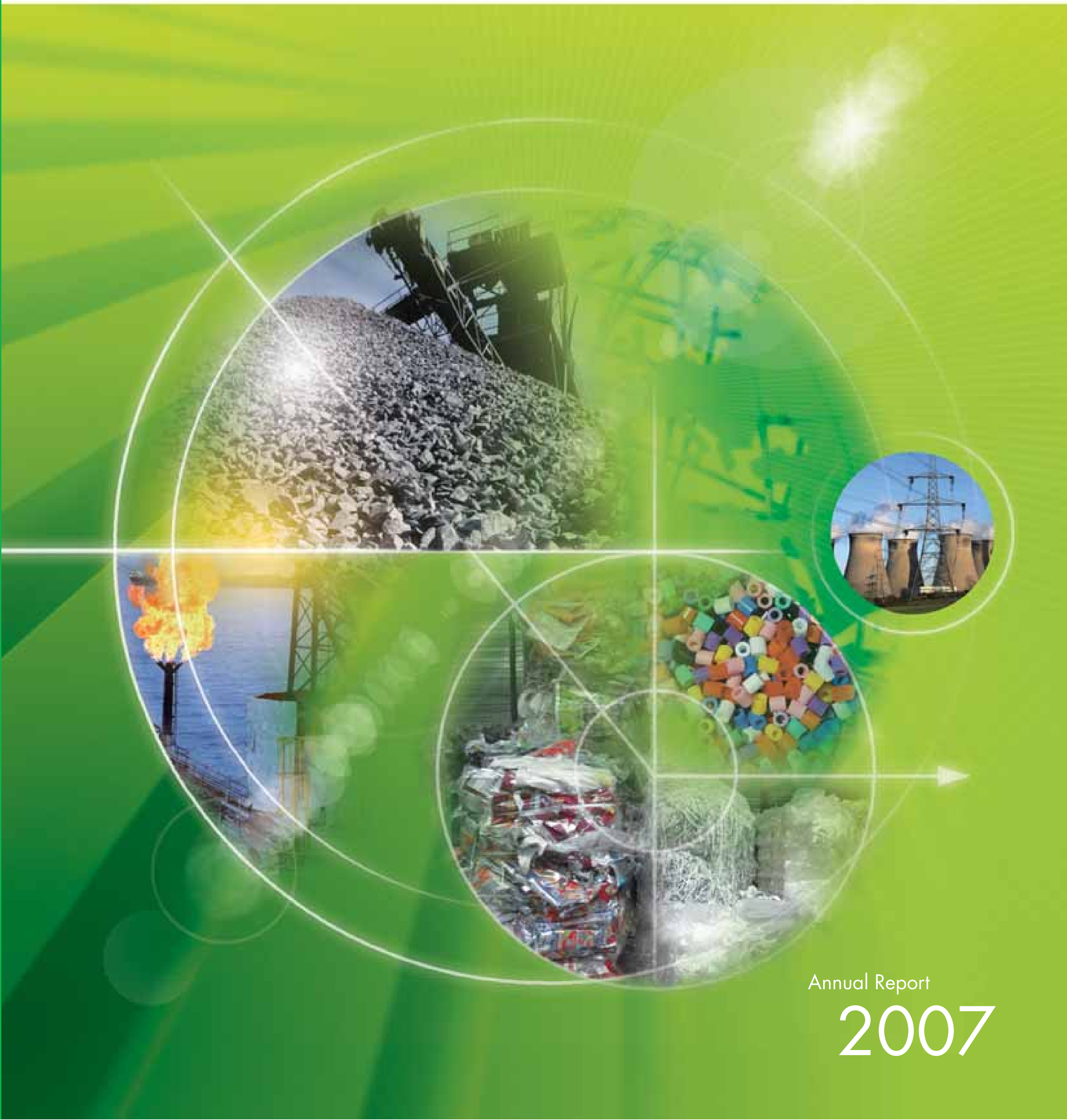
東方明珠創業有限公司

Pearl Oriental Innovation Limited

(Stock Code : 0632)



Annual Report 2007

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CORPORATE INFORMATION

DIRECTORS

Executive Directors:

Wong Yuk Kwan (alias: Wong Kwan) *(Chairman)*
Chan Yiu Keung
Johnny Yuen
Cheung Kwok Yu
Zhou Li Yang
Zheng Yingsheng

Independent Non-executive Directors:

Anwar Ibrahim
Fung Hing Chiu, Cyril
Lai Shi Hong, Edward

SOLICITORS

Hastings & Co.
Lau Kwong & Hung

PRINCIPAL BANKERS

Industrial and Commercial Bank of China (Asia) Limited
Shenzhen Commercial Bank

COMPANY SECRETARY

Cheung Kwok Yu

AUDITORS

KPMG

AUTHORISED REPRESENTATIVES

Wong Kwan
Cheung Kwok Yu

Registered office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal office:

Unit 3611, 36/F
West Tower, Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

BERMUDA RESIDENT REPRESENTATIVE

John C.R. Collis

BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Codan Services Limited
2 Church Street
Hamilton HM 11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited
26/F, Tesbury Centre
28 Queen's Road East, Wanchai
Hong Kong

WEBSITE AND OTHER INFORMATION

For more information on the Company, please find us on the World-Wide-Web at www.pearloriental.com

To access the Company on Bloomberg, please type "632 HK".

FINANCIAL HIGHLIGHTS

	2007	2006
	HK$'000	HK$'000
		(restate)
For the year		
Turnover	**65,344**	75,157
Operating loss	**(46,247)**	(77,760)
Net loss attributable to shareholders	**(53,278)**	(84,841)
Loss per share		
Basic (cents)	**20**	78
Diluted (cents)	**N/A**	N/A
Average shareholders' equity	**227,084**	75,056
Average capital employed	**230,005**	78,750
At 31 March		
Total indebtedness	**57,587**	85,654
Shareholders' equity	**427,742**	32,267
Capital employed	**427,742**	32,267
Ratio		
Return on average capital employed (%)	**(24%)**	(107%)
Return on average equity (%)	**(23%)**	(113%)
Total debt to total capital (%)	**12%**	73%

Notes:

1. Total indebtedness = total bank borrowings

2. Capital employed = shareholders' funds + minority interests + non-current liabilities

3. Return on average capital employed = operating (loss) profit after tax and interest/average capital employed

4. Return on average equity = net (loss) profit attributable to shareholders/average shareholders' equity

5. Total debt to total capital = debt/(shareholders' funds + minority interests + debt)

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.

Wong Kwan
Chairman and Chief Executive

Hong Kong, 27 July 2007

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

PROFILES OF DIRECTORS

Executive Directors

Mr. Wong Kwan *(Chairman)*
Aged 59, is currently the Chairman and chief executive of the Company, Mr. Wong is a veteran in the investment and property development fields and has over 30 years of experience in hotel management and investment, property investment and development, investment and operation in the healthcare business and telecommunications technology in Hong Kong, China and overseas. Mr. Wong is also well known in the Asian business world with extensive business connections in the Asia Pacific region. Mr. Wong was the executive director during the period from October 2003 to June 2005 and chairman and chief executive during the period from July 2004 to June 2005 of Honesty Treasure International Holdings Limited (formerly known as Pearl Oriental Enterprises Limited), shares of which are listed on the main board of the Stock Exchange of Hong Kong Limited.

Mr. Chan Yiu Keung
Aged 46, has over 23 years working experience in finance, investment and banking. He has held senior positions in the investment banking and private equity businesses of Standard Chartered Bank, Manufacturers Hanover and Citibank. He was involved in investment banking, corporate finance, private equity, capital markets and project finance, and has extensive experience in the Asia Pacific region and China. Mr. Chan obtained Master Degree of Business Administration from the Chinese University of Hong Kong, Bachelor Degree of Laws from University of London and Bachelor Degree of Arts from Hong Kong University. Mr. Chan is also a Chartered Financial Analyst. He is currently the advisor of Pearl Oriental Corporation Limited and is responsible for the investment strategy.

Mr. Johnny Yuen
Aged 61, American Chinese, he is one of the management experts in the first group whom came back to China at the end of 1985. He has more than 30 years of hotel, property investment and management experiences. He is currently the Chairman of Renel Group Co. Ltd and also the Chairman of the Les Amis d'Escoffier Society, Asia-Pacific region. Mr. Yuen also serves as the life member of US Republican Presidential Task Force. He has been awarded successively with the "Foreign Expert Friendship Award of People's Republic of China" and the "Outstanding Contribution Award of Guangzhou City" etc.

Mr. Cheung Kwok Yu
Aged 37, has over 16 years of experience with international accounting firms and law firms and listed companies in direct investment, accounting, legal, corporate finance and mergers and acquisitions. Mr. Cheung is a Chartered Financial Analyst charterholder and a professional accountant in Hong Kong, and is also qualified as a solicitor in Hong Kong. Mr. Cheung has a Master degree in Applied Finance from Macquarie University in Sydney and a Bachelor of Arts degree in Accountancy from Hong Kong Polytechnic University.

Mr. Zhou Li Yang
Aged 48, is currently the Managing Director of the Company. Mr. Zhou is responsible for execution of the strategic development and daily operation of the Group. Mr. Zhou has substantial experience in listed company management, mergers and acquisitions, direct investment, corporate finance and fund management acquired from more than 10 years managerial and professional work experience for five listed companies, an investment fund and a banking institute of Hong Kong. He also has more than 10 years management working experience in a provincial government and a conglomerate of China. Mr. Zhou holds a Bachelor degree in Physics from Central-South University, PRC and a Master degree in Business/Finance from University of Baltimore, USA.

Mr. Zheng Yingsheng
Aged 46, has had over 24 years working experience in logistics management and transportation operations. Mr. Zheng is responsible for overseeing the logistics business of the Group. He had worked for several sizeable and reputable transportation and logistics companies at senior management level being respectively in charge of land transportation, ocean cargo forwarding, warehouse management, fleet management and container terminal operations, etc. He is particularly experienced in transportation and logistics work flow and systems designs and management. Mr. Zheng holds a Bachelor of Economics degree in Marine Economics from School of Economics & Management, Shanghai Maritime University and a Diploma in Business Administration from Zhejiang University, the PRC.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Independent Non-executive Directors ("INEDs")

Dr. Anwar Ibrahim

Aged 59, is a well known international figure in politics and economics, is the former Deputy Prime Minister and Minister of Finance of Malaysia. Dr. Ibrahim has an extensive network in Europe, USA, Middle East and Asia Pacific. In 1998 Newsweek magazine named Dr. Ibrahim the "Asian of the Year." Dr. Ibrahim is currently a consultant on governance of World Bank (Washington, USA); Honorary President of Accountability (London, UK); and distinguished visiting professor at Georgetown University (Washington, USA).

Mr. Fung Hing Chiu, Cyril

Aged 68, is a prominent international and Hong Kong entrepreneur. Mr. Fung graduated from Harvard Graduate School of Business Administration with an Master Degree in Business Administration in 1965. He had worked for Morgan Guaranty Trust in New York head office and Bank of East Asia. Mr. Fung was the Managing Director of Fung Ping Fan Holdings. He was also the Co-founder and Chairman of the first venture capital fund in Asia, Inter-Asia Management Co. Ltd. and succeeded in bringing McDonald's to Hong Kong and Singapore. Mr. Fung's strong strategic sense, proven value-enhancement expertise and very diverse business experience made him a distinct business investment consulting professional.

Mr. Lai Shi Hong, Edward

Aged 42, has more than 19 years of experience in finance, accounting and business management, specializing in the stockbroking and corporate finance aspects. Mr. Lai graduated from the University of Hong Kong and is a Member of the Hong Kong Institute of Certified Public Accountants and a Fellow Member of the Association of Chartered Accountants. He is currently the Chief Financial Officer of Dragon Hill Holdings Limited, a company listed on the main board of The Stock Exchange of Hong Kong Limited and an executive Director of CDW Holding Limited, a company listed in Singapore.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

PROFILES OF SENIOR MANAGEMENT

Logistics

Mr. Zhang Wei

Aged 49, is the General Manager of Pearl Oriental Warehouse (Shenzhen) Ltd. Mr. Zhang has extensive experience in administration and has worked for the China Merchants Group companies for a number of years. Before joining Pearl Oriental Warehouse (Shenzhen) Ltd. he has been the administrative controller of Shenzhen Mingdu Hotel. Mr. Zhange holds a bachelor degree in Water Carriage Management from Shanghai Maritime Transportation University in the PRC.

Mr. Fred Wu

Aged 36, is the Managing Director of Guangzhou Pearl Oriental Logistics Limited. Mr. Wu graduated from The China University of Geology. He has been the operating manager of ST-ANDA and logistics director of ECS Technology. He has extensive practical experience in logistics operation. Mr. Wu was one of the founders of Guangzhou Pearl Oriental Logistics Limited.

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$75,157,000), 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 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, potential e-commerce logistics, while the warehouse operation of Pearl Oriental Logistics (Shenzhen) Ltd. 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 RMB6 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 March 2007.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 3 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2007 are set out in the consolidated income statement on page 20.

The directors do not recommend the payment of a dividend for the year.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements during the year in the property, plant and equipment of the Group are set out in note 14 to the financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

At 31 March 2007, no aggregate amount of distributable reserves was available for distribution to equity shareholders of the Company.

SHARE CAPITAL

Details of the movements during the year in the share capital of the Company are set out in note 26 to the financial statements.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Wong Kwan	(appointed on 24 May 2006)
Chan Yiu Keung	(appointed on 24 May 2006)
Johnny Yuen	(appointed on 1 January 2007)
Cheung Kwok Yu	(appointed on 24 May 2006)
Zhou Li Yang	
Zheng Yingsheng	
Lin Xizhong	(appointed on 13 June 2006 and resigned on 1 January 2007)
Fan Di	(resigned on 24 May 2006)
Chen Gang (alternate to Fan Di)	(resigned on 24 May 2006)

Non-executive director:

Robert Fung Hing Piu	(resigned on 1 June 2007)
Wang Shizhen	(resigned on 24 May 2006)

Independent non-executive directors:

Anwar Ibrahim	(appointed on 24 May 2006)
Fung Hing Chiu, Cyril	(appointed on 13 July 2007)
Lai Shi Hong, Edward	(appointed on 26 July 2007)
Victor Yang	(resigned on 1 June 2007)
Lee G. Lam	(appointed on 24 May 2006 and resigned on 9 July 2007)
Iain Ferguson Bruce	(resigned on 24 May 2006)
Barry John Buttifant	(resigned on 24 May 2006)

In accordance with Clauses 86 and 87 of the Company's Bye-Laws, Messrs., Chan Yiu Keung, Cheung Kwok Yu, Anwar Ibrahim, Mr. Johnny Yuen, Mr. Fung Hing Chiu, Cyril and Mr. Lai Shi Hong, Edward will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. All other remaining directors continue in office.

Mr. Johnny Yuen has entered into a service agreement with the Company for a period of two years commencing 1 January 2007 and Mr. Fung Hing Chiu, Cyril and Mr. Lai Shi Hong, Edward have entered into a service agreement with the Company for a period of two years commencing 13 July 2007 and 26 July 2007 respectively.

Other than as disclosed above, no director being proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 March 2007, the interests of the directors and their associates in the shares, underlying shares and convertible bonds of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long positions

(a) *Ordinary shares of HK$0.50 each of the Company*

	Number of Shares held in the Capacity of					
Name of Directors	**Beneficial owner**	**Family interest**	**Held by controlled corporation**	**Held by trust**	**Total number of Shares held**	**Percentage of the issued share capital of the Company**
Wong Kwan *(note)*	–	–	180,218,800	–	180,218,800	47.22%
Robert Fung Hing Piu	46,109	–	1,200,000	1,272,090	2,518,199	0.94%
Johnny Yuen	300,000	–	–	–	300,000	0.09%

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

DIRECTORS' REPORT

(b) Share options

Name of director	Capacity	Number of options held	Number of underlying shares
Wong Kwan	Beneficial owner	2,400,000	2,400,000
Anwar Ibrahim	Beneficial owner	2,000,000	2,000,000
Lee G. Lam	Beneficial owner	2,000,000	2,000,000
Chan Yiu Keung	Beneficial owner	1,000,000	1,000,000
Cheung Kwok Yu	Beneficial owner	1,000,000	1,000,000
Zheng Yingsheng	Beneficial owner	2,030,000	2,030,000
Zhou Li Yang	Beneficial owner	1,410,000	1,410,000
Robert Fung Hing Piu	Beneficial owner	1,070,000	1,070,000
Victor Yang	Beneficial owner	1,040,000	1,040,000
Johnny Yuen	Beneficial owner	1,000,000	1,000,000

Other than as disclosed above, none of the directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 March 2007.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance shows that, as at 31 March 2007, other than the interests disclosed above in respect of certain directors, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company:

Long positions

Name of substantial shareholder	Capacity	Number of issued ordinary shares held	Percentage of issued share capital of the Company
Orient Day Developments Limited	Beneficial owner	180,218,800	47.22%

Note: Orient Day is wholly owned by Mr. Wong Kwan.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 March 2007.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. The Company considers all of the independent non-executive directors are independent.

DIRECTORS' REPORT

EMOLUMENT POLICY

The emolument policy regarding the employees of the Group is set up by the Remuneration Committee and is based on their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 29(b) to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights, under the Company's Bye-Laws or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year under review, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's largest customers and five largest customers taken together accounted for 20.6% and 51.9% respectively of the Group's total sales for the year.

The aggregate purchases attributable to the Group's largest supplier and five largest suppliers taken together accounted for 10.7% and 17.7% respectively of the Group's total purchases for the year.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest suppliers or customers.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 March 2007.

POST BALANCE SHEET EVENTS

Details of the post balance sheet events of the Group are set out in note 36 to the financial statements.

AUDITORS

During the year, CCIF CPA Limited who acted as auditors of the Company for the past year resigned and KPMG has been appointed as auditors of the Company. A resolution will be submitted to the annual general meeting of the Company to re-appoint the auditors, KPMG.

On behalf of the Board

Cheung Kwok Yu
Executive Director & Company Secretary
27 July 2007

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The board of Directors of the Company (the "Board") is committed to achieving high standard of corporate governance.

In the opinion of the Board, the Company has complied throughout the year ended 31 March 2007 (the "Year") with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), which was in force on 1 January 2005, save for the following:

(a) The Chairman and the Managing Director are not subject to retirement by rotation pursuant to Bye-laws of the Company.

(b) Independent Non-Executive Directors of the Company were appointed without specific term as they were subject to retirement by rotation in accordance with the Bye-laws of the Company.

(c) Pursuant to Bye-law 87(1) of the Company, at each annual general meeting one-third of the Directors for the time being, (or, if their number is not a multiple of three, the number nearest to but not greater than one-third) shall retire from office by rotation provided that, the Chairman of the Board and/or the Managing Director of the Company shall not whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry of all directors, all directors confirmed they have complied with the required standard set out in the Model code and the code of conduct regarding securities transactions by directors adopted by the Company throughout the year ended 31 March 2007.

BOARD OF DIRECTORS

The Board is collectively responsible for the oversight of the management of the business and affairs of the Group with the objective of enhancing shareholders value. It is responsible for the formulation and the approval of the Group's development and business strategies and policies, approval of annual budgets and business plans, and supervision of management in accordance with the governing rules. The management of the Company is responsible for the oversight of the realization of the objectives set by the Board and the day-to-day operations of the Group.

As at 31 March 2007, the Board comprises ten members, six of whom are executive directors, one is non-executive director and three are independent non-executive directors. Close to one-third of the Board is independent non-executive directors and more than one of them have appropriate professional qualifications or accounting or related financial management expertise.

Each of the independent non-executive directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all independent non-executive directors to be independent under the guidelines set out in Rule 3.13 of the Listing Rules.

CORPORATE GOVERNANCE REPORT

During the Year, six board meetings have been held, the attendance of each Director, on named basis and by category at Board meetings, Board committee meetings is set out below:

	Meetings attended/held	
	Board Meetings	Audit Committee Meetings
Executive Directors:		
Wong Kwan *(Chairman & Chief Executive) (note 1)*	5/6	N/A
Chan Yiu Keung *(note 1)*	3/6	N/A
Johnny Yuen *(note 5)*	1/6	N/A
Cheung Kwok Yu *(note 1)*	5/6	N/A
Zhou Li Yang	6/6	N/A
Zheng Yingsheng	4/6	N/A
Lin Xizhong *(note 4)*	1/6	N/A
Non-executive Director:		
Robert Fung Hing Piu *(note 2)*	5/6	N/A
Independent Non-executive Directors:		
Anwar Ibrahim *(note 1)*	1/6	1/3
Lee G Lam *(Chairman of Audit Committee) (note 3)*	3/6	3/3
Victor Yang *(Members of Audit Committee) (note 2)*	5/6	3/3

Notes:

(1) Appointed on 24 May 2006.

(2) Resigned on 1 June 2007.

(3) Appointed on 24 May 2006 and resigned on 9 July 2007.

(4) Appointed on 13 June 2006 and resigned on 1 January 2007.

(5) Appointed on 1 January 2007.

To the best knowledge of the Board, there is no relationship (including financial, business, family or other relationship) among members of the Board as at 31 March 2007. All of them are free to exercise their individual judgments.

Chairman and Managing Director

For the Year, Mr. Wong Kwan, the Chairman and Mr. Zhou Li Yang, the Managing Director, had segregated and clearly defined roles.

Non-executive Directors

Certain existing non-executive directors of the Company for the Year were appointed for a specific term. This constitutes a deviation from the code provision A.4.1 of the CG Code. However, one-third of the directors of the Company are subject to the retirement by rotation at each annual general meeting under the Bye-laws of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are similar to those in the CG Code.

CORPORATE GOVERNANCE REPORT

Remuneration of Directors

On 14 February 2006, the Board has approved to establish of a Remuneration Committee and the Remuneration Committee was established on 13 June 2006. The Remuneration Committee has 3 members, comprising Messrs. Victor Yang, Anwar Ibrahim and Lee G. Lam, all independent non-executive directors. The Remuneration Committee is chaired by Mr. Victor Yang.

The Remuneration Committee is responsible for making recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration.

Nomination of Directors

The Company does not have a Nomination Committee. The Board as a whole is responsible for the procedure of agreeing to the appointment of its members and for nominating appropriate person for election by shareholders at the annual general meeting, either to fill a casual vacancy or as an addition to the existing directors.

The notice of annual general meeting contains detailed information on election of directors including detailed biography of all directors standing for election or re-election to enable shareholders to make an informed decision on their election.

Auditors' Remuneration

During the year, fees paid to the Company's external audits for audit services totaled HK$1,800,000, compared with HK$671,000 in the previous 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.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of the financial statements of the Company and ensure that they are prepared in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the timely publication of such financial statements.

The statement of the external auditors of the Company, KPMG, with regard to their reporting responsibilities on the Company's financial statements is set out in the Independent Auditor's Report on page 19.

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the shareholders of
Pearl Oriental Innovation Limited
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Pearl Oriental Innovation Limited (the "Company") set out on pages 20 to 83, which comprise the consolidated and company balance sheets as at 31 March 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 90 of the Bermuda Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2007 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

27 July 2007

CONSOLIDATED INCOME STATEMENT

for the year ended 31 March 2007
(Expressed in Hong Kong dollars)

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

The notes on pages 28 to 83 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

at 31 March 2007
(Expressed in Hong Kong dollars)

	Notes	2007 $'000	2006 $'000 (restated)
Non-current assets			
Property, plant and equipment	14	**95,730**	95,593
Interests in leasehold land held for own use under operating leases	15	**18,155**	18,668
Interest in associates	16	**398,564**	–
Deferred tax assets	25(b)	**1,419**	820
		513,868	115,081
Current assets			
Trade and other receivables	19	**21,561**	18,136
Tax recoverable	25(a)	**89**	–
Loans receivable	20	**–**	25
Interests in leasehold land held for own use under operating leases	15	**513**	526
Available-for-sale securities	17	**–**	12,412
Amounts due from minority shareholders of subsidiaries	21(a)	**22**	89
Amount due from an investee company	21(a)	**19**	2,168
Cash and cash equivalents	22	**11,184**	1,785
		33,388	35,141
Current liabilities			
Trade and other payables	23	**17,506**	14,016
Amounts due to related companies	21(b)	**28,125**	130
Short-term bank loans	24	**57,587**	85,654
Other short-term loans	24	**506**	3,226
Current taxation	25(a)	**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

CONSOLIDATED BALANCE SHEET

at 31 March 2007
(Expressed in Hong Kong dollars)

	Notes	**2007** **$'000**	2006 $'000 (restated)
CAPITAL AND RESERVES	26(a)		
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

Approved and authorised for issue by the board of directors on 27 July 2007.

Wong Kwan
Director

Cheung Kwok Yu
Director

The notes on pages 28 to 83 form part of these financial statements.

BALANCE SHEET

at 31 March 2007
(Expressed in Hong Kong dollars)

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

Approved and authorised for issue by the board of directors on 27 July 2007.

Wong Kwan
Director

Cheung Kwok Yu
Director

The notes on pages 28 to 83 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2007
(Expressed in Hong Kong dollars)

	Note	2007 $'000	2007 $'000	2006 $'000	2006 $'000 (restated)
Total equity at 1 April:					
As previously reported					
– attributable to equity shareholders of the company		**49,683**		121,869	
– minority interests		**4,024**		3,317	
		53,707		125,186	
Prior period adjustments	2(b)	**(21,440)**		(14,875)	
As restated			**32,267**		110,311
Net income/(loss) recognised directly in equity:					
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong			**1,123**		448
Changes in fair value of available–for-sale securities			**(3,055)**		(5,769)
Net loss for the year recognised directly in equity			**(1,932)**		(5,321)
Net loss for the year:					
As previously reported					
– attributable to equity shareholders of the company				(78,276)	
– minority interests				707	
				(77,569)	
Prior period adjustments	2(b)			(6,565)	
As restated			**(55,484)**		(84,134)
Total recognised income and expenses for the year (2006: as restated)			**(57,416)**		(89,455)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2007
(Expressed in Hong Kong dollars)

	Note	**2007** $'000	**2007** $'000	2006 $'000	2006 $'000 (restated)
Attributable to:					
Equity shareholders of the company		**(55,210)**		(90,162)	
Minority interests		**(2,206)**		707	
			(57,416)		(89,455)
Movements in equity arising from capital transactions:					
Shares issued pursuant to share subscription	26(a)	**40,000**		–	
Issue of convertible notes	26(a)	**2,263**		–	
Shares issued pursuant to exercise of convertible notes	26(a)	**27,737**		–	
Shares issued under share options scheme	26(a)	**40**		–	
Shares issued upon exercise of share options	26(a)	**10,000**		–	
Issue of new shares for acquisition of associates	26(a)	**352,554**		–	
Release upon disposal of subsidiaries	6	**–**		8,286	
Equity settled share-based transactions	26(a)	**20,297**		3,125	
			452,891		11,411
Total equity at 31 March			**427,742**		32,267

The notes on pages 28 to 83 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 March 2007
(Expressed in Hong Kong dollars)

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

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 March 2007
(Expressed in Hong Kong dollars)

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

The notes on pages 28 to 83 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Company and its subsidiaries (together referred to the "Group") is set out below.

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

(b) Basis of preparation of the financial statements

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

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

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

– buildings (see note 1(g)),

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

The preparation of financial statements in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 39.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Subsidiaries and minority interests

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

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising form intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the group has been recovered.

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

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

(d) Associates

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 1(i)). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the interest in the associate.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate is recognised immediately in profit or loss.

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

(f) Other investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries and associates, are as follows:

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

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss.

Dated debt securities that the Group and/or the Company have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the balance sheet at amortised cost less impairment losses (see note 1(i)).

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 1(i)).

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

Investments are recognised/derecognised on the date the Group and/or the Company commits to purchase/sell the investments or they expire.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Property, plant and equipment

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

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

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

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits.

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

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

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(h) Leased assets

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

(i) *Classification of assets leased to the Group*

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exception:

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Leased assets *(Continued)*

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group or the Company will obtain ownership of the asset, the life of the asset, as set out in note 1(g). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(i). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(i) Impairment of assets

(i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Impairment of assets *(Continued)*

(i) Impairment of investments in debt and equity securities and other receivables (Continued)

– For available-for-sale securities, the cumulative loss that had been recognised directly in equity is removed from equity and is recognised in profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment (other than properties carried at revalued amounts);

– pre-paid interests in leasehold land classified as being held under an operating lease;

– investments in subsidiaries and associates; and

– goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Impairment of assets *(continued)*

(ii) Impairment of other assets (continued)

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(j) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 1(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 1(i)).

(k) Convertible notes

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(m) Trade and other payables

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

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(o) Employee benefits

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

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the Black-Scholes Option Pricing Model ("BS-Model") taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Employee benefits *(Continued)*

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Income tax *(Continued)*

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

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(q) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

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

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

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

(ii) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Revenue from logistic services

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

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the lease asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(s) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of operations outside Hong Kong are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

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

(t) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Related parties

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

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

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

(v) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intragroup balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2 CHANGE IN ACCOUNTING POLICIES AND RESTATEMENT OF PRIOR PERIODS AND OPENING BALANCES

(a) Change in accounting policies

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

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

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

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

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

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

– HKAS 21: Amendment relating to the Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation

– HKAS 39: Amendments relating to Financial Instruments: Recognition and Measurement – The Fair Value Option

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2 CHANGE IN ACCOUNTING POLICIES AND RESTATEMENT OF PRIOR PERIODS AND OPENING BALANCES *(Continued)*

(b) Restatement of prior periods and opening balances

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

Effect on the consolidated financial statements

Consolidated income statements for the year ended 31 March 2006

		Effect of restatement: increase/(decrease)			
	2006 $'000 (as previously reported)	Deferred tax effect on valuation of property $'000 (note i)	Impairment loss on other receivables $'000 (note ii)	Reclassification $'000	2006 $'000 (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 loss	(79,652)	–	(7,385)	–	(87,037)
Loss from operations	(70,375)	–	(7,385)	–	(77,760)
Finance costs	(6,155)	–	–	–	(6,155)
Share of loss of associates	–	–	–	–	–
Loss before taxation	(76,530)	–	(7,385)	–	(83,915)
Income tax	(1,039)	820	–	–	(219)
Loss for the year	(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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2 CHANGE IN ACCOUNTING POLICIES AND RESTATEMENT OF PRIOR PERIODS AND OPENING BALANCES *(Continued)*

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

Effect on the consolidated financial statements (Continued)

Consolidated balance sheet at 31 March 2006

		Effect of restatement: increase/(decrease)			
	2006 $'000 (as previously reported)	Deferred tax effect on valuation of property $'000 (note i)	Impairment loss on other receivables $'000 (note ii)	Provision for income tax arising from waiver of loan $'000 (note iii)	2006 $'000 (as restated)
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 assets	–	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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2 CHANGE IN ACCOUNTING POLICIES AND RESTATEMENT OF PRIOR PERIODS AND OPENING BALANCES *(Continued)*

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

Effect on the consolidated financial statements (Continued)

Notes:

(i) It represented deferred tax arising from valuation of property made in 2006. In preparing the financial statements for the year ended 31 March 2007, the directors revealed that the deferred tax effect related to the valuation of property made in 2006 has not been recorded in the financial statements for the year ended 31 March 2006. Accordingly, a prior period adjustment was made in 2006 financial statements. The amount was calculated based on the appropriate current rate of taxation applicable to the Group as determined in accordance with the relevant income tax rules and regulation of the PRC.

(ii) It represented an impairment loss made against other receivables related primarily to related parties of the former shareholders. The directors noted that the receivables had been impaired and the impairment loss should have been recognised at 31 March 2006. Accordingly, a prior period adjustment was made in the 2006 financial statements.

(iii) It represented provision for enterprise income tax on income arisen from a waiver of loan to a subsidiary in the PRC prior to 2006. Pursuant to relevant PRC tax regulations, income arisen from a waiver of loan is subject to enterprise income tax. The directors revealed that the related tax provision has not been recorded in the prior year's financial statements. As a result, a prior period adjustment was made in the 2006 financial statements to reflect the tax provision.

(iv) At 31 March 2006, the aggregate amount of revaluation difference in respect of land and buildings was erroneously included in the carrying amount of buildings. As a result, the carrying value of buildings as at 31 March 2006 would have been misstated. However, the directors consider that expenses to quantify the misstatement would outweigh the benefits. In preparing the financial statements for the year ended 31 March 2007, the directors of the Company revealed such error and instructed an independent valuer to perform a valuation on buildings to rectify the error.

3 TURNOVER

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

4 OTHER REVENUE AND NET INCOME

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

5 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

		2007 $'000	2006 $'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	**726**	968
	Equity-settled share-based payment expenses	**20,297**	3,125
	Salaries, wages and other benefits	**8,808**	9,849
		29,831	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		
	– provided for the current year	**2,000**	861
	– underprovided in prior year	**227**	–
	Operating lease charges: minimum lease payments – property rentals	**1,943**	1,151

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

6 DISPOSAL OF SUBSIDIARIES

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

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

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

	The Group	
	2007	2006
	$'000	$'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 *(note 14(a))*	**3,993**	5,468
Goodwill *(note 18)*	**–**	1,884
	3,993	87,037

Notes:

(i) The impairment losses made in 2006 represent a full provision against (a) a deposit of $42,000,000 and a loan of $18,000,000 in accordance with an Asset Transfer Deposit Agreement (資產轉讓預付款協議) (the "Deposit Agreement") and a Loan Agreement, both dated 27 September 2005 entered into between the Company (under the direction of the former directors) and Hero Vantage Limited; and (b) two loans receivable totalled $12,300,000 granted by the Company (under the direction of the former directors) to Squadram Limited and Earnest Investment Services Limited.

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

8 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

9 DIRECTORS' REMUNERATION

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

9 DIRECTORS' REMUNERATION *(Continued)*

	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Share– based payments $'000	Retirement scheme contributions $'000	2006 Total $'000
Executive directors					
Fan Di	300	–	107	12	419
Zhou Li Yang	480	5	86	12	583
Zheng Yingsheng	155	265	301	–	721
Wu Shiyue	120	65	43	–	228
Chen Gang	100	100	–	–	200
	1,155	435	537	24	2,151
Non-executive directors					
Robert Fung Hing Piu	–	–	9	–	9
Wang Shizhen	–	–	9	–	9
	–	–	18	–	18
Independent non–executive directors					
Barry John Buttifant	–	–	9	–	9
Iain Ferguson Bruce	–	–	9	–	9
Victor Yang	–	–	12	–	12
	–	–	30	–	30

The above emoluments include the value of share options granted to certain directors under the Company's share option scheme as estimated at the date of grant. Details of these benefits in kind are disclosed under the paragraph "Share Option Scheme" in the directors' report and note 29.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

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

	2007	2006
	$'000	$'000
Salaries and other emoluments	**–**	850
Share-based payments	**–**	90
Retirement scheme contributions	**–**	24
	–	964

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

	2007	2006
	Number of individuals	Number of individuals
$Nil – $1,000,000	**–**	2

11 LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

12 LOSS PER SHARE

(a) Basis loss per share

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

Weighted average number of ordinary shares

	2007 Number of shares 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, details of which are set out in note 26, is deemed to have been taken place at 1 April 2006.

(b) Diluted loss per share

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

13 SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

Business segments

During the year under review, the Group principally operates a single business segment which is the provision of logistics and related services. Accordingly, no business segment information is presented.

Geographical segments

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

14 PROPERTY, PLANT AND EQUIPMENT

(a) The Group

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

14 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(a) The Group *(Continued)*

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

NOTES TO THE FINANCIAL STATEMENTS
(Expressed in Hong Kong dollars)

14 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(a) The Group *(Continued)*

The following properties held by the Group for own use were revalued at 31 March 2007 by the directors by reference to an independent valuation of 15 September 2006 carried out by Ms Joannau W.F. Chan, who is an associate member of the Hong Kong Institute of Surveyors and a qualified surveyor of BMI Appraisals Limited with recent experience in the location and category of property being valued:

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

The revaluation deficit of $3,993,000 (2006: $5,468,000) has been transferred to profit or loss as impairment loss of buildings of the Group.

Had these properties held for own use been carried at cost less accumulated depreciation, the carrying amounts would have been $90,546,000 (2006: $87,578,000).

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

	2007	2006
	$'000	$'000
Outside Hong Kong		
– medium-term leases	**81,085**	82,110

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

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

	2007	2006
	$'000	$'000
Outside Hong Kong – medium leases		
– non-current portion	**18,155**	18,668
– current portion	**513**	526
	18,668	19,194

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

16 INTEREST IN ASSOCIATES

	The Group	
	2007	2006
	$'000	$'000
Share of net assets	**329,408**	–
Goodwill	**69,156**	–
	398,564	–

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

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

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

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

Summary financial information on associates

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

16 INTEREST IN ASSOCIATES *(Continued)*

Impairment tests for cash-generating units of associates containing goodwill

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

	2007	2006
	$'000	$'000
China Coal Energy Holdings Limited ("CCEH")	**55,891**	–
Euro Resources China Limited ("Euro Resources")	**13,265**	–
	69,156	–

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

Key assumptions used for value-in-use calculations:

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
(Expressed in Hong Kong dollars)

17 AVAILABLE-FOR-SALE SECURITIES

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

Name	Place of incorporation and operation	Principal activities	Percentage of interest
China Technology Global Corporation	British Virgin Islands	Designs, manufactures and sales of customisable software and hardware	5.3%

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

18 GOODWILL

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

Impairment tests for cash-generating units containing goodwill

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

19 TRADE AND OTHER RECEIVABLES

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

All of the trade and other receivables, deposits and prepayments are expected to be recovered within one year.

Included in trade and other receivables are trade receivables (net of impairment losses for bad and doubtful debts) with the following ageing analysis as of the balance sheet date:

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

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

20 LOANS RECEIVABLE

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

20 LOANS RECEIVABLE *(Continued)*

Notes:

(i) The loans are secured by certain listed securities owned by the borrowers, bearing interest at 5% per annum. Full provision was made against the loan in 2006.

(ii) The loan bears interest at 6% per annum and is repayable by monthly instalments within one year. The amount was settled during the year.

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

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

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

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

(b) Amounts due to related parties

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
(Expressed in Hong Kong dollars)

22 CASH AND CASH EQUIVALENTS

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

23 TRADE AND OTHER PAYABLES

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

All of the trade and other payables are expected to be settled or recognised as income within one year.

Included in trade and other payables are trade payables with the following ageing analysis as of the balance sheet date:

	The Group	
	2007	2006
	$'000	$'000
Due within 3 months	**7,651**	5,616
Due after 3 months but within 6 months	**1,065**	753
Due after 6 months but within 12 months	**6**	12
Over 1 year	**251**	231
	8,973	6,612

24 BANK AND OTHER SHORT-TERM BORROWINGS

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

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

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

	The Group		The Company	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
United States Dollars	**USD 4,000**	USD 4,000	**–**	–

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

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

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

25 INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the consolidated balance sheet represents:

	The Group	
	2007	2006
	$'000	$'000
		(restated)
PRC enterprise income tax recoverable	**(89)**	–
Provision for PRC enterprise income tax for the year	**915**	–
Balance of PRC enterprise income tax relating to prior years	**14,875**	14,929
	15,790	14,929
	15,701	14,929

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

25 INCOME TAX IN THE BALANCE SHEET *(Continued)*

(b) Deferred tax assets and liabilities recognised:

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

	Depreciation allowances in excess of the related depreciation	**Tax losses**	**Revaluation of property**	**Total**
	$'000	$'000	$'000	$'000
Deferred tax arising from:				
At 1 April 2005	(74)	74	–	–
Revaluation of property *(note 2(b))*	–	–	820	820
Disposal of subsidiaries	74	(74)	–	–
At 31 March 2006 (restated)	–	–	820	820
At 1 April 2006 (restated)	–	–	820	820
Revaluation of property	–	–	599	599
At 31 March 2007	–	–	1,419	1,419

	The Group	
	2007	2006
	$'000	$'000
		(restated)
Net deferred tax asset recognised on the balance sheet	**1,419**	820

(c) Deferred tax not recognised

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

NOTES TO THE FINANCIAL STATEMENTS
(Expressed in Hong Kong dollars)

26 CAPITAL AND RESERVES

(a) The Group

	Attributable to equity shareholders of the Company								
	Share capital $'000	Share premium $'000	Capital reserve $'000	Exchange reserve $'000	Fair value reserve $'000	Accumulated losses $'000	Total $'000	Minority interests $'000	Total equity $'000
At 1 April 2005									
– as previously reported	54,381	38,445	404,406	3,426	538	(379,327)	121,869	3,317	125,186
– prior year adjustments									
– current tax on wavier of loan	–	–	–	–	–	(14,875)	(14,875)	–	(14,875)
– as restated	54,381	38,445	404,406	3,426	538	(394,202)	106,994	3,317	110,311
Exchange difference on translation of financial statements of subsidiaries outside Hong Kong	–	–	–	448	–	–	448	–	448
Equity settled share-based transactions	–	–	3,125	–	–	–	3,125	–	3,125
Share options expired under share options scheme	–	–	(844)	–	–	844	–	–	–
Available-for-sale securities:									
– changes in fair value	–	–	–	–	(5,769)	–	(5,769)	–	(5,769)
– transfer to profit or loss on disposal	–	–	–	–	8,286	–	8,286	–	8,286
Loss for the year (restated)	–	–	–	–	–	(84,841)	(84,841)	707	(84,134)
At 31 March 2006	54,381	38,445	406,687	3,874	3,055	(478,199)	28,243	4,024	32,267
At 1 April 2006									
– as previously reported	54,381	38,445	406,687	3,874	3,055	(456,759)	49,683	4,024	53,707
– prior year adjustments									
– impairment loss	–	–	–	–	–	(7,385)	(7,385)	–	(7,385)
– deferred tax on property valuation	–	–	–	–	–	820	820	–	820
– current tax on wavier of loan	–	–	–	–	–	(14,875)	(14,875)	–	(14,875)
	54,381	38,445	406,687	3,874	3,055	(478,199)	28,243	4,024	32,267
Shares issued pursuant to share subscription	40,000	–	–	–	–	–	40,000	–	40,000
Equity portion of convertible notes issued	–	–	2,263	–	–	–	2,263	–	2,263
Shares issued pursuant to exercise of convertible notes	30,000	–	(2,263)	–	–	–	27,737	–	27,737
Shares issued under share options scheme	40	67	(67)	–	–	–	40	–	40
Issue of share options	–	–	56,800	–	–	(56,800)	–	–	–
Shares issued upon exercise of share options	10,000	–	(56,800)	–	–	56,800	10,000	–	10,000
Issue of new shares	56,400	296,154	–	–	–	–	352,554	–	352,554
Exchange difference on translation of financial statements of subsidiaries outside Hong Kong	–	–	–	1,123	–	–	1,123	–	1,123
Equity settled share-based transactions	–	–	20,297	–	–	–	20,297	–	20,297
Share options expired under share options scheme	–	–	(1,553)	–	–	1,553	–	–	–
Available-for-sale securities:									
– changes in fair value	–	–	–	–	(3,055)	–	(3,055)	–	(3,055)
Loss for the year	–	–	–	–	–	(53,278)	(53,278)	(2,206)	(55,484)
At 31 March 2007	190,821	334,666	425,364	4,997	–	(529,924)	425,924	1,818	427,742

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

26 CAPITAL AND RESERVES *(Continued)*

(b) The Company

	Share capital $'000	Share premium $'000	Contributed surplus $'000	Capital reserve $'000	Fair value reserve $'000	Accumulated losses $'000	Total $'000
At 1 April 2005	54,381	38,445	45,348	555	8,317	(64,952)	82,094
Available-for-sale securities:							
– changes in fair value	–	–	–	–	(5,262)	–	(5,262)
Equity settled share-based transactions	–	–	–	3,125	–	–	3,125
Share options expired under share options scheme	–	–	–	(844)	–	844	–
Loss for the year	–	–	–	–	–	(62,694)	(62,694)
At 31 March 2006	54,381	38,445	45,348	2,836	3,055	(126,802)	17,263
At 1 April 2006	54,381	38,445	45,348	2,836	3,055	(126,802)	17,263
Shares issued pursuant to share subscription	40,000	–	–	–	–	–	40,000
Equity portion of convertible notes issued	–	–	–	2,263	–	–	2,263
Shares issued pursuant to exercise of convertible notes	30,000	–	–	(2,263)	–	–	27,737
Shares issued under share options scheme	40	67	–	(67)	–	–	40
Issue of new shares	56,400	296,154	–	–	–	–	352,554
Issue of share options	–	–	56,800	–	–	(56,800)	–
Shares issued upon exercise of share options	10,000	–	(56,800)	–	–	56,800	10,000
Equity settled share-based transactions	–	–	–	20,297	–	–	20,297
Share options expired under share options scheme	–	–	–	(1,553)	–	1,553	–
Available-for-sale securities:							
– changes in fair value	–	–	–	–	(3,055)	–	(3,055)
Loss for the year	–	–	–	–	–	(38,953)	(38,953)
At 31 March 2007	190,821	334,666	45,348	21,513	–	(164,202)	428,146

(c) Share capital

(i) Authorised and issued share capital

	Authorised			
	Ordinary shares of $0.50 each		Ordinary shares of $0.01 each	
	No. of shares '000	Amount $'000	No. of shares '000	Amount $'000
At 1 April 2006	–	–	8,000,000	80,000
Creation of new shares *(note (iii))*	–	–	22,000,000	220,000
Share consolidation *(note (iii))*	600,000	300,000	(30,000,000)	(300,000)
At 31 March 2007	600,000	300,000	–	–

26 CAPITAL AND RESERVES *(Continued)*

(c) Share capital *(Continued)*

(i) Authorised and issued share capital *(continued)*

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

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(ii) The Company signed a Conditional Agreement and a Supplementary Agreement (collectively known as "Subscription Agreements") on 22 February 2006 and 20 March 2006 respectively. Pursuant to the Subscription Agreements between the Company and the Subscriber, Orient Day, the Company agreed to allot and issue, and Orient Day agreed to subscribe in cash of $40,000,000 for a total of 4,000,000,000 subscription shares at a price of $0.01 per share (80,000,000 Consolidated Shares of $0.05 each), which represented approximately 73.6% of the then issued share capital of the Company and 42.4% of the issued share capital as enlarged by the issue of the subscription shares. Moreover, the Company agreed to grant a total of 40,000,000 share options (the "Options") with an exercise price of $0.01 per share (80,000,000 Consolidated Shares of $0.05 each) to Orient Day.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

26 CAPITAL AND RESERVES *(Continued)*

(c) Share capital *(Continued)*

(iii) By a special resolution passed on 22 May 2006, the following changes became effective on 23 May 2006.

– the authorised share capital of the Company has been increased from $80,000,000 to $300,000,000 by the creation of additional 22,000,000,000 shares of $0.01 each; and

– a share consolidation ("Share Consolidation") on the basis that every fifty issued ordinary shares of $0.01 each in the capital of the Company were consolidated into one Consolidated Share of $0.50 each (the "Shares").

Moreover, subject to the completion of the share subscription, the Company agreed to issue to Orient Day convertible notes of $30,000,000. The convertible notes will bear interest from the date of issue of the convertible notes at the rate of 4% per annum on the outstanding principal amount of the convertible notes, which is payable by the Company quarterly in arrears. The maturity date of the convertible notes will be the date falling two years after the date of the issue of the convertible notes. The convertible notes are convertible at any time from the date of issue and up to the maturity date of the convertible notes.

(iv) In June 2006 and September 2006, Orient Day has elected to convert the $30,000,000 convertible notes into 60,000,000 new Shares and exercised the Options to subscribe for 20,000,000 new Shares of $0.50 each in the Company respectively.

(v) Each of Mr Iain F. Bruce and Mr Barry J. Buttifant, both former independent non-executive directors of the Company, has exercised their options to subscribe for 40,000 shares at the exercise price of $3.10 per share in August 2006.

(vi) A conditional agreement was entered into on 15 July 2006 in respect of the sale and purchase of a 40% equity interest in China Coal Energy Holdings Limited ("CCEH") between the Company and Mr. Zhang Jingyuan as the vendor at a total consideration of $357,720,000, out of which the Group has to pay a cash consideration of $100,000,000 upon completion, and the balance of $247,720,000 will be satisfied by the issue of 75,800,000 new shares of the Company to the Vendor and his nominees.

(vii) A conditional sale and purchase agreement was entered on 29 July 2006 between Grand Ascend Investments Limited, a subsidiary of the Company as the purchaser and Mr. Laurent Kim and Mr. Ung Phong as the vendors in respect of a 50% equity interest in Euro Resources China Limited ("Euro Resources") at a total consideration of $42,045,000 which was settled by the issue of 7,500,000 new shares on the Company and cash consideration of approximately $20,000,000 upon completion.

(viii) On 15 March 2007, the Company, Orient Day and six subscribers entered into share sale and subscription agreements in respect of a top-up placing of 29,500,000 shares in aggregate at a price of $2.59 per share as announced by the Company on 15 March 2007.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

26 CAPITAL AND RESERVES *(Continued)*

(c) Share capital *(Continued)*

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

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

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

(d) Nature and purpose of reserves

(i) Capital and contributed surplus

The capital reserve of the Group represents the difference between the nominal value of the share capital issued by the Company and the aggregate of the share capital and the share premium accounts of the subsidiaries acquired pursuant to the Group reorganisation in 1996.

The contributed surplus of the Company represents the difference between the nominal value of the share capital issued by the Company and the aggregate net asset value of the subsidiaries acquired at the date of acquisition pursuant to the Group reorganisation in 1996. Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of contributed surplus in certain circumstances.

(ii) Exchange reserve

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

NOTES TO THE FINANCIAL STATEMENTS
(Expressed in Hong Kong dollars)

26 CAPITAL AND RESERVES *(Continued)*

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

(iii) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the balance sheet date and is dealt with in accordance with the accounting policies set out in note 1(f).

(e) Distributability of reserves

Under the Companies Act 1981 Bermuda, the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

(i) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium.

In the opinion of the directors, at 31 March 2007, the Company did not have any reserves available for distribution to equity shareholders (2006: Nil).

(f) Capital reserves

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

27 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2007	2006
	$'000	$'000
Unlisted shares, at cost	**–**	–
Amounts due from subsidiaries	**435,250**	13,437

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

27 INVESTMENTS IN SUBSIDIARIES *(Continued)*

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

27 INVESTMENTS IN SUBSIDIARIES *(Continued)*

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

27 INVESTMENTS IN SUBSIDIARIES *(Continued)*

Notes:

(i) These entities established in the PRC are domestic owned enterprises.

(ii) There entities established in the PRC are wholly foreign owned enterprises.

(iii) These entities established in the PRC are sino foreign joint-venture enterprises.

(iv) The English translation of the Company names of the Companies established in the PRC is for reference only. The official names of these Companies are in Chinese.

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

The above table includes the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities during the year or at the end of the year.

28 DEFINED CONTRIBUTION RETIREMENT PLAN

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement plan. The MPF Scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of $20,000. Contributions to the plan vest immediately.

Employees of subsidiaries in the PRC are members of a state-managed retirement benefit scheme ("PRC Scheme") operated by the relevant local government authorities in the PRC. The Group is required to contribute 8% to 23.5% of its payroll costs to the PRC Scheme to fund the benefits.

The only obligation of the Group with respect to the MPF Scheme and the PRC Scheme is to make the specified contributions. The amount contributed to the MPF Scheme and the PRC Scheme amounted to $216,000 (2006: $259,000) and $510,000 (2006: $709,000), respectively.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

29 SHARE OPTIONS

(a) Share options to Orient Day

The Company had granted a share option to Orient Day, pursuant to the Subscription Agreement entered into on 22 February 2006 and 20 March 2006 respectively. The options vested immediately and may be exercised at any time from the date of acceptance of the offer to the second anniversary of the date of grant. Total of 20,000,000 share options were granted and the exercise price for each share was $0.5. Each option gives the holder the right to transfer the option to other party as well as to subscribe for one ordinary share in the Company.

(a) The terms and conditions of the grants that existed during the years are as follows, whereby all options are settled by physical delivery of shares:

	Number of share option '000	Vesting conditions	Contractual life of options
Options granted to Orient Day:			
– on 22 May 2006	20,000	on the date of grant	2 years

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

	2007	
	Weighted average exercise price $	**Number of options '000**
Outstanding at the beginning of the year	**–**	**–**
Granted during the year	**0.5**	**20,000**
Exercised during the year	**0.5**	**(20,000)**
Outstanding at the end of the year	**–**	**–**
Exercisable at the end of the year	**–**	**–**

(c) Fair value of share options and assumptions

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

29 SHARE OPTIONS *(Continued)*

(a) Share options to Orient Day *(Continued)*

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

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

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

(b) Equity settled share-based transactions

The Company has a share option scheme ("the Scheme") which was adopted on 21 June 2002 whereby, pursuant to a written resolution of the sole shareholder, was set up for the primary purpose of providing incentives to directors and eligible employees, and which will expire on 20 June 2012. Under the Scheme, the directors of the Company may grant options to eligible employees, including directors of any Companies in the Group, to subscribe for shares in Company.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 30% of the issued share capital of the Company from time to time, without prior approval from shareholders of the Company. The number of shares in respect of which options may be granted to an individual in any one year is not permitted to exceed 1% of the Company's issued share capital or with a value in excess of $5 million; otherwise it must be approved by the shareholders of the Company.

The options may be exercised at any time from 12 months from the date of acceptance of the offer to the tenth anniversary of the date of grant. The exercise price is determined by the directors of the Company, and shall not be less than the higher of the closing price of the Company's shares on the date of grant, the average closing price of the shares for the five business days immediately preceding the date of grant and the nominal value of the shares of the Company. The options vest from 12 months from the date of grant and are then exercisable within a period up to 20 June 2012. Each option gives the holder the right to subscribe for one ordinary share in the Company.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

29 SHARE OPTIONS *(Continued)*

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

(a) *The terms and conditions of the grants that existed during the years are as follows, whereby all options are settled by physical delivery of shares:*

	Number of instruments	**Vesting conditions**	**Contractual life of options**
	’000		
Options granted to directors:			
– on 13 June 2006	13,400	1 year from the date of grant	5.81 years
– on 1 January 2007	1,000	1 year from the date of grant	4.47 years
Options granted to employees:			
– on 13 June 2006	4,100	1 year from the date of grant	5.81 years
Total share options	18,500		

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

29 SHARE OPTIONS *(Continued)*

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

(c) Fair value of share options and assumptions

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

Fair value of share options and assumptions

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

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

30 CONVERTIBLE NOTES

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

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

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

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

31 FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are due within 60 days from the date of billing. Credit periods may extend to 180 days for certain major customers. Debtors with balances that are more than 3 months overdue are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

NOTES TO THE FINANCIAL STATEMENTS
(Expressed in Hong Kong dollars)

31 FINANCIAL INSTRUMENTS *(Continued)*

(b) Interest rate risk

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

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

(c) Foreign currency risk

As most of the Group's monetary assets and liabilities are denominated in Hong Kong dollars and Renminbi, and the Group conducted its business transactions principally in Hong Kong dollars and Renminbi, all of which were relatively stable during the year under review, the Group experiences only immaterial exchange rate fluctuations. The Group considers that as the exchange rate risk of the Group is not significant, the Group did not employ any financial instruments for hedging purposes.

(d) Estimation of fair values

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

32 COMMITMENTS

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

	The Group	
	2007	2006
	$'000	$'000
Contracted for	**1,012**	2,415

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

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

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

	The Group	
	2007	2006
	$'000	$'000
Within 1 year	**4,968**	2,856
After 1 year but within 5 years	**3,808**	3,703
After 5 years	**–**	–
	8,776	6,559

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

33 CONTINGENT ASSETS AND LIABILITIES

As at 31 March 2007, guarantees totalling approximately $58,000,000 (2006: $87,000,000) were given by the Company to banks in respect of banking facilities granted to a subsidiary. The extent of such facilities utilised by the subsidiary at 31 March 2007 amounted to approximately $57,587,000 (2006: $85,654,000). The fair value of the financial guarantees, being determined by reference to fees charged in is estimated by reference to interest rate differentials, is considered inconsequential. No fair value of the financial guarantees has been recognised.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

34 LITIGATIONS

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

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

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

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

35 MATERIAL RELATED PARTY TRANSACTIONS

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

(a) Transactions with key management personnel

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

(b) Transactions with other related parties

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

36 NON-ADJUSTING POST BALANCE SHEET EVENTS

(a) Advance from shareholder

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

(b) Loan to an associate

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

36 NON-ADJUSTING POST BALANCE SHEET EVENTS *(Continued)*

(c) Acquisition of Pearl Oriental Logistics Sino Limited

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

37 COMPARATIVE FIGURES

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

38 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

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

39 ACCOUNTING ESTIMATES AND JUDGEMENTS

Key sources of estimation uncertainty

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

(i) *Impairments*

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

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

(ii) *Depreciation*

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

39 ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

Key sources of estimation uncertainty *(Continued)*

(iii) Income taxes liability in the PRC

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

(iv) Valuation on property

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

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

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

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Company's results of operations and financial position.

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

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

FINANCIAL SUMMARY

(Expressed in Hong Kong dollars)

	2003 $'000	2004 $'000	2005 $'000	2006 $'000 (restated)	**2007** **$'000**
Results					
Turnover	36,337	27,769	34,145	75,157	**65,344**
Net profit/(loss) for the year	13,453	14,262	(19,591)	(84,134)	**(55,484)**
Assets and liabilities					
Total assets	212,711	243,235	243,009	150,222	**547,256**
Total liabilities	(99,665)	(124,046)	(117,823)	(117,955)	**(119,514)**
Minority interests	(6,711)	–	(3,317)	(4,024)	**(1,818)**
Shareholders' funds	106,335	119,189	121,869	28,243	**425,924**