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

(the "Company")

(Incorporated in Bermuda with limited liability)

(Stock Code: 632)

RESULTS ANNOUNCEMENT
FINANCIAL YEAR ENDED 31 MARCH 2007

CHAIRMAN'S STATEMENT

Pearl Oriental Innovation Limited continued to grow steadily during the year. For the year ended 31 March 2007, the Group recorded a turnover of HK$65,300,000 and a loss of approximately HK$55,500,000 from its logistics operation. Excluding special expenditure of approximately HK$20,300,000 as a result of the grant of share options to our staff, actual operating loss amounted to approximately HK$35,200,000, representing a substantial fall of 57% over the previous year.

Turnover of Guangzhou Pearl Oriental Logistics Limited decreased by approximately 25% over the previous year due to the company's focused investment in the expansion of the innovative, e-commerce logistics with great potential, while the warehouse operation of Pearl Oriental Logistics (Shenzhen) Ltd. grew by approximately 28%. Wuhan Pearl Oriental Logistics Limited is also expanding its logistic operation in full speed. Looking ahead, the management team expects the overall logistics operation will perform satisfactorily in 2007.

The Group's strategic investments in the energy and natural resources sectors have been fruitful. By the end of the accounting year, 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$427,700,000, representing 13.2 times of that of the previous year. The prospects of these two resource projects are promising and they are expected to generate excellent return, given the steady rise in the prices of coal and coke on the back of the continual and speedy growth of the Chinese economy, and the over demand for recycled plastics due to the worldwide growing awareness of environmental protection.

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 and recycled plastics projects for listing on overseas stock markets in the second half of the year or early next year. The management team has conducted negotiations last month with fund managers and investment banks in a number of cities in the US and Europe. The results of these negotiations are encouraging. The Board expects that China Coal Energy Holdings Limited and Euro Resources China Limited, upon listing, will generate satisfactory returns to the Group.

Deutsche Bank A.G. has been offering valuable advice on the Group's development since it became a shareholder of Pearl Oriental Innovation in April 2007, holding approximately 4.19% equity interest. The Board of Directors is pleased to bring in other international investors as strategic shareholders at the right timing for pooling the strategies and efforts of each of us so that we may make achievements. By capitalizing on the flourishing investment environment in China and the booming financial/capital market in Hong Kong, the Board of Directors will strive to identify the right opportunities to continue maximizing benefits for our shareholders.

Dr. Lee G Lam, Mr. Victor Yang and Dr. Robert Fung Hing Piu have resigned as members of the Board of Directors. Mr. Fung Hing Chiu, Cyril and Mr. Lai Shi Hong, Edward who have extensive experience in corporate management have been invited to join us as independent non-executive directors. I would like to take this opportunity to thank each of the outgoing directors for their contributions to the Group, and to welcome Mr. Fung and Mr. Lai on the Board. I would also like to thank all of our staff for their diligence over the past year. I, together with the management team, have every confidence in the prospects of Pearl Oriental Innovation.

The board of directors (the "Board") of Pearl Oriental Innovation Limited (the "Company") announces the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2007 together with the comparative figures for the year 2006 as follows:

	Notes	2007	2006
		HK$'000	*HK$'000*
			(restated)
Turnover	*3*	**65,344**	75,157
Cost of sales		**(51,061)**	(57,874)
Gross profit		**14,283**	17,283
Other revenue and net income		**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		**(9,357)**	–
Gain on disposal of subsidiaries		**–**	11,478
Impairment losses of deposits, loans receivable, other receivables, buildings and goodwill	*5*	**(3,993)**	(87,037)
Loss from operations		**(46,247)**	(77,760)
Finance costs		**(6,868)**	(6,155)
Share of loss of associates		**(1,201)**	–
Loss before taxation	*6*	**(54,316)**	(83,915)
Income tax	*7*	**(1,168)**	(219)
Loss for the year		**(55,484)**	(84,134)
Attributable to:			
Equity shareholders of the company		**(53,278)**	(84,841)
Minority interests		**(2,206)**	707
Loss for the year		**(55,484)**	(84,134)
Dividends		**–**	–
Loss per share	*8*		
Basic		**20 cents**	78 cents
Diluted		**N/A**	N/A

	2007	2006
	HK$'000	*HK$'000*
		(restated)
Non-current assets		
Property, plant and equipment	**95,730**	95,593
Interests in leasehold land held for own use under operating leases	**18,155**	18,668
Interest in associates	**398,564**	–
Deferred tax assets	**1,419**	820
	513,868	115,081
Current assets		
Trade and other receivables	**21,561**	18,136
Tax recoverable	**89**	–
Loans receivable	**–**	25
Interests in leasehold land held for own use under operating lease	**513**	526
Available-for-sale securities	**–**	12,412
Amounts due from minority shareholders of subsidiaries	**22**	89
Amount due from an investee company	**19**	2,168
Cash and cash equivalents	**11,184**	1,785
	33,388	35,141
Current liabilities		
Trade and other payables	**17,506**	14,016
Amounts due to related companies	**28,125**	130
Short-term bank loans	**57,587**	85,654
Other short-term loans	**506**	3,226
Current taxation	**15,790**	14,929
	119,514	117,955
Net current liabilities	**(86,126)**	(82,814)
Total assets less current liabilities	**427,742**	32,267
NET ASSETS	**427,742**	32,267

	2007	2006
	HK$'000	*HK$'000*
		(restated)
CAPITAL AND RESERVES		
Share capital	**190,821**	54,381
Reserves/(deficits)	**235,103**	(26,138)
Total equity attributable to equity shareholders of the company	**425,924**	28,243
Minority interests	**1,818**	4,024
TOTAL EQUITY	**427,742**	32,267

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. They have been prepared under the historical cost basis except that the buildings and financial instruments classified as available-for-sale securities are stated at their fair value.

As at 31 March 2007, current liabilities of the Company and its subsidiaries exceeded its current assets by approximately HKD86,126,000 (2006 (restated): HKD82,814,000). In addition, the Group has outstanding short-term loans in aggregate of approximately HKD58,093,000 (2006: HKD88,880,000), 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 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 immediate holding company and the controlling shareholder of the Company has undertaken to provide such 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 AND RESTATEMENT OF PRIOR PERIOD 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.

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 2007.

The Group 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.

(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:

(i) Effect on the consolidated financial statements

Consolidated income statements for the year ended 31 March 2006

		Effect of restatement increase/(decrease)			
	2006	**Deferred tax effect on valuation of property**	**Impairment loss on other receivables**	**Reclassification**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(as previously reported)	*(note i)*	*(note ii)*		(as restated)
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 losses of deposits, loans receivable, other receivables, buildings and goodwill	(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	(77,569)	820	(7,385)	–	(84,134)
Attributable to:					
Equity shareholders of the company	(78,276)	820	(7,385)	–	(84,841)
Minority interests	707	–	–	–	707
Loss for the year	(77,569)	820	(7,385)	–	(84,134)
Loss per share					
Basic	(72) cents				(78) cents

Consolidated balance sheet at 31 March 2006

	2006	Effect of restatement increase/(decrease)			2006
		Deferred tax asset on property	**Impairment loss on other receivables**	**Provision for income tax arisen from waiver of loan**	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(as previously stated)	*(note i)*	*(note ii)*	*(note iii)*	(as restated)
Non-current assets					
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 asset	–	820	–	–	820
	114,261	820	–	–	115,081
Current assets					
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
	42,526	–	(7,385)	–	35,141
Current liabilities					
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
	103,080	–	–	14,875	117,955
Net current liabilities	(60,554)	–	(7,385)	(14,875)	(82,814)
Total assets less current liabilities	53,707	820	(7,385)	(14,875)	32,267
NET ASSETS	53,707	820	(7,385)	(14,875)	32,267
CAPITAL AND RESERVES					
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
TOTAL EQUITY	53,707	820	(7,385)	(14,875)	32,267

(i) It represented deferred tax arisen 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 aggregated amount of revaluation surplus in respect of land and buildings was erroneously included in the carrying amount of buildings. As a result, the carrying value of buildings and revaluation reserve as at 31 March 2006 would have been overstated. However, the directors consider that expenses to quantify the overstatement 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 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 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 on 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
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**503,691**	149,924	**43,565**	298
Capital expenditure incurred during the year	**2,384**	978	**199**	411

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

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

	The Group	
	2007	2006
	HK$'000	*HK$'000*
		(restated)
Secured long-term loan receivable *(note (i))*	**–**	18,000
Deposit *(note (i))*	**–**	42,000
Loans receivable *(note (i))*	**–**	12,300
Other receivables *(note (ii))*	**–**	7,385
Buildings	**3,993**	5,468
Goodwill	**–**	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 HK$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 HK$7,385,000 made on other receivables related primarily to the remaining balances due from related parties of the former shareholders. At 31 March 2007, the management performed a detailed assessment on 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.

6 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

	2007	2006
	HK$'000	*HK$'000*
(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
Total borrowing costs	**6,868**	6,155
(b) Staff costs:		
Contributions to defined contribution retirement plans	**1,491**	968
Equity-settled share-based payment expenses	**20,297**	3,125
Salaries, wages and other benefits	**8,808**	9,849
	30,596	13,942
(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		
– underprovided in prior year	**227**	–
– provided for current year	**2,000**	861
Operating lease charges: minimum lease payments – property rentals	**1,943**	1,151

7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2007	2006
	HK$'000	*HK$'000*
		(restated)
Current tax		
Provision for PRC enterprise income tax	**1,767**	1,039
Deferred tax		
Origination and reversal of temporary differences	**(599)**	(820)
	1,168	219

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:

	2007	2006
	HK$'000	*HK$'000*
		(restated)
Loss before tax	**(54,316)**	(83,915)
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	**1,539**	617
Actual tax expense	**1,168**	219

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.

8 LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company of HK$53,278,000 (2006 (restated): HK$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 2007) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2007 *Number of shares in '000*	2006 *Number of shares in '000*
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	**889**	–
Weighted average number of ordinary shares at 31 March	**270,462**	108,761

For the purpose of the calculation of loss per share, the share consolidation is deemed to be taken place at 1 April 2005.

(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.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS AND REVIEW OF OPERATIONS

For the year ended 31 March 2007 (the "Year"), the Group recorded a consolidated turnover of HK$65,344,000 (2006 (restated): HK$74,927,000), representing a decrease of approximately 13% over the last year. The share of loss from associated companies for the year was HK$1,201,000 (2006: Nil). Basic loss per share was 20 HK cents as compared to the loss per share of 78 HK cents for the previous year.

BUSINESS REVIEW

Turnover of Pearl Oriental Logistics (Guangzhou) decreased by approximately 25% over the previous year due to the company's focused investment in the expansion of the innovative, potential e-commerce logistics, while the warehouse operation of Pearl Oriental Logistics (Shenzhen) grew by approximately 28%. However, the gross profit margin has remained at around 22% during the Year (2006: 23%).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

Mr. Wong Kwan became the new controlling shareholder of the Company on 24 May 2006. As a result, the financial positions of the Group have been improved substantially and become solid and strong during the year. As at 31 March 2007, the Group's gearing ratio had decreased to 11% (calculated on the basis of the Group's bank borrowings over total assets) from 57% as at 31 March 2006. At the year end date, 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 has adopted a conservative approach to financial risk management with limited borrowing during the Year.

Furthermore, the Group's cash and bank balances as at 31 March 2007 have increased from HK$1,785,000 as at 31 March 2006 to approximately HK$11,184,000. The current ratio (calculated on the basis of the Group's current assets over current liabilities) has remained at a level of 0.28 as at 31 March 2007 (31 March 2006: 0.30).

During the Year, 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 total sum of not less than HK$11.4 million. The actions are at the initial stage and the Group and its legal representative are unable to ascertain the possible effects of the claims.

In addition, the Company took a legal action (the "Legal Action") by issuing a writ of summons on 31 August 2006 against DiChain Holdings Limited ("DiChain Holdings"), three 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. DiChain Holdings has filed a defence 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 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 (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.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2007, the number of employees of the Group was about 270. The remuneration packages of employees are maintained at competitive levels and include monthly salaries, mandatory provident fund, medical insurance and share option schemes; other employee benefits include meal and traveling allowances and discretionary bonuses.

PROSPECTS

Energy and Natural Resources Sectors

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

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

Demands for Coal in China

In a recent National Development and Reform Commission's release of statistics of the Coal Industry of China on 28 May 2007, China has emerged as a net coal importing country instead of a net coal exporting country for the first time in history.

China economic growth in recent years has led to a surge in the demand for energy. China's real GDP grew at a Compound Annual Growth Rate ("CAGR") of 9.8% from 2001 to 2005 according to a report by the PRC's Statistics Bureau in February 2006. Coal accounts for almost 70% of the total natural energy consumption of China. In the same period, China's total primary energy consumption grew at a CAGR of 11.7%. Coal consumption in China amounted to 2.14 billion tons in 2005. The PRC Government estimates that the domestic demand for coal will increase to 2.5 billion tons by 2010.

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

On 8 September 2006, Pearl Oriental Innovation, Sinosteel International Holding Co., Limited ("Sinosteel International") and Taiyuan Sanxing entered into a Strategic Partnership Framework Agreement. Sinosteel International is willing to purchase most of the coking coal, coke and related chemical products of Taiyuan Sanxing. The parties' preliminary plan of the total sale of each of coking coal and coke by Taiyuan Sanxing to Sinosteel International will be 200,000 tons for the year 2007, and will be gradually increased after the production volume of the new coal mine reached an optimal level.

Sinosteel International, a window company in Hong Kong, is a wholly owned subsidiary of Sinosteel Corporation, a Central state owned enterprise, and engaged in international trade, mining of metallurgical resources and investments. The total turnover of Sinosteel Corporation in 2005 is over RMB35 billion and that of Sino International is over RMB 6 billion respectively. Sinosteel Corporation is one of the largest trading companies and exporters of coking coal and coke in China.

On 29 December 2006, CCEH entered into an agreement with Shanxi Coal Import and Export Group Luliang Corporation and other two joint venture partners to acquire 60% equity interest of Shanxi Jiao Cheng Shen Yu Coal Mine Company Limited ("Shen Yu Coal") at a consideration of HK$42 million. After the shareholding restructuring, Shen Yu Coal holds 100% coal mining equity interests of Bei Ta Coal Mine, Nan Ta Gou Coal Mine and Zhai Hao Bo Coal Mine in Jiao Cheng County of Shanxi Province. After reorganizing, the area of the coal mining is 4.35 square kilometers. It is now exploiting the second and third strata of the coal mine. The coking coal reserves is 18.79 million tons and the exploitable reserve is 9.33 million tons, with the annual production of 300,000 tons. The expected sales amount is HK$90 million per annum with the gross profit of HK$50 million. Upon completion, Shanxi Coal Import and Export Group Luliang Corporation will retain 10.4% equity interest and continue to cooperate with China Coal to complement the advantages of each other.

The coal mine of Shen Yu Coal has expansion potential. The new management is planning to exploit the fourth, fifth and sixth strata and together with the second and third strata, the anticipated exploitable reserve will be increased to 25 million tons with a mining value of HK$7.5 billion.

PLASTIC RECYCLING INDUSTRY

The Group has also spent HK$50 million to acquire 50% equity interests in and has become the single largest shareholder of Euro Resources China Limited during the Year. 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 other South East Asian countries like Vietnam, Cambodia, etc.

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 tons, 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, with 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.

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

LOGISTICS BUSINESS

In order to increase the market share of the logistics business, the Company has entered into an agreement during the year to acquire a 60% equity interest of Pearl Oriental Logistics Sino Limited at a consideration of HK$22 million. We expect it will help the continual growth of the Group's logistics business.

FINANCIAL POSITIONS OF THE GROUP

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

As at 31 March 2007, the Group has outstanding short-term bank loans in aggregate of approximately HKD58,093,000 (2006: HKD88,880,000). 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. The directors do not anticipate any difficulties in obtaining the new banking facilities. In addition, the immediate holding company and the controlling shareholder of the Company has undertaken to provide such financial assistance as is necessary.

The Company will operate and invest bilaterally in energy and natural resources businesses as well as logistics businesses. 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.

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

DIVIDEND

The Directors do not recommend the payment of a dividend for the year (2006: Nil).

CONTINGENT LIABILITY

As at 31 March 2007, approximately HK$58 million (2006: HK$87 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 March 2007 amounted to approximately HK$58 million (2006: HK$86 million). Subsequent to the capital injection exercise completed in May 2006, the Company received a capital injection of HK$70 million, of which approximately HK$28.8 million was immediately applied to settle a bank loan and as at the Latest Practical Date, the guarantee of the Company has substantially reduced to approximately HK$58.9 million.

ASSETS PLEDGED

As at 31 March 2007, assets with an aggregate carrying value of approximately 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. 18,500,000 share options had been granted under the scheme during the year.

AUDIT COMMITTEE

As at 31 March 2007, the Audit Committee comprises the three independent non-executive directors, namely Dr. Lee G. Lam (Chairman of the Audit Committee), Dr. Anwar Ibrahim and Mr. Victor Yang. The Audit Committee held three meetings during the year. 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 Dr. Anwar Ibrahim, 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, 27 July 2007

* *For identification purposes only*