



東方明珠創業有限公司
Pearl Oriental Innovation Limited

Stock Code : 0632

2006
Interim Report



The Directors of Pearl Oriental Innovation Limited (the "Company") announce the unaudited financial results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 September 2006 with comparative figures for the previous corresponding period. The results have not been audited but have been reviewed by the Audit Committee of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

Six months ended 30 September

		2006 (Unaudited) HK\$'000	2005 (Unaudited) (Restated) HK\$'000
	<i>Notes</i>		
Turnover	3	33,534	41,045
Cost of sales		<u>(22,327)</u>	<u>(29,373)</u>
Gross profit		11,207	11,672
Other operating income		2,384	4,500
Selling and Distribution expenses		(1,982)	(3,058)
Administrative expenses		(17,510)	(11,756)
Unrealized holding loss on investments in securities		–	(9,864)
Loss from operations	4	<u>(5,901)</u>	<u>(8,506)</u>
Finance costs		(3,646)	(2,928)
Finance lease charges		–	(17)
Provision for doubtful debts		(7,187)	–
Impairment loss of investment securities		(9,357)	–
Gain on disposal of subsidiaries		–	19,711
(Loss) profit before taxation		<u>(26,091)</u>	<u>8,260</u>
Taxation	5	(307)	(637)
(Loss) profit for the period		<u>(26,398)</u>	<u>7,623</u>
Attributable to:			
Equity holders of the parent		(26,451)	7,387
Minority interests		53	236
		<u>(26,398)</u>	<u>7,623</u>
(Loss) earnings per share	7		
Basic		<u>(13) cents</u>	<u>7 cents</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		At 30 September 2006 (Unaudited) HK\$'000	At 31 March 2006 (Audited) (Restated) HK\$'000
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment		96,559	95,593
Land lease premium-non current portion		18,405	18,668
		114,964	114,261
Current assets			
Trade and other receivables	8	28,337	25,521
Loans receivable	9	8,267	25
Land lease premium-current portion		526	526
Investments in securities		–	12,412
Amount due from minority shareholders of securities		20	89
Amounts due from investees		–	2,168
Bank balances and cash		29,901	1,785
		67,051	42,526
Current liabilities			
Trade and other payables	10	15,102	14,016
Amounts due to related companies		130	130
Tax payable		65	54
Bank borrowings – due within one year		57,092	85,654
Other short-term loans		1,479	3,226
		73,868	103,080
Net current liabilities		(6,817)	(60,554)
Total assets less current liabilities		108,147	53,707
NET ASSETS		108,147	53,707
Capital and reserves			
Share capital	11	134,421	54,381
Reserves		(30,351)	(4,698)
Equity attributable to equity holders of the parent		104,070	49,683
Minority interests		4,077	4,024
TOTAL EQUITY		108,147	53,707

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share premium HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Fair value reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Minority interests HK\$'000
At 1 April 2006	38,445	406,687	3,874	3,055	(456,759)	(4,698)	4,024
Issue of shares pursuant to share subscription	278	(70)	-	-	-	208	-
Deduction of related expenses incurred for the Issue of new shares	(600)	-	-	-	-	(600)	-
Available-for-sales securities changes in fair value	-	-	-	(3,055)	-	(3,055)	-
Exchange differences arising on the translation of foreign operations	-	-	183	-	-	183	-
Net income (expenses) recognised directly in the equity	38,123	406,617	4,057	-	(456,759)	(7,962)	4,024
Loss for the period	-	-	-	-	(26,451)	(26,451)	53
Total recognised income and expenses for the period	38,123	406,617	4,057	-	(483,210)	(34,413)	4,077
Recognition of equity-settled share based payments	-	4,062	-	-	-	4,062	-
At 30 September 2006 (Unaudited)	38,123	410,679	4,057	-	(483,210)	(30,351)	4,077

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(Continued)*

	Attributable to equity holders of the parent						
	Share premium	Capital reserve	Translation reserve	Share		Total	Minority interests
				options reserve	Accumulated losses		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 April 2005							
– as originally stated	38,445	403,851	3,426	–	(378,234)	67,488	3,317
Effect of changes in accounting policies <i>(Note 2)</i>	–	–	–	375	(375)	–	–
– as restated	38,445	403,851	3,426	375	(378,609)	67,488	3,317
Exchange differences arising on translation of foreign operations	–	–	1,832	–	–	1,832	–
Net income (expenses) recognised directly in equity	38,445	403,851	5,258	375	(378,609)	69,320	3,317
Profit for the period	–	–	–	–	7,387	7,387	236
Total recognised income and expenses for the period	38,445	403,851	5,258	375	(371,222)	76,707	3,553
Recognition of equity-settled share based payments	–	–	–	113	–	113	–
At 30 September 2005	38,445	403,851	5,258	488	(371,222)	76,820	3,553

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Six months ended 30 September

	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Net cash outflow from operating activities	(6,972)	(4,122)
Net cash (out)inflow from investing activities	(8,583)	3,648
Net cash outflow before financing activities	(15,555)	(474)
Net cash in(out) from financing activities	45,332	(3,050)
Increase (decrease) in cash and cash equivalents	29,777	(3,524)
Effect of changes in exchange rate	(1,661)	24
Cash and cash equivalents brought forward	1,785	4,183
Cash and cash equivalents carried forward	29,901	683

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The unaudited condensed interim consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with Hong Kong Accounting Standard (“HKAS”) No. 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

2. PRINCIPAL ACCOUNTING POLICIES

The Group’s interim financial report for the six months ended 30 September 2006 (the “Interim Financial Report”), has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the HKSE (the “Listing Rules”), all applicable HKFRSs, which collective term includes all applicable individual Hong Kong Financial Reporting Standards, HKAS and Interpretations issued by the HKICPA and the accounting principles generally accepted in Hong Kong, including compliance with HKAS 34 “Interim financial statements”. The preparation of interim financial reports in conformity with HKAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The principal accounting policies adopted in preparing the Interim Financial Report are consistent with those adopted in the financial statements for the year ended 31 March 2006. The Group has also adopted a number of new HKFRSs (“New HKFRSs”) issued by HKICPA which became effective for accounting periods beginning on or after 1 January 2006. However, the adoption of these New HKFRSs has had no material effect on how the results of operations and financial position of the Group are prepared and presented.

3. SEGMENT INFORMATION

	Turnover		Loss from operations	
	Six months ended		Six months ended	
	30 September		30 September	
	2006	2005	2006	2005
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By principal activity:				
Continuing operations Logistics	33,534	41,045	3,704	1,943
Unrealized holding loss on investments on securities			–	(9,864)
Unallocated corporate expenses			(9,605)	(585)
Loss from operations			(5,901)	(8,506)
By geographical area:				
Hong Kong	–	–		
The People's Republic of China	33,534	41,045		
	<u>33,534</u>	<u>41,045</u>		

4. LOSS FROM OPERATIONS

	Six months ended 30 September	
	2006	2005
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
The Group's loss from operations has been arrived at after charging/(crediting):		
Depreciation and amortization	2,450	2,448
and after crediting:		
Exchange gain	1,824	–
Interest income from:		
Loans receivable	99	218
Bank	452	7
Debt securities	–	1,388
	<u> </u>	<u> </u>

5. TAXATION

	Six months ended 30 September	
	2006	2005
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Current tax		
Hong Kong	–	–
Other jurisdictions	307	637
	<u> </u>	<u> </u>
	<u>307</u>	<u>637</u>

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group has no assessable profit in Hong Kong for both periods.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

6. DIVIDENDS

No dividends were paid during the period. The directors do not recommend the payment of an interim dividend (2005: Nil).

7. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share attributable to the ordinary equity holders of the parent is based on the following data:

	Six months ended 30 September	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
(Loss)/earnings for the purpose of calculating basic (loss) earnings per share:		
Net (loss) profit for the period	<u>(26,451)</u>	<u>7,387</u>
Weighted average number of shares for the purpose of calculating basic (loss) earnings per share (in thousands)	<u>203,425</u>	<u>108,762</u>

No diluted earnings (loss) per share is presented as the exercise of the Company's outstanding share options for the six months ended 30 September 2006 and 30 September 2005 would result in an increase in earnings per share and a decrease in loss per share respectively.

8. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables (net of impairment losses for bad and doubtful debts) with an ageing analysis as at 30 September 2006 as follows:

	At 30 September 2006 (Unaudited) HK\$'000	At 31 March 2006 (Audited) HK\$'000
	Less than 3 months	14,491
3 to 6 months	601	1,754
6 to 12 months	649	549
Over 1 year	<u>46</u>	<u>385</u>
Other receivables	<u>15,787</u>	14,855
	<u>12,550</u>	<u>10,666</u>
	<u>28,337</u>	<u>25,521</u>

The Group maintains and closely monitors defined credit policies for its businesses and trade receivables in order to control the credit risk associated with trade receivables.

9. LOANS RECEIVABLE

It represented a loan of Euro 800,000 (31 March 2006: Nil) advanced to Mr. Laurent Kim on 21 July 2006 as disclosed by the Company in its announcement dated 2 August 2006.

10. TRADE AND OTHER PAYABLES

The following is an aged analysis of accounts payable at the reporting date:

	At 30 September 2006 (Unaudited) HK\$'000	At 31 March 2006 (Audited) HK\$'000
Less than 3 months	6,882	5,616
3 to 6 months	105	753
6 to 12 months	484	12
Over 1 year	228	231
	7,699	6,612
Other payables	7,403	7,404
	15,102	14,016

11. SHARE CAPITAL

	Authorised			
	Ordinary shares of HK\$0.50 each		Ordinary shares of HK\$0.01 each	
	No. of shares	HK\$'000	No. of shares	HK\$'000
At 1 October 2005 and 31 March 2006	–	–	8,000,000,000	80,000
Creation of new shares <i>(note (b)(i))</i>	–	–	22,000,000,000	220,000
Share Consolidation <i>(note (b)(iii))</i>	600,000,000	300,000	(30,000,000,000)	(300,000)
At 30 September 2006	600,000,000	300,000	–	–

	Issued and fully paid			
	Ordinary shares of HK\$0.50 each		Ordinary shares of HK\$0.01 each	
	No. of shares	HK\$'000	No. of shares	HK\$'000
At 1 October 2005 and 31 March 2006	–	–	5,438,098,000	54,381
Share Consolidation <i>(note (a)(iii))</i>	108,761,960	54,381	(5,438,098,000)	(54,381)
Issue of Shares under the Subscription in May 2006 <i>(note (c))</i>	80,000,000	40,000	–	–
Exercise of Convertible Notes in June 2006 <i>(note (c))</i>	60,000,000	30,000	–	–
Exercise of Share Options in August 2006 <i>(note (d))</i>	80,000	40	–	–
Exercise of Options in September 2006 <i>(note (c))</i>	20,000,000	10,000	–	–
At 30 September 2006	268,841,960	134,421	–	–

Notes:

- (a) The Company signed a Conditional Agreement and a Supplementary Agreement (collectively known as “Subscription Agreements”) on 22 February 2006 and 20 March 2006 respectively. Pursuant to the Subscription Agreements between the Company and the Subscriber, Orient Day Developments Limited (“Orient Day”), the Company agreed to allot and issue, and Orient Day agreed to subscribe in cash of HK\$40,000,000 for a total of 4,000,000,000 subscription shares at a price of HK\$0.01 per share (80,000,000 Consolidated Shares of HK\$0.50 each) (the “Subscription”).

Moreover, subject to the completion of the Subscription, the Company agreed to issue to Orient Day the Convertible Notes of HK\$30,000,000. The convertible notes will bear interest from the date of issue of the convertible notes at the rate of 4% per annum on the outstanding principal amount of the convertible notes, which will be payable by the Company quarterly in arrears. The maturity date of the convertible notes will be the date falling two years after the date of the issue of the convertible notes. The convertible notes are convertible at any time from the date of issue and up to the maturity date of the convertible notes. Orient Day has the further right to subscribe not more than 1,000,000,000 Option shares (20,000,000 Consolidated Shares of HK\$0.50 each).

- (b) By a special resolution passed on 22 May 2006, the following changes became effective on 23 May 2006.
- (i) the authorised share capital of the Company has been increased from HK\$80,000,000 to HK\$300,000,000 by the creation additional 22,000,000,000 new Shares of HK\$0.01 each; and
 - (ii) a share consolidation (“Share Consolidation”) on the basis that every fifty issued ordinary shares of HK\$0.01 each in the capital of the Company were consolidated into one Consolidated Share of HK\$0.50 each (the “Shares”).

- (c) On 24 May 2006, Orient Day was issued 80,000,000 new Shares and HK\$30,000,000 Convertible Notes. Subsequently in June 2006 and September 2006, Orient Day has elected to convert the HK\$30,000,000 Convertible Notes into 60,000,000 new Shares and exercised the Options to subscribe for 20,000,000 new Shares of HK\$0.50 each in the Company respectively.
- (d) Each of Mr. Iain F. Bruce and Mr. Barry J. Buttifant, both former independent non-executive directors of the Company, has exercised their options to subscribe for 40,000 Shares at the exercise price of HK\$3.10 per Share in August 2006.

12. SHARE OPTION SCHEME

The Company adopted the new share option scheme on 21 June 2002 (the "Scheme"). The Scheme enables the Company to grant share options to eligible persons as an incentive or reward for their contributions to the Company. The terms of the Scheme fully comply with the provisions of Chapter 17 of the Listing Rules. During the period, options amounting to 17,500,000 shares were granted to eligible persons including the directors of the Company. Save as mentioned in note 11(d), no other share options were exercised under the Scheme during the period. At 30 September 2006, the Company had 20,928,400 share options outstanding under the Scheme.

13. CAPITAL COMMITMENTS

	At 30 September 2006 (Unaudited) HK\$'000	At 31 March 2006 (Audited) HK\$'000
Capital commitments contracted but not provided for in the financial statements in respect of:		
Inner Mongolia DiChain Logistics Co., Ltd. (note a)	2,415	2,415
China Coal Energy Holdings Limited (note b)	100,000	–
Euro Resources China Limited (note c)	20,000	–
Pearl Oriental Logistics Sino Limited (note d)	1,000	–
	123,415	2,415

Notes:

- (a) It represented RMB2,500,000 registered capital of a subsidiary, Inner Mongolia DiChain Logistics Co., Ltd., which will fall due on 31 December 2006;
- (b) A conditional agreement was entered into on 15 July 2006 in respect of the sale and purchase of 40% equity interests in China Coal Energy Holdings Limited (the "Acquisition") between the Company and Mr. Zhang Genyu as the Vendor at a total consideration of HK\$395,620,000, out of which the Group has to pay a cash consideration of HK\$100 million upon completion, and the balance of HK\$295,620,000 will be satisfied by the issue of 75,800,000 new Shares in the Company to the Vendor and his nominees. The Acquisition has been subsequently completed in October 2006.

- (c) A conditional sale and purchase agreement was entered into on 29 July 2006 between Grand Ascend Investments Limited, a subsidiary of the Company as the purchaser and Mr. Laurent Kim and Mr. Ung Phong as the vendors in respect of 50% equity interests in Euro Resources China Limited at a total consideration of approximately HK\$50 million, out of which the Group has to pay a cash consideration of approximately HK\$20 million upon completion;
- (d) A conditional sale and purchase agreement was entered into between Ms. Yang Yu Qing and the Company on 14 September 2006 in relation to the acquisition of 60% equity interests in Pearl Oriental Logistics Sino Limited at a total consideration of approximately HK\$22 million, out of which the Group has to pay a cash consideration of HK\$1 million upon completion.

14. PLEDGE OF ASSETS

At 30 September 2006, certain of the Group's land and buildings with an aggregate carrying value of approximately HK\$102 million (31 March 2006: approximately HK\$101 million) were pledged to a bank to secure loan facilities granted to the Group.

15. CONTINGENT LIABILITIES

At 30 September 2006, the Company had given guarantees of approximately HK\$57 million (31 March 2006: HK\$87 million) to banks in respect of banking facilities granted to a subsidiary. The extent of such facilities utilized by the subsidiary at 30 September 2006 amounted to approximately HK\$57 million (31 March 2006: HK\$86 million).

16. POST BALANCE SHEET EVENTS

A conditional agreement was entered into on 15 July 2006 in respect of the sale and purchase of 40% equity interests in China Coal Energy Holdings Limited (the "Acquisition") between the Company and Mr. Zhang Genyu as the Vendor at a total consideration of HK\$395,620,000, out of which the Group has to pay a cash consideration of HK\$100 million upon completion, and the balance of HK\$295,620,000 will be satisfied by the issue of 75,800,000 new Shares in the Company to the Vendor and his nominees. The Acquisition has been subsequently completed in October 2006.

Orient Day has granted an unsecured loan facility to the Group of HK\$70 million in September 2006, and out of which the Group has drawn down a sum of HK\$30 million in October 2006 as working capital.

17. LITIGATIONS

The Group had three pending litigation claims from the ex-directors of a disposed subsidiary who claim against the Group for a total sum of not less than HK\$11.4 million. The actions are at the initial stage and the Group and its legal representative are unable to ascertain the possible effects of the claims.

In addition, the Company took a legal action (the "Legal Action") by issuing a writ of summons on 31 August 2006 against DiChain Holdings Limited ("DiChain Holdings"), 3 former Directors, namely Fan Di, Li Xingque and Wu Shiyue, Hero Vantage Limited and 大連雙喜商貿發展有限公司 (Dalian Shuangxi Trade Development Limited) for damages of a sum of RMB64.5 million and the Legal Action is still in progress.

On 18 October 2006, DiChain Holdings issued an originating summons against, inter alia, the Company to seek the court's orders, determination and/or directions in respect of the interpretation of the Subscription Agreements.

It is a term and condition in the Subscription Agreements and an obligation (the "Obligation") for DiChain Holdings to pledge one billion Shares (or 20,000,000 Consolidated Shares of HK\$0.50 each) upon completion of the Subscription Agreements, as collateral to compensate the Company of any economic loss (if any) arising from any breach of warranties (if any) provided by DiChain Holdings under the Subscription Agreements. As DiChain Holdings has not yet performed the Obligations under the Subscription Agreements, the Company issued a writ of summons against DiChain Holdings on 31 October 2006, inter alia, in respect of the breach of warranties given by DiChain Holdings under the Subscription Agreements.

18. COMPARATIVE FIGURES

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

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS AND REVIEW OF OPTIONS

For the six months ended 30 September 2006 (the "Period"), the Group recorded a consolidated turnover of HK\$33,534,000 (2005: HK\$41,045,000), representing a decrease of approximately 18% over the corresponding period last year. Basic loss per share was 13 HK cents for the Period as compared to the profit per share of 7 HK cents for the six months ended 30 September 2005.

The decrease in turnover was mainly due to the loss of few key customers resulted from the litigation for recovering around HK\$30 million instituted by Guangdong Development Bank against the Group which affects the confidence of these key customers. However, the gross profit was HK\$11,207,000 for the Period which was in the same level of the previous corresponding period and the gross profit margin has increased by 17.8% to 33% during the Period from 28% in the previous corresponding period as a result of the new Management's effort to cut down the operating costs and enhance the efficiency of the logistics operations of the Group.

The Company suffered a net loss attributable to the shareholders for the Period of approximately HK\$26,451,000 (2005: profit of HK\$7,387,000) mainly due to the fact that the New board of directors (the "Board") has decided, by adopting a prudent approach, to make a substantial one-off provision for doubtful debts amounted to approximately HK\$7,187,000 in respect of certain receivables advanced by the previous management and the impairment loss on securities amounting to approximately HK\$9,357,000. The New Board anticipates that no further provisions or impairment of similar nature will be made in the future.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group generally finances its operations with internally generated resources and loan facilities granted by principal bankers in the PRC and Hong Kong, and from Orient Day Developments Limited.

Mr. Wong Kwan became the new controlling shareholder of the Company on 24 May 2006. As a result, the financial positions of the Group have been improved substantially and become solid and strong during the Period. As at 30 September 2006, the Group's gearing ratio had decreased to 29% (calculated on the basis of the Group's bank borrowings over total assets) from 55% as at 31 March 2006. At the period end date, the Group's total bank borrowings amounted to HK\$57 million, which was secured by certain properties of the Group located in the PRC. The Group has adopted a conservative approach to financial risk management with limited borrowing during the Period.

Furthermore, the Group's cash and bank balances as at 30 September 2006 have increased from HK\$1,785,000 as at 31 March 2006 to approximately HK\$29,901,000. The current ratio (calculated on the basis of the Group's current assets over current liabilities) has increased to 0.91 as at 30 September 2006 (31 March 2006: 0.41).

During the Period, the Group conducted its business transactions principally in Renminbi, Hong Kong dollars, or in the local currencies of the operating subsidiaries. The Directors considered that the Group had no significant exposure to foreign exchange fluctuations and believed it was not necessary to hedge against any exchange risk. Nevertheless, the Management will continue to monitor the foreign exchange exposure position and will take any future prudent measure it deems appropriate.

As at 30 September 2006, certain assets of the Group with an aggregate carrying value of approximately HK\$102 million were pledged with bank as security for loan facilities granted.

LITIGATIONS

The Group had three pending litigation claims from the ex-directors of a disposed subsidiary who claim against the Group for a total sum of not less than HK\$11.4 million. The actions are at the initial stage and the Group and its legal representative are unable to ascertain the possible effects of the claims.

In addition, the Company took a legal action (the "Legal Action") by issuing a writ of summons on 31 August 2006 against DiChain Holdings Limited ("DiChain Holdings"), 3 former Directors, namely Fan Di, Li Xingque and Wu Shiyue, Hero Vantage Limited and 大連雙喜商貿發展有限公司 (Dalian Shuangxi Trade Development Limited) for damages of a sum of RMB64.5 million and the Legal Action is still in progress. The Company will keep the Shareholders well informed of its status when necessary and appropriate.

On 18 October 2006, DiChain Holdings issued an originating summons against, inter alia, the Company to seek the court's orders, determination and/or directions in respect of the interpretation of the Subscription Agreements (as defined in the Company's circular dated 4 May 2006).

It is a term and condition in the Subscription Agreements and an obligation (the "Obligation") for DiChain Holdings to pledge one billion Shares (or 20,000,000 Consolidated Shares of HK\$ 0.50 each) upon completion of the Subscription Agreements, as collateral to compensate the Company of any economic loss (if any) arising from any breach of warranties (if any) provided by DiChain Holdings under the Subscription Agreements. As DiChain Holdings has not yet performed the Obligations under the Subscription Agreements, the Company issued a writ of summons against DiChain Holdings on 31 October 2006, inter alia, in respect of the breach of warranties given by DiChain Holdings under the Subscription Agreements.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2006, the number of employees of the Group was about 270. The remuneration packages of employees are maintained at competitive levels and include monthly salaries, mandatory provident fund, medical insurance and share option schemes; other employee benefits include meal and traveling allowances and discretionary bonuses.

PROSPECTS

ENERGY AND NATURAL RESOURCES SECTORS

To further increase the shareholders' value in the Company, the Company has been exploring new business opportunities for the Group actively. In view of the limited supply but ever increasing demand for energy and natural resources, the Management will correspondingly formulate prompt and appropriate operation and investment strategies to capitalize any business opportunities arisen and to timely expand into the new energy and resources business with high potential growth. The Management is also of the opinion that diversification of the Group's business into the coal mining and related business can provide additional dividend revenue to the Group and reduce the Group's business risk.

The Management believes that China's economic development will expand continuously within the next 10 years thus there will be a strong increasing demand for energy and natural resources, providing a great opportunity for the Company to achieve fast-growing development. Given the broad social network resources of the new Board of Directors formed in June 2006, and the Management Team's extensive experience and ability in business development, the Management strongly believes that the Company will, while retaining the logistics business which has collaborative and synergy effect, strengthen its energy and natural resources business and bring very good investment return to the shareholders.

In October 2006, the Group has successfully completed the acquisition of a 40% equity interests of a coal mining company, Shanxi Taiyuan Sanxing Coal Gasification (Group) Company Limited at a consideration of HK\$400 million. The Group has also spent HK\$50 million to acquire a 50% equity interests in and has become the single largest shareholder of Euro Resources China Limited. This plastic resources recycling project has great development potential and also its products have huge demand in the PRC market. It is expected that the coal mining project and plastic resources recycling project will bring long-term to the Group.

LOGISTICS BUSINESS

In order to increase the market share of the logistics business, the Company has entered into an agreement to acquire a 60% equity interest of Pearl Oriental Logistics Sino Limited at a consideration of HK\$22 million.

It is expected that the Company's share of guaranteed profits from the above three acquisitions will be approximately HK\$323 million in aggregate in the coming three years from 2007 to 2009.

The Company has also entered an agreement to acquire the remaining 40% equity interest of Guangzhou Pearl Oriental Logistics Company Limited (“Guangzhou Pearl Oriental”) and Jiangxi Pearl Oriental Logistics Co., Ltd. (“Jiangxi Pearl Oriental”) in September 2006. Guangzhou Pearl Oriental and Jiangxi Pearl Oriental will become wholly owned subsidiaries of the Company after completion. Recently, Guangzhou Pearl Oriental has been actively expanding and soliciting new sizeable customers and a few high quality customers have been secured, therefore it is expected that it will have strong growth in its business in the coming year.

The Company will operate and invest bilaterally in energy and natural resources business as well as logistics business. As the energy and resources projects require more capital investment thus will account for as high as 70% of the total net assets of the Company.

FINANCIAL POSITIONS OF THE GROUP

After Mr. Wong Kwan became the new controlling shareholder of the Company on 24 May 2006, the financial positions of the Group have been improved immediately. Apart from the proceeds of HK\$80 million from the issue of new shares, an unsecured loan facility of HK\$70 million has been granted by Mr. Wong Kwan to the Group as additional working capital which is beneficial to the Group’s various investing and operating activities. As a whole, all of our major bankers, customers and business partners have great confidence in the Group’s future development. Therefore, the Group will be in a better position to grasp various business opportunities in the future.

MANAGEMENT

In order to protect the interests of the Company’s shareholders, the New Management has already taken the Legal Action against the former controlling shareholder, certain former directors and related parties to recover the Group’s damages amounting to about RMB64.5 million resulted from their improper use of the Group’s funds.

The New Management has built brand new corporate culture of the Group that not only creates value for the shareholders, but also boosts the team spirit of the employees and is beneficial to the all round and balanced development of the Group.

ADDITIONAL INFORMATION REQUIRED UNDER THE LISTING RULES

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2006, the interests of the directors and their associates in the shares, underlying shares and convertible bonds of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long positions

(a) Ordinary shares of HK\$0.50 each of the Company

Name of Directors	Number of Shares held in the Capacity of				Total number of Shares held	Percentage of the issued share capital of the Company
	Beneficial owner	Family interest	Held by controlled corporation	Held by trust		
Wong Kwan (Note)	–	–	165,290,800	–	165,290,800	61.48%
Robert Fung Hing Piu	46,109	–	1,200,000	1,272,090	2,518,199	0.94%

Note: These Shares were held by Orient Day Developments Limited, which is wholly-owned by Mr. Wong Kwan.

(b) Share options

Name of director	Capacity	Number of options held	Number of underlying shares
Wong Kwan	Beneficial owner	2,400,000	2,400,000
Anwar Ibrahim	Beneficial owner	2,000,000	2,000,000
Lee G. Lam	Beneficial owner	2,000,000	2,000,000
Lin Xizhong	Beneficial owner	1,000,000	1,000,000
Chan Yiu Keung	Beneficial owner	1,000,000	1,000,000
Cheung Kwok Yu	Beneficial owner	1,000,000	1,000,000
Zheng Yingsheng	Beneficial owner	2,030,000	2,030,000
Zhou Li Yang	Beneficial owner	1,410,000	1,410,000
Robert Fung Hing Piu	Beneficial owner	1,070,000	1,070,000
Victor Yang	Beneficial owner	1,040,000	1,040,000

Other than as disclosed above, none of the directors nor their associates had any interest or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 30 September 2006.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance shows that, as at 30 September 2006, other than the interests disclosed above in respect of certain directors, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company:

Name of substantial shareholder	Capacity	Number of issued ordinary shares held	Percentage of issued share capital of the Company
Orient Day Developments Limited (<i>Note</i>)	Beneficial owner	165,290,800	61.48%

Note:

Orient Day Developments Limited is wholly-owned by Mr. Wong Kwan.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 30 September 2006.

SHARE OPTIONS SCHEME

Pursuant to a written resolution of the sole shareholder passed on 21 June 2002, the Company's share option scheme (the "Scheme") was set up for the primary purpose of providing incentives to directors and eligible employees, and which will expire on 20 June 2012. Under the Scheme, the directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 30% of the issued share capital of the Company from time to time, without prior approval from shareholders of the Company. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the Company's issued share capital or with a value in excess of HK\$5 million, otherwise it must be approved by the shareholders of the Company.

Options granted must be taken up within 21 days from the date of grant, upon payment of HK\$1 per option. Options may be exercised at any time from 12 months from the date of acceptance of the offer to the term anniversary of the date of grant. The exercise price is determined by the directors of the Company, and shall not be less than the higher of the closing price of the Company's shares on the date of grant, the average closing price of the shares for the five business days immediately preceding the date of grant and the nominal value of the shares of the Company. The vesting period is 12 months from the date of grant.

The following table discloses the total unexpired and unexercised entitlement of the employees (including directors) as adjusted due to the Share Consolidation:

Exercise Price	Exercise Period	Outstanding options as at the 30 September 2006
HK\$6.000	20.5.2004 – 21.6.2012	300,000
HK\$3.100	18.8.2005 – 20.6.2012	478,400
HK\$3.120	28.9.2005 – 20.6.2012	40,000
HK\$3.320	6.4.2006 – 20.6.2012	100,000
HK\$3.150	29.8.2006 – 20.6.2012	2,430,000
HK\$1.390	17.2.2007 – 20.6.2012	80,000
HK\$3.375	13.6.2007 – 20.6.2012	17,500,000
		20,928,400

Save as described above, as at 30 September 2006, none of the Directors or their spouses or children under 18 years of age were granted or exercised any right to subscribe for any equity or debt securities of the Company or any of its subsidiary companies.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the Code of conduct regarding securities transaction by the directors. Having made specific enquiry of all directors, the Company confirmed that all directors have complied with the required standard set out in the Model Code during the period.

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

During the period under review, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

CORPORATE GOVERNANCE

The Group has adopted all the Code Provisions set out in the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules except for the following deviation:

Code Provision A.2.1

The Code stipulates that the roles of Chairman and Chief Executive should be separate and should not be performed by the same individual. The Company does not have a separate Chairman and Chief Executive and Mr. Wong Kwan currently holds both positions. The Board believes that vesting the roles of Chairman and Chief Executive in the same person provides the Group with strong and consistent leadership in the development and execution of long-term business strategies.

AUDIT COMMITTEE

The Audit Committee consists of three independent non-executive directors, namely Dr. Anwar Ibrahim, Dr. Lee G. Lam and Mr. Victor Yang. The Committee has reviewed with management the accounting principles and practices adopted by the Group, and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim results for the six months ended 30 September 2006 with no disagreement.

On behalf of the Board

Cheung Kwok Yu

Executive Director and Company Secretary

Hong Kong, 18 December 2006