



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

(Stock Code : 8011)



2011

Third Quarterly Report

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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 2011, together with the comparative unaudited figures for the corresponding periods in 2010, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months and nine months ended 30 September 2011

	Notes	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
		2011	2010	2011	2010
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	3	—	—	—	818
Cost of sales		—	—	—	(807)
Gross profit		—	—	—	11
Other revenues		—	30	51	92
Administrative expenses		(7,237)	(6,603)	(20,095)	(17,966)
Loss on early redemption of convertible bonds		(824)	—	(824)	—
Share of results of associates		(2)	(8)	(3)	(19)
Operating loss		(8,063)	(6,581)	(20,871)	(17,882)
Finance costs	4	(7,612)	(6,759)	(25,394)	(20,070)
Loss before tax	5	(15,675)	(13,340)	(46,265)	(37,952)
Income tax credit/ (expense)	6	(1,621)	770	635	2,245
LOSS FOR THE PERIOD		(17,296)	(12,570)	(45,630)	(35,707)
Attributable to:					
Owners of the Company		(17,200)	(12,412)	(45,222)	(35,112)
Non-controlling interests		(96)	(158)	(408)	(595)
		(17,296)	(12,570)	(45,630)	(35,707)
Loss per share	8				
Basic (in HK cents)		(1.12)	(3.06)	(5.77)	(9.68)
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 2011

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Loss for the period	(17,296)	(12,570)	(45,630)	(35,707)
Other comprehensive income:				
Exchange difference arising on translation of foreign operations	(628)	(217)	(590)	(217)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	(17,924)	(12,787)	(46,220)	(35,924)
Attributable to:				
Owners of the Company	(17,828)	(12,629)	(45,785)	(35,329)
Non-controlling interests	(96)	(158)	(435)	(595)
	(17,924)	(12,787)	(46,220)	(35,924)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2011

	Unaudited									
	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Exchange reserve HK\$'000	Capital reserve HK\$'000	Convertible bonds reserve HK\$'000	Retained profits/accumulated losses HK\$'000	Attributable to owners of the Company HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1 January 2010 (Audited)	10,816	359,974	985	15	—	66,454	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 rights shares	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	(202)	—	66,454	14,193	558,737	(31)	558,706
At 1 January 2011 (Audited)	24,336	531,831	985	57	15,392	48,689	960	622,250	87	622,337
Loss for the period	—	—	—	—	—	—	(45,222)	(45,222)	(408)	(45,630)
Other comprehensive income for the period	—	—	—	(563)	—	—	—	(563)	(27)	(590)
Total comprehensive income for the period	—	—	—	(563)	—	—	(45,222)	(45,785)	(435)	(46,220)
Non-controlling interests arising on acquisition of a subsidiary	—	—	—	—	—	—	—	—	14,700	14,700
Issue of rights shares	9,155	45,776	—	—	—	—	—	54,931	—	54,931
Issuing expenses relating to a rights issue	—	(1,183)	—	—	—	—	—	(1,183)	—	(1,183)
Conversion of convertible notes	16,000	84,000	—	—	(15,392)	—	15,392	100,000	—	100,000
Issue of shares upon debt restructuring	23,333	116,667	—	—	—	—	—	140,000	—	140,000
At 30 September 2011	72,824	777,091	985	(506)	—	48,689	(28,870)	870,213	14,352	884,565

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 2010.

3. Turnover

The Group did not record any sales during the three month period ended 30 September 2011 (2010: Nil).

4. Finance costs

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Effective interest on convertible bonds	7,612	6,759	25,394	20,061
Bank interest	—	—	—	9
	7,612	6,759	25,394	20,070

5. Loss before tax

Loss before tax is arrived at after charging:

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Staff costs (including directors' remuneration)				
— Salaries and other benefits	2,530	2,213	7,640	6,637
— Retirement scheme contributions	92	26	149	74
Loss on early redemption of convertible bonds	824	—	824	—
Depreciation of property, plant and equipment	95	95	281	245

6. Income tax

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Current tax				
— Hong Kong	—	—	—	—
— Other jurisdictions	—	—	—	—
Deferred tax	(1,621)	770	635	2,245
Income tax credit/ (expense) for the period	(1,621)	770	635	2,245

No provision for Hong Kong profits tax has been provided as there was no assessable income in Hong Kong during the period (2010: 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 (2010: 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 (2010: 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	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Loss for the period attributable to owners of the Company	(17,200)	(12,412)	(45,222)	(35,112)
Loss for the period for calculation of basic loss per share	(17,200)	(12,412)	(45,222)	(35,112)
	'000	'000	'000	'000
Weighted average number of ordinary shares in issue for the period	1,529,311	405,600	783,769	362,605

Pursuant to an ordinary resolution passed on 19 May 2011, every two ordinary shares of HK\$0.01 each in the issued and unissued share capital of the Company were consolidated into one consolidated ordinary share of HK\$0.02 each in the issued and unissued share capital of the Company.

Pursuant to another ordinary resolution passed on 29 August 2011, every two ordinary shares of HK\$0.02 each in the issued and unissued share capital of the Company were consolidated into one consolidated ordinary share of HK\$0.04 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 2011 and 2010.

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

9. 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 2011, the Group had generated no turnover as compared with approximately HK\$818,000 for the nine months ended 30 September 2010.

The Group recorded a net loss attributable to owners of the Company of approximately HK\$45,222,000 for the period as compared to a net loss attributable to owners of the Company of approximately HK\$35,112,000 for the corresponding period last year.

Administrative expenses for the period amounted to approximately HK\$20,095,000, representing an increase of approximately HK\$2,129,000, or 12%, as compared with the corresponding period last year. It was mainly attributable to the increase in staff costs and business development expenses. During the period, the Group recorded a loss on early redemption of convertible bonds of HK\$824,000, which represented the difference between the principal amount of redemption and the carrying amount of the liability component.

Finance costs for the period amounted to approximately HK\$25,394,000 (2010: approximately HK\$20,070,000). The increase in interest costs was mainly due to increase in effective interest rate in amortizing the convertible bonds which matured in October 2010 and was extended for one year. Such convertible bonds were fully redeemed by the Company on 6 September 2011.

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 continues to incur capitalizable and operating expenses, and sustain losses. Revenue will be generated when the projects progress to the exploitative phase with output of commercial quantity.

Share Consolidation

In compliance with Rule 17.76 of the GEM Listing Rules and pursuant to an ordinary resolution passed on 29 August 2011, a share consolidation was implemented on the basis that every two ordinary shares of HK\$0.02 each in the issued and unissued share capital of the Company were consolidated into one consolidated ordinary share of HK\$0.04 each in the issued and unissued share capital of the Company.

As a result of the share consolidation, (1) the conversion price of convertible bonds in the principal amount of HK\$276,352,231.22 was adjusted from HK\$2.873 per share to HK\$5.746 per consolidated share, and (2) the conversion price of convertible bonds in the principal amount of HK\$120,000,000.00 was adjusted from HK\$0.371 per share to HK\$0.742 per consolidated share, with effect from 30 August 2011. For details, please refer to the Company's announcement published on 30 August 2011.

Debt Restructuring and Connected Transaction

On 30 June 2011, the Company entered into a conditional subscription agreement with Silver Star Enterprises Holdings Inc. ("Silver Star", a substantial shareholder of the Company which legally and beneficially owned 711,845,196 shares, or approximately 42.51%, of the entire issued share capital of the Company at the date of the subscription agreement) and Mr. Lam Nam ("Mr. Lam", who legally and beneficially owns the entire issued share capital of Silver Star).

On 30 August 2011, all conditions precedent set out in the subscription agreement have been fulfilled and completion of the subscription agreement took place on 6 September 2011. Pursuant to the terms and conditions of the subscription agreement (1) the Company has allotted and issued to Silver Star 583,333,333 subscription shares at an issue price of HK\$0.240 per subscription share for an aggregate amount of HK\$140,000,000; (2) the Company has issued to Silver Star convertible notes in an aggregate principal amount of HK\$100,000,000; (3) Mr. Lam has advanced a loan of HK\$36,352,231.22 to the Company; and (4) the Company has redeemed all the outstanding convertible bonds in the principal amount of HK\$276,352,231.22 which would be due on 10 October 2011.

The HK\$100,000,000 convertible notes borne interest at a rate of 3% per annum and would mature on the date falling on the third anniversary of the date of issue of the convertible notes. The conversion price was HK\$0.250 per conversion share. The convertible notes were redeemed and converted in full into 400,000,000 conversion shares on 12 September 2011. The loan from Mr. Lam is interest free and will mature on the date falling on the second anniversary of the date of drawdown of the loan.

Silver Star is wholly-owned by Mr. Lam. Since Silver Star is a controlling shareholder, both Silver Star and Mr. Lam are connected persons of the Company, and accordingly, the subscription constituted a connected transaction of the Company under Chapter 20 of the GEM Listing Rules.

For details, please refer to the Company's announcements published on 8 July 2011, 29 August 2011, 30 August 2011 and 6 September 2011 and circular dated 12 August 2011.

Acquisition and Connected Transaction

On 9 September 2011, Win Easy International Limited, a wholly-owned subsidiary of the Company, entered into a share purchase agreement ("SPA") with Mr. Lam Nam ("Mr. Lam"), a substantial shareholder of the Company, for the acquisition of 51% of the issued share capital of Mass Leader Inc. ("MLI"), at a total purchase price of HK\$9,000,000, which was arrived at based on normal commercial terms after arm's length negotiations between the parties to the SPA. The purchase price would be satisfied by the Company's issue to Mr. Lam of a promissory note in a principal amount of HK\$9,000,000 on completion. The promissory note bears interest at a rate of 3% per annum and will mature on the date falling on the second anniversary of the date of issue of the promissory note.

MLI was incorporated under the laws of the British Virgin Islands and its entire share capital was held by Mr. Lam. MLI owns the entire issued share capital of China International Mining Petroleum Company Limited ("CIMP"), a company incorporated under the laws of Hong Kong. CIMP is a contractor to and owns 80% of the undivided participating interest of the petroleum service contract No. 49, issued by the Government of the Republic of the Philippines for an area of approximately 265,000 hectares, covering the oil fields in Southern Cebu Block, Philippines. Contractors are required to provide funds, and apply its appropriate and advanced technology and expertise for the exploration, development and exploitation of petroleum resources within the contract area.

On 18 October 2011, all conditions precedent set out in the SPA have been fulfilled and completion of the SPA took place on 21 October 2011, and the Company has issued the promissory note to Mr. Lam.

Since Mr. Lam and his associates were interested in 939,255,931 shares, representing approximately 66.12%, of the issued share of the Company as at the date of the SPA, Mr. Lam is a connected person and therefore the acquisition constituted a connected transaction of the Company under Chapter 20 of the GEM Listing Rules.

For details, please refer to the Company's announcements published on 9 September 2011, 15 September 2011 and 21 October 2011.

Prospects

Brunei Block M Oil and Gas Project

The joint venture has elected to enter into Phase 2 exploration period which has commenced on 28 August 2011. The 2012 work program and budget has been submitted to Brunei National Petroleum Company Sdn Bhd for approval. The operator has identified potential drilling sites for the third well of Phase 1 which is expected to be spudded in early 2012, in conjunction with appraising other potential fields for the drilling requirements of Phase 2. During the quarter, the project's operator completed the technical and commercial evaluation of rig tender and is preparing the award proposal for approval. Meanwhile, survey and well planning work including site construction have commenced.

Philippines Central Luzon Gas Project

The Manila Office is working on the Victoria-3 workover program. An exploration manager and a country manager who are rich in experience in oil and gas exploration and exploitation have joined the team at the end of the first quarter and early second quarter respectively. The project has engaged petrophysics and reservoir engineers to evaluate the Victoria structure of the Central Luzon Basin to ascertain the possibility of the presence of a low resistivity, thin bedded biogenic gas play within volcanoclastic turbidite deposits. Data to be captured will enable the project team to confirm gas shows of this area, help affirm the plan for re-entering Victoria-3 and locate site prospects for future drilling.

Philippines San Miguel Coal Mine Project

The project has progressed into the development phase. Construction of the phase-2 road, which will extend the vehicle-assessable road into the initial mining area, has commenced and is expected to complete early 2012. Project management continues to conduct surveying work on water-front properties which would allow construction of pier facilities for loading coal shipments and consider to lease an existing port nearby from the Philippine Ports Authority as an alternative. Meanwhile, trees are being counted to prepare for forest clearing; considerable volume of test bores were drilled to determine the depth and thickness of reserves, and samples of coal were sent to laboratories for quality assessment. In anticipating test production, the project has recruited a mining director who will be responsible for enlisting a production team and overseeing production.

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 2011, save as disclosed below, none of the Directors and chief executives of the Company had any 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	9,900	9.9%

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

As at 30 September 2011, 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	1,339,255,931 (Note 2)	(L)	Interest of a controlled corporation	73.56%
	161,725,067 (Notes 3 and 4)	(L)	Interest of a controlled corporation	8.88%
Silver Star Enterprises Holdings Inc. (Note 2)	1,339,255,931	(L)	Beneficial owner	73.56%
China International Mining Holding Company Limited (Note 3)	161,725,067 (Note 4)	(L)	Beneficial owner	8.88%

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 2011, 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 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 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 2011.

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.

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.

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.

By order of the Board

Kuai Wei

Chairman

Hong Kong, 9 November 2011

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