



POLYARD PETROLEUM INTERNATIONAL GROUP LIMITED
百田石油國際集團有限公司

(Stock Code : 8011)



2010

Third Quarterly Report

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CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the directors (the “Directors”) of Polyard Petroleum International 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 of the Stock Exchange (the “GEM Listing Rules”) 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.*

THIRD QUARTERLY RESULTS

The board of Directors (the "Board") of Polyard Petroleum International Group Limited (the "Company") would like to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the three months and nine months ended 30 September 2010, together with the comparative unaudited figures for the corresponding periods in 2009, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months and nine months ended 30 September 2010

	Notes	Unaudited		Unaudited	
		Three months ended		Nine months ended	
		30 September		30 September	
		2010	2009	2010	2009
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	3	—	1,456	818	3,145
Cost of sales		—	(1,445)	(807)	(3,093)
Gross profit		—	11	11	52
Other revenues		30	459	92	1,196
Administrative expenses		(6,603)	(4,063)	(17,966)	(11,472)
Share of results of associates		(8)	—	(19)	(1,355)
Operating loss		(6,581)	(3,593)	(17,882)	(11,579)
Finance costs	4	(6,759)	(6,341)	(20,070)	(18,709)
Loss before tax		(13,340)	(9,934)	(37,952)	(30,288)
Income tax	6	770	698	2,245	2,058
LOSS FOR THE PERIOD		(12,570)	(9,236)	(35,707)	(28,230)

	Notes	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
		2010	2009	2010	2009
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Attributable to:					
Owners of the Company		(12,412)	(9,217)	(35,112)	(28,182)
Non-controlling interests		(158)	(19)	(595)	(48)
		(12,570)	(9,236)	(35,707)	(28,230)
Loss per share					
Basic (in HK cents)	8	(0.77)	(0.85)	(2.42)	(2.61)
Diluted (in HK cents)		N/A	N/A	N/A	N/A
Dividend	7	—	—	—	—

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and nine months ended 30 September 2010

	Unaudited		Unaudited	
	Three months ended		Nine months ended	
	30 September		30 September	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loss for the period	(12,570)	(9,236)	(35,707)	(28,230)
Other comprehensive income:				
Exchange difference arising on translation of foreign operations	(217)	—	(217)	—
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	(12,787)	(9,236)	(35,924)	(28,230)
Attributable to:				
Owners of the Company	(12,629)	(9,217)	(35,329)	(28,182)
Non-controlling interests	(158)	(19)	(595)	(48)
	(12,787)	(9,236)	(35,924)	(28,230)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2010

	Unaudited									
	Issued capital	Share premium	Special reserve	Warrant reserve	Convertible bonds reserve	Exchange reserve	Retained profits	Attributable to owners of the Company	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2009 (Audited)	10,816	359,974	985	4,423	62,370	15	140,039	578,622	591	579,213
Loss for the period	—	—	—	—	—	—	(28,182)	(28,182)	(48)	(28,230)
Other comprehensive income for the period	—	—	—	—	—	—	—	—	—	—
Total comprehensive income for the period	—	—	—	—	—	—	(28,182)	(28,182)	(48)	(28,230)
Issue of convertible bonds for settlement of balance of consideration payable on acquisition of interests in a subsidiary	—	—	—	—	4,890	—	—	4,890	—	4,890
Deferred tax liability on issue of convertible bonds	—	—	—	—	(806)	—	—	(806)	—	(806)
Non-controlling interests arising on issue of shares by a subsidiary	—	—	—	—	—	—	—	—	40	40
At 30 September 2009	10,816	359,974	985	4,423	66,454	15	111,857	554,524	583	555,107
At 1 January 2010 (Audited)	10,816	359,974	985	—	66,454	15	49,305	487,549	564	488,113
Loss for the period	—	—	—	—	—	—	(35,112)	(35,112)	(595)	(35,707)
Other comprehensive income for the period	—	—	—	—	—	(217)	—	(217)	—	(217)
Total comprehensive income for the period	—	—	—	—	—	(217)	(35,112)	(35,329)	(595)	(35,924)
Issue of shares under rights issue	5,408	102,752	—	—	—	—	—	108,160	—	108,160
Issuing expenses relating to a rights issue	—	(1,643)	—	—	—	—	—	(1,643)	—	(1,643)
At 30 September 2010	16,224	461,083	985	—	66,454	(202)	14,193	558,737	(31)	558,706

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. General information

The Company was incorporated in the Cayman Islands on 6 March 2002 as an exempted company under the Companies Law of the Cayman Islands. The shares of the Company were listed on GEM on 12 July 2002.

The Group is principally engaged in the exploration, exploitation and production of oil, natural gas and coal, and trading of petroleum-related products.

2. Basis of preparation

The unaudited condensed consolidated results have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the applicable disclosure requirements of the GEM Listing Rules.

The unaudited condensed consolidated results have been prepared under the historical cost convention, except for interests in associates and jointly controlled entities and certain financial instruments which are measured at fair value.

The accounting policies adopted for preparing the unaudited condensed consolidated results are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009.

3. Turnover

Turnover represents the net invoice value of products sold after allowances for returns and trade discounts.

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Sales of petroleum-related products	—	1,456	818	3,145

4. Finance costs

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Effective interest on convertible bonds	6,759	6,341	20,061	18,709
Bank interest	—	—	9	—
	6,759	6,341	20,070	18,709

5. Operating loss

Operating loss is arrived at after charging:

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Staff costs (including directors' remuneration)				
— Salaries and other benefits	2,213	1,278	6,637	3,405
— Retirement scheme contributions	26	18	74	46
Depreciation of property, plant and equipment	95	70	245	209

6. Income tax

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current tax				
— Hong Kong	—	—	—	—
— Other jurisdictions	—	(4)	—	(6)
Deferred tax	770	702	2,245	2,064
Income tax credit for the period	770	698	2,245	2,058

No provision for Hong Kong profits tax has been provided as there was no assessable income in Hong Kong during the period (2009: Nil). Taxes on profits assessable in other jurisdictions are calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

Deferred tax for the period represents income tax recognised on reversal of temporary differences arising from convertible bonds.

No deferred tax has been recognised on loss for the period (2009: Nil) due to unpredictability of future taxable profits that will be available against which the tax losses can be utilised.

7. Dividend

The Board does not recommend the payment of a dividend for the period (2009: Nil).

8. Loss per share

The calculation of the basic loss per share is based on the following data:

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loss for the period attributable to owners of the Company	(12,412)	(9,217)	(35,112)	(28,182)
Loss for the period for calculation of basic loss per share	(12,412)	(9,217)	(35,112)	(28,182)
	'000	'000	'000	'000
Weighted average number of ordinary shares in issue for the period	1,622,400	1,081,600	1,450,420	1,081,600

Pursuant to an ordinary resolution passed on 15 March 2010, every five ordinary shares of HK\$0.002 each in the issued and unissued share capital of the Company were consolidated into one consolidated ordinary share of HK\$0.01 each in the issued and unissued share capital of the Company. The calculation of the basic loss per share is based on the number of ordinary shares which are assumed to have been consolidated throughout the periods ended 30 September 2010 and 2009.

No diluted loss per share is presented as the conversion of the outstanding convertible bonds of the Company is anti-dilutive.

9. Events after the reporting date

Pursuant to the ordinary resolutions passed in the extraordinary general meeting on 12 October 2010:

- (1) The authorised share capital of the Company was increased from HK\$20,000,000 to HK\$40,000,000 by the creation of 2,000,000,000 new shares of HK\$0.01 each.
- (2) The rights issue was approved and completed on 2 November 2010. On 2 November 2010, 811,200,000 rights shares were allotted and issued at a subscription price of HK\$0.10 each. The rights shares rank *pari passu* in all respects with the existing shares of the Company.
- (3) The term of the HK\$276,352,231.22 three per cent. convertible bonds due 10 October 2010 was extended for one year to 10 October 2011.

For details, please refer to the Company's circular and prospectus issued to shareholders on 24 September 2010 and 13 October 2010 respectively.

As a result of the rights issue mentioned in (2) above, (i) the conversion price of convertible bonds in the principal amount of HK\$276,352,231.22 was adjusted from HK\$1.792 per share to HK\$1.624 per share, and (ii) the conversion price of convertible bonds in the principal amount of HK\$120,000,000 was adjusted from HK\$0.216 per share to HK\$0.200 per share, with effect from 13 October 2010. For details, please refer to the Company's announcement published on 13 October 2010.

10. Comparative figures

Certain comparative figures have been reclassified to conform with the current period's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

For the nine months ended 30 September 2010, the Group generated an unaudited turnover of approximately HK\$818,000, as compared with approximately HK\$3,145,000 for the nine months ended 30 September 2009 as a result of sluggish sales of petroleum-related products.

The Group recorded a net loss attributable to owners of the Company of approximately HK\$35,112,000 for the period as compared to a net loss attributable to owners of the Company of approximately HK\$28,182,000 for the corresponding period last year.

Administrative expenses for the period amounted to approximately HK\$17,966,000, representing an increase of approximately HK\$6,494,000, or 57%, as compared with the corresponding period last year. It was mainly attributable to the increase in overseas travelling expenses and staff costs necessitated by heightened project activities.

Finance costs for the period amounted to approximately HK\$20,070,000 (2009: approximately HK\$18,709,000). The relative increase in interest costs was mainly due to the fact that the HK\$12 million convertible bond, which was issued in early February 2009, was outstanding for the entire period in 2010.

The Group engages in the business of exploration and exploitation of energy and resources. Among the three ongoing projects, the oil and gas project in Brunei has completed drilling two exploratory wells while the coal mine project in the Philippines has entered into the development phase. As most of the projects are still in the exploratory phase, the Group would have to sustain losses. Profitability will commence when the projects progress to the exploitative phase with output of commercial quantity.

Share Consolidation and Rights Issue

Pursuant to an ordinary resolution passed in the extraordinary general meeting on 15 March 2010, every five ordinary shares of HK\$0.002 each in the issued and unissued share capital of the Company were consolidated into one consolidated ordinary share of HK\$0.01 each in the issued and unissued share capital of the Company. A rights issue at the subscription price of HK\$0.20 per rights share on the basis of one rights share for every two existing shares was completed on 8 April 2010. Details of the rights issue and share consolidation were published in the Company's circular and prospectus issued to shareholders on 26 February 2010 and 16 March 2010 respectively.

As a result of the share consolidation and rights issue, (i) the conversion price of convertible bonds in the principal amount of HK\$276,352,231.22 was adjusted from HK\$0.43 per share to HK\$1.792 per consolidated share, and (ii) the conversion price of convertible bonds in the principal amount of HK\$120,000,000 was adjusted from HK\$0.048 per share to HK\$0.216 per consolidated share, with effect from 16 March 2010. For details, please refer to the Company's announcement published on 16 March 2010.

Upon completion of another rights issue on 2 November 2010, the conversion prices of the HK\$276,352,231.22 and HK\$120,000,000 convertible bonds were further adjusted to HK\$1.624 and HK\$0.200 per share, respectively. For details, please refer to Note 9 above.

Proposed Transfer of Listing

The Company submitted a formal application to the Stock Exchange on 6 January 2010 for the proposed transfer of listing of the shares from GEM to the Main Board of the Stock Exchange under Chapter 9A of the Listing Rules. On 11 March 2010, the application was rejected by the Stock Exchange on the ground that the Company did not fulfill the requirement under Rules 18.02(1) and 18.09(8). After due consideration, the Board decided not to apply for the review of the Listing Committee. However, the Board is committed to continue to further explore the feasibilities of the proposed transfer upon further progress of the Group's projects. For details, please refer to the Company's announcements published on 11 March 2010 and 1 April 2010.

Proposed Acquisition

The Board announced that on 19 April 2010, Win Easy International Limited ("Purchaser"), a wholly-owned subsidiary of the Company, entered into a Share Purchase Agreement with Mr. Lam Nam, a substantial shareholder of the Company, for the acquisition of the entire issued shares of Mass Leader Inc., which was beneficially owned by Mr. Lam Nam ("Vendor"), for a total consideration of HK\$80,000,000.

On 31 May 2010, the Vendor and the Purchaser entered into the Termination Agreement to terminate the Share Purchase Agreement.

The Directors are of the view that (i) the entering into of the Termination Agreement has no adverse effect to the Company and does not have any impact on the long term development of the Group; and (ii) the terms of the Termination Agreement are fair and reasonable to the Company.

For details, please refer to the Company's announcement published on 31 May 2010.

Prospects

Brunei Block M Oil and Gas Project

This oil and gas project in Brunei has been progressing in accordance with the 2010 work program and its budget approved by Brunei National Petroleum Company Sdn. Bhd. Two wells were drilled in Brunei during this quarter — Mawar-1 and Markisa-1. Both wells encountered hydrocarbons and have been cased and suspended in anticipation of future activity. Studies are now underway on data acquired from both wells to determine the implications of the hydrocarbons encountered and to plan the most appropriate future course of action.

Mawar-1 encountered up to 25 meters of gas in the primary objective Ridan Sandstone. Additional hydrocarbon indications were encountered below the Main Thrust Fault near to the bottom of the well and further study is underway to determine the commercial significance of that zone.

Markisa-1 tested the oil potential in a younger reservoir in a separate fault compartment of the Belait Anticline. The well reached a total depth of 1,300 meters measured depth, and wireline logging, sampling and side wall coring operations were completed. Markisa-1 encountered a good oil shows while drilling through the Ridan sands from approximately 1,070 to 1,100 meters (29 meters true vertical thickness) with preliminary wireline logs indicating a possible oil column over this horizon. It was not possible to recover any fluid samples from this interval.

During the quarter, data acquisition commenced for the second 3D seismic survey in Block M. The survey will cover approximately 136 km² and is expected to take until the end of the year to complete. The area to be covered by the Belait North 3D seismic survey lies in the north-central part of Block M and covers a northern extension of the prospective trend covered by the 2009 Belait 3D seismic survey. The area is bisected by the Belait River, with jungle-covered hills to the south and more subdued terrain to the north. The aim of the survey is to identify additional targets along the trend for possible drilling in 2011/2012.

Philippines Central Luzon Gas Project

The exploration program planned for 2010 was progressing smoothly. The proposed workover program for well Victoria-3 was submitted to the Department of Energy Philippines (“DOE”) in early August 2010. After reviewing the results of the initial evaluation over the project and the appraisal of leads and prospect in the block, DOE approved the program in early September 2010. The workover’s drilling construction is undergoing a bidding process and the drilling will take place in 2011. The Manila Office is currently in the process of securing a workover rig to conduct the work and it is anticipated that the Victoria-3 will be re-entered sometime during the first quarter 2011.

Philippines San Miguel Coal Mine Project

The project has progressed into the development phase. The phase-2 road construction, which will extend the vehicle-assessable road into the initial mining area, is under planning, and geological assessment is being conducted. A tree cutting permit for the areas of road construction is pending the approval from Department of Environment and Natural Resources Philippines. The development and production work program are still under study and evaluation.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS

As at 30 September 2010, so far as was known to the Directors, the following Directors and chief executive of the Company had, or were deemed or take to have, interests or short positions in the shares, underlying shares or debentures of the Company or any of its 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 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 Directors.

Long positions in shares of an associated corporation

Name of Director	Associated corporation	Capacity	Number of shares	Approximate shareholding percentage
Zhang Xiaobao	Sinotech Polyard Petroleum Exploration & Development Research Institute Limited	Beneficial owner	10,000	10%

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES AND/OR UNDERLYING SHARES OF THE COMPANY

As at 30 September 2010, the interests and short positions of persons, other than Directors or chief executives of the Company, in the shares and/or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, 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 meetings of any other members of the Group, or substantial shareholders as recorded in the register of substantial shareholders required to be kept by the Company under Section 336 of the SFO were as follows:

Name of person	Number of shares held (Note 1)	Capacity	Approximate percentage of interest
Lam Nam	474,563,464 (Note 2)	(L) Interest of a controlled corporation	29.25%
	154,214,415 (Note 4)	(L) Beneficial owner	9.51%
	555,555,556 (Notes 3 and 4)	(L) Interest of a controlled corporation	34.24%
Silver Star Enterprises Holdings Inc. (Note 2)	474,563,464	(L) Beneficial owner	29.25%
China International Mining Holding Company Limited (Note 3)	555,555,556 (Note 4)	(L) Beneficial owner	34.24%

Notes:

- 1 The letter “L” denotes long positions in shares or underlying shares.
- 2 The entire issued share capital of Silver Star Enterprises Holdings Inc. is beneficially owned by Mr. Lam Nam.
- 3 The entire issued share capital of China International Mining Holding Company Limited is beneficially owned by Mr. Lam Nam.
- 4 These shares may be allotted and issued upon exercise of the conversion rights attaching to the convertible bonds issued by the Company.

Save as disclosed above, as at 30 September 2010, the Directors were not aware of any other person (other than the Directors or chief executives of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is 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 meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

SHARE OPTION SCHEMES

Pursuant to the pre-IPO share option scheme (the “Pre-IPO Share Option Scheme”) adopted by the Company on 26 June 2002, certain Directors and participants have been granted options to subscribe for shares at an exercise price of HK\$0.002 per share. All of these share options granted were exercised or lapsed in or before 2008.

No share options under the share option scheme (the “Share Option Scheme”) adopted by the Company on 26 June 2002 were granted, exercised or lapsed during the period.

Details of the Pre-IPO Share Option Scheme and the Share Option Scheme are set out in the Prospectus issued by the Company on 5 July 2002.

DIRECTORS’ RIGHTS TO ACQUIRE SHARES

At no time during the period were rights to acquire benefits by means of acquisition of shares in or debentures of the Company or of any other body corporate granted to any Directors, their respective spouses or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangements to enable the Directors, their respective spouses or children under 18 years of age to acquire such rights in the Company or any other body corporate.

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 set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company was not aware of any non-compliance with the required standard of dealings and the code of conduct regarding securities transactions throughout the period ended 30 September 2010.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the period.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

COMPETING INTERESTS

During the period, none of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business which competes or may compete with the business of the Group.

CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout the period, the Company has complied with the requirements of the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules except that the number of the Company's independent non-executive Directors and that of the members of the Audit Committee have decreased below the minimum number as required respectively by the Rules 5.05(1) and 5.28 of the GEM Listing Rules following the resignation of Mr. Chan Kin Cheong on 4 May 2010. The deviation was rectified when the Board announced that Mr. Wong Kon Man Jason was appointed as an independent non-executive Director and a member of the Audit Committee of the Company with effect from 12 May 2010, within the prescribed period set forth in Rules 5.06 and 5.33 of the GEM Listing Rules.

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") with written terms of reference pursuant to the GEM Listing Rules. The duties of the Audit Committee include reviewing and monitoring the financial reporting procedures and internal control system of the Group. Following Mr. Chan Kin Cheong's resignation as an independent non-executive Director on 4 May 2010, the number of the Company's independent non-executive Directors and that of the Members of the Audit Committee have decreased below the minimum number as required respectively by the Rules 5.05(1) and 5.28 of the GEM Listing Rules. The deviation was rectified when the Board announced that Mr. Wong Kon Man Jason was appointed as an independent non-executive Director and a member of the Audit Committee of the Company with effect from 12 May 2010, within the prescribed period set forth in Rules 5.06 and 5.33 of the GEM Listing Rules.

As at 30 September 2010, the Audit Committee comprised three independent non-executive Directors, namely Mr. Wang Yanhui, Mr. Pai Hsi-Ping and Mr. Wong Kon Man Jason.

The unaudited condensed consolidated financial statements of the Group for the period have been reviewed by the Audit Committee, which is of the opinion that such unaudited condensed consolidated financial statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made.

For and on behalf of the Board

Kuai Wei
Chairman

Hong Kong, 9 November 2010

At the date of this report, the board of Directors of the Company comprises:

Executive Directors

Mr. Kuai Wei
Mr. Cao Xuejun
Mr. Zhang Xiaobao
Mr. Lin Zhang

Independent Non-Executive Directors

Mr. Wang Yanhui
Mr. Pai Hsi-Ping
Mr. Wong Kon Man Jason