THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Pearl Oriental Innovation Limited (formerly known as China Merchants Dichain (Asia) Limited) (the "Company"), you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank manager, licensed securities dealer or registered institution in securities or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of the Company.

東方明珠創業有限公司*

Pearl Oriental Innovation Limited

(Formerly known as China Merchants DiChain (Asia) Limited)

(Incorporated in Bermuda with limited liability)

(Stock Code: 632)

VERY SUBSTANTIAL ACQUISITION

ACQUISITION OF 40% EQUITY INTEREST IN CHINA COAL ENERGY HOLDINGS LIMITED

Financial Adviser to the Company

Hercules

Hercules Capital Limited

A notice convening a special general meeting of Pearl Oriental Innovation Limited to be held at Unit 3611, 36/F, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong, on Tuesday, 3 October 2006 at 4:00 p.m. is set out on pages 160 to 161 of this circular. A form of proxy for use at the special general meeting is also enclosed. Whether or not you are able to attend the special general meeting, please complete 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, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the special general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting if you so wish.

15 September 2006

* *For identification purpose only*

CONTENT

DEFINITIONS

In this document, the following expressions have the meanings set out below unless the context requires otherwise:–

"Acquisition"	the acquisition by the Company of the Sale Shares pursuant to the Agreement
"Agreement"	the agreement for the sale and purchase of the Sale Shares dated 15 July 2006 entered into between the Company and the Vendor
"Announcement"	the announcement dated 20 July 2006 issued by the Company in relation to the matters contained in this circular
"Audited Net Profit"	The audited consolidated net profit after tax of the Joint Venture and its subsidiaries, which shall be determined in accordance with the International Accounting Standards
"associate"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"China Coal Group"	the Joint Venture and Taiyuan Sanxing Group
"Company"	Pearl Oriental Innovation Limited (formerly known as China Merchants DiChain (Asia) Limited), a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Stock Exchange
"Completion"	completion of the transactions contemplated under Agreement
"connected persons"	has the meaning ascribed to it under the Listing Rules
"Consideration Shares"	an aggregate of 75,800,000 new Shares to be issued by the Company at an issue price of HK$3.90 per Share as part of the consideration for the Acquisition
"Directors"	the directors of the Company
"Enlarged Group"	the Group and China Coal Group
"Group"	the Company and its subsidiaries
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"Joint Venture"	China Coal Energy Holdings Limited, a company incorporated in Hong Kong with limited liability

"Latest Practicable Date"	13 September 2006, being the latest practicable date prior to the printing of this circular for the purposes of ascertaining certain information for inclusion in this document
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange
"PRC"	People's Republic of China, and for the purpose of this circular, shall exclude Hong Kong, the Macau Special Administrative Region and Taiwan
"SGM"	The special general meeting of the Company to be held on Tuesday, 3 October 2006 at 4:00 p.m. at Unit 3611, 36/F, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong to consider and, if thought fit, approve the resolutions in relation to, among other things, the Agreement and the transactions contemplated thereunder
"Sale Shares"	40,000,000 ordinary shares of HK$1.00 each in the issued share capital of the Joint Venture, representing 40% of its entire issued share capital
"Share(s)"	ordinary share(s) of HK$0.50 each in the issued share capital of the Company
"Shareholder(s)"	The holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Taiyuan Sanxing"	Taiyuan Sanxing Coal Gasification (Group) Co., Ltd., an investment holding company incorporated in the PRC with limited liability
"Taiyuan Sanxing Group"	Taiyuan Sanxing and its subsidiaries
"Vendor"	Mr. Zhang Genyu, a third party independent of the Company and its connected persons
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"%"	per cent.

In this circular, for purpose of illustration only, amounts quoted in RMB have been converted into Hong Kong dollars at the rate of RMB1.03 to HK$1.00. Such exchange rate has been used, where applicable, for purposes of illustration only and does not constitute a representation that any amount was or may have been exchanged at this or any other rates or at all.

東方明珠創業有限公司*

Pearl Oriental Innovation Limited

(Formerly known as China Merchants DiChain (Asia) Limited)
(Incorporated in Bermuda with limited liability)
(Stock Code: 632)

Executive Directors:
Wong Yuk Kwan (alias: Wong Kwan)
Lin Xizhong
Chan Yiu Keung
Cheung Kwok Yu
Zhou Li Yang
Zheng Yingsheng

Non-executive Directors:
Robert Fung Hing Piu

Independent non-executive Directors:
Anwar Ibrahim
Lee G. Lam
Victor Yang

Registered office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Head office and principal place of business in Hong Kong:
Unit 3611, 36/F.,
West Tower, Shun Tak Centre
168-200 Connaught Road
Central, Hong Kong

15 September 2006

To the Shareholders

Dear Sirs,

ACQUISITION OF 40% EQUITY INTEREST IN CHINA COAL ENERGY HOLDINGS LIMITED

1. INTRODUCTION

As announced by the Company on 20 July 2006, the Company and the Vendor entered into the Agreement, under which, subject to certain conditions, (i) the Company agreed to acquire and the Vendor agreed to sell the Sale Shares, which represents 40% of the issued share capital of the Joint Venture, at a total consideration of HK$395.62 million, of which HK$100 million will be paid by the Company in cash and the balance of HK$295.62 million will be satisfied by the allotment and issue of the Consideration Shares to the Vendor and/or his nominees.

The purpose of this circular is to provide you with further details relating to the above transaction and the notice of the SGM.

* *For identification purpose only*

2. THE AGREEMENT

Date: 15 July 2006

Parties: (a) Mr. Zhang Genyu, as vendor

(b) the Company, as purchaser

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendor is a third party independent of the Company and its connected persons. The Vendor has not acquired any equity interest in the Company or its subsidiaries and has no relationship with the Company or its associates at any time before the entering into of the Agreement.

Subject Matter

Subject to the fulfillment of the conditions set out below, the Company agreed to acquire and the Vendor agreed to sell the Sale Shares, representing 40% of the issued share capital of the Joint Venture, for a total consideration of HK$395.62 million.

After the Acquisition, the Joint Venture shall be owned as to 40% by the Company and 60% by the Vendor. The Board has no present intention to acquire the remaining equity interest in the Joint Venture and the Joint Venture shall become an associated company of the Company after the Completion.

Consideration

The total consideration of the Acquisition is HK$395.62 million, of which HK$100 million will be paid by the Company in cash and the balance of HK$295.62 million will be satisfied by the allotment and issue of 75,800,000 new Shares to the Vendor and his nominees upon Completion. Approximately 30% of the cash consideration will be funded by the Group's internal financial resources while the balance shall be funded by proceeds from placement of new shares and/or debt financing.

Mr. Wong Kwan, the Chairman and Chief Executive of the Company, has great confidence in the future development of the Company and will fully support the Company's expansion of business, including the Acquisition, by granting to the Company a loan facility through his wholly-owned company, Orient Day Developments Limited. Pursuant to the loan agreement dated 5 September 2006 entered into between the Company and Orient Day Developments Ltd., Orient Day Developments Ltd. agreed to provide a loan facility of not more than HK$70 million to the Company at the interest rate of Hong Kong prime rate. The Company may draw the whole amount or part of the loan on or before 31 March 2007 and the loan, if drawn, will be payable on or before twenty-four months from the date of drawdown of the loan by 12 equal monthly instalments which are payable after the first anniversary of the date of drawdown of the loan. No security over the assets of the Company is granted in respect of the loan facility and such loan facility is on normal commercial terms.

The consideration was arrived at after arm's length negotiations between the Company and the Vendor and on normal commercial terms, and was determined by taking into consideration of: (i) the audited consolidated net asset value (determined in accordance with Hong Kong Accounting Standards) of Taiyuan Sanxing Group, which shall be the principal assets of the Joint Venture, of approximately RMB160 million (equivalent to approximately HK$155 million) as at 31 December 2005; (ii) an indicative price earnings ratio of approximately 4.95 times (being the consideration divided by the indicative average profit guaranteed by the Vendor); and (iii) the guaranteed dividend of HK$40 million to the

Company for each of the financial years ending 31 December 2007 and 31 December 2008. The Directors, including the independent non-executive Directors, are of the opinion that the consideration is fair and reasonable and on normal commercial terms.

Consideration Shares

The issue price of the Consideration Shares of HK$3.90 per Share represents:

(a) a discount of approximately 6.6% over the closing price of HK$4.175 per Share as quoted on the Stock Exchange on 14 July 2006, being the last trading day immediately before the date of the Announcement; and

(b) a discount of approximately 2.4% to the average closing price of approximately HK$3.998 per Share as quoted on the Stock Exchange for the last ten trading days up to and including 14 July 2006, being the last trading day immediately before the date of the Announcement.

The issue price of the Consideration Shares was arrived at by the Vendor and the Company after taking into account the trading prices of the Shares during the course of negotiation.

The Consideration Shares represent approximately 28.2% of the existing issued share capital of the Company, and approximately 22.0% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares. The Consideration Shares, when issued on Completion, will rank pari passu in all respects with the existing Shares in issue. The issue of the Consideration Shares will not result in a change of control of the Company. As of the Latest Practicable Date, the Company had no intention to change the composition of the Board after the Completion.

The Consideration Shares will be issued under a special mandate proposed to be sought from the Shareholders at the SGM and an application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

Guaranteed Profit and Dividend

The Vendor guaranteed to the Company that the Audited Net Profit for the three financial years ending 31 December 2009 shall in aggregate be not less than HK$600 million. Should the aggregate Audited Net Profit falls below HK$600 million, the Vendor will pay the shortfall on dollar-to-dollar basis to the Joint Venture after the issuance of the audit report for the financial year ending 31 December 2009. The guaranteed profit was determined with reference to the past three years' financial performance and the future business development potential of Taiyuan Sanxing Group, which shall be the principal assets of the Joint Venture. In order to increase the production capacity of Taiyuan Sanxing Group, the Vendor has undertaken to pay a sum of RMB100 million on behalf of the Joint Venture to Taiyuan Sanxing so as to increase Taiyuan Sanxing's registered capital and to acquire new production machinery and equipment. In view of the expected acquisition of new production machinery and increase in the production capacity, the Vendor is confident that the Joint Venture can achieve the guaranteed profit in the relevant years.

The Vendor further guaranteed to the Company that if (i) the Audited Net Profit for each of the financial years ending 31 December 2007 and 31 December 2008 is less than HK$200 million; and (ii) the dividend of the Joint Venture to be paid to the Company for each of the financial years ending 31 December 2007 and 31 December 2008 is less than HK$40 million, the Vendor shall pay the shortfall of dividend on dollar-to-dollar basis to the Company (by utilizing part of the dividend entitled by the Vendor himself to pay such shortfall) so that the Company's dividend entitlement shall not be less than HK$40 million in each of the financial years ending 31 December 2007 and 31 December 2008.

The Company has the right to waive, at its sole discretion, all or part of the liabilities and responsibilities of the Vendor under the above guarantees if the shortfalls arise as a result of changes in the PRC's national resources policies, substantial plunge in coal price and/or other reasonable factors acceptable to the Company such as any event, or series of events beyond the reasonable control of the Vendor, the Joint Venture or its subsidiaries (including, without limitation, acts of government, strikes, lock-outs, fire, explosion, flooding, civil commotion, acts of war, acts of God or interruption or delay in transportation, acts of terrorism or outbreak of epidemics including SARS or Avian Flu) which has or would have the effect of making any part of the guarantees incapable of performance in accordance with its terms.

Other Terms

The Vendor agreed to waive all loans, contingent liabilities and amount owing from Taiyuan Sanxing Group to the Vendor and his related parties and to forfeit all the recourse rights on such amounts upon Completion.

The Vendor further agreed to pledge its 60% shareholding in the Joint Venture under a share charge in favour of the Company until the liabilities and responsibilities of the profit guarantee are fully discharged or the Joint Venture gets a listing status independently, whichever is earlier.

The Company and the Vendor intended to seek for listing of the Joint Venture in Hong Kong or overseas stock exchanges within 18 months after the Completion. However, the listing plan may or may not materialize and this does not constitute a representation that the Joint Venture will get the listing status within the said period.

The board of directors of the Joint Venture shall comprise seven members, four of which, including the chairman, shall be nominated by the Vendor while the rest of the members shall be nominated by the Company. Resolutions regarding changes in share capital, share transfer and placement, mergers and cooperation with other economic entities, project investment, acquisition and financing, bank financing, contingent liabilities and dividend of the Joint Venture and Taiyuan Sanxing Group should be agreed by directors nominated by the Company.

The Company and the Vendor agreed that the Joint Venture shall distribute at least 50% of its profit after tax to its shareholders in proportion to their respective equity interests in the Joint Venture.

Conditions

Completion shall be conditional upon the following conditions being fulfilled:

(a) the Company is satisfied with the due diligence review on China Coal Group;

(b) the Board approving the Agreement;

(c) the passing of the resolution by the Shareholders at the SGM approving the entering into of the Agreement by the Company;

(d) the Listing Committee granting the listing of, and permission to deal in, the Consideration Shares; and

(e) all necessary consents and approvals having been obtained from the relevant authorities for completing the acquisition of Taiyuan Sanxing by the Joint Venture and registration of Taiyuan Sanxing as a wholly foreign-owned enterprise in the PRC.

Completion

Completion will take place on or before the seventh business day after the conditions of the Agreement have been fulfilled.

3. INFORMATION ON CHINA COAL GROUP

Information on the Joint Venture

The Joint Venture was incorporated in Hong Kong with limited liability. It is wholly owned by the Vendor and it has a total authorized and issued share capital of HK$10,000. The Joint Venture is an investment holding company. It has not carried out any business activity since its incorporation in July 2006.

Before Completion, the Joint Venture shall increase its issued share capital to HK$100 million, to be fully paid by the Vendor, and acquire the entire equity interest of Taiyuan Sanxing from the Vendor at a total consideration of RMB100 million (approximately HK$97 million).

Information on Taiyuan Sanxing Group

Taiyuan Sanxing was incorporated in 1996 under the laws of the PRC. It is currently wholly owned by the Vendor. Taiyuan Sanxing is not a connected person of the Company and it is independent of the Company and its connected persons. Taiyuan Sanxing is principally engaged in coal mining and trading of coal, coke, gas and chemical products through its subsidiaries. It does not and has no present intention to engage in exploration activities.

According to the mining exploitation permit (採礦許可證) issued by the Bureau of Land and Resources of Shanxi Province (山西省國土資源廳) on 25 September 2005, Shanxi Sanxing Coal and Coke Limited, a subsidiary of Taiyuan Sanxing, has the right to conduct mining activities in Shanxi Sanxing Coal Mine, which is located in Luliang area of Lin County in Shanxi, the PRC with a general mining area of approximately 5 square kilometers. The mining exploitation permit is valid until April 2007 and the Vendor has undertaken to procure the obtaining of renewal thereof upon its expiry.

In addition to the mining exploitation permit, Shanxi Sanxing Coal and Coke Limited also obtained the production safety license (安全生產許可證) issued by the Bureau of Coal Safety of Shanxi Province (山西省煤炭安全監察局) on 20 November 2005 which allows Shanxi Sanxing Coal and Coke Limited to conduct mining activities at the site from 22 November 2005 to 31 December 2007. The Vendor has undertaken to procure the obtaining of renewal of the production safety license upon its expiry.

The Resources Reserve Confirmation Letter (礦產資源儲量認定書) issued by the Bureau of Land and Resources of Shanxi Province in April 2003 reported that Shanxi Sanxing Coal Mine had total coal reserves of approximately 67.5 million tons and recoverable coal reserves of approximately 27 million tons.

Taiyuan Sanxing Group has been producing coal and coke since 2003 and it currently produces coal of 300,000 tons and coke of 300,000 tons per year. In order to increase the production capacity of Taiyuan Sanxing Group, the Vendor has undertaken to pay a sum of RMB100 million on behalf of the Joint Venture to Taiyuan Sanxing so as to increase Taiyuan Sanxing's registered capital from RMB100 million to RMB200 million for acquisition of new production machinery and equipment. As a result of the expected acquisition of new production machinery and increase in the production capacity, the management of Taiyuan Sanxing Group expects that the annual production of coal and coke will be increased to 1 million tons and 600,000 tons respectively.

The major properties held by Taiyuan Sanxing Group include an industrial complex, which is occupied mainly for industrial, ancillary office and dormitory uses, and a service apartment, which is operated by Taiyuan Sanxing Group as a service apartment, both of which are located in Taiyuan City, Shanxi Province, the PRC. The total net book value of the industrial complex and the service apartment amounted to approximately RMB75.6 million as at 30 June 2006. As of the Latest Practicable Date, Taiyuan Sanxing Group has not been granted with any proper title certificates for the service apartment and one of the land parcels of the industrial complex with a site area of approximately 120,766 sq.m. ("Land Parcel II") and three buildings with a total gross floor area of approximately 7,017 sq.m. thereon as the consideration of the service apartment has not been fully settled and application for the relevant title documents for Land Parcel II and buildings thereon is still in progress. As advised by the PRC legal advisors of the Group that there would be no legal impediments for Taiyuan Sanxing Group in obtaining the relevant State-owned Land Use Rights Certificate and Building Ownership Certificates for the service apartment, Land Parcel II and the buildings thereon upon settlement of all the requisite considerations/ land premium, the management of Taiyuan Sanxing considers that no asset impairment is required.

The information set out below is extracted from the audited consolidated financial statements of Taiyuan Sanxing Group as prepared in accordance with Hong Kong Accounting Standards for the two years ended 31 December 2005:

	Year ended 31 December 2005 *(RMB million)*	31 December 2004 *(RMB million)*
Turnover	369.5	196.5
Profit before taxation	64.8	13.4
Profit after taxation and minority interest	39.2	8.7
Net Asset Value	159.9	86.4

As disclosed in the Company's announcement dated 11 September 2006, during the period from 31 August 2006 to 2 September 2006, Mr. Li Ge Chen, Managing Director of Sinosteel International Holding Co., Ltd (中鋼國際控股有限公司) ("Sinosteel International") visited and inspected the coal mine and the coke factory of Taiyuan Sanxing Group, and he was satisfied with the operations and production facilities of Taiyuan Sanxing Group. On 8 September 2006, the Company, Sinosteel International and Taiyuan Sanxing entered into a framework agreement, pursuant to which the parties agreed to establish a strategic partnership alliance in the business of coal mining and production and trading of coking coal, coke and other related chemical products. Subject to further negotiation, Taiyuan Sanxing Group will enter into a long-term products supply agreement with Sinosteel International to give Sinosteel International the first priority under the same conditions of sale. According to the parties' preliminary plan, the total sale from Taiyuan Sanxing Group to Sinosteel International for the year 2007 will be about 200,000 tonnes of coking coal and 200,000 tonnes of coke, and the sale volume will gradually increase in line with the increase in production volume of Taiyuan Sanxing Group. Sinosteel International will also consider to invest in the Joint Venture in order to enhance the production capacity of Taiyuan Sanxing Group and the portfolio of its natural resources including coal mines and coke resources.

Sinosteel International, a limited company incorporated in Hong Kong, is a wholly owned subsidiary of Sinosteel Corporation (中國中鋼集團公司), a state-owned enterprise in the PRC. Sinosteel International is mainly engaged in international trade, mining of metallurgical resources and investments, and Sinosteel Corporation is one of the largest trading companies and exporters of coking coal and coke in China. Sinosteel Corporation and Sinosteel International had turnover of over RMB35 billion and RMB6 billion respectively in the financial year of 2005.

4. REASONS FOR THE ACQUISITION

The Group is principally engaged in operating bonded warehouse, provision of logistics and related services and logistics-related property investment in the PRC. To further increase the shareholders' value of the Company, the Company has been exploring new business opportunities for the Group actively. In view of the limited supply but ever increasing demand of natural resources and energy in the world, the Board is optimistic about the future prospect of the natural resources and energy industries. The Board is also of the opinion that diversification of the Group's business in the coal mining and related business can provide additional dividend revenue to the Group and reduce the Group's business risk. In addition, the profit and dividend guarantee provided by the Vendor shall secure high returns to the Group. In light of the above, the Directors, including the independent non-executive Directors, consider that the terms of the Agreement are fair and reasonable and are on normal commercial terms and that the entering into of the Agreement is in the interests of the Group and the Shareholders as a whole.

5. FINANCIAL EFFECT OF THE ACQUISITION

Upon Completion, the Joint Venture will become an associated company of the Group and its financial results will be accounted for in the Group by equity method. Set out below is a summary of the unaudited pro forma financial information of the Group before and after Completion, prepared on the bases set out in Appendix IV to this circular:

	Before Completion *(HK$'000)*	**After Completion** *(HK$'000)*
Total assets	156,787	550,622
Total liabilities	103.080	201,295
Total net assets	53,707	349,327
Gearing ratio	56.7%	16.1%
Turnover	75,157	75,157
Net loss attributable to shareholders	(78,276)	(60,927)

6. EFFECT ON SHAREHOLDING STRUCTURE

Assuming no Share will be issued and/or repurchased by the Company between the date of this circular and up to Completion and a total of 75,800,000 Consideration Shares will be issued upon Completion, the shareholding structure of the Company immediately before and after Completion will be as follows:

	Existing Shareholding		**Shareholding immediately after the issue of Consideration Shares**	
	No. of Shares	*%*	*No. of Shares*	*%*
Orient Day Developments Limited *(Note 1)*	161,805,800	60.19	161,805,800	46.95
Robert Fung Hing Piu and his associates *(Note 2)*	2,518,199	0.94	2,518,199	0.73
The Vendor and his nominees *(Note 3)*	–	–	75,800,000	21.99
Public Shareholders	104,517,961	38.87	104,517,961	30.33
Total	268,841,960	100.00	344,641,960	100.00

Notes:

1. Orient Day Developments Limited is a company incorporated with limited liability in the British Virgin Islands and is wholly and beneficially owned by Mr. Wong Kwan. Orient Day Developments Limited has become the controlling and single largest shareholder of the Company since May 2006.

2. Dr. Robert Fung Hing Piu is a Director.

3. The Vendor is independent of and not connected with Orient Day Developments Limited, Dr. Robert Fung Hing Piu and their respective associates.

7. BUSINESS REVIEW AND FUTURE PLANS OF THE GROUP

Subsequent to the divestment of the non-core businesses and disposal of the non-operating subsidiaries, the Group focused its business development on bonded warehouse and domestic logistics services in the financial year ended 31 March 2006.

During the year, the Group devoted many resources for expanding and upgrading its scope and quality of bonded warehouse services. New value added services such as repacking service have been launched to boost the Group's profit margin. Business development efforts of the Group have also been focused on customers in high-valued industries such as fast moving consumer goods and information technology, which have great demand for quality logistics services. Benefited from the fast and sustained growth of the economy and the increasing demand for cross-border bonded warehousing and logistics services, the Group recorded a notable increase of 33% in revenue of the Group's bonded warehouse business in the financial year ended 31 March 2006. Currently, the overall utilization rate of the Group's bonded warehouse maintained at a rate of approximately 80%.

The performance of the Group's domestic logistics services for the financial year ended 31 March 2006 was also very encouraging. The revenue generated from domestic logistics services surged to nearly HK$52 million, which accounted for approximately 70% of the total turnover of the Group. To align with its strategic mission of providing integrated logistics services, the Group continued to expand its service network. Presently, the Group's nationwide logistics services cover the major cities in the PRC, including Beijing, Tianjin, Harbin, Changchun, Taiyuan, Jinan, Shanghai, Nanjing, Guangzhou, Shenzhen, Wuhan, Zhengzhou and Chengdu.

Resulted from the significant improvement in the performance of both businesses of bonded warehouse and domestic logistics services, the total revenue of the Group increased substantially from approximately HK$34.1 million in 2005 to approximately HK$75.2 million in 2006 and the loss from operations decreased significantly from approximately HK$13.2 million in 2005 to approximately HK$2.2 million in 2006. However, as a result of the vast amount of provision for doubtful debts (approximately HK$72.3 million) made during the year, the Group's loss attributable to shareholders increased to HK$78.3 million for the financial year ended 31 March 2006.

With the continuous support from the major customers such as Amway, Wal-mart, Panasonic Electronics, Jianlibao, TCL, P&G, LG and Skyworth, the Directors expect that the logistics business shall continue to make great contribution to the growth of the Group in the future. Therefore, the Company will continue to develop its existing logistics business even after the Acquisition. In addition to its organic growth in logistics, the Group shall also explore new opportunities of mergers and acquisitions in the PRC to achieve synergy and to further increase its market share in the logistics industry. As at the Latest Practicable Date, save for the Acquisition, the Group had no concrete plan for material investments or capital assets.

8. SGM

The Acquisition constitutes a very substantial acquisition of the Company under the Listing Rules and is required to be made conditional on Shareholders' approval pursuant to Rule 14.49 of the Listing Rules. Therefore, a SGM will be held at Unit 3611, 36/F., West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong on Tuesday, 3 October 2006 at 4:00 p.m. to consider and, if thought fit, approve the resolutions in respect of the Agreement and the transaction contemplated thereunder.

A notice convening the SGM is set out on pages 160 to 161 of this circular. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting at the SGM if you so wish.

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, none of the Vendor and his associates held any Share as at the Latest Practicable Date and no Shareholder had a material interest in the Acquisition. Therefore, no Shareholder is required to abstain from voting on the proposed resolution to approve the Acquisition at the SGM.

9. POLL PROCEDURE

Pursuant to by-law 66 of the Bye-Laws, a resolution put to the vote of the general meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is duly demanded by:

(i) the chairman of the meeting; or

(ii) at least three Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorized representative) or by proxy for the time being entitled to vote at the meeting; or

(iii) a Shareholder or Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorized representative) or by proxy and representing not less than one-tenth of the total voting rights of all the Shareholders have the right to vote at the meeting; or

(iv) a Shareholder or Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorized representative) or by proxy and holding Shares conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the Shares conferring that right.

A demand by a person as proxy for a Shareholder or in the case of a Shareholder being a corporation by its duly authorized representative shall be deemed to be the same as a demand by a Shareholder.

10. RECOMMENDATION

The Directors are of the opinion that the Acquisition is in the interests of the Company and the Shareholders as a whole and the terms of the Agreement are fair and reasonable. Accordingly, the Directors recommended you to vote in favour of the resolutions to be proposed in the SGM.

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

Yours faithfully,
By order of the Board
Pearl Oriental Innovation Limited
(formerly known as China Merchants DiChain (Asia) Limited)
Wong Kwan
Chairman and Chief Executive

1. SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of the Group for the last three financial years, as extracted from the audited financial statements, is set out below.

Results

	Year ended 31 March		
	2006	**2005**	**2004**
	HK$'000	*HK$'000* (Restated)	*HK$'000*
Turnover	75,157	34,145	27,769
Cost of sales	(54,207)	(21,695)	(18,867)
Gross profit	20,950	12,450	8,902
Other revenue and net income	9,131	6,713	6,107
Selling and distribution expenses	(4,732)	(2,723)	(1,082)
General & administrative expenses	(27,550)	(25,691)	(26,346)
Compensation to a former director of a subsidiary of the Group	–	(4,000)	–
Gain on disposal of investments in securities	–	–	16,208
Unrealized holding gain on investments in securities	–	–	7,027
Reversal of allowance for amount due from an investee	–	–	6,671
Allowance for doubtful debts	–	–	(4,077)
(Loss)/profit from operations	(2,201)	(13,251)	13,410
Finance costs	(6,138)	(5,473)	(6,274)
Finance lease charges	(17)	(13)	(13)
Gain/(Loss) on disposal of subsidiaries/ associate/jointly controlled entity/ discontinued operation	11,478	(2,071)	(1,780)
Loss on impairment of deposit and other loans receivable	(72,300)	(174)	–
Loss on impairment of leasehold land and building	(5,468)	–	–
Loss on impairment of goodwill	(1,884)	–	–
Share of results of an associate/ jointly controlled entity	–	1,826	6,115
(Loss)/Profit before taxation	(76,530)	(19,156)	11,458
Taxation	(1,039)	(435)	326
(Loss)/Profit for the year	(77,569)	(19,591)	11,784
Attributable to:			
Equity shareholders of the Company	(78,276)	(19,574)	14,262
Minority interests	707	(17)	(2,478)
	(77,569)	(19,591)	11,784

Assets and liabilities

	As at 31 March		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
		(Restated)	
Total assets	156,787	243,009	243,235
Total liabilities	(103,080)	(117,823)	(124,046)
Net assets/(liabilities)	53,707	125,186	119,189

2. AUDITED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 MARCH 2006

The following is the report of CCIF CPA Limited as extracted from the annual report of the Company for the year ended 31 March 2006 ("2006 Annual Report"). References to page numbers in this section are to the page numbers of the 2006 Annual Report.

CCIF

CCIF CPA LIMITED
37/F Hennessy Centre
500 Hennessy Road
Causeway Bay Hong Kong

AUDITORS' REPORT TO THE SHAREHOLDERS OF
PEARL ORIENTAL INNOVATION LIMITED
(INCORPORATED IN BERMUDA WITH LIMITED LIABILITY)

We have audited the financial statements on pages 33 to 103 which have been prepared in accordance with accounting principle generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis of our opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2006 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 26 July 2006

Chan Wai Dune, Charles
Practising Certificate Number P00712

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2006

	Notes	2006 HK$'000	2005 Restated HK$'000
Turnover	3 & 15	75,157	34,145
Cost of sales		(54,207)	(21,695)
Gross profit		20,950	12,450
Other revenue and net income	4	9,131	6,713
Selling and distribution expenses		(4,732)	(2,723)
General and administrative expenses		(27,550)	(25,691)
Compensation to a former director of a subsidiary of the Group	5	–	(4,000)
(Loss) from operations		(2,201)	(13,251)
Finance costs	6a	(6,138)	(5,473)
Finance lease charges	6a	(17)	(13)
Gain on disposal of subsidiaries	7	11,478	431
Impairment loss of deposit and other loans receivable	8	(72,300)	(174)
Impairment loss of buildings	16	(5,468)	–
Impairment loss of goodwill	18	(1,884)	–
Loss on disposal of discontinued operation	9	–	(156)
Loss on disposal of an associate		–	(2,346)
Share of results of an associate		–	1,826
(Loss) before taxation	6	(76,530)	(19,156)
Income tax	10	(1,039)	(435)
(Loss) for the year		(77,569)	(19,591)
Attributable to:			
Equity shareholders of the Company	13 & 27	(78,276)	(19,574)
Minority interests	27	707	(17)
(Loss) for the year		(77,569)	(19,591)
(Loss) per share	14		
Basic – Continuing operations		(1.44) cents	(0.37) cents
– Discontinued operation	14	–	(0.01) cents
		(1.44) cents	(0.38) cents
Diluted		N/A	N/A

CONSOLIDATED BALANCE SHEET

At 31 March 2006

	Notes	2006 HK$'000	2005 Restated HK$'000
Non-current assets			
Fixed assets	16		
– Property, plant and equipment		95,593	101,656
– Land lease premium – non-current portion		18,668	19,194
		114,261	120,850
Goodwill	18	–	1,884
		114,261	122,734
Current assets			
Trade and other receivables	19	25,521	24,652
Loans receivable	20	25	71,644
Land lease premium – current portion	16	526	526
Available for sale securities/investment in securities	17	12,412	19,241
Amounts due from minority shareholders of subsidiaries		89	–
Amount due from an investee company	21	2,168	–
Amount due from ultimate holding company		–	29
Cash and cash equivalents	22	1,785	4,183
		42,526	120,275
Current liabilities			
Trade and other payables	23	14,016	24,831
Amounts due to related companies		130	2,426
Amounts due to minority shareholders of subsidiaries		–	1,674
Short-term bank loans	24	85,654	88,523
Other short-term loans	24	3,226	–
Current portion of obligations under finance leases	25	–	78
Current taxation	26	54	245
		103,080	117,777
Net current (liabilities) assets		(60,554)	2,498
Total assets less current liabilities		53,707	125,232
Non-current liabilities			
Obligations under finance leases	25	–	46
NET ASSETS		53,707	125,186

	Notes	2006 HK$'000	2005 Restated HK$'000
CAPITAL AND RESERVES	*27a*		
Share capital		54,381	54,381
(Deficits) reserves		(4,698)	67,488
Total equity attributable to equity shareholders of the Company		49,683	121,869
Minority interests		4,024	3,317
TOTAL EQUITY		53,707	125,186

BALANCE SHEET
At 31 March 2006

	Notes	2006 HK$'000	2005 Restated HK$'000
Non-current assets			
Investments in subsidiaries	28	13,437	94,236
Current assets			
Other receivables	19	720	471
Available for sale securities/investment in securities	17	12,412	17,674
Cash and cash equivalents	22	45	49
		13,177	18,194
Current liabilities			
Other payables	23	4,006	33
Amount due to a related company		130	100
		4,136	133
Net current assets		9,041	18,061
Total assets less current liabilities		22,478	112,297
Non-current liabilities			
Amounts due to subsidiaries		5,215	30,203
NET ASSETS		17,263	82,094
CAPITAL AND RESERVES	27b		
Share capital		54,381	54,381
(Deficits) reserves		(37,118)	27,713
TOTAL EQUITY		17,263	82,094

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2006

	Note	2006 HK$'000	2006 HK$'000	2005 HK$'000	2005 HK$'000
Total equity at 1 April					
As previously reported:					
– attributable to equity shareholders of the Company	27	121,869	–	119,189	–
– minority interests	27	3,317	–	–	–
		125,186	–	119,189	–
At 1 April, after prior period and opening balances adjustments	27	–	125,186	–	119,189
Net income recognised directly in equity:					
Exchange differences on translation of:					
– financial statements of overseas subsidiaries	27		448		65
Changes in fair value of available-for-sales Securities		–	(5,769)	–	538
Net income for the year recognised directly in equity (2005: as restated)		–	(5,321)	–	603
Net (loss) for the year:					
As previously reported:					
– attributable to equity shareholders of the Company				(19,574)	
– minority interests				(17)	
				(19,591)	
Prior period adjustments arising from changes in accounting policies				–	
Net (loss) for the year			(77,569)		(19,591)
Total recognised income and expenses for the year			(82,890)		(18,988)
Attributable to:					
Equity shareholders of the Company		(83,597)		(18,971)	
Minority interests		707		(17)	
		(82,890)		(18,988)	

		2006		2005	
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Movements in equity arising from capital transactions					
Share issued pursuant to exercise of warrants		–		20,736	
Increase upon acquisition of subsidiaries		–		3,334	
Release upon disposal of subsidiaries		8,286		300	
Equity settled share-based transactions		3,125		615	
			11,411		24,985
Total equity at 31 March			53,707		125,186
Restatements of total recognised income and expenses for the year are attributable to:					
Equity shareholders of the Company					–
Minority interests					–
					–
Arising from restatement of:					
Net income recognised directly in equity					1,153
Net profit for the year					(1,153)
					–

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2006

	Notes	2006 HK$'000	2005 Restated HK$'000
Operating activities			
(Loss) before taxation		(76,530)	(19,156)
Adjustments for:			
– Impairment loss of buildings		5,468	–
– Impairment loss of goodwill		1,884	–
– Impairment loss of deposit and other loans receivable		72,300	174
– Depreciation		4,358	4,226
– Amortisation of land lease premium		526	526
– Amortisation of goodwill		–	209
– Finance costs		6,138	5,473
– Finance lease charges		17	13
– Bank interest income		(4)	(85)
– Interest from loans receivable		(2,416)	(3,550)
– Overprovision of taxation in prior years		(677)	–
– Overprovision of provident fund and insurance in prior years		(92)	–
– Overprovision of legal fee in prior years		(1,000)	–
– Loss on disposal of discontinued operation		–	156
– Loss on disposal of an associate		–	2,346
– Share of results of an associate		–	(1,826)
– (Gain) loss on disposal of fixed assets		(24)	75
– (Gain) on disposal of subsidiaries		(11,478)	(431)
– Equity settled share-based transactions		3,125	615
Operating profit (loss) before changes in working capital		1,595	(11,235)
Decrease in inventories		–	12
(Increase) in trade and other receivables		(5,056)	(6,567)
(Increase) in amount due from an investee company		(2,168)	(5,476)
Increase in trade and other payables		3,396	4,962
Cash (used in) operations		(2,233)	(18,304)
Tax paid			
– Profits tax and PRC enterprise income tax paid		(1,236)	(314)
Net cash (used in) operating activities		(3,469)	(18,618)

	Notes	2006 HK$'000	2005 Restated HK$'000
Investing activities			
Purchases of investments in securities		–	(417)
New loans receivable		(23,500)	(71,569)
Payment for purchase of fixed assets		(1,389)	(299)
Payment of deposit		(42,000)	–
Proceeds from disposal of fixed assets		413	–
Proceeds from disposal of an associate		–	25,787
Proceeds from disposal of deposit paid on acquisition of additional interest in an associate		–	12,613
Disposal of subsidiaries		(212)	–
Repayment of loans receivable		64,819	34,058
Interest received from loans receivable		5,970	647
Interest received from bank		4	85
Net cash inflow on acquisition of subsidiaries		–	642
Net cash generated from investing activities		4,105	1,547
Financing activities			
Payment of bank loan interests		(5,694)	(5,473)
Payment of other loan interests		(151)	–
Payment of bank interests		(10)	–
Repayment of bank loans		(86,009)	(116,004)
Finance lease charges paid		(17)	(13)
Repayment to minority shareholders		–	(139)
Advance from minority shareholders		50	–
Repayment of obligations under a finance lease		(124)	(79)
Repayment from (to) ultimate holding company		29	(6)
Advance from ultimate holding company		59	–
New bank loans raised		86,875	96,862
New other loans raised		3,226	–
Net proceeds from issue of shares		–	20,736
Net cash (used in) financing activities		(1,766)	(4,116)
Net (decrease) in cash and cash equivalents		(1,130)	(21,187)
Cash and cash equivalents at 1 April		4,183	25,365
Effect of foreign exchange rate changes		(1,268)	5
Cash and cash equivalents at 31 March	22	1,785	4,183

Note: Bank balances and cash of approximately HK$1,785,000 (2005: HK$4,183,000) were denominated in Renminbi ("RMB"). The conversion of these balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the government of mainland China.

Notes to the financial statements

31 March 2006

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs for the current and prior accounting periods reflected in these financial statements is provided in note 2.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 March 2006 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in an associate.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

– financial instruments classified as available-for-sale securities (see note 1(e)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(c) Subsidiaries and controlled entities

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the Group, directly or indirectly, holds more than half of the issued share capital or controls more than half the voting power or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in subsidiaries is stated at cost less impairment losses (see note 1(h)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(d) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 1(h)).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in profit or loss.

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(e) Other investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries and associates, are as follows:

Investments in securities held for trading are classified as current assets and are initially stated at fair value. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss.

Dated debt securities that the Group and/or the Company have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are initially recognised in the balance sheet at fair value plus transaction costs. Subsequently, they are stated in the balance sheet at amortised cost less impairment losses (see note 1(h)).

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 1(h)).

Other investments in securities are classified as available-for-sale securities and are initially recognised at fair value plus transaction costs. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity, except for impairment losses (see note 1(h)) and, in the case of monetary items such as debt securities, foreign exchange gains and losses which are recognised directly in profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

Investments are recognised/derecognised on the date the Group and/or the Company commits to purchase/sell the investments or they expire.

(f) Other property, plant and equipment

The following items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(h)):

– buildings held for own use which are situated on leasehold land, where the fair value of the buildings could be measured separately from the fair value of the leasehold land at the inception of the lease (see note 1(g)); and

– other items of plant and equipment.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(r)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits.

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

–	Land lease premium held in People's Republic of China ("PRC")	Over the term of the land use rights
–	Buildings	Over the shorter of lease term or the useful life
–	Leasehold improvement	Over the shorter of the terms of the lease, land use rights or 5 years
–	Equipment	15 – 20%
–	Furniture, fixtures and office equipment	20 – 25%
–	Motor vehicles	15 – 33%

Where parts of an item of property, plant equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(g) Leased assets

i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

– land held for own use under an operating lease, the fair value of the leasehold interest which cannot be measured separately from the fair value of a buildings situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the buildings are also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Company or Group will obtain ownership of the asset, the life of the asset, as set out in note 1(f). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(h). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are written off as an expense of the accounting period in which they are incurred.

iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property.

(h) Impairment of assets

(i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unquoted equity securities and current receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for current receivables are reversed if in a subsequent period the amount of the impairment loss decreases. Impairment losses for equity securities are not reversed.

– For financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these asset).

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– For available-for-sale securities, the cumulative loss that had been recognised directly in equity is removed from equity and is recognised in profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment (other than properties carried at revalued amounts);

– Pre-paid interests in leasehold interest in land classified as being held under an operating lease;

– intangible assets;

– investments in subsidiaries (except for those classified as held for sale (or included in a disposal group that is classified as held for sale); and

– goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In additions, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(i) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see not 1(h)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 1(h)).

(j) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings using the effective interest method.

(k) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(m) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the Black-Scholes Option Pricing Model ("BS-Model") taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(n) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(o) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(p) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sales of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the lease asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(q) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of foreign operations acquired on or after 1 April 2005, are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity. Goodwill arising on consolidation of a foreign operation acquired before 1 April 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(r) Borrowing costs

Borrowing costs are expensed in profit or loss in the period which are incurred, except to the extent that they are capitalized as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalization of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(s) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals of the Group or of any entity that is a related party of the Group.

(t) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar as those available to other external parties.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

2. CHANGE IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005.

The accounting policies of the Group and/or Company after the adoption of these new and revised HKFRSs have been summarized in note 1. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting year.

(a) Restatement of prior periods and opening balances

The following tables disclose the adjustments that have been made in accordance with the transitional provisions of the respective HKFRSs to each of the line items in the consolidated income statement and consolidated balance sheet and other significant related disclosure items as previously reported for the year ended 31 March 2005. The effects of the changes in accounting policies on the balances at 1 April 2004 and 2005 are disclosed in note 27:

(i) Effect on the consolidated financial statements

Consolidated income statement for the year ended 31 March 2005

	2005 (as previously reported)	Effect of new policy (increase/(decrease) in profit for the year) HKFRS 2	HKAS 32 & 39	HKAS 17	Sub-total	2005 (as restated)
		(note 2(c))	*(note 2(g))*	*(note 2(f))*		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	34,145	–	–	–	–	34,145
Cost of sales	(21,695)	–	–	–	–	(21,695)
Gross profit	12,450	–	–	–	–	12,450
Selling and distribution costs	(2,723)	–	–	–	–	(2,723)
General and administrative expenses	(25,076)	(615)	–	–	(615)	(25,691)
Compensation to a former director of a subsidiary of the Group	(4,000)	–	–	–	–	(4,000)
Unrealised holding gain on investments in securities	538	–	(538)	–	(538)	–
Other income and expenses	6,713	–	–	–	–	6,713
(Loss) from operations	(12,098)	(615)	(538)	–	(1,153)	(13,251)
Finance costs	(5,473)	–	–	–	–	(5,473)
Finance lease charges	(13)	–	–	–	–	(13)
Allowance for doubtful debts	(174)	–	–	–	–	(174)
Loss on disposal of an associate	(2,346)	–	–	–	–	(2,346)
Loss on disposal of discontinued operation	(156)	–	–	–	–	(156)
Gains on disposal of subsidiaries	431	–	–	–	–	431
Share of results of an associate	1,826	–	–	–	–	1,826
(Loss) before taxation	(18,003)	(615)	(538)	–	(1,153)	(19,156)
Income tax	(435)	–	–	–	–	(435)
(Loss) for the year	(18,438)	(615)	(538)	–	(1,153)	(19,591)
Attributable to:						
Equity shareholders of the Company	(18,421)	(615)	(538)	–	(1,153)	(19,574)
Minority interests	(17)	–	–	–	–	(17)
(Loss) for the year	(18,438)	(615)	(538)	–	(1,153)	(19,591)
(Loss) per share						
Basic	(0.36) cent	(0.01) cent	(0.01) cent	–	(0.02) cent	(0.38) cent
Diluted	N/A	N/A	N/A	N/A	N/A	N/A
Other significant disclosure items:						
Depreciation	(4,752)	–	–	526	526	(4,226)
Staff costs	(9,002)	(615)	–	–	(615)	(9,617)
Amortisation of land lease premium	–	–	–	(526)	(526)	(526)

Consolidated balance sheet at 31 March 2005

	2005 (as previously reported)	Effect of new policy (increase/(decrease) in net assets for the year) HKFRS 2	HKAS 17	HKAS 32 & 39	Sub-total	2005 (as restated)
		(note 2(e))	*(note 2(f))*	*(note 2(g))*		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets						
Property, plant and equipment	121,376	–	(19,720)	–	(19,720)	101,656
Goodwill	1,884	–	–	–	–	1,884
Land lease premium – non-current portion	–	–	19,194	–	19,194	19,194
	123,260	–	(526)	–	(526)	122,734
Current assets						
Trade and other receivables	24,652	–	–	–	–	24,652
Loans receivable	71,644	–	–	–	–	71,644
Investment in securities	19,241	–	–	–	–	19,241
Land lease premium – current portion	–	–	526	–	526	526
Amount due from ultimate holding company	29	–	–	–	–	29
Bank balances and cash	4,183	–	–	–	–	4,183
	119,749	–	526	–	526	120,275
Current liabilities						
Trade and other payables	24,831	–	–	–	–	24,831
Amounts due to related companies	2,426	–	–	–	–	2,426
Tax payable	245	–	–	–	–	245
Amounts due to minority shareholders of subsidiaries	1,674	–	–	–	–	1,674
Obligation under a finance lease – due within one year	78	–	–	–	–	78
Bank borrowing – due within one year	88,523	–	–	–	–	88,523
	117,777	–	–	–	–	117,777
Net current assets	1,972	–	526	–	526	2,498
Total assets less current liabilities	125,232	–	–	–	–	125,232
Non-current liabilities						
Obligations under a finance lease – due after one year	46	–	–	–	–	46
Net assets	125,186	–	–	–	–	125,186
Capital and reserve						
Share capital	54,381	–	–	–	–	54,381
Share premium	38,445	–	–	–	–	38,445
Capital reserve	403,851	555	–	–	555	404,406
Translation reserve	3,426	–	–	–	–	3,426
Fair value reserve	–	–	–	538	538	538
Accumulated losses	(378,234)	(555)	–	(538)	(1,093)	(379,327)
	121,869	–	–	–	–	121,869
Attributable to minority interests	3,317	–	–	–	–	3,317
	125,186	–	–	–	–	125,186

(ii) Effect on the Company financial statements

Balance sheet at 31 March 2005

	2005 (as previously reported)	Effect of new policy (increase/(decrease) in net assets for the year) HKFRS 2	HKAS 32 & 39	Sub-total	2005 (as restated)
		(note 2(e))	*(note 2(g))*		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets					
Interests in subsidiaries	94,236	–	–	–	94,236
Current assets					
Other receivables	471	–	–	–	471
Investment in securities	17,674	–	–	–	17,674
Bank balances and cash	49	–	–	–	49
	18,194	–	–	–	18,194
Current liabilities					
Other payables	33	–	–	–	33
Amount due to a related company	100	–	–	–	100
	133	–	–	–	133
Net current assets	18,061	–	–	–	18,061
Total assets less current liabilities	112,297	–	–	–	112,297
Non-current liabilities					
Amounts due to subsidiaries	30,203	–	–	–	30,203
Net assets	82,094	–	–	–	82,094
Capital and reserve					
Share capital	54,381	–	–	–	54,381
Share premium	38,445	–	–	–	38,445
Contributed surplus	45,348	–	–	–	45,348
Share-based compensation reserves	–	555	–	555	555
Fair value reserves	–	–	8,317	8,317	8,317
Accumulated losses	(56,080)	(555)	(8,317)	(8,872)	(64,952)
	82,094	–	–	–	82,094

(b) Estimated effect of changes in accounting policies on the current period

The following tables provide estimates of the extent to which each of the line items in the consolidated income statement and consolidated balance sheet and the Company's balance sheet and other significant related disclosure items for the year ended 31 March 2006 is higher or lower than it would have been had the previous policies still been applied in the year, where it is practicable to make such estimates.

(i) Effect on the consolidated financial statements

Estimated effect on the consolidated income statement for the year ended 31 March 2006:

	Effect of new policy (increase/(decrease) in profit for the year)			
	HKFRS 2	**HKAS 17**	**HKAS 32 & 39**	**Total**
	(note 2(c))	*(note 2(f))*	*(note 2(g))*	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Gain on disposal of subsidiaries	–	–	(8,286)	(8,286)
General and administrative expenses	(3,125)	–	–	(3,125)
(Loss) before taxation	(3,125)	–	(8,286)	(11,411)
Income tax	–	–	–	–
(Loss) for the year	(3,125)	–	(8,286)	(11,411)
Attributable to:				
Equity shareholders of the Company	(3,125)	–	(8,286)	(11,411)
Minority interests	–	–	–	–
(Loss) for the year	(3,125)	–	(8,286)	(11,411)
(Loss) per share	–	–		
Basic	(0.01) cents	–	(0.02) cents	(0.03) cents
Diluted	N/A	–	N/A	N/A
Other significant disclosure items:				
Staff costs	(3,125)	–	–	(3,125)
Depreciation	–	526	–	526
Amortisation of land lease premium	–	(526)	–	(526)

Estimated effect on the consolidated balance sheet at 31 March 2006:

	Effect of new policy (increase/(decrease) in profit net assets)				
	HKFRS 2	**HKAS 17**	**HKAS 36**	**HKAS 32 & 39**	**Total**
	(note 2(c))	*(note 2(f))*	*(note 2(d))*	*(note 2(g))*	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets					
Other property, plant and equipment	–	(19,194)	–	–	(19,194)
Land lease premium – non-current portion	–	18,668	–	–	18,668
Goodwill	–	–	(1,884)	–	(1,884)
	–	(526)	(1,884)	–	(2,410)
Current assets					
Deposit	–	–	(42,000)	–	(42,000)
Loans receivable	–	–	(30,300)	–	(30,300)
Land lease premium – current portion	–	526	–	–	526
Available-for-sale securities	–	–	–	(5,769)	(5,769)
Net assets	–	–	(74,184)	(5,769)	(79,953)
Capital and reserves					
Effect attributable to equity shareholders of the Company					
Capital reserve	2,281	–	–	–	2,281
Fair value reserve	–	–	–	(5,769)	(5,769)
Accumulated losses	(2,281)	–	(74,184)	–	(76,465)
	–	–	(74,184)	(5,769)	(79,953)
Effect attributable to minority interests	–	–	–	–	–
	–	–	(74,184)	(5,769)	(79,953)

Estimated effect on net income recognised directly in consolidated equity for the year ended 31 March 2006:

	Effect of new policy (increase/(decrease) in equity) HKAS 32 & 39 *(note 2(g))* *HK$'000*
For the year ended 31 March 2006	
Attributable to equity shareholders of the Company	(5,769)
Minority interests	–
Total equity	(5,769)

Estimated effect on amounts recognised as capital transactions with owners of the Group for the year ended 31 March 2006:

	Effect of new policy (increase/(decrease))		
	HKFRS 2 *(note 2(c))*	**HKAS 32 & 39** *(note 2(g))*	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Attributable to equity shareholders of the Company	2,281	8,286	10,567
Minority interests	–	–	–
Total equity	2,281	8,286	10,567

(ii) Effect on the Company's balance sheet

Estimated effect on the balance sheet at 31 March 2006:

	Effect of new policy (increase/(decrease) in net assets)		
	HKFRS 2 *(note 2(c))*	**HKAS 32 & 39** *(note 2(g))*	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Current assets			
Available-for-sale securities	–	(5,262)	(5,262)
Net assets	–	(5,262)	(5,262)
Capital and reserves			
Effect attributable to equity shareholders of the Company			
Capital reserve	2,281	–	2,281
Fair value reserve	–	(5,262)	(5,262)
Accumulated losses	(2,281)	–	(2,281)
	–	(5,262)	(5,262)

Estimated effects on net income recognised directly in the Company's equity for the year ended 31 March 2006.

	Effect of new policy (increase/(decrease) in equity)		
	HKAS 17	HKAS 32 & 39	Total
	(note 2(f))	*(note 2(g))*	
	HK$'000	*HK$'000*	*HK$'000*
For the year ended 31 March 2006			
Attributable to equity shareholders of the Company	–	(5,262)	(5,262)

Estimated effect on amounts recognised as capital transactions with owners of the Company for the year ended 31 March 2006:

	Effect of new policy (increase/(decrease))		
	HKFRS 2	HKAS 32 & 39	Total
	(note 2(c))	*(note 2(g))*	
	HK$'000	*HK$'000*	*HK$'000*
Attributable to equity shareholders of the Company	2,281	8,286	10,567

(c) Employee share option scheme (HKFRS 2, Share-based payment)

In prior years, no amounts were recognised when employees (which term includes directors) were granted share options over shares in the Company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from 1 January 2005, in order to comply with HKFRS 2, the Group has adopted a new policy for employee share options. Under the new policy, the Group recognises the fair value of such share options as an expense with a corresponding increase recognised in a capital reserve within equity.

The Group has taken advantage of the transitional provisions set out in HKFRS 2, under which the new recognition and measurement policies have not been applied to the following grants of options:

(a) all options granted to employees on or before 7 November 2002; and

(b) all options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

As the Group's options were granted to employees after 7 November 2002 but had vested before 1 January 2005, the adoption of HKFRS 2 has no impact on the Group's net assets and results for the prior year.

Details of the employee share option scheme are set out in note 30.

(d) Amortisation of positive and negative goodwill (HKFRS 3, Business combinations, HKAS 36, Impairment of assets and HKAS 38, Intangible assets)

Amortisation of goodwill

In prior periods:

– positive or negative goodwill which arose prior to 1 January 2001 was taken directly to reserves at the time it arose, and was not recognised in the income statement until disposal or impairment of the acquired business;

– positive goodwill which arose on or after 1 January 2001 was amortised on a straight line basis over its useful life and was subject to impairment testing when there were indications of impairment; and

– negative goodwill which arose on or after 1 January 2001 was amortised over the weighted average useful life of the depreciable/amortisable non-monetary assets acquired, except to the extent it related to identified expected future losses as at the date of acquisition. In such cases it was recognised in the income statement as those expected losses were incurred.

With effect from 1 January 2005, in order to comply with HKFRS 3, HKAS 36 and HKAS 38, the Group has changed its accounting policies relating to goodwill. Under the new policy, the Group no longer amortises positive goodwill but tests it at least annually for impairment. Also with effect from 1 January 2005 and in accordance with HKFRS 3, if the fair value of the net assets acquired in a business combination exceeds the consideration paid (i.e. an amount arises which would have been known as negative goodwill under the previous accounting policy), the excess is recognised immediately in profit or loss as it arises.

The new policy in respect of the amortisation of positive goodwill has been applied prospectively in accordance with the transitional arrangements under HKFRS 3. As a result, comparative amounts have not been restated, the cumulative amount of impairment loss as at 1 January 2005 has been offset against the cost of the goodwill and no amortisation charge for goodwill has been recognised in the consolidated income statement for the year ended 31 March 2006.

Also in accordance with the transitional arrangement under HKFRS 3, goodwill which had previously been taken directly to reserves (i.e. goodwill which arose before 1 January 2001) will not be recognsied in profit or loss on disposal or impairment of the acquired business, or under other circumstances.

The change in policy relating to negative goodwill had no effect on the financial statements as there was no negative goodwill deferred as at 31 March 2005.

(e) Changes in presentation of minority interests (HKAS 1, Presentation of financial statements and HKAS 27, Consolidated and separate financial statements)

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the income statement as a deduction before arriving at the profit attributable to shareholders (the equity shareholders of the Company).

With effect from 1 January 2005, in order to comply with HKAS 1 and HKAS 27, the Group has changed its accounting policy relating to presentation of minority interests. Under the new policy, minority interests are presented as part of equity, separately from interests attributable to the equity shareholders of the Company. These change in presentation retrospectively with comparatives restated as shown in note 2(a).

(f) Leasehold land and buildings (HKAS 17, Leases)

(i) Leasehold land and buildings held for own use

In prior years, leasehold land and buildings held for own use were stated at revalued amounts less accumulated depreciation and accumulated impairment losses. Movements of revaluation surpluses or deficits were normally taken to the land and buildings revaluation reserve.

With effect from 1 January 2005, in order to comply with HKAS 17, the Group has adopted a new policy for leasehold land and buildings held for own use. Under the new policy, the leasehold interest in the land held for own use is accounted for as being held under an operating lease where the fair value of the interest in any buildings situated on the leasehold land could be measured separately from the fair value of the leasehold interest in the land at the time the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

Any buildings held for own use which are situated on such land leases continue to be presented as part of property, plant and equipment. However, as from 1 January 2005 the buildings are also stated at cost less accumulated depreciation, rather than at fair value, to be consistent with the new policy required to be adopted for the land element.

(ii) Description of transitional provisions and effect of adjustments

The above new accounting policies relating to leases have been adopted retrospectively. The adjustments for each financial statement line item affected for 31 March 2005 and 2006 are set out in notes 2(a) and 2(b). In respect of the leasehold land and buildings held for own use, it is not practicable to estimate the effect of the change on the year ended 31 March 2006.

(g) Financial instruments (HKAS 32, Financial instruments: Disclosure and presentation and HKAS 39, Financial instruments: Recognition and measurement)

(i) Investments in equity securities

In prior years, equity investments held on a continuing basis for an identifiable long-term purpose were classified as investment securities and stated at cost less provision. Other investments in securities (including those held for trading and for non-trading purposes) were stated at fair value with changes in fair value recognised in profit or loss.

With effect from 1 January 2005, and in accordance with HKAS 39, all investments, with the exception of securities held for trading purposes and certain unquoted equity investments, are classified as available-for-sale securities and carried at fair value. Changes in the fair value of available-for-sale securities are recognised in equity, unless there is objective evidence that an individual investment has been impaired. There are no material adjustments arising from the adoption of the new policies for securities held for trading purposes and unquoted equity investments not carried at fair value.

(ii) Description of transitional provisions and effect of adjustments

The changes in accounting policies relating to accounting for investments in equity securities were adopted by way of opening balance adjustments to certain reserves as at 1 April 2005. The adjustments included re-designation of investment securities with a carrying value of HK$19,241,000 at 31 March 2005 as available for sale securities at 1 April 2005. As at that date, these investment securities were already stated to their fair value of HK$19,241,000. Comparative amounts have not been restated as this is prohibited by the transitional arrangements in HKAS 39.

The adjustments for each financial statement line item affected for the years ended 31 March 2005 and 2006 are set out in notes 2(a) and (b).

(h) Definition of related parties (HKAS 24, related party disclosures)

As a result of the adoption of HKAS 24, related party disclosures, the definition of related parties has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group. The clarification of the definition of related parties has not resulted in any material changes to the previously reported disclosures of related party transactions nor has it had any material effect on the disclosures made in the current period, as compared to those that would have been reported had Statement of Standard Accounting Practice 20, related party disclosures, still been in effect.

3. TURNOVER

The principal activities of the Group are operating bonded warehouse, provision of logistics and related services and logistics related property investment.

Turnover represents the service income from logistics and other services. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Continuing operations		
Logistics and other services	75,157	32,874
Discontinued operation		
Sales of electronic household appliances	–	1,271
	75,157	34,145

4. OTHER REVENUE AND NET INCOME

	2006	2005
	HK$'000	*HK$'000*
Other revenue		
Interest income from banks	4	85
Other interest income	2,416	3,550
Management fee income	1,920	2,400
Other transportation income	8	–
Maintenance income	2	–
Over-provision of provident fund	92	–
Over-provision of tax liabilities	677	–
Over-provision of legal fee	1,000	–
Over-provision of liabilities	–	500
Net gain on sales of fixed assets	24	–
Exchange gain	2,988	178
	9,131	6,713

5. COMPENSATION TO A FORMER DIRECTOR OF A SUBSIDIARY OF THE GROUP

In 2002, Dransfield Holdings Limited ("DHL"), a disposed subsidiary during the year, was named as a defendant in a legal action regarding a denial of a former director's request to exercise certain share options granted to her. DHL contested the claim and the legal proceedings were concluded subsequent to the year ended 2005 and compensation, together with interest accrued, of HK$4,000,000 was provided in the financial statements for the prior year. The Company disposed of all its interest in DHL on 23 July 2005 and that the Group is not responsible for any debts or liabilities of DHL.

6. (LOSS) BEFORE TAXATION

(Loss) before taxation is arrived at after charging:

	2006	2005
	HK$'000	*HK$'000*
(a) Finance costs		
Interest on bank advances and other borrowings wholly repayable within five years	5,739	5,473
Interest on other loans	389	–
Finance charges on obligations under finance leases	17	13
Other borrowing costs	10	–
Total borrowing costs	6,155	5,486
(b) Staff costs		
Contributions to defined contribution retirement plans	968	207
Equity-settled share-based payment expenses	3,125	615
Salaries, wages and other benefits	9,849	8,795
	13,942	9,617

	2006	2005
	HK$'000	*HK$'000*
(c) Other items		
Amortisation of goodwill	–	209
Amortisation of land lease premium	526	526
Depreciation		
– other assets	4,358	4,226
Bad debts written off	208	–
Loss on disposal of property, plant and equipment	–	75
Foreign exchange loss	–	73
Auditors' remuneration	861	799
Operating lease charges: minimum lease payments		
– property rentals	1,151	2,430

7. DISPOSAL OF SUBSIDIARIES

	2006	2005
	HK$'000	*HK$'000*
Net (liabilities) disposed of:		
Property, plant and equipment	207	–
Long-term investment	1,060	–
Inventories	–	–
Trade and other receivables	1,038	26
Amount due from ultimate holding company	56	–
Bank balances and cash	212	–
Trade and other payables	(14,494)	(757)
Bank borrowings	(3,735)	–
Amount due from related companies	(2,295)	–
Amount due to minority interest	(1,813)	–
	(19,764)	(731)
Fair value reserve realised	8,286	–
Capital reserve realized	–	300
	(11,478)	(431)
Gain on disposal of subsidiaries	11,478	431
Total consideration	–	–
Satisfied by:		
Cash	–	–
Waiver of other payables	–	–
	–	–
Analysis of net cash inflow in respect of the disposal of subsidiaries:		
Cash consideration received	–	–
Bank balances and cash disposed of	(212)	–
	(212)	–

During the year, the Group has disposed of all of its shareholdings in DHL and certain subsidiaries to two independent parties. Upon the completion of the disposal of the non-performing operation, the Group recorded a gain on disposal of subsidiaries amounted to approximately HK$11,478,000.

The fellow subsidiaries disposed of in these two years did not have significant impact on the Group's turnover and operating results for the respective years.

8. IMPAIRMENT LOSS OF DEPOSIT AND OTHER LOANS RECEIVABLE

Impairment loss has been made for the following items due to uncertainty of recovery.

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
Secured long-term loan receivable *(note i)*	18,000	–
Deposit *(note ii)*	42,000	–
Loans receivable *(note ii)*	12,300	–
Accounts receivable	–	174
	72,300	174

Notes:

(i) The loan is secured by the unlisted shares of the borrower and personal guarantee by the owner of the borrower, bears interest at 4% per annum. The loan will be repayable on 27 September 2007 or used to be part of the consideration of a possible asset acquisition.

(ii) During the year under the supervision of the former board members and management, the Group has made a deposit of HK$42,000,000 (2005: Nil) and a loan of HK$18,000,000 in accordance with an Asset Transfer Deposit Agreement (資產轉讓預付款協議) (the "Deposit Agreement") and a Loan Agreement, both dated 27 September 2005 entered into between the Company and Hero Vantage Limited. Pursuant to the Deposit Agreement, the Company shall acquire from Hero Vantage Limited certain amounts of logistics assets on condition that, inter alia, Hero Vantage Limited shall have acquired and become the legal owner of the relevant logistics assets (the "Condition Precedent") in Yixing, the PRC. If the Condition Precedent is not fulfilled within 12 months after the date of the Deposit Agreement, the deposit shall be refunded in full to the Company within 3 months thereafter with interest thereon to be calculated at the rate of 5% per annum.

After the completion of the Subscription Agreements on 24 May 2006, the change of controlling interest in the Company and the formation of the New Board and management team on the same date, the above matters have been considered very important. Enquiries have been made with former board members and management and those relevant parties involved in the above matters but the information available to the New Board, as at the Latest Practicable Date, was inadequate for ascertaining the recoverability of both the deposit and the loan. Therefore the New Board has made a decision to make full provision of impairment for both the deposit and the loan totaling HK$60,000,000.

In addition, the New Board has also decided to make full provision of impairment for two loans receivable totaled HK$12,300,000, the New Board considers the provision of impairment necessary based on the information available as at the Latest Practicable Date.

The Company will continue to take all possible further steps to recover the deposit, the loan and the loans receivable and will seek legal advice in order to protect the interests of the Company and the Shareholders.

9. DISCONTINUED OPERATION

In 2005, the Group disposed of its interest in a subsidiary, Dransfield Electrical Appliances Limited ("DEA") for a cash consideration of HK$100 (the DEA Disposal"). The DEA Disposal was effected in order for the Group to focus on its logistics operations.

DEA was principally engaged in the trading of electronic household appliances in Hong Kong. The DEA Disposal was completed on 31 March 2005, when control of DEA was passed to the acquirer.

The carrying amounts of the assets and liabilities of the electronic household appliances trading business on the date of disposal and the loss arising from the disposal are as follows:

	Electronic household appliances	
	2006	**2005**
	HK$'000	*HK$'000*
Inventories	–	156
Loss on disposal	–	(156)
Consideration received	–	–

10. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2006	**2005**
	HK$'000	*HK$'000*
Current tax – Hong Kong Profits Tax		
Under-provision in respect of prior years	–	119
Current tax – Overseas		
Provision for the year	1,039	235
Share of taxation attributable to an associate	–	81
	1,039	435

The provision for Hong Kong Profits Tax for the year ended 31 March 2006 has not been made as the Group has no estimated assessable profits for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling on the relevant countries.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2006	**2005**
	HK$'000	*HK$'000*
(Loss) before tax	**(76,530)**	(19,156)
Notional tax on (loss) before tax, calculated at the rates applicable to profits in the countries concerned	(11,480)	(2,873)
Tax effect of non-deductible expenses	14,277	2,584
Tax effect of non-taxable income	(2,933)	(1,889)
Tax effect of unused tax losses not recognised	558	2,173
Under provision of taxation in prior years	–	119
Tax effect of different tax rates in subsidiaries	617	128
Tax effect of share of results of an associate	–	193
Actual tax expense	1,039	435

11. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	Directors' fees	**Salaries allowances and benefits in kind**	**Share-based payment**	**Retirement scheme contributions**	**2006 Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors					
Fan Di	300	–	107	12	419
Zhou Li Yang	480	5	86	12	583
Zheng Yingsheng	155	265	301	–	721
Wu Shiyue	120	65	43	–	228
Chen Gang	100	100	–	–	200
	1,155	435	537	24	2,151
Non-executive directors					
Robert Fung Hing Piu	–	–	9	–	9
Wang Shizhen	–	–	9	–	9
	–	–	18	–	18
Independent non-executive directors					
Barry John Buttifant	–	–	9	–	9
Iain Ferguson Bruce	–	–	9	–	9
Victor Yang	–	–	12	–	12
	–	–	30	–	30

	Directors' fees *HK$'000*	Salaries allowances and benefits in kind *HK$'000*	Share-based payment *HK$'000*	Retirement scheme contributions *HK$'000*	2005 Total *HK$'000*
Executive directors					
Fan Di	–	750	160	–	910
Zhou Li Yang	–	218	88	5	311
Zheng Yingsheng	–	350	22	–	372
Wu Shiyue	–	482	73	–	555
Zhu Xiaojun	–	113	15	3	131
	–	1,913	358	8	2,279
Non-executive directors					
Robert Fung Hing Piu	–	–	15	–	15
Wong Shizhen	–	–	15	–	15
	–	–	30	–	30
Independent non-executive directors					
Barry John Buttifant	100	–	15	–	115
Iain Ferguson Bruce	100	–	15	–	115
Victor Yang	–	–	13	–	13
	200	–	43	–	243

The above emoluments include the value of share options granted to certain directors under the Company's share option scheme as estimated at the date of grant. The details of these benefits in kind are disclosed under the paragraph "Share Option Scheme" in the directors' report and note 30.

12. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2005: four) are directors whose emoluments are disclosed in note 11. The aggregate of the emoluments in respect of the other two (2005: one) individual are as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Salaries and other emoluments	850	539
Share-based payments	90	29
Retirement scheme contributions	24	11
	964	579

The emoluments of the two (2005: one) individuals with the highest emoluments are within the following bands:

	2006 Number of individuals	**2005 Number of individuals**
HK$Nil – HK$1,000,000	2	1

13. (LOSS) ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated (loss) attributable to equity shareholders of the Company includes HK$62,694,000 (2005: HK$5,161,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's (loss) for the year:

	2006	**2005**
		Restated
	HK$'000	*HK$'000*
Amount of consolidated (loss) attributable to equity shareholders dealt with in the Company's financial statements	(62,694)	(5,161)
Company's (loss) for the year *(note 27(b))*	(62,694)	(5,161)

14. (LOSS) PER SHARE

The calculation of basic and diluted (loss) per share is based on the loss attributable to ordinary equity shareholders of the Company of HK$78,276,000 (2005 (restated): HK$19,574,000) and the weighted average of 5,438,098,000 (2005: 5,104,718,000) ordinary shares in issue during the year.

Weighted average number of ordinary shares

	2006	**2005**
	'000	*'000*
Issued ordinary shares at 1 April	5,438,098	4,536,565
Effect of warrants exercised	–	568,153
Weighted average number of ordinary shares at 31 March	5,438,098	5,104,718

15. SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

Business segments

During the year under review, the Group currently only operates a single business which is the provision of logistics and related services. It is on this basis that the Group reports its primary segment information.

In prior years, the Group was also involved in the distribution of electronic household appliances. The operation was discontinued in last year, details are set out in note 9.

Primary reporting format – business segments

	Continuing operations Logistics		Discontinued operation Electronic household appliances		Inter-segment elimination		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE								
External sales	75,157	32,874	–	1,271	–	–	75,157	34,145
Inter-segment sales	300	305	–	–	(300)	(305)	–	–
Total revenue	75,457	33,179	–	1,271	(300)	(305)	75,157	34,145
RESULT								
Segment result	(2,090)	(1,809)	–	(420)	–	–	(2,090)	(2,229)
Interest income from loans receivable							2,416	3,550
Unallocated operating income and expenses							(2,527)	(14,572)
(Loss) from operations							(2,201)	(13,251)
Finance costs							(6,155)	(5,486)
Gain on disposal of subsidiaries							11,478	431
(Loss) on disposal of discontinued operation							–	(156)
(Loss) on disposal of an associate							–	(2,346)
Share of results of an associate							–	1,826
Impairment loss of buildings							(5,468)	–
Impairment loss of deposit and other loans receivable							(72,300)	(174)
Impairment loss of goodwill							(1,884)	–
Taxation							(1,039)	(435)
(Loss) after taxation							(77,569)	(19,591)
Depreciation and amortisation for the year	4,884	4,752						
Impairment of								
– Buildings	5,468	–						
– positive goodwill	1,884	–						

Inter-segment sales are charged at prevailing market rates.

	Continuing operations Logistics		Discontinued operation Electronic household appliances		Inter-segment elimination		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS								
Segment assets	140,094	146,286	–	–	–	–	140,094	146,286
Goodwill in subsidiaries	–	1,884	–	–	–	–	–	1,884
Investments in securities							12,412	19,241
Loan receivables							25	71,568
Unallocated corporate assets							4,256	4,030
Consolidated total assets							156,787	243,009
LIABILITIES								
Segment liabilities	12,808	8,730					12,808	8,730
Taxation payable							54	245
Obligation under a finance lease							–	124
Bank borrowings							85,654	88,523
Unallocated corporate liabilities							4,564	20,201
Consolidated total liabilities							103,080	117,823

Geographical segments

The Group operates in one main geographical area:

PRC – operating bonded warehouse, provision of logistics and related services and logistics related property investment.

The Group's operations are principally located in Hong Kong and PRC. The Group's administrative function is carried out in Hong Kong and PRC and the operating activities are carried out mainly in PRC.

The Group's inter-segment transactions consist mainly of warehouse rental between fellow subsidiaries located in Shenzhen. The transactions were entered into on terms similar to those applicable to independent third parties and were eliminated on consolidation.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical locations of customers. Segment assets and capital expenditure are based on the geographical locations of the assets.

	PRC		**Hong Kong**	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue from external customers	75,157	34,145	–	–
Segment results	(2,090)	(2,229)	–	–
Segment assets	139,796	146,058	298	228
Capital expenditure incurred during the year	978	1,395	411	40

16. FIXED ASSETS

(a) The Group

	Buildings	Leasehold improvements	Equipment	Furniture, fixtures and office equipment	Motor vehicles	Sub-total	Land lease premium	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation:								
At 1 April 2004	115,873	4,972	7,152	30,542	3,079	161,168	20,246	181,864
Exchange adjustments	72	–	–	10	–	82	–	82
Additions	–	40	–	259	–	299	–	299
Disposal	–	(539)	–	(711)	–	(1,250)	–	(1,250)
Acquisition of subsidiaries	–	–	–	1,136	–	1,136	–	1,136
Disposal of subsidiaries	–	–	–	(25)	–	(25)	–	(25)
Less: elimination of accumulated depreciation	(28,601)	–	–	–	–	(28,601)	–	(28,601)
At 31 March 2005 (restated)	87,344	4,473	7,152	31,211	3,079	133,259	20,246	153,505
Representing:								
Cost	–	4,473	7,152	31,211	3,079	45,915	–	45,915
Valuation – 2005 (restated)	87,344	–	–	–	–	87,344	20,246	107,590
	87,344	4,473	7,152	31,211	3,079	133,259	20,246	153,505
At 1 April 2005 (restated)	87,344	4,473	7,152	31,211	3,079	133,259	20,246	153,505
Exchange adjustment	2,635	18	–	490	16	3,159	–	3,159
Additions	–	626	–	316	447	1,389	–	1,389
Disposal	–	–	–	(130)	(1,153)	(1,283)	–	(1,283)
Fair value adjustment	(5,468)	–	–	–	–	(5,468)	–	(5,468)
Disposal of subsidiaries	–	(4,025)	(80)	(10,686)	(1,760)	(16,551)	–	(16,551)
Reclassification	–	355	–	(355)	–	–	–	–
Less: elimination of accumulated depreciation	(2,401)	–	–	–	–	(2,401)	–	(2,401)
At 31 March 2006	82,110	1,447	7,072	20,846	629	112,104	20,246	132,350
Representing:								
Cost	–	1,447	7,072	20,846	629	29,994	–	29,994
Valuation – 2006	82,110	–	–	–	–	82,110	20,246	102,356
	82,110	1,447	7,072	20,846	629	112,104	20,246	132,350

	Buildings	Leasehold improvements	Equipment	Furniture, fixtures and office equipment	Motor vehicles	Sub–total	Land lease premium	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Accumulated depreciation and amortization								
At 1 April 2004	26,256	4,549	7,152	17,169	2,035	57,161	–	57,161
Exchange Adjustments	14	–	–	3	–	17	–	17
Charge for the year	2,331	206	–	1,329	360	4,226	526	4.752
Eliminated on disposal of subsidiaries	–	–	–	(25)	–	(25)	–	(25)
Eliminated on disposals	–	(486)	–	(689)	–	(1,175)	–	(1,175)
Eliminated on revaluation	(28,601)	–	–	–	–	(28,601)	–	(28,601)
	–	4,269	7,152	17,787	2,395	31,603	526	32,129
At 1 April 2005	–	4,269	7,152	17,787	2,395	31,603	526	32,129
Exchange adjustment	–	8	–	168	13	189	–	189
Provided during the year	2,401	301	–	1,456	200	4,358	526	4,884
Disposal of subsidiaries	–	(4,025)	(80)	(10,584)	(1,655)	(16,344)	–	(16,344)
Eliminated on disposals	–	–	–	(41)	(853)	(894)	–	(894)
Reclassification	–	103	–	(103)	–	–	–	–
Eliminated on revaluation	(2,401)	–	–	–	–	(2,401)	–	(2,401)
At 31 March 2006	–	656	7,072	8,683	100	16,511	1,052	17,563
Net book value:								
At 31 March 2006	82,110	791	–	12,163	529	95,593	19,194	114,787
At 31 March 2005	87,344	204	–	13,424	684	101,656	19,720	121,376

The following properties held by the Group and the Company for own use were revalued at 31 March 2006 at their open market value by reference to recent market transactions in comparable properties. The valuations were carried out by Ms Joannau W.F. Chan, who is an associate member of the Hong Kong Institute of Surveyors and a qualified surveyor of BMI Appraisals Limited with recent experience in the location and category of property being valued:

	2006	**2005**
	HK$'000	*HK$'000*
Buildings	82,110	87,334

The revaluation deficit of HK$5,468,000 has been transferred to profit or loss as impairment loss of buildings of the Group.

Had these properties held for own use been carried at cost less accumulated depreciation, the carrying amounts would have been HK$82,110,000.

(b) The analysis of net book value of properties is as follows:

	2006	2005
	HK$'000	*HK$'000*
Outside Hong Kong		
– medium leases	82,110	87,334
Representing:		
Buildings carried at fair value	82,110	87,334

(c) The analysis of net book value of land lease premium is as follows:

	2006	2005
	HK$'000	*HK$'000*
Outside Hong Kong – medium leases		
– non-current portion	18,668	19,194
– current portion	526	526
	19,194	19,720

17. AVAILABLE-FOR-SALE SECURITIES/INVESTMENTS IN SECURITIES

	The Group		The Company	
	2006	2005	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Listed equity securities, at fair value (2005: Investment securities): USA	12,412	19,241	12,412	17,674

Name	Place of incorporation and operation	Principal activities	Percentage of interest
China Technology Global Corporation	British Virgin Islands	Designs, manufactures and sales of customisable software and hardware	5.3%

The above investment consists of investment in equity securities which was designated as available-for-sale financial assets on 1 January 2005 and has no fixed maturity date or coupon rate.

During the year, the gross loss of the Group's available-for-sale equity investment recognised directly in equity amounted to HK$5,769,000 (2005: gross gain HK$538,000), of which a realised loss of HK$8,286,000 (2005: nil) was removed from equity and recognised in the income statement for the year.

The fair value of the listed equity investment is based on quoted market price.

18. GOODWILL

	The Group
	HK$'000
Cost	
Arising from acquisition of a subsidiary and 31 March 2005	2,093
At 1 April 2005	2,093
Opening balance adjustment to eliminate accumulated impairment loss	(209)
At 31 March 2006	1,884
Accumulated amortisation and impairment losses	
At 1 April 2004	–
Amortisation for the year	209
At 31 March 2005	209
At 1 April 2005	209
Eliminate against cost on 31 March 2006	(209)
Impairment loss	1,884
At 31 March 2006	1,884
Carrying amount	
At 31 March 2006	–
At 31 March 2005	1,884

The goodwill arising from acquisition of subsidiaries is amortised on a straight line basis over its estimated useful life of ten years in prior year. The accounting policy has been changed in the current year in order to comply with HKFRS 3, HKAS 36 and HKAS 38 (note 2(d)).

19. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bill receivables	386	–	–	–
Trade receivables	14,855	13,063	–	–
Other receivables, deposits and prepayments	10,280	11,589	720	471
	25,521	24,652	720	471

All of the trade and other receivables are expected to be recovered within one year.

Included in trade and other receivables are trade receivables (net of impairment losses for bad and doubtful debts) with the following ageing analysis as of the balance sheet date.

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
Less than 3 months	12,167	11,850
More than 3 months overdue but less than 6 months	1,754	680
More than 6 months overdue but less than 12 months	549	410
Over 1 year	385	123
	14,855	13,063

The Group's credit policy is set out in note 31(a).

20. LOANS RECEIVABLE

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
Secured loans receivable *(note i)*	12,300	15,000
Less: Impairment loss of loans receivable	(12,300)	–
Unsecured loans receivable *(note ii)*	25	56,644
	25	71,644

Notes:

(i) HK$12,300,000 of the loans are secured by the listed securities owned by the borrowers, bearing interest at 5% per annum and are repayable within one year.

(ii) The loan bears 6% per annum and is repayable by monthly installments within one year.

21. AMOUNT DUE FROM AN INVESTEE COMPANY

The amount due from an investee company, China Technology Global Corporation, was unsecured and interest-free.

22. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deposits with banks and other financial institutions	–	–	–	–
Cash at bank and in hand	1,785	4,183	45	49
Cash and cash equivalents in the balance sheet	1,785	4,183	45	49
Pledged bank balances and time deposits for long term bank loans	–	–		
Cash and cash equivalents in the consolidated cash flow statement	1,785	4,183		

23. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	6,612	5,185	–	–
Other payables and accrued charges	7,002	19,638	4,006	33
Deposits received	402	8	–	–
	14,016	24,831	4,006	33

All of the trade and other payables are expected to be settled within one year.

Included in trade and other payables are trade payables with the following ageing analysis as of the balance sheet date.

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
Less than 3 months	5,616	4,667
Due after 3 months but within 6 months	753	173
Due after 6 months but within 12 months	12	1
Over 1 year	231	344
	6,612	5,185

24. BANK AND OTHER SHORT-TERM BORROWINGS

At 31 March 2006, bank and other short-term borrowings were repayable as follows:

	The Group 2006 *HK$'000*	2005 *HK$'000*
BANK LOANS, SECURED		
Within 1 year or on demand as classified under current liabilities	85,654	56,504
BANK LOANS, UNSECURED		
Within 1 year or on demand as classified under current liabilities	–	32,019
OTHER SHORT-TERM LOANS, SECURED		
Within 1 year or on demand as classified under current liabilities	3,226	–
	88,880	88,523

At 31 March 2006, certain of the Group's leasehold land and buildings situated in Shenzhen, with an aggregate carrying value of HK$101,304,000 (2005: HK$107,064,000) were pledged to banks to secure loan facilities granted to the Group. Corporate guarantee for the secured bank loan was given by the Company and the Company's former Director, Fan Di.

At 31 March 2006, certain of the Group's assets, situated in Guangzhou, were used to secure the other short-term loans which are payable within one year.

25. OBLIGATIONS UNDER A FINANCE LEASE

	The Group			
	Minimum lease payments		Present value of minimum lease payments	
	2006	2005	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
The maturity of obligations under a finance lease is as following:				
Within one year	–	91	–	78
In the second to fifth year inclusive	–	53	–	46
	–	144	–	124
Less: Future finance charges	–	(20)	–	N/A
Present value of lease obligations	–	124	–	124
Less: Amount due within one year shown under current liabilities			–	(78)
Amount due over one year			–	46

The lease term is 3 years and the interest rate was fixed at the contract date. The lease is on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. The Group's obligations under the finance lease are secured by the lessor's charge over the leased asset. At 31 March 2006, the Group has already made early settlement of the outstanding lease obligation which originally due within one year.

26. INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheet represents:

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
Balance of PRC Profits		
Tax provision relating to prior years	54	245

(b) Deferred tax assets and liabilities recognised:

The components of deferred tax (assets) liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

	The Group		
	Depreciation allowances in excess of the related depreciation	**Tax losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Deferred tax arising from:			
At 1 April 2004 (restated)	(84)	84	–
Disposal of subsidiaries	33	(33)	–
Charge to profit or loss	(23)	23	–
At 31 March 2005 (restated)	(74)	74	–
At 1 April 2005 (restated)	(74)	74	–
Disposal of subsidiaries	74	(74)	–
At 31 March 2006	–	–	–

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
Net deferred tax asset recognised on the balance sheet	–	–
Net deferred tax liability recognised on the balance sheet	–	–
	–	–

(c) Deferred tax assets not recognised

The Group

In accordance with the accounting policy set out in note 1(n), at 31 March 2006, the Group had unused tax loss of HK$Nil (2005: HK$119,776,000) available for offset against future profits. Deferred tax asset of HK$493,000 has been recognised in last year in respect of such losses. During the year ended 31 March 2006, the Group had disposed of the DHL Group which carried the remaining not-recognised deferred tax loss of HK$119,283,000 in last year.

27. CAPITAL AND RESERVES

(a) The Group

		Attributable to equity shareholders of the Company									
	Note	Share capital *HK$'000*	Share premium *HK$'000*	Contributed surplus *HK$'000*	Capital reserve *HK$'000*	Exchange reserve *HK$'000*	Fair value reserve *HK$'000*	Retained profits/ (accumulated losses) *HK$'000*	Total *HK$'000*	Minority interests *HK$'000*	Total equity *HK$'000*
At 1 April 2004		45,365	26,725	–	403,551	3,361	–	(359,813)	119,189	–	119,189
Exchange difference on translation of financial statements of overseas subsidiaries		–	–	–	–	65	–	–	65	–	65
Issue of shares pursuant to exercise of warrants		9,016	11,720	–	–	–	–	–	20,736	–	20,736
Increase upon acquisition of subsidiaries		–	–	–	–	–	–	–	–	3,334	3,334
Release upon disposal of subsidiaries		–	–	–	300	–	–	–	300	–	300
Equity settled share-based transactions		–	–	–	615	–	–	–	615	–	615
Share options expired under share option scheme		–	–	–	(60)	–	–	60	–	–	–
Available-for-sales securities:											
- changes in fair value		–	–	–	–	–	538	–	538	–	538
(Loss) for the year (restated)		–	–	–	–	–	–	(19,574)	(19,574)	(17)	(19,591)
At 31 March 2005 (as restated)		54,381	38,445	–	404,406	3,426	538	(379,327)	121,869	3,317	125,186
At 1 April 2005		54,381	38,445	–	404,406	3,426	538	(379,327)	121,869	3,317	125,186
Exchange difference on translation of financial statements of overseas subsidiaries		–	–	–	–	448	–	–	448	–	448
Equity settled share-based transactions		–	–	–	3,125	–	—		3,125	–	3,125
Share options expired under share option scheme		–	–	–	(844)	–	–	844	–	–	–
Available-for-sale securities:											
- changes in fair value		–	–	–	–	–	(5,769)		(5,769)	–	(5,769)
- transfer to profit or loss on disposal		–	–	–	–	–	8,286		8,286	–	8,286
(Loss) for the year		–	–	–	–	–	–	(78,276)	(78,276)	707	(77,569)
At 31 March 2006		54,381	38,445	–	406,687	3,874	3,055	(456,759)	49,683	4,024	53,707

(b) The Company

	Note	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000	Capital reserve HK$'000	Fair value reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2004		45,365	26,725	45,348	–	–	(59,851)	57,587
Issue of shares pursuant to exercise of warrants		9,016	11,720	–	–	–	–	20,736
Available-for-sale securities: – changes in fair value		–	–	–	–	8,317	–	8,317
Equity settled share-based transactions		–	–	–	615	–	–	615
Share options expired under share option scheme		–	–	–	(60)	–	60	–
(Loss) for the year (restated)		–	–	–	–	–	(5,161)	(5,161)
At 31 March 2005		54,381	38,445	45,348	555	8,317	(64,952)	82,094
At 1 April 2005		54,381	38,445	45,348	555	8,317	(64,952)	82,094
Available-for-sale securities: – changes in fair value		–	–	–	–	(5,262)	–	(5,262)
Equity settled share-based transactions		–	–	–	3,125	–	–	3,125
Share options expired under share option scheme		–	–	–	(844)	–	844	–
(Loss) for the year		–	–	–	–	–	(62,694)	(62,694)
At 31 March 2006		54,381	38,445	45,348	2,836	3,055	(126,802)	17,263

(c) Share capital

(i) Authorised and issued share capital

	2006		2005	
	No. of shares		**No. of shares**	
	'000	*HK$'000*	*'000*	*HK$'000*
Authorised:				
Ordinary shares of HK$0.01 each	8,000,000	80,000	8,000,000	80,000
Issued and fully paid:				
Ordinary shares of HK$0.01 each				
At 1 April and 31 March	5,438,098	54,381	5,438,098	54,381

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(ii) Terms of unexpired and unexercised share options at balance sheet date

		2006	2005
Exercise periods	**Exercise price**	**Number**	**Number**
20 May 2004 to 21 June 2012	HK$0.12	70,500,000	118,000,000
18 August 2005 to 20 June 2012	HK$0.062	55,000,000	75,000,000
28 September 2005 to 20 June 2012	HK$0.0624	2,000,000	2,000,000
6 April 2006 to 20 June 2012	HK$0.0664	5,000,000	–
29 August 2006 to 20 June 2012	HK$0.063	256,500,000	–
17 February 2007 to 20 June 2012	HK$0.0278	40,000,000	–

Each option entitles the holder to subscribe for one ordinary share in the Company. Further details of these options are set out in note 30 to the financial statements.

(d) Nature and purpose of reserves

(i) Contributed surplus

The contributed surplus of the Group represents the difference between the nominal value of the share capital issued by the Company and the aggregate of the share capital and the share premium accounts of the subsidiaries acquired pursuant to the Group reorganisation in 1996.

The contributed surplus of the Company represents the difference between the nominal value of the share capital issued by the Company and the aggregate net asset value of the subsidiaries acquired at the date of acquisition pursuant to the Group reorganisation in 1996. Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of contributed surplus in certain circumstances.

(ii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 1(q).

(iii) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the balance sheet date and is dealt with in accordance with the accounting policies in notes 1(e) and (h).

(e) Distributability of reserves

Under the Companies Act 1981 Bermuda, the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

(i) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium.

In the opinion of the directors, at 31 March 2006, the Company did not have any reserves available for distribution to equity shareholders (2005: Nil).

28. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2006	**2005**
	HK$'000	*HK$'000*
Unlisted shares, at cost	–	63,988
Amounts due from subsidiaries *(note a)*	13,437	49,567
	13,437	113,555
Allowance on amounts due from subsidiaries	–	(19,319)
	13,437	94,236

(a) The amounts are unsecured, interest-free and have no fixed terms of repayment.

(b) The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

All of these are controlled subsidiaries as defined under note 1(c) and have been consolidated into the Group's financial statements.

Name	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued Share capital	Interest held
DiChain (Asia) Logistics Holdings Limited	The British Virgin Islands	Provision of logistics services	US$1	100%
Grand Huge International Limited	Hong Kong	Provision of Corporate services	HK$10,000	100%
Guangzhou DiChain Logistics Co., Ltd	PRC *(note i)*	Provision of logistics services	RMB9,500,000	60%
Inner Mongolia DiChain Logistics Co., Ltd	PRC *(note i)*	Provision of logistics services	RMB5,000,000	60%
Jiangxi DiChain Logistics Co., Ltd	PRC *(note i)*	Provision of logistics services	RMB500,000	60%
DiChain Warehouse Services (Shenzhen) Co., Ltd	PRC *(note ii)*	Provision of logistics services	USD$400,000	100%
DiChain Logistics Services (Shenzhen) Co., Ltd	PRC *(note ii)*	Provision of logistics services and property and investment holding	HK$35,000,000	100%

Notes:

(i) Domestic owned enterprise

(ii) Wholly foreign owned enterprise

The above table includes the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities during the year or at the end of the year.

29. DEFINED CONTRIBUTION RETIREMENT PLAN

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement plan. The MPF Scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the plan vest immediately.

Employees of subsidiaries in the PRC are members of a state-managed retirement benefit scheme ("PRC Scheme") operated by the relevant local government authorities in the PRC. The Group is required to contribute 8% to 23.5% of its payroll costs to the PRC Scheme to fund the benefits.

The only obligation of the Group with respect to the MPF Scheme and the PRC Scheme is to make the specified contributions. The amount contributed to the MPF Scheme and the PRC Scheme amounted to HK$259,000 (2005: HK$75,000) and HK$709,000 (2005: HK$132,000), respectively.

30. EQUITY SETTLED SHARE-BASED TRANSACTIONS

The Company has a share option scheme which was adopted on 21 June 2002 whereby, pursuant to a written resolution of the sole shareholder, 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 any companies in the Group, to subscribe for shares in 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 an 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.

The options may be exercised at any time from 12 months from the date of acceptance of the offer to the tenth 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 options vest from 12 months from the date of grant and are then exercisable within a period up to 20 June 2012. Each option gives the holder the right to subscribe for one ordinary share in the Company.

(a) The terms and conditions of the grants that existed during the years are as follows, whereby all options are settled by physical delivery of shares:

	Number of instruments *'000*	**Vesting conditions**	**Contractual life of options**
Options granted to directors:			
– on 20 May 2003	65,500	1 year from the date of grant	7.83 years
– on 18 August 2004	45,000	1 year from the date of grant	6.62 years
– on 28 September 2004	2,000	1 year from the date of grant	6.50 years
– on 29 August 2005	46,000	1 year from the date of grant	5.58 years
– on 17 February 2006	30,000	1 year from the date of grant	5.12 years
Options granted to employees:			
– on 20 May 2003	5,000	1 year from the date of grant	7.83 years
– on 18 August 2004	10,000	1 year from the date of grant	6.62 years
– on 6 April 2005	5,000	1 year from the date of grant	5.99 years
– on 29 August 2005	210,500	1 year from the date of grant	5.58 years
– on 17 February 2006	10,000	1 year from the date of grant	5.12 years
Total share options	429,000		

(b) The number and weighted average exercise prices of share options are as follows:

	2006		2005	
	Weighted average exercise price	Number of options *'000*	Weighted average exercise price	Number of options *'000*
Outstanding at the beginning of the year	$0.097	195,000	$0.120	149,500
Granted during the year	$0.059	388,500	$0.062	85,000
Lapsed during the year	$0.080	(154,500)	$0.108	(39,500)
	$0.069	429,000	$0.097	195,000
Outstanding at the end of the year	$0.069	429,000	$0.097	195,000
Exercisable at the end of the year	$0.069	429,000	$0.097	195,000

The options outstanding at 31 March 2006 had an exercise price of HK$0.069 (2005: HK$0.097) and a weighted average remaining contractual life of 6.05 years (2005: 7.35 years).

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a Black-Scholes Option Pricing Model ("BS-Model"). The contractual life of the option is used as an input into this model. Expectations of early exercise are incorporated into the B-S Model.

Fair value of share options and assumptions

	2006	2005
	HK$'000	*HK$'000*
Fair value at measurement date	5,779,000	2,654,000
Share price	0.069	0.097
Exercise price	0.069	0.097
Expected volatility (expressed as weighted average volatility used in the modelling under B-S model)	59.38%	43.93%
Option life (expressed as weighted average life used in the modelling under B-S model)	6.05 years	7.35 years
Expected dividends	0.00%	0.00%
Risk-free interest rate (based on Exchange Fund Notes)	2.44%	3.28%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

31. FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are due within 60 days from the date of billing. Credit periods will extend to 180 days for some major customers. Debtors with balances that are more than 3 months overdue are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

(b) Interest rate risk

The interest rates and maturity information of the Group's non-current loan receivable and bank loans are disclosed in notes 20 and 24 respectively.

(c) Foreign currency risk

As most of the Group's monetary assets and liabilities are denominated in Hong Kong Dollars, and Renminbi, and the Group conducted its business transactions principally in Hong Kong Dollars and Renminbi, all of which were relatively stable during the year under review, the Group experiences only immaterial exchange rate fluctuations. The Group considers that as the exchange rate risk of the Group is not significant, the Group did not employ any financial instruments for hedging purposes.

(d) Estimation of fair values

The estimation of fair values of share-based compensation is disclosed in note 30.

32. COMMITMENTS

(a) Capital commitments outstanding at 31 March 2006 not provided for in the financial statements were as follows:

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
Contracted for	2,415	264

At 31 March 2006, the capital commitments contracted for representing RMB2,500,000 registered capital of a subsidiary, Inner Mongolia DiChain Logistics Co., Ltd., which will fall due on 31 December 2006.

(b) In September 2005, the Group has entered into and Asset Transfer Deposit Agreement and a Loan Agreement with Hero Vantage Limited ("Hero"). A total amount of 60 millions was paid to Hero for the possible acquisition from Hero of certain logistics assets in Yixing, the PRC. Should the acquisition be confirmed before 31 December 2006, the Group may need to pay the balance of the possible consideration, which is still under negotiation.

(c) At 31 March 2006, the Company had no other material commitments.

33. CONTINGENT ASSETS AND LIABILITIES

As at 31 March 2006, approximately HK$87 million (2005: HK$85 million) of guarantee was given by the Company to banks in respect of banking facilities granted to a subsidiary. The extent of such facilities utilised by the subsidiary at 31 March 2006 amounted to approximately HK$86 million (2005: HK$85 million).

34. LITIGATION

(a) As disclosed in the announcements of the Company dated 1 February 2006 and 24 February 2006 and in the section of "Share Subscription", a litigation has been lodged against the Company and DiChain Logistics, a subsidiary of the Company, by GD Bank in relation to a default on repayment of a loan of approximately HK$28.8 million granted by GD Bank to DiChain Logistics. Subsequent to the share subscription by and issue of convertible notes to Orient Day, the bank loan was fully repaid on 21 June 2006.

(b) At 21 July 2006, the Group has three pending litigation claims from the ex-directors of a disposed subsidiary, DHL, who claim against the Group for a sum of not less than HK$11.4 million. The actions are only at very initial stage and it is not possible for the Group and its legal representative to ascertain the possible effects of the claims, nor to make any provision for the time being.

35. NON-ADJUSTING POST BALANCE SHEET EVENTS

(a) Share consolidation

By a special resolution passed on 22 May 2006, the shareholders of the Company approved to consolidate the ordinary shares of HK$0.01 each ("Old shares") in the capital of the Company into ordinary shares of HK$0.5 each ("New shares") on the basis of 50 into 1. The Company believe this will increase the nominal value of the Shares and trading price per broad lot of the Shares, which in turn will reduce the transaction and handling costs of the Company and the Shareholders whose shares are held through CCASS. Furthermore, the Directors consider that increase in the nominal value of the Shares, which concords the recent development of both international capital markets and the local securities market in Hong Kong, can further enhance the image of the Company and may attract investments from potential international investors who normally have better appetite for high-value stocks. The share consolidation was effected on 23 May 2006.

(b) Increase in authorised share capital

By the special resolution passed on 22 May 2006, the shareholders of the Company approved to increase the authorised share capital of the Company from HK$80,000,000 to HK$300,000,000 by the creation of 22,000,000,000 new shares to facilitate the assurance of the subscription shares, conversion shares and option shares.

(c) Subscription agreements

By the special resolution passed on 22 May 2006, the shareholders of the Company further approved:

(i) the subscription of 4,000,000,000 Old shares;

(ii) the issue of convertible notes in the principal amount of HK$30,000,000 to the Subscriber convertible into 3,000,000,000 Old shares; and

(iii) the grant of an option in respect of a right to subscribe for not more than 1,000,000,000 Old shares at the price of HK$0.01 per Old share.

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, the Company agreed to allot and issue, and the Subscriber 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, which represent approximately 73.6% of the existing issued share capital of the Company and 42.4% of the issued share capital as enlarged by the issue of the subscription shares.

Moreover, subject to the completion of the share subscription, the Shareholders of the Company agreed to issue to the Subscriber 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.

The Subscriber has the further right to subscribe not more than 1,000,000,000 Option shares, which represent approximately 18.4% of the existing issued share capital of the Company, 8% of the issued share capital as enlarged by the issue of the Subscription shares and exercise of the convertible notes in full and 7.4% of the issued share capital as enlarged by the issue of the Subscription shares and the conversion and exercise of the convertible notes and option respectively in full.

The net proceeds from the share subscription and issue of convertible notes is estimated to be approximately HK$69.6 million, approximately HK$30.0 million of which was used for the settlement of the outstanding loan owned to Guangdong Development Bank, Shenzhen Xiangmihu Branch while the balance of the proceeds and the proceeds to be received upon exercise of the Option by the Subscriber (if any) shall be applied for general working capital of the Group.

On 24 May 2006, the Subscriber has been issued HK$40,000,000 ordinary shares and HK$30,000,000 Convertible Notes. Subsequently on 13 June 2006, the Subscriber irrevocably elected to convert the HK$30,000,000 Convertible Notes into 60,000,000 New shares of HK$0.5 each in the Company.

(d) Agreement for acquisition of an associate

On 15 July 2006, the Company entered into the Agreement with the Vendor, pursuant to which, the Vendor has conditionally agreed to sell, and the Company has conditionally agreed to acquire the Sale Shares, which represents 40% of the issued share capital of the Joint Venture, China Coal Energy Holdings Limited, at a total consideration of HK$395.62 million, of which HK$100 million will be paid by the Company in cash and the balance of HK$295.62 million will be satisfied by the allotment and issue of the Consideration Shares to the Vendor and his nominees.

36. COMPARATIVE FIGURES

Certain comparative figures have been adjusted or re-classified as a result of the changes in accounting policies, details of which are disclosed in note 2. In addition, certain comparative figures have been reclassified to conform with the current year's presentation.

37. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 MARCH 2006

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period ended 31 March 2006 and which have not been adopted in these financial statements:

Amendments, as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005, to:

– HKAS 1, Presentation of financial statements	1 January 2006
– HKAS 27, Consolidated and separate financial statements	1 January 2006
– HKFRS 3, Business combinations	1 January 2006
– HKFRS 7, Financial instruments: disclosures	1 January 2007
Amendment to HKAS 1, Presentation of financial statements: capital disclosures	1 January 2007

In addition, the Hong Kong Companies (Amendment) Ordinance 2005 came into effect on 1 December 2005 and would be first applicable to the Group's financial statements for the period beginning 1 January 2006.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of HKFRS 6 and HK(IFRIC) 5 and the amendments to HKAS 1, HKAS 27 and HKFRS 3 made as a result of the Hong Kong Companies (Amendment) Ordinance 2005 are not applicable to any of the Group's operations and that adoption of the rest of them is unlikely to have a significant impact on the Group's results of operations and financial position.

3. QUALIFIED OPINION

No qualified opinion was issued by the Company's auditors for any of the three years ended 31 March 2006.

4. INDEBTEDNESS

As at 31 July 2006, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had short term loans of approximately HK$57 million. The Group's leasehold land and buildings with an aggregate carrying value of approximately HK$101 million were pledged to a bank to secure loan facilities granted to the Group.

Save as aforesaid and apart from intra-group liabilities and normal accounts payable incurred in the ordinary course of business of the Group, none of the companies comprising the Group had outstanding at the close of business on 31 July 2006 any mortgages, term loans, charges or debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptance (other than normal trade bills) or acceptance credits or any guarantees or other material contingent liabilities.

5. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2006, the date to which the latest published audited consolidated financial statements of the Group were made up.

6. WORKING CAPITAL

The Directors, after due and careful consideration, are of the opinion that, taking into account the internal resources available to the Group and the net amount to be raised from share placement and/or debt financing, the Enlarged Group will have sufficient working capital for its present requirements.

7. RECONCILIATION OF PROPERTY INTERESTS

Disclosure of the reconciliation of the property interests of the Group and the valuation of such property interests as required under rule 5.07 of Listing Rules is set out below:

		HK$
Valuation of Property No. 3 as at 30 June 2006 as set out in the valuation report in Appendix V to this document		110,000,000
Net book value of the property as at 31 March 2006 as set out in the audited financial statements in Appendix I to this document:		
Buildings	82,110,000	
Land lease premium	19,194,000	
	101,304,000	
Less: Depreciation during the period from 1 April 2006 to 30 June 2006	(1,075,000)	
Net book value of the property as at 30 June 2006 subject to valuation as set out in the valuation report in Appendix V to this document		100,229,000
Revaluation surplus		9,771,000

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the reporting accountants, Johnny Chan & Co., Limited.

15 September 2006

The Board of Directors
Pearl Oriental Innovation Limited
Unit 3611, 36/F
West Tower, Shun Tak Centre
168-200 Connuaght Road Central
Hong Kong

Dear Sirs,

We set out below our report regarding financial information ("Financial Information") of 太原市三興煤炭氣化有限公司 (Taiyuan Sanxing Coal Gasification (Group) Co., Ltd.) and its subsidiaries (collectively the "group") for the years ended 31 December 2003, 2004 and 2005 and six months ended 30 June 2006 (the "Relevant Periods"), for the inclusion in the circular, as set out on pages 79 to pages 99 in Appendix II to the circular, dated 15 September 2006 issued by Pearl Oriental Innovation Limited (the "Company") in connection with the proposed acquisition of 40% interest in the share capital of China Coal Energy Holding Limited (the "Circular").

For the purpose of this report, we have undertaken an independent audit of the underlying financial statements of the group for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have carried out such additional procedures as we considered necessary in accordance with the auditing Guidelines 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA and, where considered appropriate, made adjustments and/or additional disclosures considered necessary in order for the Financial Information and the notes thereto to conform with the accounting principles generally accepted in Hong Kong.

The consolidated income statement, the consolidated cash flow statement, and the consolidated statement of changes in equity of the group for the Relevant Periods and the consolidated balance sheet of group as at 31 December 2003, 2004 and 2005 and 30 June 2006 are set out in this report have been prepared in accordance with the basis and accounting policies as set out in note 2 of Section 5 below.

The Financial Information is the responsibility of the directors of the group who approve their issuance. The Directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to form an independent opinion on such information and to report our opinion to you.

We planned and perform our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the Financial Information are free from material misstatements. In forming our opinion we also evaluated the overall adequacy of the presentation of Financial Information. We believe that our audit provide a reasonable basis for our opinion.

We have also reviewed the consolidated financial information for the six months ended 30 June 2005 which was prepared by the directors of the company solely for the purpose of this report, in accordance with Statement of Auditing Standards 700 "Engagements to Review Interim Financial Report" issued by the HKICPA. Our review consisted principally of making enquiries of group management and applying analytical procedures to the consolidated financial information for the six months ended 30 June 2005 and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as test of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the consolidated financial information for the six months ended 30 June 2005. On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the consolidated financial information for the six months ended 30 June 2005.

In our opinion, the financial statements give a true and fair view of the state of the group's affairs as at 31 December 2003, 2004, 2005 and 30 June 2006 and of its results and cash flows for the years ended 31 December 2003, 2004, 2005 and the six months ended 30 June 2006 and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Yours faithfully
Johnny Chan & Co. Limited
Certified Public Accountants
Hong Kong

1. CONSOLIDATED INCOME STATEMENT

The following is a summary of the consolidated income statement of Taiyuan Sanxing Group for the Relevant Periods, which is presented on the basis set out in note 2 under Section 5 below:

		Period ended 30 June		Year ended 31 December		
		2006	**2005**	**2005**	**2004**	**2003**
	Note	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
		(audited)	(unaudited)	(audited)	(audited)	(audited)
Turnover	*4*	148,818,768	176,274,702	369,540,011	196,522,901	142,012,817
Cost of sales		(102,539,576)	(133,018,398)	(266,670,286)	(159,828,259)	(125,826,245)
Gross profit		46,279,192	43,256,304	102,869,725	36,694,642	16,186,572
Other revenue	*5*	2,319,132	1,375,781	3,175,377	441,703	39,527
Negative goodwill		–	–	2,378,605	–	–
Selling and distribution expenses		(16,808,075)	(4,946,713)	(15,333,150)	(10,077,406)	(7,857,043)
Administrative expenses		(12,733,973)	(7,728,792)	(20,502,984)	(7,078,543)	(2,910,197)
Finance costs	*6(a)*	(5,060,914)	(2,246,650)	(7,835,130)	(6,539,913)	(3,954,752)
Profit before taxation	*6*	13,995,362	29,709,930	64,752,443	13,440,483	1,504,107
Income tax expenses	*7*	4,866,061	9,716,897	20,856,046	5,791,295	1,896,011
Profit (loss) for the year/period		9,129,301	19,993,033	43,896,397	7,649,188	(391,904)
Attributable to:						
Shareholders of the company		9,415,939	16,739,683	39,241,193	8,676,412	668,441
Minority interests		(286,638)	3,253,350	4,655,204	(1,027,224)	(1,060,345)
Profit (loss) for the year/period		9,129,301	19,993,033	43,896,397	7,649,188	(391,904)

2. CONSOLIDATED BALANCE SHEET

The following is a summary of the consolidated balance sheet of Taiyuan Sanxing Group as at 31 December 2003, 31 December 2004, 31 December 2005 and 30 June 2006, which is presented on the basis set out in note 2 under Section 5 below:

		As at 30 June	As at 31 December		
		2006	2005	2004	2003
	Note	*RMB*	*RMB*	*RMB*	*RMB*
		(audited)	(audited)	(audited)	(audited)
Non-current assets					
Mining right	*8*	110,476,655	110,837,985	–	–
Land use right	*9*	15,962,693	16,125,578	16,451,347	16,777,116
Construction in progress	*10*	21,170,022	9,419,359	2,720,317	1,977,433
Property, plant and equipment	*11*	336,730,358	345,274,998	257,317,552	210,223,058
		484,339,728	481,657,920	276,489,216	228,977,607
Current assets					
Inventories	*13*	57,874,141	31,555,193	19,276,664	34,396,786
Trade and other receivables	*14*	177,149,154	158,800,744	157,233,991	77,211,145
Financial assets at fair value through profit or loss		1,360,000	–	–	–
Fixed deposits		13,010,362	4,560,341	23,505,279	20,000,000
Cash and bank balances		9,421,044	6,077,148	5,983,668	6,693,795
		258,814,701	200,993,426	205,999,602	138,301,726
Current liabilities					
Bank overdraft		–	184,811	–	–
Short term bank loans	*15*	73,600,000	77,600,000	37,900,000	37,970,000
Trade and other payables	*16*	466,270,702	415,578,170	350,674,291	248,835,289
Tax payable		33,209,414	28,343,352	7,487,306	1,696,011
		573,080,116	521,706,333	396,061,597	288,501,300
Net current liabilities		(314,265,415)	(320,712,907)	(190,061,995)	(150,199,574)
Total assets less current liabilities		170,074,313	160,945,013	86,427,221	78,778,033

	Note	As at 30 June 2006 RMB (audited)	As at 31 December 2005 RMB (audited)	2004 RMB (audited)	2003 RMB (audited)
Non-current liability					
Bank loan	*15*	1,000,000	1,000,000	–	–
NET ASSETS		169,074,313	159,945,013	86,427,221	78,778,033
CAPITAL AND RESERVES					
Paid-up capital	*17*	100,000,000	100,000,000	20,000,000	20,000,000
Capital reserve		–	–	48,500,000	48,500,000
Retained profits		68,171,921	58,755,983	19,514,790	10,838,378
Equity attributable to shareholders of the company		168,171,921	158,755,983	88,014,790	79,338,378
Minority interests		902,392	1,189,030	(1,587,569)	(560,345)
		169,074,313	159,945,013	86,427,221	78,778,033

3. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

The following is a summary of consolidated statement of changes in equity of Taiyuan Sanxing Group for the Relevant Periods, which is presented on the basis set out in note 2 under Section 5 below:

	Attributable to shareholders of the company					
	Paid-up capital	**Capital reserve**	**Retained profits**	**Total**	**Minority interests**	**Total**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Balance at 1 January 2003	20,000,000	48,500,000	10,169,937	78,669,937	500,000	79,169,937
Profit (loss) for the year	–	–	668,441	668,441	(1,060,345)	(391,904)
Total recognised income and expense for the year	–	–	668,441	668,441	(1,060,345)	(391,904)
Balance at 31 December 2003 and 1 January 2004	20,000,000	48,500,000	10,838,378	79,338,378	(560,345)	78,778,033
Profit (loss) for the year	–	–	8,676,412	8,676,412	(1,027,224)	7,649,188
Total recognised income and expense for the year	–	–	8,676,412	8,676,412	(1,027,224)	7,649,188
Balance at 31 December 2004 and 1 January 2005	20,000,000	48,500,000	19,514,790	88,014,790	(1,587,569)	86,427,221
Profit for the year	–	–	39,241,193	39,241,193	4,655,204	43,896,397
Total recognised income and expense for the year	–	–	39,241,193	39,241,193	4,655,204	43,896,397
Contribution from minority shareholders	–	–	–	–	500,000	500,000
Increase in shareholding of subsidiary	–	–	–	–	(2,378,605)	(2,378,605)
Increase in capital	80,000,000	(48,500,000)	–	31,500,000	–	31,500,000
Balance at 31 December 2005	100,000,000	–	58,755,984	158,755,983	1,189,030	159,945,013
Profit (loss) for the period	–	–	9,415,939	9,415,939	(286,638)	9,129,301
Total recognised income and expense for the period	–	–	9,415,939	9,415,939	(286,638)	9,129,301
Balance at 30 June 2006	100,000,000	–	68,171,922	168,171,922	902,392	169,074,314

4. CONSOLIDATED CASH FLOW STATEMENT

The following is a summary of consolidated cash flow statement of Taiyuan Sanxing Group for the Relevant Periods, which is presented on the basis set out in note (1) under section (5) below:

	Period ended 30 June		As at 31 December		
	2006	**2005**	**2005**	**2004**	**2003**
	RMB	*RMB*	*RMB*	*RMB*	
Operating activities					
Profit before taxation	13,995,362	29,709,930	64,752,443	13,440,483	1,504,107
Adjustments for:					
Interest income	(156,700)	(120,343)	(249,032)	(441,703)	(39,527)
Profit on disposal of property, plant and equipment	–	(343,258)	(343,258)	–	–
Fixed assets written off	716,121	–	–	9,527,505	21,895
Negative goodwill on increasing shareholding of a subsidiary	–	–	(2,378,605)	–	–
Amortisation of mining right	361,330	–	1,897,715	–	–
Amortisation of land use right	162,885	162,885	325,769	325,769	162,884
Finance costs	5,060,914	2,246,650	7,835,130	6,539,913	3,954,752
Depreciation	11,311,316	12,558,144	25,116,288	20,299,392	12,268,893
Operating profit before changes in working capital	31,451,228	44,214,008	96,956,450	49,691,359	17,873,004
(Increase) decrease in inventories	(26,318,947)	(353,651)	(12,278,529)	15,120,122	(15,005,881)
Increase in trade debtors and other receivables	(18,348,410)	(36,584,532)	(1,566,753)	(80,022,846)	(37,544,837)
Increase in trade creditors	4,545,978	6,598,506	14,420,731	5,267,679	34,105,953
(Decrease) increase in notes payable	8,450,000	(11,500,000)	(18,950,000)	3,500,000	20,000,000
(Decrease) increase in advances from customers	1,000,299	(30,870,265)	(22,125,049)	8,417,273	36,451,129
Increase in accrued charges and other payables	(50,550,903)	112,583,993	34,915,649	32,190,487	5,990,379
Cash (used in) generated from operations	(49,770,755)	84,088,059	91,372,499	34,164,074	61,869,747
Profits tax paid	–	–	–	–	(200,000)
Net cash (used in) gernerated from operating activities	(49,770,755)	84,088,059	91,372,499	34,164,074	61,669,747
Investing activities					
Payments for mining right	–	–	(10,000,000)	–	–
Payments for land use right	(2,534,753)	(902,376)	(920,376)	(3,475,979)	(3,000,000)
Payments for construction in progress	(11,750,663)	(9,342)	(6,699,042)	(742,884)	(1,977,433)
Payments for purchase of fixed assets	(3,482,797)	(95,634,591)	(113,507,876)	(76,921,391)	(58,877,995)
Payments for financial assets at fair value through profit or loss	(1,360,000)	–	–	–	–
Proceeds from sale of fixed assets	–	777,400	777,400	–	–
Decrease (increase) in pledged bank deposits	(8,450,021)	23,505,279	18,944,938	(3,505,279)	(20,000,000)
Interest received	156,700	120,343	249,032	441,703	39,527
Net cash used in investing activities	(27,421,534)	(72,143,287)	(111,155,924)	(84,203,830)	(83,815,901)
Financing activities					
Net bank loan proceeds	(4,000,000)	40,000,000	40,700,000	(70,000)	20,940,000
(Decrease) increase in due to director	89,763,910	(67,799,281)	(45,208,776)	55,903,542	5,549,592
Finance costs paid	(5,042,914)	(2,228,650)	(7,779,130)	(6,503,913)	(3,777,752)
Proceeds from issue of capital	–	31,500,000	31,500,000	–	–
Contribution from minority shareholders	–	500,000	500,000	–	–
Net cash generated from financing activities	80,720,996	1,972,069	19,692,094	49,329,629	22,711,840
Net (decrease) increase in cash and cash equivalents	3,528,707	13,916,841	(91,331)	(710,127)	565,686
Cash and cash equivalents at 1 January	5,892,337	5,983,668	5,983,668	6,693,795	6,128,109
Cash and cash equivalents at 31 December/30 June	9,421,044	19,900,509	5,892,337	5,983,668	6,693,795
Analysis of cash and cash equivalents:					
Cash and bank balances	9,421,044	19,900,509	6,077,148	5,983,668	6,693,795
Bank overdraft	–	–	(184,811)	–	–
	9,421,044	19,900,509	5,892,337	5,983,668	6,693,795

5. NOTES TO FINANCIAL INFORMATION

1. General information

The company is incorporated in PRC with limited liability. The business address is Room 505, Block A, Commercial Plaza, Xinhua Avenue, Taiyuan, PRC. The principal activities of the company are investment holding, coal coking, coal gasification, recycling and extracting of coal products. The principal activities of the subsidiaries are set out in note 11 to the financial statements.

2. Basis of preparation and significant accounting policies

The Financial Information has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collectively includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance.

The presentation of the Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumption that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustments in the next year are discussed in note 21.

The Financial Information has been prepared under the historical cost convention.

In addition, the Financial Information has been prepared on a going concern basis notwithstanding the group has net current liabilities as the director has undertaken to provide continuous financial support to the group.

A summary of the significant accounting policies adopted by the group is set out below.

(a) Consolidation

The consolidated Financial Information includes the Financial Information of the company and its subsidiaries made up to 31 December each year from 2003 to 2005 and to 30 June in 2006.

The results of subsidiaries acquired or disposed of during the year/period are included in consolidated Financial Information from the effective date of acquisition or disposal respectively.

All significant inter-company transactions and balances within the group are eliminated on consolidation.

(b) Subsidiaries

A subsidiary is a company in which the group, directly or indirectly, controls more than half of its voting power or issued capital or controls the composition of its board of directors. Subsidiaries are considered to be controlled if the group has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

(c) Negative goodwill

Negative goodwill represents excess of the group's interest in the net fair value of the acquiree's identifiable assets, liabilities, and contingent liabilities over the cost of a business combination and is recognized immediately in the consolidated income statement.

(d) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the group and when the revenue and costs, if applicable can be measured reliably, on the following basis:

(i) revenue from sales of goods is recognised when goods are delivered and the risks and rewards of ownership have been passed to the customers;

(ii) revenue from hotel and restaurant operation is recognised upon provision of services; and

(iii) interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(iv) rental income is recognised in equal instalments over the periods covered by the lease term and on an accrual basis.

(e) Land use right

Land use right represents prepaid lease payments for the use of land in the PRC and are amortised over the period of 52 years.

(f) Property, plant and equipment

Property, plant and equipment is stated at cost or estimated cost less accumulated depreciation and impairment losses, if any.

Depreciation is provided to write off the cost of the property, plant and equipment, other than coal mine and mining structure, less their estimated residual value, using the straight line method over their estimated useful lives as follows:

– Hotel properties	The shorter of the unexpired term of lease or their estimated useful lives, being no more than 50 years after the date of completion
– Buildings and leasehold improvement	40 to 50 years
– Mining related machinery and equipment	10 years
– Coal coking related machinery and equipment	10 years
– Other fixed assets	5 to 10 years

Coal mine and mining structure are depreciated on a units-of-production method based on estimated recoverable coal reserves.

Major costs incurred in restoring property, plant and machinery to their normal working condition are charged to the profit or loss. Improvements are capitalised and depreciated over their expected useful lives to the group.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant assets, and is recognised in the consolidated income statement.

(g) Construction in progress

Construction in progress is carried at cost less impairment losses, if any. Cost comprises construction expenditure and other direct costs attributable to such projects. When the assets concerned are brought into use, the costs or estimated costs are transferred to property, plant and equipment and depreciated in accordance with the policies.

Assets under construction are not depreciated until they are completed and put into use.

(h) Mining right

Mining right is stated at cost less accumulated amortisation and is amortised on a unit-of-production method based on estimated recoverable coal reserves.

(i) Impairment of assets

Assets that have an indefinite useful lives are not subject to amortisation, but are tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an assets' fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at lowest levels for which there are separately identifiable cash flows (cash-generating units).

An impairment loss recognized in prior years for an asset is reversed when there is a favourable change in the estimates used to determine the recoverable amount of an asset. A reversal of the impairment loss is limited to the asset's carrying amount (net of accumulated amortization or depreciation) that would have been determined had no impairment loss been recognized in prior years.

(j) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average basis and comprises all costs of purchases and other related costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price less the estimated costs necessary to make the sale.

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

(l) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(m) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the consoidated income statement over the period of the borrowings using the effective interest method.

(n) Provisions

Provisions are recognised for liabilities of uncertain timing or amount when the company has a legal or constructive obligation arising has a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

(o) Income tax

Income tax for the year/period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the consolidated income statement except to the extent that they relate to items recognised directly in equity, in which case, they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year/period, using the tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred income tax is provided in full, using the liability method, at the current tax rate on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements to the extent that a liability or asset is expected to be payable or recoverable in the foreseeable future.

(p) Borrowing costs

Borrowing costs are expensed in the consolidated income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceased when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

3. Segmental information

All the group's assets and liabilities as at the balance sheet dates of the Relevant Periods (section 2 of this accountants' report); and revenue, expenses and profit and loss for the Relevant Periods are attributable to the business segment of sales of coal, coal products and hotel and restaurant operation in the PRC.

4. Turnover

	Period ended 30 June		Year ended 31 December		
	2006	**2005**	**2005**	**2004**	**2003**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
	(audited)	(unaudited)	(audited)	(audited)	(audited)
Sales of coal	19,207,560	41,538,213	100,878,621	5,184,370	2,187,710
Sales of coal products	123,714,843	129,705,060	256,101,225	191,338,531	139,825,107
Hotel and restaurant operation	5,896,365	5,031,429	12,560,165	–	–
	148,818,768	176,274,702	369,540,011	196,522,901	142,012,817

5. Other revenue

	Period ended 30 June		Year ended 31 December		
	2006	**2005**	**2005**	**2004**	**2003**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
	(audited)	(unaudited)	(audited)	(audited)	(audited)
Interest income	156,700	120,343	249,032	441,703	39,527
Rental income	1,200,000	800,000	2,000,000	–	–
Gain on disposal of fixed assets	–	343,258	343,258	–	–
Sundry income	962,432	112,180	583,087	–	–
	2,319,132	1,375,781	3,175,377	441,703	39,527

6. Profit before taxation

	Period ended 30 June		Year ended 31 December		
	2006	**2005**	**2005**	**2004**	**2003**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
	(audited)	(unaudited)	(audited)	(audited)	(audited)
Profit before taxation is arrived at after charging:					
(a) Finance costs					
Bank charges	13,303	12,056	25,620	29,715	17,953
Bank interest	3,847,611	1,034,594	5,409,510	4,847,198	3,936,799
Other interest payable	1,200,000	1,200,000	2,400,000	1,663,000	–
	5,060,914	2,246,650	7,835,130	6,539,913	3,954,752
(b) Directors emoluments					
Fees	–	–	–	–	–
Salaries and other benefits	9,000	9,000	18,000	18,000	17,200
	9,000	9,000	18,000	18,000	17,200
(c) Other items					
Auditors' remuneration:	111,800	–	157,500	–	–
Depreciation on fixed assets	11,311,316	12,558,144	25,116,388	20,299,392	12,268,893
Amortisation of mining right	361,330	–	1,897,715	–	–
Amortisation of land use right	162,885	162,884	325,769	385,769	162,884
Staff costs	1,161,948	14,681,636	32,265,905	4,255,837	3,120,525
Operating lease rentals on land and buildings	30,667	47,918	95,836	–	–

7. Income tax expense

(a) Taxation in the consolidated income statement represents PRC profits tax at a rate of 33% on estimated assesable profit for the year/period.

(b) Reconciliation between tax expense and accounting profit:

	Period ended 30 June		As at 31 December		
	2006	**2005**	**2005**	**2004**	**2003**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
	(audited)	(unaudited)	(audited)	(audited)	(audited)
Profit before taxation	13,995,362	29,709,930	64,752,443	13,440,483	1,504,107
Tax calculated at the rate of 33%	4,618,470	9,804,277	21,368,306	4,435,359	496,355
Tax effect of non-taxable income	–	(87,380)	(784,940)	–	–
Tax effect on losses not recognised	247,591	–	272,680	1,355,936	1,399,656
Tax expenses	4,866,061	9,716,897	20,856,046	5,791,295	1,896,011

8. Mining right

	As at 30 June	As at 31 December		
	2006	**2005**	**2004**	**2003**
	RMB	*RMB*	*RMB*	*RMB*
	(audited)	(audited)	(audited)	(audited)
Cost:				
At 1 January	112,735,700	–	–	–
Addition	–	112,735,700	–	–
At 31 December	112,735,700	112,735,700	–	–
Aggregate amortisation				
At 1 January	1,897,515	–	–	–
Charge for the year/period	361,330	1,897,715	–	–
At 31 December/30 June	2,259,045	1,897,715	–	–
Net carrying amount	110,476,655	110,837,985	–	–

In consideration of the right to conduct mining activities in Shanxi Sanxing Coal Mine, Taiyuan Sanxing Group was required to pay an one-off deferred natural resources tax to the PRC government, at the rate of RMB1.80 per tonne of the total coal reserve of Shanxi Sanxing Coal Mine as agreed with the relevant local government authority in Shanxi Province. Such amount was booked as the cost of the mining right and recognized as a deferred asset of Taiyuan Sanxing Group.

9. Land use right

	As at 30 June 2006	As at 31 December 2005	2004	2003
	RMB	*RMB*	*RMB*	*RMB*
	(audited)	(audited)	(audited)	(audited)
Cost:				
At 1 January	16,940,000	16,940,000	16,940,000	–
Addition	–	–	–	16,940,000
At 31 December/30 June	16,940,000	16,940,000	16,940,000	16,940,000
Aggregate amortisation				
At 1 January	814,422	488,653	162,884	–
Charge for the year/period	162,885	325,769	325,769	162,884
At 31 December/30 June	977,307	814,422	488,653	162,884
Net carrying amount	15,962,693	16,125,578	16,451,347	16,777,116

10. Construction in progress

	As at 30 June 2006	As at 31 December 2005	2004	2003
	RMB	*RMB*	*RMB*	*RMB*
	(audited)	(audited)	(audited)	(audited)
Cost:				
At 1 January	9,149,359	2,720,317	1,977,433	5,780,195
Additions	12,020,663	6,429,042	742,884	1,977,433
Transfer to fixed assets	–	–	–	(5,780,195)
At 31 December/30 June	21,170,022	9,149,359	2,720,317	1,977,433

11. Property, plant and equipment

	Buildings and leasehold improvement *RMB*	Hotel properties *RMB*	Coal mine and mining structure *RMB*	Mining related machinery and equipment *RMB*	Coal coking related machinery and equipment *RMB*	Furniture, fixtures, motor vehicles and other equipment *RMB*	Total *RMB*
Cost							
At 1 January 2003	6,279,152	–	82,656,548	2,696,763	73,193,605	2,920,868	167,746,936
Additions	3,145,618	–	35,733,284	9,121,935	8,451,394	2,466,567	58,918,798
Transfer from construction in progress	53,353	–	–	–	5,571,150	155,692	5,780,195
Disposal	–	–	–	–	(73,017)	–	(73,017)
At 31 December 2003	9,478,123	–	118,389,832	11,818,698	87,143,132	5,543,127	232,372,912
At 1 January 2004	9,478,123	–	118,389,832	11,818,698	87,143,132	5,543,127	232,372,912
Additions	5,148,454	–	1,669,600	2,082,304	66,086,722	1,934,311	76,921,391
Disposal	(2,564,070)	–	–	(186,600)	(9,161,137)	(2,506,604)	(14,418,411)
At 31 December 2004	12,062,507	–	120,059,432	13,714,402	144,068,717	4,970,834	294,875,892
At 1 January 2005	12,062,507	–	120,059,432	13,714,402	144,068,717	4,970,834	294,875,892
Additions	2,250,947	63,670,000	2,503,943	1,623,167	39,467,241	3,992,578	113,507,876
Disposal	–	–	–	–	–	(743,404)	(743,404)
At 31 December 2005	14,313,454	63,670,000	122,563,375	15,337,569	183,535,958	8,220,008	407,640,364
At 1 January 2006	14,313,454	63,670,000	122,563,375	15,337,569	183,535,958	8,220,008	407,640,364
Additions	–	–	–	–	–	3,482,797	3,482,797
Disposal	–	–	–	–	–	(1,165,313)	(1,165,313)
At 30 June 2006	14,313,454	63,670,000	122,563,375	15,337,569	183,535,958	10,537,492	409,957,848
Aggregate depreciation							
At 1 January 2003	240,622	–	–	–	8,115,049	1,576,412	9,932,083
Charge for the year	261,501	–	2,846,328	1,181,870	7,250,841	728,353	12,268,893
Elimination on disposal	–	–	–	–	(51,122)	–	(51,122)
At 31 December 2003	502,123	–	2,846,328	1,181,870	15,314,768	2,304,765	22,149,854
At 1 January 2004	502,123	–	2,846,328	1,181,870	15,314,768	2,304,765	22,149,854
Charge for the year	381,694	–	2,905,283	1,369,474	14,725,237	917,704	20,299,392
Elimination on disposal	(472,322)	–	–	–	(2,352,354)	(2,066,230)	(4,890,906)
At 31 December 2004	411,495	–	5,751,611	2,551,344	27,687,651	1,156,239	37,558,340
At 1 January 2005	411,495	–	5,751,611	2,551,344	27,687,651	1,156,239	37,558,340
Charge for the year	318,055	1,220,000	2,988,748	1,531,790	17,937,437	1,120,258	25,116,288
Elimination on disposal	–	–	–	–	–	(309,262)	(309,262)
At 31 December 2005	729,550	1,220,000	8,740,359	4,083,134	45,625,088	1,967,235	62,365,366
At 1 January 2006	729,550	1,220,000	8,740,359	4,083,134	45,625,088	1,967,235	62,365,366
Charge for the period	159,028	610,000	143,689	765,895	7,803,070	1,829,635	11,311,316
Elimination on disposal	–	–	–	–	–	(449,192)	(449,192)
At 30 June 2006	888,578	1,830,000	8,884,048	4,849,029	53,428,158	3,347,677	73,227,490
Net book value							
At 30 June 2006	13,424,876	61,840,000	113,679,327	10,488,540	130,107,800	7,189,815	336,730,358
At 31 December 2005	13,583,904	62,450,000	113,823,016	11,254,435	137,910,870	6,252,773	345,274,998
At 31 December 2004	11,651,012	–	114,307,821	11,163,058	116,381,066	3,814,595	257,317,552
At 31 December 2003	8,976,000	–	115,543,504	10,636,828	71,828,364	3,238,362	210,223,058

12. Interests in subsidiaries

Details of the subsidiaries are as follows:

Name of subsidiaries	Form of business structure	Place of incorporation	Particular of registered capital *RMB*	Equity interest held by the company *%*	Principal activity
山西三興煤焦有限公司	Incorporated	PRC	20,000,000 (31 December 2005 & 30 June 2006)	97.5	Coal mining
			2,000,000 (31 December 2003 & 2004)	75	
太原市海上綠洲大酒店*	Incorporated	PRC	1,000,000 (31 December 2005 & 30 June 2006)	50	Hotel and restaurant operation
			– (31 December 2003 & 2004)	–	

* *The company's director, Zhang Genyu, has direct control of 太原市海上綠洲大酒店.*

13. Inventories

	As at 30 June 2006 *RMB* (audited)	As at 31 December 2005 *RMB* (audited)	2004 *RMB* (audited)	2003 *RMB* (audited)
Raw material	33,970,001	17,520,097	4,196,650	11,616,915
Finished goods	21,229,454	12,858,603	14,873,045	21,930,718
Material and supplies	2,674,686	1,176,493	206,969	849,153
	57,874,141	31,555,193	19,276,664	34,396,786

14. Trade and other receivables

	As at 30 June 2006 *RMB* (audited)	As at 31 December 2005 *RMB* (audited)	2004 *RMB* (audited)	2003 *RMB* (audited)
Trade debtors	24,672,314	35,950,020	11,411,376	12,279,688
Notes receivable	1,500,000	500,000	4,058,200	8,553,185
Advances to suppliers	54,604,104	27,491,136	24,455,659	20,342,399
Other receivables, deposits and prepayments	96,372,376	94,859,588	117,308,756	36,035,873
	177,149,154	158,800,744	157,233,991	77,211,145

15. Bank loans

At the balance sheet date, the group's bank loans were repayable as follows:

	As at 30 June 2006 *RMB* (audited)	**As at 31 December 2005** *RMB* (audited)	**2004** *RMB* (audited)	**2003** *RMB* (audited)
Within 1 year or on demand under current liabilities	73,600,000	77,600,000	37,900,000	37,970,000
Within 2 to 5 years under non-current liability	1,000,000	1,000,000	–	–
Total	74,600,000	78,600,000	37,900,000	37,970,000
The above bank loans were secured as follows:				
Bank loans:				
– secured	12,600,000	12,600,000	12,900,000	12,980,000
– unsecured	62,000,000	66,000,000	25,000,000	24,990,000
	74,600,000	78,600,000	37,900,000	37,970,000

16. Trade and other payables

	As at 30 June 2006 *RMB* (audited)	**As at 31 December 2005** *RMB* (audited)	**2004** *RMB* (audited)	**2003** *RMB* (audited)
Trade creditors	63,793,271	59,247,292	44,826,561	39,558,883
Notes payables	13,000,000	4,550,000	23,500,000	20,000,000
Advances from customers	23,743,652	22,743,353	44,868,402	36,451,129
Due to director	218,574,888	128,810,977	174,019,753	118,116,212
Accrued charges and other payables	147,158,891	200,226,548	63,459,575	34,709,065
	466,270,702	415,578,170	350,674,291	248,835,289

At 30 June 2006, other payable include an amount of RMB30,000,000 (2005: RMB30,000,000, 2004: RMB30,200,000, 2003: Nil) bearing interest at 8% (2005: 8%, 2004: 5.5%, 2003: Nil) per annum.

The amount due to director is unsecured, interest free with no fixed terms of repayment.

17. Paid-up capital

	RMB
At 1 January 2003, 31 December 2004 and 1 January 2005	20,000,000
Increase during the year	80,000,000
At 31 December 2005 and 30 June 2006	100,000,000

At 5 February 2005, the company increased its capital by RMB80,000,000. RMB31,500,000 was received by cash and RMB48,500,000 was transferred from capital reserve.

Pursuant to the Agreement dated 15 July 2006, the Vendor has agreed and undertaken to increase the paid-up capital of the company from RMB100 million to RMB200 million in the name and on behalf and of the Joint Venture upon Completion.

18. Major non-cash transactions

During the year ended 31 December 2005, the company increased its capital by RMB80,000,000 of which RMB48,500,000 was transferred from capital reserve.

19. Commitments

Capital commitments outstanding at the balance sheet date not provided for in the financial statements were as follows:

	As at 30 June	**As at 31 December**		
	2006	**2005**	**2004**	**2003**
	RMB	*RMB*	*RMB*	*RMB*
	(audited)	(audited)	(audited)	(audited)
Property, plant and equipment				
– Authorised and contracted for	16,186,545	11,814,996	5,340,513	325,148

20. Financial risk management objectives and policies

Financial instruments of the group include cash and cash equivalents, fixed deposits, trade and other receivables, trade and other payables, bank loans and overdraft.

a) Credit risk

The group's maximum exposure to credit risk in the events of counterparties failure to perform their obligation as at 31 December 2005 is the carrying amount of the trade and other receivables. In order to minimise the credit risk, the management has set up credit policies and appointed a team of professional to approve the credit limit, monitor and recover the overdue debts. Besides, the management reviews the recoverable amount of each trade and other receivables at each balance sheet date to ensure that adequate impairment losses are made for the irrecoverable amount and actions are taken by the credit department to recover the debts. In this regard, the management consider the credit risk is significantly reduced.

b) Interest rate risk

All of the group's borrowings were at fixed interest rate and are not subject to the fluctuation of market interest rate.

c) Liquidity risk

The director has undertaken to provide continuous financial support to the group.

d) Fair values

The fair values of the group's financial assets and liabilities are approximate to their corresponding carrying amounts.

21. Critical accounting estimates and judgements

The group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances:

(a) Coal reserve, amortisation of mining right and depreciation of coal mine and mining structure

The proven and probable coal reserve are estimated by professional valuers. The amortisation of mining right and depreciation of coal mine and mining structure are based on the unit of production method taking into account the recoverable amount of coal reserve.

6. RECONCILIATION OF PROPERTY INTERESTS

Disclosure of the reconciliation of the property interests of the group and the valuation of such property interests is set out below:

	RMB
Valuation of Property Nos. 1 & 2 as at 30 June 2006 as set out in the valuation report in Appendix V to this document	39,000,000 *(Note)*
Net book value of properties as at 30 June 2006 subject to valuation as set out in the valuation report in Appendix V to this report	87,762,000
Difference	(48,762,000)

Note: The amount has excluded the market value of (i) Land Parcel II and buildings of Property No. 1 and (ii) Property No. 2 set out in the valuation report in Appendix V to this document for which Taiyuan Sanxing Group has not yet obtained proper title certificates as at 30 June 2006.

According to the opinion of the PRC legal adviser as set out in Note 11 of the valuation certificate regarding the Property No. 1 on page 121 and in Note 2 of the valuation certificate regarding the Property No. 5 on page 123, there would be no legal impediments for the group in obtaining the relevant State-owned Land Use Rights Certificate and Building Ownership Certificates for the properties upon settlement of all the requisite considerations/land premium. On the assumption that all the requisite considerations/land premium have been settled and all the relevant title documents have been obtained, the market values of these properties as at 30 June 2006 would be as follows:

	RMB
As stated in Note 8 of the valuation certificate on page 121	
Property No. 1	
– Land Parcel II	12,000,000
– Buildings	8,000,000
As stated in Note 2 of the valuation certificate on page 122	
Property No. 2	63,000,000
	83,000,000
Less: Difference as above	(48,762,000)
Revaluation surplus in respect of the Properties Nos. 1 and 2	34,238,000

Such revaluation surplus arise as a result of the different bases of valuation employed and the accounting policies of group. The valuation of the group's property interests as at 30 June 2006 as set out in the valuation report in Appendix V to this document is based on open market values whereas the bases adopted in the group's accounts are as follows: (i) fixed assets at cost less accumulated depreciation and impairment losses, if any and (ii) the land use rights amortised at cost on a straight line basis over the periods of the respective terms. With regard to the group's accounting policy on impairment of assets, at each balance sheet date, the group will consider both internal and external sources of information to assess whether there is any indication that the fixed assets are impaired. Having done the assessment at 30 June 2006, the directors of the group are of the opinion that there is no indicator of the existence of impairment losses of which adjustments to the net book value of fixed assets are required.

15 September 2006

The Board of Directors
Pearl Oriental Innovation Limited
Unit 3611, 36/F
West Tower, Shun Tak Centre
168-200 Connuaght Road Central
Hong Kong

Dear Sirs,

Re: China Coal Energy Holdings Limited ("China Coal") together with Taiyuan Sanxing Coal Gasification (Group) Co., Ltd. and its subsidiaries (collectively "Taiyuan Sanxing Group") which collectively referred to as the "China Coal Group"

We set out below our report on the unaudited pro forma financial information (Pro Forma Financial Information") of the China Coal Energy Holdings Limited ("China Coal") together with Taiyuan Sanxing Coal Gasification (Group) Co., Ltd. and its subsidiaries (collectively "Taiyuan Sanxing Group") for inclusion in the circular dated 15 September 2006 issued by Pearl Oriental Innovation Limited (the "Company") in connection with the proposed acquisition of 40% interest in the share capital China Coal (the "Circular").

China Coal is a company incorporated in Hong Kong as a private company with limited liability on 12 July 2006 and has not carried on any business. The issued share capital of China Coal is HK$1. Pursuant to the Agreement in connection with the proposed acquisition of 40% interest in the share capital of China Coal by the Company, China Coal will acquire the entire equity interest of Taiyuan Sanxing Group before the completion.

For the purpose of preparing the Pro Forma Financial Information it is assumed that China Coal has been established and China Coal Group has been formed throughout the applicable period. The Pro Forma Financial Information has been prepared by the directors of China Coal, solely for illustrative purposes only, to provide information about how the proposed acquisition of entire equity interest in Taiyuan Sanxing Group might have affected the financial information of China Coal.

Responsibilities

The Pro Forma Financial Information is the sole responsibility of the directors of China Coal who approve their issuance. The Directors of the Company are responsible for the contents of the Circular in which this report is included.

It is our responsibility to form an opinion, as required by Rule 4.29(7) of the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements HKSIR 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the directors of China Coal. The engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Pro Forma Financial Information has been properly compiled by the directors of China Coal on the basis stated, that such basis is consistent with the accounting policies of the Company and that the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to Rule 4.29 of the Listing Rules.

The Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of China Coal, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

(a) the financial position of the China Coal Group as at 31 December 2005 or any future date; or

(b) the results of the China Coal Group for the financial year ended 31 December 2005 or any future period.

Opinion

In our opinion:

(a) The Pro Forma Financial Information has been properly compiled by the Directors of the China Coal on the basis stated;

(b) such basis is consistent with the accounting policies of the Company; and

(c) the adjustments are appropriate for the purposes of the Pro Forma Financial Information as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

Yours faithfully
Johnny Chan & Co. Limited
Certified Public Accountants
Hong Kong

Pro Forma Consolidated Balance Sheet

The following table is the pro forma consolidated balance sheet of the China Coal Group as at 31 December 2005, which has been prepared for the purposes of illustration as if the acquisition of the entire equity interest in Taiyuan Sanxing Group has been completed on 31 December 2005. It is based on the unaudited pro forma balance sheet of the China Coal as at 31 December 2005 and the audited consolidated balance sheet of Taiyuan Sanxing Group as at 31 December 2005 as extracted from accountants' report set out in Appendix II to this Circular.

The pro forma consolidated balance sheet is prepared to provide the unaudited pro forma financial information on the China Coal Group as if the completion of the proposed acquisition of entire equity interest in Taiyuan Sanxing Group had taken place on 31 December 2005. As it has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the China Coal Group as at 31 December 2005 or at any future date.

Pro Forma Consolidated Balance Sheet of the China Coal Group

	China Coal as at 31/12/2005 *(note 1)* *HK$'000*	**Taiyuan Sanxing Group as at 31/12/2005** *HK$'000*	**Pro forma adjustments** *(note 2)* *HK$'000*	**Pro forma China Coal Group** *HK$'000*
Non-current assets				
Investment in subsidiary	97,000	–	(97,000)	–
Mining rights	–	108,560		108,560
Land use rights	–	15,642		15,642
Construction in progress	–	9,136		9,136
Property, plant and equipment	–	334,917		334,917
	97,000	468,255		468,255
Current assets				
Inventories	–	30,608		30,608
Trade and other receivable	–	154,036		154,036
Fixed deposit	–	4,424		4,424
Cash and bank balances	3,000	5,895		8,895
	3,000	194,963		197,963

	China Coal as at 31/12/2005 *(note 1)* *HK$'000*	Taiyuan Sanxing Group as at 31/12/2005 *HK$'000*	Pro forma adjustments *(note 2)* *HK$'000*	Pro forma China Coal Group *HK$'000*
Current liabilities				
Bank overdraft	–	179		179
Short term bank loans	–	75,272		75,272
Trade and other payables	–	403,111		403,111
Tax payable	–	27,838		27,838
	–	506,400		506,400
Net current assets (liabilities)	3,000	(311,437)		(308,437)
Total assets less current liabilities	100,000	156,818		159,818
Non-current liabilities				
Bank loan	–	970		970
	–	970		970
NET ASSETS	100,000	155,848		158,848
CAPITAL AND RESERVES				
Share capital	100,000	–		100,000
Paid-up capital	–	97,000	(97,000)	–
Retained earnings	–	57,677		57,677
Equity attributable to equity holders of the company	100,000	154,677		157,677
Minority interests	–	1,171		1,171
TOTAL EQUITY	100,000	155,848		158,848

Note:

1. This represents the unaudited pro forma balance sheet of China Coal, on the assumption that China Coal has increased its share capital to HK$100 million and has completed the acquisition of the entire equity interest in Taiyuan Sanxing Group at a total consideration of RMB100 million (approximately HK$97 million) as at 31 December 2005.

2. This represents the elimination of the relevant items on consolidation.

Pro Forma Consolidated Income Statement

The following table is the pro forma consolidated income statement of the China Coal Group for the year ended 31 December 2005, which has been prepared for the purposes of illustration as if the acquisition of entire equity interest in Taiyuan Sanxing Group has been completed at the beginning of the financial year ended 31 December 2005. It is based on the the unaudited pro forma income statement of China Coal for the year ended 31 December 2005 and the audited consolidated income statement of the Taiyuan Sanxing Group for the year ended 31 December 2005 as set out in Appendix II to this Circular.

The pro forma consolidated income statement is prepared to provide the unaudited pro forma financial information on the China Coal Group as if the completion of the acquisition of entire equity interest in Taiyuan Sanxing Group had taken place at the beginning of the financial year ended 31 December 2005. As it has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the results of the Chian Coal Group as at 31 December 2005 or any future period.

Pro Forma Consolidated Income Statement of the China Coal Group

	China Coal year ended 31/12/2005	**Taiyuan Sanxing Group year ended 31/12/2005**	**Pro forma adjustments** *(note 1)*	**Pro forma China Coal Group**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	–	358,454		358,454
Cost of sales	–	(256,830)		(256,830)
Gross profit	–	101,624		101,624
Other revenue	–	3,080		3,080
Negative goodwill	–	2,399		2,399
Selling and distribution expenses	–	(14,873)		(14,873)
Administrative expenses	–	(20,681)		(20,681)
Finance costs	–	(7,600)		(7,600)
Profit before taxation	–	63,949		63,949
Income tax	–	(20,576)		(20,576)
Profit for the year	–	43,373		43,373
Attributable to:				
Equity holder of the Company	–	38,748		38,748
Minority interest	–	4,625		4,625
	–	43,373		43,373

Note:

1. No pro forma adjustment is required.

The following is the text of the accountants' report received from Johnny Chan & Co, Limited, the independent reporting accountants, for inclusion in this circular, in respect of the unaudited pro forma financial information of the Enlarged Group as set out in this Appendix to the circular.

15 September 2006

The Board of Directors
Pearl Oriental Innovation Limited
Unit 3611, 36/F
West Tower, Shun Tak Centre
168-200 Connuaght Road Central
Hong Kong

Dear Sirs,

Pearl Oriental Innovation Limited (the "Company") and its subsidiaries (collectively referred to as the "Group")

We report on the unaudited pro forma financial information ("Pro Forma Financial Information") of the Group together with China Coal Energy Holdings Limited and its subsidiaries (collectively "China Coal Group"), referred to as the "Enlarged Group" set out on pages 107 to 113 in Appendix IV of the Company's circular (the "Circular") dated 15 September 2006, which has been prepared by the directors of the Company, solely for illustrative purposes only, to provide information about how the proposed acquisition of 40% equity interest in China Coal Group might have affected the financial information of the Group.

Responsibilities

It is the responsibility solely of the Directors of the Company to prepare the Pro Forma Financial Information in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to AG 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by Rule 4.29(7) of the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements HKSIR 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the directors of the Company. The engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Pro Forma Financial Information has been properly compiled by the Directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to Rule 4.29 of the Listing Rules.

The Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the Directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

(a) the financial position of the Enlarged Group as at 31 March 2006 or any future date; or

(b) the results of the Enlarged Group for the financial year ended 31 March 2006 or any future period.

Opinion

In our opinion:

(a) The Pro Forma Financial Information has been properly compiled by the Directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Pro Forma Financial Information as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

Yours faithfully
Johnny Chan & Co. Limited
Certified Public Accountants
Hong Kong

Pro Forma Consolidated Balance Sheet

The following table is the pro forma consolidated balance sheet of the Enlarged Group as at 31 March 2006, which has been prepared for the purposes of illustration as if the acquisition of 40% equity interest in China Coal Group has been completed on 31 March 2006. It is based on the audited consolidated balance sheet of the Group as at 31 March 2006 as set out in Appendix I to this Circular and the unaudited pro forma consolidated balance sheet of China Coal Group as at 31 December 2005 as set out in Appendix III to this Circular.

The pro forma consolidated balance sheet is prepared to provide the unaudited pro forma financial information on the Enlarged Group as if the completion of the proposed acquisition of 40% equity interest in China Coal Group had taken place on 31 March 2006. As it has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group as at 31 March 2006 or at any future date.

Pro Forma Consolidated Balance Sheet of the Enlarged Group

	The Group as at 31/3/2006	**Pro forma adjustments** *(note 1)*	**Pro forma Enlarged Group**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets			
Property, plant and equipment	95,593		95,593
Land lease premium – non-current portion	18,668		18,668
	114,261		114,261
Interests in associate	–	395,620	395,620
	114,261		509,881
Current assets			
Trade and other receivables	25,521		25,521
Loans receivable	25		25
Land lease premium – current portion	526		526
Available-for-sale securities	12,412		12,412
Amounts due from minority shareholders of subsidiaries	89		89
Amounts due from an investee company	2,168		2,168
Cash and cash equivalents	1,785	(1,785)	–
	42,526		40,741

	The Group as at 31/3/2006	Pro forma adjustments *(note 1)*	Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*
Current liabilities			
Trade and other payables	14,016	98,215	112,231
Amounts due to related companies	130		130
Short-term bank loans	85,654		85,654
Other short-term loans	3,226		3,226
Current taxation	54		54
	103,080		201,295
Net current liabilities	(60,554)		(160,554)
NET ASSETS	53,707		349,327
CAPITAL AND RESERVES			
Share capital	54,381	758	55,139
(Deficits)/Reserves	(4,698)	294,862	290,164
Equity attributable to equity holders of the company	49,683		345,303
Minority interests	4,024		4,024
TOTAL EQUITY	53,707		349,327

Note:

1. These represent the financial effect of the acquisition of 40% interest in the share capital of China Coal at a total consideration of HK$395.62 million. The settlement of the consideration includes (i) cash consideration of HK$100 million to be satisfied by the Group's cash and cash equivalents as at 31 March 2006 amounting to approximately HK$1,785,000 and the remainder of approximately HK$98,215,000 financed through trade and other payable; and (ii) the balance of consideration amounting to approximately HK$295,620,000 is satisfied by the allotment and issue of 75,800,000 Company's shares ("Consideration Shares") at a price of HK$3.90 per share, resulting in share premium of approximately HK$294.86 million.

Pro Forma Consolidated Income Statement

The following table is the pro forma consolidated income statement of the Enlarged Group for the year ended 31 March 2006, which has been prepared for the purposes of illustration as if the acquisition of 40% equity interest in China Coal Group has been completed at the beginning of the financial year ended 31 March 2006. It is based on the audited consolidated income statement of the Group for the year ended 31 March 2006 as set out in Appendix I to this Circular and the unaudited pro forma consolidated income statement of China Coal Group for the year ended 31 December 2005 as set out in Appendix III to this Circular.

The pro forma consolidated income statement is prepared to provide the unaudited pro forma financial information on the Enlarged Group as if the completion of the proposed acquisition of 40% equity interest in China Coal Group had taken place at the beginning of the financial year ended 31 March 2006. As it has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the results of the Enlarged Group as at 31 March 2006 or any future period.

Pro Forma Consolidated Income Statement of the Enlarged Group

	The Group	**Pro forma adjustments**	**Pro forma Enlarged Group**
		(note 1)	
	HK$'000	*HK$'000*	*HK$'000*
Turnover	75,157		75,157
Cost of sales	(54,207)		(54,207)
Gross profit	20,950		20,950
Other revenue and net income	9,131		9,131
Selling and distribution expenses	(4,732)		(4,732)
General and administrative expenses	(27,550)		(27,550)
(Loss) from operations	(2,201)		(2,201)
Finance costs	(6,138)		(6,138)
Finance lease charges	(17)		(17)
Gain on disposal of subsidiaries	11,478		11,478
Impairment loss of deposit and other loans receivable	(72,300)		(72,300)
Impairment loss of buildings	(5,468)		(5,468)
Impairment loss of goodwill	(1,884)		(1,884)
Share of results of an associate	–	17,349	17,349
Loss before taxation	(76,530)		(59,181)
Income tax	(1,039)		(1,039)
Loss for the year	(77,569)		(60,220)

	The Group	Pro forma adjustments	Pro forma Enlarged Group
		(note 1)	
	HK$'000	*HK$'000*	*HK$'000*
Attributable to:			
Equity attributable to equity holders of the company	(78,276)	17,349	(60,927)
Minority interests	707		707
TOTAL EQUITY	(77,569)		(60,220)

Note:

1. This represents the financial effect of the share of the unaudited pro forma consolidated results of China Coal Group.

Pro Forma Consolidated Cash Flow Statement

The following table is the pro forma consolidated cash flow statement of the Enlarged Group for the year ended 31 March 2006, which has been prepared for the purposes of illustration as if the acquisition of 40% equity interest in China Coal Group has been completed at the beginning of the financial year ended 31 March 2006. It is based on the audited consolidated income statement of the Group for the year ended 31 March 2006 as set out in Appendix I to this Circular and the unaudited pro forma consolidated income statement of China Coal Group for the year ended 31 December 2005 as set out in Appendix III to this Circular."

The pro forma consolidated cash flow statement is prepared to provide the unaudited pro forma financial information on the Enlarged Group as if the completion of the proposed acquisition of 40% equity interest in China Coal Group had taken place at the beginning of the financial year ended 31 March 2006. As it has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the cash flows of the Enlarged Group as at 31 March 2006 or any future period.

Pro Forma Consolidated Cash Flow Statement of the Enlarged Group

	The Group	Pro forma adjustments	Pro forma Enlarged Group
		(note 1)	
	HK$'000	*HK$'000*	*HK$'000*
Operating activities			
Loss before taxation	(76,530)	17,536	(58,994)
Adjustments for:			
Impairment loss of building	5,468		5,468
Impairment loss of goodwill	1,884		1,884
Impairment loss of deposit and other loans receivable	72,300		72,300
Depreciation	4,358		4,358
Amortisation of land lease premium	526		526
Finance costs	6,138		6,138
Finance lease charges	17		17
Bank interest income	(4)		(4)
Interest from loans receivable	(2,416)		(2,416)
Overprovision of taxation in prior years	(677)		(677)
Overprovision of provident fund and insurance in prior years	(92)		(92)
Overprovision of legal fee in prior years	(1,000)		(1,000)
Share of results of an associate	–	(17,536)	(17,536)
Gain on disposal of fixed assets	(24)		(24)
Gain on disposal of subsidiaires	(11,478)		(11,478)
Equity settled share-based transactions	3,125		3,125
Operating profit before changes in working capital	1,595		1,595
Increase in trade and other receivables	(5,056)		(5,056)
Increase in amount due from an investee company	(2,168)		(2,168)
Increase in trade and other payables	3,396		3,396
Cash used in operations	(2,233)		(2,233)
Tax paid –			
Profits tax and PRC enterprise income tax paid	(1,236)		(1,236)

	The Group	Pro forma adjustments	Pro forma Enlarged Group
		(note 1)	
	HK$'000	*HK$'000*	*HK$'000*
Net cash used in operating activities	(3,469)		(3,469)
Investing activities			
New Loans receivable	(23,500)		(23,500)
Payment for purchase of fixed assets	(1,389)		(1,389)
Payment of deposit	(42,000)		(42,000)
Proceeds from disposal of fixed assets	413		413
Payment to acquire interest in an associate	–	(4,183)	(4,183)
Disposal of subsidiaries	(212)		(212)
Repayment of loans receivable	64,819		64,819
Interest received from loans receivable	5,970		5,970
Interest received from bank	4		4
Net cash generated from (used in) investing activities	4,105		(78)
Financing activities			
Payment of bank loan interests	(5,694)		(5,694)
Payment of other loan interests	(151)		(151)
Payment of bank interests	(10)		(10)
Repayment of bank loans	(86,009)		(86,009)
Finance lease charges paid	(17)		(17)
Advance from minority interest	50		50
Repayment of obligations under a finance lease	(124)		(124)
Repayment from ultimate holding company	29		29
Advance from holding company	59		59
New bank loans raised	86,875		86,875
New Other loans raised	3,226		3,226
Net cash used in financing activities	(1,766)		(1,766)
Net decrease in cash and cash equivalents	(1,130)		(5,313)
Cash and cash equivalents at 1 April 2005	4,183		4,183
Effect of foreign exchange rate changes	(1,268)		(1,268)
Cash and cash equivalents at 31 March 2006	1,785		(2,398)

Note:

1. These represent the financial effect of the acquisition of 40% interest in the share capital of China Coal at a total consideration of HK$395.62 million. The settlement of the consideration includes HK$100 million payable in cash to be satisfied by the Group's cash and cash equivalents as at 31 March 2005 amounted to approximately HK$4,183,000. The remainder of the cash payment is to be financed through trade and other payable and the balance of consideration is satisfied by the allotment and issue of 75,800,000 Company's shares ("Consideration Shares") at a price of HK$3.90 per share, resulting in share premium of approximately HK$294.86 million are non-cash transactions and have no impact on the cash flows.

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this circular received from BMI Appraisals Limited, an independent valuer, in connection with its valuations as at 30 June 2006 of the properties held by the Enlarged Group.

BMI APPRAISALS

BMI Appraisals Limited 中和邦盟評估有限公司

Suite 11-18, 31/F., Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong
香港灣仔港灣道6-8號瑞安中心3111-18室
Tel電話：(852) 2802 2191 Fax傳真：(852) 2802 0863
Email電郵：info@bmintelligence.com Website網址：www.bmintelligence.com

15 September 2006

The Directors
Pearl Oriental Innovation Limited
Unit 3611, 36th Floor
West Tower, Shun Tak Centre
No. 168 – 200 Connaught Road Central
Hong Kong

Dear Sirs

INSTRUCTIONS

We refer to the instructions from Pearl Oriental Innovation Limited (the "Company") to value the properties held by China Coal Energy Holdings Limited ("China Coal") and its subsidiaries (together referred to as ("China Coal Group") located in the People's Republic of China (the "PRC") and the properties held by the Company and its subsidiaries (together referred to as the "Group") located in the PRC and Hong Kong. We confirm that we have performed inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the properties as at 30 June 2006 (the "date of valuation").

BASIS OF VALUATION

Our valuations of the concerned properties have been based on the Market Value, which is defined as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

PROPERTY CATEGORIZATION

In the course of our valuations, the portfolio of properties is categorized into the following groups:–

Group I	Properties held by China Coal Group in the PRC
Group II	Properties leased by China Coal Group in the PRC
Group III	Property held by the Group in the PRC
Group IV	Properties leased by the Group in the PRC
Group V	Properties leased by the Group in Hong Kong

VALUATION METHODOLOGY

Groups I and III

For Property Nos. 1 and 5, owing to the inherent nature of usage and lack of market sales comparables for the properties, these properties have been valued on the basis of their Depreciated Replacement Costs. Depreciated replacement cost is defined as "the aggregate amount of the value of the land for the existing use or a notional replacement site in the same locality and the new replacement cost of the buildings and other site works, from which appropriate deductions may then be made to allow for the age, condition, economic or functional obsolescence and environmental factors etc; all of these might result in the existing property being worth less to the undertaking in occupation than would a new replacement". This basis has been used due to the lack of an established market upon which to base comparable transactions, which generally furnishes the most reliable indication of values for assets without a known used market.

For Property No. 2, we have valued it on the open market basis by the Comparison Approach assuming sale in the existing state with the benefit of vacant possession and by making reference to comparable sales evidence as available in the relevant market.

Groups II, IV and V

We have attributed no commercial value to the properties, which are leased by the China Coal Group and the Group, due either to the short-term nature of the tenancies or due to the prohibition against sub-lettings or the lack of substantial amount of profit rents.

TITLE INVESTIGATION

We have been, in some instances, provided by the Group with extracts of the title documents relating to the properties in the PRC and have caused searches to be made at the Hong Kong Land Registry in respect of the Hong Kong properties. Where possible, we have searched the original documents to verify the existing titles to the properties in the PRC and any material encumbrances that might be attached to the properties or any lease amendments which may not appear on the copies handed to us. In the course of our valuations, we have relied on the advice and information given by the Group and its PRC legal advisor regarding the validity of the title concerning the properties in the PRC. All documents have been used for reference only.

In the PRC, upon the transfer of the properties by whatever means, the purchaser or successor of the properties (either in land or buildings or both) should apply to the local relevant government bureau or authority (e.g. State-owned Land Use Rights Resources Bureau or Real Estate Administration Bureau) for either a set of Building Ownership Certificate plus State-owned Land Use Rights Certificate or Real Estate Title Certificate as a proof of legal ownership of the estate; and through such registration procedures their interests will be protected under the PRC laws. For some big cities in mainland such as Guangzhou, Shenzhen and Shanghai, there exists a system available to the public to check the registration records for a particular property; yet such system does not cover all of the properties within the city and it only provides merely a search record containing some basic information such as property type, area, land use rights and the encumbrances. In other mainland cities, such records are limited to particular parties like the PRC legal advisers. In addition, original documents should be ascertained through the property owners and the PRC legal advisers are relied upon to check the legality and validity of the documents. Therefore, we rely heavily on the legal opinion provided by the PRC legal advisers regarding the PRC properties.

VALUATION ASSUMPTIONS

Our valuations have been made on the assumption that the properties are sold in the open market in its existing state without the benefit of deferred terms contract, leaseback, joint venture, management agreement of any similar arrangement which might serve to affect the values of the properties.

In addition, no account has been taken of any option or right of pre-emption concerning or effecting sale of the properties and no forced sale situation in any manner is assumed in our valuations.

In valuing the properties unless otherwise stated in the relevant valuation certificates, we have assumed that the owners have valid and enforceable title to the properties which are freely transferable, and have free and uninterrupted right to use the same, for the whole of the unexpired term granted subject to the payment of annual government rent/land use fees and all requisite land premium/purchase consideration payable have been fully settled.

VALUATION CONSIDERATIONS

We have inspected the exterior and wherever possible, the interior of the properties. During the course of our inspections, we did not note any serious defects. However, no structural surveys have been made nor have any tests been carried out on any of the services provided in the properties. We are, therefore, unable to report that the properties are free from rot, infestation or any other structural defects.

We have relied to a considerable extent on the information provided by the Group and have accepted advice given to us by the Group and the PRC legal advisers in such matters as approvals or statutory notices, easements, tenure, particulars of occupancy, site/floor areas, identification of the properties and other relevant information.

We have not carried out detailed on-site measurements to verify the correctness of the site/floor areas in respect of the properties but have assumed that the site/ floor areas shown on the documents handed to us are correct.

Except otherwise stated, all dimensions, measurements and areas included in the valuation certificates are based on information contained in the documents provided to us by the Group and are therefore approximations.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group and the Group has also advised us that no material facts have been omitted from the information so supplied. We consider that we have been provided with sufficient information for us to reach an informed view.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the properties or for any expenses or taxation, which may be incurred in effecting a sale or purchase.

Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the properties, we have complied with the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Appraisal and Valuation Standards (5th Edition) published by The Royal Institution of Chartered Surveyors effective from May 2003; and the HKIS Valuation Standards on Properties (First Edition) published by The Hong Kong Institute of Surveyors effective from 1 January 2005.

REMARKS

Unless otherwise stated, all money amounts stated are in Renminbi (RMB).

Our summary of values and the valuation certificates are attached herewith.

Yours faithfully
For and on behalf of
BMI APPRAISALS LIMITED
Joannau W.F. Chan
BSc. MRICS MHKIS RPS (GP)
Director

Note:

Ms. Joannau W.F. Chan is a Chartered Surveyor who has over 13 years' experience in valuations of properties in Hong Kong and over 7 years' experience in valuations of properties in the People's Republic of China.

SUMMARY OF VALUES

No.	Property	Market Value in existing state as at 30 June 2006 *RMB*	Interest attributable to the Enlarged Group after completion of acquisition	Value attributable to the Enlarged Group as at 30 June 2006 *RMB*
Group I – Properties held by China Coal Group in the PRC				
1.	An industrial complex located at No. 1 Cai Yuan Street Yang Qu County Tai Yuan City Shanxi Province the PRC	39,000,000	40%	15,600,000
2.	A service apartment located at West end of Qin Xian Street Tai Yuan City Shanxi Province the PRC	No Commercial Value	40%	Nil
	Sub-total:	**39,000,000**		**15,600,000**
Group II – Properties leased by China Coal Group in the PRC				
3.	Block 2 and a warehouse, located at Qin Xian Street Tai Yuan City Shanxi Province the PRC	No Commercial Value	40%	Nil
4.	A service apartment located at No. 195 Ping Yang Road, Tai Yuan City Shanxi Province the PRC	No Commercial Value	40%	Nil
	Sub-total:	**Nil**		**Nil**

SUMMARY OF VALUES

No.	Property	Market Value in existing state as at 30 June 2006 *RMB*	Interest attributable to the Enlarged Group after completion of acquisition	Value attributable to the Enlarged Group as at 30 June 2006 *RMB*
Group III – Property held by the Group in the PRC				
5.	A godown development located at Futian Free Trade Zone Shenzhen the PRC	110,000,000	100%	110,000,000
	Sub-total:	**110,000,000**		**110,000,000**
Group IV – Properties leased by the Group in the PRC				
6.	Block Nos. B1, B2, B6, B8, C2, C3, F8, F9 and F10, No. 9 Courtyard Mupo Military Base Xintang Street Tianhe District Guangzhou City Guangdong Province the PRC	No Commercial Value	60%	Nil
7.	Unit 01 on 15th Floor Block A 朗庭豪園 No. 7 Guihua Road Free Trade Zone Shenzhen the PRC	No Commercial Value	100%	Nil

SUMMARY OF VALUES

No.	Property	Market Value in existing state as at 30 June 2006 *RMB*	Interest attributable to the Enlarged Group after completion of acquisition	Value attributable to the Enlarged Group as at 30 June 2006 *RMB*
8.	Warehouse 2nd Group of Xinmiao Village Cuqiao Xiang Wuhou District Chengdu City Xichuan Province the PRC	No Commercial Value	60%	Nil
9.	Warehouse and office Beijing Xinhuayi Yuan Logistic Park Hengjiezi Village No. 18 Lidian Xiang Chaoyang District Beijing the PRC	No Commercial Value	60%	Nil
10.	3rd Zone Storage Area No. 3 Cotton Fiber Warehouse No. 487 Yingbin Middle Main Road Nanchang City Jiangxi Province the PRC	No Commercial Value	60%	Nil
11.	Warehouse No. 402 Shefu Road Nangang District Harbin City Heilongjiang Province the PRC	No Commercial Value	60%	Nil
	Sub-total:	**Nil**		**Nil**

SUMMARY OF VALUES

No.	Property	Market Value in existing state as at 30 June 2006 *RMB*	Interest attributable to the Enlarged Group after completion of acquisition	Value attributable to the Enlarged Group as at 30 June 2006 *RMB*
Group V – Properties leased by the Group in Hong Kong				
12.	Suite 1908 19th Floor Nine Queen's Road Central Hong Kong	No Commercial Value	100%	Nil
13.	Unit 3611 36th Floor West Tower Shun Tak Centre Nos. 168-200 Connaught Road Central Hong Kong	No Commercial Value	100%	Nil
	Sub-total:	**Nil**		**Nil**
	Total:	**149,000,000**		**125,600,000**

VALUATION CERTIFICATE

Group I – Properties held by China Coal Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 June 2006 *RMB*
1.	An industrial complex located at No. 1 Cai Yuan Street Yang Qu County Tai Yuan City Shanxi Province the PRC	The property comprises two land parcels (Land Parcels I and II) with a total site area of approximately 513,335.7 sq.m. (or about 770 mu) upon which a 5-storey office building, a 2-storey industrial building and a 5-storey dormitory building completed in between 2004-2005 were erected. The total gross floor area ("GFA") of the buildings is approximately 7,017 sq.m. (or about 75,530.99 sq.ft.). The land use rights of Land Parcel I of the property have been granted for a term of 50 years commencing on 29 September 2005 and expiring on 29 September 2055 for industrial uses.	The property is occupied for industrial, ancillary office and dormitory uses.	39,000,000 (40% interest attributable to the Enlarged Group after completion of acquisition: RMB15,600,000)

Notes: –

1. Pursuant to a Reply Letter (關於太原市三興煤炭氣化有限公司焦爐易地技改項目所涉事宜的覆函), Yang Zhen Han (2003) No. 2, issued by Yang Qu County People's Government (陽曲縣人民政府) dated 3 June 2003, the government agreed to grant the land use rights of a land parcel with a site area of approximately 770mu to Taiyuan Sanxing Coal Gasification (Group) Co., Ltd. (太原市三興煤炭氣化有限公司) ("Taiyuan Sanxing") for development uses at a cost of RMB22,000 per mu.

2. Pursuant to a Shanxi Province People's Government Land Approval Document (山西省人民政府土地審批文件), Pu Zheng Di (Wan Shan) Zi [2006] No. 144 dated 20 March 2006, issued by Shanxi Province People's Government (山西省人民政府), the government agreed to grant the land use rights of Land Parcel I with a site area of approximately 39.2568 hectares to Taiyuan Sanxing for development uses for a term of 50 years.

3. Pursuant to a State-owned Land Use Rights Certificate, Yang Guo Yung (2005) Zi Di No. 041 registered on 29 September 2005 issued by the People's Republic of China Land Resources Administration Bureau (中華人民共和國國土資源管理局), the land use rights of Land Parcel I of the property with a site area of approximately 392,569.96 sq.m. is legally vested in Taiyuan Sanxing for a term of 50 years commencing on 29 September 2005 and expiring on 29 September 2055 for industrial uses.

4. Pursuant to a Construction Land Planning Permit (建設用地規劃許可証), No. 2003006 dated 30 July 2003 issued by Yang Qu County Town Construction Environmental Protection Bureau (陽曲縣城鄉建設環境保護局), land parcels of the property with a site area of approximately 51.3 hectares is permitted to be developed for development uses.

5. Pursuant to a Construction Land Permit (建設用地批准書), Ta Yuan Shi Yang Qu Xian [2004] Zi Di No. 58 dated 10 May 2004 issued by Yang Qu County Land Resources Bureau (陽曲縣國土資源局), construction works for industrial use is permitted to be commenced on Land Parcel I of the property with a site area of approximately 392,568 sq.m..

6. As per information provided by the Group, the property included the following land parcels and buildings:

Land Parcels	Site Area (sq.m.)	Uses	Title Certificate	Date of Acquisition
Land Parcel I	392,569.96	Industrial	State-owned Land use Rights certificate, Yang Guo Yung (2005) Zi Di No. 041	3 June 2003 *(see note 1)*
Land Parcel II	120,765.74	Industrial	Under application	3 June 2003 *(see note 1)*
Total:	513,335.70			

Buildings	Gross Floor Area (sq.m.)	Construction Costs	Title Certificate	Date of Completion
5-storey Office	3,248	RMB2,937,059.60	Under application	November 2005
5-storey Dormitory	2,746	RMB4,725,002.70	Under application	November 2005
2-storey Workshop	1,023	RMB607,571.82	Under application	October 2004
Total:	7,017	RMB8,269,634.12		

7. The status of title and grant of major approvals and licences in accordance with the information provided by the Group are as follows:

Reply Letter	Yes
Shanxi Province People's Government Land Approval Document	Yes
State-owned Land Use Rights Certificate	Yes (Land Parcel I)
Construction Land Planning Permit	Yes
Construction Land Permit	Yes
Building Ownership Certificate	No

8. In the valuation of this property, we have attributed no commercial value to Land Parcel II with a site area of approximately 120,765.74 sq.m. and 3 buildings with a total gross floor area of approximately 7,017 sq.m. which have not been granted with any proper title certificates. However, for reference purposes, we are of the opinion that the market values of Land Parcel II and the buildings, assuming all relevant title documents have been obtained, as at the date of valuation would be approximately in the sum of RMB12,000,000 and RMB8,000,000 respectively.

9. As advised by the Group, Taiyuan Sanxing is in the process of applying for the relevant title documents for Land Parcel II and the buildings as mentioned in Note 8 above.

10. As advised by the Group, as the land premium of RMB12,954,700 for Land Parcel I of the property has not been fully settled. The outstanding land premium of RMB3,066,792 will be settled by China Coal Group by the end of 2006 in accordance with the installment terms as stated in the relevant document as mentioned in Note 1.

11. The opinion of the PRC legal adviser to the Group contains, inter alia, the following:

   a. The land use rights of Land Parcel I of the property with a site area of 392,569.96 sq.m. are legally vested in Taiyuan Sanxing which has obtained all approvals from the relevant government authority for the use and occupation of Land Parcel I during the lease term and may lease, transfer, mortgage or otherwise handle the land use rights of Land Parcel I of the property;

   b. Taiyuan Sanxing should settle all the required land premium (RMB22,000 per mu as mentioned in Note 1) and relevant expenses and to apply for the State-owned Land Use Rights Certificate for Land Parcel II with a site area of approximately 120,765.74 sq.m.), of the property; and

   c. There would exist no legal impediments for Taiyuan Sanxing in obtaining the relevant State-owned Land Use Rights Certificate and Building Ownership Certificates for Land Parcel II and the buildings of the property upon settlement of all the requisite considerations/land premium.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 June 2006 *RMB*
2.	A service apartment located at West end of Qin Xian Street Tai Yuan City Shanxi Province the PRC	The property comprises a land parcel with a site area of approximately 3,210.1 sq.m. (or about 34,553.52 sq.ft.) upon which a 9-storey and a 6-storey residential apartment buildings completed in about 1999 were erected. The total gross floor area ("GFA") of the buildings is approximately 9,594.04 sq.m. (or about 103,270.25 sq.ft.). The land use rights of the property have been granted for a term of 40 years for commercial/services uses.	The property is occupied as a service apartment.	No Commercial Value (40% interest attributable to the Enlarged Group after completion of acquisition: Nil)

Notes: –

1. Pursuant to a Real Estate Transfer Agreement (房地產轉讓協議書), dated 17 February 2005 entered into between 山西省移民培訓中心 (Shanxi Province Training Centre for Landed Immigrants) (the "Vendor I"), 山西省移民辦公室 (Shanxi Province Immigration Office) (the "Vendor II") and Taiyuan Sanxing (the "Purchaser"), Vendor I and Vendor II agreed to transfer to the Purchaser the land use rights of the property with a site area of approximately 3,210.1 sq.m. for commercial/services uses and the building ownership rights of two buildings with a total gross floor area of approximately 9,594.04 sq.m. at a total consideration of RMB61,000,000.

2. In our valuation, we have attributed no commercial value to the property which has not been granted with any proper title certificates. However, for reference purposes, we are of the opinion that the market value of the buildings, assuming all relevant title documents have been obtained, as at the date of valuation would be approximately in the sum of RMB63,000,000.

3. As advised by the Group, Taiyuan Sanxing is in the process of applying for the relevant title documents for the property as mentioned in Note 2 above.

4. As advised by the Group, as the total consideration of RMB61,000,000 for the property has not been fully settled and the title documents are yet to be obtained. The outstanding consideration of RMB8,830,000 will be settled by the end of 2006 in accordance with the installment terms as stated in the relevant agreement as mentioned in Note 1 and Taiyuan Sanxing is in the process of applying for the relevant title documents for the property.

5. The opinion of the PRC legal adviser to the Group contains, inter alia, the following:

    a. Taiyuan Sanxing should settle all the considerations regarding the transfer of the property and to complete the legal title conveyancing process by changing the name of owner stated in the existing title documents; and

    b. There would exist no legal impediments for Taiyuan Sanxing in obtaining the relevant State-owned Land Use Rights Certificate and Building Ownership Certificates for the property upon settlement of all the requisite considerations/land premium.

VALUATION CERTIFICATE

Group II – Properties leased by China Coal Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 June 2006 *RMB*
3.	Block 2 and a warehouse, located at Qin Xian Street Tai Yuan City Shanxi Province the PRC	The property comprises a multi-storey office building and a multi-storey warehouse with a total gross floor area of approximately 450 sq.m. (or about 4,843.8 sq.ft.). The property is rented by 海上綠洲大酒店 (Seaside Greenland Great Hotel) from 太原市弘慶工貿公司 under a tenancy agreement dated 25 March 2005 for a term of 5 years commencing on 1 March 2005 and expiring on 28 February 2010 at an annual rent of RMB110,000.	The property is occupied for office and storage uses.	No Commercial Value (40% interest attributable to the Enlarged Group after completion of acquisition: Nil)

Notes:–

1. The tenant of the property is 海上綠洲大酒店 (Seaside Greenland Great Hotel), which is a 100%-owned subsidiary of China Coal.

2. The legal opinion of the PRC legal advisor to the Group contains, inter alia, the following:

   a. The tenancy is legal, binding and enforceable and the rights of both the lessor and lessee are protected under the PRC laws. 海上綠洲大酒店 (Seaside Greenland Great Hotel) has the rights to use and occupy the property during the lease term, save and except the rights to sub-lease, mortgage and transfer; and

   b. The tenancy has not been registered with the relevant government authority. The government authority may order the parties to complete the registration procedures and may impose penalty. However, registration is not a condition for the tenancy to become binding between the two parties.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 June 2006 *RMB*
4.	A service apartment located at No. 195 Ping Yang Road, Tai Yuan City Shanxi Province the PRC	The property comprises a multi-storey residential building with a gross floor area of approximately 1,000 sq.m. (or about 10,764 sq.ft.). The property is rented by 太原海上綠洲大酒店有限公司 (Taiyuan Seaside Greenland Great Hotel Co. Ltd.) from 王明生 under a tenancy agreement dated 6 April 2005 for a term of 3 years commencing on 16 March 2005 and expiring on 15 March 2008 at an annual rent of RMB72,000 inclusive of water and heat charges.	The property is occupied for industrial and storage uses.	No Commercial Value (40% interest attributable to the Enlarged Group after completion of acquisition: Nil)

Notes:–

1. The tenant of the property is太原海上綠洲大酒店有限公司 (Taiyuan Seaside Greenland Great Hotel Co. Ltd.), which is a 100%-owned subsidiary of China Coal.

2. The legal opinion of the PRC legal advisor to the Group contains, inter alia, the following:

   a. The tenancy is legal, binding and enforceable and the rights of both the lessor and lessee are protected under the PRC laws. 太原海上綠洲大酒店有限公司 (Taiyuan Seaside Greenland Great Hotel Co. Ltd.) has the rights to use and occupy the property during the lease term, save and except the rights to sub-lease, mortgage and transfer; and

   b. The tenancy has not been registered with the relevant government authority. The government authority may order the parties to complete the registration procedures and may impose penalty. However, registration is not a condition for the tenancy to become binding between the two parties.

VALUATION CERTIFICATE

Group III – Property held by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 June 2006 *RMB*
5.	A godown development located at Futian Free Trade Zone Shenzhen Guangdong Province the PRC	The property comprises an 8-storey (including four mezzanine floors) purpose-built godown building, completed in 1997, erected on a parcel of land with a site area of approximately 10,066 sq.m.. The total gross floor area ("GFA") of the godown building is approximately 24,165 sq.m. (or about 260,112.06 sq.ft.) and the details of which are summarized as below:	The property is occupied by the Group as a godown and associated logistic service centre.	110,000,000 (100% interest attributable to the Enlarged Group after completion of acquisition: RMB110,000,000

Level	Uses	GFA (sq.m.)
1st	Entrance hall, Loading/unloading bays, and high bay warehouse	5,045
2nd (Mezz./F)	Exhibition area	1,153
3rd (Mezz./F)	Storage	1,814
4th (Mezz./F)	Storage	1,995
5th	Storage	5,045
6th (Mezz./F)	Packaging workshop	1,366
7th	Storage and office	5,045
8th	Office, storage and common room	2,702
	Total:	**24,165**

The land use rights of the property have been granted for a term of 50 years commencing on 31 July 1993 and expiring on 30 July 2043 for warehouse uses.

Notes:–

1. Pursuant to a Land Use Rights Contract, Shen Fu Bao Di Zi No. 7 dated 31 July 1993, entered into between Shenzhen City Futian Free Trade Zone Committee and Good Value Holdings Limited (有利實業有限公司), a wholly-owned subsidiary of the Company, the former has granted the land use rights of the property with a site area of 10,066.186 sq.m. to the latter for a term of 50 years commencing on 31 July 1993 and expiring on 30 July 2043 for warehouse uses.

2. Pursuant to 7 Real Estate Title Certificates Nos. 9000404 to 9000410 all registered on 5 January 2005, the property with a total gross floor area of approximately 24,165.65 sq.m. and a site area of approximately 10,066 sq.m. is legally vested in DiChain Logistics Services (Shenzhen) Co. Ltd. (迪辰倉儲服務(深圳)有限公司), a wholly-owned subsidiary of the Company, for a term of 50 years commencing on 31 July 1993 and expiring on 30 July 2043 for warehouse uses.

3. Pursuant to the Other Encumbrance Rights Summaries to the above Real Estate Title Certificates, the property is subject to a mortgage dated 20 March 2003 for loans granted to the Group in favour of Shenzhen City Commercial Bank – Shekou Branch.

4. Pursuant to a Mortgage Contract dated 25 January 2005, the property is subject to a renewed mortgage in favour of Shenzhen City Commercial Bank -Shekou Branch for a term of 1 year commencing on 28 January 2005, which has been extended for a further period of 9 months expiring on 28 October 2006.

5. The status of title and grant of major approvals and licences in accordance with the information provided by the Group are as follows:

Land Use Rights Contract	Yes
Real Estate Title Certificates	Yes

6. The opinion of the PRC legal adviser to the Group contains, inter alia, the following:

   a. The property is legally vested in the Group;

   b. The property is not subject to any other material encumbrances except the aforesaid mortgage; and

   c. All land premium and other costs of utility services have been settled in full.

7. We have prepared our valuation based on the following assumptions:

   a. The Group is in possession of a proper legal title to the property and are entitled to transfer the property with its residual term of land use rights at no extra land premium or other onerous payment payable to the government;

   b. All land premium and other costs of ancillary utility services have been settled in full;

   c. The property is not subject to any material encumbrances except the aforesaid mortgage;

   d. The existing use of the property is in compliance with the local planning regulations and have been approved by the relevant government authorities; and

   e. The property may be disposed of freely to both local and overseas purchasers.

VALUATION CERTIFICATE

Group IV – Properties leased by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 June 2006 *RMB*
6.	Block Nos. B1, B2, B6, B8, C2, C3, F8, F9 and F10, No. 9 Courtyard Mupo Military Base Xintang Street Tianhe District Guangzhou City Guangdong Province the PRC	The property comprises 9 warehouses with a total gross floor area of approximately 19,716 sq.m. (or about 212,223.02 sq.ft.). The property is rented by 廣州美日物流有限公司, the former name of 東明物流(廣州)有限公司 (Pearl Oriental Logistics (Guangzhou) Limited) from 中國人民解放軍九五一00部隊沐陂營區管理辦 under two tenancy agreements dated 20 November 2003 and 1 April 2006 respectively for various terms with the latest expiry date being 31 December 2006 at a total monthly rent of RMB222,764 exclusive of water, electricity and management fees.	The property is occupied for warehouse uses.	No Commercial Value (60% interest attributable to the Enlarged Group after completion of acquisition: Nil)

Notes:–

1. The tenant of the property is 東明物流(廣州)有限公司 (Pearl Oriental Logistics (Guangzhou) Limited), which is a 60%-owned subsidiary of the Group.

2. The tenancy details are as follows:

No.	Block No.	Gross Floor Area *(sq.m.)*	Lease Commencement Date	Lease Expiry Date	Monthly Rent *(RMB)*
1.	B1, B2, B6, B8, C2 & C3	12,802	10 April 2006	31 December 2006	153,624
2.	F8, F9 & F10	6,914	1 January 2004	30 December 2006	69,140
	Total:	19,716			222,764

3. The legal opinion of the PRC legal advisor to the Group contains, inter alia, the following:

   a. The tenancies are legal, binding and enforceable and the rights of both the lessor and lessee are protected under the PRC laws. 東明物流(廣州)有限公司 (Pearl Oriental Logistics (Guangzhou) Limited) has the rights to use and occupy the property during the lease terms, save and except the rights to sub-lease, mortgage and transfer; and

   b. The tenancies have not been registered with the relevant government authority. The government authority may order the parties to complete the registration procedures and may impose penalty. However, registration is not a condition for the tenancies to become binding between the two parties.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 June 2006 *RMB*
7.	Unit 01 on 15th Floor Block A 朗庭豪園 No. 7 Guihua Road Free Trade Zone Shenzhen Guangdong Province the PRC	The property comprises a residential unit in a multi-storey residential building with a gross floor area of approximately 72 sq.m. (or about 775.01 sq.ft.). The property is rented by 廸辰倉儲服務(深圳)有限公司 (DiChain Logistics Services (Shenzhen) Co. Ltd.) from 沈愛麗 under a tenancy agreement dated 1 November 2005 for a term of 1 year commencing on 1 November 2005 and expiring on 31 October 2006 at a monthly rent of RMB1,900 exclusive of water, electricity, gases, management, telecommunication and others maintenance charges.	The property is occupied as staff quarter of the Company.	No Commercial Value (100% interest attributable to the Enlarged Group after completion of acquisition: Nil)

Notes:–

1. The tenant of the property is 廸辰倉儲服務(深圳)有限公司 (DiChain Logistics Services (Shenzhen) Co. Ltd.), which is a 100%-owned subsidiary of the Company.

2. The legal opinion of the PRC legal advisor to the Group contains, inter alia, the following:

   a. The tenancy is legal, binding and enforceable and the rights of both the lessor and lessee are protected under the PRC laws. 廸辰倉儲服務(深圳)有限公司 (DiChain Logistics Services (Shenzhen) Co. Ltd.) has the rights to use and occupy the property during the lease term, save and except the rights to sub-lease, mortgage and transfer; and

   b. The tenancy has not been registered with the relevant government authority. The government authority may order the parties to complete the registration procedures and may impose penalty. However, registration is not a condition for the tenancy to become binding between the two parties.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 June 2006 *RMB*
8.	Warehouse 2nd Group of Xinmiao Village Cuqiao Xiang Wuhou District Chengdu City Xichuan Province the PRC	The property comprises a warehouse and two ancillary office units. The warehouse has a gross floor area of approximately 1,000 sq.m. (or about 10,764 sq.ft.). The property is rented by 廣州迪辰物流有限公司, the former name of 東明物流(廣州)有限公司 from 成都百新膠業有限公司under a tenancy agreement dated 20 June 2005 for a term of 1 year commencing on 20 June 2005 and expiring on 19 June 2006 at a monthly rent of RMB6,400 exclusive of water and electricity charges.	The property is occupied for warehouse and ancillary office uses.	No Commercial Value (100% interest attributable to the Enlarged Group after completion of acquisition: Nil)

Notes:–

1. The tenant of the property is 東明物流(廣州)有限公司, which is a 60%-owned subsidiary of the Company.

2. The legal opinion of the PRC legal advisor to the Group contains, inter alia, the following:

   a. The tenancy is legal, binding and enforceable and the rights of both the lessor and lessee are protected under the PRC laws. 東明物流(廣州)有限公司 has the rights to use and occupy the property during the lease term, save and except the rights to sub-lease, mortgage and transfer; and

   b. The tenancy has not been registered with the relevant government authority. The government authority may order the parties to complete the registration procedures and may impose penalty. However, registration is not a condition for the tenancy to become binding between the two parties.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 June 2006 *RMB*
9.	Warehouse and office Beijing Xinhuayi Yuan Logistic Park Hengjiezi Village No. 18 Lidian Xiang Chaoyang District Beijing the PRC	The property comprises two warehouses and a single-storey office. The warehouses have a total gross floor area of approximately 12,876 sq.m. (or about 138,597.26 sq.ft.). The property is rented by 內蒙古迪辰物流有限公司 (Inner Mongolia DiChain Logistics Co. Ltd.) from 北京新華藝苑儲運有限公司 under a tenancy agreement dated 20 June 2006 for a term of 4 years commencing on 18 November 2004 and expiring on 17 November 2008 at an annual rent of RMB2,300,000 exclusive of water and electricity fees. The lessee can occupy an additional of two dormitories, various plant and machineries and 3-set of air-conditioning system in the office as stated in the lease without any charges.	The property is occupied for warehouse and ancillary office uses.	No Commercial Value (60% interest attributable to the Enlarged Group after completion of acquisition: Nil)

Notes:–

1. The tenant of the property is 內蒙古迪辰物流有限公司 (Inner Mongolia DiChain Logistics Co. Ltd.), which is a 60%-owned subsidiary of the Company.

2. The legal opinion of the PRC legal advisor to the Group contains, inter alia, the following:

   a. The tenancy is legal, binding and enforceable and the rights of both the lessor and lessee are protected under the PRC laws. 內蒙古迪辰物流有限公司 (Inner Mongolia DiChain Logistics Co. Ltd.) has the rights to use and occupy the property during the lease term, save and except the rights to sub-lease, mortgage and transfer; and

   b. The tenancy has not been registered with the relevant government authority. The government authority may order the parties to complete the registration procedures and may impose penalty. However, registration is not a condition for the tenancy to become binding between the two parties.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 June 2006 *RMB*
10.	3rd Zone Storage Area No. 3 Cotton Fiber Warehouse No. 0487 Yingbin Middle Main Road Nanchang City Jiangxi Province the PRC	The property comprises a warehouse with a gross floor area of approximately 960 sq.m. (or about 10,333.44 sq.ft.). The property is rented by 內蒙古廸辰物流有限公司 (Inner Mongolia DiChain Logistics Co. Ltd.) from 江西省銀海棉麻有限公司under a tenancy agreement dated 3 July 2006 for a term of 1 year commencing on 15 August 2006 and expiring on 14 August 2007 at a monthly rent of RMB8,640 exclusive of water and electricity charges.	The property is occupied for warehouse uses.	No Commercial Value (60% interest attributable to the Enlarged Group after completion of acquisition: Nil)

Notes:–

1. The tenant of the property is 內蒙古廸辰物流有限公司 (Inner Mongolia DiChain Logistics Co. Ltd.), which is a 60%-owned subsidiary of the Company.

2. The legal opinion of the PRC legal advisor to the Group contains, inter alia, the following:

   a. The tenancy is legal, binding and enforceable and the rights of both the lessor and lessee are protected under the PRC laws. 內蒙古廸辰物流有限公司 (Inner Mongolia DiChain Logistics Co. Ltd.) has the rights to use and occupy the property during the lease term, save and except the rights to sub-lease, mortgage and transfer; and

   b. The tenancy has not been registered with the relevant government authority. The government authority may order the parties to complete the registration procedures and may impose penalty. However, registration is not a condition for the tenancy to become binding between the two parties.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 June 2006 *RMB*
11.	Warehouse No. 402 Shefu Road Nangang District Harbin City Heilongjiang Province the PRC	The property comprises a warehouse, office and dormitory with a total gross floor area of approximately 4,115 sq.m. (or about 44,293.86 sq.ft.). The property is rented by 內蒙古廸辰物流有限公司 (Inner Mongolia DiChain Logistics Co. Ltd.) from 哈爾濱美捷汽車貿易有限公司 under a tenancy agreement dated 25 April 2006 for a term of 2 years commencing on 1 April 2006 and expiring on 30 March 2007 at a monthly rent of RMB38,386.5 for the period between 1 April 2006 and 30 September 2006 and a monthly rent of RMB39,399 for the period between 1 October 2006 and 31 March 2007 exclusive of water and electricity charges.	The property is occupied for warehouse, office and dormitory uses.	No Commercial Value (60% interest attributable to the Enlarged Group after completion of acquisition: Nil)

Notes:–

1. The tenant of the property is 內蒙古廸辰物流有限公司 (Inner Mongolia DiChain Logistics Co. Ltd.), which is a 60%-owned subsidiary of the Company.

2. The legal opinion of the PRC legal advisor to the Group contains, inter alia, the following:

   a. The tenancy is legal, binding and enforceable and the rights of both the lessor and lessee are protected under the PRC laws. 內蒙古廸辰物流有限公司 (Inner Mongolia DiChain Logistics Co. Ltd.) has the rights to use and occupy the property during the lease term, save and except the rights to sub-lease, mortgage and transfer; and

   b. The tenancy has not been registered with the relevant government authority. The government authority may order the parties to complete the registration procedures and may impose penalty. However, registration is not a condition for the tenancy to become binding between the two parties.

VALUATION CERTIFICATE

Group V – Properties leased by the Group in Hong Kong

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 June 2006 *RMB*
12.	Suite 1908 19th Floor Nine Queen's Road Central Hong Kong	The property comprises an office unit of a 35-storey commercial building with a gross floor area of approximately 170 sq.m. (or about 1,829.88 sq.ft.) completed in about 1991. The property is rented by China Merchant DiChain (Asia) Limited, the former name of the Company from Well Team Development Limited under a service agreement dated 22 June 2006 for a term commencing on 1 June 2006 and expiring on 31 July 2007 at a monthly fee of HK$80,000.	The property is occupied for office uses.	No Commercial Value (100% interest attributable to the Enlarged Group after completion of acquisition: Nil)

Note:–

The tenant of the property is the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 June 2006 *RMB*
13.	Unit 3611 36th Floor West Tower Shun Tak Centre Nos. 168-200 Connaught Road Central Hong Kong	The property comprises an office unit of a 30-storey office Tower erected upon a 6-storey of commercial podium with a gross floor area of approximately 231.05 sq.m. (or about 2,487 sq.ft.) completed in 1985. The property is rented by Dransfield Secretarial & Administrative Services Limited from Hom Fu Lee Company, Limited under a tenancy agreement dated 12 April 2005 for a term of 3 years commencing on 1 April 2005 and expiring on 31 March 2008 at a monthly rent of HK$54,714 exclusive of rates, management and air-conditioning charges.	The property is occupied for office uses.	No Commercial Value (100% interest attributable to the Enlarged Group after completion of acquisition: Nil)

Note:–

The tenant of the property is Dransfield Secretarial & Administrative Services Limited, which was a 100%-owned subsidiary of the Company

FOR THE YEAR ENDED 31 MARCH 2006

Results

For the financial year ended 31 March 2006, the Group recorded a turnover of approximately HK$75.2 million, representing a growth of approximately 120% when compared with that of the previous year. The Group's loss attributable to Shareholders amounted to approximately HK$78.3 million, which was mainly attributable to the loss on impairment of deposit and other loans receivable of HK$72.3 million. The basic loss per Share for the year was HK1.44 cents.

Business Review

During the year under review, the Group was mainly engaged in operating bonded warehouse, provision of logistics and related services and logistics-related property investment. To align with the business development focus, the non-core businesses and the non-operating subsidiaries were disposed of during the year.

Benefited from the fast and sustained growth of the economy and increasing demand for cross-border bonded warehousing and logistics services, both the bonded warehouse and domestic logistics operations of the Group achieved remarkable growth in the financial year ended 31 March 2006. New value added services such as repacking services were launched during the year and the services were well received by the customers. The revenue from bonded warehouse businesses increased by more than 30% while the revenue from domestic logistics services surged by approximately 238%.

With the implementation of effective cost control measures, the Group's loss from operations decreased substantially by approximately 83.4% to approximately HK$2.2 million. However, due to the losses on impairment of deposit and other loans receivable, leasehold land and building and goodwill, the Group's loss attributable to shareholders increased substantially from approximately HK$19.6 million to HK$78.3 million.

Looking ahead, the Group will continue to develop its logistics business and strive to become a leading integrated logistics service provider in the Greater China region by expanding its service scope and logistics network. In addition to its organic growth in logistics, the Group will also explore new opportunities for mergers and acquisitions of logistics-related business in the PRC so as to further strengthen its strategic position in the market.

Capital Structure, Liquidity and Financial Resources

By special resolutions passed by the Shareholders on 22 May 2006, the Company increased its authorized share capital from HK$80,000,000 to HK$300,000,000 by the creation of 22,000,000,000 new shares, and implemented a share consolidation, pursuant to which every 50 issued and unissued shares of HK$0.01 each were consolidated into one consolidated share of HK$0.50 each.

Subsequent to the year end, the Company further issued 140,000,000 new Shares at an issue price of HK$0.50 each (after the adjustment for the share consolidation) as a result of the share subscription and conversion of convertible notes by Orient Day Developments Limited.

The Group's funding and treasury policies are established to ensure the availability of funds at reasonable costs to meet all contractual financial commitments, to fund business growth and to generate reasonable returns from available funds. The Group generally finances its operations with internally generated resources and bank facilities in the PRC and Hong Kong.

As at 31 March 2006, the Group's total borrowings amounted to approximately HK$88.9 million, which were repayable within one year or on demand and were charged with fixed interest rates. The bank borrowings were secured by certain properties of the Group located in the PRC with a carrying value of approximately HK$101 million. The borrowings of the Group were denominated in either Renminbi or Hong Kong dollars. The Group's gearing ratio was 56.7%, as expressed as the ratio of the Group's total borrowings to total assets, as at 31 March 2006.

For the year ended 31 March 2006, net cash of approximately HK$3.5 million and HK$1.8 million were used by the Group for operating and financing activities respectively. On the other hand, investing activities had generated approximately HK$4.1 million for the Group during the year. Together with the net cash outflow of HK$1.3 million resulted from the effect of foreign exchange rate changes, net cash outflow of approximately HK$2.4 million was recorded for the year ended 31 March 2006. As at 31 March 2006, the Group's cash and bank balances amounted to approximately HK$1.8 million. 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 did not use any financial instrument for hedging purposes.

As at 31 March 2006, approximately HK$87 million of guarantee was given by the Company to secure a banking facility for a subsidiary of the Company. As at the year end, such banking facility was almost fully utilized. Subsequent to the settlement of a bank loan of approximately HK$28.8 million in May 2006, the guarantee of the Company reduced to approximately HK$58 million as at the Latest Practicable Date.

Subsequent to the year end, the Company raised approximately HK$79.6 million through subscription of new shares and convertible notes by Orient Day Developments Limited. Approximately HK$30 million of the proceeds was applied for settlement of bank loans while the balance of approximately HK$50 million has been applied for working capital of the Group. The Directors considered that the Group had sufficient financial resources for maintaining its operations.

Material Investments, Acquisitions or Disposals

The Group had no material investments held and there were no material acquisitions of subsidiaries and associated companies in the course of the financial year.

On the other hand, the Group disposed of all of its shareholdings in Dransfield Holdings Limited and certain non-operating subsidiaries during the year. As a result, the Group recorded a gain on disposal of subsidiaries of approximately HK$11.5 million in the financial year.

Segmental Analysis

During the year under review, the Group only operated a single line of business, which is the provision of logistics and related services.

Human Resources

As at 31 March 2006, the Group had a total of 286 employees. 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.

FOR THE YEAR ENDED 31 MARCH 2005

Results

For the financial year ended 31 March 2005, the Group recorded a turnover of approximately HK$34.1 million, representing a growth of approximately 23% as compared to that of the previous year. The Group also showed improvement in its gross profit margin. Nevertheless, due to the high overhead costs, a net loss of approximately HK$19.6 million was recorded. The Company's basic loss per Share for the year was HK$0.38 cents.

Business Review

During the year, the Group further fine-tuned the business development focus to logistics business and disposed of the business operations of electronic household appliances. With the mission of becoming one of the leading logistics service providers in the PRC, the Group took active measures in improving the performance of its bonded warehouse business and established an extensive national logistics service network that covered most of the affluent areas in China such as the Pearl River Delta, the Yangtze River Delta, the Bohai Gulf Economic Rim and the Northeastern Economic Area.

The performance of the Group's logistics business in the financial year ended 31 March 2005 was encouraging and the revenue generated from the logistics operation increased by approximately 140% as compared to that of the previous year. The increase was mainly attributable to the contribution from the Group's Futian bonded warehouse operation and the revenue generated from the newly acquired investments – Guangzhou DiChain and Jianxi DiChain. The forwarding, delivery and other value added services accounted for approximately 70% of the Group's logistics services income while the remaining 30% of the income was contributed by the bonded warehouse business.

Capital Structure, Liquidity and Financial Resources

The Group's funding and treasury policies are established to ensure the availability of funds at reasonable costs to meet all contractual financial commitments, to fund business growth and to generate reasonable returns from available funds. The Group generally finances its operations with internally generated resources and bank facilities in the PRC and Hong Kong.

As at 31 March 2005, the Group's total borrowings amounted to approximately HK$88.5 million, which were charged with fixed interest rates and were secured by certain properties of the Group located in the PRC with a carrying value of approximately HK$107 million. The borrowings of the Group were denominated in Renminbi. The Group's gearing ratio was 36.4%, as expressed as the ratio of the Group's total borrowings to total assets, as at 31 March 2005.

For the year ended 31 March 2005, net cash of approximately HK$18.6 million and HK$4.1 million were used by the Group for operating and financing activities respectively. On the other hand, investing activities had generated approximately HK$1.5 million for the Group during the year. Together with the net cash inflow of approximately HK$5,000 resulted from the effect of foreign exchange rate changes, net cash outflow of approximately HK$21.2 million was recorded for the year ended 31 March 2005. As at 31 March 2005, the Group's cash and bank balances amounted to approximately HK$4.2 million. The Directors considered that the Group had sufficient financial resources for maintaining its operations. 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 did not use any financial instrument for hedging purposes.

As at 31 March 2005, approximately HK$85 million of guarantee was given by the Company to secure a banking facility for a subsidiary of the Company. As at the year end, such banking facility was fully utilized.

During the year, 901,533,000 ordinary shares (equivalent to 18,030,660 consolidated shares currently in issue) were issued by the Company at a subscription price of HK$0.023 as a result of the exercise of all the warrants of the Company by the warrant holders.

Material Investments, Acquisitions or Disposals

In November 2004, the Group acquired two third-party logistics service providers in the PRC, namely Guangzhou DiChain Logistics Co., Ltd. and Jiangxi DiChain Logistics Co., Ltd., in order to further expand its logistics service network. Both acquirees had good reputation and well-established logistics servicing network in the PRC. The Company expected that the acquisitions would create synergy for the Group and further improve the Group's profit margin.

In December 2004, the Group disposed of all of its shareholdings in Shenzhen SEG Scientific Navigations Company Limited. The Group recorded a loss of approximately HK$2.3 million for such disposal. Prior to the disposal, Shenzhen SEG Scientific Navigations Company Limited contributed approximately HK$1.8 million of the share of profit from associated company to the Group.

In March 2005, the Group discontinued its home appliances operation with the aim of devoting more resources into its logistics business. Prior to its disposal, home appliances segment accounted for less than 4% of the Group turnover in the year. A segment loss of approximately HK$420,000 was recorded from this business segment.

Segmental Analysis

During the year under review, the Group had two major business segments – logistics services and electronic home appliances distribution. Approximately 96.3% of the Group's revenue was attributable to the logistics service segment while the balance of 3.7% of the revenue was contributed by the electronic home appliances distribution. The business of logistics services recorded a segment loss of HK$1,809,000 while the segment loss of electronic home appliances distribution amounted to approximately HK$420,000 for the year ended 31 March 2005.

Human Resources

As at 31 March 2005, the Group had a total of 146 employees. 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.

FOR THE YEAR ENDED 31 MARCH 2004

Results

For the financial year ended 31 March 2004, the Group recorded a turnover of approximately HK$27.8 million, representing a decrease of approximately 23.6% as compared to that of the previous year. Although there was a reduction in turnover, the Group's gross profit margin increased substantially to more than 8 times of that of the previous year. Being partially offset by the allowances for doubtful debts of approximately HK$4.1 million and loss on disposal of discontinued operations of approximately HK$4.6 million, the net profit for the year amounted to approximately HI$14.3 million. When compared with last year, there was an increase of approximately 6.0% in the Group's net profit. The Company's basic earnings per Share for the financial year ended 31 March 2004 amounted to HK0.31 cents.

Business Review

During the year, the Group underwent an aggressive restructuring. The Group repositioned its focus on the logistics and electronic household appliances distribution businesses and disposed of its loss-making or non-core businesses and assets.

The Group's logistics business had outstanding performance in the year under review. The revenue from the logistics operation increased by 100% to HK$14 million (2003: HK$7 million) and the utilization level of the bonded warehouse in Futian, the PRC continued to rise from 40% in March 2003 to 75% in March 2004. Excluding the revaluation gain of the warehouse reported in the last fiscal year, the logistics operation showed significant improvement in performance by recording an operating result from the loss of HK$3 million in fiscal 2003 to a gain of HK$1 million in fiscal 2004.

Being adversely affected by the outbreak of SARS, the revenue from distribution of electronic home appliances decreased substantially by 36% to HK$3 million (2003: HK$5 million).

Capital Structure, Liquidity and Financial Resources

The Group's funding and treasury policies are established to ensure the availability of funds at reasonable costs to meet all contractual financial commitments, to fund business growth and to generate reasonable returns from available funds. The Group generally finances its operations with internally generated resources and bank facilities in the PRC and Hong Kong.

As at 31 March 2004, the Group's total bank borrowings amounted to approximately HK$103 million, which were charged with fixed interest rates and were secured by certain properties of the Group located in the PRC with a carrying value of approximately HK$111 million. The borrowings of the Group were denominated in either Renminbi or Hong Kong dollars. The Group's gearing ratio was 42%, as expressed as the ratio of the Group's total bank borrowings to total assets, as at 31 March 2004.

For the year ended 31 March 2004, net cash of approximately HK$12.8 million and HK$35.0 million were used by the Group for operating and investing activities respectively. On the other hand, financing activities had generated approximately HK$36.6 million for the Group during the year. Together with the net cash inflow of approximately HK$96,000 resulted from the effect of foreign exchange rate changes, net cash outflow of approximately HK$11.1 million was recorded for the year ended 31 March 2004. As at 31 March 2004, the Group's cash and bank balances amounted to approximately HK$25 million. The Directors considered that the Group had sufficient financial resources for maintaining its operations. 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 did not use any financial instrument for hedging purposes.

As at 31 March 2004, approximately HK$99 million of guarantee was given by the Company to secure a banking facility for a subsidiary of the Company. As at the year end, such banking facility was fully utilized.

Material Investments, Acquisitions or Disposals

In April 2003, the Company realized part of its investment in DF China Technology Inc. ("DFCT"), a company listed on the OTC Bulletin Board in the US, and generated a gain of approximately HK$16 million. As at 31 March 2004, the shareholding of the Group in DFCT decreased to 2.2%. Subsequent to the restructuring of DFCT in a merger involving the issue of new capital in DFCT in May 2004, the Group's shareholding in DFCT was further diluted to approximately 0.4%.

In July 2003, the Group disposed of its shareholding in Dransfield Food and Beverage Limited, a subsidiary of the Company principally engaged in the trading of food and beverage products in Hong Kong by vending machines, for a consideration of HK$450,000.

In March 2004, the Group disposed of another subsidiary, namely Shenyang Dransfield Industrial Development Ltd., for a consideration of HK$1.5 million. Shenyang Dransfield Industrial Development Ltd. was principally engaged in the production and distribution of edible oil in the PRC. At the same time, the Group disposed of its shareholding in Wuxi Dransfield Broadsino Beverage Co., Ltd. and recorded a gain on disposal of approximately HK$2 million.

In December 2003, a wholly-owned subsidiary of the Company subscribed for 21 million shares in Shenzhen SEG Scientific Navigations Company Limited ("SEG Scientific"), representing 35% of the enlarged share capital of SEG Scientific, for a cash consideration of HK$26.75 million. In February 2004, the Group further acquired 17.6% equity interest in SEG Scientific for a consideration of HK$13.6 million. SEG Scientific was a joint stock company incorporated in the PRC and was engaged in the manufacturing of automatic vehicle locator of global positioning system in the PRC and the provision of global positioning system vehicle tracking and monitoring services in the Southern China region.

Segmental Analysis

During the year under review, the Group disposed of the operations of edible oil and food and beverage, and maintained two core business segments – logistics services and electronic home appliances distribution. Approximately 49.4% and 10.8% of the Group's revenue were attributable to the logistics service segment and electronic home appliances distribution respectively while the balance of 39.8% of the revenue was contributed by the discontinued operations of edible oil and food and beverage. The business of logistics services recorded a segment gain of approximately HK$615,000 while the segment loss of electronic home appliances distribution amounted to approximately HK$315,000 for the year ended 31 March 2004.

Human Resources

As at 31 March 2004, the Group had a total of 81 employees. 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.

FOR THE SIX MONTHS ENDED 30 JUNE 2006

Results

For the six months ended 30 June 2006, Taiyuan Sanxing Group recorded a turnover and net profit of approximately RMB148.8 million and RMB9.1 million respectively. The revenue was mainly derived from sales of coal and coal products, which represented approximately 12.9% and 83.1% of the total revenue respectively.

Business Review

At the beginning of Year 2006, subsequent to the various serious accidents in coal mines in Shanxi, the provincial government ordered all coal mines in the area to suspend their mining operations temporarily for a few months for safety check. Therefore, the coal mining operations of Taiyuan Sanxing Group were also suspended during that period. Together with the plummet in market price of coke during the first quarter of 2006, the turnover as well as the profit for the six months ended 30 June 2006 of Taiyuan Sanxing Group has been affected.

In view of the rapid pickup of the market price of coke and the seasonal factor of coal consumption, the management of Taiyuan Sanxing Group is optimistic towards the performance of the group in the second half of the year.

Taiyuan Sanxing Group was negotiating with Taiyuan City Gas Group for a long-term gas supply contract for supplying gas through the network of Taiyuan City Gas Group to Taiyuan City for both consumer and industrial uses. The management of Taiyuan Sanxing Group expects that the long-term supply contract will provide steady income to the group.

Future Plans for Material Investments or Capital Assets

In order to cope with the increasing demand of coal-related products, Taiyuan Sanxing Group has planned to further expand its production capacity of coke to 2 million tons per annum. Further investment will also be made to establish a system for production of tar related products and a plant for production of recycled methanol. The management of Taiyuan Sanxing Group has planned to finance such investments by internal resources and bank facilities.

Capital Structure, Liquidity and Financial Resources

Taiyuan Sanxing Group's funding and treasury policies are established to ensure the availability of funds at reasonable costs to meet all contractual financial commitments, to fund business growth and to generate reasonable returns from available funds. Taiyuan Sanxing Group generally finances its operations with internally generated resources and bank facilities.

As at 30 June 2006, Taiyuan Sanxing Group's total borrowings amounted to approximately RMB74.6 million, which comprised RMB62.0 million of unsecured bank loans and RMB12.6 million of secured bank loans. The bank loans were charged with fixed interest rates. All of the borrowings of Taiyuan Sanxing Group were denominated in Renminbi. Approximately RMB73.6 million of the loans was repayable within one year or on demand while approximately RMB1.0 million of the loans was repayable within 2 to 5 years. Taiyuan Sanxing Group's gearing ratio was 10.0%, as expressed as the ratio of total borrowings to total assets, as at 30 June 2006.

As at 30 June 2006, Taiyuan Sanxing Group's cash and bank balances amounted to approximately RMB9.4 million. Taiyuan Sanxing Group conducted its business transactions principally in Renminbi. The management of Taiyuan Sanxing Group considered that Taiyuan Sanxing Group had no significant exposure to foreign exchange fluctuations and did not use any financial instrument for hedging purposes.

As at 30 June 2006, a guarantee of approximately RMB20.0 million was given by Taiyuan Sanxing Group to secure a banking facility of an independent third party.

Material Investments, Acquisitions or Disposals

Taiyuan Sanxing Group did not have any material investment, acquisition or disposal of subsidiaries during the six months ended 30 June 2006.

Segmental Analysis

During the period under review, Taiyuan Sanxing Group mainly focused on the core business of production and sale of coal and coal related products. Approximately 96.0% of the revenue was derived from production and sale of coal and coal related products while the hotel operation contributed approximately 4.0% of the revenue of the group.

Human Resources

As at 30 June 2006, Taiyuan Sanxing Group had a total of approximately 1,200 employees. The remuneration packages of employees are maintained at competitive levels and include monthly salaries and medical insurance. For the six months ended 30 June 2006, the total staff costs amounted to approximately RMB1.2 million, represented approximately 0.8% of the total revenue of the group.

FOR THE YEAR ENDED 31 DECEMBER 2005

Results

For the year ended 31 December 2005, Taiyuan Sanxing Group recorded a turnover of approximately RMB369.5 million, represented a growth of approximately 88% when compared with that of the previous corresponding period. The revenue was mainly derived from sales of coal and coal products, which represented approximately 27% and 69% of the total revenue respectively. Benefited from the economy of scale and rise in coal, tar and coke prices, the net profit of Taiyuan Sanxing Group soared substantially from approximately RMB7.6 million in the previous year to RMB43.9 million, which represented a growth of approximately 478%.

Business Review

During the year under review, Taiyuan Sanxing Group focused on expanding its production capacity and establishing distribution channels. As at the end of the year, the annual production capacity of Taiyuan Sanxing Group increased to 600,000 tons of coke, 400,000 tons of coking coal, 32,000 tons of tar, 6,000 tons of crude benzene and 170 million m3 of gas.

The increased production capacity enabled the group to meet the tremendous demand from customers and boosted the revenue of the group to approximately RMB369.5 million. As a result of the substantial increase in prices of coal chemical industry benzene and industrial tar, and improvement in the group's production efficiency, the gross profit margin for the period improved significantly from 18.7% in 2004 to 27.8%.

Capital Structure, Liquidity and Financial Resources

Taiyuan Sanxing Group's funding and treasury policies are established to ensure the availability of funds at reasonable costs to meet all contractual financial commitments, to fund business growth and to generate reasonable returns from available funds. Taiyuan Sanxing Group generally finances its operations with internally generated resources and bank facilities.

As at 31 December 2005, Taiyuan Sanxing Group's total borrowings amounted to approximately RMB78.8 million, which comprised RMB66.0 million of unsecured bank loans, RMB12.6 million of secured bank loans and approximately RMB0.2 million of bank overdraft. The bank loans were charged with fixed interest rates. All of the borrowings of Taiyuan Sanxing Group were denominated in Renminbi. Approximately RMB77.6 million of the loans was repayable within one year or on demand while approximately RMB1.0 million of the loans was repayable within 2 to 5 years. Taiyuan Sanxing Group's gearing ratio was 11.5%, as expressed as the ratio of total borrowings to total assets, as at 31 December 2005.

As at 31 December 2005, Taiyuan Sanxing Group's cash and bank balances amounted to approximately RMB6.1 million. Taiyuan Sanxing Group conducted its business transactions principally in Renminbi. The management of Taiyuan Sanxing Group considered that Taiyuan Sanxing Group had no significant exposure to foreign exchange fluctuations and did not use any financial instrument for hedging purposes.

As at 31 December 2005, a guarantee of approximately RMB20 million was given by Taiyuan Sanxing Group to secure a banking facility of an independent third party.

Material Investments, Acquisitions or Disposals

In March 2005, Taiyuan Sanxing Group acquired a 3-star hotel, namely Hai Shang Lu Zhou, in Taiyuan City at a total consideration of approximately RMB63.7 million mainly for the purpose of serving its customers of coal business and other related parties. The hotel has a total floor area of 9,600 m2 and 74 guest rooms.

Save as aforesaid, Taiyuan Sanxing Group did not have any material investment, acquisition or disposal of subsidiaries during the year ended 31 December 2005.

Segmental Analysis

During the year under review, Taiyuan Sanxing Group was mainly engaged in the business of production and sale of coal and coal related products. Approximately 97% of the revenue was derived from production and sale of coal and coal related products while the hotel operation contributed approximately 3% of the revenue of the group.

Human Resources

As at 31 December 2005, Taiyuan Sanxing Group had a total of 1,130 employees. The remuneration packages of employees are maintained at competitive levels and include monthly salaries and medical insurance. For the year ended 31 December 2005, the total staff costs amounted to approximately RMB32.3 million, represented a growth of approximately 658% when compared with that of the previous year. The increase in staff costs was mainly attributable to the substantial increase in headcount and salary increment during the year.

FOR THE YEAR ENDED 31 DECEMBER 2004

Results

For the year ended 31 December 2004, Taiyuan Sanxing Group recorded a turnover of approximately RMB196.5 million, represented a growth of approximately 38% when compared with that of the previous corresponding period. The revenue was mainly derived from sales of coal and coal products, which represented approximately 3% and 97% of the total revenue respectively. Resulting from the improved efficiency and economies of scale, Taiyuan Sanxing Group recorded a net profit of approximately RMB7.6 million for the year ended 31 December 2004 (2003: loss of approximately RMB0.4 million).

Business Review

During the year under review, the Group devoted all of its resources on developing its business of production and sale of coal and coal-related products. A significant increase in revenue was achieved as a result of the increased production capacity. The improved production efficiency and increase in general market prices of coal products also boosted the gross profit margin of Taiyuan Sanxing Group from approximately 11.4% in 2003 to 18.7% in 2004.

Capital Structure, Liquidity and Financial Resources

Taiyuan Sanxing Group's funding and treasury policies are established to ensure the availability of funds at reasonable costs to meet all contractual financial commitments, to fund business growth and to generate reasonable returns from available funds. Taiyuan Sanxing Group generally finances its operations with internally generated resources and bank facilities.

As at 31 December 2004, Taiyuan Sanxing Group's total borrowings amounted to approximately RMB37.9 million, which comprised RMB25.0 million of unsecured bank loans and RMB12.9 million of secured bank loans. The bank loans were charged with fixed interest rates. All of the borrowings of Taiyuan Sanxing Group were denominated in Renminbi and were repayable within one year or on demand. Taiyuan Sanxing Group's gearing ratio was 7.9%, as expressed as the ratio of total borrowings to total assets, as at 31 December 2004.

As at 31 December 2004, Taiyuan Sanxing Group's cash and bank balances amounted to approximately RMB6.0 million. Taiyuan Sanxing Group conducted its business transactions principally in Renminbi. The management of Taiyuan Sanxing Group considered that Taiyuan Sanxing Group had no significant exposure to foreign exchange fluctuations and did not use any financial instrument for hedging purposes.

As at 31 December 2004, Taiyuan Sanxing Group had no contingent liabilities.

Material Investments, Acquisitions or Disposals

Taiyuan Sanxing Group did not have any material investment, acquisition or disposal of subsidiaries during the year ended 31 December 2004.

Segmental Analysis

During the year under review, Taiyuan Sanxing Group was solely engaged in the production and sale of coal and coal related products.

Human Resources

As at 31 December 2004, Taiyuan Sanxing Group had a total of 720 employees. The remuneration packages of employees are maintained at competitive levels and include monthly salaries and medical insurance. For the year ended 31 December 2004, the total staff costs amounted to approximately RMB4.3 million, represented a growth of approximately 36% over the previous year. The increase in staff costs was mainly attributable to the substantial increase in headcount and salary increment during the year.

FOR THE YEAR ENDED 31 DECEMBER 2003

Results

For the year ended 31 December 2003, Taiyuan Sanxing Group recorded a turnover of approximately RMB142.0 million, RMB2.2 million of which was derived from sales of coal while the balance of approximately RMB139.8 million was generated from sale of coal products.

Business Review

Taiyuan Sanxing Group commenced the exploitation of its coal mine in Luliang area of Lin Country of Shanxi in 2003. As the business was operated under a relatively limited scale, production efficiency was not achieved in the year and thus a net loss of approximately RMB0.4 million was recorded for the year ended 31 December 2003 after taking into account of the substantial depreciation of fixed assets and other amortization.

Capital Structure, Liquidity and Financial Resources

Taiyuan Sanxing Group's funding and treasury policies are established to ensure the availability of funds at reasonable costs to meet all contractual financial commitments, to fund business growth and to generate reasonable returns from available funds. Taiyuan Sanxing Group generally finances its operations with internally generated resources and bank facilities.

As at 31 December 2003, Taiyuan Sanxing Group's total borrowings amounted to approximately RMB38.0 million, which comprised RMB25.0 million of unsecured bank loans and RMB13.0 million of secured bank loans. The bank loans were charged with fixed interest rates. All of the borrowings of Taiyuan Sanxing Group were denominated in Renminbi and were repayable within one year or on demand. Taiyuan Sanxing Group's gearing ratio was 10.3%, as expressed as the ratio of total borrowings to total assets, as at 31 December 2003.

As at 31 December 2003, Taiyuan Sanxing Group's cash and bank balances amounted to approximately RMB6.7 million. Taiyuan Sanxing Group conducted its business transactions principally in Renminbi. The management of Taiyuan Sanxing Group considered that Taiyuan Sanxing Group had no significant exposure to foreign exchange fluctuations and did not use any financial instrument for hedging purposes.

As at 31 December 2003, Taiyuan Sanxing Group had no contingent liabilities.

Material Investments, Acquisitions or Disposals

Taiyuan Sanxing Group did not have any material investment, acquisition or disposal of subsidiaries during the year ended 31 December 2003.

Segmental Analysis

During the year under review, Taiyuan Sanxing Group was solely engaged in the production and sale of coal and coal related products.

Human Resources

As at 31 December 2003, Taiyuan Sanxing Group had a total of 690 employees. The remuneration packages of employees are maintained at competitive levels and include monthly salaries and medical insurance. For the year ended 31 December 2003, the total staff costs amounted to approximately RMB3.1 million, represented approximately 2% of the total revenue for the year.

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in this circular misleading.

SHARE CAPITAL OF THE COMPANY

(a) Share Capital

Authorized capital:

		HK$
600,000,000	ordinary shares of HK$0.50 each	300,000,000

Issued and fully paid or credited as fully paid:

As at the Latest Practicable Date

268,841,960	ordinary shares of HK$0.50 each	134,420,980

Upon allotment and issue of the Consideration Shares:

268,841,960	existing Shares	134,420,980
75,800,000	Consideration Shares	37,900,000
344,641,960	Shares	172,320,980

All existing issued Shares rank equally in all respects, including capital, dividends and voting rights. The Shares in issue are listed on the Stock Exchange.

(b) Share Options

Pursuant to the Company's share option scheme (the "Scheme"), 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. 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.

The following table sets out the details of the outstanding share options as at the Latest Practicable Date:

Exercise Price	Exercise Period	Outstanding options as at the Latest Practicable Date
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

As at the Latest Practicable Date, save for the above, the Company did not have any other outstanding options, warrants or other securities convertible into Shares.

DISCLOSURE OF INTERESTS

A. Interests in the Company or its associated companies

(a) Interests of Directors and chief executive

As at the Latest Practicable Date, the interests of the Directors in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which had been notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions of which they were taken or deemed to have under such provisions of the SFO) and/or required to be entered in the register maintained by the Company pursuant to section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

(i) *Long position in the Shares*

	Number of Shares held in the Capacity of					
Name of Directors	**Beneficial owner**	**Family interest**	**Held by controlled corporation**	**Held by trust**	**Total number of Shares held**	**Percentage of the issued share capital of the Company**
Wong Kwan *(Note)*	–	–	161,805,800	–	161,805,800	60.19%
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.

(ii) *Share options*

Name of Directors	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

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had any interests or short positions in any shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions of which they were taken or deemed to have under such provision of the SFO) and/or required to be entered in the register maintained by the Company pursuant to section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Listing Rules relating to securities transactions by the Directors.

(iii) Other Interests

As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which have been, since 31 March 2006 (being the date to which the latest published audited consolidated accounts of the Group were made up), acquired or disposed of by or leased to, any member of the Group, or which are proposed to be acquired or disposed of by or leased to, any member of the Group.

There was no contract or arrangement subsisting at the Latest Practicable Date in which any Director was materially interested and which was significant in relation to the business of the Group.

B. Substantial shareholders and other persons' interests in Shares and underlying Shares

As at the Latest Practicable Date, so far as is known to the Directors or chief executive of the Company, the persons (other than a Director or chief executive of the Company) who had interests and/or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were expected, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group and the amount of each of such person's interests in such securities, together with particulars of any options in respect of such capital are as follows:

Name of Substantial Shareholders	Capacity	Number of Shares held	Number of underlying shares held
Orient Day Developments Limited *(Note)*	Beneficial owner	161,805,800	Nil

Note:

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

Save as disclosed above, the Directors and chief executive of the Company are not aware of any person (other than a Director or chief executive of the Company) who as at the Latest Practicable Date had interests and/or short position in the shares and underlying shares of the Company which would full to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO or was expected, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at the Latest Practicable Date, none of the Directors and their associates was interested in any business apart from the Group's businesses which competes or is likely to compete, either directly or indirectly, with business of the Group.

DIRECTORS' SERVICE CONTRACTS

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had service contract with any member of the Group which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

MATERIAL LITIGATION

As at the Latest Practicable Date, the Group had three pending litigation claims from the ex-directors of a disposed subsidiary who claim against the Group for a 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 issued a writ of summons on 31 August 2006 against Dichain Holdings Limited, 3 former Directors, namely Fan Di, Li Xinggui 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.

Save as disclosed above, as at the Latest Practicable Date, neither the Company nor any of its subsidiaries was involved in any litigation or arbitration of material importance and no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

QUALIFICATIONS AND CONSENTS OF EXPERTS

The following is the qualification of the experts who have given opinion or advice which is contained in this circular:

Name	Qualifications
Johnny Chan & Co. Limited ("JCC")	Certified Public Accountants
BMI Appraisals Limited ("BMI")	Property Valuers

Each of JCC and BMI has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter or its name in the form and context in which they respectively appear.

Neither JCC nor BMI have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group or any direct or indirect interests in any assets which have been, since 31 March 2006 (being the date to which the latest published audited consolidated accounts of the Group were made up), acquired or disposed of by or leased to, any member of the Group, or which are proposed to be acquired or disposed of by or leased to, any member of the Group.

MATERIAL CONTRACTS

The following contracts (not being contracts entered into the ordinary course of business) have been entered into by members of the Group within the two years preceding the date of this circular and which are or may be material:

(a) the investment agreement dated 13 November 2004 entered into between DiChain Logistic Services (Shenzhen) Co., Ltd. ("DWS") and Messrs. Wan Gui Ping, Liu Xiao Hong, Tu Zhao Lu, Chen Ke Hai and Zhu Mei Qi, which sets out the general structure of the acquisition plan which includes, the acquisition of 24% equity interest in Guangzhou Meiri Logistics Company Limited ("Guangzhou Meiri") by DWS, the contribution of investment in the amount of RMB4.5 million (equivalent to approximately HK$4.25 million) in Guangzhou Meiri by DWS, the acquisition of 60% equity interest in Jiangxi Dichain Logistics Company Limited ("Jiangxi Dichain") by DWS and the establishment of the joint venture company between Guangzhou Meiri and Jiangxi Dichain.

(b) the acquisition agreement dated 13 November 2004 entered into between DWS as the purchaser and Messrs. Wan Gui Ping, Liu Xiao Hong, Tu Zhao Lu, Chen Ke Hai and Zhu Mei Qi as the vendors regarding the acquisition of 24% equity interest in Guangzhou Meiri by DWS at a total consideration of RMB2.7 million.

(c) the acquisition agreement dated 13 November 2004 entered into between DWS as the purchaser and Messrs. Wan Gui Ping, Liu Xiao Hong, Tu Zhao Lu, Chen Ke Hai and Zhu Mei Qi as the vendors regarding the acquisition of 60% equity interest in Jiangxi Dichain by DWS at a total consideration of RMB0.3 million.

(d) the joint venture agreement dated 15 December 2004 entered into between Guangzhou Meiri and Jiangxi Dichain regarding the formation of the joint venture company, namely Inner Mongolia Dichain Logistics Company Limited;

(e) the conditional agreement dated 22 February 2006 and supplemental agreement dated 20 March 2006 entered into between, inter alia, the Company and Orient Day Developments Limited in relation to, among other things, (i) the subscription of 4,000,000,000 (before adjustment for share consolidation) new shares of the Company at a consideration of HK$0.01 per share by Orient Day Developments Limited; (ii) subscription of the convertible notes of a principal amount of HK$30,000,000 issued by the Company; and (iii) the grant of option by the Company to Orient Day Developments Limited to subscribe 1,000,000,000 (before adjustment for share consolidation) shares of the Company;

(f) a loan agreement dated 21 July 2006 between Grand Ascend Investments Limited, a subsidiary of the Company as the lender and Mr. Laurent Kim as the borrower in respect of a loan of Euro 800,000 with a maturity at 31 October 2006;

(g) a conditional sale and purchase agreement dated 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$50,000,000; and

(h) a loan agreement dated 5 September 2006 entered into between the Company and Orient Day Developments Ltd., pursuant to which Orient Day Developments Ltd. agreed to provide a loan facility of not more than HK$70 million to the Company at the interest rate of Hong Kong prime rate. The Company may draw the whole amount or part of the loan on or before 31 March 2007 and the loan, if drawn, will be payable on or before twenty-four months from the date of drawdown of the loan by 12 equal monthly instalments which are payable after the first anniversary of the date of drawdown of the loan.

(i) the Agreement.

MISCELLANEOUS

(a) The company secretary and the qualified accountant of the Company is Mr. Cheung Kwok Yu . Mr. Cheung is qualified as a solicitor in Hong Kong and a fellow member of The Association of Chartered Certified Accountants.

(b) The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

(c) The principal place of business of the Company is situate at Unit 3611, 36th Floor, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

(d) The English text of this circular and the accompany form of proxy shall prevail over their respective Chinese texts for the purpose of interpretation.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the Company's principal place of business at Unit 3611, 36/F., West Tower, Shun Tak Center, 168-200 Connaught Road Central, Hong Kong from the date of this circular up to and including Tuesday, 3 October 2006:

(a) the memorandum of association and bye-laws of the Company;

(b) the annual reports of the Company for the two years ended 31 March 2006;

(c) the valuation report from BMI, the text of which is set out on pages 114 to 137 of this circular.

(d) the letters from JCC in respect of the accountants' report on Taiyuan Sanxing Group and the unaudited pro forma financial statements of China Coal Group and the Enlarged Group, the text of which are set out on pages 79 to 113 of this circular;

(e) the material contracts referred to in the section headed "MATERIAL CONTRACTS" in this Appendix;

(f) the letters of consents from JCC and BMI referred to in the section headed "QUALIFICATIONS AND CONSENTS OF EXPERTS" in this Appendix;

(g) the circular dated 4 May 2006 in relation to, inter alia, the subscription of new shares, issue of convertible notes and grant of option to subscribe for new shares;

(h) the circular dated 23 August 2006 in relation to a discloseable transaction of acquisition of 50% equity interest in Euro Resources China Limited involving issue of new shares of the Company; and

(i) this circular.

東方明珠創業有限公司*

Pearl Oriental Innovation Limited

(Formerly known as China Merchants DiChain (Asia) Limited)

(Incorporated in Bermuda with limited liability)

(Stock Code: 632)

NOTICE IS HEREBY GIVEN THAT the special general meeting of Pearl Oriental Innovation Limited (the "Company") will be held at Unit 3611, 36/F, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong, on Tuesday, 3 October 2006 at 4:00 p.m. for the purpose of considering and if thought fit, passing with or without modifications, the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT** the sale and purchase agreement dated 15 July 2006 (a copy of which has been produced to the meeting and signed by the Chairman of the meeting for the purpose of identification) ("Sale and Purchase Agreement") entered into between the Company and Mr. Zhang Genyu, regarding the Acquisition (as defined in the circular of the Company dated 15 September 2006 ("Circular")) be approved and **THAT** the respective directors of the Company be and are hereby authorised on behalf of the Company respectively (a) to sign, seal, execute, perfect and deliver all such documents and do all such deeds, acts, matters and things as they may in their discretion consider necessary or desirable for the purpose of the implementation of the Sale and Purchase Agreement; and (b) to complete the Sale and Purchase Agreement in accordance with the terms therein."

As at the date of this notice, the executive directors of the Company are Messrs. Wong Yuk Kwan (alias: Wong Kwan), Lin Xizhong, Chan Yiu Keung, Cheung Kwok Yu, Zhou Li Yang and Zheng Yingsheng; the non-executive director of the Company is Dr. Robert Fung Hing Piu; and the independent non-executive directors of the Company are Messrs. Anwar Ibrahim, Lee G. Lam and Victor Yang.

By Order of the Board
Pearl Oriental Innovation Limited
Wong Kwan
Chairman and Chief Executive

Hong Kong, 15 September 2006

Notes:

1. Any shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a shareholder of the Company.

2. In order to be valid, a form of proxy in the prescribed form together with the power of attorney or other authority (if any) under which it is signed must be deposited at the Company's Hong Kong branch share registrar, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for the holding of the special general meeting.

* *For identification purpose only*

3. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorized in writing or, if the appointor is a corporation, either under its common seal or under the hand of an officer or attorney or other person duly authorized.

4. Delivery of the form of proxy will not preclude a member from attending and voting in person at the meeting convened and in such event, the form of proxy shall be deemed to be revoked.

5. Where there are joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, then one of the said persons so present being the most, or as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holder stand on the register in respect of the relevant joint holding.