

China Growth Opportunities Ltd
("CGO" or "the Company")

Portfolio Update

CGO is pleased to provide an update on three of its investee companies: Asia Water Technology, United Envirotech (both Singapore listed), and China New Energy (currently on PLUS).

Asia Water Technology ("AWT")

AWT operates in the water sector in China, providing water treatment and supply services to both municipal and industrial clients. The sector has expanded considerably in the last few years, as China tries to improve the quality, quantity and efficiency of its water supply.

Historically, AWT operated primarily as an EPC (engineer, procure, construct) contractor, earning fee income for its services. In the light of the significant expansion in the sector, and a shift in the market towards contracts being awarded on a BOO (build, own, operate), BOT (build, operate, transfer) or TOT (transfer, operate, transfer) basis, AWT changed its business model so that it became the owner of projects rather than just a service provider.

In August 2007, AWT raised up to US\$60 million through the issue of convertible bonds and warrants in order to finance this more capital intensive business model. These bonds had various financial covenants and other conditions attached with the capital to be drawn down in two tranches, the first of which amounted to US\$30m.

However, following the bond issue, conditions in financial markets, particularly the debt and project finance markets, deteriorated significantly. This meant that AWT, which was already committed to a number of projects, experienced problems raising project finance, and was forced to use working capital and other cash reserves to finance them. Rising raw material costs and delays in projects following the Sichuan earthquake in the early part of 2008 also impacted on project completion and profitability, and AWT announced a loss for the first half of 2008.

AWT announced in August 2008 that it had breached the terms of the convertible bonds, with a number of consequences including: the imposition of a standstill period restricting AWT's ability to make new investments, the cancellation of the second tranche of funds, which meant that AWT was not able to access the full US\$60 million original finance facility; and financial penalties.

These problems contributed in part to the collapse of AWT's share price and this in turn, given CGO's large holding in AWT, generated significant losses in CGO's accounts for both the year ended 31 March 2008 (loss of £3.5 million) and the 6 months to 30 September 2008 (loss of £4.4 million).

Since the problems surfaced, CGO's executive directors have been working closely with AWT and the bond holders to restructure the company and its debt obligations. In November 2008 AWT announced a profit before tax for the 9 months to 30 September 2008.

On 31 December 2008, AWT also announced that its bond holders had agreed to a waiver of the various breaches and a relaxation of the financial covenants with which AWT must comply. Consequently the standstill period has now ended and AWT can resume investing in projects. AWT bond holders reserve the right to restructure their equity upside and as part of the on-going restructuring and cost cutting, two of AWT's executive directors stepped down from the AWT board on 30 December 2008.

CGO announced in its interim accounts for the six months to September 2008, that AWT's share price had continued to decline after the 30 September period end. Since hitting a low on 23 October 2008 of S\$0.06, the share price (bid) of AWT has more than doubled to S\$0.13 on 7 January 2009.

United Envirotech Ltd ("UEL")

UEL is a leading membrane based water and wastewater treatment and reclamation solution provider in China's chemical, petrochemical and industrial park sectors. It provides EPC services, as well as investing in other BOT, BOO and TOT projects.

UEL's business has been less affected by the credit crisis than AWT's, as a greater part of its operations are EPC rather than BOT (so it is less dependent on raising credit), because it has less gearing, and also its main customers are in the industrial water treatment sector, using membrane technology, which tends to have higher margins than municipal water.

In May 2008, UEL raised S\$14 million (£6.5 million) in new funds from the issue of new shares to strengthen its cash position and provide funds to invest in BOT, BOO and TOT projects. In November 2008 UEL announced interim profits to 30 September 2008 of S\$2.9 million (£1.1 million), less than half of the previous year, reflecting the tough conditions in the market

and rising costs. It had net assets of S\$82 million (£38 million), including cash of S\$32 million (£15 million).

Most recently in mid December 2008, UEL announced that it had been awarded a RMB 72 million (£7 million) contract to modify and operate a 15,000 m³/day membrane based industrial wastewater treatment facility in Dafeng City, located in the Chinese province of Jiangsu. Phase 1 of the project is to upgrade and convert the existing 15,000 m³/day wastewater treatment plant to UEL's advanced Membrane Bioreactor (MBR) system. Successful completion of Phase 1 is expected in the first quarter of 2009. Once completed, UEL is expected to start Phase 2, the construction of a new 25,000 m³/day wastewater treatment plant using MBR technology.

UEL's share price has been heavily hit over the last year. It hit a low in early December 2008, but has since risen by approximately 50%. UEL's current market capitalisation is around S\$46 million (£21 million), and it trades on a Price Earnings multiple of 5.4x, based on 31 March 2008 profits and at a discount of 44% to net assets.

China New Energy ("CNE")

Chinese biofuels business, CNE, announced on 2 January 2009 that it intends to withdraw its shares from trading on the UK's PLUS stock market with effect from 19 January 2009. The CNE directors stated that they believe that, in the current environment, any benefits of the listing are outweighed by the costs involved. There were no dealings in CNE's shares in the past year on PLUS.

Commenting on the investee companies' newsflow, Simon Littlewood, CGO executive director, said:

"Since the credit crisis began, CGO's executive directors have been working with all of the portfolio businesses whose business models were dependent on credit being readily available, to help them to switch to business models which focus on cash conservation and generation.

In several cases, this has been at the expense of profit growth, which has in the short term hit the accounting value of the investments, but with the capital and debt markets effectively closed for the time being, our view is that cash conservation rather than profit maximisation is the correct strategy until the fund raising environment improves.

"This is consistent with the Board's commitment to pursuing a strategy of actively realising meaningful value from investments and returning proceeds to Shareholders in order to help to reduce the gap between the Company's

asset value and its current share price. To realise meaningful value the assets will have to be actively managed until the market environment improves and investments can be realised.

"AWT, UEL and CNE all had business models which were dependent on debt finance being readily available to finance projects for them to invest in. The well documented credit crisis and collapse of stock markets has had a devastating effect on their share prices and valuations. This in turn accounted for over £15m of the £24m losses announced by CGO in the 6 months ended 30 September 2008.

"We have focused a great deal of effort on these three companies to alter their business models and restore value. The result of these efforts is that UEL now has relatively low gearing and cash reserves so, to some extent, is able to cherry pick higher margin projects to invest in, such as the Dafeng project. We believe that this should feed through to better future performance. Both CNE and AWT raised debt finance in 2007 with various conditions attached, which they breached during the credit downturn. This significantly impacted on their ability to perform. Working closely with their management teams and debt providers we are seeking to arrive at a solution which will see the companies survive the current financial turbulence, and be in a position to return value when conditions improve.

"Our efforts have in part been reflected in the recent upturn in UEL's and AWT's share prices. These rises are an encouraging start, and in our opinion reflect an anticipated improvement in conditions in China, not least as a result of the recently announced Government reforms easing credit and encouraging infrastructure investing, particularly in the water sector where UEL and AWT operate. These moves are unlikely to be implemented quickly enough to impact positively on 2009 performance at our investee companies, but provide optimism for their 2010 performance, enabling sensible realizations once they start releasing their interim and annual 2010 results in late 2010 and the 2011"

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