

12 August 2011

To the Shareholders

Dear Sir and Madam,

**PROPOSED SHARE CONSOLIDATION;
DEBT RESTRUCTURING AND CONNECTED TRANSACTION;
AND
APPLICATION FOR THE WHITEWASH WAIVER**

INTRODUCTION

Reference is made to the Announcement.

The purpose of this circular is to provide you with, among others, (i) details of the Share Consolidation, the Subscription Agreement and the Whitewash Waiver; (ii) the recommendation from the Independent Board Committee to the Independent Shareholders on the Subscription Agreement and the Whitewash Waiver and; (iii) the advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders on the Subscription Agreement and the Whitewash Waiver; (iv) the financial information of the Group; and (v) the notice of the EGM.

PROPOSED SHARE CONSOLIDATION

The Share Consolidation will be implemented on the basis that every two (2) Shares will be consolidated into one (1) Consolidated Share in compliance with Rule 17.76 of the GEM Listing Rules.

As at the Latest Practicable Date, the authorised share capital of the Company was HK\$100,000,000 divided into 5,000,000,000 Shares, and the issued share capital of the Company was HK\$33,491,273.76 divided into 1,674,563,688 Shares. Immediately after completion of the Share Consolidation, the authorised share capital of the Company will remain at HK\$100,000,000, but divided into 2,500,000,000 Consolidated Shares and the issued share capital of the Company will remain at HK\$33,491,273.76 but divided into 837,281,844 Consolidated Shares.

Conditions of the Share Consolidation

The Share Consolidation is conditional upon (i) the passing of the necessary resolution for the Share Consolidation by the Shareholders at the EGM; and (ii) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, the Consolidated Shares to be allotted and issued forthwith upon the Share Consolidation becoming effective and any Consolidated Shares which may fall to be issued upon exercise of the conversion rights attaching to the Convertible Bonds A and Convertible Bonds B.

The Share Consolidation will become effective on the next Business Day immediately following fulfillment of the above conditions.

Effect of the Share Consolidation

The Consolidated Shares will rank pari passu in all respects with the Shares in issue prior to the Share Consolidation becoming effective and each other and there will be no change in the respective rights of the Shareholders. Any fractional entitlements to the Consolidated Shares will be aggregated, sold and retained for the benefit of the Company.

Full and complete implementation of the Share Consolidation would not, by itself, alter in whatsoever and howsoever way the underlying assets, liabilities, businesses, management or financial position of the Company and the Group or the rights of the Shareholders except for incurring the liability for payment of the related costs and expenses.

The following table sets out the effect of the Share Consolidation on the share capital of the Company before and immediately after the Share Consolidation:

	Immediately before the Share Consolidation	Immediately after the Share Consolidation
Nominal value per share	HK\$0.02 per Share	HK\$0.04 per Consolidated Share
Authorised share capital of the Company	HK\$100,000,000 divided into 5,000,000,000 Shares	HK\$100,000,000 divided into 2,500,000,000 Consolidated Shares
Issued and paid-up share capital of the Company	HK\$33,491,273.76 divided into 1,674,563,688 Shares	HK\$33,491,273.76 divided into 837,281,844 Consolidated Shares

Reason for Share Consolidation

Taking into account the Share Consolidation will increase the trading price per board lot, and hence reduce the overall transaction and handling costs for dealing in the Consolidated Shares, the Directors are of the view that the Share Consolidation is fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

Application for listing of the Consolidated Shares

Application will be made by the Company to the Listing Committee of the Stock Exchange for the grant of the listing of, and permission to deal in, the Consolidated Shares to be allotted and issued upon the Share Consolidation becoming effective and the Consolidated Shares which may fall to be issued upon exercise of the conversion rights attaching to the Convertible Bonds A and Convertible Bonds B.

Subject to the granting of listing of, and permission to deal in, the Consolidated Shares on the Stock Exchange, the Consolidated Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Consolidated Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second settlement day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Free exchange of Consolidated Share certificates and trading arrangements

Subject always to the passing of the resolutions approving the Share Consolidation, Shareholders may, during business hours for the period from Tuesday, 30 August 2011 to 4:30 p.m. Friday, 7 October 2011 submit their share certificates for Shares in orange colour held by them to the Company's branch share registrar in Hong Kong, Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong in exchange for the new share certificates for Consolidated Shares in blue colour at the expense of the Company. Thereafter, the share certificates for the Shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such higher amount as may from time to time be specified by the Stock Exchange) for each new share certificate issued for the Consolidated Shares or each share certificate for the Shares submitted for cancellation, whichever the number of certificates issued or cancelled is higher. Nevertheless, the share certificates for the Shares will continue to be good evidence of legal title and may be exchanged for new share certificates for the Consolidated Shares at any time but are not acceptance for trading, settlement and registration purpose upon completion of the Share Consolidation.

Arrangement for matching service for odd lots

In order to facilitate the trading of odd lots of the Consolidated Shares, the Company has appointed Mansion House Securities (F.E.) Limited, as an agent to provide matching services from 14 September 2011 to 4 October 2011 (both dates inclusive), on a best effort basis, for the sale and purchase of odd lots of Consolidated Shares arising from the Share Consolidation. Shareholders who wish to take advantage of this facility should contact Mr. Tony Hui of Mansion House Securities (F.E.) Limited at Suites 1102-1103, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong at telephone number (852)

2843-1408 during office hours. Shareholders should note that successful matching of the sale and purchase of odd lots of the Consolidated Shares is not guaranteed.

Adjustments in relation to the conversion prices of the Convertible Bonds A and Convertible Bonds B

Under the terms and conditions of the Convertible Bonds A and Convertible Bonds B, adjustments to the conversion prices of the Convertible Bonds A and Convertible Bonds B are required after the Share Consolidation. The Company will inform the holders of the Convertible Bonds A and Convertible Bonds B of the adjustments accordingly.

THE SUBSCRIPTION AGREEMENT

On 30 June 2011, the Company entered into a conditional Subscription Agreement with Silver Star and Mr. Lam pursuant to which (1) the Company will allot and issue to Silver Star 583,333,333 Subscription Shares at an issue price of HK\$0.240 per Subscription Share; (2) the Company will issue to Silver Star the Convertible Notes in an aggregate principal amount of HK\$100,000,000; (3) Mr. Lam will advance a loan up to HK\$36,352,231.22 to the Company which will be used solely for the redemption of the Convertible Bonds A; and (4) the Company will redeem all the outstanding Convertible Bonds A which will be due on 10 October 2011.

(1) The Subscription Shares

Pursuant to the Subscription Agreement, Silver Star has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue a total of 583,333,333 Subscription Shares. As at the date of the Subscription Agreement (i.e., prior to the Share Consolidation becoming effective), there were 1,674,563,688

Shares in issue. Assuming that the Share Consolidation has become effective, the Subscription Shares represent approximately 69.67% of the issued share capital of the Company as at the date of the Subscription Agreement. Assuming that there is no change in the issued share capital of the Company other than the issue of the Subscription Shares and the issue of Convertible Notes since the date of the Subscription Agreement up to completion, the Subscription Shares represent approximately 66.12% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares.

Subscription Price:

The Subscription Price for the Subscription Shares was determined after arm's length negotiation between the Company and Silver Star with reference to the recent trading prices of the Shares on the Stock Exchange and theoretical closing price of Consolidated Share, based on the closing prices per Share as quoted on the Stock Exchange and adjusted taking into account the effect of the Share Consolidation (the "Theoretical Closing Price"). The Subscription Price of HK\$0.240 per Subscription Share represents:

- (i) a premium of approximately 46.34% over the Theoretical Closing Price of HK\$0.164, based on the closing price of HK\$0.082 per Share as quoted on the Stock Exchange on the Last Trading Day and adjusted taking into account the effect of the Share Consolidation;
- (ii) a premium of approximately 46.34% over the average Theoretical Closing Price of HK\$0.164, based on the closing prices as quoted on the Stock Exchange for the five trading days up to and including the Last Trading Day and adjusted taking into account the effect of the Share Consolidation;
- (iii) a premium of approximately 46.34% over the average Theoretical Closing Price of HK\$0.164, based on the closing prices as quoted on the Stock Exchange for the last 10 trading days up to and including the Last Trading Day and adjusted taking into account the effect of the Share Consolidation;
- (iv) a premium of approximately 8.11% over the average Theoretical Closing Price of HK\$0.222, based on the closing prices as quoted on the Stock Exchange for the last 50 trading days up to and including the Last Trading Day and adjusted taking into account the effect of the Share Consolidation;

- (v) a discount of approximately 67.74% over the Group's audited consolidated net asset per Consolidated Share (excluding non-controlling interests) as at 31 December 2010 of approximately HK\$0.744, based on a total of 837,281,844 Consolidated Shares as at the date of the Subscription Agreement (assuming the Share Consolidation has become effective) and the Group's audited consolidated net asset value attributable to owners of the Company of approximately HK\$622,250,000 as at 31 December 2010; and
- (vi) a premium of approximately 39.53% over the Theoretical Closing Price of HK\$0.172, based on the closing price of HK\$0.086 per Share as quoted on the Stock Exchange on the Latest Practicable Date and adjusted taking into account the effect of the Share Consolidation.

Status of the Subscription Shares:

The Subscription Shares will rank pari passu in all respects with the Shares in issue on the date of allotment and issue of the Subscription Shares. Holders of the Subscription Shares will be entitled to receive all future dividends and distributions, which are declared, made or paid on or after the date of allotment and issue of the Subscription Shares.

Application for listing of the Subscription Shares:

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares. Dealings in the Subscription Shares will be subject to the payment of stamp duty and any other applicable fees and charges in Hong Kong.

Subject to the grant of listing of, and permission to deal in, the Subscription Shares on GEM as well as compliance with the stock admission requirements of HKSCC, the Subscription Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Subscription Shares on GEM or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements will be made to enable the Subscription Shares to be admitted into CCASS.

(2) The Convertible Notes

Issuer:

The Company

Subscriber:

Silver Star

Principal amount:

HK\$100,000,000

Maturity date:

The date falling on the third anniversary of the date of issue of the Convertible Notes

Interest rate:

3% per annum

Conversion rights:

The holder of the Convertible Notes will have the right to convert the whole or part of the principal amount of the Convertible Notes into Conversion Shares at any time and from time to time from the date of the issue of the Convertible Notes up to the close of business on the date falling 30 business days prior to the maturity date of the Convertible Notes.

Conversion Price:

The initial Conversion Price is HK\$0.250 per Conversion Share, and it represents:

- (i) a premium of approximately 52.44% over the Theoretical Closing Price of HK\$0.164, based on the closing price of HK\$0.082 per Share as quoted on the Stock Exchange on the Last Trading Day and adjusted taking into account the effect of the Share Consolidation; and
- (ii) a premium of approximately 54.32% over the average Theoretical Closing Price of approximately HK\$0.162, based on the closing prices as quoted on the Stock Exchange for the last five trading days immediately prior to 30 June 2011, being the date of the Subscription Agreement, and adjusted taking into account the effect of the Share Consolidation.

Adjustments to Conversion Price:

The Conversion Price will be subject to adjustment for, amongst other things, consolidation, subdivision or reclassification of Shares, capitalisation of profits or reserves, dividend or distribution, rights issue of Shares or options over Shares, issues at less than current market price and other events which may have a diluting effect on the holder of the Convertible Notes.

Redemption of the Convertible Notes by the Company:

The Company may redeem the Convertible Notes at the redemption amount which is equal to 100% of the then outstanding principal amount of the Convertible Notes, together with all interest accrued thereon and remaining outstanding (if any), at any time on or after the first anniversary of its issuance.

Unless previously redeemed, converted or purchased and cancelled, the Convertible Notes will be redeemed at 100% of its principal amount on the maturity date of the Convertible Notes.

Transferability:

Subject to all applicable laws and regulations and prior notification to the Company, the Convertible Notes may only be assigned or transferred in whole or in part of its principal amount outstanding to any subsidiary or holding company of Silver Star or any subsidiary of any holding company of Silver Star or, if required by the Stock Exchange, with the prior approval of the Stock Exchange and the Company, to any other party.

Voting rights:

A holder of the Convertible Notes will not be entitled to receive notice of, attend or vote at any general meetings of the Company by reason only of it being a holder of the Convertible Notes.

Listing:

The Company will apply to the Stock Exchange for the listing of and permission to deal in the Conversion Shares to be allotted and issued upon exercise of the conversion rights attached to the Convertible Notes. No application will be made by the Company for the listing of the Convertible Notes.

Ranking of the Conversion Shares:

The Conversion Shares, when allotted and issued, will rank pari passu in all respects with all other existing Shares outstanding at the date of such allotment and issue and be entitled to all dividends and other distributions the record date of which falls on a date on or after the date of such allotment and issue.

Ranking of the Convertible Notes:

The obligations of the Company arising under the Convertible Notes constitute direct, unconditional, unsubordinated and unsecured obligations of the Company and rank and shall at all times rank pari passu in all respects among themselves and pari passu with all other present and future unsecured and unsubordinated obligations of the Company except for obligations accorded preference by mandatory provisions of applicable law.

Events of default:

After the occurrence of an event of default as specified in the terms and conditions of the Convertible Notes, a holder of the Convertible Notes may give notice to the Company that the Convertible Notes is immediately due and payable.

(3) The Loan

Borrower:

The Company

Lender:

Mr. Lam

Principal amount:

Up to HK\$36,352,231.22

Term:

Payable on the date falling on the second anniversary of the date of drawdown of the Loan

Interest rate:

Interest free

Conditions of the Subscription

The Subscription is conditional upon, among other things:

- (a) the passing of ordinary resolutions by the Independent Shareholders approving, inter alia, the Share Consolidation, the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver at the EGM by way of poll;
- (b) the Executive granting the Whitewash Waiver to Silver Star and the satisfaction of all conditions (if any) attached to the Whitewash Waiver granted;
- (c) the Listing Committee of the Stock Exchange having granted or having agreed to grant (either unconditionally or subject only to conditions to which neither the Company nor Mr. Lam shall reasonably object) the listing of, and permission to deal in, the Subscription Shares, the Conversion Shares and the Consolidated Shares; and
- (d) the Share Consolidation becoming effective.

In the event that not all the conditions precedent to the Subscription Agreement have been fulfilled by 4:00 p.m. on 31 October 2011 (or such later date to be agreed between the parties to the Subscription Agreement in writing), the Subscription Agreement will terminate, lapse and be of no further effect, and the Company and Silver Star shall be released from all obligations thereunder and neither party shall have any claim against the other for any costs or losses save in respect of any antecedent breaches of the Subscription Agreement. None of the conditions to the Subscription Agreement mentioned above can be waived by either party to the Subscription Agreement.

Completion

Completion shall take place on a date which is the fifth (5th) Business Day after the date on which the conditions precedent are satisfied or waived or such other date as the Company and Silver Star may agree in writing.

INTENTION OF SILVER STAR

It is the intention of Silver Star that the Group will continue its current business. Silver Star has no intention to make any major changes to the business or employment of the employees of the Group or redeploy the fixed assets of the Group.

Silver Star's decision to enter into the Subscription Agreement was mainly due to its belief that the Subscription would strengthen the Group's financial position and enlarge its capital base.

REASONS FOR THE SUBSCRIPTION

Use of proceeds

Under the Subscription Agreement, (1) the Company will allot and issue to Silver Star 583,333,333 Subscription Shares at an issue price of HK\$0.240 per Subscription Share with an aggregate amount of approximately HK\$140,000,000; (2) the Company will issue to Silver Star the Convertible Notes in an aggregate principal amount of HK\$100,000,000; (3) Mr. Lam will advance a loan up to HK\$36,352,231.22 to the Company which it will use solely for the redemption of the Convertible Bonds A; and (4) the Company will redeem all the outstanding Convertible Bonds A which will be due on 10 October 2011.

Reasons and benefits

The Convertible Bonds A which has a coupon rate of 3% per annum were issued to Mr. Lam in October 2007. As at the Latest Practicable Date, the aggregate outstanding principal amount of the Convertible Bonds A was HK\$276,352,231.22.

Taking into account that (i) the debt restructuring through the Subscription can reduce the amount of interest payable by the Company pursuant to the terms and conditions of the Convertible Bonds A as well as the liabilities of the Company; and (ii) the issue of Subscription Shares and/or the Conversion Shares can enlarge the capital base of the Company, the Directors (excluding the independent non-executive Directors who will be appointed as members of the Independent Board Committee to advise the Independent Shareholders in respect of the Subscription Agreement, who will provide their views after considering the opinion of the independent financial adviser) are of the view that the Subscription is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

EFFECTS ON SHAREHOLDING STRUCTURE

The existing and enlarged shareholding structure of the Company as at the Latest Practicable Date, immediately after completion of Share Consolidation but before completion of the Subscription and immediately after completion of the Subscription is set out below:

	As at the Latest Practicable Date		Immediately after completion of the Subscription							
			Immediately after completion of Share Consolidation but before completion of the Subscription		assuming none of the Convertible Notes is converted into Conversion Shares		assuming the Convertible Notes is fully converted into Conversion Shares		assuming the Convertible Bonds B and Convertible Notes are fully converted into Conversion Shares (Note)	
			No. of	Approx.	No. of	Approx.	No. of	Approx.	No. of	Approx.
			Shares	percentage	Shares	percentage	Shares	percentage	Shares	percentage
Silver Star, Mr. Lam and parties acting in concert with any of them	711,845,196	42.51%	355,922,598	42.51%	939,255,931	66.12%	1,339,255,931	73.56%	1,500,980,998	75.72%
Public Shareholders	962,718,492	57.49%	481,359,246	57.49%	481,359,246	33.88%	481,359,246	26.44%	481,359,246	24.28%
Total	1,674,563,688	100.00%	837,281,844	100.00%	1,420,615,177	100.00%	1,820,615,177	100.00%	1,982,340,244	100.00%

Note:

No conversion right of the Convertible Bonds B may be exercised, to the extent that following such exercise (i) a holder of the Convertible Bonds B and parties acting in concert with it, taken together, will directly or indirectly, control or to be interested in 25% or more of the entire issued Shares or such percentage as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer, or (ii) the Company will be in breach of the minimum public float requirement under the GEM Listing Rules.

The Convertible Notes and the Convertible Bonds B will not be converted if the Shares held by public Shareholders fall below 25% after the conversion. The conversion right of the Convertible Notes and the Convertible Bonds B can only be exercised if the issued share capital of the Company increases and such exercise will not cause the public shareholding to fall below 25%.

GEM LISTING RULES IMPLICATIONS

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 constitutes a connected transaction for the Company under Chapter 20 of the GEM Listing Rules. As the relevant percentage ratios calculated pursuant to Rule 19.06 of the GEM Listing Rules in respect of the Subscription exceed 5%, the Subscription Agreement and the transactions contemplated thereunder are subject to the Independent Shareholders' approval by way of poll at the EGM pursuant to the GEM Listing Rules. Mr. Lam, Silver Star, their respective associates and parties acting in concert with any of them (in aggregate holding 711,845,196 Shares) and anyone who is involved in or interested in the Subscription Agreement and the Whitewash Waiver will abstain from voting at the EGM in respect of the resolutions approving the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver. As at the Latest Practicable Date, none of the Directors holds any Shares. The Directors have confirmed that so far as they are aware, save for the above, no other Shareholder and no Director is involved in or interested in the Subscription Agreement and the Whitewash Waiver.

TAKEOVERS CODE IMPLICATIONS AND APPLICATION FOR WHITEWASH WAIVER

As at the date of the Subscription Agreement, Silver Star, Mr. Lam and persons acting in concert with any of them held 711,845,196 Shares, representing approximately 42.51% of the issued share capital of the Company. Immediately after the issuance of the Subscription Shares, Silver Star, Mr. Lam and persons acting in concert with any of them will be interested in 939,255,931 Consolidated Shares, representing approximately 66.12% of the issued share capital of Company as enlarged by the issue of the Subscription Shares. Under Rule 26 of the Takeovers Code, the acquisition of voting rights by more than 2% from the lowest collective holding of voting rights in the Company in any 12-month period by Silver Star will trigger an obligation on Silver Star, Mr. Lam and persons acting in concert with any of them to make a general offer for all the securities of the Company other than those already owned or agreed to be acquired by them, unless a whitewash waiver is granted by the Executive and approved by the Independent Shareholders of the Company.

Silver Star and Mr. Lam have made an application to the Executive for the Whitewash Waiver. The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, the approval of the Independent Shareholders at the EGM by way of poll.

Immediately after the issuance of the Subscription Shares, the aggregate shareholding of Silver Star, Mr. Lam and persons acting in concert with any of them in the Company will exceed 50%, and if the Whitewash Waiver is granted by the Executive and approved by the Independent Shareholders at the EGM, Silver Star, Mr. Lam and persons acting in concert with any of them may further increase their shareholdings in the Company without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer. However, where there are changes in the make-up of the persons acting in concert with any of Mr. Lam or Silver Star that effectively result in a new group being formed or the balance of the persons acting in concert with any of Mr. Lam or Silver Star being changed significantly, it may trigger an obligation to make a mandatory offer under Rule 26 of the Takeover Code unless a waiver from the Executive is granted.

Mr. Lam, Silver Star, their respective associates and persons acting in concert with any of them and anyone who is involved in or interested in the Subscription Agreement and the Whitewash Waiver shall abstain from voting at the EGM in respect of the resolutions approving the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver.

DEALINGS OF THE SHARES BY MR. LAM, SILVER STAR AND PERSONS ACTING IN CONCERT WITH THEM

Save for the subscription of 355,922,598 Shares under the rights issue which was completed on 10 June 2011, there has been no dealing of Shares and other relevant securities (as defined in note 4 to Rule 22 of the Takeovers Code) of the Company by Silver Star, Mr. Lam and persons acting in concert with any of them for the six months' period immediately prior to the date of the Announcement and up to the Latest Practicable Date.

As at the date of the Announcement and the Latest Practicable Date, other than the approximately 42.51% of the issued share capital of the Company held by Mr. Lam, Silver Star and persons acting in concert with any of them and the Convertible Bonds A and Convertible Bonds B beneficially owned by Mr. Lam, Silver Star and the persons acting in concert with any of them:

- (a) Mr. Lam, Silver Star and the persons acting in concert with any of them did not hold any other shares, convertible securities, warrants or options of the Company, or any outstanding derivative in respect of relevant securities (as defined in note 4 to Rule 22 of the Takeovers Code) of the Company;
- (b) there was no arrangement (whether by way of option, indemnity or otherwise) in relation to the shares of Silver Star or the Company which may be material to the Whitewash Waiver and the Subscription;
- (c) there was no agreement or arrangement to which Mr. Lam or Silver Star was a party related to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Whitewash Waiver and the Subscription, other than those set out in the section headed "Conditions of the Subscription" above;
- (d) Mr. Lam, Silver Star and the persons acting in concert with any of them had not received or entered into any irrevocable commitment or arrangement to vote in favour of or against the resolutions in respect of the Subscription or the Whitewash Waiver; and
- (e) Mr. Lam, Silver Star and the persons acting in concert with any of them had not borrowed or lent any relevant securities (as defined in note 4 to Rule 22 of the Takeovers Code) in the Company.

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

Set out below are the fund raising activities of the Company in the 12 months immediately preceding release of the Announcement:

Date of announcement	Event	Net proceeds	Intended use of proceeds	Actual use of proceeds up to the Latest Practicable Date
12 April 2011	Rights issue on the basis of one rights share for every share held at a price of HK\$0.12 per rights share	Approximately HK\$23 million	The first HK\$25 million for the oil project in Brunei, the second HK\$5 million for the coal project in the Philippines, the third HK\$40 million for the Group's general working capital and the remaining balance of the net proceeds, if any, for use in other new investment projects or for settling part of the Convertible Bonds A issued to Mr. Lam	
13 August 2010	Rights issue on the basis of one rights share for every two shares held at a price of HK\$0.10 per rights share	Approximately HK\$55 million	The first HK\$35 million for the gas project in the Philippines, the second HK\$5 million for the coal project in the Philippines and the remaining balance of the net proceeds, if any, as the Group's general working capital	HK\$20 million has already been injected into the gas project in the Philippines; HK\$3.3 million has already been injected into the coal project in the Philippines; HK\$26.7 million has been used as the Group's general working capital; and the remaining HK\$5 million will be injected into the gas project in the Philippines within the next 12 months

GENERAL

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

Silver Star is a company incorporated in the British Virgin Islands with limited liability and is a substantial shareholder of the Company. As at the Latest Practicable Date, Silver Star was interested in approximately 42.51% of the issued share capital of the Company. The entire issued share capital of Silver Star is solely and beneficially owned by Mr. Lam. The ordinary course of business of Silver Star is investment holding.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Wang Yanhui, Mr. Pai Hsi-Ping and Mr. Wong Kon Man Jason, has been established to make recommendations to the Independent Shareholders as to whether the Subscription Agreement and the Whitewash Waiver are fair and reasonable and in the interests of the Company and the Shareholders as a whole and to advise the Independent Shareholders on how to vote at the EGM.

The Independent Board Committee has approved the appointment of Veda Capital Limited as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the Subscription Agreement and the Whitewash Waiver.

FINANCIAL AND TRADING PROSPECTS OF THE GROUP

Progress and prospects

For the year ended 31 December 2010, the Group's turnover decreased by 79% to approximately HK\$826,000 as compared with approximately HK\$3,916,000 in 2009. The Group recorded a loss attributable to owners of the Company of approximately HK\$66,110,000 in 2010 (2009: approximately HK\$95,157,000).

The current year loss includes (1) an impairment loss on the oil and gas project in Brunei of approximately HK\$41,136,000 as a result of increase in the capital expenditure and (2) a reversal of impairment loss of approximately HK\$26,843,000 on the coal mine project due to increase in coal prices. The substantial loss in 2009 mainly resulted from the impairment loss on the oil and gas project in Brunei of approximately HK\$21,571,000 and the impairment loss of approximately HK\$34,265,000 on the coal mine project.

Brunei Block M oil and gas project

Two exploration wells, the Mawar-1 and the Markisa-1, were drilled in the third quarter of 2010 and both wells encountered hydrocarbons. They have been cased and suspended pending results of ongoing studies on data acquired from the wells. Testing of the wells to confirm the potential of the discovery has been rescheduled to a later date in 2011 to combine the works of the third well for cost efficiency. Results of these studies will determine the commercial significance of the zone and the most appropriate future course of action. The joint venture has elected to enter into Phase 2 exploration period which will commence on 28 August 2011. The operator is carefully evaluating potential drilling sites for the third well of Phase 1 which is expected to be spudded in late 2011 or early 2012, in conjunction with appraising other potential fields for the drilling requirements of Phase 2.

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, began in the second quarter and is expected to be completed in the third quarter of 2011. Project management has been surveying water-front properties which would allow construction of pier facilities for loading coal shipments and considering 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 to take place in the fourth quarter, the project is recruiting a mining director who will be responsible for enlisting a production team and overseeing production.

NOTICE OF EGM

A notice of the EGM to be held at 11:00 a.m. on Monday, 29 August 2011 at Maxim's Palace, Shop B13-B18, B/F Shun Tak Centre, Connaught Road Central, Hong Kong is set out on pages EGM-1 to EGM-3 of this circular for the purpose of considering and, if thought fit, approving the Share Consolidation, the Subscription Agreement and the Whitewash Waiver.

The form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tricor Standard Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event by no later than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment of it, if you so wish.

In compliance with the Takeovers Code and the GEM Listing Rules, all resolutions to be proposed at the EGM will be voted on by poll.

INDEPENDENT FINANCIAL ADVISER

Veda Capital has been appointed as the independent financial adviser to the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders on the Subscription Agreement and the Whitewash Waiver. The appointment of Veda Capital has been approved by the Independent Board Committee. Your attention is drawn to its letter to the Independent Board Committee and the Independent Shareholders set out on pages 30 to 46 of this circular.

RECOMMENDATIONS

You are advised to read carefully the letter from the Independent Board Committee on pages 28 to 29 of this circular. The Independent Board Committee, having taken into account the advice of Veda Capital in relation to the Subscription Agreement and the Whitewash Waiver, the text of which is set out on pages 30 to 46 of this circular, considers that the Subscription Agreement and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned, and the Subscription Agreement and the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole and therefore recommends the independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM to approve the Subscription Agreement and the Whitewash Waiver. The Directors (including the independent non-executive Directors) consider that the Share Consolidation is fair and reasonable and is in the interests of the Company and the Shareholders as a whole and therefore recommend the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM to approve the Share Consolidation.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

By order of the Board

Polyard Petroleum International Group Limited

Kuai Wei

Chairman

A handwritten signature in black ink, appearing to be 'Kuai Wei', written over a horizontal line.