ECSI limited

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Date: 31 August 2010

To: Australian Securities Exchange Ltd
Attn: Ms. S Dabski
Adviser, Issuers (Sydney)
Companies Announcement Office
Electronics Lodgement System

ECSI Limited enters into Due Diligence Agreement for Purchase of Chinese Coking Facility

ECSI Limited ('ECSI') is pleased to announce that it has signed a term sheet on 5 August 2010 to acquire 100% of Alphacoal Capital Pty Ltd ('**Alphacoal**') for $2,000,000 from Alpha Wealth Financial Services Pty Ltd ('**Alpha'**). Alphacoal holds an option to purchase either, the business and assets of Pu Neng Coal Chemicals Limited ('**Pu Neng**') or the shares in Pu Neng from Vigor Holdings Limited ('**Vigor**'), a company incorporated in Hong Kong.

ECSI has paid a refundable deposit of $1 million. The balance is not due for 18 months; and is subject to the successful completion of the Company's due diligence.

Introduction to the proposed transaction
ECSI will ultimately (and effectively) acquire 100% ownership of Pu Neng, or alternatively the business and assets of Pu Neng.

The option exercise (consideration) for the acquisition will be the issue of 300 million shares at a value of 5 cents each ($15,000,000) (pre-consolidation) to Vigor and the payment of $1,000,000 in cash (payment deferred for 1 year post the completion of the transaction). All securities issued to Vigor will be escrowed for a period of two years from the date of issue.

The acquisition will be subject to approval by the shareholders of ECSI at an Extraordinary General Meeting which is anticipated to be held in early December 2010.

TRANSACTION DETAILS

Background

Pu Neng is a company incorporated in China – Lu Chang Bao is the sole director. Pu Neng is 100% owned by Vigor. Vigor is owned 90% by China Orient (HK) Ltd and 10% by Ontex Holdings Ltd. Michael Zhou is the Managing Director of Vigor.

Consideration for the Acquisition

As noted above, the consideration for the acquisition will be the issue by ECSI of securities to the shareholders of Vigor. A pro-forma capital structure of the Company accompanies this announcement, detailing the effect that the issue of securities proposed by the transaction will have on the capital structure of ECSI.

Change of Activities

The acquisition of Pu Neng will constitute a change of the principal activities of ECSI. As a consequence, the company will be required to:

- comply with the requirements of Chapter 11 of the ASX Listing Rules.
- obtain shareholder approval of the transaction;
- issue a prospectus detailing the transaction and the affairs of the company generally and otherwise satisfy the listing requirements of Chapters 1 and 2 of the ASX Listing Rules as if ECSI were undertaking an Initial Public Offering.

If shareholders approve the proposed transaction the Company's shares will be suspended from trading from the date of the meeting until the requirements in Chapters 1 and 2 of the ASX Listing Rule have been satisfied.

Conditions Precedent

The acquisition of the assets of Pu Neng by ECSI is subject to the satisfaction of the following conditions precedent:

- **Due diligence** – ECSI has the right to conduct such due diligence as may reasonably be necessary to establish that the transactions contemplated by the agreement can be completed and are commercially feasible.

- **Shareholder approvals** – the agreement will require the approval of the shareholders of ECSI. In particular shareholder approval will be required to:

    - the change of activities of ECSI
    - the issue of shares to the Vigor Shareholders
    - the appointment of new directors to the board of ECSI
    - if required the issue of a prospectus by the Company to satisfy the requirements of the ASX Listing Rules.

Consolidation of Shares & Options

As part of the change of direction and application under Chapters 1 and 2 of ASX Listing Rules, ECSI will have to consolidate its shares to comply with the 20 cent rule. As recent issues of shares have occurred at between 1.8 cents and 2.5 cents per share it is currently anticipated that the consolidation could be up to 10 to 1. A Pro-forma post completion capital structure table is attached illustrating the effect of the transaction and consolidation on ECSI.

Anticipated Timing

An approximate timetable for the transaction is set out below:

Activity	Time Frame
Completion of due diligence	23 September 2010
Meeting material dispatched to shareholders	30 October 2010
General Meeting held to approve transaction	3 December 2010
Suspension of trading in securities of the company pending satisfying ASX Listing Rules Chapters 1 and 2	3 December 2010
Issue prospectus	30 October 2010
Re-quotation of securities	17 December 2010

PROPOSED NEW MANAGEMENT DETAILS

Upon the acquisition of 100% of Vigor, Michael Zhou and Lu Chang Bao of Pu Neng will be appointed as directors of the listed company.

Mr. Jim Green will continue as Non-Executive Chairman.

Jim Green was appointed Non-Executive Chairman of ECSI on 26 October 2001.

Jim has been a director of companies associated with his brother, Graeme Green, in the development and marketing of smart card systems for 17 years. By profession Jim Green is a pharmacist, continues to be involved in the development and operation of a variety of business concerns including public relations and media, function centres and retail distribution. He resides in Melbourne, Australia.

The CV's of the proposed Board of ECSI and key management are outlined below:

Mr. Chang Bao Lu (Director)

Lu Chang Boa holds a Degree in Commerce. He has worked in the Department of Agriculture for Heilongjiang Province government for over 10 years. Recently he has worked as a consultant in the mining resource sector and has extensive network of contacts.

Mr. Michael Zhou (Director)

Michael Zhou is the Managing Director of Vigor Holdings Limited, the owner of Pu Neng. He is an Investment & Marketing Consultant. Over the past 10 years he has been involved in fund raising for large resource projects and trade between China and USA.

Mr. Jeffrey Tan (Non-Executive Director)

Jeffrey was appointed as a Non-Executive Director of ECSI on 24 March 2010.

Mr Tan holds a Bachelor in Business from the University of South Australia. He has 16 years experience in equities and derivatives markets and client portfolio advisory role. Jeffrey has also facilitated resource and property projects in China and Vietnam, with forays into commercial property development.

Mr Tan is a Director of Fraden Projects Australia Pty Ltd, a company of foreign project management consultants that facilitated the development of a USD $300 million Yen So Project in Hanoi with the local government and Gamuda Berhad. As Director, he also facilitated the acquisitions and development of private ventures in China’s Heilongjiang and Jilin provinces.

Mr. Donald Low (Non-Executive Director)

Donald Han Low was appointment as a non-executive Director effective 2 June 2010.

Mr. Low holds a Bachelor in Economics from the University of Western Australia and has extensive experience in corporate advisory, finance and management. His experience lies in a number of sectors including, but not limited to, plantations, telecommunications, manufacturing, infrastructure development and financial services.

Mr. Low has served on many boards of both private and publicly listed companies in Asia and Europe. His most recent role was that of Acting Chief Executive Officer & Executive Director of Anglo-Eastern Plantations Plc, a London Stock Exchange listed company.

Donald also sits as a Non-Executive Director/Chairman of the Audit Committee of Oriented Media Group Berhad, a digital media company listed on the ACE Board of Bursa Malaysia (the Malaysian Stock Exchange).

Donald resides in Melbourne and is the non-executive Chairman of Atech Holdings Limited (ASX: ATH). Atech Holdings Limited are currently acquiring Alpha Wealth Financial Services Pty Ltd, the 100% owner of Alphacoal Capital Pty Ltd. This acquisition is subject to shareholder approval at a meeting currently scheduled to be held in October 2010.

Mr. Graeme Green (Non-Executive Director)

Graeme was appointed Chief Executive Officer ("CEO") of ECSI on 17 October 2001.

Graeme has been involved in numerous smart card businesses since the mid 1980s including being Managing Director of Coms21 Ltd, an entity listed on the Australian Stock Exchange. Graeme has been involved in developing business and government relationships throughout China; including Beijing IMJ Investment Co Limited (“IMJ”) and Lu Xiao Bing, since 1992. He travels regularly to China and in South East Asia.

ECSI CURRENT BUSINESS

Current Business Activities

Since March 2010 ECSI Limited (‘the Company’) has raised a net $2,201,300 by the issue of 130,688,888 ordinary shares (with a free attaching option exercisable at 3 cents, expiring 31 December 2012). Its current business consists of the right to participate in the roll out of the NAR Security System in China. The directors are currently evaluating the company’s future involvement in the system and examining other investment opportunities.

PU NENG INFORMATION

Corporate

Alphacoal was incorporated in March 2010 and is a wholly owned subsidiary of Alpha.

Pu Neng financial performance is as follows.

Pu Neng Coal Chemicals Limited is the owner of the Qitaihe Coking Facility (referred to in the 5 August 2010 ASX announcement) and is also referred to as Qitaihe Pu Neng Coal Chemicals Limited.

For the year ended 31st December 2007 revenue was $9,032,044 with a net loss before tax of ($188,012) - Unaudited Management Accounts.

For the year ended 31st December 2008 revenue was $39,166,616 with a net profit before tax of $1,381,695 - Unaudited Management Accounts.

For the year ended 31st December 2009 revenue was $25,793,044 with a net loss of ($7,594,495) – draft Accounts undergoing Audit.

The performance of Pu Neng was affected in 2009 by the resultant restructure of the ownership and management team. This diverted management focus off the operational aspects of Pu Neng's business. The new management team has focused its attention on laying the foundations to improve productivity, efficiency and capacity.

Pu Neng is in the process of plant construction to increase capacity.

Stage one of the development has been completed with the laying of the foundations for the furnaces. The full commissioning of the expansion is anticipated to occur by the end of the 2011.

For the first 6 months to June 30th 2010 revenue was $22,159,105, an increase over the same period for 2009 of 52%. (Unaudited Management Accounts).

The first 6 months shows a trading loss of ($2,114,073), an improvement of 24% compared to 2009. (Unaudited Management Accounts).

The results for the June quarter show a gross profit pre-tax of $533,763. (Unaudited Management Accounts).

DESCRIPTION OF ASSETS BEING ACQUIRED

A brief overview of the project being acquired was given in the ASX release dated 9 August 2010.

Company background

Founded in 2003, Qitaihe Pu Neng Coal Chemicals Co., Ltd. (formerly Qitaihe Jufeng Coal Chemicals Co., Ltd.) is one of the biggest private enterprises in Qitaihe City, with an area of 23.3 hectares and 430 employees.

The Qitaihe Coke Plant has operated at an annual rate exceeding 150,000tpa. The plant has achieved monthly production rates above 200,000tpa but has not approached the indicated 300,000tpa nameplate capacity. The change to stamp charging will have a positive impact on the coke production due to the increased capacity of the ovens resulting from the bulk density improvement.

Additionally Pu Neng management claim that the plant has design capabilities of 600-800,000 tons/year for washed coal, 12,000 tons/year tar, 2,000 kilowatt electricity, and 2,000 tons/year crude benzene, preliminarily forming the industrial chain of coal chemicals. ECSI is currently completing due diligence on these capacity statements.

The main products are coke, float coal, middle coal, tar, and crude benzene. They are mainly sold to Anshan Steelworks, Benxi Steelworks, and Xilin Iron & Steel Group Co., Ltd., (the long-term partners of the Company).

The company has been informed that with the right market conditions and the addition of stamp charging, the Qitaihe Coke Plant is capable of 250-300,000tpa. Again ECSI is undertaking due diligence to confirm this.

The plant also has a railway siding and a freight yard.

Geographic location

The plant is located close to Jixi City, Qitaihe City in the east of Heilongjiang Province. The Company is located south of Xinxing Village, Zhongxin River Town, Qitaihe District, and Qitaihe City.

The land is situated next to Fulong Railway of Qitaihe Mining Group Incorporation and surrounded by country roads network. 1Km east of the land is the Zhongxin River.

The plant has logistical advantages through a convenient transport network.

Background of the Project

As of May 2010, the Qitaihe coke plant consists of 4 batteries of 30 ovens per battery, or a total of 120 ovens, arranged in a single block. The batteries are fired with coke oven gas and raw gas is currently treated to produce coal tar. Surplus gas, along with contained crude benzene is currently flared. Ammonia is incinerated. Work is currently in progress to convert the batteries from top charging to stamp charging. When both proposed batteries are completed, the plan is for a total of up to 1,500,000 tonnes of annual capacity.

In order to comply with new environmental requirements the company has sort expert advice and consultation on plans to renovate this original 300,000 tons/year coke oven and to construct a new 2 x 60-holes HXDK-09F 1,200,000 tons/year coke oven to increase total production capacity to 1,500,000 tons/year of coke.

The main features of the two proposed 60 oven batteries are as follows:-

- Design Capacity of 600,000 dry tonnes each
- Designed by Liaoning University of Science & Technology (Anshan Iron & Steel Institute)
- Supplied by No.3 Metallurgical Construction Company of Chine
- Battery designation HXDK55-09F
- Stamp charged
- Battery Working Rate 96%
- Carbonization time 25 hours
- Oven dimensions:-
  - Height 5.5m
  - Width 554mm
  - Length 14.06m
- Coal charge 35t
- Coal charge moisture 10%

- Coke is wet quenched
- Coke oven gas production rate 330m^3/t dry coal
- Coke oven gas specific energy 17.9MJ/Nm^3
- Coke yield 75% dry to dry

It is normal for several coals to be blended together to comprise the blend for feeding to a coke-making battery. Few coals produce coke with all the desired properties when coked alone. In addition, blending broadens the range of coal properties able to be used whilst maintaining the targeted blend.

At the existing plant blending is performed by mixing front end loader bucket loads into the recovery hopper. In the proposed facilities, bins are to be provided to facilitate improved blending.

These construction plans include gas purification, chemicals recovery, and comprehensive use of gas.

Additionally, the expansion includes upgrading the original coal washing technique so to ultimately raise the raw coal washing capacity to 2,000,000 tons/year.

Project viability

1. *Good raw material supply*

The quality of coal feed is the most important factor in the determination of final coke quality which controls the acceptance of the coke into one of the three grades of the Chinese Classification. The coke classification covers the cold coke strength (Micum Indices), the coke hot strength (CSR) and the chemical properties such as ash and sulphur. To achieve the desired coke quality it is necessary to blend a number of different coals into the coke oven feed.

The coal is currently sourced from a number of local mines, either as a washed coal suitable for direct use, or as a raw coal that requires processing in the on-site coal preparation plant.

The area has 10 major coal producers that are large government owned operations. There are also as many as 700 small, privately-owned, mines that produce coal that is sold, generally, as raw coal. There are a number of coal washeries in the area that process the coal from these small mines. The washed coal from these mines cover all of the qualities necessary for the production of a suitable coke oven blend to produce the current Grade II product.

Currently, the Company uses the major coking coal of Taoshan Mines under Qitaihe Bureau of Mines, the lean coal of Boli County mines, 1/3 coking coal of Jixi Xinghua Mines, and the gas coal of Hegang Junde Mines to blend coals and make coke.

2. *Transportation network*

The company's proximity to railway and road give favorable conditions for raw materials to be transported into the factory and the products of coke to be distributed to customers.

3. *Favourable conditions for the expansion of the Project*

The land, water and electricity supply, telecommunications, and traffic and transport facilities of the Company, as well as the hydrological and geological conditions of the factory area can meet the requirements of the expansion of the Project.

4. *Market potential*

The main products of the Company are primarily coke, tar, sulphur, crude benzene, ammonium sulphate, and methanol, currently. China cannot meet the market demand for coking coal and is importing coal.

Other products of the Company can be sold locally or in other parts of China.

Scale and implementation plan of the Project

Problems with the original project and rectification plans

With development of the coal chemical industry and adjustment of the national environmental policies for the industry, it is no longer economic for the Company to produce using the 300,000t/a coke, 3.2m top-loading coke oven. There is almost no chemicals recovery, environmental protection, or comprehensive use of gas. The current coke ovens can no longer meet the requirements of national industrial policies or development of the Company.

In January 2009, the China National policy on the coal industry was amended. From January 1, 2011, no future application for the construction of projects where the height of coal chamber is less than 5.5m, the volume of coal tamping briquette is less than 35m3, or the production capacity of normal coke oven is less than 1 million tons/year will be accepted.

The plant business plan includes implementation of the following:

1. Renovation of the original 300,000 tons/year coke oven and blending facilities;
2. Expand two 2x60-hole HXDK55-09F 5.5m 1,200,000 tons/year coke tamping ovens;
3. Construct the cold blast, gas purification, and chemicals recovery sections that blends the production capacity of 1,500,000 tons/year coke;
4. Expand the raw coal washing capacity of the factory from 6 -800,000 tons/year to 2,000,000 tons/year;
5. Construct 800,000 tons/year methanol gas production project.

Plans for the expansion of 2x60-hole HXDK55-09F 5.5m 1,200,000 tons/year coke tamping oven and the general plant design was completed in February 2010, the project commenced during 2010.
It is planned that in the next 6-8 months a 2x60-hole HXDK55-09F 5.5m 600,000 tons/year coke oven and blending facilities will be put into production; and during 2011 another will be put into production. Renovation of the coal washing factory and the methanol project will be subject to additional funding.

Funding

Part of the work has already started and been funded by existing management. The company will seek to raise initial funds on relisting (post acquisition) and then fund the implementation business plan on a staged basis.

New Coking Process Overview

This new oven uses the technology of tamping coking. Loading of coal and outputting of coke are dealt with processes to minimise smoke and dust. Coke quenching adopts the wet coke quenching process. The process technology is mature, reliable, economical, and results in energy savings. It greatly reduces the dust, CO2, S02, BaP and other pollutant emissions, and also can improve coke quality and reduce the ratio of the primary coking coal, which helps conserve resources and reduce the cost of coke.

Furnaces are of the more advanced HXDK-09F-type coke oven, and are designed for wide coking chambers, wide-regenerator room, double-flue, waste recycling, down spray, and the tamping coke oven of single side-mounted thermal coal.

This mature, practical technique was adopted during the process of the oven's design so as to reduce the environment pollution, improve operating condition and reduce the running cost.
A set of new 2X60-hole HXDK55-90E-type coke oven will be constructed in the existing coking coal plant.

Production capacity is estimated to be1.2 million tons a year on dry coke.

Coal Preparation Plant Overview

The coke plant has its own coal preparation plant used to wash the various coals available in the area to produce suitable coke oven feed. The current annual capacity is 600,000 tonnes per annum.

The plant treats raw coal from the local mines washing them individually to produce the low ash coking coal products required for the coke ovens whilst also producing a lighter ash thermal coal suitable for use in a local power station. The local area has a number of power stations ensuring a ready market for this coal.

This expansion will be accommodated in the existing building and possible in the current office block. The office will be checked for the required structural strength to handle the weight and vibration.

The proposed coal preparation plant expansion should be effective and increase the plant capacity to 600tph, adequate for the nominated 2Million tonnes per year. BDA believes that the proposed plant configuration could be improved by an addition of a screen module ahead of the dense medium cyclones to increase the capacity and reduce the magnetite consumption from the current 1.5kg/t to a more normal level of 0.5kg/t

Depreciation and amortization

Depreciable lives are as follows:

- Coke oven and buildings for 20 years
- Machinery and equipment for 12 years
- Electronic equipment for 10 years
- Transport equipment for 10 years
- Amortization of intangible assets and deferred assets, life
- Land-use fees for 10 years
- Proprietary technology and patent rights for 10 years
- Other intangible assets 10 years
- 5-year deferred assets

For further information please contact:

ECSI Limited

Jim Green (Chairman)

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Attachment 1 – Pro-forma Balance Sheet

ECSI Limited	7	7		1	2	3	4, 8	5	6	8
30/07/2010	ECS	Pu Neng	Base	Conversion of Mr Lu debt to equity	Acquisition of Pu Neng	Transaction Costs	Consolidation Elimination	Placement by AWFS 9/8/10	Reclassify Chinaway	Proforma
ASSETS	A$	A$	A$	A$	A$	A$	A$	A$	A$	A$
Current Assets										
Cash	1,723,665	64,537	1,788,202			(2,000,000)		500,000		288,202
Accounts Receivable	-	7,707,164	7,707,164							7,707,164
Other Receivable	-	8,045,843	8,045,843						100,000	8,145,843
Inventory	-	8,369,222	8,369,222							8,369,222
Total Current Assets	1,723,665	24,186,767	25,910,432	-	-	(2,000,000)	-	500,000	100,000	24,510,432
Non - Current Assets										
Fixed Assets	9,041	25,148,694	25,157,735				(1,481,319)			23,676,416
Fixed Assets - Acc Depn	(6,781)	(2,869,555)	(2,876,335)							(2,876,335)
Total Fixed Assets	2,260	22,279,139	22,281,399	-	-	-	(1,481,319)	-	-	20,800,080
Intangible Assets	-	4,506,822	4,506,822							4,506,822
Construction in Progress	-	2,048,563	2,048,563							2,048,563
Investments										-
Investment in Sub - Chinaway	100,000	-	100,000						(100,000)	-
Investment in Sub - Pu Neng					16,000,000	-	(16,000,000)			-
Total Non Current Assets	102,260	28,834,525	28,936,785	-	16,000,000	-	(19,481,319)	-	(100,000)	25,355,466
Total Assets	1,825,925	53,021,291	54,847,217	-	16,000,000	(2,000,000)	(19,481,319)	500,000	-	49,865,898
LIABILITIES										
Current Liabilities										
Trade and Other payables	57,278	23,449,335	23,506,613							23,506,613
GST Liability	(12,970)	-	(12,970)							(12,970)
Tax Payable	-	1,223,190	1,223,190							1,223,190
Other Payable	55,800	8,867,447	8,923,247		1,000,000					9,923,247
Total Current Liabilities	100,108	33,539,972	33,640,080	-	1,000,000	-	-	-	-	34,640,080

ECSI Limited	7	7		1	2	3	4, 8	5	6	8
30/07/2010	ECS	Pu Neng	Base	Conversion of Mr Lu debt to equity	Acquisition of Pu Neng	Transaction Costs	Consolidation Elimination	Placement by AWFS 9/8/10	Reclassify Chinaway	Proforma
Non Current Liabilities										
Borrowings	-	10,185,185	10,185,185	(10,185,185)						-
Accrued Directors Fee	10,693	-	10,693							10,693
Total Non Current Liabilities	10,693	10,185,185	10,195,878	(10,185,185)	-	-	-	-	-	10,693
Total Liabilities	110,800	43,725,157	43,835,958	(10,185,185)	1,000,000	-	-	-	-	34,650,773
Net Assets	1,715,125	9,296,134	11,011,259	10,185,185	15,000,000	(2,000,000)	(17,481,319)	500,000	-	15,215,125
EQUITY										
Contributed Equity	92,624,939	11,111,111	103,736,050	10,185,185	15,000,000		(21,296,296)	500,000		108,124,939
Other Reserves	-	-	-							-
Retained Earnings	(90,909,814)	(1,814,977)	(92,724,791)			(2,000,000)	1,814,977			(92,909,814)
Total Equity	1,715,125	9,296,134	11,011,259	10,185,185	15,000,000	(2,000,000)	(17,481,319)	500,000	-	15,215,125
Check	-	-	-	-	-	-	-	-	-	-

Notes

1 Mr Lu's debt per management accounts of RMB 55m has been converted into equity (prior to transaction)

2 Acquisition of Pu Neng for A$16m comprising deferred cash payment of A$1m and A$15m shares issued in ECS

3 Acquisition of Alphacoal Capital Pty Ltd – estimated transaction costs of A$2m to be paid to advisors

4 Consolidation elimination of investment in Pu Neng - Note net assets of Pu Neng at date of acquisition A$19.4m therefore discount on acquisition of A$1.4m netted against fixed assets

5 Placement by AWFS in August 2010 not reflected in management accounts

6 Reclassification of deposit paid on Chinaway business to other current assets (assume transaction is still underway and subject to due diligence)

7 Management accounts - not audited and not reviewed

8 The accounting treatment of the acquisition of Pu Neng via Alpha coal has been simplified and may not necessarily comply with the requirements of AASB 3 (i.e. reverse acquisition)

Attachment 2 – Pro-forma Capital Structure

	Ordinary Shares	Options *($0.03 Expire on 31/12/12)*
Capital at 30 June 2010	422,338,474	130,688,888
Conversion of debt to equity approved by shareholders 5 July 2010	8,870,135	-
Raising of $500,000 additional working capital under LR 7.1	27,777,777	-
Total Pre Acquisition & Consolidation	458,898,639	130,688,888
Consolidation of 10 to 1	45,898,639	13,068,888*
Total Consideration Securities – post consolidation	30,000,000	-
Total at Completion of Acquisition of Pu Neng	75,898,639	13,068,888

* Options now $0.30 expiring 31 December 2012 – post consolidation