TONVA 上海栋华

# SHANGHAI TONVA PETROCHEMICAL CO., LTD.*

*(a joint stock limited company incorporated in the People's Republic of China)*

Stock Code: 8251


# Third Quarterly Report 2011

*For identification purposes only

## 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 high investment risk maybe 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 collectively and individually accept full responsibility, includes particulars given in compliance with 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.*

## HIGHLIGHTS

1. The Group's turnover for the 9 months ended 30 September 2011 was approximately RMB2,537,314,000 (9 months ended 30 September 2010: approximately RMB1,803,344,000). A growth of approximately 40.7% was recorded year-on-year.

2. Profit attributable to the owners of the Company for the 9 months ended 30 September 2011 was approximately RMB41,895,000 (9 months ended 30 September 2010: approximately RMB37,670,000). A growth of approximately 11.2% was recorded year-on-year.

3. The Board did not recommend an interim dividend for this quarter.

The board of Directors (the "Board") of Shanghai Tonva Petrochemical Company Limited (the "Company") is pleased to present the unaudited consolidated results of the Company and its subsidiaries (together the "Group") for the three and nine months ended 30 September 2011 together with comparative unaudited figures for the corresponding periods in 2010.

## UNAUDITED CONSOLIDATED RESULTS

| | | For the three months ended 30 September | | For the nine months ended 30 September | |
|---|---|---|---|---|---|
| | Note | **2011 RMB'000** | 2010 RMB'000 | **2011 RMB'000** | 2010 RMB'000 |
| Turnover | *2* | **842,412** | 729,391 | **2,537,314** | 1,803,344 |
| Cost of sales | | **(781,841)** | (683,731) | **(2,376,167)** | (1,663,527) |
| Gross profit | | **60,571** | 45,660 | **161,147** | 139,817 |
| Other income and gains | *2* | **11,282** | 9,466 | **12,882** | 16,791 |
| Distribution costs | | **(2,411)** | (4,986) | **(9,090)** | (13,739) |
| Administrative expenses | | **(37,466)** | (17,161) | **(58,774)** | (56,772) |
| Operating profit | | **31,976** | 32,979 | **106,165** | 86,097 |
| Finance costs | | **(15,721)** | (10,500) | **(39,271)** | (27,075) |
| Share of (loss)/profit of associates | | **(630)** | 1,102 | **(1,752)** | (1,629) |
| Profit before income tax expense | | **15,625** | 23,581 | **65,142** | 57,393 |
| Income tax expenses | *3* | **(2,537)** | (4,718) | **(16,242)** | (13,522) |
| Profit for the period | | **13,088** | 18,863 | **48,900** | 43,871 |
| Profit attributable to: | | | | | |
| – Owner of the Company | | **13,769** | 12,435 | **41,895** | 37,670 |
| – Minority interests | | **(681)** | 6,428 | **7,005** | 6,201 |
| | | **13,088** | 18,863 | **48,900** | 43,871 |
| Basic and diluted earnings per share for profit attributable to owner of the Company during the period **(Expressed in RMB per share)** | *4* | **0.015** | 0.013 | **0.045** | 0.040 |
| Dividends | *5* | **–** | – | **–** | – |

# MOVEMENT TO AND FROM CONSOLIDATED RESERVES – UNAUDITED

| | Capital reserve RMB'000 | Statutory common reserve fund RMB'000 | Other reserve RMB'000 | Currency Translation reserve RMB'000 | Retained earnings RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| Balance at 1 January 2010 | 221,766 | 29,797 | 17,912 | (5,340) | 134,602 | 398,737 |
| Currency translation difference | – | – | – | (710) | – | (710) |
| Profit for the period | – | – | – | – | 37,670 | 37,670 |
| Interim dividend declared and paid in respect of first quarter of 2010 | – | – | – | – | (10,298) | (10,298) |
| Balance at 30 September 2010 | 221,766 | 29,797 | 17,912 | (6,050) | 161,974 | 425,399 |
| Balance at 1 January 2011 | 221,766 | 39,928 | 17,912 | (5,821) | 180,389 | 454,174 |
| Currency translation difference | – | – | – | (576) | – | (576) |
| Profit for the period | – | – | – | – | 41,895 | 41,895 |
| Dividend declared and paid in respect of 2010 | – | – | – | – | (20,596) | (20,596) |
| Further acquisition 5.9% equity interest of a subsidiary | 304 | – | – | – | – | 304 |
| Balance at 30 September 2011 | 222,070 | 39,928 | 17,912 | (6,397) | 201,688 | 475,201 |

*Notes:*

## 1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited quarterly financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), and accounting principles generally accepted in Hong Kong. The principal accounting policies adopted in preparing these financial statements are consistent with those followed in the Group's annual audited consolidated financial statements for the year ended 31 December 2010.

## 2. TURNOVER

Turnover represents the sales of asphalt and fuel oil, income from logistic services and road and bridge constructions net of taxes, discounts, returns and allowances, where applicable and after eliminating sales with the Group.

| | For the nine months ended 30 September | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Turnover: | | |
| Sales of asphalt | **289,645** | 646,358 |
| Sales of fuel oil | **1,602,368** | 582,682 |
| Logistic services | **44,501** | 43,239 |
| Road and bridge constructions | **600,800** | 531,065 |
| | **2,537,314** | 1,803,344 |
| Other income and gains: | | |
| Dividend income from unlisted investments | **10,000** | 14,000 |
| Subsidy income | **433** | 160 |
| Interest income | **69** | 42 |
| Others | **2,380** | 2,589 |
| | **12,882** | 16,791 |
| Total revenues | **2,586,196** | 1,820,135 |

## 3. INCOME TAX EXPENSE

| | For the nine months ended 30 September | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| PRC enterprise income tax | **16,242** | 13,522 |
| Hong Kong profit tax | **–** | – |
| | **16,242** | 13,522 |

The Company and one of its subsidiaries, Shanghai Shenhua Logistics Company Limited ("Shanghai Shenhua"), are incorporated in Pudong New Area of Shanghai. Pursuant to the implementation guidance of the new CIT Law ("EIT Law"), the Company and Shenhua Logistics are subject to Enterprise Income Tax ("EIT") 24% (for the nine months ended 30 September 2010: 22%) on their assessable profit for the nine months ended 30 September 2011. Such tax rate will gradually increase to 25% in 2012.

Besides, the Company's subsidiaries, Jiangsu Suzhong Oil Shipping Company Limited ("Suzhong Shipping") and Shanghai Shenhua Logistics (Dongtai) Company Limited ("Shenhua Dongtai"), are treated as small-scale companies for PRC EIT purpose. According to a circular issued by Jiangsu provincial tax bureau in December 2003, the income tax of Suzhong Shipping and Shenhua Dongtai are charged at 2.5% of their revenue.

Profits of others subsidiaries established in the PRC are subject to EIT at 25% (for the nine months ended 30 September 2010: 25%). Profits of subsidiaries established in Hong Kong are subject to Hong Kong profit tax of 16.5% (for the nine months ended 30 September 2010: 16.5%).

## 4. EARNINGS PER SHARE

The calculation of the earnings per share for the three months and nine months ended 30 September 2011 is based on the profit attributable to owners of the Company of RMB13,769,000 and RMB41,895,000, respectively, and the number of 936,190,000 shares (for the three months and nine months ended 30 September 2010: 936,190,000 shares).

Diluted earnings per share have not been calculated as there were no potential dilutive shares during the periods.

## 5. DIVIDEND

The Board did not recommend an interim dividend for the 9 months ended 30 September 2011 (for the nine months ended 30 September 2010: Nil).

# MANAGEMENT DISCUSSION AND ANALYSIS

## Financial and Business Review

During the reporting period, the Group fully leveraged on the synergies of its four major businesses, reacted proactively and attained robust operating results amidst a complex and volatile market environment. Fuel oil business recorded substantial growth in both turnover and gross profit of approximately 175.0% and 206.9% respectively. The remarkable result of this market segment enabled the steady growth of the Group's overall performance. As to the asphalt business, the tightening policies in China during the reporting period resulted in a shortage on funds for certain asphalt users and delayed in the commencement of road construction and subsequently pushed down the demand for asphalt. Sales volume of asphalt in the reporting period decreased over the corresponding period of last year. However, gross margin of the asphalt trading business in the reporting period rose to approximately 9.2% from approximately 8.1% in the corresponding period of last year. As to the road and bridge construction business, construction commencement rate of projects secured by the Group through tender was robust and the number of project commenced increased when compared with the corresponding period of last year. As a result, gross profit of the business increased by approximately 24.3% over the corresponding period of last year, whereas gross margin was increased from approximately 13.0% in the corresponding period of last year to approximately 14.3% in the reporting period. As to logistics business, benefiting from the substantial increase of sales volume of fuel oil and the expansion of the asphalt storage business during the reporting period, logistics business also achieved steady growth, with gross profit increased by approximately 58.2% over the corresponding period of last year. For the nine months ended 30 September 2011, turnover of the Group was approximately RMB2,537,314,000, representing an increase of approximately 40.7% over the corresponding period of last year.

## Business Operations

The Group is principally engaged in the sales of asphalt and fuel oil, road and bridge construction and the provision of logistics service in the PRC. Through domestic and overseas procurement, the Group offers one-stop services to its clients from distribution, storage to delivery of asphalt and fuel oil covering the Yangtze River region and some inland regions. Meanwhile, the Group is also active in developing logistics services by providing storage and transportation services for the asphalt and fuel oil trade, which are beneficial to the Group's domestic distribution of asphalt and fuel oil. As for the road and bridge construction business, it further expands the business scale of the Group and generates synergies for the Group, hence reduces the overall costs and expands room for the Company's business development and creates a new driver to profit contribution.

### Asphalt Trading Business

For the nine months ended 30 September 2011, the Group's turnover for asphalt trading business was approximately RMB289,645,000 (for the nine months ended 30 September 2010: approximately RMB646,358,000), representing a decrease of approximately 55.2% over the corresponding period of last year. The revenue from the asphalt trading business accounted for approximately 11.4% of the Group's total turnover.

Gross margin of the asphalt trading business increased to approximately 9.2% in the reporting period from approximately 8.1% in the corresponding period of last year. For the nine months ended 30 September 2011, the Group's gross profit amounted to approximately RMB26,680,000 (for the nine months ended 30 September 2010: approximately RMB52,557,000), representing a decrease of approximately 49.2% over the corresponding period of last year.

The decrease of income and gross profit from the asphalt trading business during the reporting period was mainly attributable to a rapid surge in short-term demand for asphalt in Shanghai in the first half of last year, when the road construction projects of the Shanghai World Expo were in full swing. While in this year, with an aim to control inflation, the government implemented monetary austerity measures, which resulted in a shortage of funds for certain asphalt users, delayed the commencement of road construction projects and subsequently pushed down the demand for asphalt.

### Fuel Oil Trading Business

For the nine months ended 30 September 2011, the Group's turnover for fuel oil trading business was approximately RMB1,602,368,000 (for the nine months ended 30 September 2010: approximately RMB582,682,000), representing an increase of approximately 175.0% over the corresponding period of last year. Fuel oil business contributed approximately 63.2% to the Group's total turnover in the reporting period. The sales volume of fuel oil recorded a substantial year-on-year increase of approximately 149.3%. The significant growth of fuel oil trading business was primarily attributable to the short turnover cycle, highly capital utilization rate and several new major customers secured during the first half of the year, all of which contributed largely to the sales volume of fuel oil for the Group.

For the nine months ended 30 September 2011, the Group's gross profit of the fuel oil trading business was approximately RMB40,992,000 (for the nine months ended 30 September 2010: approximately RMB13,355,000), representing an increase of approximately 206.9% over the corresponding period of last year; whereas gross margin remained at approximately 2.6%, on par with the corresponding period of last year.

## Logistics Business

For the nine months ended 30 September 2011, the Group's turnover for logistics business was approximately RMB44,501,000 (for the nine months ended 30 September 2010: approximately RMB43,239,000), representing an increase of approximately 2.9% over the corresponding period of last year. Logistics business accounted for approximately 1.8% of the Group's total turnover.

Gross margin for the logistics business increased from 11.1% in the corresponding period of last year to 17.1% in the reporting period. For the nine months ended 30 September 2011, gross profit of the logistics business of the Group was approximately RMB7,619,000, representing an increase of approximately 58.2% over the corresponding period of last year.

## Road and Bridge Construction Business

For the nine months ended 30 September 2011, the Group's turnover for road and bridge construction business was approximately RMB600,800,000 (for the nine months ended 30 September 2010: approximately RMB531,065,000), representing an increase of approximately 13.1% over the corresponding period of last year. Revenue from road and bridge construction business accounted for approximately 23.7% of the Group's total turnover.

For the nine months ended 30 September 2011, gross profit of the Group's road and bridge construction business was approximately RMB85,856,000 (for the nine months ended 30 September 2010: approximately RMB69,090,000), representing an increase of approximately 24.3% over the corresponding period of last year; whereas gross margin increased from approximately 13.0% in the corresponding period of last year to approximately 14.3% in the reporting period.

Despite the monetary austerity measures by the PRC government to contain inflation, the road and bridge construction business of the Group remained unaffected. Related construction projects were progressing smoothly and the amount receivables for construction were duly collected.

### Other Income and Gains

For the nine months ended 30 September 2011, the Group's other income and gains were approximately RMB12,882,000 (for the nine months ended 30 September 2010: approximately RMB16,791,000), representing a decrease of approximately 23.3% over the corresponding period of last year. The decrease in other income and gains was mainly due to the drop in dividend income from unlisted investment from approximately RMB14,000,000 in the corresponding period of last year to approximately RMB10,000,000 in the reporting period.

### Distribution costs

The Group's distribution costs for the nine months ended 30 September 2011 were approximately RMB9,090,000 (for the nine months ended 30 September 2010: approximately RMB13,739,000), representing a decrease of approximately 33.8% over the corresponding period of last year. The decrease was mainly due to the drop in distribution cost of asphalt of the Group during the reporting period.

### Administrative Expenses

The Group's administration expenses for the nine months ended 30 September 2011 were approximately RMB58,774,000 (for the nine months ended 30 September 2010: approximately RMB56,772,000), representing a slight increase of approximately 3.5% over the corresponding period of last year.

### Profit Attributable to Shareholders

Profit attributable to owners of the Group for the nine months ended 30 September 2011 was approximately RMB41,895,000 (for the nine months ended 30 September 2010: approximately RMB37,670,000), representing a growth of approximately 11.2% over the corresponding period of last year. The basic and diluted earnings per share for profit attributable to owners of the Company during the reporting period was RMB0.045 (for the nine months ended 30 September 2010: approximately RMB0.040), representing an increase of approximately 12.5% over the corresponding period of last year.

## PROSPECTS

In spite of decreased asphalt sales volume during the reporting period, the Group believes that the amount of road constructions will recover to normal and the sales volume of asphalt will grow as a result, with proper adjustments to the credit policies and the effect of the Shanghai Disneyland project.

As to fuel oil trading, the Group will actively explore Shanghai and the surrounding markets as well as expanding our portfolio of key customers, to maintain the growing momentum for the operating results in the fourth quarter.

As to the road and bridge construction business, constructions with contract amount of approximately RMB600 million as of the end of the reporting period were still underway. The Group shall keep an eye on quality projects, actively participate in the tendering of such projects and unleash the development potential of the Group's road and bridge construction business.

The Group will continue to leverage on the synergies of logistics business, asphalt trading and fuel oil trading businesses to generate stable revenue to the Group in the long run.

Adhering to our long-standing principles, the Group shall react promptly to the changes in market demand, timely alter the way businesses are conducted in different business segments, and maximize the synergies between the four major businesses. The Group hopes to achieve better operating results in the future for our investors and shareholders.

## DISCLOSURE OF INTERESTS OF DIRECTORS, CHIEF EXECUTIVES AND SUPERVISORS

At 30 September 2011, the interests of long or short position of the Directors, chief executives and supervisors of the Company (the "Supervisors") in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) was required, (a) to notify to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part V of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) to be entered in the register required to be kept therein, pursuant to section 352 of the SFO; or (c) to notify to the Company and the Stock Exchange pursuant to the minimum standards of dealing by Directors referred to in Rule 5.46 of the GEM Listing Rules are as follows:

### Long position in the shares of the Company:

| Name of Directors | Capacity | Number of shares: Personal interest | Number of shares: Family interest | Total long position | Approximate percentage of shareholding in such class of shares of the Company | Approximate percentage of shareholding in the registered share capital of the Company |
|---|---|---|---|---|---|---|
| Qian Wenhua (Executive Director) | Beneficial owner | 225,706,000 (domestic shares) | 35,854,000 *(Note 1)* (domestic Shares) | 261,560,000 | 54.49 | 27.94 |
| Lu Yong (Executive Director) | Beneficial owner | 62,618,000 (domestic shares) | – | 62,618,000 | 13.05 | 6.69 |
| Li Hongyuan (Executive Director) | Beneficial owner | 50,254,000 (domestic shares) | – | 50,254,000 | 10.47 | 5.37 |
| Zhang Jinhua (Executive Director) | Beneficial owner | 15,152,000 (domestic shares) | – | 15,152,000 | 3.16 | 1.62 |

*Note 1:* The 35,854,000 shares are held by Liu Huiping, the wife of Qian Wenhua, and such shares are deemed to be family interests held by Qian Wenhua.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 September 2011, the persons or company (not being a Director, Supervisor or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which are required to be notified to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be kept under section 338 of the SFO and who were directly and/or indirectly deem to be 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 the Company are listed as follows:

| Name of Person | Capacity | Number of shares<br>Personal interest | <br>Family interest | Total long position | Total short position | Approximate percentage of shareholding in such class of shares of the Company | Approximate percentage of shareholding in the registered share capital of the Company |
|---|---|---|---|---|---|---|---|
| Liu Huiping *(Note 1)* | Beneficial owner | 35,854,000 (domestic shares) | 225,706,000 *(Note 1)* (domestic Shares) | 261,560,000 | – | 54.49 | 27.94 |
| Yao Peie | Beneficial owner | 34,546,000 (domestic shares) | – | 34,546,000 | – | 7.20 | 3.69 |
| Simosa Oil Co., Ltd (中塑油品股份有限公司) | Beneficial owner | 38,498,460 (H Shares) | – | 38,498,460 | – | 8.44 | 4.11 |
| Credit Agricole Securities Asia B.V. (formerly known as Calyon Capital Markets Asia B.V.) | Interest in a controlled corporation | 175,000,000 (H shares) | – | 175,000,000 *(Note 2)* | – | 38.36 | 18.69 |
| Calyon Capital Markets International SA | Interest in a controlled corporation | 175,000,000 (H shares) | – | 175,000,000 *(Note 2)* | – | 38.36 | 18.69 |

| Name of Person | Capacity | Number of shares Personal interest | Family interest | Total long position | Total short position | Approximate percentage of shareholding in such class of shares of the Company | Approximate percentage of shareholding in the registered share capital of the Company |
|---|---|---|---|---|---|---|---|
| Credit Agricole Corporate and Investment Bank (formerly known as Calyon S.A.) | Interest in a controlled corporation | 175,000,000 (H shares) | – | 175,000,000 *(Note 2)* | – | 38.36 | 18.69 |
| CLSA B.V. | Interest in a controlled corporation | 175,000,000 (H shares) | – | 175,000,000 *(Note 2)* | – | 38.36 | 18.69 |
| CLSA Capital Partners Limited (formerly known as CLSA Funds Limited) | Interest in a controlled corporation | 175,000,000 (H shares) | – | 175,000,000 *(Note 2)* | – | 38.36 | 18.69 |
| CLSA Private Equity Management Limited | Investment manager | 175,000,000 (H shares) | – | 175,000,000 *(Note 2)* | – | 38.36 | 18.69 |
| Credit Agricole S.A. | Interest in a controlled corporation | 175,000,000 (H shares) | – | 175,000,000 *(Note 2)* | – | 38.36 | 18.69 |
| SAS Rue la Boetie | Interest in a controlled corporation | 175,000,000 (H shares) | – | 175,000,000 *(Note 2)* | – | 38.36 | 18.69 |
| Aria Investment Partners III, L.P. ("Aria III") | Interest in a controlled corporation | 140,000,000 (H shares) | – | 140,000,000 *(Note 2)* | – | 30.69 | 14.95 |
| Babylon Limited | Beneficial owner | 140,000,000 (H shares) | – | 140,000,000 *(Note 2)* | – | 30.69 | 14.95 |
| Aria Investment Partners II, L.P. ("Aria II") | Interest in a controlled corporation | 35,000,000 (H shares) | – | 35,000,000 *(Note 2)* | – | 7.67 | 3.74 |
| Mumiya Limited | Beneficial owner | 35,000,000 (H shares) | – | 35,000,000 *(Note 2)* | – | 7.67 | 3.74 |

*Note 1:* Liu Huiping is the wife of Qian Wenhua.

*Note 2:* Mumiya Limited and Babylon Limited hold 35,000,000 and 140,000,000 H shares of the Company respectively. As Aria II controls more than one-third of the voting power at general meetings of Mumiya Limited, Aria II is deemed to be interested in 35,000,000 H shares held by Mumiya Limited pursuant to the SFO. Aria III controls more than one-third of the voting power at general meetings of Babylon Limited and is thus deemed to be interested in 140,000,000 H shares held by Babylon Limited pursuant to the SFO. As CLSA Private Equity Management Ltd. is the investment manager of Aria II and Aria III, it is deemed to be interested in the 175,000,000 H shares in aggregate pursuant to the SFO. SAS Rue la Boetie controls more than one-third of the voting power at the general meetings of Credit Agricole S.A., which in turn controls more than one-third of the voting power at general meetings of Credit Agricole Corporate and Investment Bank (formerly known as Calyon S.A.), which in turn controls more than one-third of the voting power at general meetings of Calyon Capital Markets International SA, which in turn controls more than one-third of the voting power at general meetings of Credit Agricole Securities Asia B.V. (formerly known as Calyon Capital Markets Asia B.V.), which in turn controls more than one-third of the voting power at general meetings of CLSA B.V., which in turn controls more than one-third of the voting power at general meetings of CLSA Capital Partners Limited, which in turn controls more than one-third of the voting power at general meetings of CLSA Private Equity Management Ltd. Therefore, Credit Agricole S.A., Calyon S.A., Calyon Capital Markets International SA, Calyon Capital Markets Asia B.V., CLSA B.V. and CLSA Capital Partners Limited are deemed to be interested in the 175,000,000 H shares in aggregate pursuant to the SFO.

## DIRECTORS' AND SUPERVISORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

None of the Directors and Supervisors or their respective associates was granted by the Company or its subsidiaries any right to acquire shares or debentures of the Company or any other body corporate, or had exercised any such right during the period ended 30 September 2011.

## AUDIT COMMITTEE

In compliance with Rules 5.28 to 5.29 of the GEM Listing Rules, the Company established an audit committee with written terms of reference. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group. The audit committee comprises three independent non-executive Directors, Mr. Li Li, Ms. Ye Mingzhu and Mr. Zhu Shengfu and one non-executive Director, Mr. Chan Cheuk Wing Andy. Mr. Li Li is the chairman of the audit committee.

The audit committee has reviewed the Group's unaudited consolidated financial statements for the nine months ended 30 September 2011, and was of an opinion that the preparation of such results complied with the applicable accounting and reporting standards and that adequate disclosures have been made.

## PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

During the nine months ended 30 September 2011, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares.

## DIRECTORS' INTEREST IN A COMPETING BUSINESS

None of the Directors or the management shareholders and their respective associates (as defined under the GEM Listing Rules) had an interest in a business which competes with the Company or may compete with the business of the Group.

By Order of the Board
**Qian Wenhua**
*Chairman*

Shanghai, the PRC, 9 November 2011

*As at the date of this report, the Board comprises six executive Directors: Qian Wenhua, Lu Yong, Zhang Jinhua, Jin Xiaohua, Li Hongyuan and Mo Luojiang; two non-executive Directors: Chan Cheuk Wing Andy and Hsu Chun-min; three independent non-executive Directors: Li Li, Ye Mingzhu and Zhu Shengfu.*