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If you have sold or transferred all your shares in Pearl Oriental Innovation Limited, you should at once hand this circular and the accompanying forms of proxy to the purchaser or the transferee or to the bank, licensed securities dealer, registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 632)

**CONNECTED TRANSACTION –  
SUBSCRIPTION OF NEW SHARES  
APPLICATION FOR THE WHITEWASH WAIVER  
AND  
PROPOSED INCREASE IN AUTHORIZED SHARE CAPITAL**

Financial Adviser to the Company

***Hercules***

**Hercules Capital Limited**

Independent financial adviser to the Independent Board Committee  
and Independent Shareholders



**WALLBANCK BROTHERS**

**Securities (Hong Kong) Limited**

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A letter from the Board is set out on pages 4 to 10 of this circular. A letter from the Independent Board Committee containing its advice to the Independent Shareholders in connection with the Subscription, the Agreement and the Whitewash Waiver is set out on page 11 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders in connection with the Subscription, the Agreement and the Whitewash Waiver is set out on pages 12 to 29 of this circular.

A notice convening the SGM to be held on at Suite 1908, 19th Floor, 9 Queen's Road Central, Hong Kong at 4:30 p.m. on 19 February 2008 is set out on pages 113 to 114 of this circular. Whether or not you intend to attend the SGM in person, you are strongly urged to complete and sign the enclosed form of proxy in accordance with the instructions printed thereon, and to lodge them with the branch share registrar of the Company, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the SGM or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting should you so wish.

31 January 2008

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## DEFINITIONS

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*In this document, the following expressions have the following meanings unless the context requires otherwise:*

“Agreement”	the share subscription agreement dated 31 December 2007 entered into between the Company and the Subscriber in relation to the Subscription
“Announcement”	the announcement dated 2 January 2008 issued by the Company in relation to, inter alia, the Subscription, the Whitewash Waiver application and the proposed increase in authorized share capital of the Company
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Company”	Pearl Oriental Innovation Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	the director(s) of the Company
“Executive”	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission or any delegate of the Executive Director
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company, comprising all the independent non-executive Directors, namely Dr. Dong Zhixiong, Mr. Fung Hing Chiu, Cyril and Mr. Lai Shi Hong, Edward, established to advise the Independent Shareholders on the Subscription, the Agreement and the Whitewash Waiver
“Independent Shareholder(s)”	Shareholders (other than the Subscriber, Mr. Wong and their respective concert parties and associates and those Shareholders who are involved in, or interested in the Subscription, the Agreement and the Whitewash Waiver) who are not required to abstain from voting on the resolutions to be proposed at the SGM to approve the Subscription, the Agreement and the Whitewash Waiver under the Listing Rules and the Takeovers Code respectively

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## DEFINITIONS

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“Last Trading Day”	31 December 2007, being the last trading day for the Shares immediately before the issue of the Announcement
“Latest Practicable Date”	29 January 2008, being the latest practicable date prior to the issue of this circular for ascertaining certain information contained herein
“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Wong”	Mr. Wong Kwan, Chairman and Chief Executive of the Company and an executive Director
“PRC”	the People’s Republic of China (excluding Hong Kong for the purpose of this circular)
“SFC”	the Securities and Futures Commission
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time
“SGM”	the special general meeting of the Company to be held at Suite 1908, 19th Floor, 9 Queen’s Road Central, Hong Kong at 4:30 p.m. on 19 February 2008, the notice of which is set out on pages 113 to 114 of this circular, or any adjournment thereof
“Share(s)”	ordinary share(s) of HK\$0.50 each in the share capital of the Company
“Shareholder(s)”	registered holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Orient Day Developments Limited, a private company incorporated in the British Virgin Islands with limited liability, the shares of which are beneficially wholly-owned by Mr. Wong
“Subscription”	the subscription of 77,456,000 new Shares by the Subscriber pursuant to the Agreement
“Subscription Price”	HK\$1.00 per Subscription Share
“Subscription Shares”	77,456,000 new Shares to be subscribed by the Subscriber pursuant to the Agreement

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## DEFINITIONS

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“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers
“Wallbanck Brothers” or “Independent Financial Adviser”	Wallbanck Brothers Securities (Hong Kong) Limited, a licensed corporation for carrying out types 4, 6 and 9 regulated activities (advising on securities, advising on corporate finance and asset management) under the SFO
“Whitewash Waiver”	a waiver from the Executive pursuant to Note 1 on the Dispensations from Rule 26 of the Takeovers Code in respect of the obligations of the Subscriber and its concert parties to make a mandatory general offer for all the Shares not already owned or agreed to be acquired by them which would otherwise arise as a result of completion of the Subscription
“%”	per cent.



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

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 632)

*Executive Directors:*

Wong Yuk Kwan (alias: Wong Kwan)

Chan Yiu Keung

Cheung Kwok Yu

Zhou Li Yang

Zheng Yingsheng

Johnny Yuen

*Registered office:*

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

*Head office and principal place*

*of business in Hong Kong:*

Suite 1908, 19th Floor

9 Queen's Road Central

Hong Kong

*Independent non-executive Directors:*

Dong Zhixiong

Fung Hing Chiu, Cyril

Lai Shi Hong, Edward

31 January 2008

*To the Shareholders*

Dear Sirs,

**CONNECTED TRANSACTION –  
SUBSCRIPTION OF NEW SHARES  
APPLICATION FOR THE WHITEWASH WAIVER  
AND  
PROPOSED INCREASE IN AUTHORIZED SHARE CAPITAL**

**INTRODUCTION**

It was announced on 2 January 2008 that, among others, the Company entered into the Agreement on 31 December 2007, pursuant to which, the Company has conditionally agreed to issue and the Subscriber has conditionally agreed to subscribe for the Subscription Shares at the price of HK\$1.00 per Subscription Share. Upon completion of the Subscription, the Subscriber and parties acting in concert with it shall own 55.45% of the shareholding in the Company and is therefore, in the absence of the Whitewash Waiver, obliged to make a mandatory general offer for all the Shares not already owned or agreed to be acquired by them pursuant to Rule 26 of the Takeovers Code. The Subscriber has applied to the Executive for the Whitewash Waiver pursuant to Note 1 of the Notes on Dispensation from Rule 26 of the Takeovers Code. The Subscription, the Agreement and the Whitewash Waiver are subject to, amongst other things, the approval of the Independent Shareholders by way of poll at the SGM. On 31 December 2007, the Board also proposed to increase the authorized share capital of the Company from HK\$300,000,000 to HK\$3,000,000,000 by the creation of an additional 5,400,000,000 unissued Shares.

\* For identification purposes only

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## LETTER FROM THE BOARD

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An Independent Board Committee, comprising all the independent non-executive Directors, namely Dr. Dong Zhixion, Mr. Fung Hing Chiu, Cyril and Mr. Lai Shi Hong, Edward, has been established to advise the Independent Shareholders on the Subscription, the Agreement and the Whitewash Waiver. Wallbanck Brothers has also been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the Subscription, the Agreement and the Whitewash Waiver in accordance with the Listing Rules and Takeovers Code and such appointment has been approved by the Independent Board Committee.

The purpose of this circular is to provide you with (i) further information regarding the Subscription, the Whitewash Waiver and the proposed increase in authorized share capital of the Company; (ii) the recommendation from the Independent Board Committee; (iii) the recommendation from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; and (iv) the notice convening the SGM.

### **THE SUBSCRIPTION**

#### **The Agreement**

##### *Date*

31 December 2007

##### *Parties involved*

The Company as the issuer and the Subscriber as the subscriber. The Subscriber, a company beneficially wholly-owned by Mr. Wong, Chairman and Chief Executive of the Company and an executive Director, is a substantial Shareholder holding approximately 46.53% of the issued share capital of the Company as at the Latest Practicable Date.

##### *Subscription Price*

HK\$1.00 per Subscription Share. The aggregate Subscription Price of HK\$77,456,000 shall be payable in cash upon completion of the Agreement. The Subscription Price was agreed after arm's length negotiations between the Company and the Subscriber with reference primarily to the recent market prices of the Shares, and represents (i) a discount of approximately 1.96% to the closing price of HK\$1.020 per Share as quoted on the Stock Exchange on the Last Trading Day; (ii) no discount/premium to/over the average closing price of approximately HK\$1.000 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day; (iii) a discount of approximately 1.28% to the average closing price of approximately HK\$1.013 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day; and (iv) no discount/premium to/over the closing price of HK\$1.000 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

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## LETTER FROM THE BOARD

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### *Subscription Shares*

The number of Subscription Shares is 77,456,000, representing 20.00% of the existing share capital of the Company and approximately 16.67% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares.

The Subscription Shares will be issued under a special mandate to be considered by the Independent Shareholders at the SGM. The Subscription Shares, when issued and fully paid, will rank pari passu among themselves and with Shares in issue at the time of issue and allotment of the Subscription Shares. Application will be made by the Company to the Listing Committee of the Stock Exchange for the grant of the listing of, and permission to deal in, the Subscription Shares.

### **Conditions of the Agreement**

The Agreement is conditional upon, among other things:

- (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Subscription Shares;
- (ii) the Independent Shareholders at the SGM approving the Agreement and the issue and allotment of the Subscription Shares to the Subscriber pursuant to the terms and conditions of the Agreement; and
- (iii) the Executive granting the Whitewash Waiver to the Subscriber under the Takeovers Code pursuant to the terms of the Agreement.

The above conditions cannot be waived by the parties to the Agreement. In the event that the conditions to the Agreement are not fulfilled by 3 March 2008 or such later date as may be agreed by the Company and the Subscriber, the obligations and liabilities of the Subscriber and the Company under the Agreement shall be null and void and neither the Company nor the Subscriber shall have any claim against the other for costs, damages, compensation or otherwise provided that the Company shall reimburse the Subscriber any legal fee and out-of-pocket expense which the Subscriber shall be obliged to pay in connection with the Subscription. As at the Latest Practicable Date, none of the conditions has been fulfilled.

### **Reasons for the Subscription and Use of Proceeds**

The Company intends to apply the net proceeds of the Subscription of approximately HK\$77 million for general working capital of the Group. The Directors consider that the Subscription is in the interest of the Company and the Shareholders as a whole as it will broaden the capital base of the Company and improve the financial position of the Group by increasing both the current assets and capital of the Company by an amount of approximately HK\$77 million.



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## LETTER FROM THE BOARD

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### Effects on Shareholding of the Company

The effects of the Subscription on the shareholding of the Company are shown as follows:

	Shareholding as at the Latest Practicable Date		Shareholding upon completion of the Agreement	
	<i>Approximate % of the total issued share capital of No. of Share</i>	<i>the Company</i>	<i>Approximate % of the total issued share capital of No. of Share</i>	<i>the Company</i>
The Subscriber, Mr. Wong and their concert parties ( <i>Note</i> )	180,218,800	46.53	257,674,800	55.45
Other Directors	1,572,090	0.41	1,572,090	0.33
Public shareholders	<u>205,491,070</u>	<u>53.06</u>	<u>205,491,070</u>	<u>44.22</u>
Total	<u>387,281,960</u>	<u>100.00</u>	<u>464,737,960</u>	<u>100.00</u>

*Note:* The Subscriber is beneficially wholly-owned by Mr. Wong.

### Fund Raising Activities in the Past Twelve Months

The Company has not conducted any fund raising activity in the past twelve months before the date of the Announcement, except the issue of new Shares as set out in the Company's announcement dated 15 March 2007 in relation to the top-up placing of 29,500,000 new Shares of HK\$0.5 each at the price of HK\$2.59 per Share by the Company (the "Issue"). The net proceeds of the Issue of approximately HK\$74.5 million in total have been applied towards the general working capital of the Group as originally planned.

### Listing Rules Implications

The Subscriber is a substantial Shareholder. Therefore, the Subscription constitutes a connected transaction for the Company under the Listing Rules and is subject to, among other things, approval of the Independent Shareholders by way of poll at the SGM. The Subscriber, namely Orient Day Developments Limited, and its associates, who controlled or were entitled to exercise control over the voting right in 180,218,800 Shares on the Latest Practicable Date, shall abstain from voting in respect of the Subscription.

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## LETTER FROM THE BOARD

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### APPLICATION FOR THE WHITEWASH WAIVER

Assuming no further Shares will be issued by the Company prior to completion of the Subscription, the interests held by the Subscriber and parties acting in concert with it will increase from 46.53% to 55.45% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares upon completion of the Subscription. The Subscriber and parties acting in concert with it will, in the absence of the Whitewash Waiver, thus be obliged to make a mandatory general offer for all the Shares not already owned or agreed to be acquired by them pursuant to Rule 26 of the Takeovers Code as a result of the completion of the Subscription. The Subscriber has made an application to the Executive for the Whitewash Waiver pursuant to Note 1 of the Notes on Dispensation from Rule 26 of the Takeovers Code and the Executive has indicated that the Whitewash Waiver would be granted subject to the approval of the Independent Shareholders on a vote taken by way of poll at the SGM whereby the Subscriber, Mr. Wong and their respective associates and concert parties will abstain from voting in respect of the Whitewash Waiver.

The grant of the Whitewash Waiver by the Executive is one of the conditions precedent to the Agreement which cannot be waived by the contracting parties. If the Whitewash Waiver is not granted, the Agreement shall lapse and the Subscription will not proceed and the Group would not be able to enjoy the benefits to be brought by the Subscription such as broadening the capital base of the Company and improving the financial position of the Group. If the Whitewash Waiver is granted, the Subscriber will not be required to make a mandatory general offer to the Shareholders under Rule 26 of the Takeovers Code as a result of the allotment and issue of the Subscription Shares. Furthermore, as the Subscriber and its concert parties will hold more than 50% of the voting rights of the Company upon completion of the Subscription, they may increase their holding without incurring any further obligation to make a general offer under Rule 26 of the Takeovers Code.

### INFORMATION AND INTENTIONS OF THE SUBSCRIBER

The Subscriber is a private company incorporated in the British Virgin Islands. It is mainly engaged in investment holding. The Subscriber is beneficially wholly-owned by Mr. Wong. The Subscriber currently has two directors, namely Ms. Yip Sui Kuen, Kitty and Mr. Wong.

The Subscriber intends to maintain the existing businesses of the Group upon completion of the Subscription. Furthermore, the Subscriber has no intentions to introduce any major change to the existing operation and management structure of the Group, or to discontinue the employment of any employee of the Group, or to redeploy any material fixed asset of the Group, as a result of completion of the Subscription. The Subscriber has no intention to transfer, charge or pledge any of the Subscription Shares to any other person.

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## LETTER FROM THE BOARD

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### **PROPOSED INCREASE IN AUTHORIZED SHARE CAPITAL**

As at the Latest Practicable Date, the authorized share capital of the Company was HK\$300,000,000 divided into 600,000,000 Shares, of which 387,281,960 Shares have been issued and fully paid or credited as fully paid. In order to provide the Group with flexibility in its future expansion and growth by means of issuing new Shares and fund-raising activities as the Directors may consider appropriate from time to time, the Directors proposed to increase the authorized share capital of the Company to HK\$3,000,000,000 divided into 6,000,000,000 Shares by the creation of an additional 5,400,000,000 unissued Shares. The increase in authorized share capital of the Company is conditional upon the passing of an ordinary resolution by the Shareholders at the SGM and no Shareholders are required to abstain from voting for such resolution.

### **SGM**

The SGM will be held at Suite 1908, 19th Floor, 9 Queen's Road Central, Hong Kong at 4:30 p.m. on 19 February 2008 to consider and, if thought fit, approve the Subscription, the Whitewash Waiver and the proposed increase in authorized share capital of the Company.

Notice of the SGM is set out on pages 113 to 114 of this circular and the form of proxy for use at the SGM is enclosed in this circular. Whether or not you intend to attend the SGM in person, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible but in any event not later than 48 hours before the time appointed for holding of the SGM or any adjournment thereof. Completion of the form of proxy will not preclude you from attending and voting at the SGM or any adjourned meeting thereof should you so wish.

### **RECOMMENDATION**

The Board considers that the Subscription, the Whitewash Waiver and the proposed increase in authorized share capital of the Company are in the interests of the Company and the Independent Shareholders as a whole and the Directors consider that the terms of the Agreement are fair and reasonable so far as the Independent Shareholders are concerned and on normal commercial terms. Accordingly, the Directors (excluding the independent non-executive Directors) recommend you to vote in favor of all resolutions to be proposed at the SGM. The recommendation of the independent non-executive Directors in respect of the terms of the Subscription, the Agreement and the Whitewash Waiver is set out in the letter from the Independent Board Committee on page 11 of this circular.

### **GENERAL**

Your attention is drawn to the letter from the Independent Board Committee set out on page 11 of this circular and the letter of advice received from the Independent Financial Adviser on pages 12 to 29 of this circular as well as the additional information set out in the appendices to this circular.

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## LETTER FROM THE BOARD

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The Board strongly advises the Independent Shareholders to read each of these letters and the appendices before reaching a decision in respect of the resolutions to be proposed at the SGM.

Yours faithfully,

By the order of the Board

**Pearl Oriental Innovation Limited**

**Cheung Kwok Yu**

*Executive Director and Company Secretary*



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

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 632)

31 January 2008

*To the Independent Shareholders*

Dear Sir or Madam,

**CONNECTED TRANSACTION –  
SUBSCRIPTION OF NEW SHARES  
AND  
APPLICATION FOR THE WHITEWASH WAIVER**

We refer to the circular of the Company dated 31 January 2008 (the “Circular”) of which this letter forms part. Terms defined in the Circular shall have the same meanings herein unless the context otherwise requires.

We have been appointed to form the Independent Board Committee to consider and advise the Independent Shareholders as to whether, in our opinion, the Subscription, the Agreement and the Whitewash Waiver, details of which are set out in the letter from the Board contained in the Circular, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Having considered the terms of the Agreement and the Whitewash Waiver and the advice of the Independent Financial Adviser in relation thereto as set out on pages 12 to 29 of this circular, we are of the opinion that the terms of the Subscription and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Shareholders and the Company as a whole. Accordingly, we recommend the Independent Shareholders to vote in favor of the resolutions to be proposed at the SGM to approve the Subscription, the Agreement and the Whitewash Waiver.

Yours faithfully,

For and on behalf of the Independent Board Committee

**Dong Zhixiong**

**Fung Hing Chiu, Cyril**

**Lai Shi Hong, Edward**

\* *For identification purposes only*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the full text of a letter of advice from Wallbanck Brothers, the independent financial adviser to the Independent Board Committee and the Independent Shareholders regarding the Subscription and the Whitewash Waiver, for the purpose of incorporation into this circular.*



**WALLBANCK BROTHERS**  
**Securities (Hong Kong) Limited**

1005B, Tower 1, Lippo Centre,  
89 Queensway, Central,  
Hong Kong

31 January 2008

*To the independent board committee and  
the independent shareholders of  
Pearl Oriental Innovation Limited*

Dear Sirs,

**CONNECTED TRANSACTION – SUBSCRIPTION FOR NEW SHARES  
AND  
APPLICATION FOR WHITEWASH WAIVER**

**INTRODUCTION**

We refer to our appointment as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Subscription and the Whitewash Waiver, details of which are set out in the letter from the Board (the “Letter from the Board”) contained in the circular to the Shareholders dated 31 January 2008 (the “Circular”), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires the otherwise.

On 2 January 2008, the Board announced that the Company has entered into the Agreement pursuant to which the Subscriber has agreed to subscribe for 77,456,000 Subscription Shares at a price of HK\$1.00 per Subscription Share. The Subscriber is a substantial Shareholder. Accordingly, the Subscription constitutes a connected transaction for the Company under the Listing Rules. Completion of the Agreement is therefore subject to, among other things, approval of the Independent Shareholders by way of poll at the SGM. The Subscriber and its associates shall abstain from voting at the SGM in respect of the Subscription.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Assuming no further Shares will be issued by the Company prior to the completion of the Subscription, upon the completion of the Agreement, the interests held by the Subscriber, Mr. Wong, and parties acting in concert with any one of them will increase from 46.53% to 55.45% of the issued share capital of the Company as enlarged by the issue of Subscription Shares. The Subscriber and parties acting in concert with it will then be obliged to make a mandatory general offer for all the Shares not already owned or agreed to be acquired by them pursuant to Rule 26 of the Takeovers Code. An application has been made to the Executive by the Subscriber for the Whitewash Waiver pursuant to Note 1 of the Notes on Dispensation from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, would be subject to the approval of the Independent Shareholders taken by way of poll at the SGM. The Subscriber, Mr. Wong, its associates and parties acting in concert with any one of them will abstain from voting in respect of the Whitewash Waiver.

Dr. Dong Zhixiong and Mr. Lai Shi Hong, Edward, who are independent non-executive Directors, have confirmed to the Company their nil interests in the Company. Mr. Fung Hing Chiu, Cyril has confirmed to hold 0.33% of the issued share capital of the Company. They are independent with respect to the Subscription and the Whitewash Waiver. Accordingly, the Independent Board Committee comprises Dr. Dong Zhixiong, Mr. Fung Hing Chiu, Cyril and Mr. Lai Shi Hong, Edward.

### **BASIS OF OUR OPINION**

In formulating our opinion and recommendations, we have relied on the accuracy of the information, opinions and representations provided to us by the Directors and management of the Company, and have assumed that all information, opinions and representations contained or referred to in this circular were true and accurate at the time when they were made and will continue to be accurate at the Latest Practicable Date. We have also assumed that all statements of belief, opinion and intention made by the Directors in this circular were reasonably made after due enquiry. We have no reasons to doubt that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading. We consider that we have received sufficient information to enable us to reach an informed view and to justify reliance on the accuracy of the information contained in this circular to provide a reasonable basis for our opinions and recommendations. Having made all reasonable enquiries, the Directors have further confirmed that, to the best of their knowledge, they believe there are no other facts or representations the omission of which would make any statement in this circular, including this letter, misleading. We have not, however, carried out any independent verification of the information provided by the Directors and management of the Company, nor have we conducted an independent investigation into the business and affairs of the Company.

In formulating our opinion, we have relied on the financial information provided by the Company, particularly, on the accuracy and reliability of financial statements and other financial data of the Company. We have not audited, compiled nor reviewed the said financial statements and financial data. We shall not express any opinion or any form of assurance on them. We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. The Directors have also advised us that no material facts have been omitted from the information to reach an informed view, and we have no reason to suspect that any material information has been withheld. We have not carried out any feasibility study on any past, and forthcoming investment decision, opportunity or project undertaken or to be undertaken by the Company. Our opinion has been formed on the assumption that

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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any analysis, estimation, forecast, anticipation, condition and assumption provided by the Company are valid and sustainable. Our opinions shall not be constructed as to give any indication to the validity, sustainability and feasibility of any past, existing and forthcoming investment decision, opportunity or project undertaken or to be undertaken by the Company.

In formulating our opinion, we have not considered the taxation implications on the Independent Shareholders arising from the Subscription and the Whitewash Waiver as these are particular to the individual circumstances of each Shareholder. It is emphasized that we will not accept responsibility for any tax effect on or liability of any person resulting from his or her decision to the Subscription and the Whitewash Waiver. In particular, the Independent Shareholders who are overseas residents or are subject to overseas taxation or Hong Kong taxation on securities dealings should consult their own tax positions, and if in any doubt, should consult their own professional advisers.

Our opinions are necessarily based upon the financial, economic, market, regulatory and other conditions as they existed on, and the facts, information, representations, and opinions made available to us as of, the Latest Practicable Date.

Our opinions are formulated only and exclusively for the purpose of the Subscription and the Whitewash Waiver and shall not be used for any other purpose in any circumstance nor for any comparable purpose with any other opinions.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion to the Independent Board Committee in respect of the Subscription and the Whitewash Waiver, we have taken into consideration the following principal factors and reasons:

#### I. The Subscription

##### 1. *Background to and reasons for the Subscription*

The Subscriber is a company beneficially wholly-owned by Mr. Wong. Mr. Wong is a substantial Shareholder holding approximately 46.53% of the issued share capital of the Company as at the Latest Practicable Date.

On 31 December 2007, the Company has entered into the Agreement pursuant to which the Subscriber has agreed to subscribe for 77,456,000 Subscription Shares at a price of HK\$1.00 per Subscription Share, which represents approximately 20.00% of the existing share capital of the Company and approximately 16.67% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares.

As stated in the Letter from the Board, the Company intends to apply the net proceeds of the Subscription of approximately HK\$77 million for general working capital of the Group. The Directors represent that the Subscription is in the interest of the Company and the Shareholders as a whole as it will broaden the capital base of the Company and improve the financial position of the Group by increasing both the current assets and capital of the Company by an amount of approximately HK\$77 million.



# LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

## 2. *Business review of the Group*

The Group is principally engaged in operating bonded warehouse, provision of logistics and related services and logistic-related property investment in the PRC and investing in energy and natural resources sectors through its associated companies, namely China Coal Energy Holdings Limited and Euro Resources China Limited.

The following are summaries of the audited consolidated financial information of the Group for the three years ended 31 March 2007 and the unaudited consolidated financial information for the six months periods ended 30 September, 2006 and 2007:

**Table 1: Financial performance of the Group**

	<b>For the six months ended 30 September</b>		<b>For the year ended 31 March</b>		
	<b>2007</b> <i>(HK\$'000)</i> (Unaudited)	<b>2006</b> <i>(HK\$'000)</i> (Unaudited) (Restated)	<b>2007</b> <i>(HK\$'000)</i> (Audited)	<b>2006</b> <i>(HK\$'000)</i> (Audited) (Restated)	<b>2005</b> <i>(HK\$'000)</i> (Audited) (Restated)
Turnover	39,415	33,239	65,344	75,157	34,145
Gross profit	10,860	9,714	14,283	17,283	12,450
Gross profit margin (%)	28	29	22	23	36
Profit/(loss) from operations	(9,247)	(5,901)	(46,247)	(77,760)	(13,251)
Profit/(loss) before taxation	(19,077)	(26,091)	(54,316)	(83,915)	(19,156)
Profit/(loss) after taxation	(19,479)	(26,398)	(55,484)	(84,134)	(19,591)
	<b>As at 30 September</b>		<b>As at 31 March</b>		
	<b>2007</b> <i>(HK\$'000)</i> (Unaudited)	<b>2007</b> <i>(HK\$'000)</i> (Audited)	<b>2006</b> <i>(HK\$'000)</i> (Audited) (Restated)	<b>2005</b> <i>(HK\$'000)</i> (Audited) (Restated)	
Cash and cash equivalents	7,957	11,184	1,785	4,183	
Net assets	434,730	427,742	32,267	125,186	
Gearing ratio (bank borrowings/ total assets)	0.10	0.11	0.57	0.37	

Source: *Company's annual reports for the two years ended 31 March 2007 and the interim report for the six months ended 30 September 2007*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Based on the Company's revised annual report for the year ended 31 March 2006 (the "2006 Annual Report"), the Group recorded consolidated turnover of approximately HK\$75.157 million, representing an increase of approximately 120.1% from HK\$34.145 million for the financial year ended 31 March 2005. Loss after taxation increased from approximately HK\$19.591 million for the financial year ended 31 March 2005 to approximately HK\$84.134 million for the financial year ended 31 March 2006.

For the financial year ended 31 March 2006, the turnover of the Group's traditional core business, the logistics operation, increased over 120.1% to approximately HK\$75.157 million, while the gross profit reached approximately HK\$17.283 million. With respect to the receivables and goodwill brought forward by the former Board (please refer to the list of Directors as stated in page 2 of the annual report for the year ended 31 March 2005), the new Board (please refer to the list of Directors as stated in page 2 of the 2006 Annual Report) has adopted a prudent financial approach to make a substantial one-off provision of bad debts and written-off of goodwill totaled HK\$81.5 million, in addition to impairment of HK\$5.5 million raised from property revaluation, that in aggregate amount to HK\$87.0 million, resulting in a loss of HK\$84.134 million after taxation for the year ended 31 March 2006.

The Group generally finances its operation with internally generated resources and bank facilities granted by principal bankers in the PRC. The net asset value of the Group was reduced to approximately HK\$32.267 million as at 31 March 2006 from the restated figure of approximately HK\$125.186 million as at 31 March 2005.

The Group's cash and cash equivalents as at 31 March 2006 were approximately HK\$1.8 million (2005: HK\$4.2 million).

As at 31 March 2006, the Group's gearing ratio was 57% (calculated on the basis of the Group's bank borrowings over total assets), which compared with 37% as at 31 March 2005. As at 31 March 2006, the Group's total bank borrowings amounted to approximately HK\$86 million, which was secured by certain properties of the Group located in the PRC. After the completion of the share subscriptions in May 2006 and the conversion of convertible notes in June 2006, the Company raised additional working capital of HK\$70 million which has substantially improved the overall financial position and the financial ratios of the Company.

For the financial year ended 31 March 2007, the Group recorded consolidated turnover of approximately HK\$65.344 million, representing a decrease of approximately 13.1% from HK\$75.157 million for the ended 31 March 2006. Loss after taxation decreased from approximately HK\$84.134 million for the financial year ended 31 March 2006 to approximately HK\$55.484 million for the financial year ended 31 March 2007.

For the financial year ended 31 March 2007, the Group had completed the acquisition of 40% equity interest in China Coal Energy Holdings Limited, and 50% of shares in Euro Resources China Limited. It is encouraging that these associates, with reinforced management, experienced rapid growth in operation. As a result, the Group's net assets increased to HK\$427.742 million representing 13.2 times of the previous year.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As at 31 March 2007, the Group's gearing ratio had decreased to 11% from 57% as at 31 March 2006. As at 31 March 2007, the Group's total bank borrowings amounted to HK\$58 million, which was secured by certain properties of the Group located in the PRC.

The Group's cash and bank balances as at 31 March 2007 have increased from approximately HK\$1.785 million to approximately HK\$11.184 million.

As extracted from the Company's interim report for the six months ended 30 September 2007 (the "Interim Report"), during the six-month period, the Group recorded a consolidated turnover of approximately HK\$39.415 million, representing an increase of 18.6% from HK\$33.239 million as compared with the last year's corresponding period. The net loss of the Group for the period was approximately HK\$19.479 million (2006: HK\$26.398 million). The increase in turnover was mainly due to the increase in business from existing key customers of the Group and also in new business from few new customers.

As at 30 September 2007, the Group's gearing ratio had decreased to 10% from 11% as at 31 March 2007. At 30 September 2007, the Group's total bank borrowings amounted to approximately HK\$58 million, which was secured by certain properties of the Group located in the PRC.

The Group's cash and bank balances as at 30 September 2007 stood at approximately HK\$8 million.

### 3. *The Agreement*

Date

31 December 2007

Parties involved

The Company as the issuer and the Subscriber as the subscriber. The Subscriber, a company beneficially wholly-owned by Mr. Wong, is a substantial Shareholder holding approximately 46.53% of the issued share capital of the Company as at the Latest Practicable Date.

Subscription Price

HK\$1.00 per Subscription Share. The aggregate Subscription Price of HK\$77,456,000 shall be payable in cash upon completion of the Agreement. The Subscription Price was agreed after arm's length negotiations between the Company and the Subscriber with reference primarily to the recent market prices of the Shares and represents (i) a discount of approximately 1.96% to the closing price of HK\$1.020 per Share as quoted on the Stock Exchange on the Last Trading Day; (ii) no discount/premium to/over the average closing price of approximately HK\$1.000 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day; (iii) a discount of

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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approximately 1.28% to the average closing price of approximately HK\$1.013 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day; and (iv) no discount/premium to/over the closing price of HK\$1.000 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

### Number of Subscription Shares

The number of Subscription Shares is 77,456,000, representing approximately 20.00% of the existing share capital of the Company and approximately 16.67% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares.

### Ranking of Subscription Shares

The Subscription Shares, when issued and fully paid, will rank *pari passu* among themselves and with Shares in issue at the time of issue and allotment of the Subscription Shares.

### The Subscription Shares

The Subscription Shares will be issued under a special mandate to be considered by the Independent Shareholders at the SGM. Application will be made by the Company to the Listing Committee of the Stock Exchange for the grant of the listing of, and permission to deal in, the Subscription Shares.

### Conditions of the Agreement

The Agreement is conditional upon, among other things:

- (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Subscription Shares;
- (ii) the Independent Shareholders in the SGM to be held approving the Agreement and the issue and allotment of the Subscription Shares to the Subscriber pursuant to the terms and conditions of the Agreement; and
- (iii) the Executive granting the Whitewash Waiver to the Subscriber under the Takeovers Code pursuant to the terms of the Agreement.

The above conditions cannot be waived by the parties to the Agreement. In the event that the conditions to the Agreement are not fulfilled by 3 March 2008 or such later date as may be agreed between the Company and the Subscriber, the obligations and liabilities of the Subscriber and the Company under the Subscription shall be null and void and neither the Company nor the Subscriber shall have any claim against the other for costs, damages, compensation or otherwise provided that the Company shall reimburse the Subscriber any legal fees and out-of-pocket expenses which the Subscriber shall be obliged to pay in connection with the Subscription. As at the Latest Practicable Date, none of the conditions has been fulfilled.

#### 4. *Other financing alternatives*

As stated in the Letter from the Board, the Company has not conducted any fund raising activities in the past twelve months before the date of the Announcement, except for the issue of new Shares as set out in the Company's announcement dated 15 March 2007 in relation to the top-up placing of 29,500,000 new Shares of HK\$0.5 each at the price of HK\$2.59 per Share by the Company (the "Issue"). The net proceeds of the Issue of approximately HK\$74.5 million in total have been applied towards the general working capital of the Group as originally planned.

We have enquired into the Directors of other methods in order for the Group to raise capital to meet its financial requirements. In this regard, the Directors advised that, the interest expenses to be borne by the Company will be inevitably incurred, possibly expanding the Company's loss position. Furthermore, a loan obtained from banks will eventually have to be repaid sometime in the future. In fact, it is difficult for the Company to obtain further debt financing as the banks will be reluctant to offer bank loans and credit facilities to the Group in view of loss suffered by the Company for the previous year and lack of other property to be used as security for such financing.

In addition to bank financing, common means of equity financing include open offer and rights issue. Although the Shareholders can maintain their respective pro-rata shareholdings in the Company under open offer and rights issue, the Directors were of the view that an underwriter will typically require a commission of generally between 2% and 5% of funds underwritten and any arm's length underwriting is normally subject to standard force majeure clause in favour of the underwriter. On the contrary, there is no force majeure clause included in the Agreement. Moreover, given the current financial position of the Group, the Group would have difficulties in procuring commercial underwriting. Thus, we consider it is reasonable for the Group to seize the first available funding opportunity by way of the Subscription given the difficulty in procuring commercial underwriting.

The Directors represented that they have considered other fund raising methods but in consideration of the expenses to be incurred by the Company from bank financing and other factors having been concerned as discussed above, in such circumstances, consider the Subscription to be the most beneficial fund raising method for the Company. We hold the view that the above said Directors' representation is not unreasonable.

#### 5. *Basis of the Subscription Price*

As stated in the Letter from the Board, the Subscription Price of HK\$1.00 per Subscription Share was agreed after arm's length negotiations between the Company and the Subscriber with reference primarily to the recent market prices of the Shares.

The Subscription Price represents:

- (i) a discount of approximately 1.96% (i) to the closing price of HK\$1.020 per Share as quoted on the Last Trading Day;

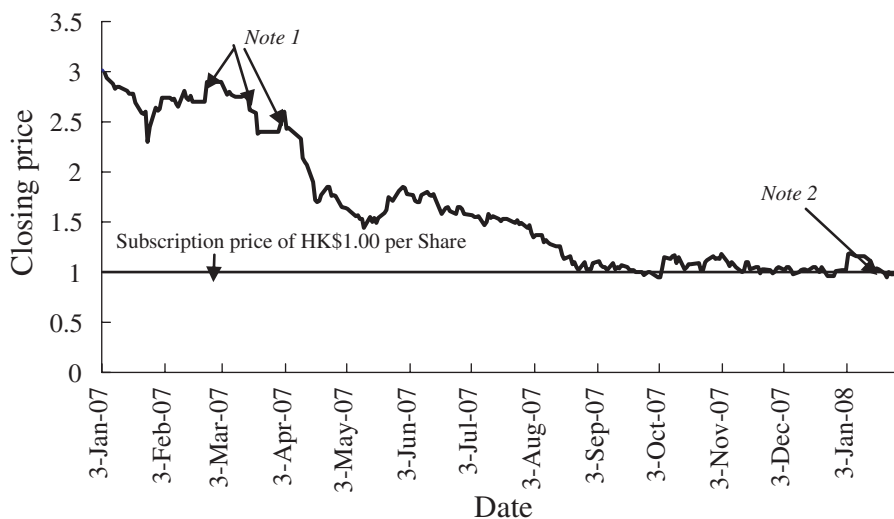
## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (ii) no discount/premium to/over the average closing price of approximately HK\$1.000 per Share as quoted on the Stock Exchange for the last 5 trading days immediately prior to and including the Last Trading Day;
- (iii) a discount of approximately 1.28% to the average of the closing price per Share of approximately HK\$1.013 as quoted on the Stock Exchange for the last 10 trading days immediately prior to and including the Last Trading Day; and
- (iv) no discount/premium to/over the closing price of HK\$1.000 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

### 6. *Review on Share prices performance*

Chart 1 below shows the Subscription Price and the closing prices of the Shares as quoted on the Stock Exchange during the period commencing from 3 January 2007 (being one year preceding the date of the Announcement) up to and including the Latest Practicable Date (the "Review Period"):

**Chart 1: Share prices performance**



*Notes:*

1. Trading of the Shares was suspended from 26 February 2007 to 1 March 2007, from 14 March 2007 to 15 March 2007 and from 22 March 2007 to 30 March 2007, pending the release of relevant announcements, both days inclusive.
2. Trading of the Shares was suspended on 2 January 2008, pending the release of the Announcement.
3. On market days when the Shares are not traded, the closing price equals to that of the preceding trading days.

*Source: Stock Exchange website*

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Shares had been traded above the Subscription Price of HK\$1.00 per Share during the first eight months of the Review Period from January 2007 to August 2007, with a range from approximately HK\$1.02 to HK\$3.02 per Share. The share price was generally declining in the past one year. Starting from September 2007, the share price was fluctuating within a narrow range of HK\$0.95 to HK\$1.19 up to the Latest Practicable Date.

Immediately following the day of release of the Announcement, the Share price had been raised by HK\$0.16 to HK\$1.18 on 3 January 2008 from HK\$1.02 on the Last Trading Day, representing approximately 15.69% increase in share price. Thereafter, the closing prices of the Shares had been fluctuating within a band of HK\$0.95 to HK\$1.19 and closed at HK\$1.00 as at the Latest Practicable Date.

### 7. *Review on trading liquidity of the Shares*

Table 2 below sets out the average daily turnover per month and the respective percentages of the Shares' average daily turnover as compared to the total number of Shares in issue as at the Latest Practicable Date and the total number of Shares held by the Independent Shareholders as at the Latest Practicable Date during the Review Period:

**Table 2: Trading liquidity of the Shares**

<b>Month</b>	<b>Average daily turnover</b>	<b>Percentage of average daily turnover to total number of Shares in issue</b>	<b>Percentage of average daily turnover to total number of Shares held by the Independent Shareholders</b>
	<i>(in number of Shares)</i>	<i>(Note 1) (%)</i>	<i>(Note 2) (%)</i>
<b>2007</b>			
January (from 3 January to 31 January)	769,836	0.19878	0.37463
February	1,137,107	0.29361	0.55336
March	4,913,683	1.26876	2.39119
April	2,426,278	0.62649	1.18072
May	1,005,981	0.25975	0.48955
June	430,802	0.11124	0.20965
July	458,396	0.11836	0.22307
August	374,160	0.09661	0.18208
September	205,442	0.05305	0.09998
October	221,076	0.05708	0.10758
November	83,545	0.02157	0.04066
December	170,358	0.04399	0.08290
<b>2008</b>			
January (up to and including the Latest Practicable Date)	390,411	0.10081	0.18999

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*Notes:*

1. Based on 387,281,960 total issued Shares as at the Latest Practicable Date.
2. Based on the total number of Shares held by the Independent Shareholders of 205,491,070 Shares as at the Latest Practicable Date.
3. Trading of the Shares was suspended from 26 February 2007 to 1 March 2007, from 14 March 2007 to 15 March 2007 and from 22 March 2007 to 30 March 2007, pending the release of relevant announcements, both days inclusive.
4. Trading of the Shares was suspended on 2 January 2008, pending the release of the Announcement.

*Source: Stock Exchange website*

The trading volume was in general thin. Save and except for the months of March 2007 and April 2007, less than 1% of the issued Shares held in public hands were traded during the Review Period.

Immediately following the release of the Announcement on 2 January 2008, the trading volume suddenly surged to approximately 3,015,000 Shares, possibly caused by the effect of the Subscription. Thereafter, the trading volume of the Shares was gradually dropped to approximately 2,000 Shares on the Latest Practicable Date. It is reasonable to infer that the sudden upsurge of market interest in the Shares is mainly attributable to the Announcement and hence may not be sustainable in the long run. The aggregate amount of Shares owned by the Independent Shareholders as at the Latest Practicable Date represents approximately 212 times of the average daily trading volume for the Review Period. Based on the above, we consider that the trading of the Shares was relatively thin and inactive during the Review Period.

*8a. Comparison on basis with identifiable connected subscriptions*

We have compared the Subscription Price to the subscription prices of subscriptions for new shares involving companies listed on the Stock Exchange with their connected persons during the recent four months from 1 September 2007 to the Last Trading Day (the “Connected Subscription Comparables”). To the best of our knowledge and based on the information from the Stock Exchange and GEM’s websites, we understand that there is no company listed on GEM and Main Board that is engaged in identical business and with same financial position as the Company. In order to ensure that there is reasonable number of comparable companies even though they are not in similar business with the Company, we have, to the best of our effort, knowledge and endeavor, selected and identified the all 8 identifiable Connected Subscription Comparables below from the Stock Exchange and GEM’s websites to compare the discounts of their respective subscription/placing price to (i) the last trading day (the “LTD”); (ii) the 5-day average closing price prior to and including the LTD before the release of the respective announcement; and (iii) the 10-day average closing price prior to and including the LTD as shown in the following table 3a below.



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**Table 3a: Connected Subscription Comparables**

Date of announcement	Company Name	Stock Code	Placing/ Subscription price	Premium/ (discount) of the placing/ subscription price over/(to) the closing price on the LTD (%)	Premium/ (discount) of placing/ subscription price over/ (to) the 5-day average closing price prior to and including LTD (%)	Premium/ (discount) of placing/ subscription price over/ (to) the 10-day average closing price prior to and including LTD (%)
3-Sep-07	Termbray Industries International (Holdings) Limited	93	1.20	(21.10)	(26.10)	(24.40)
11-Oct-07	Peaktop International Holdings Limited	925	0.45	(19.64)	(17.28)	(18.77)
2-Nov-07	Sinofert Holdings Limited	297	7.00	2.04	(3.05)	(1.13)
6-Nov-07	Grand Field Group Holdings Limited	115	0.39	(18.8)	0.30	3.00
14-Nov-07	Grandeagle Holdings Limited	147	0.15	(97.40)	(96.96)	(96.75)
30-Nov-07	Shougang Concord Century Holdings Limited	103	1.03	(6.36)	(6.02)	(8.61)
3-Dec-07	Sing Lee Software (Group) Limited	8076	0.271	4.20	4.60	1.90
12-Dec-07	New Chinese Medicine Holdings Limited	8085	1.00	(13.00)	(12.30)	(10.40)
			average	(21.26)	(19.60)	(19.40)
			median	(15.90)	(9.16)	(9.51)
			range	(97.40) to 4.20	(96.96) to 4.60	(96.75) to 3.00
2-Jan-08	The Company	632	1.00	(1.96)	0.00	(1.28)

Source: Stock Exchange and GEM's websites

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The discounts of the Subscription Price to (i) the closing price of the Shares on the Last Trading Day; (ii) the 5-day average closing price of the Shares immediately prior to the Last Trading Day and (iii) the 10-day average closing price of the Shares immediately prior to the Last Trading Day are all within the ranges of the discounts of those of the Connected Subscription Comparables and lower than the respective average and median discounts of the Connected Subscription Comparables, we considered that the relevant discounts of the Subscription Price which are in line with recent market practice to be fair and reasonable.

### 8b. Comparison on basis with identifiable independent subscriptions

To further assess the fairness and reasonableness of the Subscription Price, we have also compared the Subscription Price with the subscription prices for new shares involving subscription by or placement to an independent third party during the recent one month from 1 December 2007 to the Last Trading Day (the “Independent Subscription Comparables”). To the best of our effort, knowledge and endeavor, we have selected and identified the all 18 identifiable Independent Subscription Comparables from the Stock Exchange and GEM’s websites for comparison purposes as shown in Table 3b below:

**Table 3b: Independent Subscription Comparables**

Date of announcement	Company Name	Stock Code	Placing/ Subscription price	Premium/ (discount) of the placing/ subscription price over/(to) the closing price on the LTD	Premium/ (discount) of placing/ subscription price over/(to) the 5-day average closing price prior to and including LTD	Premium/ (discount) of placing/ subscription price over/(to) the 10-day average closing price prior to and including the LTD
4-Dec-07	Far East Holdings International Limited	36	1.39	(16.27)	(19.65)	(27.75)
4-Dec-07	New World Mobile Holdings Limited	862	6.00	(13.04)	(9.64)	(8.95)
7-Dec-07	Yue Da Holdings Limited	629	6.63	(16.39)	(11.60)	(6.49)
7-Dec-07	Qin Jia Yuan Media Services Company Limited	2366	4.55	0.00	(2.11)	(2.11)
10-Dec-07	Capital Estate Limited	193	0.11	(12.00)	(11.29)	(12.70)
10-Dec-07	A-Max Holdings Limited	959	0.13	(6.50)	(9.10)	(7.93)
11-Dec-07	Rising Development Holdings Limited	1004	1.47	(15.52)	(19.76)	(22.14)
12-Dec-07	Oriental Ginza Holdings Limited	996	0.15	(41.18)	(48.28)	(51.61)
13-Dec-07	China Star Entertainment Limited	326	0.12	(11.76)	(11.11)	(13.67)
14-Dec-07	Kenford Group Holdings Limited	464	0.60	(9.09)	(7.41)	(4.61)

# LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Date of announcement	Company Name	Stock Code	Placing/ Subscription price	Premium/ (discount) of the placing/ subscription price over/(to) the closing price on the LTD	Premium/ (discount) of placing/ subscription price over/(to) the 5-day average closing price prior to and including LTD	Premium/ (discount) of placing/ subscription price over/(to) the 10-day average closing price prior to and including LTD
17-Dec-07	Sun Man Tai Holdings Company Limited	433	0.06	(7.69)	(19.14)	(22.28)
17-Dec-07	Dynamic Global Holdings Limited	231	0.13521	(19.99)	(19.33)	(19.85)
17-Dec-07	Regent Pacific Group Limited	575	1.1	0.00	(4.68)	(4.84)
18-Dec-07	CATIC Shenzhen Holdings Limited	161	6.00	(6.98)	(6.63)	(5.20)
18-Dec-07	ESPCO Technology Holdings Limited	8299	0.27	(12.90)	(6.25)	(7.53)
20-Dec-07	Honestry Treasure International Holdings Limited	600	0.41	(7.87)	(3.76)	(8.17)
27-Dec-07	The Bank of East Asia, Limited	23	50.24	(2.45)	(0.91)	(0.34)
27-Dec-07	Peaktop International Holdings Limited	925	0.35	(18.60)	(15.05)	(13.58)
			average	(12.12)	(12.54)	(13.32)
			median	(11.88)	(10.38)	(8.56)
			range	(41.18) to 0.00	(48.28) to (0.91)	(51.61) to (0.34)
2-Jan-08	<b>The Company</b>	632	1.00	(1.96)	0.00	(1.28)

*Source: Stock Exchange and GEM's websites*

The discounts of the Subscription Price to (i) the closing price of the Shares on the Last Trading Day; and (ii) the 10-day average closing price of the Shares immediately prior to the Last Trading Day are within the ranges of the discounts of those of the Independent Subscription Comparables and lower than the respective average and median discounts of the Independent Subscription Comparables. The Subscription Price represents no discount/premium to/over the average closing price of approximately HK\$1.000 per Share as quoted on the Stock Exchange for the last 5 trading days immediately prior to and including the Last Trading Day and represents a higher premium than the respective discounts of those of the Independent Subscription Comparables. We considered that the relevant discounts of the Subscription Price which are in line with recent market practice to be fair and reasonable.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We wish to highlight that the above comparisons with the Connected Subscription Comparables and Independent Subscription Comparables are for illustrative purposes only, as each of the Connected Subscription Comparables and Independent Subscription Comparables may not be entirely comparable to the Subscription, given the respective companies may not be direct comparable with the Company in terms of the geographical spread of activities, scale of operations, asset base, market capitalization, risk profile, track record, composition of their business activities, future prospects and other relevant criteria. All these factors may affect the valuation of a company as indicated by the varied range of result in our comparison.

### 9. Dilution effect on the shareholding interests of the Independent Shareholders

The effects of the Subscription on the shareholding of the Company are shown as follows:

Shareholders	As at the Latest Practicable Date*		Upon the completion of the Agreement	
	No. of Shares	%	No. of Shares	%
The Subscriber, Mr. Wong and their concert parties ( <i>Note</i> )	180,218,800	46.53	257,674,800	55.45
Other Directors	1,572,090	0.41	1,572,090	0.33
Public Shareholders	205,491,070	53.06	205,491,070	44.22
<b>Total</b>	<b>387,281,960</b>	<b>100.00</b>	<b>464,737,960</b>	<b>100.00</b>

*Note:* The Subscriber is beneficially wholly-owned by Mr. Wong.

\* *Source:* the record from Tricor Tengis Ltd. reflecting the shareholding structure of the Company on 29 January 2008. In the event that the figures in the shareholding structure are different from those as disclosed in the above table, the Company would issue an announcement regarding the difference(s).

Having considered the minimum 25% public float as required by Listing Rules, it is reasonable to infer that the dilution of shareholding after the Subscription to the public Shareholders is not unacceptable.

### 10. Dilution effect on NAV per Share and earnings per Share

The net asset value (the "NAV") per Share of the Company is approximately HK\$1.13 as at the Latest Practicable Date. Upon completion of the Subscription, the NAV of the Group will be increased by approximately HK\$77 million and the total number of issued Shares will be increased by 77,456,000 Shares. The Company's NAV per Share will become approximately HK\$1.11, representing a dilution of approximately 1.77% in NAV per Share.

Since the Group recorded losses for the three consecutive years ended 31 March 2007, the comparison in the dilution of earnings per share was not appropriate.

### 11. *Financial effects of the Subscription on the Group*

#### A. Earnings

The proceeds to be raised from the Subscription will be used as general working capital of the Group. The Subscription will not by itself impact on the earnings of the Group. We are unable to comment on whether the proceeds from the Subscription will enhance the profitability of the Group in the future.

#### B. Net assets

As at 30 September 2007, the unaudited net assets of the Group were approximately HK\$434,730,000. Upon the completion of the Subscription, it is expected that the net assets of the Group will be increased by approximately HK\$77 million, being the net proceeds from the Subscription.

#### C. Working Capital

As referred to the Letter from the Board, the net proceeds will be used as the general working capital of the Group. The working capital of the Group will be increased by approximately HK\$77 million immediately upon the completion of the Subscription.

#### D. Gearing

As aforementioned in the section headed “Business review of the Group” in this letter, the gearing of the Group was 0.10 as at 30 September 2007. Taking into account that the Subscription will have a positive effect on the unaudited NAV of the Group as discussed above, as a result of the net proceeds of approximately HK\$77 million, it is reasonable to infer that the Subscription will also have a positive effect on the gearing of the Group.

### 12. *Reasons for the Subscription and Use of Proceeds*

The Company intends to apply the net proceeds of the Subscription of approximately HK\$77 million for general working capital of the Group. The Directors consider that the Subscription is in the interest of the Company and the Shareholders as a whole as it will broaden the capital base of the Company and improve the financial position of the Group by increasing both the current assets and capital of the Company by an amount of approximately HK\$77 million.

### 13. *Fund Raising Activities in the Past Twelve Months*

The Company has not conducted any fund raising activity in the past twelve months before the date of the Announcement, except for the issue of new Shares as set out in the Company’s announcement dated 15 March 2007 in relation to the top-up placing of 29,500,000 new Shares of HK\$0.5 each at the price of HK\$2.59 per Share by the Company (the “Issue”). The net proceeds of the Issue of approximately HK\$74.5 million in total have been applied towards the general working capital of the Group as originally planned.

### 14. *Listing Rules Implications*

The Subscriber is a substantial Shareholder. Therefore, the Subscription constitutes a connected transaction for the Company under the Listing Rules and is subject to, among other things, approval of the Independent Shareholders by way of poll at the SGM. The Subscriber, namely Orient Day Developments Limited, and its associates, who controlled or were entitled to exercise control over the voting right in 180,218,800 Shares at the Latest Practicable Date, shall abstain from voting in respect of the Subscription.

## II. **The Whitewash Waiver**

Upon completion of the Subscription, the Subscriber and parties acting in concert with it will collectively be interested in approximately 55.45% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares. The Subscriber and parties acting in concert with it will, in the absence of the Whitewash Waiver, be obliged to make a mandatory general offer for all the Shares not already owned or agreed to be acquired by them pursuant to Rule 26 of the Takeovers Code as a result of the completion of the Subscription.

The Subscriber has made an application to the Executive for a waiver from strict compliance with such obligation. The Whitewash Waiver, if granted, will also be subject to the approval by the Independent Shareholders on a vote taken by way of poll at the SGM, to grant the Whitewash Waiver. Pursuant to the Agreement, completion of the Subscription is conditional upon, among other things, the Executive granting the Whitewash Waiver to the Subscriber. As such, the Agreement will lapse if the Independent Shareholders disapprove the Whitewash Waiver at the SGM. The Subscriber, Mr. Wong and their respective associates and concert parties will abstain from voting in respect of the Whitewash Waiver.

Save as disclosed in pages 104 to 106 of this circular, none of the Company and the Directors had any interest in or had dealt for value in the Shares, convertible securities, warrants, options and derivatives of the Subscriber or the Company during the period beginning six months prior to the date of the Announcement and up to the Latest Practicable Date.

Given the aforementioned potential benefits of the Subscription to the Company and the terms of the Agreement being fair and reasonable so far as the Independent Shareholders are concerned, it is reasonable to infer that the approval of the Whitewash Waiver, which is a prerequisite for the completion of the Subscription, is in the interests of the Company and the Shareholders as a whole and is fair and reasonable for the purpose of proceeding with the Subscription.

Shareholders should note that upon completion of Subscription, the Subscriber will as aforementioned above collectively hold more than 50% of the enlarged issued share capital of the Company. In the event that the Subscriber and their concert parties' shareholding interests in the Company exceed 50% upon completion of the Subscription, and the Whitewash Waiver is approved by the Independent Shareholders and granted by the Executive, the Subscriber and parties acting in concert with it may increase their shareholdings in the Company without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### RECOMMENDATION

Having considered the principal factors and reasons as discussed above and as summarized below:

- (i) the loss-making nature of the Company for three consecutive years ended 31 March 2007;
- (ii) the Subscription being one of the most viable immediate methods presently available to the Group for fund raising purpose in present circumstance;
- (iii) the discounts of the Subscription Price are generally within the ranges of the discounts of those of the Connected Subscription Comparables and the Independent Subscription Comparables and are lower than the respective average and median discounts of the Connected Subscription Comparables and the Independent Subscription Comparables;
- (iv) the Subscription will have a positive financial effect on the Group's NAV, working capital and gearing; and
- (v) the dilution to the shareholding of the public Shareholders immediately after the Subscription is considered not unacceptable.

Having considered the above factors and reasons and Directors' representations, on balance, we are of opinion that in such circumstances of the Group, the Subscription, the Agreement and the Whitewash Waiver are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the forthcoming SGM to approve the Subscription, the Agreement and the Whitewash Waiver and we recommend the Independent Shareholders to vote in favour of the resolutions in this regard.

Yours faithfully,  
For and on behalf of  
**WALLBANCK BROTHERS**  
**Securities (Hong Kong) Limited**  
**Phil Chan**  
*Chief Executive Officer*

## 1. SUMMARY OF FINANCIAL INFORMATION

The following is a summary of the audited consolidated financial statements of the Group for the three years ended 31 March 2007, as extracted from the respective annual reports of the Company:

## Summary of consolidated income statement

	Year ended 31 March		
	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i> (restated) <i>(Note 1)</i>	2005 <i>HK\$'000</i> (restated) <i>(Note 2)</i>
Turnover	<u>65,344</u>	<u>75,157</u>	<u>34,145</u>
Loss before taxation	(54,316)	(83,915)	(19,156)
Taxation	<u>(1,168)</u>	<u>(219)</u>	<u>(435)</u>
Net loss for the year	<u>(55,484)</u>	<u>(84,134)</u>	<u>(19,591)</u>
Attributable to:			
– Equity holders of the Company	(53,278)	(84,841)	(19,574)
– Minority interests	<u>(2,206)</u>	<u>707</u>	<u>(17)</u>
	<u>(55,484)</u>	<u>(84,134)</u>	<u>(19,591)</u>
Dividends	<u>–</u>	<u>–</u>	<u>–</u>
Loss per Share:			
– Basic	(20 cents)	(78 cents)	(0.38 cents)
– Diluted <i>(Note 4)</i>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>



## Summary of consolidated balance sheet

	As at 31 March		
	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i> (restated) <i>(Note 1)</i>	2005 <i>HK\$'000</i> (restated) <i>(Note 2)</i>
Non-current assets	513,868	115,081	122,734
Current assets	<u>33,388</u>	<u>35,141</u>	<u>120,275</u>
Total assets	547,256	150,222	243,009
Non-current liabilities	–	–	46
Current liabilities	<u>119,514</u>	<u>117,955</u>	<u>117,777</u>
Total liabilities	<u>119,514</u>	<u>117,955</u>	<u>117,823</u>
Net assets	<u><u>427,742</u></u>	<u><u>32,267</u></u>	<u><u>125,186</u></u>

*Notes:*

1. The financial statements for the year ended 31 March 2006 were restated to correct certain errors noted by the Company. Details of the effects of the restatement are set out in note 2 to the financial statements for the year ended 31 March 2007 on pages 50 to 53 of this circular.
2. The financial statements for the year ended 31 March 2005 were restated to reflect the effects of the changes in accounting policies resulted from the issue by Hong Kong Institute of Certified Public Accountants of a number of new and revised Hong Kong Financial Reporting Standards that are effective for accounting periods beginning on or after 1 January 2005. The restated net loss for the year ended 31 March 2005 disclosed in the Company's 2006 annual report increased by HK\$1,153,000 as compared to the figure reported in the Company's 2005 annual report as a result of the restatement.
3. There are no qualifications contained in the auditors' report issued by KPMG, CCIF CPA Limited and Deloitte Touche Tohmatsu in respect of each of the three financial years ended 31 March 2007 respectively.
4. No diluted loss per share is presented as the exercise of the Company's outstanding share options would result in a decrease in loss per share for the three years ended 31 March 2007.
5. There are no extraordinary or exceptional items for each of the three years ended 31 March 2007.

## 2. SUMMARY OF AUDITED FINANCIAL STATEMENTS

Set out below is the audited consolidated financial statements of the Group for the year ended 31 March 2007 and the notes thereto as extracted from pages 20 to 83 of the 2007 annual report of the Company. References to page number in this section are to the page numbers of such annual report of the Company.

**CONSOLIDATED INCOME STATEMENT***for the year ended 31 March 2007*

(Expressed in Hong Kong dollars)

	<i>Notes</i>	<b>2007</b> \$'000	<b>2006</b> \$'000 (restated)
<b>Turnover</b>	<i>3 &amp; 13</i>	65,344	75,157
Cost of sales		<u>(51,061)</u>	<u>(57,874)</u>
<b>Gross profit</b>		14,283	17,283
Other revenue and net income	<i>4</i>	4,218	9,131
Selling and distribution expenses		(4,912)	(4,732)
General and administrative expenses		(26,189)	(20,758)
Equity-settled share-based payment expenses		(20,297)	(3,125)
Fair value change on securities	<i>17</i>	(9,357)	–
Gain on disposal of subsidiaries	<i>6</i>	–	11,478
Impairment losses on deposits, loans receivable, other receivables, buildings and goodwill	<i>7</i>	<u>(3,993)</u>	<u>(87,037)</u>
<b>Loss from operations</b>		(46,247)	(77,760)
Finance costs	<i>5(a)</i>	(6,868)	(6,155)
Share of loss of associates	<i>16</i>	<u>(1,201)</u>	<u>–</u>
<b>Loss before taxation</b>	<i>5</i>	(54,316)	(83,915)
Income tax	<i>8</i>	<u>(1,168)</u>	<u>(219)</u>
<b>Loss for the year</b>		<u><u>(55,484)</u></u>	<u><u>(84,134)</u></u>
<b>Attributable to:</b>			
Equity shareholders of the company	<i>11 &amp; 26</i>	(53,278)	(84,841)
Minority interests	<i>26</i>	<u>(2,206)</u>	<u>707</u>
<b>Loss for the year</b>		<u><u>(55,484)</u></u>	<u><u>(84,134)</u></u>
<b>Dividends</b>		<u><u>–</u></u>	<u><u>–</u></u>
<b>Loss per share</b>	<i>12</i>		
Basic		<u><u>20 cents</u></u>	<u><u>78 cents</u></u>
Diluted		<u><u>N/A</u></u>	<u><u>N/A</u></u>

**CONSOLIDATED BALANCE SHEET***at 31 March 2007*

(Expressed in Hong Kong dollars)

	<i>Notes</i>	<b>2007</b> \$'000	<b>2006</b> \$'000 (restated)
<b>Non-current assets</b>			
Property, plant and equipment	<i>14</i>	95,730	95,593
Interests in leasehold land held for own use under operating leases	<i>15</i>	18,155	18,668
Interest in associates	<i>16</i>	398,564	–
Deferred tax assets	<i>25(b)</i>	1,419	820
		<u>513,868</u>	<u>115,081</u>
<b>Current assets</b>			
Trade and other receivables	<i>19</i>	21,561	18,136
Tax recoverable	<i>25(a)</i>	89	–
Loans receivable	<i>20</i>	–	25
Interests in leasehold land held for own use under operating leases	<i>15</i>	513	526
Available-for-sale securities	<i>17</i>	–	12,412
Amounts due from minority shareholders of subsidiaries	<i>21(a)</i>	22	89
Amount due from an investee company	<i>21(a)</i>	19	2,168
Cash and cash equivalents	<i>22</i>	11,184	1,785
		<u>33,388</u>	<u>35,141</u>
<b>Current liabilities</b>			
Trade and other payables	<i>23</i>	17,506	14,016
Amounts due to related companies	<i>21(b)</i>	28,125	130
Short-term bank loans	<i>24</i>	57,587	85,654
Other short-term loans	<i>24</i>	506	3,226
Current taxation	<i>25(a)</i>	15,790	14,929
		<u>119,514</u>	<u>117,955</u>
<b>Net current liabilities</b>		<u>(86,126)</u>	<u>(82,814)</u>
<b>Total assets less current liabilities</b>		<u>427,742</u>	<u>32,267</u>
<b>NET ASSETS</b>		<u>427,742</u>	<u>32,267</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	<i>26(a)</i>	190,821	54,381
Reserves/(deficits)		235,103	(26,138)
<b>Total equity attributable to equity shareholders of the Company</b>		425,924	28,243
Minority interests		1,818	4,024
<b>TOTAL EQUITY</b>		<u>427,742</u>	<u>32,267</u>

**BALANCE SHEET***at 31 March 2007*

(Expressed in Hong Kong dollars)

	<i>Notes</i>	<b>2007</b> \$'000	<b>2006</b> \$'000 (restated)
<b>Non-current assets</b>			
Investments in subsidiaries	27	435,250	13,437
<b>Current assets</b>			
Other receivables	19	75	720
Available-for-sale securities	17	–	12,412
Cash and cash equivalents	22	8,966	45
		9,041	13,177
<b>Current liabilities</b>			
Other payables	23	2,770	4,006
Amount due to shareholders		8,160	–
Amount due to a related company	21(b)	–	130
		10,930	4,136
<b>Net current (liabilities)/assets</b>		(1,889)	9,041
<b>Total assets less current liabilities</b>		433,361	22,478
<b>Non-current liabilities</b>			
Amounts due to subsidiaries		5,215	5,215
<b>NET ASSETS</b>		428,146	17,263
<b>CAPITAL AND RESERVES</b>			
	26(b)		
Share capital		190,821	54,381
Reserves/(deficits)		237,325	(37,118)
<b>TOTAL EQUITY</b>		428,146	17,263

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY***for the year ended 31 March 2007*

(Expressed in Hong Kong dollars)

	Note	2007		2006	
		\$'000	\$'000	\$'000	\$'000 (restated)
<b>Total equity at 1 April:</b>					
As previously reported					
– attributable to equity shareholders of the company		49,683		121,869	
– minority interests		4,024		3,317	
		53,707		125,186	
Prior period adjustments	2(b)	(21,440)		(14,875)	
As restated			32,267		110,311
<b>Net income/(loss) recognised directly in equity:</b>					
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong			1,123		448
Changes in fair value of available-for-sale securities			(3,055)		(5,769)
Net loss for the year recognised directly in equity			(1,932)		(5,321)
Net loss for the year:					
As previously reported					
– attributable to equity shareholders of the company				(78,276)	
– minority interests				707	
				(77,569)	
Prior period adjustments	2(b)			(6,565)	
As restated			(55,484)		(84,134)
Total recognised income and expenses for the year (2006: as restated)			(57,416)		(89,455)
Attributable to:					
Equity shareholders of the company		(55,210)		(90,162)	
Minority interests		(2,206)		707	
			(57,416)		(89,455)
Movements in equity arising from capital transactions:					
Shares issued pursuant to share subscription	26(a)	40,000		–	
Issue of convertible notes	26(a)	2,263		–	
Shares issued pursuant to exercise of convertible notes	26(a)	27,737		–	
Shares issued under share options scheme	26(a)	40		–	
Shares issued upon exercise of share options	26(a)	10,000		–	
Issue of new shares for acquisition of associates	26(a)	352,554		–	
Release upon disposal of subsidiaries	6	–		8,286	
Equity settled share-based transactions	26(a)	20,297		3,125	
			452,891		11,411
Total equity at 31 March			427,742		32,267

**CONSOLIDATED CASH FLOW STATEMENT***for the year ended 31 March 2007*

(Expressed in Hong Kong dollars)

	<i>Notes</i>	<b>2007</b> \$'000	<b>2006</b> \$'000 (restated)
<b>Operating activities</b>			
Loss before taxation		(54,316)	(83,915)
Adjustments for:			
– Impairment losses		3,993	87,037
– Fair value change on securities		9,357	–
– Share of losses of associates		1,201	–
– Depreciation		3,905	4,358
– Amortisation of land lease premium		513	526
– Finance charges		6,868	6,155
– Interest income		(673)	(2,420)
– Loss on disposal of plant and equipment		–	(24)
– Gain on disposal of subsidiaries		–	(11,478)
– Equity settled share-based payment expenses		20,297	3,125
		<u>20,297</u>	<u>3,125</u>
<b>Operating (loss)/profit before changes in working capital</b>		(8,855)	3,364
Increase in trade and other receivables		(3,400)	(5,056)
Decrease/(increase) in amount due from an investee company		2,149	(2,168)
Increase in trade and other payables		3,490	1,627
		<u>3,490</u>	<u>1,627</u>
<b>Cash used in operations</b>		(6,616)	(2,233)
Income tax paid		(995)	(1,236)
		<u>(995)</u>	<u>(1,236)</u>
<b>Net cash used in operating activities</b>		(7,611)	(3,469)
		-----	-----

	<i>Notes</i>	<b>2007</b> \$'000	<b>2006</b> \$'000 (restated)
<b>Investing activities</b>			
New loans receivable		–	(23,500)
Payment for purchase of property, plant and equipment		(2,583)	(1,389)
Payment of deposit		–	(42,000)
Proceeds from disposal of property, plant and equipment		–	413
Payment for purchase of associates	<i>16</i>	(100,401)	–
Disposal of subsidiaries	<i>6</i>	–	(212)
Repayment of loans receivable		–	64,819
Interest received		673	5,974
		<u>          </u>	<u>          </u>
<b>Net cash (used in)/generated from investing activities</b>		<u>(102,311)</u>	<u>4,105</u>
<b>Financing activities</b>			
Interest paid		(6,868)	(5,855)
Repayment of other short-term loans		(2,720)	–
Repayment of bank loans		(31,380)	(86,009)
Finance lease charges paid		–	(17)
Advance from minority shareholders		67	50
Repayment of obligations under a finance lease		–	(124)
Repayment from ultimate holding company		–	29
Advance from ultimate holding company		8,101	59
Proceeds from bank and other loans		–	90,101
Net proceeds from issuance of shares		112,876	–
Net proceeds from exercise of share options		10,248	–
Net proceeds from issuance of convertible notes		30,000	–
		<u>          </u>	<u>          </u>
<b>Net cash generated from/(used in) financing activities</b>		<u>120,324</u>	<u>(1,766)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		10,402	(1,130)
<b>Cash and cash equivalents at 1 April</b>		1,785	4,183
<b>Effect of foreign exchange rate changes</b>		<u>(1,003)</u>	<u>(1,268)</u>
<b>Cash and cash equivalents at 31 March</b>	<i>22</i>	<u>11,184</u>	<u>1,785</u>

**NOTES TO THE FINANCIAL STATEMENTS**

(Expressed in Hong Kong dollars)

**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 Company and its subsidiaries (together referred to the “Group”) is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on the changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

**(b) Basis of preparation of the financial statements**

As at 31 March 2007, current liabilities of the Group exceeded its current assets by approximately \$86,126,000 (2006 (restated): \$82,814,000). In addition, the Group has outstanding short-term loans in the aggregate of approximately \$58,093,000 (2006: \$88,880,000), all of which have been matured prior to 31 March 2007. The directors confirmed that the bank has not demanded immediate repayment up to the date hereof. The Group is currently in the process of negotiation with certain banks to grant a new credit facilities to the Group sufficient to repay the existing loans. The directors do not anticipate any difficulties in obtaining the new banking facilities. In addition, the controlling shareholder of the Company has undertaken to provide such financial assistance as is necessary to maintain the Company as a going concern. Furthermore, Orient Day Developments Limited (“Orient Day”), controlling shareholder of the Company, has granted a loan facility of and not exceeding \$70,000,000 to the Company to finance its normal operations in September 2006 (note 21(b)). The Company has drawn down \$20,610,000 from Orient Day subsequent to the balance sheet date in June 2007 (note 36(a)). Based on the above assessment, the directors are of the opinion that the Group will have sufficient working capital to finance its normal operations and to meet its financial obligations as they fall due for the foreseeable future and have prepared the consolidated financial statements on a going concern basis.

The consolidated financial statements for the year ended 31 March 2007 comprise the Group and the Group’s interest in associates.

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:

- buildings (see note 1(g)),
- financial instruments classified as available-for-sale securities (see note 1(f)).



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.

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 adjustment in the next year are discussed in note 39.

**(c) Subsidiaries and minority interests**

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a 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 represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet 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.

Loans from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with notes 1(l) or (m) depending on the nature of the liability.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(i)).

**(d) Associates**

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associates for the year, including any impairment loss on goodwill relating to the investment in associates (see notes 1(e) and (i)).

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

**(e) Goodwill**

Goodwill represents the excess of the cost of a business combination or an investment in an associate 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(i)). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the interest in the associate.

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 or an investment in an associate is recognised immediately in profit or loss.

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

**(f) 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 debt and equity securities are initially stated at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. 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 stated in the balance sheet at amortised cost less impairment losses (see note 1(i)).

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(i)).

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity, except foreign exchange gains and losses in respect of monetary items such as debt securities 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 or impaired (see note 1(i)), 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.

**(g) Property, plant and equipment**

The Group's buildings held for own use are stated in the balance sheet at their revalued amount, being their fair value at the date of the revaluation less any subsequent accumulated depreciation.

Revaluations are performed with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date.

Other property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(i)).

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:

Buildings	Over the shorter of lease term and their estimated useful life
Leasehold improvements	Over the shorter of the terms of the lease, land use rights or 5 years
Equipment	5-6 years
Furniture, fixtures and office equipment	4-5 years
Motor vehicles	3-6 years

Where parts of an item of property, plant and 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.

**(h) Leased assets**

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

*(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 exception:

- land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is 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.

*(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 Group or the Company will obtain ownership of the asset, the life of the asset, as set out in note 1(g). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(i). 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 charged to profit or loss in 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.

**(i) 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 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 equity securities are not reversed.
- For trade and other current receivables and other 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 assets), where the effect of discounting is material.

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 land classified as being held under an operating lease;
- investments in subsidiaries and associates; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, 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.

**(j) 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 note 1(i)), 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(i)).

**(k) Convertible notes**

Convertible notes that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible notes is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity components. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of the proceeds.

The liability component is subsequently carried at amortised costs. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the note is converted or redeemed.

If the note is converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the capital reserve is released directly to retained profits.

**(l) 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 the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

**(m) Trade and other payables**

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

**(n) 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.

**(o) Employee benefits**

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

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement 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).

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.

**(p) 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 include those that will arise from the reversal of existing taxable 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 will not reverse in the foreseeable future, or in the case of deductible 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.



Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

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.

**(q) Financial guarantees issued, provisions and contingent liabilities**

*(i) Financial guarantees issued*

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the “holder”) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee. The consideration is recognised in accordance with the Group’s policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(q)(ii) if and when (i) it becomes probable that the holder of the guarantee with call upon the group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

*(ii) 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.

**(r) 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) Revenue from logistic services*

Revenue from the provision of logistic services is recognised when the services are rendered.

*(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.

**(s) 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 a 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 operations outside Hong Kong 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, 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.

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

**(t) Borrowing costs**

Borrowing costs are expensed in profit or loss 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 ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

**(u) Related parties**

For the purposes of these financial statements, a party is considered to be related to the Group if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;
- (iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

**(v) 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 terms 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 AND RESTATEMENT OF PRIOR PERIODS AND OPENING BALANCES

### (a) Change in accounting policies

The HKICPA has issued a number of new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. The Group has adopted the following new accounting policy in the preparation of the annual financial statements for the year ended 31 March 2007, on the basis of HKFRSs currently in issue.

*Financial guarantees issued (Amendments to HKAS39, Financial instruments: Recognition and measurement: Financial guarantee contracts)*

In prior years, financial guarantees issued by the Group, if any, were disclosed as contingent liabilities in accordance with HKFRS 4, Insurance contracts and HKAS 37, Provision, contingent liabilities and contingent assets. No provisions were made in respect of these guarantees unless it was more likely than not that the guarantee would be called upon.

With effect from 1 April 2006, in order to comply with the amendments to HKAS 39 in respect of financial guarantee contracts, the Group has changed its accounting policy for financial guarantees issued. Under the new policy, financial guarantees issued, if any, are accounted for as financial liabilities under HKAS 39 and measured initially at fair value, where the fair value can be reliably measured. Subsequently, they are measured at the higher of the amount initially recognised less accumulated amortisation, and the amount of the provision, if any, should be recognised in accordance with HKAS 37 (note 1(q)).

The new accounting policy has been applied retrospectively but has no financial impact upon comparatives as the Group did not issue any financial guarantees during the year ended 31 March 2006.

The Group has also adopted the following new/revised HKFRSs which are relevant to its operations:

- HKAS 21: Amendment relating to the Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation
- HKAS 39: Amendments relating to Financial Instruments: Recognition and Measurement – The Fair Value Option

The adoption of the above new/revised HKFRSs in 2007 did not result in any material impact on the Group's consolidated financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (note 40).

The accounting policies of the Group after the adoption of new and revised HKFRSs are summarised in note 1.

**(b) Restatement of prior periods and opening balances**

The financial statements for the year ended 31 March 2007 include a restatement of the 2006 financial statements to correct certain errors noted by the Company. The effects of the restatement on the 2006 financial statements are summarised below:

*Effect on the consolidated financial statements*

Consolidated income statements for the year ended 31 March 2006

	Effect of restatement: increase/(decrease)				2006 \$'000 (as restated)
	2006 \$'000 (as previously reported)	Deferred tax effect on valuation of property \$'000 (note i)	Impairment loss on other receivables \$'000 (note ii)	Reclassification \$'000	
Turnover	75,157	–	–	–	75,157
Cost of sales	(54,207)	–	–	(3,667)	(57,874)
Gross profit	20,950	–	–	(3,667)	17,283
Other revenue and net income	9,131	–	–	–	9,131
Selling and distribution expenses	(4,732)	–	–	–	(4,732)
General and administrative expenses	(24,425)	–	–	3,667	(20,758)
Equity settled share-based payment expenses	(3,125)	–	–	–	(3,125)
Fair value change on securities	–	–	–	–	–
Gain on disposal of subsidiaries	11,478	–	–	–	11,478
Impairment loss	(79,652)	–	(7,385)	–	(87,037)
Loss from operations	(70,375)	–	(7,385)	–	(77,760)
Finance costs	(6,155)	–	–	–	(6,155)
Share of loss of associates	–	–	–	–	–
Loss before taxation	(76,530)	–	(7,385)	–	(83,915)
Income tax	(1,039)	820	–	–	(219)
Loss for the year	<u>(77,569)</u>	<u>820</u>	<u>(7,385)</u>	<u>–</u>	<u>(84,134)</u>
Attributable to:					
Equity shareholders of the Company	(78,276)	820	(7,385)	–	(84,841)
Minority interests	707	–	–	–	707
Loss for the year	<u>(77,569)</u>	<u>820</u>	<u>(7,385)</u>	<u>–</u>	<u>(84,134)</u>
Loss per share					
Basic	<u>72 cents</u>				<u>78 cents</u>

Consolidated balance sheet at 31 March 2006

	Effect of restatement: increase/(decrease)				2006 \$'000 (as previously reported)
	Deferred tax effect on valuation of property \$'000 (note i)	Impairment loss on other receivables \$'000 (note ii)	Provision for income tax arising from waiver of loan \$'000 (note iii)	2006 \$'000 (as restated)	
<b>Non-current assets</b>					
Property, plant and equipment	95,593	-	-	-	95,593
Interests in leasehold land held for own use under operating leases	18,668	-	-	-	18,668
Interest in associates	-	-	-	-	-
Deferred tax assets	-	820	-	-	820
	<u>114,261</u>	<u>820</u>	<u>-</u>	<u>-</u>	<u>115,081</u>
<b>Current assets</b>					
Trade and other receivables	25,521	-	(7,385)	-	18,136
Tax recoverable	-	-	-	-	-
Loans receivable	25	-	-	-	25
Interests in leasehold land held for own use under operating lease	526	-	-	-	526
Available-for-sale securities	12,412	-	-	-	12,412
Amounts due from minority shareholders of subsidiaries	89	-	-	-	89
Amount due from an investee Company	2,168	-	-	-	2,168
Cash and cash equivalents	1,785	-	-	-	1,785
	<u>42,526</u>	<u>-</u>	<u>(7,385)</u>	<u>-</u>	<u>35,141</u>
<b>Current liabilities</b>					
Trade and other payables	14,016	-	-	-	14,016
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	-	-	14,875	14,929
	<u>103,080</u>	<u>-</u>	<u>-</u>	<u>14,875</u>	<u>117,955</u>
Net current liabilities	<u>(60,554)</u>	<u>-</u>	<u>(7,385)</u>	<u>(14,875)</u>	<u>(82,814)</u>
Total assets less current liabilities	<u>53,707</u>	<u>820</u>	<u>(7,385)</u>	<u>(14,875)</u>	<u>32,267</u>
<b>NET ASSETS</b>	<u>53,707</u>	<u>820</u>	<u>(7,385)</u>	<u>(14,875)</u>	<u>32,267</u>
<b>CAPITAL AND RESERVES</b>					
Share capital	54,381	-	-	-	54,381
Reserves/(deficits)	(4,698)	820	(7,385)	(14,875)	(26,138)
Total equity attributable to equity shareholders of the Company	49,683	820	(7,385)	(14,875)	28,243
Minority interests	4,024	-	-	-	4,024
<b>TOTAL EQUITY</b>	<u>53,707</u>	<u>820</u>	<u>(7,385)</u>	<u>(14,875)</u>	<u>32,267</u>

*Notes:*

- (i) It represented deferred tax arising from valuation of property made in 2006. In preparing the financial statements for the year ended 31 March 2007, the directors revealed that the deferred tax effect related to the valuation of property made in 2006 has not been recorded in the financial statements for the year ended 31 March 2006. Accordingly, a prior period adjustment was made in 2006 financial statements. The amount was calculated based on the appropriate current rate of taxation applicable to the Group as determined in accordance with the relevant income tax rules and regulation of the PRC.
- (ii) It represented an impairment loss made against other receivables related primarily to related parties of the former shareholders. The directors noted that the receivables had been impaired and the impairment loss should have been recognised at 31 March 2006. Accordingly, a prior period adjustment was made in the 2006 financial statements.
- (iii) It represented provision for enterprise income tax on income arisen from a waiver of loan to a subsidiary in the PRC prior to 2006. Pursuant to relevant PRC tax regulations, income arisen from a waiver of loan is subject to enterprise income tax. The directors revealed that the related tax provision has not been recorded in the prior year's financial statements. As a result, a prior period adjustment was made in the 2006 financial statements to reflect the tax provision.
- (iv) At 31 March 2006, the aggregate amount of revaluation difference in respect of land and buildings was erroneously included in the carrying amount of buildings. As a result, the carrying value of buildings as at 31 March 2006 would have been misstated. However, the directors consider that expenses to quantify the misstatement would outweigh the benefits. In preparing the financial statements for the year ended 31 March 2007, the directors of the Company revealed such error and instructed an independent valuer to perform a valuation on buildings to rectify the error.

**3 TURNOVER**

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

Turnover represents the service income from logistics and related services excluding sales taxes and surcharges.

**4 OTHER REVENUE AND NET INCOME**

	<b>2007</b>	<b>2006</b>
	<i>\$'000</i>	<i>\$'000</i>
Interest income from bank deposits	574	4
Other interest income	99	2,416
Management fee income	–	1,920
Over-provision of business tax	–	677
Over-provision of legal fee	–	1,000
Net foreign exchange gain	3,516	2,988
Others	29	126
	<u>4,218</u>	<u>9,131</u>

## 5 LOSS BEFORE TAXATION

*Loss before taxation is arrived at after charging:*

	<b>2007</b>	<b>2006</b>
	<i>\$'000</i>	<i>\$'000</i>
(a) Finance costs:		
Interest on bank advances and other borrowings wholly repayable within five years	4,870	5,739
Interest on other loans	1,141	389
Finance charges on obligations under finance leases	–	17
Other borrowing costs	857	10
	<u>6,868</u>	<u>6,155</u>
(b) Staff costs:		
Contributions to defined contribution retirement plans	726	968
Equity-settled share-based payment expenses	20,297	3,125
Salaries, wages and other benefits	8,808	9,849
	<u>29,831</u>	<u>13,942</u>
(c) Other items:		
Amortisation of land lease premium	513	526
Depreciation of other assets	3,905	4,358
Bad debts written off	352	208
Auditors' remuneration		
– provided for the current year	2,000	861
– underprovided in prior year	227	–
Operating lease charges: minimum lease payments – property rentals	1,943	1,151
	<u>1,943</u>	<u>1,151</u>



## 6 DISPOSAL OF SUBSIDIARIES

	<b>2006</b>
	<i>\$'000</i>
Net liabilities disposed of:	
Property, plant and equipment	207
Long-term investment	1,060
Trade and other receivables	1,038
Amount due from ultimate holding Company	56
Cash and cash equivalents	212
Trade and other payables	(14,494)
Bank borrowings	(3,735)
Amount due from related Companies	(2,295)
Amount due to minority interests	(1,813)
	<u>(19,764)</u>
Fair value reserve realised	8,286
	<u>(11,478)</u>
Gain on disposal of subsidiaries	11,478
	<u>—</u>
Total consideration	<u>—</u>
Satisfied by:	
Cash	—
Waiver of other payables	—
	<u>—</u>
	<u>—</u>
Analysis of net cash outflow in respect of the disposal of subsidiaries:	
Cash consideration received	—
Cash and cash equivalents disposed of	(212)
	<u>(212)</u>

In 2006, the Group disposed of all of its shareholdings in Dransfield Holdings Limited (“DHL”) and certain subsidiaries to two independent parties. Upon the completion of the disposal, the Group recorded a gain on disposal of subsidiaries of approximately \$11,478,000. There is no disposal of subsidiary during the year.

## 7 IMPAIRMENT LOSSES OF DEPOSITS, LOANS RECEIVABLE, OTHER RECEIVABLES, BUILDINGS AND GOODWILL

Impairment losses have been made for the following items due to uncertainty of recovery.

	The Group	
	2007 \$'000	2006 \$'000 (restated)
Secured long-term loan receivable ( <i>note (i)</i> )	–	18,000
Deposit ( <i>note (i)</i> )	–	42,000
Loans receivable ( <i>note (i)</i> )	–	12,300
Other receivables ( <i>note (ii)</i> )	–	7,385
Buildings ( <i>note 14(a)</i> )	3,993	5,468
Goodwill ( <i>note 18</i> )	–	1,884
	3,993	87,037

### Notes:

- (i) The impairment losses made in 2006 represent a full provision against (a) a deposit of \$42,000,000 and a loan of \$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 (under the direction of the former directors) and Hero Vantage Limited; and (b) two loans receivable totalled \$12,300,000 granted by the Company (under the direction of the former directors) to Squadram Limited and Earnest Investment Services Limited.

At 31 March 2007, the existing directors of the Company reassessed the recoverability of these balances based on the information currently available to them and considered that the recoverability is remote. Accordingly, no reversal of impairment loss is considered necessary at 31 March 2007.

- (ii) The impairment losses of \$7,385,000 made on other receivables related primarily to the remaining balances due from related parties of the former shareholders. During the year the management performed a detailed assessment of the outstanding balances of other receivables and found that these balances with the former shareholders and their related parties were irrecoverable. Management had strived for the best to recover the outstanding balances during the year, yet none of them had been recovered. As the balances were brought forward from prior years, a prior year adjustment has been put through in this regard (*note 2(b)*).

## 8 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) *Taxation in the consolidated income statement represents:*

	<b>2007</b>	<b>2006</b>
	\$'000	\$'000
		(restated)
Current tax		
Provision for PRC enterprise income tax	1,767	1,039
Deferred tax		
Origination and reversal of temporary differences	(599)	(820)
	<u>1,168</u>	<u>219</u>

The provision for Hong Kong Profits Tax for the year ended 31 March 2007 has not been made as the Group has no estimated assessable profits for the year.

The provision for PRC enterprise income tax is calculated at the appropriate current rates of taxation applicable to the entities comprising the Group as determined in accordance with the relevant income tax rules and regulations of the PRC.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("new tax law") which will take effect on 1 January 2008. From 1 January 2008, the applicable income tax rate for the Group's PRC subsidiaries is expected to gradually increase to the standard rate of 25%. However, the new tax law has not set out the details as to how the existing preferential tax rate will gradually increase to the standard rate of 25%. Consequently, the Group is not able to make an estimate of the expected financial effect of the new tax law on its deferred tax assets and liabilities. The expected financial effect of the new tax law, if any, will be reflected in the Group's 2008 financial statements. The enactment of the new tax law is not expected to have any financial effect on the amounts accrued in the balance sheet in respect of current tax payable.

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

	<b>2007</b>	<b>2006</b>
	\$'000	\$'000
		(restated)
Loss before tax	<u>(54,316)</u>	<u>(83,915)</u>
Tax at domestic tax rate of 15% (2006: 15%)	(8,147)	(12,588)
Tax effect of non-deductible expenses	11,584	15,123
Tax effect of non-taxable income	(3,808)	(2,933)
Tax effect of different tax rates in subsidiaries	<u>1,539</u>	<u>617</u>
Actual tax expense	<u>1,168</u>	<u>219</u>

*Note:* The PRC income tax rate is the rate for special regions in the PRC in which the Group's operations are substantially based, where a preferential tax rate of 15% is used.

## 9 DIRECTORS' REMUNERATION

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

	Directors' fees \$'000	Salaries, allowances and benefits in kind \$'000	Share-based payments \$'000	Retirement scheme contributions \$'000	2007 Total \$'000
<i>Executive directors</i>					
Wong Kwan (appointed on 24 May 2006)	256	–	2,831	9	3,096
Chan Yiu Keung (appointed on 24 May 2006)	256	–	1,180	9	1,445
Johnny Yuen (appointed on 1 January 2007)	75	–	319	3	397
Chen Gang (resigned on 24 May 2006)	200	–	–	–	200
Cheung Kwok Yu (appointed on 24 May 2006)	256	–	1,180	9	1,445
Lin Xizhong (appointed on 13 June 2006 and resigned on 1 January 2007)	115	–	–	5	120
Zheng Yingsheng	–	425	1,381	18	1,824
Zhou Li Yang	–	490	1,205	12	1,707
Fan Di (resigned on 24 May 2006)	–	–	–	–	–
	<u>1,158</u>	<u>915</u>	<u>8,096</u>	<u>65</u>	<u>10,234</u>
<i>Non-executive directors</i>					
Robert Fung Hing Piu (resigned on 1 June 2007)	–	–	1,180	–	1,180
Wang Shizhen (resigned on 24 May 2006)	–	–	–	–	–
	<u>–</u>	<u>–</u>	<u>1,180</u>	<u>–</u>	<u>1,180</u>
<i>Independent non-executive directors</i>					
Anwar Ibrahim (appointed on 24 May 2006)	256	–	2,359	–	2,615
Lee G. Lam (appointed on 24 May 2006 and resigned on 9 July 2007)	256	–	2,359	–	2,615
Victor Yang (resigned on 1 June 2007)	250	–	1,180	–	1,430
Iain Ferguson Bruce (resigned on 24 May 2006)	–	–	–	–	–
Barry John Buttifant (resigned on 24 May 2006)	–	–	–	–	–
	<u>762</u>	<u>–</u>	<u>5,898</u>	<u>–</u>	<u>6,660</u>

	Directors' fees \$'000	Salaries, allowances and benefits in kind \$'000	Share- based payments \$'000	Retirement scheme contributions \$'000	2007 Total \$'000
<i>Executive directors</i>					
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
	<u>1,155</u>	<u>435</u>	<u>537</u>	<u>24</u>	<u>2,151</u>
<i>Non-executive directors</i>					
Robert Fung Hing Piu	–	–	9	–	9
Wang Shizhen	–	–	9	–	9
	<u>–</u>	<u>–</u>	<u>18</u>	<u>–</u>	<u>18</u>
<i>Independent non-executive directors</i>					
Barry John Buttifant	–	–	9	–	9
Iain Ferguson Bruce	–	–	9	–	9
Victor Yang	–	–	12	–	12
	<u>–</u>	<u>–</u>	<u>30</u>	<u>–</u>	<u>30</u>

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. Details of these benefits in kind are disclosed under the paragraph "Share Option Scheme" in the directors' report and note 29.

## 10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, all (2006: three) are directors whose emoluments are disclosed in note 9. The aggregate of the emoluments in respect of the other two individuals in 2006 is as follows:

	2007 \$'000	2006 \$'000
Salaries and other emoluments	–	850
Share-based payments	–	90
Retirement scheme contributions	–	24
	<u>–</u>	<u>964</u>

The emoluments of the two individuals in 2006 with the highest emoluments are within the following bands:

	2007 Number of individuals	2006 Number of individuals
\$Nil – \$1,000,000	<u>–</u>	<u>2</u>

## 11 LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated loss attributable to equity shareholders of the Company includes \$38,953,000 (2006 (restated): \$62,694,000) which has been dealt with in the financial statements of the Company.

## 12 LOSS PER SHARE

### (a) Basis loss per share

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company of \$53,278,000 (2006 (restated): \$84,841,000) and the weighted average of 270,462,000 ordinary shares (2006: 108,761,000 ordinary shares after adjusting for the share consolidation in 2006) in issue during the year, calculated as follows:

#### *Weighted average number of ordinary shares*

	2007 Number of shares <i>in '000</i>	2006 Number of shares <i>in '000</i>
Issued ordinary shares at 1 April	5,438,098	5,438,098
Effect of share consolidation	(5,329,337)	(5,329,337)
Effect of shares issued to the controlling shareholder	68,164	–
Effect of convertible notes exercised	47,837	–
Effect of share options exercised	11,282	–
Effect of shares issued for acquisition of associates	33,529	–
Effect of shares issued in respect of a top up placing	<u>889</u>	<u>–</u>
Weighted average number of ordinary shares at 31 March	<u>270,462</u>	<u>108,761</u>

For the purpose of the calculation of loss per share, the share consolidation, details of which are set out in note 26, is deemed to have been taken place at 1 April 2006.

### (b) Diluted loss per share

No diluted loss per share is presented as the exercise of the Company's outstanding share options for the year ended 31 March 2007 would result in a decrease in loss per share.

**13 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 principally operates a single business segment which is the provision of logistics and related services. Accordingly, no business segment information is presented.

**Geographical segments**

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

All of the Group's sales were made to customers in the PRC. Accordingly, no geographical analysis of sales is presented.

In presenting information on the basis of geographical segments, segment assets and capital expenditure are based on the geographical location of the assets.

	The PRC		Hong Kong	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Segment assets	503,691	149,924	43,565	298
Capital expenditure incurred during the year	<u>2,384</u>	<u>978</u>	<u>199</u>	<u>411</u>

## 14 PROPERTY, PLANT AND EQUIPMENT

## (a) The Group

	Buildings	Leasehold improvements	Equipment	Furniture, fixtures and office equipment	Motor vehicles	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<i>Cost or valuation:</i>						
At 1 April 2005	87,344	4,473	7,152	31,211	3,079	133,259
Exchange adjustment	2,635	18	-	490	16	3,159
Additions	-	626	-	316	447	1,389
Disposals	-	-	-	(130)	(1,153)	(1,283)
Fair value adjustment	(5,468)	-	-	-	-	(5,468)
Disposal of subsidiaries	-	(4,043)	(7,152)	(10,971)	(1,760)	(23,926)
Reclassification	-	355	-	(355)	-	-
Less: Elimination of accumulated depreciation	(2,401)	-	-	-	-	(2,401)
At 31 March 2006	82,110	1,429	-	20,561	629	104,729
<i>Representing:</i>						
Cost	-	1,429	-	20,561	629	22,619
Valuation - 2006	82,110	-	-	-	-	82,110
	<u>82,110</u>	<u>1,429</u>	<u>-</u>	<u>20,561</u>	<u>629</u>	<u>104,729</u>
At 1 April 2006	82,110	1,429	-	20,561	629	104,729
Exchange adjustment	4,808	51	-	1,031	43	5,933
Additions	-	83	-	1,795	705	2,583
Fair value adjustment	(3,993)	-	-	-	-	(3,993)
Less: Elimination of accumulated depreciation	(1,840)	-	-	-	-	(1,840)
At 31 March 2007	81,085	1,563	-	23,387	1,377	107,412
<i>Representing:</i>						
Cost	-	1,563	-	23,387	1,377	26,327
Valuation - 2007	81,085	-	-	-	-	81,085
	<u>81,085</u>	<u>1,563</u>	<u>-</u>	<u>23,387</u>	<u>1,377</u>	<u>107,412</u>



	Buildings	Leasehold improvements	Equipment	Furniture, fixtures and office equipment	Motor vehicles	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<i>Accumulated depreciation:</i>						
At 1 April 2005	-	4,269	7,152	17,787	2,395	31,603
Exchange adjustment	-	8	-	168	13	189
Provided during the year	2,401	301	-	1,456	200	4,358
Disposal of subsidiaries	-	(4,043)	(7,152)	(10,869)	(1,655)	(23,719)
Eliminated on disposals	-	-	-	(41)	(853)	(894)
Reclassification	-	103	-	(103)	-	-
Eliminated on revaluation	(2,401)	-	-	-	-	(2,401)
At 31 March 2006	-	638	-	8,398	100	9,136
At 1 April 2006	-	638	-	8,398	100	9,136
Exchange adjustment	-	30	-	442	9	481
Provided during the year	1,840	356	-	1,566	143	3,905
Elimination on revaluation	(1,840)	-	-	-	-	(1,840)
At 31 March 2007	-	1,024	-	10,406	252	11,682
<i>Net book value:</i>						
At 31 March 2007	81,085	539	-	12,981	1,125	95,730
At 31 March 2006	82,110	791	-	12,163	529	95,593

The following properties held by the Group for own use were revalued at 31 March 2007 by the directors by reference to an independent valuation of 15 September 2006 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:

	2007	2006
	\$'000	\$'000
Buildings	81,085	82,110

The revaluation deficit of \$3,993,000 (2006: \$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 \$90,546,000 (2006: \$87,578,000).

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

	<b>2007</b>	<b>2006</b>
	<i>\$'000</i>	<i>\$'000</i>
Outside Hong Kong		
– medium-term leases	<u>81,085</u>	<u>82,110</u>

#### 15 INTERESTS IN LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASES

The interests in leasehold land held for own use under operating leases represent lease prepayments for the land use rights in respect of land located in the PRC on which the Group's warehouse is built. An analysis of net book value of the lease prepayments is follows:

	<b>2007</b>	<b>2006</b>
	<i>\$'000</i>	<i>\$'000</i>
Outside Hong Kong – medium leases		
– non-current portion	18,155	18,668
– current portion	<u>513</u>	<u>526</u>
	<u>18,668</u>	<u>19,194</u>

#### 16 INTEREST IN ASSOCIATES

	<b>The Group</b>	
	<b>2007</b>	<b>2006</b>
	<i>\$'000</i>	<i>\$'000</i>
Share of net assets	329,408	–
Goodwill	<u>69,156</u>	<u>–</u>
	<u>398,564</u>	<u>–</u>

In October 2006, the Group acquired a 40% equity interest in China Coal Energy Holdings Limited at a consideration of \$357,720,000, of which \$100,000,000 was settled by cash and the remaining balance was settled by issuance of 75,800,000 new shares of the Company. At 31 March 2007, the Group paid \$80,035,000 and issued 75,800,000 new shares of the Company to the vendor. The outstanding balance of \$19,965,000 was settled by cash subsequent to the balance sheet date.

In February 2007, the Group acquired a 50% equity interest in Euro Resources China Limited at a consideration of \$42,045,000, of which \$20,366,000 was settled by cash and the remaining balance was settled by issuance of 7,500,000 new shares of the Company. At 31 March 2007, the consideration has been settled in full.

The following list contains only the particulars of associates, all of which are unlisted corporate entities, which principally affected the results or assets of the Group:

Name of associate	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Group's effective interest	Proportion of ownership interest		
					Held by the Company	Held by a subsidiary	Principal activities
China Coal Energy Holdings Ltd.	Incorporated	Hong Kong	HK\$100,000,000	40%	-	40%	Coal gasification and coal mining
Euro Resources China Ltd.	Incorporated	Hong Kong	HK\$10,000	50%	-	50%	Recycling business

*Summary financial information on associates*

	Assets \$'000	Liabilities \$'000	Equity \$'000	Revenues \$'000	Loss \$'000
<b>2007</b>					
100 per cent	1,692,638	(874,779)	(817,859)	147,166	(2,781)
Group's effective interest	<u>677,534</u>	<u>(348,126)</u>	<u>(329,408)</u>	<u>58,892</u>	<u>(1,201)</u>
<b>2006</b>					
100 per cent	-	-	-	-	-
Group's effective interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

**Impairment tests for cash-generating units of associates containing goodwill**

Goodwill is allocated to the associates' cash-generating unit ("CGU") identified according to country of operation and business segment as follows:

	2007 \$'000	2006 \$'000
China Coal Energy Holdings Limited ("CCEH")	55,891	-
Euro Resources China Limited ("Euro Resources")	<u>13,265</u>	<u>-</u>
	<u>69,156</u>	<u>-</u>

The recoverable amount of CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated rate stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

Key assumptions used for value-in-use calculations:

	CCEH		Euro Resources	
	2007	2006	2007	2006
	%	%	%	%
– Gross margin	15	–	70	–
– Growth rate	20	–	43	–
– Discount rate	15	–	15	–

Management determined the budgeted gross-margin based on past performance and its expectation for market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

In determining the value of CGUs, the profit guarantees provided to the Company as set out below have been taken into account.

Pursuant to a conditional agreement dated 15 July 2006 between the Company and Mr. Zhang Jingyuan (the “Vendor”), the Vendor guaranteed to the Company that the audited net profit of CCEH for the three financial years ending 31 December 2009 shall in aggregate be not less than \$600,000,000. Should the aggregate audited net profit falls below \$600,000,000, the Vendor will pay the shortfall on a dollar-to-dollar basis to CCEH after the issuance of CCEH’s audit report for the financial year ending 31 December 2009.

Pursuant to a conditional sale and purchase agreement dated 29 July 2006 between the Group and Mr. Laurent Kim and Mr. Ung Phong as the Vendors (collectively, “the ER Vendors”), the ER Vendors have guaranteed to the Company that the audited net profit for each of the three financial years ending 31 December 2009 of Euro Resources shall not be less than Euro 4,000,000 (equivalent to approximately \$40,000,000). Should any of the audited net profit for the financial years ending 31 December 2009 of Euro Resources falls below Euro 4,000,000, the ER Vendors have to pay the shortfall on a dollar-to-dollar basis to the Company after the issuance of the audit report of Euro Resources for each of the financial years ending 31 December 2009.

## 17 AVAILABLE-FOR-SALE SECURITIES

	The Group		The Company	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Listed equity securities, at fair value	–	12,412	–	12,412

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 represents listed equity securities which were designated as available-for-sale financial assets on 1 January 2005.

On 7 November 2006, as a result of the failure to comply the listing requirements, China Technology Global Corporation was de-listed from the Over-The-Counter Bulletin Board of the United States of America and was then listed on the Pink Sheets. Pink Sheets is an electronic system, published by Pink Sheets LLC, to display bid and ask quotation prices of securities which is neither a broker-dealer, nor registered with the U.S. Securities and Exchange Commission.

Management considers the costs incurred in the disposal of securities on the Pink Sheets will offset with the proceeds received from the disposal, resulting in a minimal cash inflow to the Company. Given the substantial decrease in the share price of the investment and the fact that they have been thinly traded on the Pink Sheets, the listed equity securities are considered fully impaired. As a result, the gross loss of the Group's available-for-sale securities of \$3,055,000 was removed from equity and impairment loss of \$9,357,000 was recognised in the profit and loss for the year. The fair value of the available-for-sale securities was nil as at 31 March 2007.

## 18 GOODWILL

	<b>The Group</b> \$'000
<i>Cost:</i>	
At 1 April 2005	2,093
Opening balance adjustment to eliminate accumulated impairment loss	<u>(209)</u>
At 31 March 2006	----- 1,884
At 1 April 2006 and 31 March 2007	----- 1,884
<i>Accumulated amortisation and impairment losses:</i>	
At 1 April 2005	209
Eliminate against cost on 31 March 2006	(209)
Impairment loss	<u>1,884</u>
At 31 March 2006	----- <u>1,884</u>
At 1 April 2006 and 31 March 2007	----- <u>1,884</u>
<i>Carrying amount:</i>	
At 31 March 2007	<u><u>-----</u></u> -
At 31 March 2006	<u><u>-----</u></u> -

**Impairment tests for cash-generating units containing goodwill**

Goodwill is allocated to the Group's CGU identified according to the region of operation. The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management.

The goodwill was arisen from the acquisition of a 60% equity interest in Guangzhou Pearl Oriental Logistics Ltd., Jiangxi Pearl Oriental Logistics Ltd. and their subsidiary, Inner Mongolia DiChain Logistics Co., Ltd. (collectively "Guangzhou Pearl Group"). As at 31 March 2006, management had assessed the recoverable amount of the goodwill and considered that the goodwill was fully impaired by taking into account of the recent financial results of Guangzhou Pearl Group.

The impairment loss in respect of goodwill is not reversed as at 31 March 2007, according to the accounting policy set out in note 1(i)(ii).

**19 TRADE AND OTHER RECEIVABLES**

	<b>The Group</b>		<b>The Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
		(restated)		
Bills receivable	–	386	–	–
Trade receivables	16,682	14,855	–	–
Other receivables, deposits and prepayments	<u>4,879</u>	<u>2,895</u>	<u>75</u>	<u>720</u>
	<u>21,561</u>	<u>18,136</u>	<u>75</u>	<u>720</u>

All of the trade and other receivables, deposits and prepayments 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:

	<b>The Group</b>	
	<b>2007</b>	<b>2006</b>
	<i>\$'000</i>	<i>\$'000</i>
Current or less than 3 months overdue	14,663	12,167
More than 3 months overdue but less than 6 months overdue	1,638	1,754
More than 6 months overdue but less than 12 months overdue	295	549
Over 1 year overdue	<u>86</u>	<u>385</u>
	<u>16,682</u>	<u>14,855</u>

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

## 20 LOANS RECEIVABLE

	The Group	
	2007 \$'000	2006 \$'000
Secured loans receivable ( <i>note (i) and note 7</i> )	–	12,300
Less: Impairment loss of loans receivable ( <i>note (i) and note 7</i> )	–	(12,300)
Unsecured loans receivable ( <i>note (ii)</i> )	–	25
	<u>–</u>	<u>25</u>

*Notes:*

- (i) The loans are secured by certain listed securities owned by the borrowers, bearing interest at 5% per annum. Full provision was made against the loan in 2006.
- (ii) The loan bears interest at 6% per annum and is repayable by monthly instalments within one year. The amount was settled during the year.

## 21 AMOUNTS DUE FROM A MINORITY SHAREHOLDER, AN INVESTEE COMPANY AND AMOUNTS DUE TO RELATED PARTIES

**(a) Amounts due from a minority shareholder and an investee Company**

The amounts due from a minority shareholder and an investee Company, Euro Resources China Limited, as at 31 March 2007 were unsecured and interest-free and with no fixed repayment terms.

At 31 March 2006, the amount due from an investee Company of \$2,168,000 represented a loan advanced to China Technology Global Corporation which was assessed by the directors as irrecoverable. As the balance was brought forward from prior years, a prior year adjustment has been put through in this regard.

**(b) Amounts due to related parties**

The balances consisted of \$8,160,000 and \$19,965,000 due to Orient Day Developments Limited (“Orient Day”) and an associate respectively.

The Company entered into a loan facilities agreement with Orient Day in relation to the grant of a loan facility of and not exceeding \$70,000,000. Orient Day is a Company incorporated in the British Virgin Islands and is wholly and beneficially owned by a director of the Company. The amount due to Orient Day is unsecured, bears interest at Prime Rate as quoted by HSBC and repayable at the end of each calendar month commencing from one year after the drawdown date.

The Company entered into an arrangement with an independent third party and its connected persons to acquire a 40% of the issued share capital of China Coal. The consideration, based on the market price at the issued date was \$357,720,000, of which, \$100,000,000 would be paid by the Company by cash and the remaining balance of \$257,720,000 would be settled by the allotment and issue of 75,800,000 new shares to the independent third parties. As at 31 March 2007, part of the consideration amounting to \$19,965,000 remained unsettled. The balance was unsecured, interest free and has been subsequently settled in June 2007.

## 22 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Cash at bank and in hand in the balance sheets and consolidated cash flow statement	<u>11,184</u>	<u>1,785</u>	<u>8,966</u>	<u>45</u>

## 23 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Trade payables	8,973	6,612	-	-
Other payables and accrued charges	7,768	7,002	2,770	4,006
Deposits received	<u>765</u>	<u>402</u>	<u>-</u>	<u>-</u>
	<u>17,506</u>	<u>14,016</u>	<u>2,770</u>	<u>4,006</u>

All of the trade and other payables are expected to be settled or recognised as income 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	
	2007	2006
	\$'000	\$'000
Due within 3 months	7,651	5,616
Due after 3 months but within 6 months	1,065	753
Due after 6 months but within 12 months	6	12
Over 1 year	<u>251</u>	<u>231</u>
	<u>8,973</u>	<u>6,612</u>



**24 BANK AND OTHER SHORT-TERM BORROWINGS**

At 31 March 2007, bank and other short-term borrowings comprise:

	<b>The Group</b>	
	<b>2007</b>	<b>2006</b>
	<i>\$'000</i>	<i>\$'000</i>
Bank loans, secured		
– Within 1 year or on demand as classified under current liabilities	57,587	85,654
Other short-term loans, secured		
– Within 1 year or on demand as classified under current liabilities	506	3,226
	<u>58,093</u>	<u>88,880</u>

Included in bank loans and other short-term loans are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	<b>The Group</b>		<b>The Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
United States Dollars	<u>USD4,000</u>	<u>USD4,000</u>	<u>–</u>	<u>–</u>

At 31 March 2007, the bank loans and the other short-term loans were overdue. The directors confirmed that the bank and the lender have not demanded immediate repayment on the overdue balances up to the date of this report. The Group is currently in the process of negotiation with certain banks to grant new credit facilities to the Group sufficient to repay the existing loans. In addition, Orient Day, controlling shareholder of the Company, granted a loan facility of and not exceeding \$70,000,000 to the Company to finance its normal operations. The Company has drawn down \$20,610,000 from Orient Day subsequent to the balance sheet date in June 2007.

At 31 March 2007, certain of the Group's leasehold land and buildings situated in Shenzhen, with an aggregate carrying value of \$99,753,000 (2006: \$101,304,000) were pledged to a bank to secure a loan facility granted to the Group. Corporate guarantees for the secured bank loan were given by the Company and a former director of the Company.

At 31 March 2007, certain of the Group's assets, situated in Guangzhou, were used to secure other short-term loans which are payable within one year.

**25 INCOME TAX IN THE BALANCE SHEET****(a) Current taxation in the consolidated balance sheet represents:**

	<b>The Group</b>	
	<b>2007</b>	<b>2006</b>
	<i>\$'000</i>	<i>\$'000</i>
PRC enterprise income tax recoverable	(89)	–
Provision for PRC enterprise income tax for the year	915	–
Balance of PRC enterprise income tax relating to prior years	14,875	14,929
	<u>15,790</u>	<u>14,929</u>
	<u>15,701</u>	<u>14,929</u>

**(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:

	<b>Depreciation allowances in excess of the related depreciation</b>	<b>Tax losses</b>	<b>Revaluation of property</b>	<b>Total</b>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Deferred tax arising from:				
At 1 April 2005	(74)	74	–	–
Revaluation of property ( <i>note 2(b)</i> )	–	–	820	820
Disposal of subsidiaries	74	(74)	–	–
At 31 March 2006 (restated)	<u>–</u>	<u>–</u>	<u>820</u>	<u>820</u>
At 1 April 2006 (restated)	–	–	820	820
Revaluation of property	–	–	599	599
At 31 March 2007	<u>–</u>	<u>–</u>	<u>1,419</u>	<u>1,419</u>
			<b>The Group</b>	
			<b>2007</b>	<b>2006</b>
			<i>\$'000</i>	<i>\$'000</i>
				(restated)
Net deferred tax asset recognised on the balance sheet			<u>1,419</u>	<u>820</u>

**(c) Deferred tax not recognised**

At 31 March 2007, temporary differences relating to the undistributed profits of subsidiaries amounted to \$58,000 (2006: \$2,030,000). Deferred tax liabilities of \$12,000 (2006: \$406,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

## 26 CAPITAL AND RESERVES

## (a) The Group

	Attributable to equity shareholders of the Company						Minority interests \$'000	Total equity \$'000	
	Share capital \$'000	Share premium \$'000	Capital reserve \$'000	Exchange reserve \$'000	Fair value reserve \$'000	Accumulated losses \$'000			Total \$'000
At 1 April 2005									
– as previously reported	54,381	38,445	404,406	3,426	538	(379,327)	121,869	3,317	125,186
– prior year adjustments									
– current tax on wavier of loan	–	–	–	–	–	(14,875)	(14,875)	–	(14,875)
– as restated	54,381	38,445	404,406	3,426	538	(394,202)	106,994	3,317	110,311
Exchange difference on translation of financial statements of subsidiaries outside Hong Kong	–	–	–	448	–	–	448	–	448
Equity settled share-based transactions	–	–	3,125	–	–	–	3,125	–	3,125
Share options expired under share options 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 (restated)	–	–	–	–	–	(84,841)	(84,841)	707	(84,134)
At 31 March 2006	<u>54,381</u>	<u>38,445</u>	<u>406,687</u>	<u>3,874</u>	<u>3,055</u>	<u>(478,199)</u>	<u>28,243</u>	<u>4,024</u>	<u>32,267</u>
At 1 April 2006									
– as previously reported	54,381	38,445	406,687	3,874	3,055	(456,759)	49,683	4,024	53,707
– prior year adjustments									
– impairment loss	–	–	–	–	–	(7,385)	(7,385)	–	(7,385)
– deferred tax on property valuation	–	–	–	–	–	820	820	–	820
– current tax on wavier of loan	–	–	–	–	–	(14,875)	(14,875)	–	(14,875)
	54,381	38,445	406,687	3,874	3,055	(478,199)	28,243	4,024	32,267
Shares issued pursuant to share subscription	40,000	–	–	–	–	–	40,000	–	40,000
Equity portion of convertible notes issued	–	–	2,263	–	–	–	2,263	–	2,263
Shares issued pursuant to exercise of convertible notes	30,000	–	(2,263)	–	–	–	27,737	–	27,737
Shares issued under share options scheme	40	67	(67)	–	–	–	40	–	40
Issue of share options	–	–	56,800	–	–	(56,800)	–	–	–
Shares issued upon exercise of share options	10,000	–	(56,800)	–	–	56,800	10,000	–	10,000
Issue of new shares	56,400	296,154	–	–	–	–	352,554	–	352,554
Exchange difference on translation of financial statements of subsidiaries outside Hong Kong	–	–	–	1,123	–	–	1,123	–	1,123
Equity settled share-based transactions	–	–	20,297	–	–	–	20,297	–	20,297
Share options expired under share options scheme	–	–	(1,553)	–	–	1,553	–	–	–
Available-for-sale securities:									
– changes in fair value	–	–	–	–	(3,055)	–	(3,055)	–	(3,055)
Loss for the year	–	–	–	–	–	(53,278)	(53,278)	(2,206)	(55,484)
At 31 March 2007	<u>190,821</u>	<u>334,666</u>	<u>425,364</u>	<u>4,997</u>	<u>–</u>	<u>(529,924)</u>	<u>425,924</u>	<u>1,818</u>	<u>427,742</u>

## (b) The Company

	Share capital \$'000	Share premium \$'000	Contributed surplus \$'000	Capital reserve \$'000	Fair value reserve \$'000	Accumulated losses \$'000	Total \$'000
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 options scheme	–	–	–	(844)	–	844	–
Loss for the year	–	–	–	–	–	(62,694)	(62,694)
At 31 March 2006	<u>54,381</u>	<u>38,445</u>	<u>45,348</u>	<u>2,836</u>	<u>3,055</u>	<u>(126,802)</u>	<u>17,263</u>
At 1 April 2006	54,381	38,445	45,348	2,836	3,055	(126,802)	17,263
Shares issued pursuant to share subscription	40,000	–	–	–	–	–	40,000
Equity portion of convertible notes issued	–	–	–	2,263	–	–	2,263
Shares issued pursuant to exercise of convertible notes	30,000	–	–	(2,263)	–	–	27,737
Shares issued under share options scheme	40	67	–	(67)	–	–	40
Issue of new shares	56,400	296,154	–	–	–	–	352,554
Issue of share options	–	–	56,800	–	–	(56,800)	–
Shares issued upon exercise of share options	10,000	–	(56,800)	–	–	56,800	10,000
Equity settled share-based transactions	–	–	–	20,297	–	–	20,297
Share options expired under share options scheme	–	–	–	(1,553)	–	1,553	–
Available-for-sale securities: – changes in fair value	–	–	–	–	(3,055)	–	(3,055)
Loss for the year	–	–	–	–	–	(38,953)	(38,953)
At 31 March 2007	<u>190,821</u>	<u>334,666</u>	<u>45,348</u>	<u>21,513</u>	<u>–</u>	<u>(164,202)</u>	<u>428,146</u>

## (c) Share capital

## (i) Authorised and issued share capital

	Authorised			
	Ordinary shares of \$0.50 each		Ordinary shares of \$0.01 each	
	<i>No. of shares</i>	<i>Amount</i>	<i>No. of shares</i>	<i>Amount</i>
	<i>'000</i>	<i>\$'000</i>	<i>'000</i>	<i>\$'000</i>
At 1 April 2006	–	–	8,000,000	80,000
Creation of new shares (note (iii))	–	–	22,000,000	220,000
Share consolidation (note (iii))	<u>600,000</u>	<u>300,000</u>	<u>(30,000,000)</u>	<u>(300,000)</u>
At 31 March 2007	<u><u>600,000</u></u>	<u><u>300,000</u></u>	<u><u>–</u></u>	<u><u>–</u></u>
	Issued and fully paid			
	Ordinary shares of \$0.50 each		Ordinary shares of \$0.01 each	
	<i>No. of shares</i>	<i>Amount</i>	<i>No. of shares</i>	<i>Amount</i>
	<i>'000</i>	<i>\$'000</i>	<i>'000</i>	<i>\$'000</i>
At 1 April 2006	–	–	5,438,098	54,381
Share consolidation (note (iii))	108,761	54,381	(5,438,098)	(54,381)
Issue of shares under the Subscription Agreements (note (ii))	80,000	40,000	–	–
Exercise of convertible notes (note (iv))	60,000	30,000	–	–
Exercise of share options (note (v))	80	40	–	–
Exercise of share options in 2006 September (note (iv))	20,000	10,000	–	–
Issue of new shares for acquisition of CCEH (note (vi))	75,800	37,900	–	–
Issue of new shares for acquisition of Euro Resources (note (vii))	7,500	3,750	–	–
Top-up placing (note (viii))	<u>29,500</u>	<u>14,750</u>	<u>–</u>	<u>–</u>
At 31 March 2007	<u><u>381,641</u></u>	<u><u>190,821</u></u>	<u><u>–</u></u>	<u><u>–</u></u>

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) 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, the Company agreed to allot and issue, and Orient Day agreed to subscribe in cash of \$40,000,000 for a total of 4,000,000,000 subscription shares at a price of \$0.01 per share (80,000,000 Consolidated Shares of \$0.05 each), which represented approximately 73.6% of the then issued share capital of the Company and 42.4% of the issued share capital as enlarged by the issue of the subscription shares. Moreover, the Company agreed to grant a total of 40,000,000 share options (the “Options”) with an exercise price of \$0.01 per share (80,000,000 Consolidated Shares of \$0.05 each) to Orient Day.
- (iii) By a special resolution passed on 22 May 2006, the following changes became effective on 23 May 2006.
- the authorised share capital of the Company has been increased from \$80,000,000 to \$300,000,000 by the creation of additional 22,000,000,000 shares of \$0.01 each; and
  - a share consolidation (“Share Consolidation”) on the basis that every fifty issued ordinary shares of \$0.01 each in the capital of the Company were consolidated into one Consolidated Share of \$0.50 each (the “Shares”).

Moreover, subject to the completion of the share subscription, the Company agreed to issue to Orient Day convertible notes of \$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 is 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.

- (iv) In June 2006 and September 2006, Orient Day has elected to convert the \$30,000,000 convertible notes into 60,000,000 new Shares and exercised the Options to subscribe for 20,000,000 new Shares of \$0.50 each in the Company respectively.
- (v) Each of Mr. Iain F. Bruce and Mr. Barry J. Buttifant, both former independent non-executive directors of the Company, has exercised their options to subscribe for 40,000 shares at the exercise price of \$3.10 per share in August 2006.
- (vi) A conditional agreement was entered into on 15 July 2006 in respect of the sale and purchase of a 40% equity interest in China Coal Energy Holdings Limited (“CCEH”) between the Company and Mr. Zhang Jingyuan as the vendor at a total consideration of \$357,720,000, out of which the Group has to pay a cash consideration of \$100,000,000 upon completion, and the balance of \$247,720,000 will be satisfied by the issue of 75,800,000 new shares of the Company to the Vendor and his nominees.
- (vii) A conditional sale and purchase agreement was entered on 29 July 2006 between Grand Ascend Investments Limited, a subsidiary of the Company as the purchaser and Mr. Laurent Kim and Mr. Ung Phong as the vendors in respect of a 50% equity interest in Euro Resources China Limited (“Euro Resources”) at a total consideration of \$42,045,000 which was settled by the issue of 7,500,000 new shares on the Company and cash consideration of approximately \$20,000,000 upon completion.
- (viii) On 15 March 2007, the Company, Orient Day and six subscribers entered into share sale and subscription agreements in respect of a top-up placing of 29,500,000 shares in aggregate at a price of \$2.59 per share as announced by the Company on 15 March 2007.

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

Exercise periods	Exercise	2007	2006
	price \$	Number	Number
20 May 2004 to 21 June 2012	6.0000	300,000	1,410,000
18 August 2005 to 20 June 2012	3.1000	476,800	1,100,000
28 September 2005 to 20 June 2012	3.1200	40,000	40,000
6 April 2006 to 20 June 2012	3.3200	–	100,000
29 August 2006 to 20 June 2012	3.1500	2,370,000	5,130,000
24 May 2006 to 20 June 2012	1.3900	–	800,000
13 June 2007 to 20 June 2012	3.3750	16,000,000	–
1 January 2008 to 20 June 2012	3.3750	1,000,000	–

Each option entitles the holder to subscribe for one ordinary share of the Company. Further details of these options are set out in note 29 to the financial statements.

**(d) Nature and purpose of reserves**

*(i) Capital and contributed surplus*

The capital reserve 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 exchange differences arising from the translation of the financial statements of operations outside Hong Kong. The reserve is dealt with in accordance with the accounting policies set out in note 1(s).

*(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 set out in note 1(f).

**(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 2007, the Company did not have any reserves available for distribution to equity shareholders (2006: Nil).

**(f) Capital reserves**

The capital reserves of the Group mainly represent the difference between the nominal value of the shares of the subsidiary acquired pursuant to the group reorganisation on 29 October 1992 and 26 August 2002 over the nominal value the Company's shares issued in exchange thereof respectively.

**27 INVESTMENTS IN SUBSIDIARIES**

	<b>The Company</b>	
	<b>2007</b>	<b>2006</b>
	<i>\$'000</i>	<i>\$'000</i>
Unlisted shares, at cost	–	–
Amounts due from subsidiaries	<u>435,250</u>	<u>13,437</u>

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.



Name	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital	Proportion of ownership interest		
				Group's effective interest	Held by the Company	Held by a subsidiary
PO (SZ) Logistics Limited (formerly known as DiChain (Asia) Logistics Holdings Ltd.)	The British Virgin Islands	Provision of logistics services	US\$1	100%	–	100%
Grand Huge International Limited	Hong Kong	Provision of corporate services	\$10,000	100%	–	100%
Guangzhou Pearl Oriental Logistics Limited (formerly known as Guangzhou DiChain Logistics Co., Ltd)	PRC (note (iii))	Provision of logistics services	RMB9,500,000	60%	–	60%
Inner Mongolia DiChain Logistics Co., Ltd	PRC (note (i))	Provision of logistics services	RMB2,500,000	60%	–	60%
Jiangxi Pearl Oriental Logistics Ltd. (formerly known as Jiangxi DiChain Logistics Co., Ltd)	PRC (note (iii))	Provision of logistics services	RMB500,000	60%	–	60%
Pearl Oriental Logistics (Shenzhen) Ltd. (formerly known as DiChain Warehouse Services (Shenzhen) Co., Ltd)	PRC (note (ii))	Provision of logistics services	US\$400,000	100%	–	100%
Pearl Oriental Warehouse (Shenzhen) Ltd. (formerly known as DiChain Logistics Services (Shenzhen) Co., Ltd)	PRC (note (ii))	Provision of logistics services and property and investment holding	\$35,000,000	100%	–	100%
Pearl Oriental Services Ltd. (formerly known as China Merchants DiChain (Asia) ITS Ltd.)	The British Virgin Islands	Investment holding	US\$1	100%	100%	–
Pearl Oriental Energy & Resources Limited	The British Virgin Islands	Investment holding	US\$1	100%	100%	–
Champion Merry Investment Ltd.	The British Virgin Islands	Investment holding	US\$1	100%	–	100%
Pearl Oriental Logistics Holdings Limited (formerly known as China Merchants DiChain (Asia) Investment Holdings Ltd.)	The British Virgin Islands	Investment holding	US\$1	100%	100%	–

Name	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital	Proportion of ownership interest		
				Group's effective interest	Held by the Company	Held by a subsidiary
Good Value Holdings Limited	The British Virgin Islands	Investment holding	US\$7	100%	–	100%
Hong Kong Good Value Holdings Limited	Hong Kong	Dormant	\$200	100%	–	100%
PO (GZ) Logistics Limited (formerly known as China Merchants DiChain (Asia) Technology Ltd.)	The British Virgin Islands	Investment holding	US\$1	100%	–	100%
Southland Enterprises Limited	The British Virgin Islands	Investment holding	US\$1	100%	–	100%
Well Assessed Limited	Hong Kong	Dormant	\$2	100%	–	100%
Pearl Oriental International Assets Limited	Hong Kong	Provision of corporate services	\$1	100%	–	100%
Pearl Oriental Financial Services Limited	Hong Kong	Dormant	\$1	100%	–	100%
Grand Ascend Investments Limited	The British Virgin Island	Investment holding	US\$1	100%	–	100%
Oriental Gold Mining Limited	Hong Kong	Dormant	\$1	100%	–	100%

*Notes:*

- (i) These entities established in the PRC are domestic owned enterprises.
- (ii) There entities established in the PRC are wholly foreign owned enterprises.
- (iii) These entities established in the PRC are sino foreign joint-venture enterprises.
- (iv) The English translation of the Company names of the Companies established in the PRC is for reference only. The official names of these Companies are in Chinese.

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

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.

**28 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 \$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 \$216,000 (2006: \$259,000) and \$510,000 (2006: \$709,000), respectively.

**29 SHARE OPTIONS****(a) Share options to Orient Day**

The Company had granted a share option to Orient Day, pursuant to the Subscription Agreement entered into on 22 February 2006 and 20 March 2006 respectively. The options vested immediately and may be exercised at any time from the date of acceptance of the offer to the second anniversary of the date of grant. Total of 20,000,000 share options were granted and the exercise price for each share was \$0.5. Each option gives the holder the right to transfer the option to other party as well as 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 share option ‘000	Vesting conditions	Contractual life of options
Options granted to Orient Day:			
– on 22 May 2006	<u>20,000</u>	on the date of grant	2 years

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

	2007	
	Weighted average exercise price \$	Number of options ‘000
Outstanding at the beginning of the year	–	–
Granted during the year	0.5	20,000
Exercised during the year	0.5	<u>(20,000)</u>
Outstanding at the end of the year	–	<u>–</u>
Exercisable at the end of the year	–	<u>–</u>

*(c) Fair value of share options and assumptions*

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

	<b>2006</b>
	\$
Fair value at measurement date	56,800,000
Share price	3.3
Exercise price	0.05
Expected volatility (expressed as weighted average volatility used in the modelling under BS-model)	111.24%
Option life	2 years
Expected dividends	–
Risk-free interest rate (based on Exchange Fund Notes)	<u>4.007%</u>

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 based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

**(b) Equity settled share-based transactions**

The Company has a share option scheme (“the 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 \$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 13 June 2006	13,400	1 year from the date of grant	5.81 years
– on 1 January 2007	1,000	1 year from the date of grant	4.47 years
Options granted to employees:			
– on 13 June 2006	4,100	1 year from the date of grant	5.81 years
Total share options	<u>18,500</u>		

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

	2007		2006	
	Weighted average exercise price \$	Number of options '000	Weighted average exercise price \$	Number of options '000
Outstanding at the beginning of the year	0.069	429,000	0.097	195,000
Share Consolidation	–	(420,420)	–	–
Exercised during the year	3.100	(80)	0.059	388,500
Lapsed during the year	3.602	(6,813)	0.080	(154,500)
Granted during the year	3.375	<u>18,500</u>	–	–
Outstanding at the end of the year	3.381	<u>20,187</u>	0.069	<u>429,000</u>
Exercisable at the end of the year	3.412	<u>3,187</u>	0.069	<u>429,000</u>

The options outstanding at 31 March 2007 had an exercise price ranged from \$3.1 to \$6 (2006: exercise price of \$0.069 before share consolidation) and a weighted average remaining contractual life of 5.03 years (2006: 6.05 years).

*(c) Fair value of share options and assumptions*

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

*Fair value of share options and assumptions*

	<b>2007</b>	<b>2006</b>
	\$	\$
Fair value at measurement date	27,201,945	5,779,000
Share price	3.005-3.275	3.45
Exercise price	3.375	3.45
Expected volatility (expressed as weighted average volatility used in the modelling under BS-model)	71.72-71.9%	59.38%
Option life (expressed as weighted average life used in the modelling under BS-model)	2.7-3 years	6.05 years
Expected dividends	–	–
Risk-free interest rate (based on Exchange Fund Notes)	<u>3.59-4.523%</u>	<u>2.44%</u>

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 based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

**30 CONVERTIBLE NOTES**

According to the supplementary subscription agreement entered into with Orient Day on 20 March 2006 (the “Supplementary Agreement”), the Company issued convertible notes for an aggregate principal amount of \$30,000,000 (“Convertible Notes”) to Orient Day on 24 May 2006. The conversion price is \$0.01 (the conversion price became \$0.5 after taken into the effect of share consolidation) at any time until maturity. The Convertible Notes will bear interest 4% per annum payable by the Company quarterly in arrear and the Convertible Notes will mature in two years since the issue date.

Pursuant to the terms of the Supplementary Agreement, the Company shall be entitled to redeem all or any part of the principal amount of the Convertible Notes by giving not less than seven days’ written notice, by which Orient Day have the right to exercise the conversion right.

The values of the liability and equity components of the Convertible Notes were estimated by a director, who has relevant knowledge on valuation, based on the discounted cash flow method at the issue of the Convertible Notes.

On 13 June 2006, Orient Day elected to convert the \$30,000,000 Convertible Notes into 60,000,000 new Shares of \$0.50 (after the share consolidation) each in the Company. The equity component of the Convertible Notes, which was booked as capital reserve, is reversed upon the conversion.

## 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 may extend to 180 days for certain 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**

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or the maturity dates, if earlier.

The group	2007		2006	
	Effective interest rate %	One year or less \$'000	Effective interest rate %	One year or less \$'000
Repricing dates for assets which reprice before maturity				
Cash and cash equivalents	0.72%- 4.31%	<u>4,180</u>	0.72%- 3.92%	<u>1,785</u>
Maturity dates for assets/(liabilities) which do not reprice before maturity				
Cash and cash equivalents	3.6%	7,004	-	-
Loans receivable	-	-	6%	25
Short term bank loans	7.37%	(57,587)	5.76-6.34%	(85,654)
Other short term loans	6%	<u>(506)</u>	6%	<u>(3,226)</u>
		<u>(51,089)</u>		<u>(88,855)</u>

**(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**

All financial instruments are carried at amounts not materially different from their fair value as at 31 March 2006 and 2007.

## 32 COMMITMENTS

- (a) Capital commitments outstanding at 31 March 2007 not provided for in the financial statements were as follows:

	<b>The Group</b>	
	<b>2007</b>	<b>2006</b>
	<i>\$'000</i>	<i>\$'000</i>
Contracted for	1,012	2,415

- (b) A conditional sale and purchase agreement was entered into between Ms. Yang Yu Qing and the Group on 14 September 2006 in relation to the acquisition of a 60% equity interest in Pearl Oriental Logistics Sino Limited at a total consideration of approximately \$22,000,000, out of which the Group has to pay a cash consideration of \$1,012,000 upon completion. The remaining balance was to be settled by issuing 5,640,000 Shares of the Company's shares.

- (c) As detailed in note 21(b), the Company acquired a 40% of the issued share capital of China Coal for a consideration of \$357,720,000. As at 31 March 2007, part of the consideration amounting to \$19,965,000 remained unsettled.

- (d) At 31 March 2007, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	<b>The Group</b>	
	<b>2007</b>	<b>2006</b>
	<i>\$'000</i>	<i>\$'000</i>
Within 1 year	4,968	2,856
After 1 year but within 5 years	3,808	3,703
After 5 years	—	—
	8,776	6,559

The Group is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of one to four years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

## 33 CONTINGENT ASSETS AND LIABILITIES

As at 31 March 2007, guarantees totalling approximately \$58,000,000 (2006: \$87,000,000) were 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 2007 amounted to approximately \$57,587,000 (2006: \$85,654,000). The fair value of the financial guarantees, being determined by reference to fees charged in is estimated by reference to interest rate differentials, is considered inconsequential. No fair value of the financial guarantees has been recognised.



**34 LITIGATIONS**

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

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

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

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

**35 MATERIAL RELATED PARTY TRANSACTIONS**

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions during the year.

**(a) Transactions with key management personnel**

All members of key management personnel are the directors of the Company, and the remuneration for them is disclosed in note 9.

**(b) Transactions with other related parties**

Except for a sum of \$800,000 paid to a related Company as administrative fees and the payment of loan interests to Orient Day as disclosed in note 21, during the year, the Company did not enter into any material related party transactions.

**36 NON-ADJUSTING POST BALANCE SHEET EVENTS****(a) Advance from shareholder**

Subsequent to the year end date, the Company had drawn down \$20,610,000 from Orient Day in June 2007. The terms remain the same as those stipulated in the loan facilities agreement entered into on 5 September 2006.

**(b) Loan to an associate**

On 25 April 2007 and 22 May 2007, the Group granted short-term loans with principal amount of \$939,000 and \$1,147,000, respectively, to an associate as working capital. The loans are unsecured, bear interest at Prime lending rate of HKD as quoted by HSBC and repayable on six months. The associate may make early repayment at any time before the date of maturity after the drawdown date.

**(c) Acquisition of Pearl Oriental Logistics Sino Limited**

A conditional sale and purchase agreement was entered into between Ms. Yang Yu Qing and the Company on 14 September 2006 in relation to the acquisition of a 60% equity interest in Pearl Oriental Logistics Sino Limited (the “Acquisition”) at a total consideration of approximately \$22,000,000, out of which the Group has to pay a cash consideration of \$1,012,000 upon completion. The Acquisition has been completed in April 2007.

**37 COMPARATIVE FIGURES**

Certain comparative figures have been adjusted or reclassified as a result of the restatement of prior periods and opening balances. Further details are disclosed in note 2.

**38 IMMEDIATE AND ULTIMATE CONTROLLING PARTY**

At 31 March 2007, the directors consider the immediate parent and ultimate controlling party of the Group to be Orient Day, which is incorporated in the British Virgin Islands. This entity does not produce financial statements available for public use.

**39 ACCOUNTING ESTIMATES AND JUDGEMENTS****Key sources of estimation uncertainty**

Notes 14, 29 and 31 contain information about the assumptions relating to the valuation of fair value of property, plant and equipment, share options granted and financial instruments. Other sources of estimation uncertainty are as follows:

*(i) Impairments*

In considering the impairment losses that may be required for certain of the Group’s assets which include property, plant and equipment, trade and other receivables, available-for-sale equity securities and investments in its subsidiaries and associates, recoverable amount of the asset needs to be determined. The recoverable amount is the greater of the net selling prices and the value in use. It is difficult to precisely estimate selling prices because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the assets are discounted to their present value, which requires significant judgement relating to items such as level of sale volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as sale volume, selling price and amount of operating costs.

In considering the impairment losses that may be required for current receivables, future cash flows need to be determined. One of the key assumptions that has to be applied is about the ability of the debtors to settle the receivables. Despite that the Group has used all available information to make this estimation, inherent uncertainty exists and actual write-offs may be higher than the amount estimated.

*(ii) Depreciation*

Items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group’s historical experience with similar assets and taking into account anticipated technologies changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

*(iii) Income taxes liability in the PRC*

The Group is subject to income taxes in the PRC. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

*(iv) Valuation on property*

The Group performs annual review of the carrying amount of owned property with reference to the assumption that the properties are sold in the open market in its existing state without the benefit of deferred terms contract, leaseback and joint venture. Due to changes in market condition, carrying amount of owned properties may be different from estimation and profit or loss could be affected by differences in this estimation.

#### **40 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 MARCH 2007**

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 March 2007 and which have not been adopted in these financial statements.

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 them is unlikely to have a significant impact on the Company's results of operations and financial position.

In addition, the following developments may result in new or amended disclosures in the financial statements:

		<b>Effective for accounting periods beginning on or after</b>
HKFRS 7	Financial instruments: disclosures	1 January 2007
HKFRS 8	Operating segments	1 January 2009
Amendment to HKAS 1	Presentation of financial statements: capital disclosures	1 January 2007

### 3. UNAUDITED CONSOLIDATED INTERIM RESULTS OF THE GROUP FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007

Set out below is a summary of the unaudited condensed consolidated financial statements of the Group for the six months ended 30 September 2007 and notes thereto as extracted from the 2007 interim report of the Company.

#### CONDENSED CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	<b>Six months ended</b>	
		<b>30 September</b>	
		<b>2007</b>	<b>2006</b>
		(Unaudited)	(Unaudited)
		(Restated)	
		<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	3	39,415	33,239
Cost of sales		<u>(28,555)</u>	<u>(23,525)</u>
Gross profit		10,860	9,714
Other operating income		3,111	2,384
Selling and distribution expenses		(4,538)	(2,003)
General and administrative expenses		<u>(18,680)</u>	<u>(15,996)</u>
Loss from operations	4	(9,247)	(5,901)
Finance costs		(2,601)	(3,646)
Share of profit of associates		6,232	–
Provision for doubtful debts		–	(7,187)
Impairment loss of investment securities		(6,496)	(9,357)
Realized holding loss on investment in securities		(900)	–
Impairment loss of goodwill		<u>(6,065)</u>	<u>–</u>
(Loss) before taxation		(19,077)	(26,091)
Taxation	5	<u>(402)</u>	<u>(307)</u>
(Loss) for the period		<u><u>(19,479)</u></u>	<u><u>(26,398)</u></u>
Attributable to:			
Equity holders of the Company		(15,047)	(26,451)
Minority interests		<u>(4,432)</u>	<u>53</u>
		<u><u>(19,479)</u></u>	<u><u>(26,398)</u></u>
(Loss) per share	7		
Basic		<u><u>(4) cents</u></u>	<u><u>(13) cents</u></u>

*Note:* There are no extraordinary or exceptional items for the six months ended 30 September 2007 and 2006.

## CONDENSED CONSOLIDATED BALANCE SHEET

		At 30 September 2007 (Unaudited)	At 31 March 2007 (Audited) (Restated)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		98,979	95,730
Interest in leasehold land held for own use under operating leases		17,874	18,155
Interest in associates	8	404,796	398,564
Deferred tax assets	9	1,419	1,419
		<u>523,068</u>	<u>513,868</u>
Current assets			
Trade and other receivables	10	22,626	21,561
Tax recoverable		425	89
Interests in leasehold land held for own use under operating leases		531	513
Available-for-sale securities		4,060	–
Amount due from minority shareholders of subsidiaries		14	22
Amounts due from investee companies	11	7,414	19
Cash and Cash equivalents		7,957	11,184
		<u>43,027</u>	<u>33,388</u>
Current liabilities			
Trade and other payables	12	23,191	17,506
Amounts due to related companies	13	34,398	28,125
Short-term bank loans		57,844	57,587
Other short-term loans		–	506
Current taxation	14	15,932	15,790
		<u>131,365</u>	<u>119,514</u>
Net current liabilities		<u>(88,338)</u>	<u>(86,126)</u>
Total assets less current liabilities		<u>434,730</u>	<u>427,742</u>
NET ASSETS		<u>434,730</u>	<u>427,742</u>
Capital and reserves			
Share capital	15	193,641	190,821
Reserves		237,895	235,103
Total equity attributable to equity shareholders of the Company		431,536	425,924
Minority interests		3,194	1,818
TOTAL EQUITY		<u>434,730</u>	<u>427,742</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity shareholders of the Company							Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Accu- mulated losses HK\$'000	Total HK\$'000	Minority interest HK\$'000	
At 1 April 2007								
– as originally stated	190,821	334,666	425,364	4,997	(529,924)	425,924	1,818	427,742
Issue of new shares	2,820	11,844	–	–	–	14,664	5,808	20,472
Exchange difference on translation of financial statement of subsidiaries outside Hong Kong	–	–	–	807	–	807	–	807
Net income (expenses) recognised directly in the equity	193,641	346,510	425,364	5,804	(529,924)	441,395	7,626	449,021
Loss for the period	–	–	–	–	(15,047)	(15,047)	(4,432)	(19,479)
Total recognised income and expenses for the period	193,641	346,510	425,364	5,804	(544,971)	426,348	3,194	429,542
Recognition of equity-settled share based payments	–	–	5,188	–	–	5,188	–	5,188
Share options expired under share options scheme	–	–	(2,643)	–	2,643	–	–	–
At 30 September 2007	<u>193,641</u>	<u>346,510</u>	<u>427,909</u>	<u>5,804</u>	<u>(542,328)</u>	<u>431,536</u>	<u>3,194</u>	<u>434,730</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent								Total equity HK\$'000
	Share Capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Fair value reserve HK\$'000	Acc-umulated losses HK\$'000	Total HK\$'000	Minority interest HK\$'000	
At 1 April 2006									
– as originally stated	54,381	38,445	406,687	3,874	3,055	(456,759)	49,683	4,024	53,707
Issue of shares pursuant to share subscription	40,000	–	–	–	–	–	40,000	–	40,000
Share issued of pursuant to exercise of convertible notes	30,000	–	–	–	–	–	30,000	–	30,000
Shares issued under share options scheme	40	278	(70)	–	–	–	248	–	248
Shares issued upon exercise of share options	10,000	–	–	–	–	–	10,000	–	10,000
Deduct related expenses incurred for the issue of new shares	–	(600)	–	–	–	–	(600)	–	(600)
Available-for-sales securities changes in fair value	–	–	–	–	(3,055)	–	(3,055)	–	(3,055)
Exchange differences arising on the translation of foreign operations	–	–	–	183	–	–	183	–	183
Net income (expenses) recognised directly in the equity	134,421	38,123	406,617	4,057	–	(456,759)	126,459	4,024	130,483
Loss for the period	–	–	–	–	–	(26,451)	(26,451)	53	(26,398)
Total recognised income and expenses for the period	134,421	38,123	406,617	4,057	–	(483,210)	100,008	4,077	104,085
Recognition of equity-settled share based payments	–	–	4,062	–	–	–	4,062	–	4,062
At 30 September 2006	<u>134,421</u>	<u>38,123</u>	<u>410,679</u>	<u>4,057</u>	<u>–</u>	<u>(483,210)</u>	<u>104,070</u>	<u>4,077</u>	<u>108,147</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 September 2007 (Unaudited) HK\$'000	Six months ended 30 September 2006 (Unaudited) HK\$'000
Net cash (out) inflow from operating activities	1,926	(6,972)
Net cash outflow from investing activities	<u>(37,456)</u>	<u>(8,583)</u>
Net cash (out) inflow before financing activities	(35,530)	(15,555)
Net cash inflow from financing activities	<u>33,130</u>	<u>45,332</u>
(Decrease) increase in cash and cash equivalents	(2,400)	29,777
Effect of changes in exchange rate	(827)	(1,661)
Cash and cash equivalents brought forward	<u>11,184</u>	<u>1,785</u>
Cash and cash equivalents carried forward	<u><u>7,957</u></u>	<u><u>29,901</u></u>

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. BASIS OF PREPARATION

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

## 2. PRINCIPAL ACCOUNTING POLICIES

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

The Group's interim financial report for the six months ended 30 September 2007 (the "Interim Financial Report"), has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the HKSE (the "Listing Rules"), all applicable HKFRSs, which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the accounting principles generally accepted in Hong Kong, including compliance with HKAS 34 "Interim financial statements". The preparation of interim financial reports in conformity with HKAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.



The principal accounting policies adopted in preparing the Interim Financial Report are consistent with those adopted in the financial statements for the year ended 31 March 2007. The Group has also adopted a number of new HKFRSs ("New HKFRSs") issued by HKICPA which became effective for accounting periods beginning on or after 1 January 2006. However, the adoption of these New HKFRSs has had no material effect on how the results of operations and financial position of the Group are prepared and presented.

### 3. SEGMENT INFORMATION

	Turnover		Loss from operations	
	Six months ended		Six months ended	
	30 September		30 September	
	2007	2006	2007	2006
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By principal activity:				
Continuing operations Logistics	39,415	33,239	1,294	3,704
Unallocated corporate expenses			<u>(10,541)</u>	<u>(9,605)</u>
Loss from operations			<u><u>(9,247)</u></u>	<u><u>(5,901)</u></u>
By geographical area:				
Hong Kong	–	–		
The People's Republic of China	<u>39,415</u>	<u>33,239</u>		
	<u><u>39,415</u></u>	<u><u>33,239</u></u>		

### 4. LOSS FROM OPERATIONS

	Six months ended	
	30 September	
	2007	2006
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
The Group's loss from operations has been arrived at after charging:		
Depreciation and amortization	2,366	2,450
and after crediting:		
Net foreign exchange gain	2,434	1,824
Interest income from bank deposits	87	452
Government subsidy	526	–
Others	<u>64</u>	<u>108</u>

## 5. TAXATION

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2007</b>	<b>2006</b>
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax		
Hong Kong	–	–
Provision for PRC enterprise income tax	402	307
	<u>402</u>	<u>307</u>
	<u><u>402</u></u>	<u><u>307</u></u>

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

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

## 6. DIVIDENDS

No dividends were paid during the period. The directors do not recommend the payment of an interim dividend (2006: Nil).

## 7. (LOSS) PER SHARE

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

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2007</b>	<b>2006</b>
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
(Loss) for the purpose of calculating basic (loss) per share:		
Net (loss) for the period	<u>(15,047)</u>	<u>(26,451)</u>
Weighted average number of shares for the purpose of calculating basic (loss) per share (in thousands)	<u>387,282</u>	<u>203,425</u>

No diluted (loss) per share is presented as the exercise of the Company's outstanding share options for the six months ended 30 September 2007 and 30 September 2006 would result in a decrease in loss per share respectively.

**8. INTEREST IN ASSOCIATES**

	<b>At 30 September 2007</b> (Unaudited) <i>HK\$'000</i>	<b>At 31 March 2007</b> (Audited) <i>HK\$'000</i>
Share of net assets	335,640	329,408
Goodwill	69,156	69,156
	<u>404,796</u>	<u>398,564</u>

**9. DEFERRED TAX ASSETS**

	<b>At 30 September 2007</b> (Unaudited) <i>HK\$'000</i>	<b>At 31 March 2007</b> (Audited) <i>HK\$'000</i>
Net deferred tax asset recognised on the balance sheet	<u>1,419</u>	<u>1,419</u>

**10. TRADE AND OTHER RECEIVABLES**

Included in trade and other receivables (net of impairment losses for bad and doubtful debts) with an ageing analysis as at 30 September 2007 as follows:

	<b>At 30 September 2007</b> (Unaudited) <i>HK\$'000</i>	<b>At 31 March 2007</b> (Audited) <i>HK\$'000</i>
Less than 3 months	13,288	14,663
3 to 6 months	539	1,638
6 to 12 months	262	295
Over 1 year	292	86
	<u>14,381</u>	<u>16,682</u>
Other receivables	8,245	4,879
	<u>22,626</u>	<u>21,561</u>

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

**11. AMOUNTS DUE FROM INVESTEE COMPANIES**

The amounts due from investee companies, Euro Resources China Limited and China Coal Energy Holdings Ltd., as at 30 September 2007 were unsecured and interest-free and with no fixed repayment terms.

	<b>At 30 September 2007</b> (Unaudited) <i>HK\$'000</i>	<b>At 31 March 2007</b> (Audited) <i>HK\$'000</i>
China Coal Energy Holdings Limited	721	–
Euro Resources China Limited	6,693	19
	<u>7,414</u>	<u>19</u>

**12. TRADE AND OTHER PAYABLES**

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

	<b>At 30 September 2007</b> (Unaudited) <i>HK\$'000</i>	<b>At 31 March 2007</b> (Audited) <i>HK\$'000</i>
Less than 3 months	9,418	7,651
3 to 6 months	403	1,065
6 to 12 months	185	6
Over 1 year	168	251
	<u>10,174</u>	<u>8,973</u>
Other payables	13,017	8,533
	<u>23,191</u>	<u>17,506</u>

**13. AMOUNTS DUE TO RELATED COMPANIES**

	<b>At 30 September 2007</b> (Unaudited) <i>HK\$'000</i>	<b>At 31 March 2007</b> (Audited) <i>HK\$'000</i>
An associate, China Coal Energy Holdings Limited	–	19,965
Orient Day Development Limited ( <i>Note</i> )	34,398	8,160
	<u>34,398</u>	<u>28,125</u>

*Note:*

The Company has entered into a loan facilities agreement with Orient Day in relation to the grant of a loan facility of and not exceeding HK\$70,000,000. Orient Day is a Company Incorporated in the British Virgin Islands and is wholly and beneficially owned by a director of the Company. The amount due to Orient Day is unsecured, bears interest at Prime Rate as quoted by HSBC and repayable at the end of each calendar month commencing from one year after the drawdown date.

#### 14. INCOME TAX IN THE BALANCE SHEET

Current taxation in the consolidated balance sheet represents:

	<b>At 30 September 2007</b>	<b>At 31 March 2007</b>
	(Unaudited)	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Provision for PRC enterprise income tax for the year	146	4
Balance of PRC enterprise income tax relating to prior	15,786	15,786
	<u>15,932</u>	<u>15,790</u>

#### 15. SHARE CAPITAL

	<b>Authorised</b>	
	<b>Ordinary shares of HK\$0.50 each</b>	
	<i>No. of shares</i>	<i>HK\$'000</i>
At 1 April 2007	600,000,000	300,000
At 30 September 2007	<u>600,000,000</u>	<u>300,000</u>

	<b>Authorised</b>	
	<b>Ordinary shares of HK\$0.50 each</b>	
	<i>No. of shares</i>	<i>HK\$'000</i>
At 1 April 2007	381,641,960	190,821
Issue of new shares for acquisition of Pearl Oriental Logistics Sino Limited in April 2007 ( <i>Note</i> )	5,640,000	2,820
At 30 September 2007	<u>387,281,960</u>	<u>193,641</u>

*Note:*

The Company signed a Conditional sale and purchase agreement was entered into between Ms. Yang Yu Qing and the Group on 14 September 2006 in relation to the acquisition of a 60% equity interest in Pearl Oriental Logistic Sino Limited at a total consideration of approximately HK\$22,000,000, out of which the Group has to pay a cash consideration of HK\$1,012,000 upon completion. The remaining balance was to be settled by issuing 5,640,000 Shares in the Company. Intraday market fair value at a price of HK\$2.60 per share upon completion.

#### 16. SHARE OPTION SCHEME

The Company adopted the new share option scheme on 21 June 2002 (the “Scheme”). The Scheme enables the Company to grant share options to eligible persons as an incentive or reward for their contributions to the Company. The terms of the Scheme fully comply with the provisions of Chapter 17 of the Listing Rules. During the period, no share options were granted to eligible persons including the directors of the Company. Save as mentioned above, no other share options were exercised under the Scheme during the period. At 30 September 2007, the Company had 18,076,800 share options outstanding under the Scheme.

#### 4. MATERIAL CHANGE

Save as disclosed below, the Directors were not aware of any material change in the financial or trading position or outlook of the Group subsequent to 31 March 2007, being the date to which the latest published audited accounts of the Company were made up:

- (i) a loan of HK\$8 million with interests at the rate of 6% per annum was borrowed from Pearl Oriental Logistics Holdings Limited for two years pursuant to the loan agreement dated 1 April 2007 entered into between Pearl Oriental Logistics Holdings Limited and Guangzhou Pearl Oriental Logistics Limited; and
- (ii) a credit facility of RMB60 million, with maturity of seven years and an interest rate of 105% of the RMB benchmark lending rate for loans with maturity over five years announced by The People’s Bank of China, was granted to the Group by Hang Seng Bank (China) Limited pursuant to the term loan facility agreement dated 10 September 2007.

#### 5. INDEBTEDNESS

As at 31 December 2007, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had short term bank loans of RMB60 million (equivalent to approximately HK\$64.4 million). A guarantee of RMB60 million has been given by the Company to the bank in respect of the banking facilities granted. The Group’s leasehold land and buildings with an aggregate carrying value of approximately HK\$100 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 any outstanding mortgage, term loan, charge or debenture, loan capital, bank loan and overdraft, debt securities or other similar indebtedness, finance lease or hire purchase commitment, liability under acceptance (other than normal trade bills) or acceptance credit or any guarantee or other material contingent liability as at the close of business on 31 December 2007.

## 1. RESPONSIBILITY STATEMENTS

This circular includes particulars given in compliance with the Takeovers Code and the Listing Rules for the purpose of giving information with regard to the Group and the Subscriber.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than those information relating to the Subscriber) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular (other than those expressed by the Subscriber) have been arrived at after due and careful consideration and there are no other facts not contained in this circular (other than those information relating to the Subscriber), the omission of which would make any statement in this circular (other than those information relating to the Subscriber) misleading.

The Subscriber's directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than those information relating to the Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular (other than those expressed by the Group) have been arrived at after due and careful consideration and there are no other facts not contained in this circular (other than those information relating to the Group), the omission of which would make any statement in this circular (other than those information relating to the Group) misleading.

## 2. PROCEDURES FOR DEMANDING A POLL

Pursuant to bye-law 66 of the Bye-laws of the Company, a resolution put to the vote of a general meeting of the Shareholders 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:

- (a) the chairman of the meeting; or
- (b) 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
- (c) 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 who have the right to vote at the meeting; or
- (d) 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.

### 3. SHARE CAPITAL

The authorized and issued share capital of the Company as at the Latest Practicable Date and upon completion of the Subscription and increase in authorized share capital were and will be as follows:

<b>Shares</b>	<i>HK\$</i>
<i>Authorized:</i>	
<u>600,000,000</u> As at the Latest Practicable Date	<u>300,000,000</u>
<u>6,000,000,000</u> Increase in authorized share capital become effective	<u>3,000,000,000</u>
<i>Issued and fully paid:</i>	
387,281,960 As at the Latest Practicable Date	193,640,980
<u>77,456,000</u> Issue of the Subscription Shares	<u>38,728,000</u>
<u>464,737,960</u> Upon completion of the Subscription	<u>232,368,980</u>

All the existing issued Shares and Subscription Shares rank pari passu in all respects including all rights as to dividends, voting and capital.

The Shares are listed and traded on the Main Board of the Stock Exchange. No parts of the issued share capital of the Company are listed or dealt in any other stock exchange.

Since 31 March 2007, the date to which the latest audited financial statements of the Company were made up, and up to the Latest Practicable Date, an aggregate of 5,640,000 Shares were issued as part of the consideration pursuant to the sale and purchase agreement dated 14 September 2006 entered into between Ms. Yang Yu Qing and the Company. Details of which are set out in the announcement of the Company dated 26 September 2006.



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

<b>Exercise Price</b>	<b>Exercise Period (DD/MM/YYYY)</b>	<b>Outstanding options as at the Latest Practicable Date</b>
HK\$6.000	20/05/2004 – 21/06/2012	270,000
HK\$3.100	18/08/2005 – 20/06/2012	406,800
HK\$3.150	29/08/2006 – 20/06/2012	1,550,000
HK\$3.375	13/06/2007 – 20/06/2012	9,700,000
HK\$3.375	01/06/2007 – 20/06/2012	1,000,000
		<u>12,926,800</u>

Save as disclosed above, the Company did not have any outstanding warrant, share option or other securities carrying rights of conversion into or exchange or subscription for Shares as at the Latest Practicable Date.

## 4. 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 and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which (i) 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 short positions which the Directors or the chief executive were taken or deemed to have under such provisions of the SFO); or (ii) were required to be entered in the register maintained by the Company under section 352 of the SFO; or (iii) 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; or (iv) were required to be disclosed in this circular pursuant to the Takeovers Code were as follows:

## (i) Long position in the Shares

Name of Directors	Number of Shares held in the capacity of			Total number of Shares held	Approximate percentage of the issued share capital of the Company
	Beneficial owner	Controlled corporation	Trust		
Wong Kwan	-	180,218,800 <i>(Note)</i>	-	180,218,800	46.53%
Fung Hing Chiu, Cyril	-	-	1,272,090	1,272,090	0.33%
Johnny Yuen	300,000	-	-	300,000	0.08%

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

## (ii) Share options

Name of Directors	Capacity	Number of options held	Number of underlying shares	Exercise Period (DD/MM/YYYY)	Exercise Price (HK\$)
Wong Kwan	Beneficial owner	2,400,000	2,400,000	13/06/2007-20/06/2012	3.375
Chan Yiu Keung	Beneficial owner	1,000,000	1,000,000	13/06/2007-20/06/2012	3.375
Cheung Kwok Yu	Beneficial owner	1,000,000	1,000,000	13/06/2007-20/06/2012	3.375
Zheng Yingsheng	Beneficial owner	150,000	150,000	20/05/2004-21/06/2012	6.000
	Beneficial owner	60,000	60,000	18/08/2005-20/06/2012	3.100
	Beneficial owner	820,000	820,000	29/08/2006-20/06/2012	3.150
	Beneficial owner	1,000,000	1,000,000	13/06/2007-20/06/2012	3.375
Zhou Li Yang	Beneficial owner	70,000	70,000	20/05/2004-21/06/2012	6.000
	Beneficial owner	240,000	240,000	18/08/2005-20/06/2012	3.100
	Beneficial owner	100,000	100,000	29/08/2006-20/06/2012	3.150
	Beneficial owner	1,000,000	1,000,000	13/06/2007-20/06/2012	3.375
Johnny Yuen	Beneficial owner	1,000,000	1,000,000	01/01/2008-20/06/2012	3.375

Save as disclosed in 4.A(a)(i) and (ii) in this section, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which (i) 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 short positions which the Directors or the chief executive were taken or deemed to have under such provisions of the SFO); or (ii) which were required to be entered in the register maintained by the Company under section 352 of the SFO; or (iii) 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; or (iv) were required to be disclosed in this circular pursuant to the Takeovers Code.

*(b) Interests of substantial Shareholders*

So far as is known to the Directors or chief executive of the Company, as at the Latest Practicable Date, the persons (other than the Directors and chief executive of the Company) who had an interest or short position 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, directly or indirectly, 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 option in respect of such capital are as follows:

Name of substantial Shareholder	Capacity	Number of Shares held	Approximate percentage of the issued share capital of the Company
Orient Day Developments Limited <i>(Note)</i>	Beneficial owner	180,218,800	46.53%

*Note:* Mr. Wong is a director and sole shareholder of Orient Day Developments Limited.

Save as disclosed in 4.A(b) in this section, as at the Latest Practicable Date, no other persons had an interest or short position 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, directly or indirectly, 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.

*(c) Interests of the Subscriber and parties acting in concert with it*

Save as disclosed in 4.A(a) and 4.A(b) in this section, as at the Latest Practicable Date, the Subscriber, the directors of the Subscriber, their respective associates and concert parties had no other interest in any share, convertible securities, warrants, options or derivatives which carry voting rights of the Company.

**B. Dealings in securities of the Company**

During the period beginning six months prior to the date of the Announcement and up to the Latest Practicable Date:

- a) save as disclosed on pages 104 to 106 of this circular, none of Company and the Directors had any interest in or had dealt for value in the Shares, convertible securities, warrants, options and derivatives of the Subscriber or the Company;
- b) save for the entering into of the Agreement, none of Subscriber, its directors and concert parties had dealt for value in the Shares, convertible securities, warrants, options and derivatives of the Company;

- c) none of the Company's subsidiaries, pension fund of the Group, professional advisers named under the section headed "Experts and Consents" in this appendix or advisers to the Company as specified in class (2) of the definition of associates under the Takeovers Code had any interest in or had dealt for value in the Shares, convertible securities, warrants, options and derivatives of the Company; and
- d) no fund managers who managed securities of the Company on a discretionary basis and connected with the Company had any interest in or had dealt for value in the Shares, convertible securities, warrants, options and derivatives of the Company.

### C. Other arrangements

As at the Latest Practicable Date,

- a) no persons had irrevocably committed themselves to vote for or against the resolution to be proposed at the SGM to approve the Subscription, the Agreement and the Whitewash Waiver;
- b) no persons had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Subscriber, Mr. Wong, the Company or with any person who is acting in concert with the Subscriber, or Mr. Wong, the Company or with any person who is an associate of the Subscriber or Mr. Wong or an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of "associate" as described by the Takeovers Code;
- c) there were no agreements, arrangements or understandings (including any compensation arrangements) between (i) the Subscriber or Mr. Wong or any party acting in concert with any one of them; and (ii) any of the Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Subscription, the Agreement and the Whitewash Waiver;
- d) save for the Agreement, there were no agreements or arrangements to which the Subscriber and its concert parties was a party which relate to circumstances in which it might or might not invoke or seek to invoke a condition to the Subscription, the Agreement and the Whitewash Waiver;
- e) none of the Directors was interested, directly or indirectly, in any asset which had since 31 March 2007 (being the date to which the latest published audited accounts of the Company were made up) been acquired or disposed of by or leased to any member of the Group or which was proposed to be acquired or disposed of by or leased to any member of the Group;
- f) no contracts or arrangements were subsisted in which a Director was materially interested in and which was significant in relation to the business of the Group;
- g) no benefits will be given to any of the Directors as compensation for loss of office or otherwise in connection with the Subscription, the Agreement and the Whitewash Waiver;

- h) there were no agreements or arrangements between any Director and any other person which is conditional on or dependent upon the outcome of the Subscription, the Agreement and the Whitewash Waiver or otherwise connected with the Subscription, the Agreement and the Whitewash Waiver;
- i) no material contacts were entered into by the Subscriber or Mr. Wong in which any Director has a material personal interest; and
- j) the Directors who are not required to abstain from voting on the resolutions in respect of the Subscription, the Agreement and the Whitewash Waiver intend, in respect of their own beneficial shareholdings, to vote in favour of the relevant resolutions at the SGM.

## 5. DIRECTORS' INTERESTS IN COMPETING BUSINESSES

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

## 6. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group and the Company's associated companies in force (i) which (including continuous and fixed terms contracts) have been entered into or amended within six months prior to 2 January 2008, being date of the Announcement; or (ii) which were continuous contracts with a notice period of twelve months or more; or (iii) which were fixed-term contracts with more than twelve months to run irrespective of the notice period.

## 7. MARKET PRICES

The table below shows the closing prices of the Shares as quoted on the Stock Exchange on the last trading day of each of the calendar months during the period commencing six months immediately preceding the date of the Announcement and ending on the Latest Practicable Date, the Last Trading Day and the Latest Practicable Date.

Date	Closing price per Shares (HK\$)
31 July 2007	1.47
31 August 2007	1.09
28 September 2007	1.00
31 October 2007	1.14
30 November 2007	1.05
31 December 2007 (the Last Trading Day)	1.02
the Latest Practicable Date	1.00

The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the period commencing six months preceding the date of the Announcement and ending on the Latest Practicable Date are HK\$1.58 on 11 July 2007 and HK\$0.95 on 2 October 2007, 3 October 2007 and 22 January 2008 respectively.

## 8. MATERIAL LITIGATION

As at the Latest Practicable Date, the Group was involved in the following material litigations:

- (a) three claims against the Group for a total sum of not less than HK\$11.4 million have been received from the ex-directors of a subsidiary which has been disposed of by the Group. The litigations are at the initial stage and the Group and its legal representatives were unable to ascertain the possible effects of the claims as at the Latest Practicable Date;
- (b) the Company issued a writ of summons on 31 August 2006 against DiChain Holdings Limited, three former Directors, namely Messrs Fan Di, Li Xinggue and Wu Shiyue, Hero Vantage Limited and Dalian Shuangxi Trade Development Limited for damages in the sum of RMB64.5 million arising from, inter alia, breach of fiduciary duties or contract by these defendants as the case may be. A default judgment has been entered against the three former Directors and a summary judgment against DiChain Holdings Limited was obtained on 28 January 2008. The litigation was still in progress as at the Latest Practicable Date; and
- (c) The Company issued a writ of summons on 31 October 2006 against DiChain Holdings Limited for damages arising from the breach of warranties by DiChain Holdings Limited under the subscription agreement dated 22 February 2006 (as supplemented by the supplemental agreement dated 20 March 2006) entered into among the Company, the Subscriber and DiChain Holdings Limited. The Company has already obtained a summary judgment against DiChain Holdings Limited in respect of its non-performance of obligations and breach of warranties under the subscription agreement. There were no further updates on the litigation as at the Latest Practicable Date.

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.

## 9. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business of the Group) have been entered into by members of the Group after the date two years preceding the date of the Announcement and which are or may be material:

- (a) the conditional agreement dated 22 February 2006 and the supplemental agreement dated 20 March 2006 entered into between, inter alia, the Company and the Subscriber in relation to, among other things, (i) the subscription of 4,000,000,000 new shares of HK\$0.01 each of the Company (before adjustment for share consolidation) at a consideration

- of HK\$0.01 per share by the Subscriber; (ii) the subscription by the Subscriber 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 the Subscriber for subscribing not more than 1,000,000,000 shares of the Company (before adjustment for share consolidation);
- (b) the sale and purchase agreement dated 15 July 2006 entered into between the Company and Mr. Zhang Genyu, an independent third party, in relation to the acquisition by the Company of 40% of the issued share capital of China Coal Energy Holdings Limited at a total consideration of HK\$395.62 million, of which HK\$100 million were paid by the Company in cash and the balance of HK\$295.62 million were satisfied by the allotment and issue of 75,800,000 new Shares by the Company at an issue price of HK\$3.90 per Share;
  - (c) the loan agreement dated 21 July 2006 entered into between Grand Ascend Investments Limited, a wholly-owned 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 date of 31 October 2006 and a fixed interest payment of Euro 10,000 for the whole lending period;
  - (d) the sale and purchase agreement dated 29 July 2006 entered into between Grand Ascend Investments Limited, a wholly-owned subsidiary of the Company, and Mr. Laurent Kim and Mr. Ung Phong, in relation to the acquisition by Grand Ascend Investments Limited of 50% equity interest in Euro Resources China Limited at a total consideration of approximately HK\$50 million, of which HK\$20 million were paid by cash of Euro 2.0 million (equivalent to approximately HK\$20 million at that time) while the balance of HK\$30 million were satisfied by the issue of 7,500,000 Shares at HK\$4.00 per Share;
  - (e) The loan agreement dated 5 September 2006 entered into between the Company and the Subscriber, pursuant to which the Subscriber agreed to provide a loan facility of not more than HK\$70 million to the Company for twenty four months at the interest rate of Hong Kong prime rate;
  - (f) the framework agreement dated 8 September 2006 entered into among the Company, Sinosteel International Holding Co., Ltd. and Taiyuan Sanxing Coal Gasification Co., Limited, in relation to the establishment of a strategic partnership alliance in the business of coal mining and production and trading coking coal, coke and other related chemical products;
  - (g) the sale and purchase agreement dated 14 September 2006 entered into between the Company and Ms. Yang Yu Qing in relation to the acquisition of 60% equity interest of Pearl Oriental Logistics Sino Limited by the Company at a total consideration of approximately HK\$22 million, which were satisfied by the issue of 5,640,000 Shares at HK\$3.90 per Share by the Company;
  - (h) the sale and purchase agreement dated 14 September 2006 entered into between China Merchants DiChain (Asia) Technology Limited, a wholly-owned subsidiary of the Company, and the vendors, comprising Mr. Wan Gui Ping, Mr. Liu Xiao Hong, Mr. Tu Zhao Lu, Mr. Chen Ke Hai, and Ms. Zhu Mei Qi, in relation to the acquisition by China Merchants DiChain (Asia) Technology Limited of 40% of equity interest in each of Guangzhou Pearl Oriental Logistics Limited and Jiangxi DiChain Logistics Co., Ltd. at a total consideration of RMB7,094,000 (equivalent to approximately HK\$6,887,379), which



would be satisfied by the issue of 1,766,000 Shares at HK\$3.9 per Share by the Company. The sale and purchase agreement was subsequently terminated by the contracting parties in April 2007;

- (i) the joint venture agreement dated 26 February 2007 entered into between the Company and CITIC Merchant Co. Ltd., pursuant to which the Company agreed to contribute HK\$60 million to form a 60:40 joint venture with CITIC Merchant Co. Ltd. for the development of oil exploitation business. The joint venture agreement was disapproved by the Shareholders at the special general meeting held on 16 April 2007;
- (j) the subscription agreement dated 15 March 2007 entered into between the Company and the Subscriber, pursuant to which the Subscriber conditionally agreed to subscribe for an aggregate of 29,500,000 top-up subscription Shares at a price of HK\$2.59 per top-up subscription Share;
- (k) the loan agreement dated 1 April 2007 entered into between Pearl Oriental Logistics Holdings Limited, an indirect subsidiary of the Company and Guangzhou Pearl Oriental Logistics Limited, pursuant to which, Pearl Oriental Logistics Holdings Limited agreed to lend HK\$8,000,000 to Guangzhou Pearl Oriental Logistics Limited for two years with interests at the rate of 6% per annum;
- (l) The term loan facility agreement dated 10 September 2007 entered into between Pearl Oriental Warehouse (Shenzhen) Limited, an indirect wholly-owned subsidiary of the Company, and Hang Seng Bank (China) Limited, Shenzhen Branch in relation to the granting of credit facilities of up to RMB60 million by Hang Seng Bank (China) Limited to Pearl Oriental Warehouse (Shenzhen) Limited with maturity of seven years and an interest rate of 105% of the RMB benchmark lending rate for loans with maturity over 5 years announced by The People's Bank of China; and
- (m) the Agreement.

## 10. EXPERTS AND CONSENTS

- (a) The following are the qualifications of the experts who have given opinion or advice which are contained in this circular:

<b>Name</b>	<b>Qualification</b>
Hercules Capital Limited	a licensed corporation for carrying out type 6 regulated activities (advising on corporate finance) under the SFO
Wallbanck Brothers	a licensed corporation for carrying out types 4, 6 and 9 regulated activities (advising as securities, advising on corporate finance and asset management) under the SFO

- (b) As at the Latest Practicable Date, none of Hercules Capital Limited and Wallbanck Brothers had any shareholding interest 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.
- (c) Each of Hercules Capital Limited and Wallbanck Brothers has given and has not withdrawn its written consent to the issue of this circular with inclusion of its letter and/or references to its name in the form and context in which it appears.

- (d) As at the Latest Practicable Date, none of Hercules Capital Limited and Wallbanck Brothers was interested, directly or indirectly, in any asset which had since 31 March 2007 (being the date to which the latest published audited accounts of the Company were made up) been acquired or disposed of by or leased to any member of the Group or which was proposed to be acquired or disposed of by or leased to any member of the Group.

## 11. MISCELLANEOUS

- (a) The registered office of the Subscriber is at Suite 1908, 19th Floor, 9 Queen's Road Central, Hong Kong.
- (b) The correspondence address of Mr. Wong, a director and sole shareholder of the Subscriber, and Ms. Yip Sui Kuen, Kitty, a director of the Subscriber, is Suite 1908, 19th Floor, 9 Queen's Road Central, Hong Kong.
- (c) The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.
- (d) The principal place of business of the Company is situate at Suite 1908, 19th Floor, 9 Queen's Road Central, Hong Kong.
- (e) The correspondence address of the Directors is Suite 1908, 19th Floor, 9 Queen's Road Central, Hong Kong.
- (f) The registered office of Wallbanck Brothers is located at Room 1005B, Tower 1, Lippo Center, 89 Queensway, Admiralty, Hong Kong.
- (g) This circular is prepared in both English and Chinese. In the event of inconsistency, the English text shall prevail.

## 12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company at Suite 1908, 19th Floor, 9 Queen's Road Central, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. from Mondays to Fridays, except public holidays, and on the websites of the Company ([www.pearloriental.com](http://www.pearloriental.com)) and the SFC ([www.sfc.hk](http://www.sfc.hk)) between the period from the date of this circular up to and including the date of the SGM:

- (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 2007;
- (c) the interim report of the Company for the six months ended 30 September 2007;
- (d) the letter from the Independent Financial Adviser, the text of which is set out on pages 12 to 29 of this circular;
- (e) any material contracts referred to in this appendix; and
- (f) the letters of consent as referred to in the section headed "Experts and consents" of this appendix.



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

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 632)

**NOTICE IS HEREBY GIVEN** that a special general meeting of Pearl Oriental Innovation Limited (the “Company”) will be held at Suite 1908, 19th Floor, 9 Queen’s Road Central, Hong Kong at 4:30 p.m. on 19 February 2008 for the purpose of considering and, if thought fit, passing with or without amendments, the following resolutions of the Company:

**ORDINARY RESOLUTIONS**

- 1 “**THAT** the execution of the subscription agreement (the “Agreement”) dated 31 December 2007 and entered into between the Company and Orient Day Developments Limited as subscriber in relation to the subscription of 77,456,000 shares of HK\$0.50 each in the share capital of the Company (“Subscription Shares”) at a price of HK\$1.00 per Subscription Share (the “Subscription”), a copy of which has been produced to the meeting marked “A” and initialed by the chairman of the meeting for identification purpose and the Subscription and the performance by the Company thereof and the transactions contemplated thereby be and are hereby confirmed, ratified and approved; and that any one or more of the directors of the Company (the “Directors”) be and are hereby authorized to sign or execute such other documents or supplemental agreements or deeds on behalf of the Company and to do all such things and take all such actions as he or they may consider necessary or desirable for the purpose of giving effect to the Agreement and completing the transactions contemplated by the Agreement with such changes as any such Director(s) may consider necessary, desirable or expedient.”
- 2 “**THAT** conditional upon the ordinary resolution no. 1 contained in the notice of the Special General Meeting of which this resolution forms part being approved, the waiver for Orient Day Developments Limited and its parties acting in concert from the obligations which may arise under Rule 26 of the Hong Kong Code on Takeovers and Mergers promulgated by the Securities and Futures Commission to make a general offer for all the shares of the Company not already owned by them as a result of the completion of the Subscription (as defined in ordinary resolution no. 1 contained in the notice of the Special General Meeting of which this resolution forms part) be and is hereby approved.”
- 3 “**THAT** conditional upon the ordinary resolutions nos. 1 and 2 contained in the notice of the Special General Meeting of which this resolution forms part being approved and becoming unconditional and effective, the Directors be and are hereby authorized to allot and issue 77,456,000 shares of HK\$0.50 each in the share capital of the Company to Orient Day Developments Limited (or to such other person or persons as it may nominate) upon the completion of the Subscription (as defined in ordinary resolution no. 1 contained in the notice of the Special General Meeting of which this resolution forms part) pursuant to the terms of the Agreement (as defined in ordinary resolution no. 1 contained in the notice of the Special General Meeting of which this resolution forms part).”

\* For identification purposes only

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## NOTICE OF THE SPECIAL GENERAL MEETING

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- 4 “**THAT** the authorized share capital of the Company be and is hereby increased from HK\$300,000,000 comprising 600,000,000 shares of HK\$0.50 each to HK\$3,000,000,000 comprising 6,000,000,000 shares of HK\$0.50 each by the creation of an additional 5,400,000,000 shares of HK\$0.50 each and that each new share, upon issue, will rank pari passu in all respects with the existing shares of the Company.”

By Order of the Board  
**Pearl Oriental Innovation Limited**  
**Cheung Kwok Yu**  
*Executive Director and Company Secretary*

Hong Kong, 31 January 2008

*Principal place of business:*

Suite 1908, 19th Floor  
9 Queen's Road Central  
Hong Kong

*Notes:*

1. Any member of the Company 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 member of the Company.
2. A form of proxy for use at the meeting is enclosed. To be valid, the form of proxy, together with the notarially certified power of attorney or other authority (if any) under which it is signed must be lodged at the Company's branch share registrar, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible and in any event, not less than 48 hours before the time appointed for holding of the meeting or any adjournment thereof.
3. Where there are joint holders of any share, any one of such holders may vote at the meeting, either in person or by proxy, in respect of such shares as if he were solely entitled to vote, but if more than one of such joint holders be present at the meeting in person or by proxy, the person so present whose name stands first in the register of member of the Company in respect of such share shall alone be entitled to vote in respect of it.
4. Completion and return of the form of proxy will not preclude a member from attending the meeting and voting in person at the meeting or any adjourned meeting if he so desires. If a member attends the meeting after having deposited the form of proxy, his form of proxy will be deemed to have been revoked.
5. The votes to be taken at the meeting for resolutions no. 1 to 3 will be by way of poll.