



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

Stock Code : 0632

Interim Report  
2008



The Directors of Pearl Oriental Innovation Limited (the “Company”) are pleased to announce the unaudited financial results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2008 (the “Period”) 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

	Notes	Six months ended 30 June	
		2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Turnover	3	38,270	37,079
Cost of sales		(24,602)	(26,584)
Gross profit		13,668	10,495
Other revenue and net income		230	2,362
Selling and distribution expenses		(7,167)	(4,110)
General and administrative expenses		(19,562)	(27,438)
Loss from operations	4	(12,831)	(18,691)
Finance costs		(3,260)	(2,937)
Share of loss of associates		(4,185)	(3,725)
Realized holding loss on investment in securities		—	(900)
Impairment loss of investment securities		—	(4,141)
Impairment loss of goodwill		—	(6,065)
Loss before taxation		(20,276)	(36,459)
Income tax	5	(7)	(293)
Loss for the period		(20,283)	(36,752)
Attributable to:			
Equity shareholders of the Company		(18,695)	(33,819)
Minority interests		(1,588)	(2,933)
		(20,283)	(36,752)
Loss per share	7		
Basic		(4) cents	(9) cents

**CONDENSED CONSOLIDATED BALANCE SHEET**

		<b>At 30 June 2008 (Unaudited)</b>	At 31 December 2007 (Audited) (Restated)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Non-current assets</b>			
Property, plant and equipment		<b>105,470</b>	100,156
Interests in leasehold land held for own use under operating leases		<b>19,430</b>	18,329
Interests in associates	8	<b>31,767</b>	35,952
Deferred tax assets	9	<b>1,419</b>	1,419
		<b>158,086</b>	155,856
<b>Current assets</b>			
Trade and other receivables	10	<b>25,408</b>	22,530
Interests in leasehold land held for own use under operating leases		<b>526</b>	526
Available-for-sales financial assets	11	<b>358,440</b>	358,440
Amounts due from minority shareholders of subsidiaries		<b>—</b>	11
Amount due from associates	12	<b>23,943</b>	9,930
Cash and cash equivalents		<b>12,622</b>	31,617
		<b>420,939</b>	423,054
<b>Current liabilities</b>			
Trade and other payables	13	<b>22,000</b>	23,980
Amounts due to related companies	14	<b>—</b>	63,903
Short-term bank loans		<b>7,857</b>	7,101
Income tax payable	15	<b>16,452</b>	16,464
		<b>46,309</b>	111,448
<b>Net current assets</b>		<b>374,630</b>	311,606
<b>Total assets less current liabilities</b>		<b>532,716</b>	467,462
<b>Non-current liabilities</b>			
Interest-bearing borrowings		<b>57,050</b>	57,315
Amounts due to minority Shareholders of subsidiaries		<b>3,996</b>	—
		<b>61,046</b>	57,315
<b>NET ASSETS</b>		<b>471,670</b>	410,147

**CONDENSED CONSOLIDATED BALANCE SHEET** (CONTINUED)

		<b>At 30 June 2008 (Unaudited)</b>	At 31 December 2007 (Audited) (Restated)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital and reserves			
Share capital	16	<b>232,369</b>	193,641
Reserves		<b>234,588</b>	210,209
Total equity attributable to equity shareholders of the Company		<b>466,957</b>	403,850
Minority interests		<b>4,713</b>	6,297
<b>TOTAL EQUITY</b>		<b>471,670</b>	410,147

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Attributable to equity shareholders of the Company								
	Share capital	Share premium	Treasury share	Capital reserve	Exchange reserve	Accumulated losses	Total	Minority interest	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2007									
– as restated	193,641	345,610	(10,556)	420,430	3,265	(548,540)	403,850	6,297	410,147
Issue of new shares	38,728	38,398	–	–	–	–	77,126	–	77,126
Exchange difference on translation of financial statement of subsidiaries outside Hong Kong	–	–	–	–	4,676	–	4,676	–	4,676
Share options expired under share options scheme	–	–	–	(1,315)	–	1,315	–	–	–
Loss for the period	–	–	–	–	–	(18,695)	(18,695)	(1,588)	(20,283)
Increase in minority interests arising from acquisition of subsidiaries	–	–	–	–	–	–	–	4	4
At 30 June 2008	232,369	384,008	(10,556)	419,115	7,941	(565,920)	466,957	4,713	471,670

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**(UNAUDITED)** (CONTINUED)

	Attributable to equity shareholders of the Company						Minority interest	Total equity
	Share capital	Share premium	Capital reserve	Exchange reserve	Accumulated losses	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2006								
– as restated	172,321	295,536	419,272	4,141	(514,261)	377,009	2,178	379,187
Issue of shares	21,320	50,974	—	—	—	72,294	—	72,294
Equity-settled share based transaction	—	—	11,597	—	—	11,597	—	11,597
Shares option expired under share options scheme	—	—	(1,290)	—	1,290	—	—	—
Exchange differences on translation of financial statement of subsidiaries outside Hong Kong	—	—	—	331	—	331	—	331
Loss for the period	—	—	—	—	(33,819)	(33,819)	(2,933)	(36,752)
Increase in minority interests arising from acquisition of subsidiaries	—	—	—	—	—	—	5,808	5,808
At 30 June 2007	193,641	346,510	429,579	4,472	(546,790)	427,412	5,053	432,465

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	<b>Six months ended 30 June</b>	
	<b>2008</b>	<b>2007</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Net cash outflow from operating activities	<b>(14,382)</b>	(8,420)
Net cash outflow from investing activities	<b>(15,578)</b>	(33,308)
Net cash outflow before financing activities	<b>(29,960)</b>	(41,728)
Net cash inflow from financing activities	<b>10,413</b>	40,333
Decrease in cash and cash equivalents	<b>(19,547)</b>	(1,395)
Effect of changes in exchange rate	<b>552</b>	(2,441)
Cash and cash equivalents brought forward	<b>31,617</b>	10,920
Cash and cash equivalents carried forward	<b>12,622</b>	7,084

## 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").

Certain investment in associate has been reclassified to available-for-sales financial assets and stated at cost on initial investment as the Company has no longer any significant influence against one of its associates for reasons stated in note 11.

### 2. PRINCIPAL ACCOUNTING POLICIES

Pursuant to the board of directors' meeting on 2 January 2008, the financial year end date of the Group and the Company has been changed from 31 March to 31 December in order to a conterminous financial year end as that of its major operating subsidiaries and associates engaged in the business of energy, natural resources and logistics. As a result, the consolidated financial statements are presented covering a period of six months from 1 January 2008 to 30 June 2008. Accordingly, the comparative figures (which cover a period of six months from 1 January 2007 to 30 June 2007) for the consolidated income statement, consolidated cash flow statement, consolidated statement of changes in equity and related notes to financial statements are not comparable with those of the current period.

The Group's interim financial report for the six months ended 30 June 2008 (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 Interpretation issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the accounting principles generally accepted in Hong Kong, including compliance with HKAS34 "Interim financial statements". The preparation of interim financial reports in conformity with HKAS34 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 December 2007. The Group has also adopted a number of new HKFRSs ("New HKFRSs") issued by HKICPA which became effective for accounting periods beginning on after 1 January 2008. 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.



## 2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

The Group has not early adopted the following HKFRSs issued by the HKICPA that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements <sup>1</sup>
HKAS 1 (Revised) (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation <sup>1</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>2</sup>
HKAS 32 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation <sup>1</sup>
HKAS 39 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation <sup>1</sup>
HKFRS 2 (Amendments)	Vesting Conditions and Cancellations <sup>1</sup>
HKFRS 3 (Revised)	Business Combinations <sup>2</sup>
HKFRS 7 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation <sup>1</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK(IFRIC) – Int 2 (Amendments)	Members' Shares in Co-operative Entities and Similar Instruments <sup>1</sup>
HK(IFRIC) – Int 13	Customer Loyalty Programmes <sup>3</sup>
HK(IFRIC) – Int 16	Hedges of a net investment in a foreign operation <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2009

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2008

<sup>4</sup> Effective for annual periods beginning on or after 1 October 2008

The Directors of the Company are currently assessing the impact of these HKFRSs but are not yet in a position to state whether they would have material financial impact on the Group's Interim Financial Statements.

### 3. SEGMENT INFORMATION

	Turnover		Loss from operations	
	Six months ended 30 June		Six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
By principal activity:				
Continuing operations Logistics	38,270	37,079	(3,979)	889
Unallocated corporate expenses			(8,852)	(19,580)
Loss from operations			(12,831)	(18,691)
By geographical area:				
Hong Kong	—	—		
The People's Republic of China ("PRC")	38,270	37,079		
	38,270	37,079		

### 4. LOSS FROM OPERATIONS

	Six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
	The Group's loss from operations has been arrived at after charging:	
Depreciation and amortization	2,687	2,366
and after crediting:		
Net foreign exchange gain	—	2,434
Interest income from bank deposits	143	87
Government subsidy	—	526
Others	87	64

## 5. INCOME TAX

	Six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax:		
Provision for PRC enterprise income tax	<u>7</u>	<u>293</u>

Pursuant to the rules and regulations of Bermuda and the British Virgin Islands, the Group is not subject to any income tax in Bermuda and the British Virgin Islands during the Period (31 December 2007: Nil).

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profits subject to Hong Kong Profits Tax during the Period (31 December 2007: Nil).

Pursuant to the income tax rules and regulations of the PRC, taxation for PRC subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant cities in the PRC which was the applicable rate for the six months ended 30 June 2008 ranged from 18% to 25% (30 June 2007: 15% to 33%).

## 6. DIVIDENDS

No dividends were paid during the Period. The directors do not recommend the payment of an interim dividend for the Period (2007: Nil).

## 7. LOSS PER SHARE

The calculation of the basic loss per share attributable to the ordinary equity shareholders of the Company is based on the following data:

	<b>Six months ended 30 June</b>	
	<b>2008</b>	<b>2007</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Loss for the purpose of calculating basic loss per share:		
Net loss for the period	<u>(18,695)</u>	<u>(33,819)</u>
Weighted average number of shares for the purpose of calculating basic loss per share (in thousands)	<u>437,926</u>	<u>369,737</u>

The computation of loss per share for the six months ended 30 June 2008 does not assume the exercise of the Company's outstanding share options since the exercise price of the outstanding share options was higher than the market value of the Company's share throughout the Period.

## 8. INTERESTS IN ASSOCIATES

	<b>At</b>	<b>At</b>
	<b>30 June</b>	<b>31 December</b>
	<b>2008</b>	<b>2007</b>
	<b>(Unaudited)</b>	<b>(Audited)</b>
	<b>HK\$'000</b>	<b>(Restated)</b> <b>HK\$'000</b>
Share of net assets	<u>18,502</u>	22,687
Goodwill	<u>13,265</u>	<u>13,265</u>
	<u>31,767</u>	<u>35,952</u>

## 9. DEFERRED TAX ASSETS

	At 30 June 2008 (Unaudited) HK\$'000	At 31 December 2007 (Audited) HK\$'000
Net deferred tax asset recognized on the Balance sheet	1,419	1,419

## 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 June 2008 as follows:

	At 30 June 2008 (Unaudited) HK\$'000	At 31 December 2007 (Audited) HK\$'000
Less than 3 months	15,351	12,217
3 to 6 months	1,453	2,427
6 to 12 months	913	164
Over 1 year	207	75
	17,924	14,883
Bill receivables	914	430
Other receivables	6,570	7,217
	25,408	22,530

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. AVAILABLE-FOR-SALES FINANCIAL ASSETS

	At 30 June 2008 (Unaudited) <i>HK\$'000</i>	At 31 December 2007 (Audited) (Restated) <i>HK\$'000</i>
Equity interests in China Coal Energy Holdings Limited ("China Coal")	358,440	358,440

Subsequent to the litigations with Zhang Jingyuan, (see relevant paragraphs under "Litigations" in the Management Discussion & Analysis), Management believes that the Company has no longer any significant influence against one of its associate, China Coal according to HKAS 28. It represented an investment in approximately 40 million ordinary shares in China Coal (representing approximately 40% of its issued share capital) and has been therefore reclassified from investment in associates to available-for-sales financial assets and stated at cost on initial investment. Accordingly, the results of China Coal has not been equity accounted for in the Period and in the previous corresponding period from 1 January 2007 to 30 June 2007 for comparative purpose. No impairment is considered necessary as the Company has received genuine proposals for acquiring the Group's 40% equity in China Coal.

## 12. AMOUNTS DUE FROM ASSOCIATES

The amounts due from associates are unsecured, interest-free and repayable on demand.

## 13. TRADE AND OTHER PAYABLES

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

	At 30 June 2008 (Unaudited) <i>HK\$'000</i>	At 31 December 2007 (Audited) <i>HK\$'000</i>
Less than 3 months	6,348	7,503
3 to 6 months	411	1,634
6 to 12 months	2,175	363
Over 1 year	620	300
	9,554	9,800
Other payables	12,446	14,180
	22,000	23,980

## 14. AMOUNTS DUE TO RELATED COMPANY

	At 30 June 2008 (Unaudited) HK\$'000	At 31 December 2007 (Audited) HK\$'000
Orient Day Developments Limited	—	63,903

## 15. INCOME TAX PAYABLE

Current taxation in the Consolidated balance sheet represent

	At 30 June 2008 (Unaudited) HK\$'000	At 31 December 2007 (Audited) HK\$'000
Provision for PRC enterprise income tax for the Period/year	14	763
Balance of PRC enterprise income tax relating to prior years	16,438	15,701
	<b>16,452</b>	<b>16,464</b>

## 16. SHARE CAPITAL

### (i) AUTHORISED

	Ordinary shares of HK\$0.5 each	
	No. of shares '000	HK\$'000
At 1 July 2007 and 1 January 2008	600,000	300,000
Creation of new shares (note a)	5,400,000	2,700,000
At 30 June 2008	<b>6,000,000</b>	<b>3,000,000</b>

## 16. SHARE CAPITAL (CONTINUED)

### (ii) ISSUED AND FULLY PAID:

	Ordinary shares of HK\$0.50 each	
	No. of shares '000	\$'000
At 1 January 2008	387,281	193,641
Issue of new shares (note b)	77,456	38,728
At 30 June 2008	464,737	232,369

Pursuant to an resolution passed at the Special General Meeting on 19 February 2008, the Company resolved to:

- Increase its share capital from HK\$300,000,000 divided into 600,000,000 shares of HK\$0.5 each to HK\$3,000,000,000 divided into 6,000,000,000 shares of HK\$0.5 each. Such arrangement has created an additional 5,400,000,000 un-issued shares.
- Issue and allot 77,456,000 new ordinary shares of HK\$0.5 each. The subscriber is Orient Day Developments Limited, a company wholly owned by the Company's majority shareholder, Mr. Wong Kwan. The subscriber subscribed the Company's shares at a price of HK\$1 each.

## 17. POST BALANCE SHEET EVENTS

- On 12 August 2008, the Company issued a statement of claim in the High Court of Hong Kong against Zhang Jingyuan, for detail, please refer to the relevant paragraphs "Litigations" in the Management Discussions & Analysis.
- A conditional sale and purchase agreement was entered into between Mr. He Zhaorong and Euro Resources on 14 July 2007 in relation to of the acquisition of a 60% equity interest in Shunde of Guangdong province Euro Resources Wanhai Manufacturing Limited (The "Acquisition") at a total consideration of HK\$9,662,400 (equivalent to RMB9,000,000). The Acquisition has been approved and completed subsequent to the Period end date.

## 18. SHARE OPTION SCHEME

The Company adopted a 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 shares were granted to eligible persons including the directors of the Company. Save as mentioned herein, no other share options were exercised under the Scheme during the period. At 30 June 2008, the Company had 12,056,800 share options outstanding under the Scheme.



## MANAGEMENT DISCUSSION AND ANALYSIS

### RESULTS AND REVIEW OF OPTIONS

For the six months ended 30 June 2008 (the “Period”), the Group recorded a consolidated turnover of HK\$38,270,000 (2007: HK\$37,079,000), representing an increase of approximately 3.2% over the corresponding period last year. The loss attributable to the Shareholders of the Company for the Period decreased to HK\$18,695,000 (2007: HK\$33,819,000). Basic loss per share was 4 HK cents for the Period as compared to the loss per share of 9 HK cents per share for the six months ended 30 June 2007.

The increase in turnover was mainly due from Pearl Oriental Logistics (Shenzhen) Ltd increase in warehouse and logistics business. However, the gross profit was HK\$13,668,000 (2007: HK\$10,495,000) for the Period, which represented an increase of approximately 30% over the corresponding period last year and the gross profit margin has increased from 28% to 36%. The increase in gross profit margin mainly from the e-commerce logistics of Guangzhou Pearl Oriental Logistics Limited as it has a higher gross margin.

The results only reflected that of the logistics business and plastic recycling business of the Group during the Period, as currently there are litigations in connection with the Group’s major investment of 40% equity interest in China Coal Energy Holdings Limited (“China Coal”), the Group’s share of the results of China Coal has not been included in the Income Statement since the directors of the Company adopt prudent accounting policies.

### PROSPECTS

#### ENERGY AND NATUAL RESOURCES SECTORS

With the global scarcity of coking coal, we expect a coking coal market dominated by suppliers as a result of demand and supply imbalance, the selling prices of coking coal has increased to RMB1,000 from RMB300 per ton when the Group has invested in China Coal in two years ago. In the short run, the upward trend of coking coal price may slow down as it has already risen substantially in the past year.

With China being the second largest consumer of energy in the world and with coal contributing over 60% 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 coking coal in China.

Management of the Company has recently received preliminary proposals of acquiring the Company's interests in China Coal from two independent groups of investors, however Management has already rejected such proposals after taking into account the growth potential of the coal industry in China and the fact that the value of business of China Coal has not been reflected in such proposals.

However, if the situations allow, the Group is still looking for potential acquisitions of coal or energy related businesses if such opportunities arise.

### **PLASTIC RECYCLING INDUSTRY**

The Group has 50% equity interests in Euro Resources China Limited ("Euro Resources"). 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 North America, other Asian Countries like Vietnam, Cambodia, Malaysia, Korea, Japan and etc.

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 province, China to generate more profits and broaden the customers' base in the manufacturing process of plastic granulation.

As mentioned in the Company's announcement dated 20 June 2008, the Group has requested the vendors/guarantors of Euro Resources, Mr. Laurent Kim and Mr. Ung Phong and requested them to pay the shortfall (approximately Euro 5.5 million (which is estimated based on the loss of Euro 1.5 million for the year ended 31 December 2007 from management accounts plus profit guarantee of Euro 4 million) equivalent to HK\$66.6 million) on a dollar to dollar basis to the Company for the financial year ended 31 December 2007 (the amount is subject to change after received the audited report of Euro Resources) and requested them to reply to the Company with a solution. As the Group has not received substantive reply from the Vendor, based on the terms of the relevant agreement, Grand Ascend Investments Limited (a wholly owned subsidiary of the Company) has the right to dispose of 30% equity of Euro Resources which is the collateral held by the Group in respect of the guarantees given by Mr. Laurent Kim and Mr. Ung Phong in favour of the Group. The Group has planned to take appropriate actions to recover the shortfall including without limitation to dispose of the said 30% equity of Euro Resources through independent chartered surveyors.

The directors of the Company consider that the results of Euro Resources is lower than expected since it is still in the early stage of development. The Company has strong confidence in the business model and development potential of Euro Resources given the strong market demand of products of Euro Resources in China, and also the increasing concern of the public over the importance of environment protection and the strong support of the environmental friendly operations of Euro Resources from various parties due to the increasing awareness of the importance of environment protection.

### **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.

As at 30 June 2008, the Group's gearing ratio had slightly increased to 11.2% (calculated on the basis of the Group's bank borrowings over total assets) from 11.1% as at 31 December 2007. At 30 June 2008 the Group's total bank borrowings amounted to approximately HK\$65 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 June 2008 have decreased to HK\$12,622,000 from approximately HK\$31,617,000 as at 31 December 2007. The current ratio (calculated on the basis of the Group's current assets over current liabilities) has increased to 9.09 as at 30 June 2007 (31 December 2007: 3.80).

At 30 June 2008, the Group's bank loan facilities are subject to the fulfillment of covenants relating to certain capital requirements, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. As at 30 June 2008 and 31 December 2007, none of the covenants relating to drawn down facilities had been breached.

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, Management will continue to monitor the foreign exchange exposure position and will take any future prudent measure it deems appropriate.

## LITIGATIONS

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

It is a term and condition in the Subscription Agreements entered into by, inter alios, the Company and DiChain Holdings Limited (“DiChain Holdings”) on 22 February 2006 and an obligation (the “Obligation”) for DiChain Holdings to pledge one billion Shares (or 20,000,000 Consolidated Shares of HK\$0.50 each) upon completion of the Subscription Agreements, as collateral to compensate the Company of any economic loss (if any) arising from any breach of warranties (if any) provided by DiChain Holdings under the Subscription Agreements. As DiChain Holdings has not yet performed the Obligations under the Subscription Agreements, the Company issued a writ of summons against DiChain Holdings on 31 October 2006, inter alia, in respect of the breach of warranties given by DiChain Holdings under the Subscription Agreements. The Company obtained a summary judgment against DiChain Holdings on 13 December 2007 in respect of its non-performance of obligations and breach of warranties under the Subscription Agreements. On 7 January 2008, China Minsheng Banking Corporation Limited (Shenzhen Branch) (“Minsheng Bank”) applied to the court to join as the intervener of this case and has applied to the court for appeal, and Minsheng Bank obtained an order on 15 April 2008 that the appeal against the summary judgment entered by the Company on 13 December 2007 be allowed. The Company has obtained legal advice to further appeal after reviewing the judgment from the court and may consider to petition to the court for a winding order of DiChain Holdings in order to protect the interests of the Company.

As announced by the Company on 12 August 2008, on 7 August 2008, Zhang Jingyuan (formerly know as Zhang Genyu (“Zhang”)) issued and served a writ (“the Writ”) in the High Court of Hong Kong against, inter alios, the Company, Champion Merry Investment Limited (“Champion”), a subsidiary of the Company and Mr. Wong Kwan, Chairman, Chief executive, executive director and also a majority beneficial shareholder of the Company, in which Zhang claimed, inter alios, against the Company and Champion for damages for alleged breaches of a Joint Venture Agreement dated 15 July 2006 (the “Joint Venture Agreement”), and Zhang also applied for an order that the Joint Venture Agreement and the Deed of Charge dated on 25 October 2006 in favour of the Company in respect of all of Zhang’s shares in Chain Coal be rescinded.

After considering opinion from the Company's legal advisors, the Company is of the view that all the claims in the Writ are of no substance and groundless, and the Board will strongly defend and has confidence to defeat such claims.

As disclosed in the Company's announcement dated 12 August 2008, with a view to protect the interests of the Company and its shareholders as a whole, the Company issued a statement of claim on 12 August 2008 in the High Court of Hong Kong against Zhang, including without limitation, the shortfall of dividend from China Coal of HK\$40,000,000, damages for breaches of the Joint Venture Agreement and other relief. The Company will keep the shareholders well informed of status of these litigations when necessary and appropriate.

#### **EMPLOYEES AND REMUNERATION POLICIES**

As at 30 June 2008, the number of employees of the Group was 531. 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.

#### **OUTLOOK**

In view of the serious adverse consequences resulted from the recent financial tsunami and credit crisis, we expect the outlook will become more challenging for most industries and sectors. The Board and Management will therefore execute and operate in more prudent manner in respect of its business and financial planning, and will give priority to lower the risks in formulating the business and investment strategies in order to effectively protect the interests of the Company and its shareholders. The Company has an excellent management team and also great confidence in its future development.

## ADDITIONAL INFORMATION REQUIRED UNDER THE LISTING RULES

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

As at 30 June 2008, 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 (Note)	—	—	257,674,800	—	257,674,800	55.45%
Johnny Yuen	390,000	—	—	—	390,000	0.10%

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
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 June 2008.

## 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 June 2008, 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	257,674,800	55.45%

*Note:* Orient Day Developments 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 June 2008.

## 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 approved by shareholders in a general meeting of the Company on 22 May 2006:

<b>Exercise Price</b>	<b>Exercise Period</b>	<b>Outstanding options as at the 30 June 2008</b>
HK\$6.000	20 May 2004 – 21 June 2012	220,000
HK\$3.100	18 August 2005 – 20 June 2012	356,800
HK\$3.150	29 August 2006 – 20 June 2012	1,530,000
HK\$3.375	13 June 2007 – 20 June 2012	8,950,000
HK\$3.375	1 January 2008 – 20 June 2012	1,000,000

Save as described above, as at 30 June 2008, 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, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.



## 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 period ended 30 June 2008 (the “Period”) 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) 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.
- (c) Code provision A.2.1 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 consists of three independent non-executive directors, namely Mr. Lai Shi Hong, Edward (Chairman of the Audit Committee), Mr Dong Zhixiong 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 June 2008.

On behalf of the Board

**Cheung Kwok Yu**

*Executive Director and Company Secretary*

Hong Kong, 26 September 2008