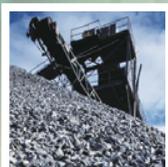




東方明珠創業有限公司
Pearl Oriental Innovation Limited

Stock Code : 0632



2007

INTERIM REPORT

The Directors of Pearl Oriental Innovation Limited (the "Company") announce the unaudited financial results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 September 2007 with comparative figures for the previous corresponding period. The results have not been audited but have been reviewed by the Audit Committee of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	Six months ended	
		2007	2006
		(Unaudited)	(Unaudited)
		HK\$'000	(Restated)
		HK\$'000	HK\$'000
Turnover	3	39,415	33,239
Cost of sales		(28,555)	(23,525)
Gross profit		10,860	9,714
Other operating income		3,111	2,384
Selling and distribution expenses		(4,538)	(2,003)
General and administrative expenses		(18,680)	(15,996)
Loss from operations	4	(9,247)	(5,901)
Finance costs		(2,601)	(3,646)
Share of profit of associates		6,232	–
Provision for doubtful debts		–	(7,187)
Impairment loss of investment securities		(6,496)	(9,357)
Realized holding loss on investment in securities		(900)	–
Impairment loss of goodwill		(6,065)	–
(Loss) before taxation		(19,077)	(26,091)
Taxation	5	(402)	(307)
(Loss) for the period		(19,479)	(26,398)
Attributable to:			
Equity holders of the Company		(15,047)	(26,451)
Minority interests		(4,432)	53
		(19,479)	(26,398)
(Loss) per share	7		
Basic		(4) cents	(13) cents

CONDENSED CONSOLIDATED BALANCE SHEET

		At 30 September 2007 (Unaudited)	At 31 March 2007 (Audited) (Restated)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		98,979	95,730
Interest in leasehold land held for own use under operating leases		17,874	18,155
Interest in associates	8	404,796	398,564
Deferred tax assets	9	1,419	1,419
		<u>523,068</u>	<u>513,868</u>
Current assets			
Trade and other receivables	10	22,626	21,561
Tax recoverable		425	89
Interests in leasehold land held for own use under operating leases		531	513
Available-for-sale securities		4,060	–
Amount due from minority shareholders of subsidiaries		14	22
Amounts due from investee companies	11	7,414	19
Cash and Cash equivalents		7,957	11,184
		<u>43,027</u>	<u>33,388</u>
Current liabilities			
Trade and other payables	12	23,191	17,506
Amounts due to related companies	13	34,398	28,125
Short-term bank loans		57,844	57,587
Other short-term loans		–	506
Current taxation	14	15,932	15,790
		<u>131,365</u>	<u>119,514</u>
Net current liabilities		<u>(88,338)</u>	<u>(86,126)</u>
Total assets less current liabilities		<u>434,730</u>	<u>427,742</u>
NET ASSETS		<u>434,730</u>	<u>427,742</u>
Capital and reserves			
Share capital	15	193,641	190,821
Reserves		237,895	235,103
Total equity attributable to equity shareholders of the Company		431,536	425,924
Minority interests		3,194	1,818
TOTAL EQUITY		<u>434,730</u>	<u>427,742</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity shareholders of the Company							
	Share capital	Share premium	Capital reserve	Exchange reserve	Accu- mulated losses	Total	Minority interest	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2007								
– as originally stated	190,821	334,666	425,364	4,997	(529,924)	425,924	1,818	427,742
Issue of new shares	2,820	11,844	–	–	–	14,664	5,808	20,472
Exchange difference on translation of financial statement of subsidiaries outside Hong Kong	–	–	–	807	–	807	–	807
Net income (expenses) recognised directly in the equity	193,641	346,510	425,364	5,804	(529,924)	441,395	7,626	449,021
Loss for the period	–	–	–	–	(15,047)	(15,047)	(4,432)	(19,479)
Total recognised income and expenses for the period	193,641	346,510	425,364	5,804	(544,971)	426,348	3,194	429,542
Recognition of equity-settled share based payments	–	–	5,188	–	–	5,188	–	5,188
Share options expired under share options scheme	–	–	(2,643)	–	2,643	–	–	–
At 30 September 2007	193,641	346,510	427,909	5,804	(542,328)	431,536	3,194	434,730

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent						Minority interest HK\$'000	Total equity HK\$'000	
	Share Capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Fair value reserve HK\$'000	Accumulated losses HK\$'000			Total HK\$'000
At 1 April 2006									
- as originally stated	54,381	38,445	406,687	3,874	3,055	(456,759)	49,683	4,024	53,707
Issue of shares pursuant to share subscription	40,000	-	-	-	-	-	40,000	-	40,000
Share issued of pursuant to exercise of convertible notes	30,000	-	-	-	-	-	30,000	-	30,000
Shares issued under share options scheme	40	278	(70)	-	-	-	248	-	248
Shares issued upon exercise of share options	10,000	-	-	-	-	-	10,000	-	10,000
Deduct related expenses incurred for the issue of new shares	-	(600)	-	-	-	-	(600)	-	(600)
Available-for-sales securities changes in fair value	-	-	-	-	(3,055)	-	(3,055)	-	(3,055)
Exchange differences arising on the translation of foreign operations	-	-	-	183	-	-	183	-	183
Net income (expenses) recognised directly in the equity	134,421	38,123	406,617	4,057	-	(456,759)	126,459	4,024	130,483
Loss for the period	-	-	-	-	-	(26,451)	(26,451)	53	(26,398)
Total recognised income and expenses for the period	134,421	38,123	406,617	4,057	-	(483,210)	100,008	4,077	104,085
Recognition of equity-settled share based payments	-	-	4,062	-	-	-	4,062	-	4,062
At 30 September 2006	<u>134,421</u>	<u>38,123</u>	<u>410,679</u>	<u>4,057</u>	<u>-</u>	<u>(483,210)</u>	<u>104,070</u>	<u>4,077</u>	<u>108,147</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 September 2007 (Unaudited) <i>HK\$'000</i>	Six months ended 30 September 2006 (Unaudited) <i>HK\$'000</i>
Net cash (out) inflow from operating activities	1,926	(6,972)
Net cash outflow from investing activities	(37,456)	(8,583)
Net cash (out) inflow before financing activities	(35,530)	(15,555)
Net cash inflow from financing activities	33,130	45,332
(Decrease) increase in cash and cash equivalents	(2,400)	29,777
Effect of changes in exchange rate	(827)	(1,661)
Cash and cash equivalents brought forward	11,184	1,785
Cash and cash equivalents carried forward	7,957	29,901

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The unaudited condensed interim consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with Hong Kong Accounting Standard (“HKAS”) No. 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

2. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed interim consolidated financial statements have been prepared under the historical cost convention, as modified for the revaluation of investments in securities.

The Group’s interim financial report for the six months ended 30 September 2007 (the “Interim Financial Report”), has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the HKSE (the “Listing Rules”), all applicable HKFRSs, which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKAS”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the accounting principles generally accepted in Hong Kong, including compliance with HKAS 34 “Interim financial statements”. The preparation of interim financial reports in conformity with HKAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The principal accounting policies adopted in preparing the Interim Financial Report are consistent with those adopted in the financial statements for the year ended 31 March 2007. The Group has also adopted a number of new HKFRSs (“New HKFRSs”) issued by HKICPA which became effective for accounting periods beginning on or after 1 January 2006. However, the adoption of these New HKFRSs has had no material effect on how the results of operations and financial position of the Group are prepared and presented.

3. SEGMENT INFORMATION

	Turnover		Loss from operations	
	Six months ended		Six months ended	
	30 September		30 September	
	2007	2006	2007	2006
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
By principal activity:				
Continuing operations Logistics	39,415	33,239	1,294	3,704
Unallocated corporate expenses			(10,541)	(9,605)
Loss from operations			(9,247)	(5,901)
By geographical area:				
Hong Kong	–	–		
The People's Republic of China	39,415	33,239		
	39,415	33,239		

4. LOSS FROM OPERATIONS

	Six months ended 30 September	
	2007	2006
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
<hr/>		
The Group's loss from operations has been arrived at after charging:		
Depreciation and amortization	2,366	2,450
and after crediting:		
Net foreign exchange gain	2,434	1,824
Interest income from bank deposits	87	452
Government subsidy	526	–
Others	64	108
	<hr/>	<hr/>

5. TAXATION

	Six months ended 30 September	
	2007	2006
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
<hr/>		
Current tax		
Hong Kong	–	–
Provision for PRC enterprise income tax	402	307
	<hr/>	<hr/>
	<hr/>	<hr/>

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group has no assessable profit in Hong Kong for both periods.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

6. DIVIDENDS

No dividends were paid during the period. The directors do not recommend the payment of an interim dividend (2006: Nil).

7. (LOSS) PER SHARE

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

	Six months ended 30 September	
	2007	2006
	(Unaudited)	(Unaudited) (Restated)
	<i>HK\$'000</i>	<i>HK\$'000</i>
<hr/>		
(Loss) for the purpose of calculating basic (loss) per share:		
Net (loss) for the period	<u>(15,047)</u>	<u>(26,451)</u>
Weighted average number of shares for the purpose of calculating basic (loss) per share (in thousands)	<u>387,282</u>	<u>203,425</u>

No diluted (loss) per share is presented as the exercise of the Company's outstanding share options for the six months ended 30 September 2007 and 30 September 2006 would result in a decrease in loss per share respectively.

8. INTEREST IN ASSOCIATES

	At 30	At 31
	September	March
	2007	2007
	(Unaudited)	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
<hr/>		
Share of net assets	335,640	329,408
Goodwill	<u>69,156</u>	<u>69,156</u>
	<u>404,796</u>	<u>398,564</u>

9. DEFERRED TAX ASSETS

	At 30 September	At 31 March
	2007	2007
	(Unaudited)	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
<hr/>		
Net deferred tax asset recognised on the balance sheet	<u>1,419</u>	<u>1,419</u>

10. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables (net of impairment losses for bad and doubtful debts) with an ageing analysis as at 30 September 2007 as follows:

	At 30 September 2007 (Unaudited) <i>HK\$'000</i>	At 31 March 2007 (Audited) <i>HK\$'000</i>
Less than 3 months	13,288	14,663
3 to 6 months	539	1,638
6 to 12 months	262	295
Over 1 year	292	86
	<u>14,381</u>	<u>16,682</u>
Other receivables	8,245	4,879
	<u>22,626</u>	<u>21,561</u>

The Group maintains and closely monitors defined credit policies for its businesses and trade receivables in order to control the credit risk associated with trade receivables.

11. AMOUNTS DUE FROM INVESTEE COMPANIES

The amounts due from investee companies, Euro Resources China limited and China Coal Energy Holdings Ltd., as at 30 September 2007 were unsecured and interest-free and with no fixed repayment terms.

	At 30 September 2007 (Unaudited) <i>HK\$'000</i>	At 31 March 2007 (Audited) <i>HK\$'000</i>
China Coal Energy Holdings Limited	721	–
Euro Resources China Limited	6,693	19
	<u>7,414</u>	<u>19</u>

12. TRADE AND OTHER PAYABLES

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

	At 30 September 2007 (Unaudited) HK\$'000	At 31 March 2007 (Audited) HK\$'000
Less than 3 months	9,418	7,651
3 to 6 months	403	1,065
6 to 12 months	185	6
Over 1 year	168	251
	<u>10,174</u>	<u>8,973</u>
Other payables	13,017	8,533
	<u>23,191</u>	<u>17,506</u>

13. AMOUNTS DUE TO RELATED COMPANIES

	At 30 September 2007 (Unaudited) HK\$'000	At 31 March 2007 (Audited) HK\$'000
An associate, China Coal Energy Holdings Limited	–	19,965
Orient Day Development Limited (Note)	34,398	8,160
	<u>34,398</u>	<u>28,125</u>

Note:

The Company has entered into a loan facilities agreement with Orient Day in relation to the grant of a loan facility of and not exceeding HK\$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.

14. INCOME TAX IN THE BALANCE SHEET

Current taxation in the consolidated balance sheet represents:

	At 30 September 2007 (Unaudited) HK\$'000	At 31 March 2007 (Audited) HK\$'000
Provision for PRC enterprise income tax for the year	146	4
Balance of PRC enterprise income tax relating to prior	15,786	15,786
	15,932	15,790

15. SHARE CAPITAL

	Authorised Ordinary shares of HK\$0.50 each	
	No. of shares	HK\$'000
At 1 April 2007	600,000,000	300,000
At 30 September 2007	600,000,000	300,000
	Issued and fully paid Ordinary shares of HK\$0.50 each	
	No. of shares	HK\$'000
At 1 April 2007	381,641,960	190,821
Issue of new shares for acquisition of Pearl Oriental Logistics Sino Limited in April 2007 (Note)	5,640,000	2,820
At 30 September 2007	387,281,960	193,641

Note:

The Company signed 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 Logistic Sino Limited at a total consideration of approximately HK\$22,000,000, out of which the Group has to pay a cash consideration of HK\$1,012,000 upon completion. The remaining balance was to be settled by issuing 5,640,000 Shares in the Company. Intraday market fair value at a price of HK\$2.60 per share upon completion.

16. SHARE OPTION SCHEME

The Company adopted the new share option scheme on 21 June 2002 (the "Scheme"). The Scheme enables the Company to grant share options to eligible persons as an incentive or reward for their contributions to the Company. The terms of the Scheme fully comply with the provisions of Chapter 17 of the Listing Rules. During the period, no share options were granted to eligible persons including the directors of the Company. Save as mentioned above, no other share options were exercised under the Scheme during the period. At 30 September 2007, the Company had 18,076,800 share options outstanding under the Scheme.

MANAGEMENT DISCUSSION AND ANALYSIS

Results and Review of Operations

For the six months ended 30 September 2007 (the "Period"), the Group recorded a consolidated turnover of HK\$39,415,000 (2006: HK\$33,239,000), representing an increase of approximately 19% over the corresponding period last year. The loss attributable to the Shareholders of the Company for the Period decreased to HK\$15,047,000 (2006: HK\$26,451,000). Basic loss per share was 4 HK cents for the Period as compared to the loss per share of 13 HK cents for the six months ended 30 September 2006.

The increase in turnover was mainly due to the increase in business from existing key customers of the Group and also new business from few new customers.

During the Period, Guangzhou Pearl Oriental Logistics Limited has been focusing on the expansion of the innovative e-commerce logistics (e-fulfilment) services of great potential to meet the ever increasing demand derived from trading activities through television and Internet in China, while the warehouse operation of Pearl Oriental Logistics (Shenzhen) Ltd. grew by approximately 28% in turnover. The gross profit margin has remained at around 28% during the Period (2006: 29%).

Liquidity, financial resources and capital structure

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

As at 30 September 2007, the Group's gearing ratio had decreased to 10% (calculated on the basis of the Group's bank borrowings as a percentage of total assets) from 11% as at 31 March 2007. At 30 September 2007 the Group's total bank borrowings amounted to approximately HK\$58 million, which was secured by certain properties of the Group located in the PRC. The Group has adopted a conservative approach to financial risk management with limited borrowing during the Period.

Furthermore, the Group's cash and bank balances as at 30 September 2007 stood at approximately HK\$8 million. The current ratio (calculated on the basis of the Group's current assets over current liabilities) has increased to 0.33 as at 30 September 2007 (31 March 2007: 0.28).

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

As of 30 September 2007, certain assets of the Group with an aggregate carrying value of approximately HK\$100 million were pledged with its bankers as security for loan facilities granted.

Litigations

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

In addition, the Company took a legal action (the "Legal Action") by issuing a writ of summons on 31 August 2006 against Dichain Holdings Limited ("DiChain Holdings"), 3 former Directors, namely Fan Di, Li 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 equal to a sum of RMB64.5 million. A default judgment has been entered against Fan Di, Li Xinggue and Wu Shiyue, and the Legal Action is still in progress. The Company will keep the Shareholders well informed of its litigations when necessary and appropriate.

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 for 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 honoured the Obligations under the Subscription Agreements, the Company has issued a writ of summons (the "Writ") against DiChain Holdings on 31 October 2006, inter alia, in respect of the breach of warranties caused by DiChain Holdings under the Subscription Agreements. The Company and Orient Day have already obtained summary judgments against DiChain Holdings in respect of its non-performance of the Obligation and for its breach of warranties.

Employees and remuneration policies

As of 30 September 2007, the number of employees of the Group was about 470. The remuneration packages of employees are maintained at competitive levels and include monthly salaries, mandatory provident fund, medical insurance and share option schemes.

PROSPECTS

Energy and Natural Resources Sectors

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

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

COAL INDUSTRY

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

Demands for Coal in China

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

With China being the second largest consumer of energy in the world and with coal contributing approximately 70% of China's energy consumption, demand for coal in China is stronger than ever. China is the world's largest coal producer, and the majority of coal produced in China is derived from Shanxi, and in fact Shanxi is also the largest producer of raw coal and also coking coal in China.

It is believed that coal producers in China are enjoying a confluence of positive factors that will result in strong growth in the next few years. We have witnessed a surge in coal prices during the Period, the management maintains its optimistic view on coal prices, especially for the coking coal.

CCEH exploits and sells coking coal in the domestic market. CCEH's coke products include mainly metallurgical coke. They process coking coal into coke in CCEH's coking plant pursuant to specifications given by its customers. In addition, CCEH produces diversified coal-based chemicals in its coking plant and ancillary facilities. CCEH's main chemical products include coal gas, refined tar, benzene. All the coal gas CCEH produced will be supplied to Shanxi Taiyuan City under a coal gas supply agreement.

CCEH owns a coke plant in Shanxi Taiyuan with a production capacity of 600,000 tonnes of coke per year and also 3 coal mines near Shanxi Taiyuan City which are all in production and have coking coal reserves of around 67.5 million tonnes, 30 million tonnes and 14 million tonnes respectively, totalling over 110 million tonnes of coking coal. It is expected that the total annual coal production of these 3 coal mines of CCEH will be around 1.8 million tonnes in 2008.

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

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

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

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

PLASTIC RECYCLING INDUSTRY

The Group has also spent HK\$50 million to acquire 50% equity interests in and has become the single largest shareholder of Euro Resources China Limited. This plastic resources recycling project has great development potential and also its products have huge demand in the PRC market and the management will also explore opportunities of expanding its market for plastic to other Asian countries like Vietnam, Cambodia, Malaysia, Korea, Japan and 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 tonnes, representing an annual growth rate of 13%. The demand for plastics packaging materials reached 5 million tons in 2005. Increasing use of plastics has caused serious environmental problems. Recycling has become the most recognized solution. The demand for the recycled waste plastic materials in the Guangdong and Southern China district is over 1,000,000 tons per year.

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

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

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

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

To expedite the appreciation of the Group's investment projects and generate overall benefits for our shareholders, the management team is planning to spin off each of the coal and recycled plastics projects for listing on recognized stock markets in 2008. The Board expects that China Coal Energy Holdings Limited and Euro Resources China Limited, upon listing, will generate very satisfactory returns to the Group.

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

Financial Positions of the Group

After Mr. Wong Kwan became the new controlling shareholder of the Company on 24 May 2006, the financial positions of the Group have been improved immediately. Apart from the net proceeds of HK\$74.5 million from the placing of new shares in the Company in March 2007, 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 30 September 2007, the Group has outstanding short-term bank loans in aggregate of approximately HK\$58 million (2006: HK\$58 million). Heng Sang Bank, Shenzhen Branch has already granted new credit facilities to the Group sufficient to repay the existing loans.

Management

The Management has already built a 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.

ADDITIONAL INFORMATION REQUIRED UNDER THE LISTING RULES

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 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*

Name of directors	Number of Shares held in the Capacity of				Total number of Shares held	Percentage of The issued Share capital of the company
	Beneficial Owner	Family interest	Held by Controlled corporation	Held by trust		
Wong Kwan (<i>Note</i>)	–	–	180,218,800	–	180,218,800	46.53%
Fung Hing Chiu, Cyril	–	–	–	1,272,090	1,272,090	0.33%
Johnny Yuen	300,000	–	–	–	300,000	0.08%

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

(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
Johnny Yuen	Beneficial owner	1,000,000	1,000,000

Other than as disclosed above, none of the directors nor their associates had any interest or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 30 September 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 30 September 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:

Name of substantial shareholder	Capacity	Number of issued ordinary shares held	Percentage of issued share capital of the Company
Orient Day Developments Limited (<i>Note</i>)	Beneficial owner	180,218,800	46.53%

Note:

Orient Day Development Limited 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 30 September 2007.

SHARE OPTIONS SCHEME

Pursuant to a written resolution of the sole shareholder passed on 21 June 2002, the Company's share option scheme (the "Scheme") 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 the Company and its subsidiaries, to subscribe for shares in the 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 any 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 HK\$5million, otherwise it must be approved by the shareholders of the Company.

Options granted must be taken up within 21 days from the date of grant, upon payment of HK\$1 per option. Options may be exercised at any time from 12 months from the date of acceptance of the offer to the term 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 vesting period is 12 months from the date of grant.

The following table discloses the total unexpired and unexercised entitlement of the employees (including directors) as adjusted due to the Share Consolidation:

Exercise Price	Exercise Period	Outstanding options as at the 30 September 2007
HK\$6.000	20.5.2004 -21.6.2012	270,000
HK\$3.100	18.8.2005 – 20.6.2012	436,800
HK\$3.150	29.8.2006 – 20.6.2012	2,370,000
HK\$3.375	13.6.2007 – 20.6.2012	14,000,000
HK\$3.375	01.6.2007 – 20.6.2012	1,000,000
		<hr style="width: 100%; border: 0.5px solid black; margin-bottom: 5px;"/> 18,076,800

Save as described above, as at 30 September 2007, none of the Directors or their spouses or children under 18 years of age were granted or exercised any right to subscribe for any equity or debt securities of the Company or any of its subsidiary companies.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the Code of conduct regarding securities transaction by the directors. Having made specific enquiry of all directors, the Company confirmed that all directors have complied with the required standard set out in the Model Code during the period.

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

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

CORPORATE GOVERNANCE

The Group has adopted all the Code Provisions set out in the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules except for the following deviations:

CODE PROVISION A.2.1

The Code stipulates that the roles of Chairman and Chief Executive should be separate and should not be performed by the same individual. The Company does not have a separate Chairman and Chief Executive and Mr. Wong Kwan currently holds both positions. The Board believes that vesting the roles of Chairman and Chief Executive in the same person provides the Group with strong and consistent leadership in the development and execution of long-term business strategies.

AUDIT COMMITTEE

The Audit Committee currently consists of three independent non-executive directors, namely Mr. Lai Shi Hong, Edward (Chairman of the Audit Committee), Dr. Dong Zhi Xiong and Mr. Fung Hing Chiu, Cyril. The Committee has reviewed with management the accounting principles and practices adopted by the Group, and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim results for the six months ended 30 September 2007.

On behalf of the Board

Cheung Kwok Yu

Executive Director and Company Secretary

Hong Kong, 20 December 2007