible but increasing due to its attractiveness as a biodiesel feedstock.

*Jatropha* has been targeted because of its ability to economically produce high oil yielding seeds. The Company anticipates an average effective tree density, within its plantations, of approximately 4,000 trees per hectare. This is after allowing for a 20 per cent. gestation failure. Mature trees can produce up to 10kg of seed every year (depending on conditions) and *Jatropha* seeds have been known to produce between 35 per cent. and 40 per cent. oil content, by weight, depending on the species used, the environmental conditions at the time of seed production and the oil extraction technology being utilised.

*Jatropha* requires as little as 300mm of annual rainfall, which means it can be grown on marginalised, waste and arid land and is durable to the elements. Furthermore, this means that one of the largest plantation costs (i.e. land acquisition cost) is significantly reduced.

*Jatropha* trees generally have their first harvest within 2 years of planting, taking approximately 4 to 5 years to reach maturity and are productive for, on average, at least 35 to 40 years.

Biodiesel refined from *Jatropha* oil complies with the current regulatory standards EN14214 and ASTM D 6751.

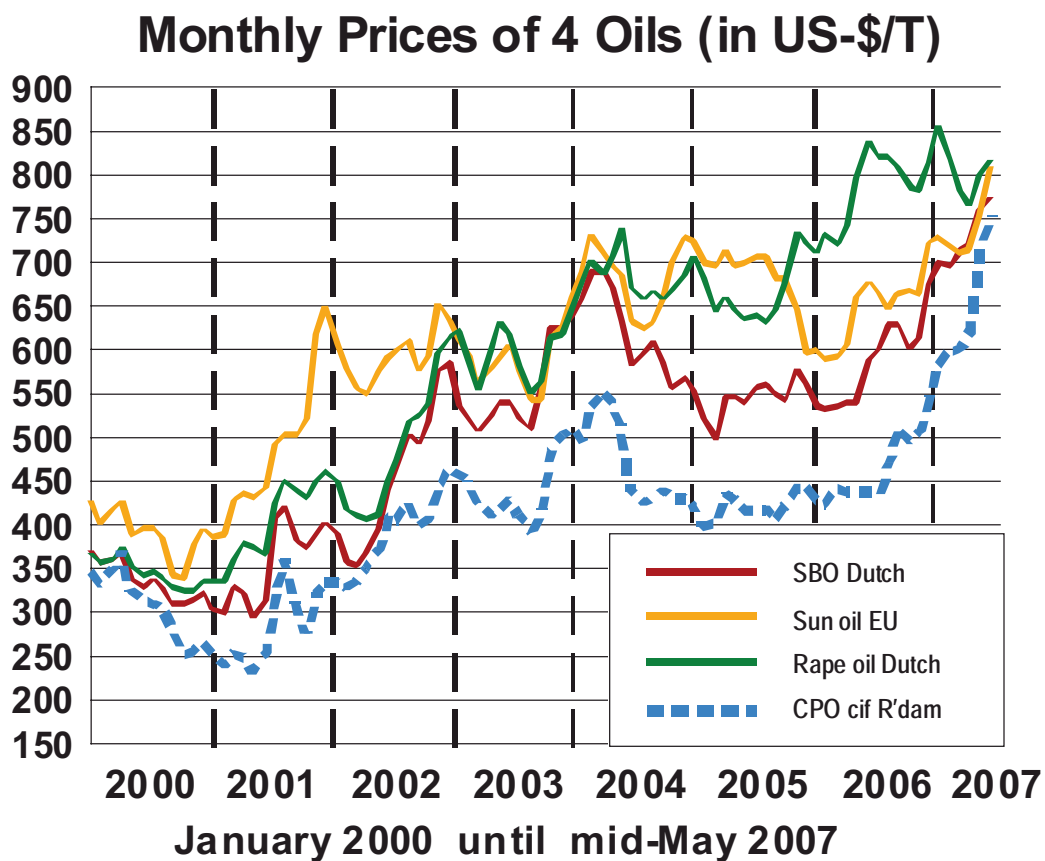
### Competing Feedstock Sources

Feedstock typically accounts for approximately 80 per cent. of biodiesel production costs. Feedstock sources derive from edible oils, which in order of cost are sunflower oil, rapeseed oil, soybean oil, tallow, palm oil, lard and used frying oils, inedible oil crops such as *Jatropha*, recycling oils and animal fats.

Of the least expensive feedstocks, recycling oils require clean recycling practices and animal fats derived from slaughter operations require reduction of sulphur content via specific distillation processes before they can meet the EU standard requirements.

The biodiesel market is expected to remain fragmented with rapeseed based biodiesel being dominant in Europe and palm oil based biodiesel in Asia. Most of the rapeseed oil and sunflower oil production is consumed in the producing countries with palm oil and palm kernel oil being the only biodiesel feedstocks that are globally traded. However, if the EU is to meet its 2010 biofuel targets, domestically grown crops will be insufficient to support the required biodiesel production. Given this geographical demand-supply imbalance, the international trade of biofuel feedstocks is likely to increase as Europe will need to import feedstock from Asia and elsewhere. Unfortunately, palm oil cultivation in the largest producing countries, Malaysia and Indonesia, is far from sustainable and often causes harm to the environment as rainforests are replaced with palm oil plantations.

The graph below shows the increase in price over the past six years of soyabean oil, sunflower oil, rapeseed oil and crude palm oil.



Source: Oilworld, Hamburg, Germany

## 5. Plantation and Collection Agreements

The Group has secured exclusive rights to 492,500 hectares of land for the establishment of its operations in 19 separate locations in Southern Madagascar (see map below). These plots range in size from 2,500 hectares to 50,000 hectares.



Source: Map from Institute Geographique et Hydrographic National de Madagascar, sites plotted by the Company

The land to which the Group has access is divided into two types:

- plantation land (452,500 hectares)

The Group has agreements with 18 regional Communes covering 452,500 hectares which provide it with exclusive access to the land for the establishment and operation of *Jatropha* plantations. Within these properties, the Directors believe they will be able to plant 4,000 trees per hectare which, at maturity, could yield 4 tonnes of seed (or 1.3 tonnes of crude *Jatropha* oil) per hectare per annum. The rights to the use of the land have been acquired at no cost to the Group and while ownership of the land remains with the Commune, the ownership of the trees and seeds rests with the Group as does the exclusive right to commercially grow, maintain and harvest *Jatropha* on the land.
- natural forest (40,000 hectares)

The Group has an agreement with the Commune of Soalara Sud covering 40,000 hectares of land which contains natural forest. Within this area, there are substantial numbers of mature *Jatropha* trees which the Directors believe can provide an annual yield of around 0.5 tonnes of seed (producing 0.2 tonnes of crude *Jatropha* oil) per hectare per annum. The agreement provides the Group with exclusive right to harvest seeds from the trees growing on this land. These rights have been acquired at no cost to the Group.

The Directors believe that the Group's geographical spread of plantation sites will diversify its risk in relation to the potential impact of negative crop occurrences (such as bad weather, fire and pestilence) and will provide an extended planting season.

### *Planting and Maintenance*

When planting, the ground is prepared using traditional 'tractor and/or hand implement' techniques and then the seeds, or cuttings, are planted to appropriate depths. The Directors believe there is ample evidence, in the Group's locations in Madagascar, of *Jatropha* seeds and cuttings (and other crops such as Casava) successfully growing to oil-producing mature plants when these planting methods are employed.

Labour for the planting of Group controlled plantations has to date been, and for the foreseeable future will continue to be, organised by leaders of the Communes, making use of local labour from the Commune to complete the tasks required by the Group's program. The labourers use their own tools and the Group meets the cost of the materials to be planted (i.e. seed or cuttings). Labour is organised by the Commune leadership and the supervision and the co-ordination of the actual planting is undertaken directly by the Group's managers to ensure consistency and quality.

As at 31 December 2006, approximately 10,683 hectares had been planted at an average cost, including incidental expenses, of approximately US\$11 per hectare. Since this time a further 2,617 hectares have been planted.

#### *Seed Collection*

Jatropha seeds grow in 'pods' which contain 3 seeds and generally trees have multiple pods at each growth point. Seed collection requires manual picking of the pods from the trees and then opening of the pods to extract the seeds. In the south-west area of Madagascar (where the majority of the Group's plantation sites are located) seed collection usually takes place between March and May at the end of the wet season. At this time seed pods are usually easily opened by hand.

The Group will use labour from the Communes to collect seed from its plantations (once they are established) and will pay a set rate for each tonne of seed delivered by the relevant Commune. In addition, the Group will bear the cost of transporting the seed from the Commune to its processing location. The management of the seed collectors will be the responsibility of the Commune, while the Group will undertake its co-ordination. Currently only wild seeds are being collected for which the Group is paying \$120 per tonne delivered to its central storage facility. The Directors believe that the cost of collecting the cultivated crop will be substantially less than this due to the significantly higher density of the plantation trees.

#### *Transport*

The Group has had preliminary discussions with several transport operators in the areas in which the Group proposes to operate. The indicative cost of transport to get the seed from the Company's plantations to its Toliara operations base varies depending on the distance to be covered and the anticipated quantities to be carried. The Group will undertake and be responsible for the co-ordination of the transport operations.

#### *Storage*

The Company is currently leasing office and storage space in the town of Toliara for the initial storage of seed collected from wild forest locations and interim office accommodation while it establishes a permanent base of operations in the area.

#### *Processing*

The Group intends to utilise a 'distributed' processing model under which seed is crushed at a site near to its origin and, if necessary, finished product transported to a central 'tank farm' (depending on final user destination).

Each operating site will be based around a crushing capacity of 50,000 t.p.a. of seed (or a multiple thereof) and all staff involved in the operation will be employed by the Group. This approach will minimise transport costs and provide economic benefits to the Commune concerned through the employment of local labour. Further, it allows for the use of less sophisticated equipment (batch rather than continuous processing) and a capital expenditure program more closely related to plantation development.

It is intended that the first crushing plant will be based in the port city of Toliara. The Group has entered into a co-operation protocol with the regulatory authorities for the provision of assistance in securing land for its operations subject to a plant being established in Toliara.

## **6. Madagascar**

### *Background*

Madagascar is the world's fourth largest island and lies 420km off the East African coast. It is a republic with 22 regions, which contain a large number of Communes.

Madagascar has a stable political environment, having been a democracy since 1990 with presidential elections every 5 years.

As Madagascar was a former French colony, its legal system is based on French civil law, with decisions regarding use and/or disposition of land made by the Mayors and Agricultural Councils within each Commune.

The country's GDP of approximately US\$17.27 billion, comprised of agriculture at 26.9 per cent., general industry at 16.5 per cent. and services at 56.6 per cent. Almost 50 per cent. of Madagascar's mainly rural population of 17 million people live below the poverty line.

Madagascar is a country which enjoys a wealth of natural resources, but has yet to fully harness them for the benefit of its people. The Malagasy government has a policy of attempting to lift the living standards of its population by encouraging the development of the country's natural resources and it has adopted a pro-international investment stance, providing substantial incentives for foreign investors.

The Directors believe that this policy is starting to pay dividends with several international companies investing in large scale resource exploration and/or project development in the country (e.g. Rio Tinto's US\$775 million titanium dioxide project in the Fort-Dauphin region and Dynatech's US\$2.2 billion laterite nickel project in the central region of Madagascar). Further, Madagascar is also currently enjoying significant World Bank and International Monetary Fund support.

Amongst the problems facing the Malagasy government is soil erosion caused by deforestation. The Group's plantations could be an important step in reversing this process as well as a potentially new and important source of revenue for the poorer agricultural regions. Accordingly, it has received strong support from regional government.

This stable pro-investment environment combined with:

- the availability of significant areas of suitable low-cost land;
- the existence of a substantial, available workforce in the regional areas in which the Company intends to operate;
- the fact that the *Jatropha* species targeted by the Company grow naturally in these areas; and
- communal land ownership, which allows the Group to secure agreements over large land areas, without having to negotiate with many individual owners,

has led the Company to determine that the area of southern Madagascar provides an ideal location for it to establish low-cost *Jatropha* plantation and crude *Jatropha* oil production operations.

### *Political Risk*

The stability of Madagascar's political environment was confirmed recently by SwissPeace, the Swiss-based independent peace research organisation, which rated the country as highly stable in its May 2006 Semi-annual Risk Assessment. The SwissPeace report confirms that the country's stability has made gains and that "...there has been little popular taste for political destabilisation."<sup>1</sup>

The positive investment environment is aided by improvements in the quality of governance and successes being achieved in rooting out corruption.

## **7. Oil Extraction Plant**

The Directors intend to base the first seed crushing facility close to the Group's operating base in the southern port city of Toliara.

Oil extraction from *Jatropha* is similar to most other oilseed crops, particularly soybean (although the yield/kg is higher) and as such, the technology is well understood and available from a large number of suppliers, who offer turn-key plants. GEM BioFuels is initially opting for simple crushing and expelling technology, as independent research has shown that this produces satisfactory oil yields (300-350kg per tonne of seed) without the complexity of the 'solvent extraction' process. Solvent extraction technology will be evaluated for subsequent larger installations.

The Company has made an 'in-principle' selection of an India-based oilseed crushing equipment manufacturer to supply its initial 16,500 t.p.a. crude *Jatropha* oil extraction facility (based on processing 50,000 tonnes of seed per annum). The Directors intend that the plant and equipment should be supplied under a fixed-price, turn-key contract with minimum performance guarantees (e.g. output meets agreed nameplate capacity). The equipment supplier has indicated a supply timeline of 20 weeks, following the

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1 Swiss Peace Fast Update Madagascar Semi Annual Risk Assessment, December to May 2006, P3.

placing of an order, and has confirmed that it can have the plant commercially operational by mid March 2008 if an order is placed by end of October 2007.

The Company has identified several possibilities in Toliara for locating its crushing plant and the Directors intend to choose the most appropriate locations once the Placing proceeds have been received.

#### *Cost*

Based on current quotations and plans, the Directors expect the initial crushing plant to cost approximately \$0.7 million including construction and ancillary equipment and storage. Operating costs, based on the plant suppliers estimates are expected to be less than \$60 per tonne of oil produced at full production.

### **8. Three Year Plan**

The Company has already planted approximately 13,300 hectares and based on the existing agreements for use of land and planting schedules, plans to plant an additional 186,700 hectares over the next three planting seasons, as follows;

<i>Calendar Year</i>	<i>Area Planted (Ha)</i>	<i>Cumulative Plantation Area (Ha)</i>	<i>Illustrative Anticipated 2010 Seed Yield (t.p.a)</i>	<i>Illustrative Anticipated Mature Seed Yield (t.p.a.)</i>
2006	10,800	10,800	—	43,200
2007	47,500	58,300	160	233,200
2008	55,000	113,300	5,320	452,800
2009	55,000	168,300	41,480	673,200
2010	31,700	200,000	121,440	800,000
<b>Total</b>	<b>200,000</b>			

Illustrative anticipated yields above are based on assumed yields per hectare for each year after planting as follows:

<i>Year after planting</i>	<i>Yield (tonnes/ha)</i>
1	0.0
2	0.8
3	1.8
4	3.0
5+	4.0

Each hectare is estimated to contain 4,000 producing trees.

### **9. Summary Financial Information**

The following information has been extracted without adjustment from the financial information set out in Part III (a) of this document and summarises the financial performance of the Group for the period from incorporation to 31 December 2006 and so far as the Directors are aware (and are able to ascertain from the information contained in the financial information), no facts have been omitted which would render such information below inaccurate or misleading. In order to make a proper assessment of the financial position of the Group, investors should not rely on the summary information set out below but should read the whole of this document, including the Accountants' Report set out in Part III (a) of this document.

	<i>Period to 31 December 2006 £</i>
Finance Income	4,794
Expenses	(665,175)
Loss for the period	<u>(660,381)</u>



Finance income arises from interest on cash held on deposit by the Group. The cost of establishing the Group's plantations has been capitalised as an asset and expenses principally comprise management costs and professional fees incurred in establishing the Group's operations.

Further details of the financial performance of the Company are set out below and in Part III(A) and Part III(B) of this document.

## **10. Current Trading and Prospects**

Since 31 December 2005, approximately 13,300 hectares of plantation have been planted. The Group's operating and monitoring procedures have been established and the Company has performed in line with the Board's expectations since the start of the financial year. The Directors believe that this will continue to be the case for the remainder of the financial year. The Group's interim results to 30 June 2007 are set out in Part III (b) of this document. These show a loss before tax for the period of £284,000 and net assets of £635,000.

## **11. Directors**

Brief biographical details of each of the Directors are set out below:

### **Simon Hunt, aged 56 — Non-Executive Chairman**

Having trained and practiced as a corporate lawyer (with Macfarlanes and Jones Day (formerly Gouldens)), Simon moved into venture capital with Gartmore Investment Management Limited specialising mainly in technology, particularly in the US. Simon subsequently ran his own venture capital and M&A advisory business before gaining operational experience through being CEO of a technology based public company, Stordata Solutions plc. Simon is Executive Chairman of Ipso Ventures, an AIM quoted university intellectual property commercialisation business focused on life sciences and technology including environmental sciences such as alternative and renewable energy. Simon has had significant involvement in a variety of mergers and acquisitions and initial public offerings and has worked with both public and private companies from start up to a mature stage.

### **Paul Benetti, aged 44 — Chief Executive**

Paul has been a director of the Company since its formation and has been responsible for the initial establishment of the Company's operations in Madagascar. Prior to this, he held senior management positions (including CEO) in public companies and was a Director in the Investment Banking Division of Macquarie Bank Limited, where he gained significant experience in public company management and corporate finance operations. Paul is a Chartered Accountant with a B.Com in Accounting from the University of Western Australia and is responsible for the corporate operations of the Company.

### **Adam Broadhurst, aged 45 — Operations Director**

Adam has a substantial background in project management across Africa, Asia and Australia, gained while working for CSC Australia, Consultel and the Australian Government's Department of Foreign Affairs. Following these roles he has held positions as managing director and CEO of several early stage companies. With these companies he has gained early-stage business and project experience as well as broad exposure to all aspects of business and project management, with a focus on risk management and strategic planning. As the managing director of Virgin Technologies Plc, a Nigerian-based start-up company, Adam gained extensive experience establishing business relationships in remote locations and managing teams in challenging environments. Adam is responsible for the management of the Company's operations in Madagascar. He holds an A.D. in Electronic Engineering from the Royal Melbourne Institute of Technology.

### **Frank Tiller, aged 54 — Finance Director**

Frank is a Chartered Accountant with over thirty-five years of professional and senior management experience. After obtaining his accountancy qualification, Frank spent a further three years in the profession before moving into industry. He joined Waterline Group Plc in 1980 as Finance Director. Frank remained with Waterline until 2005 and saw turnover grow from £400,000 to over £75 million per annum with over 250 staff worldwide. He was instrumental in establishing management and reporting systems for a geographically diverse group and worked on the Company's successful admission to AIM. Frank is responsible, with assistance from external advisers, for the compliance of the Company with financial regulations.

### **Malcolm Williams, aged 59 — Non-Executive Director**

Malcolm spent 38 years at Dresdner Kleinwort Wasserstein Limited (formerly Kleinwort Benson Limited) based in Europe and Asia. From 2000 to 2004 he was Chief Operating Officer of Global Private Equity, prior to which he served as Chief Operating Officer of Global Finance. Between 1985 and 1998 he was resident in Hong Kong as Chief Executive of Kleinwort Benson (Hong Kong) Limited, where he was responsible for the bank's business in Hong Kong, China and South East Asia, and subsequently, following its acquisition by Dresdner Bank, as Chief Operating Officer Asia. Prior to his time in Asia, from 1983 to 1985 he was a member of the board of management of Kleinwort Benson (Deutschland) GmbH based in Bremen. He retired from the Allianz Dresdner Group in 2004. He is Non Executive Chairman of Financial Payment Systems Limited and a Non Executive Director of European Venture Partners Limited and Strathdon Investments plc and is on the Advisory Boards of Vermilion Partners Limited and CP Equity Partners. In April 2007 Malcolm was appointed a Non Executive Director of Northacre Plc.

### **Pritesh Desai, aged 39 — Non-Executive Director**

Pritesh graduated in economics from the University of East Anglia and is a Fellow of the Association of Chartered Certified Accountants. He worked for a leading firm of chartered accountants and is a founding shareholder and director of Taitnys Management Limited and Cavendish Trust Company Limited licensed by the Isle of Man Financial Supervision Commission as corporate and trust service providers. He is also founder and managing director of Blue Sea International Limited, which is involved with the structuring, management and administration of collective investment schemes.

## **12. Employees**

As at 30 June 2007 and at the date of this document, the Group had 21 employees. A breakdown by function of those employed by the Group as at 30 June 2007, all of whom are based in Madagascar, is provided below:

<i>Function</i>	<i>Total</i>
Administration and Support Staff	18
Managerial	3
<b>TOTAL</b>	<b>21</b>

## **13. The Placing**

The Company is proposing to raise £3.5 million at the Placing Price (before expenses) by way of a conditional placing by WH Ireland with institutional and other investors of 5,833,334 Placing Shares at 60 pence per share. The Placing Shares will represent approximately 21.1 per cent. of the Enlarged Share Capital. The Placing Shares will rank *pari passu* in all respects with the Existing Ordinary Shares and the Conversion Shares, will rank in full for dividends and other distributions declared, made or paid following Admission and will be issued credited as fully paid.

The Company and certain of the Directors have entered into the Placing Agreement with WH Ireland. The Placing is not being underwritten. The Placing Shares have been conditionally placed with institutional and other investors by WH Ireland as agent of the Company.

Application has been made for the Existing Ordinary Shares together with the Conversion Shares and Placing Shares to be admitted to AIM.

The Placing is conditional, *inter alia*, on:

- the Placing Agreement becoming unconditional and not having been terminated in accordance with its terms prior to Admission; and
- Admission occurring by 19 October 2007 (or such later date as the Company and WH Ireland may agree).

Further details of the Placing Agreement are set out in paragraph 12.4 of Part V of this document.

#### **14. Reasons for the Placing and Use of Proceeds**

The Placing is expected to raise £3.5 million (before the deduction of expenses) for the Company. The Directors intend to apply the net proceeds of the Placing to fund the Group's working capital requirement, principally to enable it to further finance its business strategy, including:

- the further funding of the establishment, maintenance and management of at least 200,000 hectares of Group-controlled *Jatropha* plantations;
- the cost of acquiring further feedstock;
- financing the capital expenditure relating to the manufacture and installation of crushing plant; and
- the establishment of a Regional Operations Centre in Toliara, Madagascar, from which its domestic and international operations will be managed.

#### **15. Admission**

Application has been made to the London Stock Exchange for the Existing Ordinary Shares, the Conversion Shares and the Placing Shares to be admitted to trading on AIM. It is expected that Admission will become effective and that trading in the Enlarged Share Capital will commence on 19 October 2007.

#### **16. Settlement and Dealing Arrangements**

Application has been made for the Enlarged Share Capital to be admitted to CREST and it is expected that the Ordinary Shares will be so admitted and accordingly enabled for settlement in CREST on the date of Admission. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place within CREST if relevant Shareholders so wish.

CREST is a voluntary system and shareholders who wish to receive and retain share certificates will be able to do so.

Notwithstanding the election by Placees as to the form of delivery of the Placing Shares, no temporary documents of title will be issued. All documents or remittances sent by or to a Placee, or as it may direct, will be sent through the post at the Placee's risk. Pending the despatch of definitive share certificates (as applicable), instruments of transfer will be certified against the register of members of the Company. Holders of Existing Ordinary Shares will receive new share certificates in respect of the number of Ordinary Shares held by them at Admission.

It is expected that share certificates will be dispatched by the Registrars no later than 2 November 2007 and Placing Shares will be delivered in CREST on 19 October 2007.

#### **17. Options**

The Directors believe that the success of the Group will depend to a high degree on the future performance of the management team. The Directors also recognise the importance of ensuring that key employees are well motivated and identify closely with the success of the Group.

To assist in the recruitment, retention and motivation of high quality personnel, the Company proposes to adopt the Share Option Plans, further details of which are set out in paragraph 8 of Part V of this document. The Company proposes to grant the options pursuant to the Share Option Plans, set out in paragraph 8.8 of Part V, on or before Admission. The maximum number of Ordinary Shares over which options can be granted under the Share Option Plans in a ten year period is 10 per cent. of the Ordinary Shares in issue at the time of grant.

#### **18. Lock-in and Orderly Market Arrangements**

All Shareholders prior to the Placing, apart from RAB, have entered into an orderly market deed in respect of their entire shareholding, the terms of which are described below. The orderly market deed will apply in respect of 8,000,000 Ordinary Shares representing 29.0 per cent. of the Enlarged Share Capital.

Under the terms of this agreement:

- (1) The Locked-in Shareholders representing 21.0 per cent. of the Enlarged Share Capital, have conditionally agreed not to dispose of any Ordinary Shares held by them other than in certain specified circumstances, for a period of 12 months from Admission and in respect of the subsequent 12 month period, in addition they have agreed not to dispose of their Ordinary Shares if the price at which they are disposed of is less the Placing Price or is less than the price obtained on the sale of Ordinary Shares

by that Shareholder in the previous three months (both subject to adjustment to reflect changes in the AIM All Share Index) (“**Orderly Market Provisions**”) and;

- (2) Other shareholders (apart from RAB), representing 8.0 per cent. of the Enlarged Share Capital, have also agreed to be bound by the Orderly Market Provisions for a period of 18 months from Admission.

RAB has entered into a separate orderly market deed pursuant to which it has undertaken to the Company and WH Ireland (subject to certain limited exceptions, including disposals by way of acceptance of a takeover offer for the share capital of the Company) not to dispose of 6,571,050 Ordinary Shares held by RAB at Admission (representing 23.8 per cent. of the Enlarged Share Capital) at any time during the 12 months following Admission and that subject to the same exceptions, it will not dispose of the balance of its holding of 8,280,450 Ordinary Shares, representing 30 per cent. of the Enlarged Share Capital without the permission of WH Ireland.

## **19. Corporate Governance**

There are no specific guidelines for corporate governance for companies incorporated in the Isle of Man. However, the Directors support high standards of corporate governance and intend to comply, so far as is practicable taking into account the Company’s size and nature, with the provisions of the Quoted Companies Alliance published set of guidelines (“QCA Guidelines”). To enable the Board to perform its duties, all Directors will have full access to all relevant information. The non-executive Directors may take independent professional advice at the Company’s expense.

The Board is responsible for formulating, reviewing and approving the Company’s strategy, budgets and corporate actions. Following Admission, the Company intends to hold Board meetings at least 4 times each financial year and at other times as and when required.

The Company will, upon Admission, establish properly constituted audit and remuneration committees of the Board with formally delegated duties and responsibilities.

The audit committee has primary responsibility for monitoring the quality of internal controls and ensuring that the financial performance of the Company is properly measured and reported on. It will receive and review reports from the Company’s management and auditors relating to the interim and annual accounts and the accounting and internal control systems in use throughout the Company. The audit committee will meet not less than twice in each financial year and will have unrestricted access to the Company’s auditors. Initial members of the audit committee are Simon Hunt (Chairman), Pritesh Desai and Malcolm Williams.

The remuneration committee will review the performance of the executive directors and make recommendations to the Board on matters relating to their remuneration and terms of employment. The committee will also make recommendations to the Board on proposals for the granting of share options and other equity incentives pursuant to any share option scheme or equity incentive scheme in operation from time to time. The committee will meet at least twice in each financial year and at such other times as the chairman of the committee shall require. In exercising this role, the Directors shall have regard to the recommendations put forward in the Combined Code. Initial members of the remuneration committee are Simon Hunt (Chairman) and Malcolm Williams.

The Company has adopted a share dealing code that applies to Directors and relevant employees which is appropriate for a company whose securities are traded on AIM and is in accordance with Rule 21 of the AIM Rules.

## **20. Dividend Policy**

After Admission the Directors intend to pay dividends. However, the declaration or payment by the Company of any future dividends on the Ordinary Shares and the amount will depend on the results of the Company’s operations, its financial condition, cash requirements, future prospects, profits available for distribution and other factors deemed to be relevant at the time.

## **21. Taxation**

Information regarding taxation is set out in paragraphs 18 and 19 of Part V of this document. These details are however, intended only as a general guide to the current tax position under UK and Isle of Man taxation law. Persons who are in any doubt as to their tax position, or who are subject to tax in jurisdictions other than the UK and/or Isle of Man are strongly advised to consult their own professional advisers.

**22. Further Information**

Your attention is drawn to the information included in Parts II to V of this document and in particular, you are advised to carefully consider the risk factors in Part II of this document.

## PART II

### RISK FACTORS

**Investment in the Company involves a significant degree of risk. Investors should note that the value of Ordinary Shares may go down as well as up, and there is no certainty that they will receive back the full amount that they invest. If any of the risks described in this document actually occur, the Company may not be able to conduct its business as currently planned and its financial condition, operating results and cashflows could be seriously harmed. In particular, the following risk factors should be considered prior to an investment in the Company being made. The risks listed are not set out in any particular priority.**

**Contract Risk:** the Company is still in the early stages of its development and whilst a number of key contracts have already been put in place a number of others remain to be negotiated or are subject to certain pre-conditions. Delays or difficulties in putting acceptable arrangements in place or satisfying any conditions precedent could result in a delay in the commencement of the operation of the plant in Toliara (the “Plant”);

**Trade Risk:** as the Plant is not yet operational the Company does not have a proven trade record for investors to rely upon when considering an investment in the Company nor any established trading relationships with its customers or suppliers;

**Management Risk:** the ability of the Company to implement its strategy will require effective planning and management control systems. The Company’s growth plans may place a significant strain on the Group’s management, operational, financial and personnel resources. Therefore the Group’s future growth and prospects will depend on its ability to manage this growth and to continue to expand and improve operational, financial and management information and quality control systems on a timely basis, whilst at the same time maintaining effective cost controls. Any failure to expand and improve operational, financial and management information and quality control systems in line with the Group’s growth could have a material adverse effect on the Group’s business, financial condition and results of operations;

**Material Contracts:** in the future, the Company may enter into contracts with third parties and there can be no certainty that those third parties will perform, or be able to perform, their obligations under those contracts with the Group or that the Group will be able to recover damages for breach of those contracts. The insolvency of third parties or their default under the terms of such contracts could have a material adverse effect on the Group and its operations;

**Competition:** given the potential for growth of the biodiesel market, it is likely that the market for green fuel feedstocks will become increasingly competitive and the Company may face significant competition, including from domestic and overseas competitors who may have greater capital and other resources and superior brand recognition than the Company and may be able to provide better services or adopt more aggressive pricing policies. There is no assurance that the Company will be able to compete successfully in such a marketplace;

**Excise and Duties:** a significant long term increase in the rate of excise or duties levied on mineral diesel in any of the markets in which the Company operates may impact upon sales of biodiesel and therefore the requirements for the Company’s product, which will affect the profitability and viability of the Group and the value of Ordinary Shares;

**Loss of Tax Credit in the US:** in the USA the Soybean industry are lobbying the Internal Revenue Service to remove a \$1.00 per gallon tax credit on non-domestic virgin vegetable oil, such as Palm Oil or crude Jatropha oil. If the Soybean industry is successful this will erode imported feedstock’s competitive advantage, which may have a detrimental effect on the finances of the Group;

**Trade Quotas in the EU:** at a meeting of EU agricultural ministers on 20 February 2006 concerns were raised by some countries over the impact on domestic agricultural and biofuels industry of significant imports. There is a risk that the EU could decide to impose quotas, tariffs or other forms of trade barrier upon imports of vegetable oil to the EU, which is likely to have a detrimental effect on the finances of the Group;

**Renewables Targets:** it is possible that some jurisdictions will not do enough through tax incentives and/or proactive support to meet their renewable energy targets. If this is the case then the demand for the Group’s crude Jatropha oil may not be as high as forecast. This would impact negatively on the Group’s finances;

**Currency Risk:** the Company expects that the price of crude Jatropha oil will be largely affected by the US\$ exchange rate, whilst its cost base will be in Madagascan Ariary and Sterling. Adverse movements in the exchange rate between these currencies could have a deleterious effect on the Group’s results.

**Weather:** Madagascar is situated in a climatic zone that experiences cyclonic conditions, which can cause significant damage to property and loss of life, particularly to coastal regions. In the event that a cyclone or other similar adverse weather conditions strikes Madagascar, the Group's property, including its plantations and the Toliara plant, may be damaged or become uncommercial to harvest. Cyclones may also damage the local infrastructure, which may prevent the transport of goods by the Group in Madagascar. This would be likely to have a detrimental affect on the finances of the Group;

**Environmental Risks:** the Company may incur liabilities for damages, clean-up costs, or penalties in the event of unintended discharges into the environment from any plant or other operations of the Company. Any such liability may adversely affect the financial performance of the Company and the value of Ordinary Shares, further there is a risk of fire at the Company's plantations and if a fire occurs on a large scale at one or more of these plantations then it could adversely effect the Company's harvest in the relevant year, which in turn will have an effect on the finances of the Company and consequently the value of the Ordinary Shares may be affected. However, the Company has sought to mitigate this risk by seeking to establish plantations that are not concentrated close together;

**Key Personnel and Management:** the Company's success will to a large extent be dependent on the ability and experience of its directors and senior employees and managers. Whilst the Company does not currently envisage any difficulties in recruiting people with the necessary expertise, its ability to recruit may, in the future, be affected by the competitive market for staff with the skills which the Company requires. Loss of key people or difficulties in recruitment may affect the Group's ability to expand and may have an adverse effect on the Company's business and the value of Ordinary Shares;

**Introduction of New or Alternate Technologies:** biodiesel is seen as one of a number of renewable sources of energy and it is possible that other more economical and/or desirable alternatives to mineral diesel may be developed which compete with biodiesel. The development of new alternatives to fossil fuels could also give rise to significant new competitors, which may have a material and adverse effect on the Group's business and the value of Ordinary Shares;

**Cost Overruns:** operating costs are best estimates by the Directors. Actual costs may be higher or lower. Higher costs will have an impact on the Group's results as may a variety of other factors outside of the Company's control, such as increased competition and slower than expected take-up by customers of the Company's crude Jatropha oil product;

**Product Risk:** the value of Ordinary Shares will be dependent, among other things, on the success of the trading activities undertaken and since the Company will initially seek to manufacture mainly crude Jatropha oil, it is totally dependent on the commercial success of this product and a good harvest each year;

**Capital Requirements:** in the opinion of the Directors upon completion of the Placing the Company will have sufficient working capital to meet its stated objectives. However, there can be no assurance that additional capital (by way of either debt or equity) may be available to the Company if required or that the terms of such finance, if available would not be unfavourable to the Company;

**Change in Taxation Law:** the information in this document is based upon current tax law and practice and other legislation and changes in the legislation or in the levels and bases of, and relief from, taxation may affect the value of an investment in the Company. There can be no certainty that the current taxation regime in the UK and/or the Isle of Man will remain in force or that the current levels of corporate taxation will remain unchanged. There can be no assurance that there will be no amendment to the existing taxation laws applicable to the Group's operations. Any such amendment may have a material adverse effect on the financial position of the Group;

**Insurance Risk:** the Company's insurance arrangements may not adequately protect it against liability for all losses. Should the Company be unable to take out or maintain adequate insurance cover in the future or experience losses in excess of the scope of its cover the financial performance of the Company and the value of Ordinary Shares may be affected;

**Plantation and Collection Agreements:** the Group has the benefit of various land use agreements that give Green Energy the right of usage over 492,500 hectares of land in Madagascar. These agreements do not grant title to the land and there can be no assurances that members of the Communes will not attempt to dispute the right to cultivate Jatropha on that land;

**Sovereign Risk:** the operations of the Company will be primarily in Madagascar. Further, some of the equipment for plants may have to be imported from other countries and the Company's product will be sold in various countries. There is a risk that the actions of a government, or other unforeseen events, in any of

these countries may adversely affect the Company's ability to operate as it wishes and as a result affect its financial performance and value of Ordinary Shares;

**Stock Market Fluctuations and Lock-in:** Potential investors should be aware that the value of shares can go down as well as up and that an investment in a share that is to be traded on AIM may be less realisable and may carry a higher degree of risk than an investment in a share quoted on the Official List. The share price of publicly traded emerging companies can be highly volatile.

Admission to AIM should not be taken as implying that there will be a liquid market for the Ordinary Shares. This means that the share price may be subject to greater fluctuation on small volumes of shares, and thus the Ordinary Shares may be difficult to sell at a particular price. It follows that the market price of Ordinary Shares could decline significantly as a result of any sales of Ordinary Shares following expiry of the lock-in period (or otherwise), as detailed in the paragraph entitled "Lock-in and Orderly Market Arrangements" in Part I of this document or the perception that these sales could occur; and

**Forward-looking statements:** Certain statements contained in this document are or may constitute "forward-looking statements". Such forward-looking statements involve risks, uncertainties and other factors which may cause the actual results, performance or achievement of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks, uncertainties and other factors include, among others, changes in the credit markets, changes in interest rates, legislative and regulatory changes, changes to the land use regime in Madagascar, changes in taxation regimes, and general economic and business conditions, particularly in Madagascar, the United Kingdom and the Isle of Man. These forward-looking statements speak only as at the date of this document.

**Additional risks and uncertainties not presently known to the Directors, or which the Directors currently deem immaterial, may also have an adverse effect on the Group. The risks listed above do not necessarily comprise all the risks associated with an investment in the Company.**

**The investment described in this document may not be suitable for all recipients. Accordingly, potential investors are recommended to consult an independent investment adviser authorised under the Financial Services and Markets Act 2000, and an appropriately qualified taxation adviser, prior to investing.**



## PART III (A)

### ACCOUNTANTS' REPORT

The Board of Directors  
on behalf of GEM BioFuels Plc  
34 North Quay  
Douglas  
Isle of Man  
IM1 4LB

WH Ireland Limited  
24 Bennetts Hill  
Birmingham B2 5QP

15 October 2007

Dear Sirs

#### GEM BIOFUELS PLC

We report on the financial information set out in pages 27 to 39 of the AIM admission document dated 15 October 2007 of GEM BioFuels Plc (the "Company" and, together with its subsidiaries, the "Group") (the "Admission Document"). This financial information has been prepared for inclusion in the Admission Document on the basis of the accounting policies set out in note 2 of that information. This report is required by Annex I item 20.1 of Commission Regulation (EC) No 809/2004 (the "Prospectus Directive Regulation") as applied by paragraph (a) of Schedule Two to the AIM Rules for Companies and is given for the purpose of complying with that requirement and for no other purpose.

#### Responsibilities

The Directors of the Company are responsible for preparing the financial information on the basis of preparation set out in note 2 to the financial information.

It is our responsibility to form an opinion as to whether the financial information gives a true and fair view, for the purposes of the Admission Document and to report our opinion to you.

Save for any responsibility arising under paragraph (a) of Schedule Two to the AIM Rules for Companies to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in accordance with this report or our statement, required by and given solely for the purposes of complying with Annex 1 item 23.1 of the Prospectus Directive Regulation as applied by paragraph (a) of Schedule Two to the AIM Rules for Companies, consenting to its inclusion in the Admission Document.

#### Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in jurisdictions outside the United Kingdom, including the United States of America and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

**Opinion**

In our opinion, the financial information gives, for the purposes of the Admission Document a true and fair view of the state of affairs of the Group as at the dates stated and of its profits, cash flows and changes in equity for the periods then ended in accordance with the basis of preparation set out in note 2.

**Declaration**

For the purposes of Prospectus Rule 5.5.3R(2)(f) as applied by paragraph (a) of Schedule Two of the AIM Rules for Companies we are responsible for this report as part of the Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Admission Document in compliance with Annex 1 item 1.2 of the Prospective Directive Regulation as applied by Schedule Two to the AIM Rules for Companies.

Yours faithfully

Deloitte & Touche  
Chartered Accountants

Deloitte & Touche is the Isle of Man member firm of Deloitte Touche Tohmatsu (“DTT”), a Swiss Verein whose member firms are separate and independent legal entities. Neither DTT nor any of its member firms has any liability for each others acts or omissions. Services are provided by member firms or their subsidiaries and not by DTT.

## HISTORICAL FINANCIAL INFORMATION ON GEM BIOFUELS PLC

The historical financial information for the Group for the period from incorporation being 6 December 2005 to 31 December 2006 is set out below. The Directors and Proposed Directors of the Company are responsible for the preparation of the historical financial information in accordance with the accounting policies in Note 2. The financial information is the subject of the Accountants' Report set out in Part III (a) of this Admission Document.

The historical financial information does not constitute statutory accounts within the meaning of the Companies Acts 1931 to 2004. Statutory accounts for the period from incorporation to 31 December 2006 will be delivered to the Isle of Man Companies Registry.

### INCOME STATEMENT OF THE GROUP

for the period from 6 December 2005 to 31 December 2006

		<i>Period to 31 December 2006</i>
	<i>Note</i>	<i>£</i>
Administrative expenses	5	(646,586)
Finance income	6	4,794
Other gains and losses		(13,947)
Finance costs	6	<u>(4,642)</u>
Loss before tax		(660,381)
Tax		<u>—</u>
Loss for the period		<u><u>(660,381)</u></u>

## BALANCE SHEET OF THE GROUP

as at 31 December 2006

		<i>31 December</i>
		<i>2006</i>
	<i>Note</i>	<i>£</i>
<b>ASSETS:</b>		
<b>Non current assets</b>		
Property, plant and equipment	9	50,844
Plantation assets	10	58,500
Goodwill	8	802,244
Other assets		9,000
<b>Total non current assets</b>		<u>920,588</u>
<b>Current Assets</b>		
Cash and cash equivalents		212,615
Inventories		3,593
<b>Total current assets</b>		<u>216,208</u>
<b>Total assets</b>		<u>1,136,796</u>
<b>Current liabilities</b>		
Trade and other payables	12	222,763
<b>Total current liabilities and total liabilities</b>		<u>222,763</u>
<b>Net assets</b>		<u>914,033</u>
<b>Represented by:</b>		
Issued capital	11	200,000
Share premium reserve	11	1,564,708
Accumulated losses		(660,381)
Translation reserve		(190,294)
<b>Total equity</b>		<u>914,033</u>

## STATEMENT OF CHANGES IN EQUITY OF THE GROUP

for the period from 6 December 2005 to 31 December 2006

		<i>Share</i>	<i>Share</i>	<i>Translation</i>	<i>Accumulated</i>	
	<i>Note</i>	<i>Capital</i>	<i>Premium</i>	<i>Reserve</i>	<i>Losses</i>	<i>Total</i>
		<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
Balance at incorporation		2	—	—	—	2
Loss for the period		—	—	—	(660,381)	(660,381)
Acquisition of subsidiaries	14	99,998	782,355	—	—	882,353
Issue of shares during the period	11	100,000	782,353	—	—	882,353
Translation into presentation currency		—	—	(190,294)	—	(190,294)
<b>Closing Balance at 31 December 2006</b>		<u>200,000</u>	<u>1,564,708</u>	<u>(190,294)</u>	<u>(660,381)</u>	<u>914,033</u>

## STATEMENT OF CASH FLOWS OF THE GROUP

for the period from 6 December 2005 to 31 December 2006

	<i>Period to 31 December 2006 £</i>
<b>Cash flow from operating activities</b>	
Cash used in operations	(577,965)
Net cash used in operating activities	<u>(577,965)</u>
<b>Cash flow from investing activities</b>	
Payment for property, plant and equipment	(38,067)
Purchases of plantation assets	(58,500)
Interest received	4,794
Net cash used in investing activities	<u>(91,773)</u>
<b>Cash flow from financing activities</b>	
Proceeds on issue of shares	882,353
Net cash provided by financing activities	<u>882,353</u>
Cash and cash equivalents at the end of the financial period	<u><u>212,615</u></u>

## NOTES TO THE FINANCIAL INFORMATION

### 1. General Information

GEM BioFuels PLC (formerly known as Madagascar Biodiesel Limited) (the “Company”) is a company domiciled in the Isle of Man, and was incorporated on 6 December 2005.

The Company’s registered address is 34 North Quay, Douglas, Isle of Man IM1 4LB.

GEM BioFuels Plc acquired Green Energy Madagascar sarl (“GEM”), a company incorporated in Madagascar, on 21 December 2005 in exchange for 10,000,000 of its own shares. Refer note 14.

The functional currency of the consolidated financial information of the Group is the USD as it is the currency of the primary economic environment in which the Group operates. The consolidated financial information is presented in Pounds Sterling (presentation currency) for the convenience of readers. The translation between the functional and presentation currency is in accordance with the policy set out in Section 2(h) below.

### 2. Significant Accounting Policies

#### (a) Statement of compliance

The consolidated financial information has been prepared in accordance with International Financial Reporting Standards (IFRS).

At the date of authorisation of this financial information, the following Standards and Interpretations which have not been applied in this financial information were in issue but not yet effective:

IFRS 7	Financial Instruments: Disclosures and the related amendment to IAS1 on capital disclosures.
IFRS 8	Operating Segments
IFRIC 7	Applying the restatement approach under IAS 29
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of embedded derivatives
IFRIC 10	Interim financial reporting and impairment
IFRIC 11	IFRS 2: group and treasury share transactions
IFRIC 12	Service concession agreements

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial information of the Group except for additional disclosures on capital and financial instruments when the relevant standards come into effect for periods commencing on or after 1 January 2007.

#### (b) Basis of Preparation

The Group financial information is prepared on the historical cost basis except for the revaluation of financial instruments and biological assets.

The accounting policies have been consistently applied to the results, gains and losses, assets, liabilities and cash flows of entities included in the consolidated financial information. The period from 6 December 2005 to 31 December 2006 is the first period of the Group’s operation, and therefore no comparatives are presented.

The preparation of financial information in conformity with IFRS requires the Directors to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

#### (c) Basis of Consolidation

The consolidated financial information incorporates the financial information of the Company and entities controlled by the Company (its subsidiaries) up to 31 December. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial information of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

***(d) Business Combinations***

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for resale in accordance with IFRS 5 Non Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceed the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

***(e) Goodwill***

Goodwill is allocated as described in Section (d). After initial recognition, goodwill is measured at cost less any accumulated impairment losses. This impairment review is performed at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

***(f) Revenue Recognition***

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

***(g) Leases***

Leases are classified as finance leases whenever the terms of the lease substantially transfer the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. The Group only has operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

***(h) Foreign Currencies***

The functional currency of the Company and subsidiaries is considered to be the USD as the currency of the primary economic environment in which the Group operates. For the purpose of the consolidated financial information, the results and financial position of the Company and Group are expressed in Pounds Sterling.

In preparing the financial information of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, all monetary assets and liabilities denominated in foreign currencies are translated to functional currency at the rate prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting consolidated financial information, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

#### **(i) Taxation**

The tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial information and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

#### **(j) Financial Instruments**

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

##### *Trade receivables*

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the assets carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

##### *Investments*

Investments are recognised and derecognised on a trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost, including transaction costs.

##### *Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.



### *Financial liabilities and equity*

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

### *Trade payables*

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

### *Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

### *Derivative financial instruments and hedge accounting*

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group does not use derivative financial instruments for speculative purposes. The Group has no derivative financial instruments.

### **(k) Provisions**

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

### **(l) Property, Plant and Equipment**

Items of property, plant and equipment are initially recorded at cost, being the fair value of consideration provided plus incidental costs, including an amount for dismantling costs where applicable. Items of plant and equipment, including motor vehicles, fixtures and fittings and leasehold improvements are depreciated from the date of acquisition using the straight line method over their estimated useful lives. Depreciation rates are reviewed annually.

The depreciation rates used for each class of asset are as follows:

Plant and equipment	5 per cent. – 40 per cent.
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### **(m) Plantation Assets**

A biological asset is a living animal or plant. The Group has determined that it has a biological asset being the *Jatropha* trees in Madagascar. A biological asset is required to be recognised when the company controls the asset as a result of a past event, it is probable that the future economic benefits associated with the asset will flow to the entity and the fair value or cost of the asset can be measured reliably.

The biological asset should be measured on initial recognition and at each balance sheet date at its fair value less estimated point of sale costs, except where the fair value cannot be measured reliably. Fair value is not reliably measurable when market determined prices are not available and for which alternative measures of fair value are clearly unreliable.

Costs incurred may approximate fair value when little biological transformation has taken place since the initial cost occurrence.

Changes in the fair value (gains and/or losses) of the biological asset are recorded in the income statement in the period in which the change occurs.

The company has determined that as at 31 December 2006 it did not have access or ownership of the wild forest *Jatropha* trees. Accordingly it did not control that asset as at 31 December 2006. In addition limited planting had occurred on hectares to which the group did have access as at 31 December 2006. Accordingly the company has measured the biological asset at fair value at 31 December 2006 being the cost of initial planting as little if any biological transformation had occurred at that date.

### **(n) Government Grants**

Government grants relating to land are treated as deferred income and released to profit or loss over the expected useful lives of the assets concerned.

### **(o) Impairment of Assets**

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired. An impairment of goodwill is not subsequently reversed.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

### **(p) Inventories**

Inventories are valued at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being valued on a first in first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

## **3. Critical Accounting Judgements and Key Sources of Estimation Uncertainty**

In the process of applying the Group's accounting policies, which are described in note 2, the Directors have made the following judgements that have the most significant effect on the amounts recognised in the financial information.

### *Impairment of goodwill*

Following a detailed review of the business combinations acquired, the Directors are satisfied that the carrying amount of the goodwill is justified and no impairment loss is to be recognised at the period end.

## **4. Segment Reporting**

The Group's primary reporting format is its geographical segment, while its secondary reporting format is its business segment. The Group has one geographical segment being Madagascar. The Group has one business segment, which is the production of feedstock for the Biodiesel market.

## **5. Administrative Expenses**

	<i>2006</i> <i>Group</i> <i>£</i>
Legal fees	246,366
Consultants' fees	121,258
Depreciation	14,572
Rental fees	28,703
Wages and salaries	122,127
Other administrative expenses	47,982
Directors' fees	65,578
	<hr/> <b>646,586</b> <hr/>

<b>6. Net Financing Income</b>	<i>2006</i>
	<i>Group</i>
	<i>£</i>
Interest income from financial institutions	4,794
Financial income	<u>4,794</u>
Gross interest expenses	<u>(4,642)</u>
Net financing income	<u><u>152</u></u>

**7. Income Tax Expense**

Recognised in the income statement	<i>2006</i>
	<i>Group</i>
	<i>£</i>
<b>Current tax expense</b>	
Current year	—
<b>Deferred tax expense</b>	
Origination of temporary differences	—
Total income tax expense in the income statement	<u><u>—</u></u>

The company was exempt from the requirement to pay income tax in the Isle of Man in the period to 5 April 2007 by virtue of applications made for exempt company status under the provisions of the Income Tax (Exempt Companies) Act 1984. A zero rate of corporate income tax will apply to the company's profits in the Isle of Man from 6 April 2007.

The company's subsidiary pays tax at a rate of 30 per cent. on its taxable profits. No tax charge has been recorded in the current period in respect of the operations of the subsidiary due to losses arising. A deferred tax asset has not been recognised in respect of these losses due to the unpredictability of future income streams in the company. The charge for the year can be reconciled to the loss per the income statement as follows:

	<i>2006</i>
	<i>Group</i>
	<i>£</i>
<b>Loss before tax</b>	<u>(660,381)</u>
Tax at the domestic rate of 0 per cent.	—
Effect of different tax rates of subsidiary operating in another jurisdiction	(56,202)
Unrecorded deferred tax asset	<u>56,202</u>
<b>Tax expense for the year</b>	<u><u>—</u></u>

**8. Goodwill**

	<i>2006</i>
	<i>Group</i>
	<i>£</i>
Additions through business combinations (see note 14)	913,827
Effects of foreign currency exchange differences	<u>(111,583)</u>
Balance at 31 December 2006	<u><u>802,244</u></u>

## 9. Property, Plant and Equipment

	<i>Motor Vehicles</i> £	<i>Fixtures and equipment</i> £	<i>Total</i> £
<b>GROUP</b>			
<b>COST</b>			
At incorporation	—	—	—
Additions	10,983	27,084	38,067
Acquisition of subsidiary	27,349	—	27,349
At 31 December 2006	<u>38,332</u>	<u>27,084</u>	<u>65,416</u>
<b>ACCUMULATED DEPRECIATION</b>			
At incorporation	—	—	—
Charge for the period	11,344	3,228	14,572
At 31 December 2006	<u>11,344</u>	<u>3,228</u>	<u>14,572</u>
<b>NET BOOK VALUE</b>			
At 31 December 2006	<u>26,988</u>	<u>23,856</u>	<u>50,844</u>

## 10. Plantation Assets

	<i>Total</i> £
<b>GROUP</b>	
<b>COST</b>	
At incorporation	—
Additions during period	58,500
At 31 December 2006	<u>58,500</u>

## 11. Share Capital and Share Premium

	<i>Number of Ordinary Shares of 1p each</i>	£
<b>Authorised</b>		
31 December 2006	<u>200,000,000</u>	<u>2,000,000</u>

	<i>Number of Shares Issued and Fully Paid</i>	<i>Share Capital</i> £	<i>Share Premium</i> £
<b>Issued</b>			
Balance at incorporation <sup>(1)</sup>	2	2	—
Balance following subdivision <sup>(1)</sup>	200	2	—
<b>Issued ordinary shares of 1p each</b>			
Issue of shares for acquisition of subsidiary <sup>(2)</sup> — 21 December 2005	9,999,800	99,998	782,355
Issue of shares for cash — 23 December 2005	<u>10,000,000</u>	<u>100,000</u>	<u>782,353</u>
At 31 December 2006	<u>20,000,000</u>	<u>200,000</u>	<u>1,564,708</u>

<sup>(1)</sup> The Company was incorporated on 6 December 2005 with an authorised capital £2,000 divided into ordinary shares of £1.00 each. On 19 December 2005 the Company's Memorandum of Association was amended by increasing the authorised share capital of the Company to £2,000,000 divided into 2,000,000 ordinary shares of £1.00 each and thereafter by subdividing the share capital of £2,000,000 into 200,000,000 ordinary shares of 1 pence each.

<sup>(2)</sup> Pursuant to a share sale agreement dated 21 December 2005, the Company agreed to issue 10,000,000 Ordinary Shares to Jatrol Industries Pty Ltd in consideration for the acquisition of the share capital of GEM from Jatrol Industries Pty Ltd which was holding the shares on trust for the shareholders in Jatrol Industries Pty Ltd pursuant to a declaration of trust dated 2 August 2005. The fair value of these shares was deemed to be £882,353 based on the price at which shares were issued to RAB Capital for cash consideration.

Holders of the ordinary shares are entitled to receive dividends and other distributions and to attend and vote at any general meeting

## 12. Trade and Other Payables

	2006 Group £
Trade payables	222,763
	<u>222,763</u>

## 13. Notes to the Cash Flow Statement

	2006 Group £
Loss for the period	(660,381)
Adjustments for:	
Finance costs	4,642
Other gains and losses	(95,947)
Depreciation of property, plant and equipment	14,572
<b>Operating cash flows before movements in working capital</b>	<u>(737,114)</u>
(Increase) in inventories	(3,593)
(Increase) in receivables	(9,000)
Increase in payables	171,742
Cash used in operations	<u>(577,965)</u>

## 14. Acquisition of Subsidiaries

On 21 December 2005 GEM BioFuels Plc acquired GEM, a company incorporated in Madagascar. The transaction has been accounted for by the purchase method.

The following is a break down of the acquired assets and liabilities of the acquisitions:

	<i>Book Value £</i>	<i>Fair Value £</i>
<b>Net assets acquired</b>		
Property, plant and equipment	27,349	27,349
Trade and other payables	(58,823)	(58,823)
	<u>(31,474)</u>	<u>(31,474)</u>
Goodwill		913,827
Total consideration		<u>882,353</u>
Satisfied by:		
Share issue <sup>(1)</sup>		882,353
		<u>882,353</u>
Net cash outflow arising on acquisition:		
Cash consideration		—
Cash and cash equivalents acquired		—

<sup>(1)</sup> Pursuant to a share sale agreement dated 21 December 2005, the Company agreed to issue 10,000,000 Ordinary Shares to Jatroit Industries Pty Ltd in consideration for which the Company received 98 fully paid ordinary shares in the capital of GEM from Jatroit Industries Pty Ltd which was holding these shares on trust for the shareholders in Jatroit Industries Pty Ltd pursuant to a declaration of trust dated 2 August 2005. The Company on 21 December 2005 allotted 9,999,800 shares to Paul Benetti and a further 200 Ordinary Shares were transferred from Taitnys Nominees to Paul Benetti. Paul Benetti then held these shares on trust for the shareholders in Jatroit Industries Pty Ltd. On 21 December 2005, 10,000,000 ordinary shares were transferred to these shareholders or their nominees by Paul Benetti.

## 15. Group Entities

Significant subsidiaries	Country of incorporation	Ownership interest
Green Energy Madagascar sarl	Madagascar	100%

## 16. Related Parties

Transactions between the Company and its subsidiary, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

### *Trading transactions*

During the year, there were no transactions with companies in the Group or transactions with related parties having certain common Directors other than the acquisition of GEM.

The Company acquired GEM from Jatroil Pty Ltd, a related party by virtue of the fact that the Company and Jatroil Pty Ltd have common directors. Details of the acquisition and consideration paid are described in note 14.

### *Loans*

There are no outstanding loans granted or guarantees provided by the Company to or for the benefit of any of the Directors, nor are there any outstanding loans or guarantees provided by the Directors to or for the benefit of the Company.

## 17. Commitments

The Group has no significant capital commitments towards existing or forecasted investments.

The Directors are not aware of any commitments as at 31 December 2006 other than the property lease agreements. The properties are used for the processing and packing of vegetable matter and for office accommodation. The terms of the leases vary between two and five years with a maximum commitment of £30,000 per annum.

## 18. Ultimate Controlling Party

During the period to 30 June 2007, the ultimate controlling party of the Company and the Group is RAB Special Situations (Master) Fund Limited (“RAB”), a company incorporated in the Cayman Islands.

Refer to note 20 for further details on events subsequent to 30 June 2007.

## 19. Risk Exposure

### *Credit risk*

The Group’s principal financial assets are bank balances and cash. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The Group has no significant concentration of credit risk.

### *Market and liquidity risk*

Market risk is the risk that changes in interest rates, foreign exchange rates, equity prices and other rates, prices, volatilities, correlations or other market conditions, such as liquidity, will have an adverse impact on the Group’s financial position or results. The principal market risk to which the Group is exposed is interest rate risk, which is not hedged given the scale and nature of the Group’s operations.

### *Currency risk*

Currency risk arises when transactions are conducted in a currency other than the base currency of the Group, which is not hedged given the scale and nature of the Group’s operations.

## 20. Events after the Balance Sheet Date

On 27 March 2007 the Company and RAB entered into a further investment agreement under which RAB agreed to subscribe in cash for US\$500,000 of convertible loan notes (“loan notes”) to be issued under a loan note instrument. The loan notes are secured by way of a debenture over all the assets and business of the Company.

A total of 500,000 \$1 loan notes have been issued with repayment required after 2 January 2008 upon receipt of a repayment notice from RAB. The loan notes bear interest at 1 per cent. per month until 1 January 2008 and if still outstanding, interest increases to 1.5 per cent. per month until 1 April 2008 and thereafter at 2 per cent. per month.

Pursuant to the Deeds of Termination and conversion described in Part V, paragraph 12.17, the loan notes will be converted conditional upon the Company being admitted to AIM. 1,768,167 shares will be issued at a price of US\$0.30 per share representing US\$500,000 in principle and US\$30,450 in interest.

On 29 May 2007 Green Energy, a wholly owned subsidiary of GEM BioFuels Plc, entered into various land use agreements with communes in Madagascar. The land use agreements provide the Group with exclusive rights over the land for fifty years for the purpose of growing and harvesting Jatropha. There are no upfront or rental costs stated in the agreement.

## PART III (B)

### UNAUDITED INTERIM RESULTS TO 30 JUNE 2007

The interim results for the six months to 30 June 2007 have been prepared by the Directors on the basis of the accounting policies set out below. These results are unaudited and have not been subject to any third party review.

#### INCOME STATEMENT OF THE GROUP

		<i>Unaudited for the 6 months ended 30 June 2007</i>	<i>Unaudited for the period ended 30 June 2006</i>	<i>Audited for the period ended 31 December 2006</i>
	<i>Note</i>	<i>£</i>	<i>£</i>	<i>£</i>
<b>Turnover</b>		—	—	—
Administrative expenses	3	(278,340)	(317,399)	(646,586)
Finance Income	4	417	4,610	4,794
Other gains and losses		4,237	(53,895)	(13,947)
Finance costs	4	(10,144)	(3,332)	(4,642)
<b>Loss before tax</b>		<b>(283,830)</b>	<b>(370,016)</b>	<b>(660,381)</b>
Tax	5	—	—	—
<b>Loss for the period</b>		<b>(283,830)</b>	<b>(370,016)</b>	<b>(660,381)</b>



## BALANCE SHEET OF THE GROUP

		<i>Unaudited</i> <i>as at</i> <i>30 June</i> <i>2007</i> <i>£</i>	<i>Unaudited</i> <i>as at</i> <i>30 June</i> <i>2006</i> <i>£</i>	<i>Audited</i> <i>as at</i> <i>31 December</i> <i>2006</i> <i>£</i>
<b>ASSETS:</b>				
<b>Non current assets</b>				
Property, plant and equipment	7	56,806	48,070	50,844
Plantation assets	8	89,678	9,923	58,500
Goodwill	6	786,199	868,728	802,244
Other assets		16,174	6,522	9,000
<b>Total non current assets</b>		<u>948,857</u>	<u>933,243</u>	<u>920,588</u>
<b>Current assets</b>				
Cash and cash equivalents		173,997	456,253	212,615
Inventories		6,106	2,338	3,593
<b>Total current assets</b>		<u>180,103</u>	<u>458,591</u>	<u>216,208</u>
<b>Total assets</b>		<u>1,128,960</u>	<u>1,391,834</u>	<u>1,136,796</u>
<b>LIABILITIES:</b>				
<b>Current liabilities</b>				
Trade and other payables	9	236,917	98,257	222,763
Borrowings	10	257,500	—	—
<b>Total current liabilities and total liabilities</b>		<u>494,417</u>	<u>98,257</u>	<u>222,763</u>
<b>Net assets</b>		<u>634,543</u>	<u>1,293,577</u>	<u>914,033</u>
<b>CAPITAL AND RESERVES:</b>				
Issued capital	11	200,000	200,000	200,000
Share premium reserve	12	1,564,708	1,564,708	1,564,708
Accumulated losses	13	(944,210)	(370,016)	(660,381)
Translation reserve		(185,955)	(101,115)	(190,294)
<b>Shareholders funds</b>		<u>634,543</u>	<u>1,293,577</u>	<u>914,033</u>

## STATEMENT OF CASH FLOWS FOR THE GROUP

		<i>Unaudited for the 6 months ended 30 June 2007 £</i>	<i>Unaudited for the period ended 30 June 2006 £</i>	<i>Audited for the period ended 31 December 2006 £</i>
<b>Cash flow from operating activities</b>				
Cash used in operations	14	(271,895)	(385,496)	(577,965)
Net cash used in operating activities		<u>(271,895)</u>	<u>(385,496)</u>	<u>(577,965)</u>
<b>Cash flow from investing activities</b>				
Payment for property, plant and equipment		(5,962)	(35,293)	(38,067)
Purchases of plantation assets		(31,178)	(9,923)	(58,500)
Interest received		417	4,610	4,794
Net cash used in investing activities		<u>(36,723)</u>	<u>(40,606)</u>	<u>(91,773)</u>
<b>Cash flow from financing activities</b>				
Proceeds on issue of shares		—	882,353	882,353
Proceeds from borrowings		270,000	—	—
Net cash provided by financing activities		<u>270,000</u>	<u>882,353</u>	<u>882,353</u>
<b>Cash and cash equivalents at the end of the financial period</b>		<u>173,997</u>	<u>456,253</u>	<u>212,615</u>

## NOTES TO THE FINANCIAL INFORMATION

### 1. Basis of accounting

The consolidated financial statements in this report have been prepared in accordance with International Financial Reporting Standards (IFRS) endorsed for use by the EU at that date. The financial information in this report is presented for:

- (i) the six months ended 30 June 2007; and
- (ii) the period from incorporation to 30 June 2006; and
- (iii) the period from incorporation to 31 December 2006.

A summary of the accounting policies which have been applied consistently throughout the period, unless stated otherwise, is set out below.

#### *(a) Basis of preparation*

The Group financial information is prepared on the historical cost basis except for the revaluation of financial instruments and biological assets.

The preparation of financial information in conformity with IFRS requires the Directors to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

#### *(b) Basis of consolidation*

The consolidated financial information incorporates the financial information of the Company and entities controlled by the Company (its subsidiaries) up to 30 June. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial information of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

#### *(c) Business combinations*

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for resale in accordance with IFRS 5 Non Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceed the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

***(d) Goodwill***

Goodwill is allocated as described in Section (c). After initial recognition, goodwill is measured at cost less any accumulated impairment losses. This impairment review is performed at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

***(e) Revenue recognition***

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

***(f) Leases***

Leases are classified as finance leases whenever the terms of the lease substantially transfer the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. The Group only has operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

***(g) Foreign currencies***

The functional currency of the Company and subsidiaries is considered to be the USD as the currency of the primary economic environment in which the Group operates. For the purpose of the consolidated financial information, the results and financial position of the Company and Group are expressed in Pounds Sterling.

In preparing the financial information of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, all monetary assets and liabilities denominated in foreign currencies are translated to functional currency at the rate prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting consolidated financial information, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

***(h) Taxation***

The tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial information and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial

recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

#### **(i) Financial instruments**

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

##### *Trade receivables*

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the assets carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

##### *Investments*

Investments are recognised and derecognised on a trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost, including transaction costs.

##### *Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

##### *Financial liabilities and equity*

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

##### *Trade payables*

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

##### *Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

##### *Derivative financial instruments and hedge accounting*

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group does not use derivative financial instruments for speculative purposes. The Group has no derivative financial instruments.

#### ***(j) Provisions***

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

#### ***(k) Property, plant and equipment***

Items of property, plant and equipment are initially recorded at cost, being the fair value of consideration provided plus incidental costs, including an amount for dismantling costs where applicable. Items of plant and equipment, including motor vehicles, fixtures and fittings and leasehold improvements are depreciated from the date of acquisition using the straight line method over their estimated useful lives. Depreciation rates are reviewed annually.

The depreciation rates used for each class of asset are as follows:

Plant and equipment	5 per cent. – 40 per cent.
---------------------	----------------------------

#### ***(l) Plantation assets***

A biological asset is a living animal or plant. The Group has determined that it has a biological asset being the *Jatropha* trees in Madagascar. A biological asset is required to be recognised when the company controls the asset as a result of a past event, it is probable that the future economic benefits associated with the asset will flow to the entity and the fair value or cost of the asset can be measured reliably.

The biological asset should be measured on initial recognition and at each balance sheet date at its fair value less estimated point of sale costs, except where the fair value cannot be measured reliably. Fair value is not reliably measurable when market determined prices are not available and for which alternative measures of fair value are clearly unreliable.

Costs incurred may approximate fair value when little biological transformation has taken place since the initial cost occurrence.

Changes in the fair value (gains and/or losses) of the biological asset are recorded in the income statement in the period in which the change occurs.

Limited planting had occurred on hectares to which the group had access as at 30 June 2007. Accordingly the company has measured the biological asset at fair value at 30 June 2007 being the cost of initial planting as little if any biological transformation had occurred at that date.

#### ***(m) Government Grants***

Government grants relating to land are treated as deferred income and released to profit or loss over the expected useful lives of the assets concerned.

#### ***(n) Impairment of assets***

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired. An impairment of goodwill is not subsequently reversed.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

**(o) Inventories**

Inventories are valued at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being valued on a first in first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

**2. Segment Reporting**

The Group's primary reporting format is its geographical segment, while its secondary reporting format is its business segment. The Group has one geographical segment being Madagascar. The Group has one business segment, which is the production of feedstock for the Biodiesel market.

**3. Administrative Expenses**

	<i>Unaudited for the 6 months ended 30 June 2007 £</i>	<i>Unaudited for the period ended 30 June 2006 £</i>	<i>Audited for the period ended 31 December 2006 £</i>
Legal fees	77,405	128,451	246,366
Consultants fees	40,255	67,582	121,258
Depreciation	8,934	3,704	14,572
Rental fees	18,199	12,662	28,703
Wages and salaries	69,964	44,619	122,127
Other administrative expenses	30,796	27,594	47,982
Director's fees	32,787	32,787	65,578
	<u>278,340</u>	<u>317,399</u>	<u>646,586</u>

**4. Net Financing Income**

	<i>Unaudited for the 6 months ended 30 June 2007 £</i>	<i>Unaudited for the period ended 30 June 2006 £</i>	<i>Audited for the period ended 31 December 2006 £</i>
Interest income from financial institutions	417	4,610	4,794
Gross interest expenses	(10,144)	(3,332)	(4,642)
<b>Net financing income/(expense)</b>	<u>(9,727)</u>	<u>1,278</u>	<u>152</u>

## 5. Income Tax Expense

Recognised in the income statement

	<i>Unaudited for the 6 months ended 30 June 2007 £</i>	<i>Unaudited for the period ended 30 June 2006 £</i>	<i>Audited for the period ended 31 December 2006 £</i>
<b>Current tax expense</b>			
Current year	—	—	—
<b>Deferred tax expense</b>			
Origination of temporary differences	—	—	—
<b>Total income tax expense in the income statement</b>	<u>—</u>	<u>—</u>	<u>—</u>

The company was exempt from the requirement to pay income tax in the Isle of Man in the period to 5 April 2007 by virtue of applications made for exempt company status under the provisions of the Income Tax (Exempt Companies) Act 1984. A zero rate of corporate income tax has applied to the company's profits in the Isle of Man from 6 April 2007.

The company's subsidiary pays tax at a rate of 30 per cent. on its taxable profits. No tax charge has been recorded in the current period in respect of the operations of the subsidiary due to losses arising. A deferred tax asset has not been recognised in respect of these losses due to the unpredictability of future income streams in the company. The charge for the period can be reconciled to the loss per the income statement as follows:

	<i>Unaudited for the 6 months ended 30 June 2007 £</i>	<i>Unaudited for the period ended 30 June 2006 £</i>	<i>Audited for the period ended 31 December 2006 £</i>
<b>Loss before tax</b>	(283,830)	(370,016)	(660,381)
Tax at domestic rate of 0 per cent.	—	—	—
Effect of different tax rates of subsidiary operating in another jurisdiction	(25,371)	(38,402)	(56,202)
Unrecorded deferred tax asset	25,371	38,402	56,202
<b>Tax expense for the period</b>	<u>—</u>	<u>—</u>	<u>—</u>

## 6. Goodwill

	<i>Unaudited as at 30 June 2007 £</i>	<i>Unaudited as at 30 June 2006 £</i>	<i>Audited as at 31 December 2006 £</i>
Additions through business combinations	913,827	913,827	913,827
Effect of foreign currency exchanges differences	(127,628)	(45,099)	(111,583)
<b>Balance at end of period</b>	<u>786,199</u>	<u>868,728</u>	<u>802,244</u>



## 7. Property, Plant and Equipment

	<i>Unaudited as at 30 June 2007 £</i>	<i>Unaudited as at 30 June 2006 £</i>	<i>Audited as at 31 December 2006 £</i>
<b>MOTOR VEHICLES</b>			
<b>Cost</b>			
Balance at beginning of period	38,332	—	—
Additions	1,484	—	10,983
Acquisition of subsidiary	—	25,142	27,349
<i>Balance at end of period</i>	<u>39,816</u>	<u>25,142</u>	<u>38,332</u>
<b>Accumulated depreciation</b>			
Balance at beginning of period	11,344	—	—
Charge for period	7,075	3,057	11,344
<i>Balance at end of period</i>	<u>18,419</u>	<u>3,057</u>	<u>11,344</u>
<b>Net book value</b>	<u>21,396</u>	<u>22,085</u>	<u>26,988</u>
<b>FIXTURES &amp; EQUIPMENT</b>			
<b>Cost</b>			
Balance at beginning of period	27,084	—	—
Additions	15,523	26,485	27,084
Acquisition of subsidiary	—	—	—
<i>Balance at end of period</i>	<u>42,607</u>	<u>26,485</u>	<u>27,084</u>
<b>Accumulated depreciation</b>			
Balance at beginning of period	3,228	—	—
Charge for period	3,968	500	3,228
<i>Balance at end of period</i>	<u>7,196</u>	<u>500</u>	<u>3,228</u>
<b>Net book value</b>	<u>35,411</u>	<u>25,985</u>	<u>23,856</u>
<b>TOTAL</b>			
<b>Cost</b>			
Balance at beginning of period	65,416	—	—
Additions	17,006	26,485	38,067
Acquisition of subsidiary	—	25,142	27,349
<i>Balance at end of period</i>	<u>82,422</u>	<u>51,627</u>	<u>65,416</u>
<b>Accumulated depreciation</b>			
Balance at beginning of period	14,572	—	—
Charge for period	11,044	3,557	14,572
<i>Balance at end of period</i>	<u>25,616</u>	<u>3,557</u>	<u>14,572</u>
<b>Net book value</b>	<u>56,806</u>	<u>48,070</u>	<u>50,844</u>

## 8. Plantation Assets

	<i>Unaudited as at 30 June 2007 £</i>	<i>Unaudited as at 30 June 2006 £</i>	<i>Audited as at 31 December 2006 £</i>
Balance at beginning of period	58,500	—	—
Additions during the period	31,178	9,923	58,500
<b>Balance at end of period</b>	<b>89,678</b>	<b>9,923</b>	<b>58,500</b>

## 9. Trade and Other Payables

	<i>Unaudited as at 30 June 2007 £</i>	<i>Unaudited as at 30 June 2006 £</i>	<i>Audited as at 31 December 2006 £</i>
Trade payables	236,917	98,257	222,763
	<b>236,917</b>	<b>98,257</b>	<b>222,763</b>

## 10. Borrowings

	<i>Unaudited as at 30 June 2007 £</i>	<i>Unaudited as at 30 June 2006 £</i>	<i>Audited as at 31 December 2006 £</i>
Balance at beginning of period	—	—	—
Secured convertible loan notes	257,500	—	—
<b>Balance at end of period</b>	<b>257,500</b>	<b>—</b>	<b>—</b>

On 27 March 2007 the Company and RAB entered into a further investment agreement under which RAB agreed to subscribe in cash for US\$500,000 of convertible loan notes (loan notes) to be issued under a loan note instrument. The loan notes are secured by way of a debenture over all the assets and business of the Company.

A total of 500,000 \$1 loan notes have been issued with repayment required after 2 January 2008 upon receipt of a repayment notice from RAB. The loan notes bear interest at 1 per cent. per month until 1 January 2008 and if still outstanding, interest increases to 1.5 per cent. per month until 1 April 2008 and thereafter at 2 per cent. per month.

Refer to note 19 for further details on events subsequent to 30 June 2007.

## 11. Issued Capital

	<i>Unaudited as at 30 June 2007 £</i>	<i>Unaudited as at 30 June 2006 £</i>	<i>Audited as at 31 December 2006 £</i>
<b>Authorised</b>			
200,000,000 ordinary shares of £0.01 each	2,000,000	2,000,000	2,000,000
<b>Allotted, issued &amp; fully paid</b>			
20,000,000 ordinary shares of £0.01 each	200,000	200,000	200,000

## 12. Share Premium Reserve

	<i>Unaudited as at 30 June 2007 £</i>	<i>Unaudited as at 30 June 2006 £</i>	<i>Audited as at 31 December 2006 £</i>
Balance at beginning of period	1,564,708	—	—
Movement for the period	—	1,564,708	1,564,708
<b>Balance at end of period</b>	<b><u>1,564,708</u></b>	<b><u>1,564,708</u></b>	<b><u>1,564,708</u></b>

## 13. Accumulated Losses

	<i>Unaudited for the 6 months ended 30 June 2007 £</i>	<i>Unaudited for the period ended 30 June 2006 £</i>	<i>Audited for the period ended 31 December 2006 £</i>
Balance at beginning of period	(660,381)	—	—
Loss for the period	(283,829)	(370,016)	(660,381)
<b>Balance at end of period</b>	<b><u>(944,210)</u></b>	<b><u>(370,016)</u></b>	<b><u>(660,381)</u></b>

## 14. Notes to the Cash Flow Statement

	<i>Unaudited for the 6 months ended 30 June 2007 £</i>	<i>Unaudited for the period ended 30 June 2006 £</i>	<i>Audited for the period ended 31 December 2006 £</i>
Loss for the period	(278,340)	(370,016)	(660,381)
Adjustments for:			
Finance costs	10,144	3,332	4,642
Other gains and losses	4,656	(56,642)	(95,947)
Depreciation of property, plant and equipment	8,934	3,702	14,572
<b>Operation cash flows before movements in working capital</b>	<b><u>(254,606)</u></b>	<b><u>(419,624)</u></b>	<b><u>(737,114)</u></b>
(Increase) in inventories	(2,513)	(2,338)	(3,593)
(Increase) in receivables	(7,174)	(6,522)	(9,000)
Increase in payables	(7,602)	42,988	171,742
<b>Cash used in operations</b>	<b><u>(271,895)</u></b>	<b><u>(385,496)</u></b>	<b><u>(577,965)</u></b>

## 15. Group Entities

<b>Significant subsidiaries</b>	<i>Country of incorporation</i>	<i>Ownership interest</i>
Green Energy Madagascar sarl	Madagascar	100%

## **16. Related Parties**

Transactions between the Company and its subsidiary, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

### *Trading transactions*

During the period, there were no transactions with companies in the Group or transactions with related parties.

### *Loans*

There are no outstanding loans granted or guarantees provided by the Company to or for the benefit of any of the Directors, nor are there any outstanding loans or guarantees provided by the Directors to or for the benefit of the Company.

## **17. Ultimate Controlling Party**

During the period to 30 June 2007, the ultimate controlling party of the Company and the Group is RAB Special Situations (Master) Fund Limited (“RAB”), a company incorporated in the Cayman Islands.

Refer to note 19 for further details on events subsequent to 30 June 2007.

## **18. Commitments**

The Group has no significant capital commitments towards existing or forecasted investments.

The Directors are not aware of any commitments as at 30 June 2007 other than the property lease agreements. The properties are used for the processing and packing of vegetable matter and for office accommodation. The terms of the leases vary between two and five years with a maximum annual commitment of £30,000 per annum.

## **19. Events after the Balance Sheet Date**

### *Conversion of RAB Loan Notes*

Pursuant to the Deeds of Termination and conversion described in Part V, paragraph 12.17, the loan notes will be converted conditional upon the Company being admitted to AIM. 1,768,167 shares will be issued at a price of US\$0.30 per share representing US\$500,000 in principle and US\$30,450 in interest.

PART IV  
MADAGASCAN LEGAL OPINION

**M.C.I**  
**MADAGASCAR CONSEIL INTERNATIONAL**

Cabinet Juridique International  
Droit des Affaires - Arbitrage  
Fiscalité - Investissements étrangers



International Law Firm  
Business Law - Arbitration  
Taxation - Foreign investments

The Directors  
GEM BioFuels Plc  
34 North Quay  
Douglas  
Isle of Man  
IM1 4LB

and

The Directors  
WH Ireland Limited  
24 Bennetts Hill  
Birmingham  
B2 5QP  
United Kingdom

15 October 2007

Dear Sirs

**RE: GREEN ENERGY MADAGASCAR SARL (“GEM”)**

**Introduction**

We are a Malagasy law firm acting for GEM BioFuels Plc (the “Company”), a company incorporated in the Isle of Man, and Green Energy Madagascar sarl (“GEM”), a company incorporated in Madagascar, and we issue this letter in respect of certain matters of Malagasy land law in relation to the proposed placing by WH Ireland Limited to raise approximately £3.5 million (before expenses) (the “Placing”) and admission to the AIM market of the London Stock Exchange plc (“the Admission”) of the entire issued share capital of the Company.

We are competent to practice law in Madagascar and we report on the Malagasy legal information set out below that has been prepared for inclusion in Part IV of the Admission Document dated 15 October 2007.

**Madagascar Land Rights**

***Political Situation***

*Pre- 4 April 2007 referendum*

Prior to 4th April 2007 Madagascar was divided into six autonomous Provinces (faritany mizakatena), which in turn are divided into 22 Regions. The Regions are subdivided into 116 Districts, 1,548 Communes and 16,969 Fokontany. The Chief of each Region appoints a Chief of each district and the Chief of each district appoints the Mayors of the relevant Communes. In turn the Mayor of each commune appoints a Chief of each Fokontany, which are subdivisions of the Communes.

*Post 4 April referendum*

Under the referendum passed on 4th April 2007 the six autonomous Provinces and the district level were dissolved. This means that the Chief of each Region now appoints the Mayor of each Commune.

## **Land ownership and use in Madagascar**

### ***Ownership***

There are four categories of land which are relevant to GEM's operations. These are:

- Private land held by an individual or company;
- State land designated for private use. On this land, the state acts as a simple private landowner and is subject to the same judicial authority as private individuals or companies. This land may be transferred into private hands on request by an individual or company;
- State land which is undesignated, unregistered and untitled; and
- State land designated for public use or enjoyment (roads, national parks, etc). This land may not be transferred into private hands.

When land is designated as private land or state land designated for private use, it will be registered at the local land registry. Registered land will have;

- A livre foncier (title deeds in which all changes are recorded) which are kept at the Services des Domaines (Land Registry), a copy of which ("duplicata") is held by the owner; and
- A plan topographique (registered plan), which are kept at the Service Topographique (Ordinance Survey).

In respect of unregistered land, it is assumed that any land not marked as registered or designated for public use is available for acquisition. The local Commune is the competent authority for applying for any grant of land.

Any Malagasy citizen or majority-owned Malagasy company may make a request to have untitled land transferred into their name. To obtain the transfer there must be some level of "land improvement" although the threshold is not high.

As an alternative to outright acquisition, a lease can be entered into directly with the Commune. We have been informed that GEM intends to enter into leases with the relevant Communes after Admission.

### **Land Use Agreements**

GEM has entered into a series of land use agreements (the "Agreements") with various Communes, as set out more particularly in the table below. These agreements allow GEM to plant the areas concerned with *Jatropha* and to use local labour to do so.

The Commune is the competent authority to deal with leases over its own land. As such, these agreements are enforceable. As further security, they have been approved by the heads of both the district and the region. This avoids any chance that the grant of land is outside the power of the granting authority, which is the Commune. The Agreements and the rights granted by the relevant Communes thereunder also prevents them from granting similar rights to third parties. The rights under the Agreements will continue until GEM stops cultivating *Jatropha* on the land covered by the Agreements at which point the land will revert to the relevant Commune.

Under the Agreements, GEM owns the trees planted on the land covered by the Agreements, together with the seeds that are produced from those trees, and also has control of the land on which those trees are grown, although the local population retains rights to plant vegetables and to graze cattle, once the trees are well established.

The Agreements provide for GEM subsequently to enter into a 50 year lease over the land with the Commune. This lease will be for nil or nominal value and we have been informed that the Company intends to enter leases in respect of the land to which Agreements relate. The advantages of a lease is that it will be directly enforceable against third parties such as other parties who may wish to lay claim to title over the land concerned and also provide greater security. Following our searches at the relevant land registries, we do not believe that there are any such competing interests.

A lease may also contain an option to purchase the land. Notwithstanding the foregoing, in our opinion, until such time as leases may be put in place, the Agreements provide the Company with adequate legal protection and sufficient rights to the relevant land and the crops it plants and has planted on that land for the purposes of carrying on its business as described in the Company's admission document.

**Traditional rights**

Running in parallel with the formal system is the informal “Fomba Gasy” system which is the traditional method under which title to the land is recognised. Malagasy statute law has long understood the significance of traditional law and its importance to the majority of Malagasy people who do not live in the urban centres. As much as 80% of land in Madagascar remains in State hands, even though much of this is occupied as if it were private land. The law is conscious of this anomaly within local land law and people living on such “commonhold” areas are protected.

Insofar as it concerns traditional rights over land, real estate matters are regulated by ministerial ordinance no. 60-146 of 3/10/60 and law no. 2006-031 of 24/11/06. This ordinance gives protection to those people who live on what may be classed broadly as “ancestral land” and who do not have formal paperwork to substantiate their claim. Further protection is contained in ordinance no. 82-029 of 6/1/82 which refers to national heritage. In this sense “heritage” is interpreted widely and will include tombs, sacred artefacts and other such items of ancestral relevance.

We do not believe that relocation of population will be a significant factor in connection with GEM’s operations. There may be tombs or other sacred sites within the fomba system which are situated on the land used by GEM. However, it is unlikely that these would be expansive in terms of area and therefore they are not of material concern to GEM’s operations.

**Usage**

The entity or government body that has title to land has legal authority to grant usage rights in respect of that land including an enforceable right to cultivate the land. Once such a right has been granted the person to whom it is granted controls that land, is guaranteed access to it for cultivation purposes and owns any crops that it produces on it. This reinforces the Agreements.

**Land Use Agreements**

GEM has been granted or obtained land use rights in respect of land in 19 Communes covering 492,500 hectares as set out in Annexe 1 to this letter. These rights are summarised above.

**Qualification**

This letter is given for the benefit of the parties to whom it is addressed (and may be addressed to such parties and professional advisers) and may be relied upon by them only.

This letter is limited to the laws of Madagascar of general application as at the date of this letter and is given on the basis that it will be governed by and construed in accordance with the laws of Madagascar. We have made no investigation of, and do not express or imply any views on, the laws of any country other than Madagascar.

**Madagascar Conseil International**

Nouvel Immeuble NY HAVANA, Explorer Business Park, Ankorondrano, Antananarivo

## ANNEXURE 1

### CURRENT LAND USE AGREEMENTS

<i>Date</i>	<i>Granting Authority</i>	<i>District</i>	<i>Amount of land granted (hectares)</i>
<b>Tulear North East</b>			
29 May 2007	Mayor of the Andranohinaly Rural Commune	Toliara II	20,000
29 May 2007	Mayor of the Andranovory Rural Commune	Toliara II	20,000
29 May 2007	Mayor of the Vatolatsaky Rural Commune	Betioky-Sud	10,000
29 May 2007	Mayor of the Vineta Rural Commune	Sakaraha	10,000
29 May 2007	Mayor of the Mahaboboka Rural Commune	Sakaraha	15,000
29 May 2007	Mayor of the Miary Lamatihy Rural Commune	Sakaraha	2,500
29 May 2007	Mayor of the Sakaraha Rural Commune	Sakaraha	10,000
29 May 2007	Mayor of the Ambinany Rural Commune	Sakaraha	10,000
29 May 2007	Mayor of the Ranohira Rural Commune	Ihosy	50,000
<b>Tulear North</b>			
29 May 2007	Mayor of the Tsianisiha Rural Commune	Toliara II	20,000
29 May 2007	Mayor of the Milenaka Rural Commune	Toliara II	35,000
29 May 2007	Mayor of the Analamisampy Rural Commune	Toliara II	40,000
25 May 2007	Mayor of the Antanimieva Rural Commune	Morombe	30,000
29 May 2007	Mayor of the Ankilimaliniky Rural Commune	Tulear II	20,000
<b>Tulear South</b>			
29 May 2007	Mayor of the Solara-Sud Rural Commune*	Toliara II	40,000
29 May 2007	Mayor of the Anakao Rural Commune	Toliara II	20,000
29 May 2007	Mayor of the Beheloka Rural Commune	Ampanihy	50,000
29 May 2007	Mayor of the Itampolo Rural Commune	Ampanihy	40,000
29 May 2007	Mayor of the Androka Rural Commune	Ampanihy-Ouest	50,000
			492,500
			492,500

\*Wild forest



## PART V

### ADDITIONAL INFORMATION

#### 1. The Company

- 1.1 The Company is domiciled in the Isle of Man and was incorporated and registered in the Isle of Man on December 6, 2005 as a private limited company with the name Madagascar Biodiesel Limited and registered number 115011C. The Company re-registered as a public limited company and changed its name to GEM BioFuels Plc on 12 October 2007. The liability of its shareholders is limited.
- 1.2 The Company is subject to the Acts.
- 1.3 The Company's registered office and principal place of business is located at 34 North Quay, Douglas, Isle of Man, IM1 4LB. The telephone number of the Company's registered office and principal place of business is +44 (0) 1624 670 675.
- 1.4 The Company has no administrative, management or supervisory bodies other than the Board of Directors and the committees for reviewing audit and remuneration matters. Further details of the audit and remuneration committees are set out in paragraph 19 of Part I of this document.
- 1.5 The Company's auditors during the period covered by the Historical Financial Information are Deloitte & Touche, who are members of the Isle of Man Institute of Chartered Accountants, a constitute body of the Institute of Chartered Accountants in England & Wales.

#### 2. Securities being offered/admitted

- 2.1 The Ordinary Shares are ordinary shares of 1 pence each in the capital of the Company and were created under the Acts. The Ordinary Shares were issued in British Pounds Sterling with International Security Identification Number IM00B24F0V53.
- 2.2 The Ordinary Shares may be held in certificated form or under the CREST system, which is a paperless settlement procedure enabling securities to be evidenced and transferred, otherwise than by a written instrument in accordance with the CREST Regulations. The Registrar is responsible for maintaining the records necessary for keeping the Company's register of members. The complete register of certificated and uncertificated securities will be maintained at the registered office of the Company in the Isle of Man.
- 2.3 The Ordinary Shares are the only class of shares in the capital of the Company in issue as at the date of this document. The dividend and voting rights attaching to the Ordinary Shares are set out in paragraph 6 of this Part V. The Ordinary Shares have no right to share in the profits of the Company other than through a dividend or other distribution or a return of capital. Each Ordinary Share is entitled, on a *pari passu* basis with all other issued Ordinary Shares, to share in any surplus assets on a winding up of the Company.
- 2.4 There are no statutory pre-emption rights applicable to the Ordinary Shares under the laws of the Isle of Man. The pre-emption rights on any issue of shares for cash by the Company under the Articles of Association are described in paragraph 6 of this Part V.
- 2.5 The Ordinary Shares have no redemption or conversion provisions.
- 2.6 The Directors have the authority (without the need for further sanction) to:
  - (a) grant options over or allot such number of Ordinary Shares (other than through an employee share scheme) with a maximum aggregate nominal value up to the authorised unissued ordinary share capital following the Placing and Admission, with such authority to expire at the conclusion of the next annual general meeting of the Company following Admission, except that the Company may before such expiry make an offer or agreement which would or might require Ordinary Shares to be allotted after such expiry, provided that such power shall be limited to:
    - (i) the allotment of shares in the Company or a right to subscribe for, or to convert securities into shares in the Company (each, an "Equity Security") in connection with a rights issue or any other pre-emptive offer in favour of holders of Equity Securities where the Equity Securities respectively attributable to the interests of all such holders are proportionate to the respective amounts of Equity Securities held by them; andsubject to Admission:

- (ii) the allotment of Equity Securities pursuant to the option granted to WH Ireland (as described in paragraph 12.2 below);
  - (iii) the allotment of Equity Securities pursuant to the option granted to DJ Carmichael (as described in paragraph 12.3 below);
  - (iv) the allotment of Placing Shares up to an aggregate nominal amount of £125,000;
  - (v) the allotment (otherwise pursuant to sub paragraph 2.6(a)(i) above) of Equity Securities up to an aggregate nominal amount of £30,000; and
- (b) grant options over Ordinary Shares under any employees' share scheme and to allot Ordinary Shares upon the due exercise of any options so granted.
- 2.7 It is anticipated that the Placing Shares will be issued prior to and conditional upon Admission.
- 2.8 The Company will be subject to the Code if the Panel decides that the Company's place of central management and control is in the United Kingdom or the Isle of Man. In the event that the Panel decide that this is not the case then there are provisions in the Company's Articles (summarised at paragraph 6.19 below) which bind shareholders of the Company to behave in a similar manner to that set out in the Code.
- In addition, in the event an offeror acquires at least nine-tenths in value of the issued share capital of the Company to which the offer relates the offeror may in accordance with the procedure set out in sections 154 of the Isle of Man Companies Act 1931 require the holders of any shares he has not acquired to sell them subject to the terms of the offer, subject to the right of dissenting shareholders to apply to the courts of the Isle of Man for an order to the contrary.
- 2.9 No person has made a public takeover bid for the Company's issued share capital in the financial period to 31 December 2006 or in the current financial period.
- 2.10 There is no requirement under the Acts for shareholders to notify their shareholding to the Company. However, a shareholder is required by the Company's Articles of Association to notify the Company when he acquires a material interest in shares in the capital of the Company equal to or in excess of 3 per cent. of the nominal value of that share capital and so long as this interest amounts to 3 per cent. or more of the issued share capital, he is obliged to notify the Company of any change to that interest. The notification requirements are set out in more detail at paragraph 6.18 below.

### 3. Share Capital of the Company

- 3.1 The authorised and issued share capital of the Company as at 31 December 2006 was as follows:

<i>Authorised share capital</i>		<i>Issued and fully paid up share capital</i>	
£	<i>Number</i>	£	<i>Number</i>
2,000,000	200,000,000	£0.01 each	200,000
			20,000,000

- 3.2 The authorised and issued share capital of the Company following the Placing and Admission will be as follows:

<i>Authorised share capital</i>		<i>Issued and fully paid up share capital</i>	
£	<i>Number</i>	£	<i>Number</i>
2,000,000	200,000,000	£0.01 each	276,015
			27,601,501

- 3.3 In the period since its incorporation to the date of this document, the Company has allotted and issued 20,000,000 Ordinary Shares, as described at paragraphs 3.7 to 3.11 of this Part V. The Company will also allot the Conversion Shares to RAB on Admission pursuant to the Loan Note Agreement and the loan note instrument described in paragraph 12.11 below and the deed summarised in paragraph 12.17 below.
- 3.4 The Placing will result in the allotment and issue of 5,833,334 Ordinary Shares, diluting existing holders of Ordinary Shares by 21.1 per cent.
- 3.5 The par value of each Ordinary Share is 1 pence.
- 3.6 The Company has no issued Ordinary Shares that are not fully paid up.
- 3.7 The Company was incorporated with an authorised share capital of £2,000 divided into 2,000 ordinary shares of £1.00 each, of which two shares were issued nil paid to Taitnys Nominees Limited, the

subscriber to the Memorandum of Association of the Company and a nominee company of the corporate trust management company engaged to act on behalf of the Company. The Memorandum of Association was amended on 19 December 2005 by increasing the share capital to £2,000,000 divided into 2,000,000 Ordinary Shares of £1 each and thereafter by subdividing the share capital of £2,000,000 into 200,000,000 Ordinary Shares of 1 pence each.

- 3.8 Following the subdivision on 19 December 2005, the sole Shareholder was Taitnys Nominees Limited, which held 200 Ordinary Shares.
- 3.9 Pursuant to an investment agreement dated 23 December 2005, summarised in more detail in paragraph 12.16 below, RAB subscribed for 10,000,000 Ordinary Shares of the Company at an issue price of US\$ 0.15 per Ordinary Share.
- 3.10 Pursuant to a share sale agreement dated 23 December 2005 summarised in more detail at paragraph 12.18 below, the Company agreed to procure that 10,000,000 Ordinary Shares be issued or transferred to Jatroil Industries Pty Ltd in consideration for which the Company received 98 fully paid ordinary shares in the capital of Green Energy from Jatroil Industries Pty Ltd. Jatroil Industries Pty Ltd was holding these shares on trust for its shareholders pursuant to a declaration of trust dated 2 August 2005. On 23 December 2005, the Company allotted 9,999,800 shares to Paul Benetti and a further 200 Ordinary Shares were transferred from Taitnys Nominees to Paul Benetti. Paul Benetti then held these shares on trust for the shareholders in Jatroil Industries Pty Ltd and subsequently transferred them to these shareholders (or their nominees).
- 3.11 On 24 April 2007 the Company issued US\$500,000 loan notes, convertible into Ordinary Shares under a loan note instrument that is further described in paragraph 12.11 below.
- 3.12 On 15 October 2007, the Shareholders passed special resolutions:
  - (a) adopting the Articles, which contain the pre-emption rights described in paragraph 6.2 below;
  - (b) approving the re-registration of the Company as a public limited company and changing its name to GEM BioFuels Plc.
  - (c) disapplying the pre-emption rights contained in the Articles in the following cases:
    - (i) the allotment of Equity Securities in connection with a rights issue or any other pre-emptive offer in favour of holders of Equity Securities where the Equity Securities respectively attributable to the interests of all such holders are proportionate to the respective amounts of Equity Securities held by them; and  
subject to Admission:
    - (ii) the allotment of Equity Securities pursuant to the option granted to WH Ireland;
    - (iii) the allotment of Equity Securities pursuant to the option granted to DJ Carmichael;
    - (iv) the allotment of Placing Shares and the Conversion Shares up to an aggregate nominal amount of £125,000; and
    - (v) the allotment (otherwise than pursuant to sub paragraph 3.12(c)(i) above) of Equity Securities up to an aggregate nominal amount of £30,000.
- 3.13 Save as disclosed in paragraphs 3, 8, 12.2, 12.3 and 12.11:
  - (a) no share or loan capital of the Company has been issued or is proposed to be issued;
  - (b) there are currently no outstanding convertible securities, exchangeable securities or securities with warrants issued by the Company;
  - (c) there are no shares in the Company not representing capital;
  - (d) there are no shares in the Company held by or on behalf of the Company itself or by subsidiaries of the Company;
  - (e) there are no acquisition rights and/or obligations over authorised but unissued share capital of the Company and the Company has made no undertaking to increase its share capital;
  - (f) no person has any preferential or subscription rights for any share capital of the Company; and

- (g) no share or loan capital of the Company is under option or agreed conditionally or unconditionally to be put under option.

#### **4. The Group**

As set out in paragraph 9.2, RAB owns 60 per cent. of the Existing Share Capital and, at Admission, will control the Company.

The Company is the holding company of Green Energy, a Malagasy registered company. The Company has the legal and/or beneficial rights to the entire issued share capital of Green Energy (one share is held on trust for the Company by Paul Benetti).

The Company is not aware of any arrangements, the operation of which may at a subsequent date result in a change in control of the Company.

#### **5. Memorandum of Association**

Under the Memorandum of Association of the Company (the “**Memorandum**”), the objects of the Company are unrestricted and the Company has, by and subject to the Acts, the same rights powers and privileges as an individual, unless restricted by special resolution in accordance with section 6 of the Isle of Man Companies Act 1986 and no such restrictions are imposed or are resolved to be imposed.

#### **6. Articles of Association**

The Articles of Association contain the following provisions:

##### *6.1 Directors' authority to allot shares*

The Acts do not contain any provisions equivalent to section 80 of the UK Companies Act 1985 requiring the Directors to obtain the approval of existing shareholders before issuing relevant securities. Under the Articles, however, broadly similar restrictions apply, subject to the following exceptions. The Directors have been authorised to offer, allot (with or without conferring a right of renunciation), issue, grant options over or otherwise deal with or dispose of Ordinary Shares with a maximum aggregate nominal value up to the authorised unissued share capital of the Company following the completion of the Placing to such persons, at such times and generally on such terms as the directors may decide. This authority will expire at the conclusion of the next Annual General Meeting of the Company except that the Company may before such expiry make an offer or agreement which would or might require Ordinary Shares to be allotted after such expiry and the Directors may allot Ordinary Shares pursuant to such an offer or agreement as if the foregoing authority had not expired. In addition, the Articles authorise the directors to grant options over Ordinary Shares under any employees' share scheme.

##### *6.2 Rights of pre-emption on issue of shares*

The Acts do not impose obligations upon the Directors to issue equity securities *pro rata* to existing shareholders as is the case under section 89 of the UK Companies Act 1985. The Articles impose broadly similar restrictions as follows:

- (a) unless otherwise approved by special resolution, the Company shall not allot equity securities on any terms unless:
  - (i) the Directors have made an offer to each person who holds equity securities of the same class to allot to him on the same or more favourable terms such proportion of those equity securities that is as nearly as practicable (fractions being disregarded) equal to the proportion that the relevant person's existing holding of equity securities of the same class bears to all the issued shares of that class; and
  - (ii) the period during which an offer referred to in sub-paragraph 6.2(a)(i) above may be accepted has expired or the Company has received notice of the acceptance or refusal of every offer made; and
- (b) these pre-emption rights do not apply to any allotment pursuant to an employee share scheme or to any allotment made otherwise than for cash.

##### *6.3 Alteration of share capital*

The Company may from time to time by ordinary resolution:

- (a) increase the share capital by new shares of such amount as the resolution prescribes;

- (b) consolidate and divide all or any of its shares into shares of a larger amount than its existing shares;
- (c) subject to the provisions of the Acts, sub-divide its shares, or any of them, into shares of smaller amount than is fixed by the Memorandum (subject nevertheless to the Acts) and the resolution may determine that, as between the holders of the shares resulting from the sub-division, one or more of the shares may have any such preferred or other special rights over, or may have such deferred qualified rights or be subject to any such restrictions as compared with, the others as the Company has power to attach to unissued or new shares; and
- (d) cancel 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 amount of the shares so cancelled.

#### 6.4 *Reduction of share capital*

Subject to the provisions of the Acts (which include a requirement for any resolution for a reduction of share capital to be sanctioned by the Isle of Man Court), the Company may also by special resolution reduce its authorised or issued share capital, any capital redemption reserve, and any share premium account in any way.

#### 6.5 *Purchase by the Company of its own shares*

Subject to the provisions of the Acts, the Company may purchase its own shares. As the Company is a public company, the Acts do not permit the Company to make a payment in respect of such a purchase otherwise than out of its distributable profits.

#### 6.6 *Class rights*

- (a) The special rights attached to any class of shares may, subject to any applicable law, be altered or abrogated either with the consent in writing of the holders of three fourths in nominal value of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of shares of that class.
- (b) The provisions of the Articles applicable to general meetings apply *mutatis mutandis* to class meetings but the necessary quorum is two persons holding or representing by proxy not less than one third of the issued shares of that class except where there is only one holder of the relevant class of shares in which case the quorum shall be that holder.

#### 6.7 *Votes of shareholders*

Subject to any rights or restrictions as to voting attached to any class of shares, at any general meeting, on a show of hands, every member who is present in person has one vote and, in the case of a poll, every member present in person or by proxy has one vote for every share of which he is the holder. No member is entitled to vote at a general meeting either personally or by proxy in respect of any share held by him unless all moneys presently payable by him in respect of that share have been paid or if he or any person appearing to be interested in shares held by him has been duly served with a notice under the Articles (as described in paragraph 6.18 below) and is in default for the prescribed period in supplying the Company the information required thereby.

#### 6.8 *Ranking of Ordinary Shares*

The Ordinary Shares rank *pari passu* as a class in terms of preference, restriction and all other rights.

#### 6.9 *General meetings*

- (a) Each year the Company shall hold a general meeting as its annual general meeting (in addition to any other meetings in that year) and not more than fifteen months shall elapse between the date of one annual general meeting and that of the next. Annual general meetings shall be held at such time and place as may be determined by the Directors.
- (b) All general meetings, which are not annual general meetings, are extraordinary general meetings. General meetings may be called by directors, whenever they think fit or, upon receipt of a requisition from shareholders served in accordance with the Acts, shall forthwith convene a meeting for a date not later than 21 days after the date of the deposit of the requisition. If there are not sufficient Directors capable of acting to form a quorum, any director or any two shareholders of the Company may convene an extraordinary general meeting in the same manner as nearly as possible as that in which meetings may be convened by the directors.

- (c) An annual general meeting and an extraordinary general meeting for the passing of a special resolution or a resolution appointing a person a director shall be called by twenty-one clear days' notice at least and all other extraordinary general meetings shall be called by at least fourteen days' notice. The notice shall be exclusive of the day on which it is served, or deemed to be served, and of the day for which it is given. Every notice shall be in writing and shall specify the place, the day and the time of meeting, and (in the case of special business) the general nature of such business, and in the case of an annual general meeting shall specify the meeting as such and the notice convening a meeting to pass a special or extraordinary resolution shall specify the intention to propose the resolution as a special or extraordinary resolution as the case may be. Notices shall be given in manner hereinafter mentioned to all the shareholders, other than those who under the provisions of the Articles or under the rights attached to the shares held by them are not entitled to receive the notice, and to the auditors for the time being of the Company. Notwithstanding that a meeting of the Company is called by shorter notice than that specified in this article, it shall be deemed to have been duly called if it is so agreed, in the case of an annual general meeting, by all the shareholders entitled to attend and vote there at and in the case of any other meeting, by a majority of the shareholders having a right to attend and vote at the meeting holding not less than 95 per cent. in nominal value of shares giving that right.

#### 6.10 *Transfer of shares*

- (a) Subject to the Articles, any member may transfer all or any of his shares. The instrument of transfer of a share in certificated form may be in any usual form or in any other form which the directors may approve and shall be executed by or on behalf of the transferor and, unless the share is fully paid, by or on behalf of the transferee. Nothing in the Articles shall require title to any securities of the Company to be evidenced or transferred by a written instrument, the CREST Regulations so permitting. The Directors shall have power to implement any arrangements they may think fit for such evidencing and transfer which accord with the CREST Regulations.
- (b) The Directors may, in their absolute discretion and without giving any reason, refuse to register the transfer of a share in certificated form which is not fully paid or of a share on which the Company has a lien provided that such refusal shall not prevent dealings in the shares taking place on an open and proper basis. The Directors may also decline to recognise an instrument of transfer in respect of shares in certificated form unless the instrument is lodged duly stamped at the office of the Company or at such other place as the Directors may appoint and is accompanied by the certificate for the shares to which it relates and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer. The Directors may further decline to register an instrument of transfer in respect of shares in certificated form unless it is in respect of only one class of share and is in favour of not more than four persons. In the case of shares for the time being in uncertificated form transfers shall be registered only in accordance with the terms of the CREST Regulations but so that the directors may refuse to register a transfer which would require shares to be held jointly by more than four persons.

#### 6.11 *Dividends*

- (a) There are no fixed dates on which a dividend entitlement arises. The Company may by ordinary resolution from time to time declare dividends to be paid to Shareholders, although the amount of the dividend cannot exceed the amount recommended by the Directors. In addition the Directors may pay interim dividends if justified by the profits of the Company available for distribution.
- (b) The dividend payment to each Shareholder shall be calculated proportionately to the amounts paid up on each issued Ordinary Share.
- (c) All unclaimed dividends may be used for the benefit of the Company until claimed and shall not attract interest. Any dividend, which remains unclaimed twelve years after the date of declaration or (if later) the date the dividend becomes due for payment, shall, at the option of the Directors, be forfeited and shall revert to the Company.
- (d) Save as disclosed above there are no dividend restrictions attaching to the Ordinary Shares, provided they are fully paid up. Payments of dividends may be made by any method the Directors consider appropriate and on a cash dividend there are no special arrangements for non-resident Shareholders.
- (e) The Directors may, with the sanction of an ordinary resolution, offer Shareholders the right to receive Ordinary Shares, credited as fully paid, instead of cash in respect of all or part of any

interim or final dividend. The Directors may make such arrangements, as they consider expedient in connection with a dividend payment in shares to deal with any legal or other difficulties that may arise in any territory in which non-resident shareholders are present.

- (f) The Directors may, before recommending any dividend, reserve out of the profits of the Company, such sums as they think proper as a reserve or reserves, which shall, at the discretion of the Directors, be applicable for any purpose to which the profit of the Company may properly be applied. The Directors may also, without placing the same in a reserve, carry forward any profits which they may think prudent not to distribute.

#### 6.12 *Borrowing powers*

The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital, or any part thereof, and subject to the Acts to issue debentures and other securities whether outright or as collateral security for any debt liability or obligation of the Company or of any third party.

#### 6.13 *Directors*

- (a) Unless otherwise determined by ordinary resolution, the number of directors shall be not less than two. The Company may from time to time by ordinary resolution fix a maximum number of directors and from time to time vary that maximum number.
- (b) At every general meeting, one third of all directors shall retire by rotation and stand for re-election.
- (c) A director shall not be required to retire upon reaching the age of 70, but shall be required to offer himself for re-election at each subsequent annual general meeting.
- (d) Subject to the Acts and the Articles, a director shall not be disqualified for contracting with the Company and no such contract shall be avoided, nor shall a director be liable to account to the Company for any remuneration, profit or other benefit realised by any such contract.
- (e) A director shall be entitled to be a director or other officer or member of any other company promoted by the Company or in which the Company may be interested. A director shall not be accountable for any remuneration or other benefits received by him as a director or other officer or member of any such other company.
- (f) A director shall declare at the first opportunity at a meeting of directors the nature of his interest in any contract with the Company in which he is directly or indirectly interested.
- (g) Save as otherwise provided by the Articles, a director shall not vote (nor be counted in the quorum) on any resolution of the directors in respect of any contract or arrangement in which he is materially interested unless it concerns any of the following matters:
  - (i) any contract, transaction or arrangement for giving to such director any security, guarantee or indemnity in respect of money lent by him or obligations undertaken by him at the request of or for the benefit of the Company or any of its subsidiary undertakings;
  - (ii) any contract or arrangement for the giving by the Company of any security to a third party in respect of a debt or obligation of the Company or any of its subsidiary undertakings which the director has himself guaranteed or secured in whole or in part;
  - (iii) any contract or arrangement by a director to subscribe for shares, debentures or other securities of the Company issued or to be issued pursuant to any offer or invitation to shareholders or debenture holders of the Company or any class thereof or to the public or any section thereof, or to underwrite any shares, debentures or other securities of the Company;
  - (iv) any contract or arrangement in which he is interested by virtue of his interest in shares or debentures or other securities of the Company or by reason of any other interest in or through the Company;
  - (v) any contract or arrangement concerning any other company in which he or his connected persons are not directly or indirectly interested in shares representing 1 per cent. or more of any class of the equity share capital of, or the voting rights in, such company whether as an officer, shareholder, creditor or otherwise howsoever;
  - (vi) any proposal concerning the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates both to directors and employees of the Company or of any of its subsidiaries and does not provide in respect of

any director as such any privilege or advantage not accorded to the employees to which such scheme or fund relates;

- (vii) any arrangement for the benefit of employees of the Company or of any of its subsidiaries under which the director benefits in a similar manner as the employees and which does not accord to any director as such any privilege or advantage not accorded to the employees to whom such arrangement relates; or
- (viii) any proposal, contract, transaction or arrangement concerning (a) the purchase or maintenance of insurance for the benefit of the directors or for the benefit of persons who include directors; or (b) indemnities in favour of directors; or (c) the funding of expenditure by one or more directors in defending proceedings against him or them; or (d) doing anything to enable such director or directors to avoid incurring such expenditure.
- (h) The Company may by ordinary resolution suspend or relax to any extent, either generally or in respect of any particular matter, any provision of the Articles prohibiting a director from voting at a meeting of directors, or of a committee of directors, and may ratify any transactions not duly authorised by reason of a contravention of the Articles.
- (i) Where proposals are under consideration concerning the appointment including the arrangement or variation of the terms thereof or the termination thereof of, two or more directors to offices or employments with the Company or any body corporate in which the Company is interested, the proposals may be divided and considered in relation to each director separately and (provided he is not for another reason precluded from voting) each of the directors concerned shall be entitled to vote and be counted in the quorum in respect of each resolution except that concerning his own appointment or the arrangement or variation of the terms thereof or the termination thereof.
- (j) If a question arises at a meeting of directors or of a committee of directors as to the right of a director other than the chairman of the meeting to vote or be counted in a quorum, the question may, before the conclusion of the meeting, be referred to the chairman of the meeting and his ruling in relation to any director other than himself shall be final and conclusive except in a case where the nature or extent of the interest of the director concerned as known to such director has not been fairly disclosed to the directors. If any question as aforesaid shall arise in respect of the chairman of the meeting such question shall be decided by a resolution of the directors (for which purpose such chairman shall be counted in the quorum but shall not vote thereon) and such resolution shall be final and conclusive except in a case where the nature or extent of the interest of such chairman as known to such chairman has not been fairly disclosed to the directors.

#### 6.14 *Winding up*

If the Company is wound up, the liquidator may, with the sanction of an extraordinary resolution of the Company and any other sanction required by the Acts, divide among the members *in specie* the whole or any part of the assets of the Company and whether or not the assets consist of property of one kind or of properties of different kinds may, for that purpose value any assets and determine how the division shall be carried out as between the members or different classes of members.

#### 6.15 *Non-British shareholders*

There are no limitations in the Articles on the rights of non-British shareholders to hold, or to exercise voting rights attached to, the Ordinary Shares. However, non-British shareholders are not entitled to receive notices of general meetings unless they have given an address in the British Isles to which such notices may be sent.

#### 6.16 *CREST*

CREST is a paperless settlement system enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by a written instrument. The Articles are consistent with CREST membership and, amongst other things, allow for the holding and transfer of shares in uncertificated form.

#### 6.17 *Restrictions on changes in control, mergers, acquisitions or corporate restructuring of the Company*

Except as described in paragraph 6.19 below, there are no provisions in the Articles that would have the effect of delaying, deferring or preventing a change in control of the Company or that would operate only with respect to a merger, acquisition or corporate restructuring involving the Company.



#### 6.18 *Notification of interests*

- (a) The Articles require any person, who becomes entitled to voting rights as a Shareholder, including voting rights that relate to direct or indirect holdings of Financial Instruments (as defined by DTR) (or a combination of such holdings) excluding the voting rights listed in DTR 5.1.3R which amount to 3 per cent. or more of the issued share capital of any class of the Company to notify the Company within two days following the date on which he became aware (or ought reasonably to have become aware) of the acquisition of such voting rights or the existence of such voting rights and certain other information (including details of any other persons interested in such shares). For so long as a person holds the voting rights attaching to 3 per cent. or more of the issued share capital of any class of shares in the Company, such a person must notify the Company of any change to his voting rights (including the voting rights of persons with whom he is acting in concert) relating to one per cent. or more of the voting rights for any class of shares and the Company within two days following the date on which he became aware (or ought reasonably to have become aware) of such change.
- (b) In addition, the Articles provide that where any person has failed to comply with the notification requirements described above (notwithstanding that such notification has been made after the said period of two days), the Directors may in their absolute discretion serve a notice on such person stating that the rights of the registered holder of the shares in which that person is interested shall be similarly suspended until such time as compliance is made.
- (c) In addition, the Articles provide that the Directors, where they have reasonable cause to believe that a person is, or may be interested in shares of the Company, or that any such shares are, or may be shares in which any person is interested and that they have made reasonable enquiries to establish whether a person is interested and deemed that he is interested then he will be treated as interested for the purposes of the Articles.

6.19 The Articles provide that where, in the opinion of the Panel, the provisions of the Code do not apply to the Company and/or dealings by persons in the Company's shares, then any person, together with persons acting in concert with him who acquires shares in the Company shall conduct their offers for shares in accordance with the Code, except that where the Code states that the consent of the Panel is required, the relevant person shall be required to seek the consent of the Company's board. The application of Rule 9 of the Code was thus modified, *inter alia*, by the insertion into the Articles of the following provisions:

- (a) Except with the consent of the Company's board, when:
  - (i) any person acquires, whether by a single transaction or a series of transactions over a period of time, an interest in shares which, when taken together with shares held or acquired by persons acting in concert with him, carry 30 per cent. or more of the voting rights of the Company; or
  - (ii) any person, together with the persons acting in concert with him, is interested in shares which in the aggregate carry not less than 30 per cent. but not more than 50 per cent. of the voting rights of the Company and such person, or any person acting in concert with him, acquires an interest in any other shares which increases the percentage of shares carrying voting rights in which he is interested,such person shall extend offers to the holders of any class of equity share capital (whether voting or non-voting) and also to the holders of any class of transferable securities carrying voting rights. Offers for different classes of equity share capital must be comparable.
- (b) In addition to the person specified in the foregoing, each of the principal members of a group of persons acting in concert with him may, in the absolute discretion of the Company's board, also have the obligation to extend an offer to holders of any class of equity share capital of the Company. Offers for different classes of equity share capital must be comparable.
- (c) Except with the consent of the Company's board:
  - (i) any offer so made must be conditional upon the offeror having received acceptances in respect of shares which, together with the shares acquired or agreed to be acquired before or during the offer, will result in the offeror and any person acting in concert with it holding shares carrying more than 50 per cent. of the voting rights; and
  - (ii) no acquisition of any interest in shares which would give rise to a requirement to make an offer in accordance with the foregoing shall be made if such an offer would or might be dependent on a shareholder resolution or upon any other consents or arrangements.

- (d) Offers made in accordance with the foregoing must be in cash or be accompanied by a cash alternative at not less than the highest price paid by the offeror or any person acting in concert with it for any interest in shares of that class during the 12 months prior to the announcement of the offer. If an offeror or any person acting in concert with it after an offer had been announced acquires an additional interest in shares of that class above the offer price, it shall increase the offer price accordingly. The cash offer or the cash alternative must remain open after the offer has become or is declared unconditional as to acceptances for not less than 14 days after the date on which it would have otherwise expired.
- (e) When directors of the Company (and their close relatives and related trusts) sell shares to a person (or enter into other options, derivatives or other transactions) as a result of which that person is required to make an offer, the director of the Company must ensure that as a condition of the transaction or sale that the person undertakes to fulfil its obligations in respect of the foregoing offer provisions. In addition, the relevant director shall not, except with the consent of the Company's board, resign from the board until the later of the first closing date of the offer or the date when the offer becomes unconditional.
- (f) If the Company's board is at any time satisfied that any Shareholder has incurred an obligation to extend an offer but has failed to do so or such Shareholder is otherwise in default of any obligation pursuant to the foregoing offer provisions, the Company's board may in its absolute discretion send a direction notice to such Shareholder directing that:
  - (i) in respect of the shares or interests in shares held by the defaulters (the "default shares") the defaulters shall not be entitled to vote at a general meeting or exercise any other right conferred by such shareholding or interest;
  - (ii) except in a liquidation of the Company, no payment shall be made of any sums due from the Company on the default shares and the Company shall not be obliged to meet any liability to pay interest on any such payment when it is finally paid to the Shareholder; and
  - (iii) no other distribution shall be made on the default shares.

## **7. Minority shareholder rights under Isle of Man law**

- 7.1 Under Isle of Man law and the provisions of the Articles, the Directors are empowered to carry on the day to day management of the business of the Company and to bind the Company to contracts and other commitments. The Directors have the power to delegate their powers. Under Isle of Man law and the provisions of the Articles, certain matters relating to the Company require the sanction of a resolution of the Shareholders passed in general meeting. These include, by way of example only, changes to the capital of the Company, amendments to the Articles and proposals to wind up the Company voluntarily. The shareholders also have the power to appoint or remove directors. Generally, such resolutions only require a simple majority of those voting in favour thereof to pass; others (such as a resolution to amend the Articles, for example) must be approved by 75 per cent. of those voting thereon i.e. a special resolution.
- 7.2 The rights of minority shareholders are limited under Isle of Man law. Although the holders of 10 per cent. of more of the Ordinary Shares can requisition a general meeting to consider a resolution, any such resolution would need the support of the requisite majority to be carried; and although any Shareholder can prevent a general meeting being convened on short notice a Shareholder must hold more than 25 per cent. of the Ordinary Shares in issue in order to be sure of preventing a special resolution from being passed or at least 50 per cent. to be sure of preventing an ordinary resolution from being passed.
- 7.3 Since it is open for a majority of Shareholders to ratify any of the directors' actions, even where some wrong has been done to the Company, the Isle of Man Courts will not generally permit a minority Shareholder to bring an action in the name of the Company to right such a wrong unless such wrong is inherently incapable of ratification or in circumstances such as fraud.
- 7.4 Section 7 of the Isle of Man Companies Act 1968 entitles a Shareholder to petition the Isle of Man Court on the grounds that the affairs of the Company are being conducted, or the powers of the directors are being exercised, in a manner that is oppressive to him or some part of the shareholders of the Company or in disregard of his or their proper interests as shareholders of the Company. If the Court finds in favour of the Shareholder in question it has the power to make various orders, including directing or prohibiting any act or cancelling or varying any transaction or for regulating the conduct of the company's affairs in future, or for the purchase of the shares of any shareholders of the company by other shareholders of the company or by the company and, in the case of a purchase by the

company, for the reduction accordingly of the company's capital, or otherwise. A Shareholder may also petition the Court for the winding up of the Company on grounds that it is just and equitable to do so.

## 8. Share Option Plans

The Board proposes to adopt the Share Option Plans prior to Admission to allow individuals to be granted the right to acquire Ordinary Shares in the Company, the principal terms of which are summarised below. The only significant difference between the two plans is that only employees may participate in the No 1 Plan but that employees, directors, consultants and contractors may participate in the No 2 Plan. Details of the options ("**Plan Options**") granted or to be granted under the Share Option Plans either before or on Admission are set out at the end of this paragraph. It is proposed that the powers of the Board will be operated through and on the recommendation of the Remuneration Committee.

### 8.1 *Eligibility and Grant of Plan Options*

The Board may grant the Plan Options to any director, employee or consultant or contractor to the Group selected by the Board. Plan Options may be granted by the Board at any time when not prohibited by law or the AIM Rules. The grant of the Plan Options will be conditional upon the option holder agreeing to indemnify the Company for the cost of any tax, duties, social security contributions and national insurance applying in the relevant territory.

### 8.2 *Option Price*

The price payable on the exercise of Plan Options will be determined by the Board and following Admission will not be less than the market value of Ordinary Shares at the date of grant and not less than the nominal value. The prices for Plan Options granted on or before Admission are set out at the end of this section.

### 8.3 *Exercise and Lapse of Plan Options and Performance Conditions*

The Board will determine at grant the exercise period or periods of Plan Options and any appropriate performance condition. Performance conditions may, however, be varied or waived by the Board if it reasonably considers events have affected the viability of the performance conditions. Exercise will not be permitted after the tenth anniversary of grant.

Plan Options may be exercised (subject to the performance conditions unless waived or varied) within one month after the employee ceases to be a director or employee of the Company as a result of illness, injury, disability, or at the discretion of the Board or 12 months after death, in which case options are exercisable by personal representatives of the option holder. The Board may extend the period of one month to six months. Plan Options are exercisable (subject to the performance conditions unless waived or varied) for a period of one month following a change of control of the Company or on commencement of a winding up or on a court sanctioned reconstruction or amalgamation and will thereafter lapse. Plan Options are personal and will lapse on assignment or other transfer by the eligible employee, except to a personal representative.

### 8.4 *Limits*

The maximum number of shares to be made available under the Share Option Plans by the Company shall not exceed 10 per cent. of the Company's issued ordinary share capital in any 10 year period when added to any other options granted under all group employee share schemes and similar individual share option agreements.

### 8.5 *Variation of Share Capital*

On an alteration of the ordinary share capital of the Company by capitalisation or rights issue, consolidation, sub-division or reduction or other alteration the number of shares subject to the option and/or the option price may be adjusted by the Board in such manner as the auditors or other valuers confirm to be fair and reasonable.

### 8.6 *Voting, Dividend and Other Rights*

On exercise Ordinary Shares issued are ranked *pari passu* but, until then, option holders have no voting or dividend rights. The rights under the Plan Options are not pensionable.

## 8.7 Amendments

The Board may alter the rules to the Share Option Plans with the approval of the Company in General Meeting provided no alteration shall adversely affect the rights of the option holder (without his or her agreement). Minor amendments may be made without such approval or agreement.

## 8.8 Options Granted

The following Plan Options will be granted on or prior to Admission.

<i>Name or Category</i>	<i>Number of Ordinary Shares under Option</i>	<i>Exercise Price</i>
Adam Broadhurst <sup>(1)</sup>	166,666	1p
Adam Broadhurst <sup>(2)</sup>	560,000	Placing Price
Paul Benetti <sup>(3)</sup>	840,000	Placing Price
Simon Hunt <sup>(3)</sup>	210,000	Placing Price
Malcolm Williams <sup>(3)</sup>	140,000	Placing Price
Frank Tiller <sup>(3)</sup>	70,000	Placing Price

(1) Subject to conditions (which have now been met), will become exercisable in the 30 days following Admission and thereafter lapse with an option price equal to the nominal value of those shares.

(2) Exercise is conditional upon the satisfactory completion of targets relating to management and production.

(3) These Plan Options vest as to one half after 12 months' service and the other half after 24 months' service. The Plan Options lapse after five years.

## 9. Directors' and other Interests

9.1 As at the date of this document and as expected to be immediately following the Placing and Admission, the holdings and dealings of the Directors, and their families in the share capital of the Company (i) which would have been required to be notified without delay by the Company pursuant to Rule 17 of the AIM Rules; or (ii) which are holdings of a person connected (within the meaning of section 346 of the Act) with a Director which would, if the connected person were a Director, be required to be disclosed under (i) above and the existence of which is known to or could with reasonable diligence be ascertained by the Directors are as follows:

<i>Name</i>	<i>Number of Ordinary Shares immediately prior to the Placing and Conversion</i>	<i>% of the Existing Share Capital</i>	<i>Number of Ordinary Shares on Admission</i>	<i>% of Enlarged Share Capital</i>	<i>% of the Enlarged Share Capital assuming exercise of options**</i>
Simon Hunt	—	—	—	—	0.7
Adam Broadhurst	130,000	0.7	130,000	0.5	2.9
Paul Benetti*	776,000	3.9	776,000	2.8	5.4
Frank Tiller	—	—	—	—	0.2
Malcolm Williams	—	—	—	—	0.5
Pritesh Desai	—	—	—	—	—

\* Paul Benetti is interested in 776,000 by virtue of his wife, Caroline Benetti, holding the entire issued share capital of Zettai 1 Pty Ltd, which holds 776,000 ordinary shares in the Company.

\*\* Directors' interests in options are set out in paragraph 8.8 above.

- 9.2 Save as disclosed in paragraph 9.1 above and this paragraph 9.2 the Company is not aware of any interest (within the meaning of Part VI of the UK Companies Act) in the Company's share capital which amounts or would, immediately following the Placing, Conversion and Admission, amount to 3 per cent. or more of the Company's issued ordinary share capital other than the following:

<i>Name</i>	<i>Number of Ordinary Shares immediately prior to the Placing and Conversion</i>	<i>% of the Existing Share Capital</i>	<i>Number of Ordinary Shares following the Placing and Conversion</i>	<i>% of the Enlarged Share Capital</i>
2RS Pty Limited	876,000	4.4	876,000	3.2
Blackwood Consolidated Pty Ltd	600,000	3.0	600,000	2.2
Credit Suisse Client Nominees (UK) Limited*	12,000,000	60	14,851,500	53.8
Diana Lalor	2,000,000	10.0	2,000,000	7.2
Sweet Global Holdings Limited	2,008,000	10.0	2,008,000	7.3
Zettai 1 Pty Limited**	776,000	3.9	776,000	2.8
GEMOF III Africa Fund	—	—	2,758,333	9.9
Natural Fuel Limited	—	—	1,083,333	3.9

\* Credit Suisse Client Nominees (UK) Limited holds these shares on trust for RAB Special Situations (Master) Fund Limited.

\*\* Caroline Benetti, the wife of Paul Benetti, holds 100 per cent. of the issued capital of Zettai 1 Pty Limited.

The voting rights of the Shareholders set out in paragraphs 9.1 and 9.2 do not differ from the voting rights held by other Shareholders.

- 9.3 There are no outstanding loans granted or guarantees provided by the Company to or for the benefit of any of the Directors, nor are there any outstanding loans or guarantees provided by the Directors to or for the benefit of the Company.
- 9.4 Save as disclosed in paragraph 14 of this Part V, no Director has any interest, whether direct or indirect, in any transaction which is or was unusual in its nature or conditions or significant to the business of the Company taken as a whole and which was effected by the Company during the current or immediately preceding financial year, or during any earlier financial year and which remains in any respect outstanding or unperformed.
- 9.5 Save as otherwise disclosed in this document, none of the directors nor any member of their respective immediate families nor any person connected with the Directors (as defined in the Articles of Association of the Company) has any interest, whether beneficial or otherwise, in the share capital of the Company.
- 9.6 None of the Directors nor any member of a Director's family is interested in any related financial product (as defined in the AIM Rules) whose value in whole or in part is determined directly or indirectly by reference to the price of the ordinary shares, including a contract for differences or a fixed odds bet.

## **10. Directors' Service Agreements/Letters of Appointment**

- 10.1 The following agreements have been entered into between the Directors (or companies which will provide the services of Directors) conditional upon Admission:
- (a) On 15 October 2007 Cornerstone Capital Limited entered into an agreement with the Company under the terms of which Cornerstone Capital Limited agreed to procure the services of Simon Hunt to act as Non-Executive Director and Chairman. Cornerstone Capital Limited shall be entitled to, subject to and with effect from Admission, a procurement fee of £36,000 per annum payable monthly in arrears for the procurement of these services. In the event Cornerstone Capital Limited is required to procure the services of Simon Hunt for in excess of 2 days per month then it shall be entitled to a further fee of £850 per day based on a 7 hour day. In addition, Cornerstone Capital Limited will be entitled, in respect of the assistance provided to bring the Company to Admission, to be paid the sum of £20,000 (plus expenses incurred and attributable VAT). The agreement is terminable by either party giving to the other not less than 3 months' written notice. The agreement contains detailed provisions relating to confidential information. Upon termination no benefits (other than those accruing during the notice period) will be due to Cornerstone Capital Limited.

- (b) On 15 October 2007, Paul Benetti entered into a service agreement with the Company under the terms of which he agreed to continue to act as Managing Director for a basic salary of £125,000 per annum. In addition, Mr Benetti will be entitled to a further £25,000 subject to the Company achieving US\$1,000,000 in sales revenue in the period from Admission to 30 June 2008. The terms of his service agreement are conditional upon and will take effect from Admission and thereafter shall be terminable by either party giving to the other not less than 12 months' written notice. Mr Benetti may also be entitled to a bonus at the absolute discretion of the Company's Remuneration Committee. The Company will make superannuation contributions if legally required to do so. In addition, the service agreement contains detailed provisions relating to confidentiality, intellectual property and various post termination restrictions, including a restriction for 12 months prohibiting him from being engaged in a business which competes with the business of the Company and restrictions for 12 months prohibiting him from soliciting or dealing with any customers or clients, or soliciting any key business suppliers, employees or consultants. Upon termination no benefits (other than those accruing during the notice period) will be due to the director.
- (c) On 15 October 2007, Adam Broadhurst entered into a service agreement with the Company under the terms of which he agreed to continue to act as Chief Operating Officer for a salary of US \$252,000 per annum. Mr Broadhurst may also be entitled to a bonus at the absolute discretion of the Remuneration Committee. The terms of his service agreement are conditional upon and will take effect from Admission and shall continue thereafter for a fixed term to expire on 31 March 2008 unless sooner terminated by either party giving to the other not less than 6 months' written notice. In addition to his salary, Mr Broadhurst is entitled to SOS medical emergency evacuation cover, private health insurance, disability insurance, a fully expensed company car and driver and fully expensed hotel accommodation whilst in Madagascar. Mr Broadhurst is entitled to 60 working days' paid holiday in each holiday year. The agreement also contains detailed provisions relating to confidentiality, intellectual property and various post termination restrictions including a restriction for 12 months prohibiting him from being engaged in a business which competes with the business of the Company and restrictions for 12 months prohibiting him from soliciting or dealing with any customers or clients, or soliciting any key business suppliers, employees or consultants. Upon termination no benefits (other than those accruing during the notice period) will be due to the director.
- (d) On 15 October 2007, Malcolm Williams entered into a letter of appointment with the Company under the terms of which he agreed to act as Non-Executive Director of the Company. Mr Williams shall be entitled to, subject to and with effect from Admission, to a fee of £24,000 per annum, payable monthly in arrears. Mr Williams' appointment shall continue unless and until it is terminated by either party giving to the other not less than 3 months' written notice. The letter contains detailed provisions relating to confidential information. Upon termination no benefits (other than those accruing during the notice period) will be due to the director.
- (e) Pritesh Desai provides his services as a director pursuant to the agreement summarised in paragraph 12.19 below and there is no direct contract between the Company and Pritesh Desai.
- (f) On 15 October 2007, Frank Tiller entered into a service agreement with the Company under the terms of which he agreed to act as a part time Finance Director for a salary of £36,000 per annum. In the event Mr Tiller is required to work in excess of 3 days per month then Mr Tiller shall be entitled to a further fee of £850 per day. Mr Tiller may also be entitled to a bonus at the absolute discretion of the Remuneration Committee. The terms of his service agreement are conditional upon and will take effect from Admission and thereafter shall be terminable by either party giving to the other not less than 6 months' written notice. The agreement contains detailed provisions relating to confidentiality and intellectual property. Upon termination, no benefits (other than those accruing during the notice period) will be due to the director.
- (g) There are no service agreements or letters of appointment in existence between any of the Directors and the Company which cannot be determined by the Company without payment of compensation (other than statutory compensation) within one year and no benefits become payable in any case upon termination of any the service agreements or letters of appointment.

Save as set out in this paragraph 10.1 and paragraph 14 below, none of the Directors has an existing or proposed service agreement or letter of appointment with the Company, nor has there been a change in the last six months.

- 10.2 The estimated aggregate remuneration of the Directors including pension contributions and benefits in kind payable by any member of the Company under the arrangements in force at the date of this document for the financial year ending 31 December 2007 excluding bonus payments is £300,500.

10.3 Details of the length of time which Directors in the financial period of the Company to 31 December 2006 have been in office and the period of their term of office are set out below:

<i>Name</i>	<i>Commencement of period of office</i>	<i>Date of expiration of term of office</i>
Paul Benetti	21 December 2005	AGM 2008
Pritesh Desai	6 December 2005	AGM 2008

#### **11. Additional Information on the Board**

11.1 In addition to directorships of the Company, the Directors hold or have held the following directorships and/or have been partners in the following partnerships within the five years prior to the date of this document which, unless stated otherwise, are UK companies:

<i>Name</i>	<i>Age</i>	<i>Current Directorships/ Partnerships</i>	<i>Past Directorships/ Partnerships</i>
Simon Hunt	56	Allura Plc Axilica Limited Cornerstone Capital Limited Filtra Limited Filtra UK Limited Ipsos Capital Limited Ipsos Management Limited Ipsos Ventures plc Strathdon Investments plc	Filtra Operations Limited Fitzmaire Limited Intelligent Wound Care Limited Monet Brands Limited Shamrock Partners Limited Strathdon Holdings Limited Strand Partners Limited Shackleton Secondaries General Partner Limited Telecommedia Partners Limited (Dissolved) Therakind Limited
Paul Benetti	44	Dapi Pty Limited (Australia) Daprb Pty Limited (Australia) Kokoeki Pty Limited (Australia) Red Island Resources Limited (Australia) Retyre Services (WA) Pty Limited (Australia)	Bass Metals Limited (Australia) DJ Carmichael Pty Limited (Australia) View Resources Limited (Australia)
Adam Broadhurst	45	iPark Australia Pty Limited (Australia)	

<i>Name</i>	<i>Age</i>	<i>Current Directorships/ Partnerships</i>	<i>Past Directorships/ Partnerships</i>
Malcolm Williams	59	Dresdner Kleinwort Capital Jersey Limited (Jersey) EVP Limited (British Virgin Islands) Financial Payment Systems Limited (Jersey) Northacre plc Strathdon Investments plc	Allianz Private Equity UK Holdings Limited Allianz Specialised Investments Limited Allianz Specialised Investments Central Europe Sp Zoo (Poland) Allianz Specialised Investments Central Europe sro (Czech Republic) Arena Investment Partners Limited Aseambankers Malaysia Berhad (Malaysia) Centro Internationale Handelsbank AG (Austria) Dresdner Kleinwort Capital Advisory Services (India) Private Limited (India) Dresdner Kleinwort Capital Ventures Management Limited Dresdner Kleinwort Benson C&EE General Partner Limited (Jersey) Dresdner Kleinwort Benson Private Equity Limited Dresdner Kleinwort Capital India Partners LLC (Mauritius) Dresdner Kleinwort Capital India Technology Partners Limited (Mauritius) Dresdner Kleinwort Capital Investment Company Limited Dresdner Kleinwort Capital Investment Trust Limited Dresdner Kleinwort Capital Spain SL (Spain) Dresdner Kleinwort Wasserstein Limited Dresdner Kleinwort Wasserstein Securities (Hong Kong) Limited (Hong Kong) Dresdner Kleinwort Wasserstein Securities (Asia) Holdings Limited (Hong Kong) European Venture Partners Holdings Limited (Jersey) European Venture Partners Limited Fendrake Limited Kleinwort Benson China Management Limited (Hong Kong) Kleinwort Capital Limited KBEMF (GP) Limited (Jersey) KBEMF II (Guernsey) Limited (Guernsey) Kleinwort Benson Equity Partners General Partner Limited (Jersey) MTM China VCT PLC



<i>Name</i>	<i>Age</i>	<i>Current Directorships/ Partnerships</i>	<i>Past Directorships/ Partnerships</i>
Pritesh Desai	39	<p>Accord Partnership Limited (Isle of Man)</p> <p>Afortunado Investments Limited (Isle of Man)</p> <p>Allingham Inc. (British Virgin Islands)</p> <p>Ambe Limited (Isle of Man)</p> <p>Amexi Software Limited (Isle of Man)</p> <p>Anemone Properties Limited (Isle of Man)</p> <p>Anja Property Holding Limited (Isle of Man)</p> <p>Antrobus Limited (Isle of Man)</p> <p>Armiji Investments Limited (Isle of Man)</p> <p>Ashglade Limited (Isle of Man)</p> <p>Ashstone Holdings Limited (Bahamas)</p> <p>Barbican Properties Limited (Isle of Man)</p> <p>Bartleby Properties Limited (Isle of Man)</p> <p>Baynoona Trading Limited (Isle of Man)</p> <p>Beate Property Holding Limited (Isle of Man)</p> <p>Bishops Management Limited (Isle of Man)</p> <p>Blue Sea International Limited (Isle of Man)</p> <p>Bouverie Investments Limited (Isle of Man)</p> <p>British Oil Exploration Limited (Isle of Man)</p> <p>Broadcast Communications Limited (Isle of Man)</p> <p>Bromley Properties Limited (Isle of Man)</p> <p>Bushco International Limited (Isle of Man)</p> <p>Capital City Fund Management Limited (Guernsey)</p> <p>Caulston Limited (Isle of Man)</p> <p>Cavendish International Limited (Isle of Man)</p> <p>Cavendish Secretaries Limited (Isle of Man)</p> <p>Cavendish Square Limited (Isle of Man)</p> <p>Cavendish Trust Company Limited (Isle of Man)</p> <p>Cavendish Trustees Limited (Isle of Man)</p> <p>CCFM B&amp;S Baltic Property LLP (UK)</p> <p>CCFM Bristol &amp; Stone Baltz Property Limited (Isle of Man)</p> <p>Cement Traders Limited (Isle of Man)</p> <p>Cheapside Properties Limited (Isle of Man)</p> <p>Choice Corporation Limited (Isle of Man)</p> <p>Claudia Property Holding Limited (Isle of Man)</p> <p>Clooney Investments Limited (Isle of Man)</p> <p>Concept Software Limited (Isle of Man)</p> <p>Connaught Investments Limited (Isle of Man)</p> <p>Cora Consultants Limited (Isle of Man)</p> <p>Corepathi Limited (Isle of Man)</p> <p>Datasphere Limited (Isle of Man)</p> <p>Deutscher Limited (Isle of Man)</p> <p>Dholon Services Limited (Isle of Man)</p> <p>District Investments Limited (Isle of Man)</p> <p>Eight Investments Limited (Isle of Man)</p> <p>Emo Investments Limited (Isle of Man)</p> <p>Engelberg Investment Limited (Isle of Man)</p>	<p>Asian Resourcing Limited</p> <p>Bathhurst Investments Limited (Isle of Man)</p> <p>Bonchance Properties Limited (Isle of Man)</p> <p>Broadstones Inc. (Panama)</p> <p>Can Holdings Limited (Isle of Man)</p> <p>East Asia Cement Limited (Isle of Man)</p> <p>Hazelbank Limited (Isle of Man)</p> <p>Ionian Properties Limited (Isle of Man)</p> <p>JB Group Limited (Isle of Man)</p> <p>JB Resources Limited (Isle of Man)</p> <p>Kappa Omega Limited (Isle of Man)</p> <p>Lakh Investments Limited (Isle of Man)</p> <p>Monmouth Growth plc (Isle of Man)</p> <p>New Fern International S.A. (Panama)</p> <p>Omshiva Properties Limited (Isle of Man)</p> <p>Property Sites Limited (Isle of Man)</p> <p>Raffles Limited (Isle of Man)</p> <p>Retreat Leisure Limited</p>

<i>Name</i>	<i>Age</i>	<i>Current Directorships/ Partnerships</i>	<i>Past Directorships/ Partnerships</i>
Pritesh Desai (continued)	39	EPIC International Property Limited (Isle of Man) E-Ven Holdings Limited (Isle of Man) Exclusive Club Management Limited (Isle of Man) Exclusive Title Limited (Isle of Man) Falfield Properties Limited (Isle of Man) Financial Foundations PLC (Isle of Man) Fitzjames Properties Limited (Isle of Man) Fortune Properties Limited (Isle of Man) Gamundi Limited (Isle of Man) Galleon Holdings plc (Northern Ireland) Global Perspectives ((Isle of Man)) Limited (Isle of Man) Gluck Investments Limited (Isle of Man) Goffin Investments Limited (Isle of Man) Goliath Consultants Limited (Isle of Man) Gratis Investments Limited (Isle of Man) Greenfield International Property Fund PLC (Isle of Man) Greenfield Properties 1 Limited (Isle of Man) Gulliver Estates Limited (Isle of Man) Harbourne Estates Limited (Isle of Man) Heartwood Investments Limited (Isle of Man) Hervey Estates Limited (Isle of Man) IHP Central European Development and Management Limited (Isle of Man) Imagination Holdings Limited (Isle of Man) Invest Matrix Limited (Isle of Man) IomPac Limited (Isle of Man) Jimit Investments Limited (Isle of Man) Karma Properties Limited (Isle of Man) Kidgrove Limited (Isle of Man) Klork Consultants Limited (Isle of Man) Klork Estates Limited (Isle of Man) Kwikbuild Corporation Limited (Isle of Man) L & F Investments Limited (Isle of Man) Land and Sea Development Limited (Isle of Man) Lavender Investments Limited (Isle of Man) Le Mieux Investments Limited (Isle of Man) Lexinvest Limited (Isle of Man) Limelight Private Capital plc (Isle of Man) Loch Investments Limited (Isle of Man) London Wall Properties Limited (Isle of Man) Lytham Estates Limited (Isle of Man) Madagascar Biodiesel Limited (Isle of Man) Mahal Properties Limited (Isle of Man) Mause Limited (Isle of Man) Meastone Investments Limited (Isle of Man) Metro Corporation Limited (Isle of Man) Metrodome Limited (Isle of Man) Module Limited (Isle of Man) Mysti Limited (Isle of Man) Nandan Investments Limited (Isle of Man)	

<i>Name</i>	<i>Age</i>	<i>Current Directorships/ Partnerships</i>	<i>Past Directorships/ Partnerships</i>
Pritesh Desai (continued)	39	New Kush Holdings Limited (Isle of Man) Newenham Enterprises Limited (Isle of Man) Newland Estates Limited (Isle of Man) Off Market Properties Club Limited (Isle of Man) Omkar Properties Limited (Isle of Man) Ophir Mines Limited (Isle of Man) Pacific International Management Limited (Isle of Man) Pegasus Film Corporation (British Virgin Islands) Portfolio Builder Dollar Limited (Isle of Man) Portfolio Builder Euro Limited (Isle of Man) Portfolio Builder Sterling Limited (Isle of Man) Pownalltech Limited (Isle of Man) Properties Abroad Limited (Isle of Man) Property Buyers Limited (Isle of Man) Prospero Property Holding Limited (Isle of Man) Pyari Properties Limited (Isle of Man) Quadris Environmental Fund plc (Isle of Man) Quadris Investments Limited (Isle of Man) Rare World PLC Recol Services Limited (Isle of Man) Romeo Properties Limited (Isle of Man) Safe & Sound Limited (Isle of Man) Salco Services Limited (Isle of Man) Samay Investments Limited (Isle of Man) Shreeji Investments Limited (Isle of Man) Shubh Investments Limited (Isle of Man) Skada Investments Limited (Isle of Man) Spectrum Consulting Ventures Limited (Isle of Man) Star Enterprises 2002 Limited (Isle of Man) State Properties Limited (Isle of Man) Stonefort Management Limited (Isle of Man) Stovell Limited (Isle of Man) Sunnyclose Investments Limited (Isle of Man) SuperSports Cars Limited (Isle of Man) Taitnys Management Limited (Isle of Man) Taitnys Nominees Limited (British Virgin Islands) Taitnys Secretaries Limited (British Virgin Islands) Talidit Properties Limited (Isle of Man) Tanzanian Oil Corporation Limited (Isle of Man) Telford Estates Limited (Isle of Man) Ten3 Investments Limited (Isle of Man) The Capital Plus Protected Fund Euro Series 1 plc (Isle of Man) The Commodity Fund PLC (Isle of Man) The Equity Partnership Employee Benefit Trust Company Limited The McNair Partnership (Middle East) Limited (Isle of Man)	

<i>Name</i>	<i>Age</i>	<i>Current Directorships/ Partnerships</i>	<i>Past Directorships/ Partnerships</i>
Pritesh Desai (continued)	39	The Portfolio Builder PLC (Isle of Man) Titan New World PLC (Isle of Man) Tranex Limited (Isle of Man) Tukano Properties Limited (Isle of Man) Vabas Services Limited (Isle of Man) Welford Limited (Isle of Man) Westover Properties Limited (Isle of Man) Wohlhabend Properties Limited (Isle of Man) Wolfhill Investments Limited (Isle of Man) WSA Consultants Limited (Isle of Man) Yellow Capital limited (Isle of Man)	
Frank Tiller	54		Avonite Limited E Commerce Global plc (dissolved 15/04/2003) Kitchenworks Limited (dissolved 19/08/2003) Mike Walker Distribution Limited MPC Holdings Limited Swanstone Solid Surfaces Limited Sylmar Technology Limited The Kitchen Republic Limited Waterline Group plc Waterline Limited

11.2 On 14 April 2000 Paul Benetti was appointed as a director of a company called Smartworld Corporation Limited, which subsequently changed its name to View Resources Limited. On 12 September 2001 that company voluntarily appointed Charles Nilant and Oren Zohar as administrators. On 14 December 2001 a deed of company arrangement was entered into in relation to the outstanding creditors of Smartworld Corporation Limited (“Deed of Arrangement”). On 14 March 2002 the joint administrators certified that the Deed of Arrangement had been wholly effected and View Resources Limited came out of administration.

11.3 On 20 March 1998, Frank Tiller was appointed as a director of Kitchenworks Limited. On the 6 March 2000, members of Kitchenworks Limited appointed a liquidator to wind up the company. On 19 August 2003 Kitchenworks Limited was dissolved with approximately £800,000 still owed to creditors.

11.4 Simon Hunt was a non-executive director of FT Moneywise Limited, an investment of a venture capital fund managed by Gartmore Investments Limited, of which Simon Hunt was a venture capital manager, which went into creditors voluntary liquidation in 1986.

11.5 Save as disclosed above none of the directors has:

- (a) any unspent convictions in relation to indictable offences;
- (b) had any bankruptcy order made against him or entered into any voluntary arrangements;
- (c) been a director of a company which has been placed in receivership, compulsory liquidation, creditors’ voluntary liquidation, administration, been subject to a voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors whilst he was a director of that company or within the 12 months after he ceased to be a director of that company;
- (d) been a partner in any partnership which has been placed in compulsory liquidation, administration or been the subject of a partnership voluntary arrangement whilst he was a partner in that partnership or within the 12 months after he ceased to be a partner in that partnership;
- (e) been the owner of any assets or a partner in any partnership which has been placed in receivership whilst he was a partner in that partnership or within the 12 months after he ceased to be a partner in that partnership;
- (f) been publicly criticised by any statutory or regulatory authority (including recognised professional bodies); or

- (g) been disqualified by a court from acting as a director of any company or from acting in the management or conduct of the affairs of a company.

## 12. Material Contracts

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Group within the two years immediately preceding the date of this document and are, or may be, material or which contain any provision (not being a contract entered into in the ordinary course of business) under which any member of the Group has any obligation or entitlement which is material as at the date of this document:

- 12.1 A Nominated Adviser and Broker Letter dated 23 February 2007 from WH Ireland to the Company, pursuant to which the Company has appointed WH Ireland to act as Nominated Adviser and Broker in respect of its admission to AIM. The letter sets out the terms of WH Ireland's engagement post Admission which include an agreement for the Company to pay WH Ireland a fee of £30,000 per annum for annum for its services as Nominated Adviser. This agreement also contains certain undertakings and indemnities given by the Company and the Directors in respect of, *inter alia*, compliance with all applicable laws and regulations. The agreement to act as Nomad and Broker continues for a fixed period of one year from the date of the agreement and, thereafter, is subject to termination on the giving of three months' notice as is in the engagement in relation to the listing on AIM.
- 12.2 An option agreement dated 15 October between the Company (1) and WH Ireland (2) under which the Company granted to WH Ireland an option to subscribe for a total of 58,333 Ordinary Shares at a price of 60p at any time before the third anniversary of this agreement.
- 12.3 An option agreement dated 15 October between the Company (1) and D J Carmichael Pty Limited (2) under which the Company granted to D J Carmichael Pty Limited an option to subscribe for a total of 69,004 Ordinary Shares at a price of 60p at any time before the third anniversary of this agreement.
- 12.4 A placing agreement dated 15 October 2007 between the Company (1), certain of the Directors (2) and WH Ireland (3) pursuant to which conditional upon, *inter alia*, Admission taking place on or before 8:00 a.m. on 19 October 2007 (or such later time and or date as the Company, the Company and WH Ireland may agree, being not later than 1 November 2007) WH Ireland have agreed to use reasonable endeavours to procure subscribers for 5,833,334 new Ordinary Shares proposed to be issued by the Company at the Placing Price.

The Placing Agreement contains warranties and indemnities from the Company and certain of the Directors in favour of WH Ireland together with provisions which enable WH Ireland to terminate the Placing Agreement in certain circumstances prior to Admission including circumstances where any warranties are found to be untrue or inaccurate in any material respect. The liability of the Directors under the indemnities and for a breach of a Warranty under the indemnities is limited. Under the Placing Agreement the Company has agreed to pay a fee of £140,000 and commission of £101,700.

- 12.5 An Orderly Market Deed dated 15 October 2007 between WH Ireland (1), the Company (2), the Locked-In Shareholders (3) and the Orderly Market Shareholders (as defined in the deed) (4) pursuant to which the Locked-In Shareholders have undertaken to the Company and WH Ireland (subject to certain limited exceptions including, disposals by way of acceptance of a takeover offer for the entire issued share capital of the Company) not to dispose of the Ordinary Shares held by each of them on Admission, or acquired thereafter, and to use their reasonable endeavours to procure that their connected parties do not dispose of Ordinary Shares (a) at any time for a period of 12 months following Admission and (b) during the period from the first anniversary of Admission to the second anniversary of Admission not to dispose of the Ordinary Shares held by each of them without the prior written consent of WH Ireland and the Company if the share price is less than the Placing Price or it is less than the sale price of shares sold by that Shareholder in the previous three months (both adjusted to account for falls in the AIM Index) or otherwise than in an orderly fashion through the Company's Broker.

The Orderly Market Shareholders have undertaken to the Company and WH Ireland not to dispose of the Ordinary Shares held by each of them on Admission at any time for a period of 18 months following Admission without the prior written consent of WH Ireland if the share price is less than the Placing Price or is less than the price obtained on the sale of Ordinary Shares by that Shareholder in the previous three months (both subject to adjustment to reflect changes in the AIM All Share Index) or otherwise than in an orderly fashion through the Company's Broker. This undertaking is subject to

certain limited exceptions including acceptance of a takeover offer for the entire issued share capital of the Company and transfers to family members or trustees for their benefit.

- 12.6 An Orderly Market Deed dated 15 October 2007 between the Company (1), RAB (2) and WH Ireland (3) pursuant to which RAB has undertaken to the Company and WH Ireland (subject to certain limited exceptions, including disposals by way of acceptance of a takeover offer for the share capital of the Company) not to dispose of 6,571,050 Ordinary Shares held by RAB at Admission at any time during the 12 months following Admission and subject to the same conditions RAB may not dispose of the balance of its holding (8,280,450 Ordinary Shares) during the 12 month period following Admission without the consent of WH Ireland.
- 12.7 A Deed of Consent dated 26 June 2007 between the Company (1), Jatroil Industries Pty Ltd (2) and Paul Benetti (3) under which it was agreed that all parties consented to the transfer by Paul Benetti of 9,999,800 Ordinary Shares in the Company allotted to him pursuant to the contract summarised in paragraph 12.18 below to Way Road Pty Ltd, 2RS Pty Ltd, Zettai 1 Pty Ltd, Blackwood Nominees Pty Ltd, Hatfield Nominees Pty Ltd and Madagascar Minerals & Resources sarl for no cash consideration and Jatroil Industries Pty Ltd waived all claims in relation to the shares.
- 12.8 A Deed of Consent dated 12 October 2007 between Michael Sweet and Ralph McLintock (the "Shareholders") (1), Jatroil Industries Pty Ltd (2), the Company (3) and Green Energy (4) under which the Shareholders retrospectively approved the transfers of the shares in Green Energy from Jatroil Industries Pty Ltd to the Company in the agreement summarised in paragraph 12.18 below in both their capacity as statutory managers and shareholders.
- 12.9 A Company Administration Agreement dated 6 December 2005 entered into between Paul Benetti (1) and Taitnys Management Limited (2) under which Taitnys Management Limited agreed to provide the services of a person to act as a director of the Company, to provide another person to act as the Company's secretary and to perform certain company secretarial services. In turn Paul Benetti agreed to reimburse Taitnys Management Limited on a time spent basis. The agreement is terminable by either party giving to the other not less than 28 days written notice and contains a detailed provision relating to confidential information.
- 12.10 The Loan Note Agreement dated 27 March 2007 between the Company (1) and RAB (2) under which RAB agreed to subscribe in cash for US\$500,000 of convertible loan notes to be issued under a loan note instrument. In consideration for RAB's subscription the Company gave RAB certain warranties. The maximum liability under these warranties can not exceed US\$500,000 and claims can not be brought after the first anniversary of completion. The Loan Note Agreement also contains provisions allowing RAB to convert their loan notes at a price equal to any offer of securities that is lower than RAB's subscription price. The Loan Note Agreement will be terminated upon conversion, as described in paragraph 12.17 below.
- 12.11 On 27 March 2007, the Company created a loan note instrument, in connection with the Loan Note Agreement, issuing loan notes that convert into Ordinary Shares at the lower of US\$0.30 per Ordinary Share or the price per Ordinary Share equal to 66 per cent. of the Placing Price (the "Loan Note Instrument"). The loan notes also bear interest until they are redeemed or converted at a rate of 1 per cent. per month until 1 January 2008 when the interest rate rises. The loan notes are also redeemable at the option of the loan note holder after 2 January 2008.
- 12.12 On 27 March 2007, the Company created a debenture granting RAB fixed and floating charges over the present and future assets of the Company (the "Debenture"), as security for the Company's obligations under the Loan Note Agreement.
- 12.13 On 15 March 2007 Green Energy entered into a lease with Société Hyppocampo SARL to rent part of a property known as the Hyppocampo in Tulear for two years (subject to extension). The rent is MGA 4,000,000 per month and is terminable by either party giving three months notice.
- 12.14 On 9 August 2005, Green Energy entered into a lease with Madam Janet Sandrine of 32 rooms (including offices, sheds, lodgings and depots) on an enclosed area of about 6,000 m<sup>2</sup> located on Street Vauguier, Lot No. 0104L0080A Tanambao Morafeno Tulear Centers 601 for the processing and packing of vegetable matter. The term of the lease is seven years starting from 1 September 2005 for one section of the property, 1 December 2005 for another section and 1 February 2006 for the third section. The lease can be renewed after the expiry of the initial term. The approximate rent for all three sections is FMG 50,000,000 per month increasing at 5 per cent. per year. Green Energy has now vacated the property that relates to this lease and has purported to terminate the lease. The landlord is

not obliged under the terms of the lease to agree to an early termination and may refuse to release Green Energy from its obligation under the lease. If this were the case Green Energy intends to resume occupation of the premises for the full term.

- 12.15 Various exclusive Land Use Agreements that are summarised in more detail in Part IV of this document.
- 12.16 An Investment Agreement dated 23 December 2005 between the Company (1), RAB (2), Ralph McLintock, Michael Sweet and Madagascar Minerals and Resources sarl (3) and Ralph McLintock, Michael Sweet and Cyriaque Cheung (4) (“Investment Agreement”). Pursuant to which RAB were issued 10,000,000 Ordinary Shares at an issue price of US\$0.15 per Ordinary Share in return for an investment of US\$1,500,000 in the Company.
- 12.17 Separate deeds of termination and conversion dated 10 October and 15 October 2007 between the Company (1), RAB (2), Ralph McLintock & others (3) and Cyriaque Cheung (4) pursuant to which, conditional upon Admission, the Investment Agreement (referred to in paragraph 12.16 of Part V of this document) and the Loan Note Agreement (referred to in paragraph 12.10 of Part V of this document) were terminated and it was agreed that the Debenture (referred to at paragraph 12.12 of Part V of this document) would be released. Under the deeds RAB retrospectively gave all relevant consents and waived all claims in relation to shares to be issued to it under the Investment Agreement. RAB has further, conditional upon Admission, elected to convert the principal amount of the loan notes issued to it under the Loan Note Agreement together with accrued interest at the Conversion Price.
- 12.18 Pursuant to a contract dated 23 December 2005, the Company agreed to issue 9,999,800 Ordinary Shares to Jatroil Industries Pty Ltd in consideration for the acquisition of 98 fully paid ordinary shares in the capital of Green Energy from Jatroil Industries Pty Ltd. On 23 December 2005 a total of 9,999,800 Ordinary Shares were allotted to Paul Benetti rather than Jatroil Industries Pty Ltd. The 200 Ordinary Shares held by Taitnys Nominees Limited were transferred to Paul Benetti on 23 December 2005 for £2.
- 12.19 A Company Administration Services Agreement dated 13 July 2007 between the Company and Cavendish Trust Company Limited whereby Cavendish agrees to provide the services of a director (Pritesh Desai), a company secretary (James Cunningham-Davies), an assistant company secretary and various other company secretarial services.

### **13. Dependence on Intellectual Property etc.**

The Company is not dependent on any patents, licences, industrial, commercial or financial contracts or new manufacturing processes which have a material effect on the Company’s business or profitability.

### **14. Related Party Transactions**

- 14.1 During the period 6 December 2005 to 31 December 2006 the Company entered into agreements for the provision of the services of Paul Benetti which on admission will be replaced with the agreements summarised in paragraph 10.1.
- 14.2 Paul Benetti also entered into an agreement with Taitnys Management Limited under which Taitnys Management Limited agreed to provide *inter alia* the services of Pritesh Desai, as set out in paragraph 12.9 above, Pritesh Desai is a shareholder in and a director of Taitnys Management Limited and its successor company, Cavendish Trust Company Limited. The fees due under this agreement with Taitnys are payable in the first instance by Paul Benetti, but all fees paid under this agreement have been paid by the Company. This agreement was entered into on an arms length basis and has since been superseded by the agreement with Cavendish Trust Company Limited, summarised in paragraph 12.19 above.

### **15. Litigation**

No member of the Group is involved nor has been involved in any governmental, legal or arbitration proceedings in the previous twelve months which may have or have had in the recent past a significant effect on the Group’s financial position or profitability and, so far as the Company is aware, there are no such proceedings pending or threatened against any such Group company.

## 16. No Significant Change

There has been no significant change in the financial or trading position of the Group since 30 June 2007.

## 17. Working Capital

The Directors are of the opinion, having made due and careful enquiry and having taken into account the net proceeds of the Placing, that following Admission, the Company will have sufficient working capital for its present requirements, that is for at least 12 months from the date of Admission.

## 18. United Kingdom Taxation

### 18.1 *The Company*

Information regarding UK taxation is set out in this paragraph 18. These details are however, intended only as a general guide to the current tax position under UK taxation law. They apply only to persons who hold their shares as investments and are the beneficial owner of them. Persons who are in any doubt as to their tax position, or who are subject to tax in jurisdictions other than the UK and/or Isle of Man are strongly advised to consult their own professional advisers.

The Company intends to conduct its affairs so that, for United Kingdom corporation tax purposes, it will not be regarded as resident within the United Kingdom nor as carrying on a trade through a permanent establishment located in the United Kingdom. On that basis and on the assumption that it has no United Kingdom source income the Company will have no liability in respect of United Kingdom corporation tax on its income or capital gains.

### 18.2 *UK Shareholders*

#### (i) Taxation of dividends

Shareholders who are resident in the United Kingdom or carrying on a trade in the UK for tax purposes may be liable to United Kingdom income tax or corporation tax on the gross amount of dividend income received from the Company.

Corporate investors holding an interest in the Company of 10 per cent. or more may be entitled to double tax relief in respect of any underlying corporate income tax and withholding tax incurred by the Company or its subsidiaries on profits out of which dividends are paid.

In light of the announcements made in the Budget on 21 March 2007, individual investors may in future be entitled to receive a UK tax credit in respect of dividends received. To qualify individuals would be required to hold an interest of less than 10 per cent. in the Company and receive dividends of less than £5,000 per annum. Subject to Royal Assent, these changes would have effect from 6 April 2008. It is proposed that such a credit would be one ninth of the amount of the dividend received.

Dividends paid by the Company's Malagasy subsidiary will have withholding tax equal to 20 per cent. deducted from dividends paid up to the Company. No withholding tax will be deducted from dividends paid by the Company.

#### (ii) UK tax on chargeable gains

UK domiciled shareholders who are either resident or ordinarily resident (or temporarily non-resident) in the United Kingdom for tax purposes or Shareholders who carry on a trade in the United Kingdom through a permanent establishment with which their investment in the Company is connected may, depending on their circumstances, be subject to United Kingdom capital gains tax or, in the case of corporate shareholders, corporation tax in respect of gains arising from the sale or other disposal (including a disposal on a winding up) of their Ordinary Shares.

An individual Shareholder may be entitled to taper relief which will reduce the amount of chargeable gain according to the length of time for which the Ordinary Shares have been held. Corporate Shareholders may be entitled to an indexation allowance on the base cost of their Ordinary Shares. Neither taper relief nor an indexation allowance can create or increase an allowable loss.

As the Company's principal share register is to be situated in the Isle of Man, the Ordinary Shares are considered to be located abroad for United Kingdom capital gains purposes. Non-United Kingdom domiciled individual Shareholders who are either resident or ordinarily resident in the



United Kingdom will therefore only be subject to United Kingdom capital gains tax on profits realised on the sale of Ordinary Shares held in the Company to the extent that these profits are (or are deemed to be) remitted to the United Kingdom. Dealings with the Company's Ordinary Shares on AIM may give rise to remitted profits which would therefore be taxable.

Shareholders who are not resident and not ordinarily resident (and not temporarily non-resident) in the United Kingdom will not normally be subject to United Kingdom taxation on chargeable gains arising on the sale or other disposal of Ordinary Shares.

(iii) Inheritance tax

If any individual Shareholder is regarded as domiciled or deemed domiciled in the United Kingdom for inheritance tax purposes, inheritance tax may be payable in respect of the Ordinary Shares on the death of the Shareholder or on any gift of the Ordinary Shares, subject to the available exemptions and reliefs. Shares traded on AIM are treated as unquoted for the Business Property Relief (BPR) purposes and consequently the Ordinary Shares may qualify for 100 per cent. BPR if held for 2 years or more.

In the case of a Shareholder who is not regarded as domiciled in the UK for these purposes, no such United Kingdom inheritance tax will be payable if the Ordinary Shares are not situated in the United Kingdom for inheritance tax purposes.

(iv) Chapter 2 of the Income Tax Act Transfer of Assets Abroad

The attention of individuals ordinarily resident in the United Kingdom is drawn to the provisions of Chapter 2 Part 13 of the Income Tax Act 2007 which may in certain circumstances render such individuals liable to tax in respect of undistributed profits of the Company. These provisions should not apply, however, if an individual can satisfy the United Kingdom tax authority that its investment represented a genuine commercial transaction and did not include any purpose of avoiding a liability to taxation.

(v) Controlled Foreign Company Legislation

A United Kingdom resident corporate Shareholder who, together with connected or associated persons, is entitled to at least 25 per cent. of the Ordinary Shares (a "CFC relevant shareholder") should note the provisions of the controlled foreign companies legislation contained in Sections 747-756 of the Taxes Act.

The provisions of the controlled foreign companies legislation can apply if United Kingdom residents have "control" (as defined in Section 755D of the Taxes Act) of the Company, and it, or its subsidiaries, are subject to tax of less than 75 per cent. of the amount that would be charged had the Company, or its subsidiaries, been resident in the United Kingdom. If they apply, the provisions have the effect of apportioning profits of the Company, or its subsidiaries, to "CFC relevant shareholders" in proportion to their holding.

(vi) Section 13 Chargeable Gains Act 1992 ("TGAA") Attribution of Gains to Members to Non-resident Companies

The attention of the United Kingdom resident and domiciled Shareholders is drawn to the provisions of Section 13 TCGA under which, in certain circumstances, a proportionate amount of capital gains made by the Company can be attributable to an investor who holds, alone or together with associated persons, more than 10 per cent. interest in the Company.

(vii) Stamp duty and stamp duty reserve tax

The following comments are intended as a guide to the general United Kingdom Stamp Duty and Stamp Duty Reserve Tax ("SDRT") position and do not relate to persons such as market makers, broker dealers, intermediaries and persons connected with depositary arrangements or clearance services, to whom special rules apply. No United Kingdom Stamp Duty or SDRT will be payable on the issue of the Placing Shares. UK Stamp Duty (at the rate of 0.5 per cent., rounded up where necessary to the next £5 of the amount of the value of the consideration for the transfer) is payable on any instrument of transfer of Ordinary Shares executed within, or in certain cases brought into the United Kingdom. Provided that Ordinary Shares are not registered in any register of the Company kept in the United Kingdom any agreement to transfer Ordinary Shares should not be subject to SDRT.

Transfers of shares within CREST are generally liable to SDRT (at a rate of 0.5 per cent. of the consideration paid) rather than *ad valorem* Stamp Duty, and SDRT on relevant transactions settled within the system or reported through it for regulatory purposes will be collected and accounted for to HMRC by Euroclear UK & Ireland.

The Company will not be responsible for the payment of tax duty or SDRT in any case.

## **19. Isle of Man Taxation**

The statements set out below are intended only as a general guide to certain aspects of current Isle of Man tax law and practice as at the date of this document. They apply only to persons who hold their shares as investments and are the beneficial owners of them. The summary does not purport to be a complete analysis of all Isle of Man tax issues for the Company or the holders of Ordinary Shares. Prospective purchasers of Ordinary Shares are advised to consult their own tax advisers on the taxation consequences of the acquisition, ownership and disposal of the Ordinary Shares.

### *19.1 Tax residence in the Isle of Man*

The Company is resident for taxation purposes in the Isle of Man by virtue of being incorporated in the Isle of Man.

### *19.2 Capital taxes in the Isle of Man*

- (a) The Isle of Man has a regime for the taxation of income, but there are no capital or stamp taxes in the Isle of Man (save for capital duty as described below). No Isle of Man stamp duty or stamp duty reserve tax will be payable on the issue of, transfer of, or any dealing in, Ordinary Shares.
- (b) The Company is liable to capital duty in the Isle of Man. Capital duty is currently payable on incorporation or on any increase in the nominal value of the authorised share capital of the Company at the rate of £15 per £1,000 (or part thereof) of authorised share capital over £2,000 subject to a minimum of £125 and a maximum aggregate amount of £5,000 for each company.

### *19.3 Exemption from income tax in the Isle of Man*

- (a) Following its incorporation in December 2005, the Company applied for and was awarded exemption from Isle of Man income tax in respect of the tax year 2005/06 pursuant to the Isle of Man Income Tax (Exempt Companies) Act 1984.
- (b) Upon the introduction of the zero rate of tax regime described below, the tax exempt company regime was discontinued.

### *19.4 Zero rate of corporate income tax in the Isle of Man*

- (a) The Isle of Man now operates a zero rate of tax for most corporate taxpayers. This will include the Company, as and when it ceases to be tax exempt under the Exempt Companies Act. Under the new regime, the Company will technically be subject to taxation on its income in the Isle of Man, but the rate of tax will be zero; there will be no withholding to be made by the Company on account of Isle of Man tax in respect of dividends paid by the Company.
- (b) As and when the new regime applies to it, the Company will be required to pay an annual corporate charge in the Isle of Man. The current level of the corporate charge is £250 per annum.
- (c) Notwithstanding the zero rate of corporate tax, there are measures in place to ensure that Isle of Man resident shareholders are subject to Isle of Man income tax on their share of undistributed corporate profits by means of a “distributable profits charge” that is payable by certain companies in certain circumstances. However, upon Admission, the Company will obtain the benefit of an exemption from this regime that is afforded to companies whose shares are traded on recognised stock exchanges.

### *19.5 Deductions in respect of Isle of Man employees*

Neither the granting of tax exemption nor the application of the zero rate of corporate income tax described above affects the liability of a company to deduct and account for income tax under the Isle of Man Income Tax (Instalment Payments) Act 1974 or national insurance contributions, if applicable, although this is not expected to be relevant to the Company as it does not have, nor does it currently intend to engage, any Isle of Man employees.

## 19.6 *EU Savings Directive*

Directive 2003/48 of the European Union on the taxation of savings income seeks to bring about the effective taxation of interest payments in a beneficial owner's member state of tax residence through the automatic exchange of information on cross border interest payments to individual beneficial owners. During the transitional period set out in the directive, three member states (namely Austria, Belgium and Luxembourg) shall not be required to exchange information but shall apply a withholding tax to savings income covered by the directive. The Isle of Man has entered into agreements with all the EU member states to apply a retention tax during the transitional period in the same manner as the withholding tax under the directive and, thereafter, to apply automatic exchange of information. During the transitional period, recipients can elect that exchange of information be applied rather than a retention tax. These measures now apply in the Isle of Man, but the Directive does not currently extend to dividend payments.

## 19.7 *Isle of Man probate*

In the event of the death of a sole holder of Ordinary Shares, an Isle of Man grant of probate or administration may be required, in respect of which certain fees will be payable to the Isle of Man Government.

## 20. **General**

- 20.1 The gross proceeds of the Placing are expected to be £3.5 million. The total costs and expenses relating to Admission and the Placing are payable by the Company and are estimated to amount to approximately £0.8 million (excluding Value Added Tax). The net proceeds of the Placing are expected to be £2.7 million.
- 20.2 Other than the current application for Admission, the Ordinary Shares have not been admitted to dealings on any recognised investment exchange nor has any application for such admission been made nor are there intended to be any other arrangements for dealings in the Ordinary Shares.
- 20.3 The Company is not aware of any environmental issues that may affect the Company's utilisation of its tangible fixed assets other than set out in the risk factors in Part II of this document.
- 20.4 WH Ireland has given and not withdrawn its written consent to the inclusion in this document of reference to its name in the form and context in which it appears.
- 20.5 Deloitte & Touche has given and not withdrawn its written consent to the inclusion in this document of reference to its name in the form and context in which it appears.
- 20.6 Madagascar Conseil International has given and not withdrawn its written consent to the inclusion in this document of reference to its name in the form and context in which it appears and its letter to the Company and WH Ireland that appears in Part IV of this document.
- 20.7 The information in Part I sourced from Oil World has been accurately reproduced and that so far as the Company is aware and is able to ascertain from information published by Oil World, no facts have been omitted which would render the reproduced information inaccurate or misleading.
- 20.8. The accounting reference date of the Company is 31 December.
- 20.9 The Placing Price represents a premium of 59 pence over the nominal value of each Ordinary Share.
- 20.10 It is expected that all Placing Shares will be issued in uncertificated form and that it is expected that Shareholders' CREST stock accounts will be credited on 19 October 2007.
- 20.11 Save as disclosed above no person directly or indirectly (other than the Company's professional advisors and trade suppliers or save as disclosed in this document) has in the last twelve months received or is contractually entitled to receive, directly or indirectly, from the Company on or after Admission any payment or benefit from the Company to the value of £10,000 or more or securities in the Company to such value or any other benefit to such value or entered into any contractual arrangements to receive the same from the Company at the date of Admission.
- 20.12 The Placing is structured as a "private placement" within the meaning of the Isle of Man Companies (Private Placements) (Prospectus Exemptions) Regulations 2000 ("Prospectus Regulations"). Accordingly, this document, which constitutes a "prospectus" for the purposes of the Acts, is exempt from the provisions of the Acts relating to the content of prospectuses and other technical rules relating to prospectuses. In accordance with the Prospectus Regulations, this document may only be issued to

persons (a) whose ordinary activities involve them in acquiring, holding, managing or disposing of shares or debentures (as principal or agent) for the purposes of their businesses or (b) who it is reasonable to expect will acquire, hold, manage or dispose of shares or debentures (as principal or agent) for the purposes of their business; or (c) a restricted circle of persons who are sufficiently knowledgeable to understand the risks associated with an investment in Ordinary Shares or (d) a restricted circle of persons numbering no more than fifty whom it is reasonable to believe will acquire the Ordinary Shares for investment purposes and not with a view to their imminent resale.

#### **21. Availability of Admission Document**

Copies of this Admission Document are available free of charge from the Company's registered office and at the offices of WH Ireland, during normal business hours on any weekday (Saturdays and public holidays excepted) and shall remain available for at least one month after Admission.

Copies of the Admission Document will also be available from the Company's website [www.gembiofuels.com](http://www.gembiofuels.com) from Admission.

Dated: 15 October 2007

