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

(Incorporated in Bermuda with limited liability)

(Stock Code: 632)

RESULTS ANNOUNCEMENT
FOR THE NINE-MONTH PERIOD ENDED 31 DECEMBER 2007

CHAIRMAN'S STATEMENT

During the Period, the operations and development of Pearl Oriental Innovation Limited and its subsidiaries (collectively the "Group") has entered into a new phase. The results of the Group have a significant growth during the nine-month period ended 31 December 2007 with turnover of HK$55.62 million and profit attributable to equity shareholders of the Company is HK$38.42 million, basic earnings per share is HK10 cents, turned around the loss-making for the past two financial years. This is a collective achievement of the board of directors and management who have worked as a team after Company's change of its shareholding ownership.

In order to reserve sufficient funds for expansion in the future, the Board recommended not to distribute any dividend to its shareholders for the Period. However, if the operating results in the coming year have substantial growth, under certain conditions, all our shareholders can share the results.

China Coal Energy Holdings Limited ("CCEH"), in which the Group owns a 40% equity interest has a distinctive operation performance, the profit after tax has a 200% growth in comparison with the last year. As the energy demand in China still exceeds its supply, we expect the coal business is still in the growth stage. The listing plan of CCEH in a recognized stock exchange is smooth in progress, we are currently negotiating with and inviting international investors as CCEH's strategic shareholders which will increase the chance of success in the future listing.

Our associate, Euro Resources China Limited ("ERC") has extended its business to North America, South Korea and etc. ERC has entered into a joint venture agreement to set up a plastic recycling and trading company in Shunde, Guangdong Province, will share the rapid growth of the recycling resources market in Mainland China.

Our subsidiary, Guangzhou Pearl Oriental Logistics Limited, has a steady growth in its traditional logistic business. The Group now tries to explore the high potential growth logistics of e-commerce, at the moment, we have already established a network in 101 cities in China and we will, increase our competitive power, we expect a better operation by end of this year.

The controlling shareholder of the Group has great confidence in the Company's future. In March 2008, it has spent approximately HK$77.46 million to increase its shareholdings in the Company, representing 16.67% of the enlarged issued share capital of the Company, this action has further increased the financial strength of the Company to prepare for new business opportunities.

I would like to thank all of our staff for their hard working, diligence and the support of public shareholders, I, together with the management team, have every confidence that Pearl Oriental Innovation Limited will stably move its step forward!

The board of directors (the "Board") of Pearl Oriental Innovation Limited (the "Company") announces the consolidated results of the Company and its subsidiaries (the "Group") for the nine-month period ended 31 December 2007 (the "Period") as follows:

	Note	1 April 2007 to 31 December 2007 HK$'000	31 March 2007 HK$'000
Turnover	3	**55,620**	65,344
Cost of sales		**(40,272)**	(51,061)
Gross profit		**15,348**	14,283
Other revenue and net income		**7,361**	4,218
Selling and distribution expenses		**(7,175)**	(4,912)
General and administrative expenses		**(23,482)**	(26,189)
Equity-settled share-based payment expenses		**(4,126)**	(20,297)
Impairment loss on available-for-sale securities		**–**	(9,357)
Impairment loss on intangible assets recognised in acquisition	5	**(8,987)**	–
Impairment losses on deposits and other receivables, property, plant and equipment and intangible assets	5	**(2,470)**	(3,993)
Loss from operations		**(23,531)**	(46,247)
Finance costs		**(4,125)**	(6,868)
Share of profit less losses of associates		**61,884**	(1,201)
Profit/(loss) before taxation	6	**34,228**	(54,316)
Income tax	7	**(1,103)**	(1,168)
Profit/(loss) for the period/year		**33,125**	(55,484)
Attributable to:			
Equity shareholders of the Company		**38,422**	(53,278)
Minority interests		**(5,297)**	(2,206)
Profit/(loss) for the period/year		**33,125**	(55,484)
Earnings/(loss) per share			
Basic		**10 cents**	(20) cents
Diluted		**N/A**	N/A
Dividends payable to equity shareholders of the Company attributable for the period/year			
Final dividend proposed after the balance sheet date		**–**	–

CONSOLIDATED BALANCE SHEET

	31 December 2007 *HK$'000*	31 March 2007 *HK$'000*
Non-current assets		
Property, plant and equipment	**100,156**	95,730
Interests in leasehold land held for own use under operating leases	**18,329**	18,155
Interest in associates	**460,490**	398,564
Deferred tax assets	**1,419**	1,419
	580,394	513,868
Current assets		
Trade and other receivables	**22,530**	21,561
Current tax recoverable	**–**	89
Interests in leasehold land held for own use under operating leases	**526**	513
Amounts due from minority shareholders of subsidiaries	**11**	22
Amount due from associated companies	**9,930**	19
Cash and cash equivalents	**31,617**	11,184
	64,614	33,388
Current liabilities		
Trade and other payables	**23,980**	17,506
Amounts due to related companies	**63,903**	28,125
Short-term bank loans	**7,101**	57,587
Other short-term loans	**–**	506
Income tax payable	**16,464**	15,790
	111,448	119,514
Net Current liabilities	**(46,834)**	(86,126)
Total assets less current liabilities	**533,560**	427,742
Non-current liabilities		
Interest bearing borrowings	**57,315**	–
NET ASSETS	**476,245**	427,742

	31 December 2007 *HK$'000*	31 March 2007 *HK$'000*
CAPITAL AND RESERVES		
Share capital	**193,641**	190,821
Reserves	**276,307**	235,103
Total equity attributable to equity shareholders of the Company	**469,948**	425,924
Minority interests	**6,297**	1,818
TOTAL EQUITY	**476,245**	427,742

Note:

1. BASIS OF PREPARATION

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 (the "Stock Exchange"). A summary of the significant accounting policies adopted by the Pearl Oriental Innovation Limited (the "Company") and its subsidiaries (collectively referred to as 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 Company and the Group. Note 2 provides information on any 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.

The Board has resolved that the financial year end date of the Company has been changed from 31 March to 31 December in order to have a conterminous financial year end as that of its major operating subsidiaries and associates engaged in the business of energy, natural resources and logistics. As a result, the consolidated financial statements are presented covering a period of nine months from 1 April 2007 to 31 December 2007. Accordingly, the comparative figures (which cover a period of twelve months from 1 April 2006 to 31 March 2007) for the consolidated income statement, consolidated cash flow statement, consolidated statement of changes in equity and related notes to financial statements are not comparable with those of the current period.

As at 31 December 2007, current liabilities of the Group exceeded its current assets by approximately $46,834,000 (31 March 2007: $86,126,000). The immediate holding company and the controlling shareholder of the Company have undertaken to provide financial assistance as is necessary to maintain the Company as a going concern. 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.

2 CHANGE IN ACCOUNTING POLICIES

(a) Change in accounting policies

The HKICPA has issued a number of new and revised HKFRSs and Interpretations that are first effective or available for early adoption for the current accounting period of the Group and the Company.

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7, "Financial instruments: Disclosures" and the amendment to HKAS 1, "Presentation of financial statements: Capital disclosures", there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the financial statements include expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, "Financial instruments: Disclosure and presentation".

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group's and the Company's objectives, policies and processes for managing capital.

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial instruments.

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

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 other services excluding sales taxes and surcharges.

4 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 period 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 People's Republic of China (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	
	Period from 1 April 2007 to 31 December 2007	Year ended 31 March 2007	**Period from 1 April 2007 to 31 December 2007**	Year ended 31 March 2007
	$'000	*$'000*	***$'000***	*$'000*
Segment assets	**567,444**	503,691	**77,564**	43,565
Capital expenditure incurred during the period/year	**10,710**	2,384	**197**	199

5 IMPAIRMENT LOSSES OF DEPOSITS AND OTHER RECEIVABLES, PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

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

	The Group	
	Period from 1 April 2007 to 31 December 2007	Year ended 31 March 2007
	$'000	*$'000*
Customer relationships recognised as intangible assets	**8,987**	–
Deposits and other receivables	**1,274**	–
Property, plant and equipment	**1,196**	3,993
	11,457	3,993

Subsequent to the Group's acquisition of Wuhan Pearl Oriental Logistics Ltd (武漢東明物流有限公司) ("Wuhan PO"), it is suspected that there might have been misappropriation of assets by a director of Wuhan PO, Ms. Yang Yu Qing ("Ms. Yang") who is the key management member of Wuhan PO. Management of the Company has taken appropriate actions against Ms. Yang to protect its interests and recover the loss suffered by Wuhan PO from such misappropriation of assets. Moreover, certain key customers had terminated business relationship with Wuhan PO upon departure of Ms. Yang, resulting in management's decision to cease all business of Wuhan PO during the Period.

6 PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation is arrived at after charging:

	Period from 1 April 2007 to 31 December 2007	Year ended 31 March 2007
	$'000	*$'000*
(a) Finance costs:		
Interest on bank advances and other borrowings wholly repayable within five years	**1,775**	4,870
Interest on other loans	**1,482**	1,141
Other borrowing costs	**868**	857
Total borrowing costs	**4,125**	6,868
(b) Staff costs:		
Contributions to defined contribution retirement plans	**619**	726
Equity-settled share-based payment expenses	**4,126**	20,297
Salaries, wages and other benefits	**10,883**	8,808
	15,628	29,831
(c) Other items:		
Amortisation of land lease premium	**395**	513
Depreciation of other assets	**3,231**	3,905
Bad debts written off	**290**	352
Auditors' remuneration		
– current period/year	**1,469**	2,000
– prior year	**–**	227
Operating lease charges: minimum lease payments – property rentals	**2,330**	1,943

7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	Period from 1 April 2007 to 31 December 2007	Year ended 31 March 2007
	$'000	*$'000*
Current tax		
Provision for PRC enterprise income tax	**1,103**	1,767
Deferred tax		
Origination and reversal of temporary differences	**–**	(599)
	1,103	1,168

Pursuant to the rules and regulations of Bermuda and the British Virgin Islands, the Group is not subject to any income tax in Bermuda and the British Virgin Islands during the Period (31 March 2007: Nil).

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profits subject to Hong Kong Profits Tax during the Period (31 March 2007: Nil).

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.

Pursuant to the income tax rules and regulations of the PRC, taxation for PRC subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant cities in the PRC which was 15% (31 March 2007: 15%).

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 takes effect on 1 January 2008. Thereafter, the State Council passed Circular 39 on 26 December 2007, to clarify the grandfathering treating for existing enterprises that are entitled to preferential tax treatments. As a result of new tax law and Circular 39, the income tax rate of certain PRC subsidiaries are reduced from 33% to 25% from 1 January 2008; the tax rate of certain PRC subsidiaries in Shenzhen area gradually increases from 15% to 25% over a five-year transitional period (being 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012 and thereafter).

Pursuant to the new tax law, a 10% withholding tax is levied on dividends declared to foreign investors from the PRC effective from 1 January 2008. A lower withholding tax rate may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of foreign investors. On 22 February 2008, Caishui (2008) was promulgated by the tax authorities to specify that dividends and remitted out of the PRC from the retained earnings as at 31 December 2007 are exempted from withholding tax.

8 EARNINGS/(LOSS) PER SHARE

The calculation of basic and diluted earnings/(loss) per share is based on the earnings/(loss) attributable to ordinary equity shareholders of the Group of $38,422,000 (31 March 2007: loss of $53,278,000) and the weighted average of 387,220,000 ordinary shares (31 March 2007: 270,462,000 ordinary shares after adjusting for the share consolidation in 2007) in issue during the period, calculated as follows:

Weighted average number of ordinary shares

	Period from 1 April 2007 to 31 December 2007 Number of shares ***in '000***	Year ended 31 March 2007 Number of shares *in '000*
Issued ordinary shares at 1 April	**381,642**	5,438,098
Effect of share consolidation	**–**	(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 subsidiaries/associates	**5,578**	33,529
Effect of shares issued in respect of a top up placing	**–**	889
Weighted average number of ordinary shares	**387,220**	270,462

For the purpose of the calculation of earnings/(loss) per share, the share consolidation is deemed to have been to take place at 1 April 2006.

No diluted earnings/(loss) per share is presented as the exercise of the company's outstanding share options for the period/year could result in an increase/decrease in earnings/(loss) per share.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS AND REVIEW OF OPERATIONS

For the 9-month period ended 31 December 2007 (the "Period"), the Group recorded a consolidated turnover of HK$55,620,000 (31 March 2007: HK$65,344,000), implying an annualized increase of approximately 13.5%. The share of profit from associated companies for the period was HK$61,884,000 (31 March 2007: loss HK$1,201,000). Basic earnings per share was 10 HK cents for the period ended 31 December 2007 as compared to the basic loss per share of 20 HK cents for the year ended 31 March 2007.

Business Review

The financial status of the Group has further improved. The profit attributable to shareholders for the Period amounted to HK$38,422,000 (31 March 2007: Loss HK$53,278,000), turnaround from loss to profit. Such increases were mainly attributable to the share of profit from associates.

Logistics

Logistics is still the major source of revenue for the Group. For the period ended 31 December 2007, Guangzhou Pearl Oriental Logistics Limited reallocated its resources on the high potential growth e-commerce logistics, while the warehouse operations of Pearl Oriental Logistics (Shenzhen) Ltd still have steady growth.

Coal Industry

The Group's share its associates, China Coal Energy Holdings Limited ("CCEH"), for the period ended 31 December 2007 was approximately HK$67 million.

On 9 November 2007, CCEH entered into an agreement with two independent partners to acquire 89.4% equity interest of Shanxi Qinhe Coal Company Limited ("Qinhe Coal") at a consideration of RMB142 million. After the shareholding restructuring, Qinhe Coal holds 100% coal mining equity interests of Qinhe Coal Mine in Shanxi Province. After reorganising, the area of the coal mining is 1.416 square kilometers. It will exploit the fourth, seventh and nineth strata of the coal mine. The coking coal reserve is 26.42 million tonnes and the exploitable reserve is 11.39 million tonnes, with the current annual production limit of 300,000 tons.

The Group believes that as the demand for coal will increase in foreseeable future, the contribution from CCEH will keep increasing.

Liquidity, financial resources and capital structure

The Group generally finances its operations with internally generated resources and loan facilities granted by principal bankers in the PRC and Hong Kong.

As at 31 December 2007, the Group's gearing ratio had decreased to 10% (calculated on the basis of the Group's bank borrowings over total assets) from 11% as at 31 March 2007. At the Period end date, the Group's total bank borrowings amounted to HK$64 million (31 March 2007: HK$58 million), which was secured by certain properties of the Group located in the PRC. The Group has adopted a conservative approach to financial risk management with limited borrowing during the Period.

Furthermore, the Group's cash and bank balances as at 31 December 2007 have increased to HK$31,617,000 from approximately HK$11,184,000 as at 31 March 2007. The current ratio (calculated on the basis of the Group's current assets over current liabilities) has increased to 0.58 as at 31 March 2007 (31 March 2007: 0.28).

At 31 December 2007, the Group's bank loan facilities are subject to the fulfilment of covenants relating to certain capital requirements, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. As at 31 December and 31 March 2007, none of the covenants relating to drawn down facilities had been breached.

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

Litigations

The Group had three pending litigation claims from the ex-directors of a disposed subsidiary who claim against the Group for a sum of not less than HK$11.4 million. Witness statements of both parties have been made and the Group will proceed to trial. The actions are at the initial stage and will proceed to trial and the Group and its legal representative are unable to ascertain the possible effects of the claims.

In addition, the Company took a legal action (the "Legal Action") by issuing a writ of summons on 31 August 2006 against Dichain Holdings Limited ("DiChain Holdings"), 3 former Directors, namely Fan Di, Li Xinggue and Wu Shiyue, Hero Vantage Limited and 大連雙喜商貿發展有限公司 (Dalian Shuangxi Trade Development Limited) for damages of a sum of RMB64.5 million. A default judgment has been entered against the three former Directors and a summary judgment against DiChain Holdings was obtained on 28 January 2008. The Company will keep the Shareholders well informed of its status when necessary and appropriate.

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

It is a term and condition in the Subscription Agreements and an obligation (the "Obligation") for DiChain Holdings to pledge one billion Shares (or 20,000,000 Consolidated Shares of HK$ 0.50 each) upon completion of the Subscription Agreements, as collateral to compensate the Company of any economic loss (if any) arising from any breach of warranties (if any) provided by DiChain Holdings under the Subscription Agreements. As DiChain Holdings has not yet performed the Obligations under the Subscription Agreements, the Company issued a writ of summons against DiChain Holdings on 31 October 2006, inter alia, in respect of the breach of warranties given by DiChain Holdings under the Subscription Agreements. The Company obtained a summary judgment against DiChain Holdings on 13 December 2007 in respect of its non-performance of obligations and breach of warranties under the Subscription Agreements. On 7 January 2008, China Minsheng Banking Corporation Limited (Shenzhen Branch) ("Minsheng Bank") applied to the court to join as the intervener of this case and has applied to the court for appeal, and Minsheng Bank obtained an order on 15 April 2008 that the appeal against the summary judgment entered by the Company on 13 December 2007 be allowed. The Company will seek legal advice upon receiving the judgment form the court and may consider to petition to the court for a winding order of DiChain Holdings in order to protect the interests of the Company.

Employees and remuneration policies

As at 31 December 2007, the number of employees of the Group was about 422. The remuneration packages of employees are maintained at competitive levels and include monthly salaries, mandatory provident fund, medical insurance and share option schemes; other employee benefits include meal and traveling allowances and discretionary bonuses.

PROSPECTS

Energy and Natural Resources Sectors

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

Management believes that China's economic development will continuously expand within the next decade thus there will be a strong increasing demand for energy and other natural resources, providing a great opportunity for the Company to capitalize on them. Given the broad reach of the Board of Directors, and the Management Team's extensive experience and ability in business development, the Management strongly believes that the Company will, while retaining the logistics business which has collaborative and synergy effect, strengthen its energy and natural resources business and bring very good investment return to the shareholders.

COAL INDUSTRY

The Group has actively expanded its business in the energy and natural resources, in October 2006, the Company has successfully completed the acquisition of 40% equity interests of a coal mining company, Shanxi Taiyuan Sanxing Coal Gasification (Group) Company Limited at a consideration of HK$400 million, through China Coal Energy Holdings Limited ("CCEH"), an associate of the Company which has already made profit contribution to the Group during the Period. Subsequently, CCEH is in the process to acquire one to two more coking coal mines in Shanxi and there will be more acquisitions for CCEH.

Demands for Coal in China

In a recent National Development and Reform Commission's release of statistics of the Coal Industry of China, China has become a net importer of coal which is expected on a sustained basis given the strong demand from the power and steel industries in China and the tighter regional supply of coal.

With China being the second largest consumer of energy in the world and with coal contributing over 60% of China's energy consumption, demand for coal in China is stronger than ever. China is the world's largest coal producer, and the majority of coal produced in China is derived from Shanxi, and in fact Shanxi is also the largest producer of raw coal and coking coal in China.

It is believed that coal producers in China are enjoying a confluence of positive factors that will result in strong growth in the next few years. We have witnessed a surge in coal prices during the Period, management of CCEH maintains its optimistic view on coal prices, especially for the coking coal. CCEH exploits and sells coking coal in the domestic market. CCEH's coke products include mainly metallurgical coke. They process coking coal into coke in CCEH's coking plant pursuant to specifications given by its customers.

Chinese coking coal prices increased significantly in the 2nd half of 2007 due to the strong demand from the steel industry. Representative prices in Shanxi province were up greater than 40% in the 2nd half of 2007.

In addition, CCEH produces diversified coal-based chemicals in its coking plant and ancillary facilities. CCEH's main chemical products include coal gas, refined tar and benzene. All the coal gas CCEH produced will be supplied to Shanxi Taiyuan City under a coal gas supply agreement.

CCEH owns a coke plant in Shanxi Taiyuan with a production capacity of 600,000 tonnes of coke per year and also 3 coal mines near Shanxi Taiyuan City which have coking coal reserves of around 67.5 million tonnes, 26 million tonnes and 19 million tonnes respectively, totalling over 110 million tonnes of coking coal. It is expected that the total annual coal production of these 3 coal mines of CCEH will be around 1.8 million tonnes in 2008.

Given the strategic importance of coal in its energy needs, the Chinese government has been keen to improve the industry structure so as to achieve more efficient and safe mining of the country's coal resources. The thrust of the government's policy direction has been towards 'bigger and stronger' coal mining operations. As such, we believe the sizeable coal producers like CCEH are well-positioned to benefit from consolidation opportunities in the industry.

CCEH's customers are predominantly domestic coke plants and steel companies, which should continue to expand at a fast pace. Pricing for its product is determined through negotiations with customers, and recent settlements in the current coal markets show that customers are still willing to pay ever-higher prices to secure supplies.

Coal is one of the resources that China has abundantly, and given the strategic importance of this resource in China's energy mix, we see greater efforts by the Chinese government to improve the structure of the coal industry. Such moves, we expect, will benefit the sizeable coal producers, who can partake of opportunities to consolidate smaller players and improve their already-strong production profiles.

A combination of fast-rising demand, persisting supply deficit, severe bottle neck in transportation, control of coal export in China and less government interference in setting coal prices shall enable sizeable Chinese coal companies to achieve strong earnings growth over the next few years.

CCEH plans to become a leading non-State-Owned coking coal and coke producer in Shanxi of China. Its development strategies are to focus on growth in Shanxi Province by acquiring more resources and expand production capacity and to further improve its mining, coal processing and production efficiency.

PLASTIC RECYCLING INDUSTRY

The Group has 50% equity interests in Euro Resources China Limited ("ERC"). This plastic resources recycling project has great development potential and also its products have huge demand in the PRC market and the management will also explore opportunities of expanding its market for plastic to North America, other Asian Countries like Vietnam and Cambodia, Malaysia, Korea, Japan and etc.

The Group expected that ERC will have contribution from Year 2008 as another major source of income of the Group

China's Demand for Waste Plastic Raw Material

Plastics as raw materials have been increasingly used in today's industry as an ideal substitute to replace other materials such as iron, wood and paper. In 2000, China alone produced 13 million tons of plastics products; in 2005, 32 million tonnes, representing an annual growth rate of 13%. The demand for plastics packaging materials reached 5 million tons in 2005. Increasing use of plastics has caused serious environmental problems. Recycling has become the most recognized solution. The demand for the recycled waste plastic materials in the Guangdong and Southern China district is over 1,000,000 tons per year.

China is the world's largest importer for waste and recycled plastics, consisting of 18% of demands for polypropylene and 15% for polyethylene ("PE").

China is the world's largest market for PE film, a market greater in size than the USA or Western Europe as a whole. There are over 10,000 converters with an estimated capacity of more than 11 million tons in 2004.

Apart from the recycling factory in France, the management of Euro Resources is in negotiation for acquisitions of few recycling factories and collection facilities in Europe like United Kingdom, Germany, Italy and etc. Furthermore, ERC has already formed a joint-venture in Shunde of Guangdong province, China to generate more profits and broaden the customer base in the manufacturing process of plastic granulation.

It is expected that the coal mining project and plastic resources recycling project will bring long-term stable income to the Group.

To expedite the appreciation of the Group's investment projects and generate overall benefits for our shareholders, the management team is planning to spin off the coal for listing on recognized stock markets as soon as possible. The Board expects that CCEH, upon listing, will generate very satisfactory returns to the Group.

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

Financial Positions of the Group

After Mr. Wong Kwan became the new controlling shareholder of the Company on 24 May 2006, the financial positions of the Group have been improved immediately. Apart from the net proceeds of HK$77.46 million from the placing of new shares in the Company in March 2008, an unsecured loan facility of HK$70 million has been granted by Mr. Wong Kwan to the Group as additional working capital which is beneficial to the Group's various investing and operating activities. As a whole, all of our major bankers, customers and business partners have great confidence in the Group's future development. Therefore, the Group will be in a better position to grasp various business and investment opportunities in the future.

As at 31 December 2007, the Group has outstanding bank loans in aggregate of approximately HK$64 million (31 March 207: HK$58 million).

Dividend

The Directors do not recommend the payment of a dividend for the Period (31 March 2007: Nil).

CONTINGENT LIABILITY

As at 31 December 2007, approximately HK$64 million (31 March 2007: HK$58 million) of guarantee was given by the Company to banks in respect of banking facilities granted to a subsidiary of the Company. The extent of such facilities utilized by the subsidiary at 31 December 2007 amounted to approximately HK$64 million (31 March 2007: HK$58 million).

ASSETS PLEDGED

As at 31 December 2007, assets with an aggregate carrying value of approximately HK$100 million (31 March 2007: HK$100 million) were pledged with banks as security for loan facilities granted to the Group.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 21 June 2002, which enables the Company to grant share options to eligible persons as an incentive or reward for their contribution to the Group. The terms of the share option scheme fully comply with the provisions of Chapter 17 of the Listing Rules. No share options had been granted under the scheme during the Period.

AUDIT COMMITTEE

As at 31 December 2007, the Audit Committee comprises the three independent non-executive directors, namely Mr. Lai Shi Hong, Edward (Chairman of the Audit Committee), Mr. Dong Zhixiong and Mr. Fung Hing Chiu, Cyril. The Audit Committee held two meetings during the Period. The Audit Committee is provided with sufficient resources to discharge its duties. The terms of reference of the Audit Committee follow the guidelines set out in the CG Code. The principal duties of the Audit Committee include the review of the financial reporting and internal control system of the Group, review of half-yearly and annual reports and accounts, review and monitor the appointment of the auditors and their independence.

BOARD OF DIRECTORS

As at the date hereof, the Board comprises six executive Directors, namely Mr. Wong Yuk Kwan (alias: Wong Kwan), Mr. Chan Yiu Keung, Mr. Johnny Yuen, Mr. Cheung Kwok Yu, Mr. Zhou Li Yang and Mr. Zheng Yingsheng; and three independent non-executive Directors, namely Mr. Dong Zhixiong, Mr. Fung Hing Chiu, Cyril and Mr. Lai Shi Hong, Edward.

By Order of the Board
Pearl Oriental Innovation Limited
Wong Kwan
Chairman and Chief Executive

Hong Kong, 25 April 2008

* *For identification purposes only*