KAISUN ENERGY GROUP LIMITED
凱順能源集團有限公司*

(Formerly known as CHALLENGER GROUP HOLDINGS LIMITED 挑戰者集團控股有限公司)
(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8203

THIRD QUARTERLY REPORT
2009

* For identification purpose only

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This report, for which the directors (the "Directors") of Kaisun Energy Group Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- Turnover of the Group for the three months and nine months ended 31 December 2009 amounted to approximately HK$14.7 million and HK$38.0 million respectively (2008: HK$11.9 million and HK$39.1 million), representing an increase/a decrease of approximately 23.5% and 2.8% respectively as compared to the same period last year.

- During the three months period ended 31 December 2009, the Group recorded a "Gain from bargain purchase" and "Share of other comprehensive profit of an associate", which reflects the financial reporting of the completion of Acquisition of 21% Equity Interest in Mengxi Minerals.

- As a result, the total unaudited comprehensive income attributable to equity holders of the Company for the three months and nine months ended 31 December 2009 amounted to approximately HK$851.4 million and HK$695.0 million respectively (2008: HK$(12.1) million and HK$24 million).

- Loss attributable to equity holders of the Company for the three months and nine months ended 31 December 2009 amounted to approximately HK$(22.8) million and HK$(116.0) million respectively (2008: HK$(12.1) million and HK$(26.0) million), representing an increase of approximately 88.4% and 346.2% respectively as compared to the same period last year.

- Loss per share of the Group for the three months and nine months ended 31 December 2009 amounted to approximately HK cents (1.21) and HK cents (6.23) respectively (2008: HK cents (1.57) and HK cents (3.65)).

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and nine months ended 31 December 2009

The board of directors (the "Board" or the "Directors") of Kaisun Energy Group Limited (the "Company") is pleased to announce the unaudited results of the Company and its subsidiaries (collectively, the "Group") for the three months and nine months ended 31 December 2009, together with the unaudited comparative figures for the corresponding periods in 2008 as follows:

		Unaudited Three months ended 31 December		**Unaudited Nine months ended 31 December**	
		2009	2008	**2009**	2008
	Note	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
			(Restated)		(Restated)
Turnover		**14,492**	11,042	**36,890**	36,699
Cost of goods sold and services rendered		**(2,903)**	(2,694)	**(7,954)**	(8,546)
Gross profit		**11,589**	8,348	**28,936**	28,153
Other income		**120**	764	**308**	1,987
Selling and distribution costs		**(629)**	(414)	**(1,291)**	(1,360)
Administrative and other operating expenses		**(12,370)**	(11,330)	**(34,833)**	(34,268)
Finance costs		**(8,365)**	(8,844)	**(92,727)**	(19,596)
Cost of acquisition of a subsidiary		**(643)**	–	**(643)**	–
Share of loss of an associate		**(10,900)**	(570)	**(13,668)**	(598)
Loss for the period from continuing operations		**(21,198)**	(12,046)	**(113,918)**	(25,682)
Loss on disposal of a subsidiary		**(775)**	–	**(775)**	–

	Note	Unaudited Three months ended 31 December 2009 HK$'000	Unaudited Three months ended 31 December 2008 HK$'000 (Restated)	Unaudited Nine months ended 31 December 2009 HK$'000	Unaudited Nine months ended 31 December 2008 HK$'000 (Restated)
Discontinued operations					
(Loss)/profit from discontinued operation		**(33)**	29	**(74)**	(20)
Loss before tax		**(22,006)**	(12,017)	**(114,767)**	(25,702)
Income tax expense		**–**	–	**–**	–
Loss for the period		**(22,006)**	(12,017)	**(114,767)**	(25,702)
Other comprehensive income					
Share based payment		**(1,489)**	–	**(6,084)**	(3,470)
Gain from a bargain purchase		**479,000**	–	**479,000**	–
Share of other comprehensive profit of an associate		**396,224**	–	**396,224**	–
Exchange difference from foreign operation		**416**	–	**416**	–
(Impairment)/fair value gain on derivative liability of convertible notes		**–**	–	**(58,570)**	53,777
Other comprehensive income for the period, net of tax		**874,151**	–	**810,986**	50,307
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**852,145**	(12,017)	**696,219**	24,605

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and nine months ended 31 December 2009

	Note	Unaudited Three months ended 31 December 2009 HK$'000	Unaudited Three months ended 31 December 2008 HK$'000 (Restated)	Unaudited Nine months ended 31 December 2009 HK$'000	Unaudited Nine months ended 31 December 2008 HK$'000 (Restated)
Loss attributable to:					
Equity holders of the Company		**(22,789)**	(12,079)	**(115,956)**	(26,000)
Non-controlling interest		**783**	62	**1,189**	298
		(22,006)	(12,017)	**(114,767)**	(25,702)
Total comprehensive income attributable to:					
Equity holders of the Company		**851,362**	(12,079)	**695,030**	24,307
Non-controlling interest		**783**	62	**1,189**	298
		852,145	(12,017)	**696,219**	24,605
Dividend	*9*	**–**	–	**–**	–
Loss per share (HK Cents)					
For continuing and discontinued operations	*10*				
Basic (HK cents per share)		**(1.21)**	(1.57)	**(6.23)**	(3.65)
Diluted (HK cents per share)		**(0.61)**	(0.21)	**(3.95)**	(0.43)
For continuing operations					
Basic (HK cents per share)		**(1.17)**	(1.57)	**(6.13)**	(3.65)
Diluted (HK cents per share)		**(0.57)**	(0.21)	**(3.92)**	(0.43)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 31 December 2008

	Attributable to equity holders of the Company							
	Share capital HK$'000	Share premium HK$'000	Foreign currency translation reserve HK$'000	Share-based payment reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interest HK$'000	Total equity HK$'000
At 1 April 2008	5,400	9,536	–	5,859	107,167	127,962	12,352	140,314
Translation difference	–	–	(129)	–	–	(129)	–	(129)
Net income recognized directly in equity	–	–	(129)	–	–	(129)	–	(129)
(Loss)/profit for the period	–	–	–	–	24,307	24,307	298	24,605
Total recognized income and expenses for the period	–	–	(129)	–	24,307	24,178	298	24,476
Issue of shares	2,300	133,400	–	–	–	135,700	–	135,700
Capital contribution from non-controlling interest	–	–	–	–	–	–	27,301	27,301
Share-based payment	–	–	–	3,470	–	3,470	–	3,470
At 31 December 2008 (restated)	7,700	142,936	(129)	9,329	131,474	291,310	39,951	331,261

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 31 December 2009

	Attributable to equity holders of the Company									
	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Replacement bonds (Equity component) HK$'000	Share-based payment reserve HK$'000	Foreign currency translation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interest HK$'000	Total equity HK$'000
At 1 April 2009	7,700	142,936	–	–	12,981	(273)	116,145	279,489	39,707	319,196
Translation difference	–	–	–	–	–	1,493	–	1,493	–	1,493
Net income recognized directly in equity	–	–	–	–	–	1,493	–	1,493	–	1,493
Profit for the period	–	–	–	–	–	–	695,030	695,030	1,189	696,219
Total recognized income and expenses for the period	–	–	–	–	–	1,493	695,030	696,523	1,189	697,712
Acquisition of subsidiary	–	–	100,193	–	–	–	–	100,193	703,712	803,905
Disposal of subsidiary	–	–	–	–	–	–	–	–	(5)	(5)
Placing of shares	2,400	153,290	–	–	–	–	–	155,690	–	155,690
Conversion of convertible bonds	7,700	413,983	–	–	–	–	–	421,683	–	421,683
Issue of replacement bonds	–	–	–	114,449	–	–	–	114,449	–	114,449
Conversion of replacement bonds	1,959	136,661	–	(36,520)	–	–	–	102,100	–	102,100
Exercise of share option	–	24,428	–	–	(7,082)	–	–	17,346	–	17,346
Share-based payment issued	298	–	–	–	6,084	–	–	6,382	–	6,382
Share-based payment lapsed	–	–	–	–	(16)	–	–	(16)	–	(16)
At 31 December 2009	20,057	871,298	100,193	77,929	11,967	1,220	811,175	1,893,839	744,603	2,638,442

NOTES TO FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P. O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The address of its principal place of business is 5/F, 31C-D Wyndham Street, Central, Hong Kong. The Company's shares are listed on the Growth Enterprise Market ("GEM") of The Stock of Hong Kong Limited (the "Stock Exchange").

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

During the nine months ended 31 December 2009, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for its accounting periods beginning on 1 April 2009. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the nine months ended 31 December 2009 and the same period in last year.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

3. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These financial statements have been prepared in accordance with HKFRSs issued by the HKICPA, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimate. It also requires the directors to exercise its judgements in the process of applying the accounting policies.

The accounting policies and basis of the preparation of the financial statements are consistent with those adopted by the Group in its annual financial statements for the year ended 31 March 2009.

4. BUSINESS COMBINATION

Acquisition of subsidiary in Mengxi Minerals

Pursuant to an ordinary resolution passed on 2 September 2009, the Company acquired further 21% equity interest in Inner Mongolia Mengxi Minerals Co., Ltd ("Mengxi Minerals") from Shanghai Yiou Auto Sales Limited. The consideration of acquisition is RMB16.8 million and the funds was contributed internal working capital. The acquisition was completed in December 2009. Upon the completion of the Acquisition, the Company held 70% equity interest in Mengxi Minerals.

Mengxi Minerals is principally engaged in the sale of coal, the building of early stage infrastructure for exploitation of sagger, washing and choosing of mine run coal and processing of coke. The acquired business contributed revenues of approximately HK$2 million and net profit of approximately HK$740,000 to the Group for the period from 1 December 2009 to 31 December 2009.

5. DISCONTINUED OPERATIONS

As mentioned in the announcement of the Company dated 23 November 2009, the Company has entered into the sale and purchase agreement on 23 November 2009 to sell the entire issued share capital of Global On-Line Distribution Limited to an Independent third party (the "Disposal"). Upon the completion of the Disposal on 30 November 2009, the Group has discontinued its operations in respect of the on-line trading of printing accessories and batteries.

6. LOSS ON DISPOSAL OF A SUBSIDIARY

As mentioned in note 5, the Group disposed of a subsidiary on 30 November 2009. After the financial adjustment, the consideration was HK$250,000 and total amount of the Loss on Disposal of a Subsidiary together with the Discontinued Loss were amounting HK$850,000.

7. TURNOVER

An analysis of the Group's revenue are as follows:

	Unaudited Three months ended 31 December		**Unaudited Nine months ended 31 December**	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Continued operation				
Trading of coal	**2,186**	–	**2,186**	–
Provisions of auto beauty and repairs operations services	**12,306**	11,042	**34,704**	36,699
Discontinued operation				
Trading of printer accessories and battery	**200**	817	**1,086**	2,406
	14,692	11,859	**37,976**	39,105

8. INCOME TAX EXPENSE

	Unaudited Three months ended 31 December		Unaudited Nine months ended 31 December	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Current tax – Hong Kong Profits Tax	**–**	–	**–**	–
	–	–	**–**	–

No provision for profit tax in the British Virgin Islands, Cayman Islands, Hong Kong or People's Republic of China has been provided as the Group does not have any assessable profit arising in or derived from these jurisdictions for the relevant periods.

9. DIVIDEND

The Directors do not recommend the payment of dividend for the nine months ended 31 December 2009 (2008: HK$Nil).

10. LOSS PER SHARE

The calculation of basic loss per share is based on the loss for the period attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the nine months ended 31 December 2009.

The calculation of diluted earnings per share is based on the loss for the period attributable to ordinary equity holders of the Company, adjusted to reflect the interest on the Replacement Bonds. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period are used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of the basic and diluted earnings/(loss) per share are based on the following data:

	Unaudited Three months ended 31 December		Unaudited Nine months ended 31 December	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Earnings				
Loss for the period attributable to the equity holders of the Company for calculation of basic earnings per share	**(22,789)**	(12,079)	**(115,956)**	(26,000)
Interest on replacement/convertible bonds	**8,367**	8,844	**23,038**	19,596
Loss for the year attributable to the equity holders of the Company for calculation of diluted earnings per share	**(14,422)**	(3,235)	**(92,918)**	(6,404)
Number of shares				
Weighted average number of ordinary shares for the purposes of calculating basic earnings per share	**1,883,850**	770,000	**1,860,563**	711,455
Effect of dilution				
Replacement/Convertible bonds	**420,231**	770,000	**420,231**	770,000
Share-based payment	**69,614**	–	**69,614**	–
Weighted average number of ordinary shares for the purposes of calculating diluted earnings per share	**2,373,695**	1,540,000	**2,350,408**	1,481,455

11. REPLACEMENT BONDS/CONVERTIBLE BONDS

On 10 June 2008, the Company completed its acquisition of (i) 49% interest in Mengxi Minerals and (ii) 70% stake in Mengxi Chemical. Details of such acquisition are set out in the Company's circular dated 30 April 2008.

The acquisition was financed in part by the issue of the Convertible Bonds in the aggregate principal amount of HK$770,000,000. The Convertible Bonds were created in the original aggregate principal amount of up to HK$920,000,000 but at completion of the Imare Acquisition, only HK$770,000,000 aggregate principal amount of the Convertible Bonds were issued.

During the period, the Company has received from the Boldholders a conversion notice regarding the conversion of a principal amount of HK$770,000,000 of the Convertible Bonds into 770,000,000 new Shares. Upon complete the conversion exercise, there is not outstanding principal of the Convertible Bonds held by the Convertible Bondholders.

Under the Conditions, each Convertible Bond may be converted into a maximum of 1,000,000 Shares (being the Conversion Cap), which is subject to increase and adjustment in the manner stipulated in the Conditions. If upon conversion of an Convertible Bond, the number of Shares required to be issued by the Company exceeds the Conversion Cap, only the amount of Shares up to the Conversion Cap will be issued and the balance of the principal amount of such Convertible Bond not so converted (being the Unconverted Principal) shall be redeemed by the Company by payment in cash of the Conversion Cap Payment.

Pursuant to an Ordinary Resolution passed on 2 September 2009, the Company issued the Replacement Bonds to the Bondholders in principal amount equal to the Due Conversion Cap Payments in satisfaction of the Company's obligation to make the Due Conversion Cap Payment in cash. The aggregate principal amount of Replacement Bonds (rounded down to the nearest minimum denomination of HK$10,000 for each Replacement Bond) were issued to the respective Bondholders were amounting HK$426,680,000.

The detailed terms and conditions of the Replacement Bonds are set forth in the Variation Agreement. The Principal amount is equal to the Conversion Cap Payment due by the Company to a converting Bondholder, rounded down to the nearest minimum denomination of HK$10,000 for each Replacement Bond. The maturity date is the same as the Convertible Bonds. The interest rate is 3.75% compounded annually and payable (i) in conversion shares on conversion; or (ii) in cash at maturity. The Conversion Period is at any time from issue date up to full redemption.

The Conversion Price of Replacement Bonds is HK$0.70 per Share subject to adjustment provisions which are standard for convertible securities of similar type. The adjustment events include alteration to the nominal value of the Shares as a result of consolidation, subdivision or reclassification, capitalization of profits or reserves, capital distribution in cash or specie or subsequent issue of securities in the Company (excluding the issue of Shares upon exercise of conversion rights attaching to the Convertible Bonds and the Replacement Bonds).

Any outstanding Replacement Bonds on the Maturity Date shall be redeemed by the Company at a redemption amount equal to the outstanding principal amount of the Replacement Bonds together with interest accrued. No redemption premium shall be payable by the Company. The Company had no right to require the early cancellation or redemption of any of the Replacement Bonds prior to the Maturity Date.

Holders of the Replacement Bonds may terminate and request immediate redemption of the Replacement Bonds at 135% of their principal amount together with accrued interest upon occurrence of any of the following events: (a) the Company fails to deliver the conversion Shares as required and such failure shall subsist for more than 10 days after notice of non-delivery; or (b) the Company fails to comply with any other materials obligation under the Replacement Bonds, unless such failure is cured within 30 days after request; or performance by the Company of its obligations under the Replacement Bonds shall breach any applicable law.

The interest charged for the year is calculated by applying an effective interest rate between 12.675% and 12.713% to the liability component.

12. SHARE CAPITAL

	Unaudited as at 31 December 2009 ***HK$'000***	Audited as at 31 March 2009 *HK$'000*
Authorised:		
10,000,000,000 ordinary shares of HK$0.01 each	**100,000**	100,000
Issued and fully paid:		
2,005,675,000 (31 March 2009: 770,000,000) ordinary shares of HK$0.01 each	**20,057**	7,700

During the period, the Company has received from the Boldholders a conversion notice regarding the conversion of a principal amount of HK$770,000,000 of the Convertible Bonds into 770,000,000 new Shares. Upon completion the conversion exercise, there is not outstanding principal of the Convertible Bonds held by the Convertible Boldholders.

During the period, the Company has also received from the Boldholders a conversion notice regarding the conversion of a principal amount of HK$136,150,000 of the Replacement Bonds into 195,920,000 new Shares. Upon completion the conversion exercise, the outstanding principle of the Replacement Bonds was amounting HK$290,530,000 and there are 477,070,000 new Shares can be converted into new Shares.

During the period, the Company has received the grantee an exercise notice regarding the exercise of share option into 29,755,000 new Shares.

On 14 August 2009, the Placing Agent and the Company entered into the Placing Agreement pursuant to which the Company has agreed to place, through the Placing Agent on a fully underwritten basis, 240,000,000 Placing Shares at HK$0.70 each to not fewer than six Placees who and whose ultimate beneficial owners will not be connected person of the Company and its connected persons.

The 240,000,000 Placing Shares under the Placing represent 20% of the existing issued share capital of the Company of 1,200,000,000 Shares and approximately 16.67% of the then issued share capital of 1,440,000,000 Shares as enlarged by the Placing. The aggregate nominal value of the Placing Shares under the Placing will be HK$2,400,000.

The gross proceeds from the Placing will be HK$168 million. The net proceeds from the Placing amounted to approximately HK$159 million which is intended to be used for business development and general working capital. The net price raised per Share upon the completion of the Placing will be approximately HK$0.663 per Share.

The Company has issued 240 million Shares to the Placees on 27 August 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

On October 15, 2009, the Group executed a Memorandum of Understanding ("MOU") to acquire the entire interest of Nobel Holdings Investments Limited ("Nobel Holdings"), a joint venture company co-formed by Nobel Oil, China Investment Corporation ("CIC") and Oriental Patron Financial Group ("Oriental Patron").

As of the date of the MOU, Nobel Holdings, a company engaged in oil and gas exploration and production in Russia, owns all the assets of Nobel Oil in Russia which consists of three producing oil fields (Severo-Kostyukskoye and Yuzhno-Oshskoye oilfields, as well as an oilfield in the Osokinskaya area of Timano-Pechorsky oil and gas region in Komi Republic, Russia). Nobel Oil is a Russian independent oil and gas production company established in 1991. According to the report prepared by an international technical adviser in June 2009, the existing three oil fields have a total 2P (proven reserve + probable reserve) of 100 million barrels. According to Nobel Holdings, the total production in 2008 was 5.3 million barrels.

Since the signing of the MOU, Nobel Holdings has acquired four additional oil fields in Russia, three of which are located in Western Siberia and one is located in the Komi Republic. According to Nobel Holdings, the total reserve of the four newly acquired oil fields under Russian standard is around 317 million barrels. Nobel Holdings has engaged an international oil and gas technical company to work on the development and production plan for the four newly acquired oil fields.

Nobel Holdings has appointed two international investment banks as joint financial advisors and an internationally renowned law firm as legal advisor. Nobel Holdings has also arranged for an international accounting firm as its auditor to prepare the audited financial statements of Nobel Holdings under the Hong Kong Financial Reporting Standards.

This proposed acquisition marks the realization of the Group's vision to become a premier global exploration and production energy company listed in Hong Kong. Nobel Holdings chose to be aligned with the Group because we understand their needs and aspirations and we understand the Hong Kong capital market. Nobel Holdings needs a partner that can help them maximize their growth potential and we believe we have the experience and expertise to do so.

Concurrent to our acquisition effort in the oil and gas sector and consistent with the Group's business strategy to position itself as an integrated coke producer in People's Republic of China ("PRC"), the Group undertook the following alignments to consolidate our corporate objectives:

– On 27 November 2009, completed the sales of Time Creation Group Limited, a wholly owned subsidiary of the Group which held 51% of the entire issued share capital of Global On-Line, the trading arm of the Group for printing accessories and batteries.

– On 10 December 2009, completed the acquisition (the "Mengxi Minerals Acquisition") of 21% interest in Inner Mongolia Mengxi Minerals Company Limited ("Mengxi Minerals"). Mengxi Minerals is a Sino-foreign joint venture company set up to own and operate a coking coal mine in Inner Mongolia in the People's Republic of China. Following completion of the Mengxi Minerals Acquisition, Mengxi Minerals is owned as to 70% by the Group and 30% by Inner Mongolia Gaoxin High Tech Limited ("Mengxi HT").

– On 15 December 2009, the Group announced that it is contemplating to merge Mengxi Minerals with Ordos GEM Coal & Chemical Co., Ltd. ("Mengxi Chemical") (the "Possible Merger"), primarily to reduce the Group's administrative cost of its coal business. Mengxi Chemical is a Sino-foreign joint venture company established to build and operate coal processing plants. It is owned as to 70% by the Group and 30% by Mengxi HT. It is expected that under the Possible Merger, Mengxi Chemical will transfer all of its assets and liabilities to Mengxi Minerals and after such transfer, Mengxi Chemical will be dissolved.

  It is also contemplated that following the completion of the Possible Merger, the Group may acquire (the "Possible Acquisition") the remaining 30% equity interest in Mengxi Minerals from Mengxi HT.

– On 21 December 2009, the Group announced that it does not intend to participate in the proposed new shares issue (the "Proposal") by Long Capital Development Limited ("Long

Capital"), a 51% owned subsidiary of the Group because the Group wishes to focus its resources in the development of its coking coal business. If the Proposal is proceeded with and completed, the Group's shareholding in Long Capital will fall below 50% and, as a result, Long Capital will cease to be a subsidiary of the Company. The Proposal, if proceeded with, may constitute a deemed disposal under GEM Listing Rules.

Long Capital is an investment holding company and its wholly owned subsidiary, Challenger Auto Services Limited, engages in the business of providing repairs and maintenance services to motor vehicles, operating car accessories shops, car wash, cleaning and beauty services and brokerage of motor vehicle insurance.

During the period, the Group generated its income from its auto beauty and repairs operations in Hong Kong and its coking coal extraction operation in Inner Mongolia, PRC.

The Group's coal mine is located in Ordos, Inner Mongolia and can be extracted using both the open pit and underground mining techniques. For the year ended 31 December 2009, Mengxi Minerals sold about 40,000 tonnes of raw coal for a total revenue of approximately RMB7.0 million.

The Group's raw coal production is anticipated to be 1.5 million tonnes ("mt"), 2.5 mt and 3.0 mt in 2010, 2011 and 2012 respectively.

Construction of the underground mine commenced in October 2009 and is expected to be completed in 2011 at an estimated capital expenditure of RMB480 million. The designed capacity for the underground mine is 1.2 million tonnes per annum ("mtpa"), however, the Group is working with the design institute to enhance annual production to about 1.6 mtpa.

The Group's 1.5 mtpa beneficiation plant is targeted for completion in May of 2010. Capital expenditure for the plant is estimated to be RMB50 million. The Group plans to increase its beneficiation capacity to 3.0 mtpa in 2012 at an additional capex of RMB50 million. The Group's targeted beneficiation yield rate is 45% which is achievable using coal blending in the beneficiation process. Typical unblended beneficiation yield rate in the Ordos/Wuhai region is about 35%.

China Construction Bank has provided a RMB300 million loan to the Group to partially fund the construction of the beneficiation plant and the underground mine. The Group is funding the balance of the capex requirements with its internal resources.

Construction of the 0.96 mtpa coking plant is targeted to commence in 2011. The Group has been granted a license to build and operate a 0.80 mtpa coking plant, however, because of equipment obsolescence and pollution control consideration, only 0.96 mtpa plants are currently being built. Reapplication for the license is an administrative formality and we do not anticipate any difficulty in completing this process. Construction of the coking plant will require 12 months to complete at an anticipated capital expenditure of approximately RMB700 million. We anticipate the majority of the capex will be satisfied from our operating cash flow with the bank providing the remaining capex financing requirement.

The Group's mine, located in the district of Qian Li Gou (千里溝) in Ordos, is one of the thirteen mines in the district. The majority of these mines are not in production because they cannot meet the current minimum 0.6 mtpa production quota in Ordos (the highest minimum production standard to have been introduced in Inner Mongolia to address safety and environmental concerns). The Group's mine, the largest in the district and the only one to have listed company ownership, is favorably received by the local government and we are viewed as the possible white knight that has the financial resources and technical capability to acquire and consolidate these small mines so that they can start producing to provide the necessary economic benefit to the district.

It is well known that the coking coal industry is closely linked to steel production; accordingly, crude steel production forecast is a good barometer of our industry's health. China's steel industry performed exceptionally well during the recent global economic downturn producing YTD 519 mt of crude steel at the end of November 2009 (a 13% YoY increase). An industry insider was quoted as saying China's crude steel output in 2009 should register a historical high of 570 mt. The expert also predicts China will set yet another new high in 2010 by exceeding the 600 mtpa production ceiling. This sentiment is equally shared by a prominent international bank stating that steel demand growth in China will outpace supply in 2010.

Recently released leading indicators confirmed China's continuing economic vigor:

1. Purchasing Manager Index ("PMI") – November PMI came in at 55.2 reinforcing China's return to an expansion track. *(Of note, US PMI and Eurozone PMI have moved above the critical 50 mark (US since July and Eurozone shortly thereafter) signaling a sustained global economic recovery).*

2. China Industrial Production – Up 19.2% YoY in November.

3. Fixed Assets Investment ("FAI") – November Chinese FAI registered over 30% YoY growth, with YTD totaling over RMB16.8 trillion, while real estate FAI grew over 17% YoY.

4. Power Consumption – Chinese electricity consumption grew 27% YoY in November to 323 bn KWh.

5. Monthly Auto Production – November auto production was up over 100% YoY.

6. Floor Space ("FS") Trends – Floor space under construction (which includes previously stalled projects) grew 39% YoY, while FS started grew 24% YoY in October. FS sold was up 82% YoY, while FS completed was up 28% YoY.

Raw coal and cleaned coking coal are trading around RMB350/tonne and RMB1,000/tonne respectively in the Ordos/Wuhai region while coke is being sold at around RMB1,800/tonne. However, recent market dynamics suggest that coking coal prices in China are on the rise:

1. Citigroup Inc. forecasted a 14% rise in coking coal prices in China in 2010 because of supply deficit.

2. China's coking coal imports rose 12-fold in 2009 as the government closed smaller, unsafe mines. According to Macquarie Securities Group, JPMorgan Chase & Co. and Morgan Stanley, prices may jump by between 23% and 38% in 2010 as global demand rebounds from the deepest recession since the 1930s intensifying global supply shortages. *(Macquarie expects in 2010 Japan's coking coal purchases may jump 14% to 58 mt while South Korea's demand may rise 17% to 21 mt.)*

3. Industry associations in China's main coking coal producing provinces, including Shanxi and Hebei, have raised benchmark prices for coking coal in December of 2009.

4. China's GDP is forecasted to grow by 10% in 2010 creating continuing pressure on demand for resources.

The Group is now unique amongst Hong Kong listed energy companies for we are the first to introduce Russian oil and gas asset acquisition opportunity into the Hong Kong Capital market. The proposed Nobel Holdings acquisition will provide the necessary credentials and impetus to propel the Group to become an international energy exploration and production player. By embarking on a path that is designed to diversify our energy asset portfolio, we will accordingly lessen the Group's exposure to regional geopolitical and economic risks. We believe this is a strategy that will create value for our investors.

During the audit of the financial statements of the Group for the year ended 31 March 2009 (the "**Annual Report 2009**"), the auditors of the Company (the "**Auditors**"), advised that, among others, (i) the Deferred Tax amounted to approximately HK$244.53 million is required to be taken into account when preparing for the Group's consolidated financial statements for the reason that the tax effect of Excess Net Fair Value on Mengxi Minerals is a temporary difference, and (ii) the Share Premium, Merger Reserve and Foreign Currency Translation Reserve arising from the Acquisition amounted to approximately HK$48.30 million, HK$57.50 million and HK$7.68 million as recorded in the consolidated reserve in the Interim Report for the nine months ended 31 December 2008 (the "**Interim Result 2008**") should be reclassified as the part of the investment cost of the Acquisition.

Taking into account the adjustments including the Deferred Tax and the Cost of Acquisition of Mining Business as mentioned above, at the consolidation level, the net effect would be that they reversed the Excess Net Fair Value of Mengxi Minerals of approximately HK$60.72 million as disclosed in the Interim Report to a goodwill (i.e. an excess of cost of Acquisition over its net fair value) arising from the Acquisition amounted to approximately HK$124.67 million as disclosed in the Annual Report 2009 and the Total Equity in the Consolidated Reserve will reduce to approximately HK$325.26 million in the third quarter Result 2008.

As advised by our Auditors, the Derivative Component of the Replacement Bonds has been reclassified as Equity Component. Consequently, (i) the Liability Component of the Replacement Bonds increased to 312 million; and (ii) the impairment loss on Derivative Component of the Replacement Bonds has been reversed.

As the result, the Total Comprehensive Loss for the three months and six months reduced to HK$143.7 million and HK$155.9 million respectively; and (ii) the Total Equity increased to HK$875.6 million. However, this reclassification will not affect any cashflow position of the Group.

FINANCIAL REVIEW

Turnover of the Group for the three months and nine months ended 31 December 2009 amounted to approximately HK$14.7 million and HK$38.0 million respectively (2008: HK$11.9 million and HK$39.1 million), representing an increase/a decrease of approximately 23.5% and 2.8% respectively as compared to the same period last year.

Correspondingly, gross profit of the Group for the three months and nine months ended 31 December 2009 increased to HK$11.6 million and HK$28.9 million respectively (2008: HK$8.3 million and HK$28.2 million).

For the three months and nine months ended 31 December 2009, the total administrative and other operating expenses amounted to approximately HK$12.4 million and HK$34.8 million respectively (2008: HK$11.3 million and HK$34.3 million).

For the three months and nine months ended 31 December 2009. The total finance costs amounted to approximately HK$8.4 million and HK$92.7 million respectively (2008: HK$8.8 million and HK$19.6 million). This balance includes (i) bond interest of Convertible Bonds realized for the period (Three months: HK$Nil million and Nine Months: HK$11.7 million); (ii) Accrued bond interest of Replacement Bonds (Three months: HK$8.4 million and Nine months: HK$11.3 million) and (iii) expenses on conversion of Convertible Bonds realized for the period (Three months: HK$Nil million and Nine Months: HK$69.7 million).

Upon the conversion of the Convertible Bonds, the conversion price are less than HK$1.00 (Conversion price is equal to the three lowest closing prices for a share during the twenty trading days period prior to the date of use of the Conversion Notice), then number of conversion share more than 770 million, then only 770 million shares can be converted, the remaining balance have been redeemed at 120% of early redemption price as Conversion Cap Payment. The 20% mark up of the Conversion Cap Payment for the three months and nine months ended 31 December 2009 was amounting to HK$Nil and HK$69.7 million respectively (2008: HK$Nil). This balance included in the finance cost for the period ended 31 December 2009.

During the period, as there was a significant increase in the share price of the Company, the fair value of derivative liability of the Convertible Bonds decrease accordingly, resulting in an impairment loss of HK$58.6 million which was debited in the consolidated statement of comprehensive income.

Net loss attributable to equity holders of the Company for the three months and nine months ended 31 December 2009 amounted to approximately HK$(22.8) million and HK$(116.0) million respectively (2008: HK$(12.1) million and HK$(26.0) million), representing an increase of approximately 88.4% and 346.2% respectively as compared to the same period last year.

Upon completion of the Acquisition of 21% Equity Interest in Mengxi Minerals, the Company measured the Fair Value of an Intangible Asset Acquired in a Business Combination in accordance with Hong Kong Accounting Standards 38 (Intangible Assets). As Mengxi Minerals was an associate of the Group, the excess value of the Intangible Assets accounted for the "Share of Other Comprehensive Income of Associate" was amounting HK$396 million in the associate level. And then, the excess value over the Cost of Acquisition in Business Combination accounted for the "Gain from a Bargain Purchase" was amounting to HK$479 million.

LIQUIDITY AND FINANCIAL RESOURCE

As at 31 December 2009, the Group has bank and cash balance of approximately HK$350.5 million (as at 31 March 2009: HK$39.2 million).

As at 31 December 2009, the Group has been granted banking facilities in the aggregate amount of HK$1.5 million (As at 31 March 2009: HK$1.5 million).

During the period under review, the Group pledged its fixed deposit to a bank to secure banking facilities totaling HK$1.5 million (As at 31 March 2009: HK$1.5 million).

Mengxi Minerals, an indirect subsidiary company of the Group, have secured a RMB300 million bank loan with an effective term of 89 months provide partial funding to construct the underground mine and the beneficiation plant. The balance of capital expenditure requirement will be funded from cashflow generated from our open pit operation. The loan was secured by the Mining License and 100% Equity Shares of Mengxi Minerals.

GEARING RATIO

The Group's gearing ratio, which represents the ratio of the Group's total debts over the Group's total assets, was 0.12 as at 31 December 2009 (as at 31 March 2009: 0.69).

CAPITAL STRUCTURE

During the period, the Company has received from the Boldholders a conversion notice regarding the conversion of a principal amount of HK$770,000,000 of the Convertible Bonds into 770,000,000 new Shares. Upon complete the conversion exercise, there is not outstanding principal of the Convertible Bonds held by the Convertible Boldholders.

During the period, the Company has received the grantee an exercise notice regarding the exercise of share option into 29,755,000 new Shares.

During the period, the Company has also received from the Boldholders a conversion notice regarding the conversion of a principal amount of HK$136,150,000 of the Replacement Bonds into 195,920,000 new Shares. Upon completion the conversion exercise, the outstanding principle of the Replacement Bonds was amounting HK$290,530,000 and there are 477,070,000 new Shares can be converted into new Shares.

On 14 August 2009, the Placing Agent and the Company entered into the Placing Agreement pursuant to which the Company has agreed to place, through the Placing Agent on a fully underwritten basis, 240,000,000 Placing Shares at HK$0.70 each to not fewer than six Placees who and whose ultimate beneficial owners will not be connected person of the Company and its connected persons.

The 240,000,000 Placing Shares under the Placing represent 20% of the existing issued share capital of the Company of 1,200,000,000 Shares and approximately 16.67% of the then issued share capital of 1,440,000,000 Shares as enlarged by the Placing. The aggregate nominal value of the Placing Shares under the Placing will be HK$2,400,000.

The gross proceeds from the Placing will be HK$168 million. The net proceeds from the Placing amounted to approximately HK$159 million which is intended to be used for business development and general working capital. The net price raised per Share upon the completion of the Placing will be approximately HK$0.663 per Share.

The Company has issued 240 million Shares to the Placees on 27 August 2009.

FOREIGN EXCHANGE EXPOSURE

Most of the trading transactions, assets and liabilities of the Group were denominated in Hong Kong dollars and Renminbi ("**RMB**"). As at 31 December 2009, the Group had no significant exposure under foreign exchange contracts, interest, currency swaps or other financial derivatives.

OTHER INFORMATION

1. DIRECTORS' AND CHIEF EXECUTIVES' INTEREST AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS

As at 31 December 2009, the interests and short positions of the Directors and the chief executives in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required pursuant to section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to the securities transactions by the Directors are as follows:

Long position in Shares and underlying Shares

Name of Directors	Capacity	Number of Shares	Number of underlying Shares *(Note)*	Approximate percentage of the total issued Shares as at 31 December 2009
Chan Nap Kee, Joseph	Beneficial owner	200,000	4,925,000	0.26%
Yeap Soon P, Jonathan	Beneficial owner	300,000	7,700,000	0.40%
Chow Pok Yu, Augustine	Beneficial owner	700,000	4,925,000	0.28%
Liew Swee Yean	Beneficial owner	540,000	–	0.03%
Siu Siu Ling, Robert	Beneficial owner	540,000	–	0.03%
Wong Yun Kuen	Beneficial owner	–	540,000	0.03%
Yang Geyan *(Note 2)*	Beneficial owner	118,345,000	–	5.90%
Yang Yongcheng	Beneficial owner	–	4,925,000	0.25%
Anderson Brian Ralph	Beneficial owner	–	1,200,000	0.06%

Note 1: The long position in the underlying Shares mentioned above represent the Shares to be issued and allotted upon the exercise in full of the Share Options granted by the Company to the above mentioned directors pursuant to the share option scheme of the Company. The above Share Options represent personal interest held by directors.

Note 2: Zhong Well Enterprises Limited is wholly-owned by Yang Geyan who is deemed to be interest in the 103,620,000 Shares held by Zhong Well Enterprises Limited under the SFO.

Details of the Share Options granted to the above Directors are set out in the section headed "SHARE OPTIONS".

Save as disclosed above, none of the Directors or the chief executives of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to the securities transactions by the Directors.

2. INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES

As at 31 December 2009, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of the Directors, the following shareholders had notified the Company of relevant interests and short positions in the Shares and underlying Shares:

Name of Shareholders	Capacity	Nature of interest	Long Position			Approximate percentage of the total issued Shares as at 31 December 2009
			Number of Shares	Number of underlying Shares	Total Interest	
GEM Global Yield Fund Limited ("GEM Global")	Beneficial owner/Interest of a controlled corporation	Beneficial interest/ Corporate interest	230,000,000	791,000,000	1,021,000,000 *(Note 1)*	50.91%
Mak Siu Hang, Viola	Interest of a controlled corporation	Beneficial interest	160,040,000	78,100,000	238,140,000 *(Note 2)*	11.87%
VMS Investment Group Limited	Beneficial owner	Beneficial owner	160,040,000	78,100,000	238,140,000 *(Note 2)*	11.87%
Hung Shui Chak	Beneficial owner/Interest of a controlled corporation	Beneficial owner/ Interest of a controlled corporation	113,615,000	–	113,615,000 *(Note 3)*	5.66%
Dragonfair International Limited	Beneficial owner	Beneficial owner	103,390,000	–	103,390,000 *(Note 3)*	5.15%

Name of Shareholders	Capacity	Nature of interest	Long Position Number of Shares	Number of underlying Shares	Total Interest	Approximate percentage of the total issued Shares as at 31 December 2009
Zhang Zhi Ping	Interest of a controlled corporation	Beneficial interest	215,640,000	314,820,000	530,460,000 *(Note 4)*	26.45%
Zhang Gaobo	Interest of a controlled corporation	Beneficial interest	215,640,000	314,820,000	530,460,000 *(Note 4)*	26.45%
Oriental Patron Financial Group Limited	Interest of a controlled corporation	Corporate interest	215,640,000	314,820,000	530,460,000 *(Note 4)*	26.45%
Oriental Patron Financial Services Group Limited	Interest of a controlled corporation	Corporate interest	86,380,000	108,540,000	194,920,000 *(Note 4)*	9.72%
Pacific Top Holding Limited	Beneficial owner	Beneficial owner	86,380,000	108,540,000	194,920,000 *(Note 4)*	9.72%
OP Financial Investments Limited	Interest of a controlled corporation	Corporate interest	129,260,000	206,280,000	335,540,000 *(Note 4)*	16.73%
Profit Raider Investments Limited	Beneficial owner	Beneficial owner	129,260,000	206,280,000	335,540,000 *(Note 4)*	16.73%
Yang Geyan	Beneficial owner/interest of a controlled corporation	Beneficial owner/ corporate interest	118,345,000	–	118,345,000 *(Note 5)*	5.90%
Zhong Well Enterprises Limited	Beneficial owner	Beneficial owner	103,620,000	–	103,620,000 *(Note 5)*	5.17%

Notes:

1. These 1,021,000,000 Shares and underlying Shares represent the aggregate of: (i) the 230,000,000 Shares held by Grand Pacific, which was a wholly-owned subsidiary of GEM Global Yield Fund Limited ("GEM Global"); and (ii) 170,000,000 underlying Shares held by Grand Pacific and 621,000,000 underlying Shares held by GEM Global. Accordingly, GEM Global is deemed to be interested in those Shares and underlying Shares held by Grand Pacific under the SFO.

   The Directors are unable to ascertain the interests of GEM Global as at the Latest Practicable Date, and confirm whether the interests of GEM Global as at the Latest Practicable Date, have been accurately shown. The interest of GEM Global as shown was disclosed in the corporate substantial notice of GEM Global filed on 3 April 2008 and recorded in the register of substantial shareholders maintained by the Company under Section 336 of the SFO. As set out in the Company's announcement dated 3 June 2008, the Company received default notification from GEM Global in relation to HK$540 Million Placing Convertible Bonds (as defined in such announcement). Theoretically, the interests of GEM Global should have decreased and updated corporate substantial notice should have been filed with the Company and the Stock Exchange by GEM Global as a result of such default. In addition to the default of the Placing Convertible Bonds mentioned above, as set out in the Company's announcements dated 3 June 2008 and 11 June 2008, on 10 June 2008, 230 million Consideration Shares (as defined in such announcements) were allotted and issued to Grand Pacific, the entire equity interests of which were acquired by Glimmer from GEM Global on the same day, and 60 million Consideration Shares were transferred from Grand Pacific to GEM Global as consideration for such acquisition. Theoretically, the interests of GEM Global should have decreased and updated corporate substantial notice should have been filed with the Company and the Stock Exchange by GEM Global as a result of the acquisition of Grand Pacific by Glimmer mentioned above. The Company has not received any updated corporate substantial notice of GEM Global after 3 April 2008. However, the Directors cannot exclude the possibility that GEM Global may have acquired or disposed of any interests in shares or underlying shares of the Company after the above announcements.

The Directors are also unable to ascertain the shareholding of GEM Global from the register of members of the Company as the information contained therein may not reflect the actual beneficial shareholdings of the shareholders (i.e. the registered shareholders may be have trustee or holding some shares of the Company on behalf of the others and this kind of interest is not required to be disclosed under the SFO).

2. VMS Investment Group Limited is wholly-owned by Mak Siu Hang, Viola, who is deemed to be interested in the 160,040,000 Shares and 78,100,000 underlying Shares held by VMS Investment Group Limited under the SFO.

3. Dragonfair International Limited is wholly-owned by Hung Shui Chak who is deemed to be interested in the 103,390,000 Shares held by Dragonfair International Limited under the SFO.

4. Oriental Patron Financial Group Limited ("OPFGL") holds 215,640,000 Shares and 314,820,000 underlying Shares of the Company. OPFGL is 51% owned by Zhang Zhi Ping and is 49% owned by Zhang Gaobo.

   Including in 215,640,000 Shares and 314,820,000 underlying Shares of the Company, 86,380,000 Shares and 108,540,000 underlying Shares are held by Pacific Top Holding Limited ("PTHL"). PTHL is wholly owned by Oriental Patron Financial Services Group Limited ("OPFSGL"), OPFSGL is 95% held by OPFGL. Zhang Zhi Ping, Zhang Gaobo, OPFGL and OPFSGL are deemed to be interested in the interests held by PTHL under the SFO.

   Including in 215,640,000 Shares and 314,490,000 underlying Shares of the Company, 129,260,000 Shares and 206,280,000 underlying Shares are held by Profit Raider Investments Limited ("PRIL"), PRIL is wholly owned by OP Financial Investments Limited ("OPFIL"), OPFIL is 42.07% held by Ottness Investments Limited ("OIL"). OIL is wholly owned by OPFGL. Zhang Zhi Ping, Zhang Gaobo, OPFGL, OIL and OPFIL are deemed to be interested in the interests held by PRIL under the SFO.

5. Zhong Well Enterprises Limited is wholly-owned by Yang Geyan who is deemed to be interest in the 103,620,000 Shares were held by Zhong Well Enterprises Limited under the SFO.

The Directors were not aware of any other person (other than the Directors and the chief executives of the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 & 3 of Part XV of the SFO, or who was directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Company.

3. SHARE OPTIONS

A share option scheme (the "Scheme") was adopted by the shareholders of the Company by way of written resolutions passed on 9 December 2003. The principal purpose of the Scheme is to enable the Group to grant options to subscribe for Shares to the eligible person as incentives or rewards for their contributions to the Group.

On 11 August 2009 and 18 November 2009, as approved by the Board of Directors, a total of 13,668,750 Options and 3,000,000 Options have been granted to an Executive Director, an Independent Non-Executive Director and 10 staffs to subscribe for a total of 13,668,750 Shares and 3,000,000 Shares of the Company at an exercise price of HK$0.762 and HK$1.184 per Share respective. As at 31 December 2009, a total of 50,386,250 Shares, representing 2.51% of the existing issued share capital of the Group are available for issue in respect of the remaining options which may be granted under the Scheme.

Details of the share options granted under the Scheme during the period are as follows:

						No. of Options					
	Date of Grant	Exercise Period	Outstanding as at 1/4/2009	Grant during the Period	Exercise during the Period	Lapsed during the Period	Cancelled during the Period	Reallocated during the Period	Outstanding as at 31/12/2009	Exercise Price *(HK$)*	Closing Price of Shares immediately before the date of grant *(HK$)*
Directors											
Wu Kam Hung (Resigned on 7/8/2009)	19/2/2008	19/2/2008–18/2/2011	5,400,000	–	–	–	–	(5,400,000)	–		
Liew Swee Yean	19/2/2008	19/2/2008–18/2/2011	540,000	–	(540,000)	–	–	–	–		
Siu Siu Ling, Robert	19/2/2008	19/2/2008–18/2/2011	540,000	–	(540,000)	–	–	–	–		
Wong Yun Kuen	19/2/2008	19/2/2008–18/2/2011	540,000	–	–	–	–	–	540,000		
Yeap Soon P, Jonathan	24/6/2008	24/6/2008–23/6/2011	7,700,000	–	–	–	–	–	7,700,000		
Chan Nap Kee, Joseph	8/1/2009	8/1/2009–7/1/2012	4,925,000	–	–	–	–	–	4,925,000		
Chow Pok Yu, Augustine	8/1/2009	8/1/2009–7/1/2012	4,925,000	–	–	–	–	–	4,925,000		
Yang Geyan	8/1/2009	8/1/2009–7/1/2012	4,925,000	–	(4,925,000)	–	–	–	–		
Yang Yongcheng	11/8/2009	11/8/2009–10/8/2012	–	4,925,000	–	–	–	–	4,925,000	0.762	0.710
Anderson Brian Ralph	11/8/2009	11/8/2009–10/8/2012	–	1,200,000	–	–	–	–	1,200,000	0.762	0.710
		Sub-total	29,495,000	6,125,000	(6,005,000)	–	–	(5,400,000)	24,215,000		
Employees in aggregate	19/2/2008	19/2/2008–18/2/2011	1,705,000	–	(1,645,000)	(60,000)	–	–	–		
	24/6/2008	24/6/2008–23/6/2011	5,000,000	–	–	–	–	–	5,000,000		
	8/1/2009	8/1/2009–7/1/2012	4,925,000	–	(4,925,000)	–	–	–	–		
	11/8/2009	11/8/2009–10/8/2012	–	7,543,750	(400,000)	–	–	–	7,143,750	0.762	0.710
	18/11/2009	18/11/2009-17/11/2012	–	3,000,000	–	–	–	–	3,000,000	1.184	1.2
Other participants in aggregate	19/2/2008	19/2/2008–18/2/2011	11,880,000	–	(16,780,000)	–	–	5,400,000	500,000		
			53,005,000	16,668,750	(29,755,000)	(60,000)	–	–	39,858,750		

Note: Mr. Wu Kam Hung has been resigned as an executive director and redesignated as a consultant on 7 August 2009.

Details of the share options outstanding during the period are as follows:

	2009 Number of share options '000	2008 Number of share options '000
Outstanding at the beginning of the period	**53,005**	21,600
Granted during the period	**16,669**	12,700
Lapsed during the period	**(60)**	–
Exercise during the period	**(29,755)**	–
Outstanding at the end of the period	**39,859**	34,300
Exercisable at the end of the period	**39,859**	34,300

During the period, 16,668,750 share options were granted. The estimated fair value of the options on the issued date was amounting HK$6 million. During the period, 29,755,000 shares and 60,000 were exercised and lapsed respectively.

4. DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors or their respective associates (as defined in GEM Listing Rules) had any interests in any business which compete or may compete with the Group or any other conflicts of interest with the Group.

5. AUDIT COMMITTEE

The Company has established an audit committee on 9 December 2003 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group.

The written terms of reference which describe the authority and duties of the audit committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants.

The audit committee provides an important link between the Board and the Company's auditors in those matters within the scope of the Group's audit. It also reviews the effectiveness of the external and internal audit, internal control and risk evaluation. The audit committee comprises four independent non-executive Directors, namely Mr. Liew Swee Yean, Mr. Siu Siu Ling, Robert, Dr. Wong Yun Kuen and Mr. Anderson Brian Ralph, and Mr. Liew Swee Yean is the chairman of the audit committee.

The unaudited interim results for the nine months ended 31 December 2009 have been reviewed by the audit committee which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

6. PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the nine months ended 31 December 2009. Neither the Company nor any of its subsidiaries has purchased or sold any of the Shares during the nine months ended 31 December 2009.

7. CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the nine months ended 31 December 2009. The Company has also made specific enquiry to all Directors and the Company was not aware of any non-compliance with the required standard of dealings under the GEM Listing Rules and its code of conduct regarding securities transactions by Directors.

8. CODE ON CORPORATE GOVERNANCE PRACTICE

The Company has complied with all the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the GEM Listing Rules throughout the nine months ended 31 December 2009.

By order of the Board
Chan Nap Kee, Joseph
Chairman

Hong Kong, 8 February 2010

As at the date of this report, the executive Directors of the Company are Mr. Chan Nap Kee Joseph, Mr. Yeap Soon P Jonathan, Dr. Chow Pok Yu Augustine, Mr. Yang Geyan and Mr. Yang Yongcheng. The independent non-executive Directors of the Company are Mr. Liew Swee Yean, Mr. Siu Siu Ling Robert, Dr. Wong Yun Kuen and Mr. Anderson Brian Ralph.