



**China Asean Resources Limited**

**神州東盟資源有限公司**

(Incorporated in Bermuda with limited liability)

(Stock Code: 8186)

2011

**Third Quarterly Report**



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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached other than 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 of China Asean Resources Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to China Asean Resources Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and beliefs 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.*

**SUMMARY**

- Turnover for the nine months ended 30 September 2011 amounted to approximately HK\$135,000 (2010: HK\$2,995,000).
- The Group's loss attributable to equity holders of the Company for the nine months ended 30 September 2011 amounted to approximately HK\$40,869,000 (2010: HK\$10,856,000).
- The Group's basic loss per share is 2.43 Hong Kong cents (2010: loss per share of 2.28 Hong Kong cents (restated)).
- The directors do not recommend the payment of an interim dividend for the nine months ended 30 September 2011 (2010: Nil).

### THIRD QUARTERLY RESULTS (UNAUDITED)

The board of directors (the "Board") of China Asean Resources Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the three months ended 30 September 2011, together with the unaudited comparative figures for the corresponding period in 2010 as follows:

### CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	For the three months ended 30 September		For the nine months ended 30 September	
		2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
<b>CONTINUING OPERATIONS</b>					
<b>Turnover</b>	2	55	2,305	135	2,995
Cost of sales		—	(3,235)	—	(3,607)
Gross profit/(loss)		55	(930)	135	(612)
Other income	4	—	4,595	63	4,634
Selling and distribution expenses		(230)	(33)	(566)	(108)
Administrative expenses		(9,932)	(8,778)	(31,758)	(23,230)
Finance costs	5	—	—	(8,743)	—
Gain on disposal of subsidiaries	6	—	—	—	12,260
<b>Loss before taxation</b>	5	<b>(10,107)</b>	<b>(5,146)</b>	<b>(40,869)</b>	<b>(7,056)</b>
Taxation	7	—	—	—	—
<b>Loss for the period from continuing operations</b>		<b>(10,107)</b>	<b>(5,146)</b>	<b>(40,869)</b>	<b>(7,056)</b>
<b>DISCONTINUED OPERATIONS</b>					
Loss for the period from discontinued operations	6	—	—	—	(3,800)
<b>LOSS FOR THE PERIOD</b>		<b>(10,107)</b>	<b>(5,146)</b>	<b>(40,869)</b>	<b>(10,856)</b>
<b>Other comprehensive income for the period</b>					
Exchange differences on translation of financial statements of overseas subsidiaries		(44)	592	151	41
<b>Other comprehensive income for the period, net of tax</b>		<b>(44)</b>	<b>592</b>	<b>151</b>	<b>41</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>(10,151)</b>	<b>(4,554)</b>	<b>(40,718)</b>	<b>(10,815)</b>

	Note	For the three months ended 30 September		For the nine months ended 30 September	
		2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
		2011 HK Cents	2010 HK Cents (restated)	2011 HK Cents	2010 HK Cents (restated)
<b>Basic loss per share</b>					
From continuing operations	8	(0.47)	(0.95)	(2.43)	(1.48)
From discontinued operations		—	—	—	(0.80)
		(0.47)	(0.95)	(2.43)	(2.28)
<b>Diluted loss per share</b>					
From continuing operations	8	N/A	N/A	N/A	N/A
From discontinued operations		N/A	N/A	N/A	N/A
		N/A	N/A	N/A	N/A

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

### 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the GEM Rules) and with Hong Kong Financial Reporting Standards (“HKFRSs”), issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The condensed consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the 2010 annual financial statements.

In the current period, the Group has adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting period beginning on 1 January 2010. HKFRSs comprise Hong Kong Financial Reporting Standards (“HKFRSs”); Hong Kong Accounting Standards (“HKASs”); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group’s financial statements.

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

This consolidated quarterly financial information has not been audited.

### 2. TURNOVER

Turnover recognised during the period is analysed as follows:

	Continuing operations				Discontinued operations			
	For the		For the		For the		For the	
	three months ended		nine months ended		three months ended		nine months ended	
	30 September		30 September		30 September		30 September	
	2011	2010	2011	2010	2011	2010	2011	2010
	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Sales of wood and agriculture products	55	2,305	135	2,995	—	—	—	—

### 3. SEGMENT INFORMATION

The Board considers that presentation of segment disclosure would not be meaningful as the Group only operated in a single business segment, that is, natural resources business in the Kingdom of Cambodia (“Cambodia”). Accordingly, no segmental analysis is presented.

## 4. OTHER INCOME

	Continuing operations				Discontinued operations			
	For the three months ended 30 September		For the nine months ended 30 September		For the three months ended 30 September		For the nine months ended 30 September	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Interest income	—	1	8	3	—	—	—	8
Miscellaneous	—	—	1	—	—	—	—	—
Gain on disposal of property, plant and equipment	—	6	54	43	—	—	—	—
Gain on disposal of Medical Equipment Subsidiary (note 6)	—	4,588	—	4,588	—	—	—	—
	—	4,595	63	4,634	—	—	—	8

## 5. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

	Continuing operations				Discontinued operations			
	For the three months ended 30 September		For the nine months ended 30 September		For the three months ended 30 September		For the nine months ended 30 September	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
<b>Finance costs</b>								
Interest on bonds	—	—	8,743	—	—	—	—	—
<b>Staff costs</b>								
Wages and salaries	2,053	2,149	8,687	5,909	—	—	—	1,197
Share based payments	—	538	696	893	—	—	—	—
Staff retirement benefits	19	13	55	39	—	—	—	—
<b>Other items</b>								
Depreciation	603	305	2,075	838	—	—	—	36
Auditors' remuneration	446	532	503	1,197	—	—	—	4
Operating lease charges in respect of office premises	330	78	836	373	—	—	—	143
Amortisation of prepaid lease payments	—	—	—	—	—	—	—	69
Amortisation of forest exploitation rights	3,184	1,810	9,550	5,429	—	—	—	—

## 6. DISPOSAL OF SUBSIDIARIES

On 24 June 2010, the Group disposed of the entire registered capital of China Best Pharmaceutical (Nanjing) Co. Ltd. (南京神州佳美製藥有限公司) and 75% of the issued share capital of Medical China Technology Ltd. for a consideration of HK\$12,000,000.

Details of the net assets disposed of are as follows:

	2010 HK\$'000
Property, plant and equipment	174
Construction in progress	12,130
Prepaid lease payments	1,365
Intangible assets-medical research projects	16,734
Inventories	12
Trade and other receivables	4,284
Cash at bank and on hand	4,766
Trade and other payables	(28,394)
Amount due to Innova	(2,272)
Non-controlling interest	915
	9,714
Exchange reserve realised upon disposal ( <i>note 10</i> )	(9,974)
	(260)
Gain on disposal of subsidiaries	12,260
Consideration	12,000
Consideration satisfied by:	
Cash consideration	12,000

The subsidiaries that were disposed of on 24 June 2010 contributed a loss of approximately HK\$3,800,000 to the Group from operating activities for the nine months ended 30 September 2010.

## 7. TAXATION

### (a) Hong Kong Profits Tax

No provision for Hong Kong Profits Tax has been made for the three months and nine months ended 30 September 2011 (2010: HK\$Nil) as the Group did not have any assessable profits chargeable to Hong Kong Profits Tax for the periods.

### (b) PRC Income Tax

No provision for PRC income tax has been made as the Group did not have any assessable profits for the three months and nine months ended 30 September 2011 (2010: HK\$Nil) determined in accordance with the relevant income tax rules and regulations in the PRC.

### (c) Cambodia Tax on Profit

No provision for Cambodia Tax on Profits has been made as the Group did not have any assessable profits for the three months and nine months ended 30 September 2011 (2010: HK\$Nil) determined in accordance with the relevant tax rules and regulations in Cambodia.

### (d) Deferred taxation

No provision for deferred taxation is deemed necessary as the Group does not have any material deductible or taxable temporary differences for the three months and nine months ended 30 September 2011 (2010: HK\$Nil).

## 8. LOSS PER SHARE

The calculations of the basic and diluted loss per share for the three months and nine months ended 30 September 2011 are based on the loss attributable to owners of the Company at HK\$10,107,000 (2010: loss of HK\$5,146,000) and HK\$40,869,000 (2010: loss of HK\$10,856,000) respectively, divided by the weighted average number of 2,133,854,699 (2010: 533,400,000) and 1,678,631,992 (2010: 477,575,824) ordinary shares in issue for the three months and nine months ended 30 September 2011.

No diluted loss per share has been presented for the three months and nine months ended 30 September 2011 and 2010 as the exercise of share options would result in an anti-dilutive effect.

## 9. DIVIDEND

The directors do not recommend the payment of an interim dividend for the nine months ended 30 September 2011 (2010: Nil).

## 10. RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Share options reserve HK\$'000	Exchange reserve HK\$'000	Retained profits/ (Accumulated losses) HK\$'000	Total HK\$'000
<b>Balance at 1 January 2010</b>							
(audited)	497,783	5,265	—	9,197	12,069	1,994	526,308
<b>Transactions with owners</b>							
Issue of shares	7,620	—	—	—	—	—	7,620
Recognition of equity-settled share based payments	—	—	—	894	—	—	894
<b>Total transactions with owners</b>	7,620	—	—	894	—	—	8,514
<b>Comprehensive income</b>							
Loss for the period	—	—	—	—	—	(10,856)	(10,856)
Other comprehensive income for the period	—	—	—	—	41	—	41
<b>Total comprehensive income</b>	—	—	—	—	41	(10,856)	(10,815)
Exchange reserve realised upon disposal of subsidiaries	—	—	—	—	(9,974)	—	(9,974)
<b>Balance at 30 September 2010</b>							
(unaudited)	505,403	5,265	—	10,091	2,136	(8,862)	514,033
<b>Balance at 1 January 2011</b>							
(audited)	604,213	5,265	104,407	8,243	2,043	(29,843)	694,328
<b>Transactions with owners</b>							
Issue of placing shares	58,674	—	—	—	—	—	58,674
Conversion of convertible Bonds	213,326	—	(104,407)	—	—	11,889	120,808
Recognition of equity-settled share based payments	—	—	—	696	—	—	696
<b>Total transactions with owners</b>	272,000	—	(104,407)	696	—	11,889	180,178
<b>Comprehensive income</b>							
Loss for the period	—	—	—	—	—	(40,869)	(40,869)
Other comprehensive income for the period	—	—	—	—	151	—	151
<b>Total comprehensive income</b>	—	—	—	—	151	(40,869)	(40,718)
<b>Balance at 30 September 2011</b>							
(unaudited)	876,213	5,265	—	8,939	2,194	(58,823)	833,788

#### 11. EVENTS AFTER THE REPORTING PERIOD

Reference is made to the Company's announcement dated 14 October 2011 in relation to the proposed change of the English name of the Company from "China Asean Resources Limited" to "Continental Resources Enterprises Limited" and to adopt a new Chinese name "五洲資源企業有限公司" as the secondary name of the Company to replace the existing Chinese name "神州東盟資源有限公司". Unless otherwise stated herein, capitalized terms used herein shall have the same meanings as those defined in the announcement.

Reference is made to the Company's announcement dated 28 July 2011 in relation to the acquisition of 30% of the issued share capital of a company that will be principally engaged in the design and manufacture of plastic household and related products for a consideration of HK\$150,000,000. This acquisition was completed in October 2011 and 483,870,967 consideration shares were also issued on 12 October 2011. Unless otherwise stated herein, capitalized terms used herein shall have the same meanings as those defined in the announcement.

## FINANCIAL REVIEW

The Group's turnover for the nine months ended 30 September 2011 amounted to approximately HK\$135,000 (2010: HK\$2,995,000) from sales of wood and agriculture products in Cambodia.

Other income of the Group for the nine months ended 30 September 2011 amounted to approximately HK\$63,000 (2010: HK\$4,634,000). The decrease was due to a non-recurring gain of HK\$4,588,000 recorded last year on the disposal of the Medical Equipment Subsidiary.

The loss attributable to equity holders of the Company for the nine months ended 30 September 2011 amounted to approximately HK\$40,869,000 (2010: loss of HK\$10,856,000). The increase of losses for the period was primarily due to a non-recurring gain of HK\$12.3 million recorded last year on the disposal of PRC subsidiaries and increase in overheads of the head office as well as the operations in Cambodia.

The loss per share for the nine months ended 30 September 2011 was 2.43 Hong Kong cents (2010: loss per share of 2.28 Hong Kong cents (restated)).

At 30 September 2011 and 2010, the Group had no outstanding bank borrowings.

The Group's transactions are denominated in Renminbi, Hong Kong dollars and US dollars and the Group has not entered into any hedging arrangements during the periods under review.

At 30 September 2011 and 2010, the Group had no outstanding hedging instruments.

On 29 December 2010, the Company entered into a placing agreement for the placing of 106,680,000 shares to not less than 6 independent institutional, corporate and/or individual investors at the subscription price of HK\$0.60 per share. The placing was completed on 7 January 2011 and raised net proceeds of approximately HK\$62 million.

## BUSINESS REVIEW

### Wood products manufacturing and plantation business

The construction of the export wood flooring factory has been completed with a designed capacity of 10,000 cubic metres per annum. We have orders on hand of approximately US\$2.5 million and the first shipment is expected in December 2011. Production and transportation were affected by widespread flooding in Cambodia, which was the worst floods in Cambodia in the past 11 years and severely damaged access roads to the forests owned by the Group.

We have cleared 1,500 hectares of forest land since the beginning of the year, and began the field planting of rubber seedlings on the cleared land in June (at the start of the wet season). However, widespread flooding has caused delay in delivery of rubber seedlings to the planting fields and, as a result, we have planted only a total of 1,040 hectares. While we aim to continue planting with a view to catching up as much as possible to the field planting target of 1,500 hectares contractually agreed with the Government of Cambodia, we have made informal enquiries with government officials, and were given to understand that the government, which was aware of the major delay in field planting caused by widespread flooding, would not enforce the contractual obligations against us. For the degree of damages to the plantation, there has been minimal damage as the fields are generally on higher grounds. Only minimal sale was recorded for the nine months ended 30 September 2011, which was mainly derived from the domestic sale of low-grade sawn timber inventory carried forward from 2010.

### Mineral resources

After the completion of the placing of new shares in January 2011, we have been diversifying our income stream and business into the natural resources business. We have entered into a strategic investment agreement with Poly Longma to identify investment opportunities in mineral projects, and completed the acquisition of Inner Mongolia Huayue Mining Company Limited (“Inner Mongolia Mining”) to establish a foothold in the coal and mineral industry in the PRC.

In July 2011, we entered into an acquisition agreement to acquire 50% of the issued share capital of Global Trade Enterprises Group Limited (“Global Trade”), which will be engaged in the business of sourcing and distribution of coal in the PRC. Upon completion of the acquisition, Global Trade will be accounted as a jointly controlled entity of the Company.

### **Plastics and wood products manufacturing**

In July 2011, we entered into an acquisition agreement to acquire 30% of the issued share capital (with an option for the Group to acquire a controlling stake) of Live Rise Technology Limited (“LRT”), which will be engaged in the design and manufacture of medium-to-high end household and related products, and industrial product components as well as research and development of new materials. The acquisition of 30% of the issued share capital of LRT has been completed.

## **BUSINESS OUTLOOK**

### **Wood products manufacturing and plantation business**

Production and export sale of wood flooring products are expected to increase in 2012, and subject to the successful procurement of additional financing, we plan to increase the production capacity of the factory.

We have inter-cropped the rubber plantation with cassava, for a total plantation area of approximately 300 hectares. The cassava plantation is expected to be harvested in mid-2012.

### **Mineral Resources**

We expect the acquisitions of Inner Mongolia Mining, a company engaged in the provision of coal related logistics services including storage, processing and transportation, and Global Trade, a coal sourcing and distribution company, will generate operational synergies from vertical integration and enable us to provide one-stop coal supply chain management for coal consumers. This will enhance our competitive advantages over other industry players to capture the growth opportunities in the coal industry in the PRC.

### **Plastics and wood products manufacturing**

Driven by the changing consumer preferences, increasing disposable income and improving living standards, medium-to-high end household products have become increasingly popular in the PRC. We expect the plant owned by LRT to capitalize on the growth engine of the PRC domestic consumption market in medium-to-high end household products to broaden our income stream.

## OTHER INFORMATION

### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2011, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealings by directors as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

Name	Capacity Interest	Number of Ordinary Shares held	Number of underlying Shares held	Approximate Percentage of shareholding in the Company
Mr. Gong Ting	Beneficial Owner	415,000,000	—	19.39%
Mr. Leung Sze Yuen, Alan	Beneficial Owner	10,950,917	—	0.52%
		—	9,371,428 (note 1)	0.44%
Mr. Zheng ZhenZhong	Beneficial Owner	27,328,000	—	1.29%
		—	9,371.428 (note 2)	0.44%

*Notes:*

1. Mr. Leung Sze Yuan, Alan granted 9,371,428 share option but not yet exercised.
2. Mr. Zhen Zhenzhong granted 9,371,428 share option but not yet exercised.

Save as disclosed above, as at 30 September 2011, none of the directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to the minimum standards of dealings by directors, to be notified to the Company and the Stock Exchange.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

On 10 June 2011, the Company had approved and adopted a new share option scheme and terminated the prior share option scheme which was adopted on 14 December 2001, pursuant to which any employees and directors of the Company and its subsidiaries may be granted options to subscribe for shares of the Company.

The Company granted share option of 10,285,714 shares, 9,257,143 shares and 13,300,000 shares to employees of the Group on 12 October 2007, 31 March 2008 and 4 June 2010 at exercise prices of HK\$1.75, HK\$0.815 and HK\$0.365 per share respectively. Subsequently, 1,028,572 shares granted to the former director and 7,557,143 shares granted to the senior employees have been cancelled after their resignation.

As at 30 September 2011, details of the outstanding options were as follows:

Date of grant	Exercise period	Number of share options				Outstanding as at 1 January 2011	Outstanding as at 30 September 2011
		Granted during the period	Exercised during the period	Cancelled/ lapsed during the period			
12/10/2007	12/10/2009 to 12/10/2011	—	—	—	6,171,428	6,171,428	
31/03/2008	31/03/2010 to 31/03/2012	—	—	—	5,785,914	5,785,914	
04/06/2010	04/06/2011 to 03/06/2014	—	—	—	12,300,000	12,300,000	
		—	—	—	24,257,342	24,257,342	

Save as disclosed above, as at 30 September 2011, no other directors or the chief executive or their associates had any interests or rights to subscribe for any securities of the Company or any of its associated corporations as defined in the SFO.

At no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the directors or the chief executive of the Company or any of their respective associates, including spouses or children under eighteen years of age, to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 30 September 2011, so far as is known to the directors or the chief executive of the Company, the following persons (other than a director or the chief executive of the Company) had a interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name	Capacity Interest	Number of Ordinary Shares held	Number of underlying Shares held	Approximate Percentage of shareholding in the Company
Mr. Gong Ting	Beneficial Owner	415,000,000	—	19.39%
Ms. Zhou Zhu Er	Beneficial Owner	150,000,000	—	7.00%

Save as disclosed above, as at 30 September 2011, so far as is known to any of the directors or the chief executive of the Company, no other person (other than a director or the chief executive of the Company reported separately above) had any interest or short term position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

## INTERIM DIVIDEND

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

## DIRECTORS' INTEREST IN CONTRACTS

No contract, commitment or agreement of significance in relation to the Company's business, to which the Company or any of its subsidiaries was a party and in which any of the directors of the Company had a material interest, either directly or indirectly, subsisted during the nine months ended 30 September 2011.

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

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

## **COMPETING INTERESTS**

None of the directors, the management shareholders or substantial shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules) has engaged in any businesses that compete or may compete with the business of the Group or has any other conflicts of interests with the Group.

## **CORPORATE GOVERNANCE AND AUDIT COMMITTEE**

During the nine months ended 30 September 2011, the Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the GEM Listing Rules.

As required by the Rules 5.28 to 5.33 of the GEM Listing Rules, the Company has established an audit committee (the "Committee") with written terms of reference which deals with its authority and duties. The Committee's primary duties are to review and to supervise the financial reporting process and internal control systems of the Group and to provide advice and comments to the directors.

As at 30 September 2011, the Committee was composed of three independent non-executive directors, namely, Messrs. Zhang Ying, Tam Wai Leung, Joseph and Wen Huiying.

During the nine months ended 30 September 2011, the Committee held three meetings for the purpose of reviewing the Company's reports and financial statements, and providing advice and recommendations to the board of directors.

The Committee members have reviewed the Company's quarterly report for the nine months ended 30 September 2011 and are of the opinion that the preparation of such results complied with applicable accounting standards.

The Company adopted the required standards on dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding directors' transactions in securities of the Company throughout the nine months ended 30 September 2011. The Company's directors confirmed that they have complied with such code of conduct and required standards of dealings throughout the nine months ended 30 September 2011.

By order of the Board

**Leung Sze Yuan Alan**

*Chairman*

Hong Kong, 14 November 2011