

# 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 Group’s interim financial report for the six months ended 30 September 2006 (the “Interim Financial Report”), has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the HKSE (the “Listing Rules”), all applicable HKFRSs, which collective term includes all applicable individual Hong Kong Financial Reporting Standards, HKAS and Interpretations issued by the HKICPA and the accounting principles generally accepted in Hong Kong, including compliance with HKAS 34 “Interim financial statements”. The preparation of interim financial reports in conformity with HKAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

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

### 3. SEGMENT INFORMATION

	Turnover		Loss from operations	
	Six months ended		Six months ended	
	30 September		30 September	
	2006	2005	2006	2005
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By principal activity:				
Continuing operations Logistics	33,534	41,045	3,704	1,943
Unrealized holding loss on investments on securities			–	(9,864)
Unallocated corporate expenses			(9,605)	(585)
Loss from operations			(5,901)	(8,506)
By geographical area:				
Hong Kong	–	–		
The People's Republic of China	33,534	41,045		
	<u>33,534</u>	<u>41,045</u>		

## 4. LOSS FROM OPERATIONS

	Six months ended 30 September	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
The Group's loss from operations has been arrived at after charging/(crediting):		
Depreciation and amortization	2,450	2,448
and after crediting:		
Exchange gain	1,824	–
Interest income from:		
Loans receivable	99	218
Bank	452	7
Debt securities	–	1,388
	<u>          </u>	<u>          </u>

## 5. TAXATION

	Six months ended 30 September	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Current tax		
Hong Kong	–	–
Other jurisdictions	307	637
	<u>          </u>	<u>          </u>
	<u>307</u>	<u>637</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 (2005: Nil).

## 7. (LOSS) EARNINGS PER SHARE

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

	Six months ended 30 September	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
(Loss)/earnings for the purpose of calculating basic (loss) earnings per share:		
Net (loss) profit for the period	<u>(26,451)</u>	<u>7,387</u>
Weighted average number of shares for the purpose of calculating basic (loss) earnings per share (in thousands)	<u>203,425</u>	<u>108,762</u>

No diluted earnings (loss) per share is presented as the exercise of the Company's outstanding share options for the six months ended 30 September 2006 and 30 September 2005 would result in an increase in earnings per share and a decrease in loss per share respectively.

## 8. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables (net of impairment losses for bad and doubtful debts) with an ageing analysis as at 30 September 2006 as follows:

	At 30 September 2006 (Unaudited) HK\$'000	At 31 March 2006 (Audited) HK\$'000
	Less than 3 months	14,491
3 to 6 months	601	1,754
6 to 12 months	649	549
Over 1 year	<u>46</u>	<u>385</u>
Other receivables	<u>15,787</u>	14,855
	<u>12,550</u>	<u>10,666</u>
	<u>28,337</u>	<u>25,521</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.

## 9. LOANS RECEIVABLE

It represented a loan of Euro 800,000 (31 March 2006: Nil) advanced to Mr. Laurent Kim on 21 July 2006 as disclosed by the Company in its announcement dated 2 August 2006.

## 10. TRADE AND OTHER PAYABLES

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

	At 30 September 2006 (Unaudited) HK\$'000	At 31 March 2006 (Audited) HK\$'000
Less than 3 months	6,882	5,616
3 to 6 months	105	753
6 to 12 months	484	12
Over 1 year	228	231
	7,699	6,612
Other payables	7,403	7,404
	<b>15,102</b>	<b>14,016</b>

## 11. SHARE CAPITAL

	Authorised			
	Ordinary shares of HK\$0.50 each		Ordinary shares of HK\$0.01 each	
	No. of shares	HK\$'000	No. of shares	HK\$'000
At 1 October 2005 and 31 March 2006	–	–	8,000,000,000	80,000
Creation of new shares (note (b)(i))	–	–	22,000,000,000	220,000
Share Consolidation (note (b)(iii))	600,000,000	300,000	(30,000,000,000)	(300,000)
At 30 September 2006	<b>600,000,000</b>	<b>300,000</b>	–	–

	Issued and fully paid			
	Ordinary shares of HK\$0.50 each		Ordinary shares of HK\$0.01 each	
	No. of shares	HK\$'000	No. of shares	HK\$'000
At 1 October 2005 and 31 March 2006	–	–	5,438,098,000	54,381
Share Consolidation <i>(note (a)(iii))</i>	108,761,960	54,381	(5,438,098,000)	(54,381)
Issue of Shares under the Subscription in May 2006 <i>(note (c))</i>	80,000,000	40,000	–	–
Exercise of Convertible Notes in June 2006 <i>(note (c))</i>	60,000,000	30,000	–	–
Exercise of Share Options in August 2006 <i>(note (d))</i>	80,000	40	–	–
Exercise of Options in September 2006 <i>(note (c))</i>	20,000,000	10,000	–	–
At 30 September 2006	268,841,960	134,421	–	–

*Notes:*

- (a) The Company signed a Conditional Agreement and a Supplementary Agreement (collectively known as “Subscription Agreements”) on 22 February 2006 and 20 March 2006 respectively. Pursuant to the Subscription Agreements between the Company and the Subscriber, Orient Day Developments Limited (“Orient Day”), the Company agreed to allot and issue, and Orient Day agreed to subscribe in cash of HK\$40,000,000 for a total of 4,000,000,000 subscription shares at a price of HK\$0.01 per share (80,000,000 Consolidated Shares of HK\$0.50 each) (the “Subscription”).

Moreover, subject to the completion of the Subscription, the Company agreed to issue to Orient Day the Convertible Notes of HK\$30,000,000. The convertible notes will bear interest from the date of issue of the convertible notes at the rate of 4% per annum on the outstanding principal amount of the convertible notes, which will be payable by the Company quarterly in arrears. The maturity date of the convertible notes will be the date falling two years after the date of the issue of the convertible notes. The convertible notes are convertible at any time from the date of issue and up to the maturity date of the convertible notes. Orient Day has the further right to subscribe not more than 1,000,000,000 Option shares (20,000,000 Consolidated Shares of HK\$0.50 each).

- (b) By a special resolution passed on 22 May 2006, the following changes became effective on 23 May 2006.
- (i) the authorised share capital of the Company has been increased from HK\$80,000,000 to HK\$300,000,000 by the creation additional 22,000,000,000 new Shares of HK\$0.01 each; and
  - (ii) a share consolidation (“Share Consolidation”) on the basis that every fifty issued ordinary shares of HK\$0.01 each in the capital of the Company were consolidated into one Consolidated Share of HK\$0.50 each (the “Shares”).

- (c) On 24 May 2006, Orient Day was issued 80,000,000 new Shares and HK\$30,000,000 Convertible Notes. Subsequently in June 2006 and September 2006, Orient Day has elected to convert the HK\$30,000,000 Convertible Notes into 60,000,000 new Shares and exercised the Options to subscribe for 20,000,000 new Shares of HK\$0.50 each in the Company respectively.
- (d) 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 HK\$3.10 per Share in August 2006.

## 12. 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, options amounting to 17,500,000 shares were granted to eligible persons including the directors of the Company. Save as mentioned in note 11(d), no other share options were exercised under the Scheme during the period. At 30 September 2006, the Company had 20,928,400 share options outstanding under the Scheme.

## 13. CAPITAL COMMITMENTS

	At 30 September 2006 (Unaudited) HK\$'000	At 31 March 2006 (Audited) HK\$'000
Capital commitments contracted but not provided for in the financial statements in respect of:		
Inner Mongolia DiChain Logistics Co., Ltd. (note a)	2,415	2,415
China Coal Energy Holdings Limited (note b)	100,000	–
Euro Resources China Limited (note c)	20,000	–
Pearl Oriental Logistics Sino Limited (note d)	1,000	–
	<b>123,415</b>	<b>2,415</b>

### Notes:

- (a) It represented RMB2,500,000 registered capital of a subsidiary, Inner Mongolia DiChain Logistics Co., Ltd., which will fall due on 31 December 2006;
- (b) A conditional agreement was entered into on 15 July 2006 in respect of the sale and purchase of 40% equity interests in China Coal Energy Holdings Limited (the "Acquisition") between the Company and Mr. Zhang Genyu as the Vendor at a total consideration of HK\$395,620,000, out of which the Group has to pay a cash consideration of HK\$100 million upon completion, and the balance of HK\$295,620,000 will be satisfied by the issue of 75,800,000 new Shares in the Company to the Vendor and his nominees. The Acquisition has been subsequently completed in October 2006.

- (c) A conditional sale and purchase agreement was entered into 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 50% equity interests in Euro Resources China Limited at a total consideration of approximately HK\$50 million, out of which the Group has to pay a cash consideration of approximately HK\$20 million upon completion;
- (d) 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 60% equity interests in Pearl Oriental Logistics Sino Limited at a total consideration of approximately HK\$22 million, out of which the Group has to pay a cash consideration of HK\$1 million upon completion.

## 14. PLEDGE OF ASSETS

At 30 September 2006, certain of the Group's land and buildings with an aggregate carrying value of approximately HK\$102 million (31 March 2006: approximately HK\$101 million) were pledged to a bank to secure loan facilities granted to the Group.

## 15. CONTINGENT LIABILITIES

At 30 September 2006, the Company had given guarantees of approximately HK\$57 million (31 March 2006: HK\$87 million) to banks in respect of banking facilities granted to a subsidiary. The extent of such facilities utilized by the subsidiary at 30 September 2006 amounted to approximately HK\$57 million (31 March 2006: HK\$86 million).

## 16. POST BALANCE SHEET EVENTS

A conditional agreement was entered into on 15 July 2006 in respect of the sale and purchase of 40% equity interests in China Coal Energy Holdings Limited (the "Acquisition") between the Company and Mr. Zhang Genyu as the Vendor at a total consideration of HK\$395,620,000, out of which the Group has to pay a cash consideration of HK\$100 million upon completion, and the balance of HK\$295,620,000 will be satisfied by the issue of 75,800,000 new Shares in the Company to the Vendor and his nominees. The Acquisition has been subsequently completed in October 2006.

Orient Day has granted an unsecured loan facility to the Group of HK\$70 million in September 2006, and out of which the Group has drawn down a sum of HK\$30 million in October 2006 as working capital.

## 17. LITIGATIONS

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

In addition, the Company took a legal action (the "Legal Action") by issuing a writ of summons on 31 August 2006 against DiChain Holdings Limited ("DiChain Holdings"), 3 former Directors, namely Fan Di, Li Xingque and Wu Shiyue, Hero Vantage Limited and 大連雙喜商貿發展有限公司 (Dalian Shuangxi Trade Development Limited) for damages of a sum of RMB64.5 million and the Legal Action is still in progress.

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.

## **18. COMPARATIVE FIGURES**

Certain comparative figures have been adjusted or reclassified to conform with the current period's presentation.