

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS AND REVIEW OF OPTIONS

For the six months ended 30 September 2006 (the "Period"), the Group recorded a consolidated turnover of HK\$33,534,000 (2005: HK\$41,045,000), representing a decrease of approximately 18% over the corresponding period last year. Basic loss per share was 13 HK cents for the Period as compared to the profit per share of 7 HK cents for the six months ended 30 September 2005.

The decrease in turnover was mainly due to the loss of few key customers resulted from the litigation for recovering around HK\$30 million instituted by Guangdong Development Bank against the Group which affects the confidence of these key customers. However, the gross profit was HK\$11,207,000 for the Period which was in the same level of the previous corresponding period and the gross profit margin has increased by 17.8% to 33% during the Period from 28% in the previous corresponding period as a result of the new Management's effort to cut down the operating costs and enhance the efficiency of the logistics operations of the Group.

The Company suffered a net loss attributable to the shareholders for the Period of approximately HK\$26,451,000 (2005: profit of HK\$7,387,000) mainly due to the fact that the New board of directors (the "Board") has decided, by adopting a prudent approach, to make a substantial one-off provision for doubtful debts amounted to approximately HK\$7,187,000 in respect of certain receivables advanced by the previous management and the impairment loss on securities amounting to approximately HK\$9,357,000. The New Board anticipates that no further provisions or impairment of similar nature will be made in the future.

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.

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 Period. As at 30 September 2006, the Group's gearing ratio had decreased to 29% (calculated on the basis of the Group's bank borrowings over total assets) from 55% as at 31 March 2006. At the period end date, the Group's total bank borrowings amounted to HK\$57 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 30 September 2006 have increased from HK\$1,785,000 as at 31 March 2006 to approximately HK\$29,901,000. The current ratio (calculated on the basis of the Group's current assets over current liabilities) has increased to 0.91 as at 30 September 2006 (31 March 2006: 0.41).

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.

As at 30 September 2006, certain assets of the Group with an aggregate carrying value of approximately HK\$102 million were pledged with bank as security for loan facilities granted.

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. 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 (as defined in the Company's circular dated 4 May 2006).

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.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2006, 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 business with high potential growth. The 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.

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 business and bring very good investment return to the shareholders.

In October 2006, the Group has successfully completed the acquisition of a 40% equity interests of a coal mining company, Shanxi Taiyuan Sanxing Coal Gasification (Group) Company Limited at a consideration of HK\$400 million. The Group has also spent HK\$50 million to acquire a 50% equity interests in and has become the single largest shareholder of Euro Resources China Limited. This plastic resources recycling project has great development potential and also its products have huge demand in the PRC market. It is expected that the coal mining project and plastic resources recycling project will bring long-term to the Group.

LOGISTICS BUSINESS

In order to increase the market share of the logistics business, the Company has entered into an agreement to acquire a 60% equity interest of Pearl Oriental Logistics Sino Limited at a consideration of HK\$22 million.

It is expected that the Company's share of guaranteed profits from the above three acquisitions will be approximately HK\$323 million in aggregate in the coming three years from 2007 to 2009.