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

(Incorporated in Bermuda with limited liability)

(Stock Code: 0632)

INTERIM RESULTS ANNOUNCEMENT 2006

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	2005
		(Unaudited)	(Unaudited)
			(Restated)
	Notes	***HK$'000***	*HK$'000*
Turnover	*3*	**33,534**	41,045
Cost of sales		**(22,327)**	(29,373)
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*	**(5,901)**	(8,506)
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		**(26,091)**	8,260
Taxation	*5*	**(307)**	(637)
(Loss) profit for the period		**(26,398)**	7,623
Attributable to:			
Equity holders of the parent		**(26,451)**	7,387
Minority interests		**53**	236
		(26,398)	7,623
(Loss) earnings per share	*7*		
Basic		**(13) cents**	7 cents

CONDENSED CONSOLIDATED BALANCE SHEET

		At 30 September 2006 (Unaudited)	At 31 March 2006 (Audited) (Restated)
		HK$'000	*HK$'000*
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		**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	*9*	**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		**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

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 unaudited condensed interim consolidated financial statements have been prepared under the historical cost convention, as modified for the revaluation of investments in securities.

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, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("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 Six months ended 30 September		**Loss from operations Six months ended 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		
	33,534	41,045		

4. LOSS FROM OPERATIONS

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

5. TAXATION

	Six months ended 30 September 2006 (Unaudited) *HK$'000*	2005 (Unaudited) *HK$'000*
Current tax		
Hong Kong	**–**	–
Other jurisdictions	**307**	637
	307	637

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$'000*	2005 (Unaudited) (Restated) *HK$'000*
(Loss)/earnings for the purpose of calculating basic (loss) earnings per share:		
Net (loss) profit for the period	**(26,451)**	7,387
Weighted average number of shares for the purpose of calculating basic (loss) earnings per share (in thousands)	**203,425**	108,762

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**	12,167
3 to 6 months	**601**	1,754
6 to 12 months	**649**	549
Over 1 year	**46**	385
	15,787	14,855
Other receivables	**12,550**	10,666
	28,337	25,521

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. 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

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 Xinggue 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.

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 RMB 64.5 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.

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.

On behalf of the Board
Cheung Kwok Yu
Executive Director and Company Secretary

Hong Kong, 18 December 2006

As at the date of this announcement, the board of Directors comprises six executive directors, namely Messrs. Wong Yuk Kwan (alias: Wong Kwan), Lin Xizhong, Cheung Kwok Yu, Chan Yiu Keung, Zhou Li Yang, Zheng Yingsheng, and one non-executive director, namely Dr. Robert Fung Hing Piu, and three independent non-executive directors, namely Dr. Anwar Ibrahim, Dr. Lee G. Lam and Mr. Victor Yang.

* *for identification purpose only*

Please also refer to the published version of this announcement in The Standard.