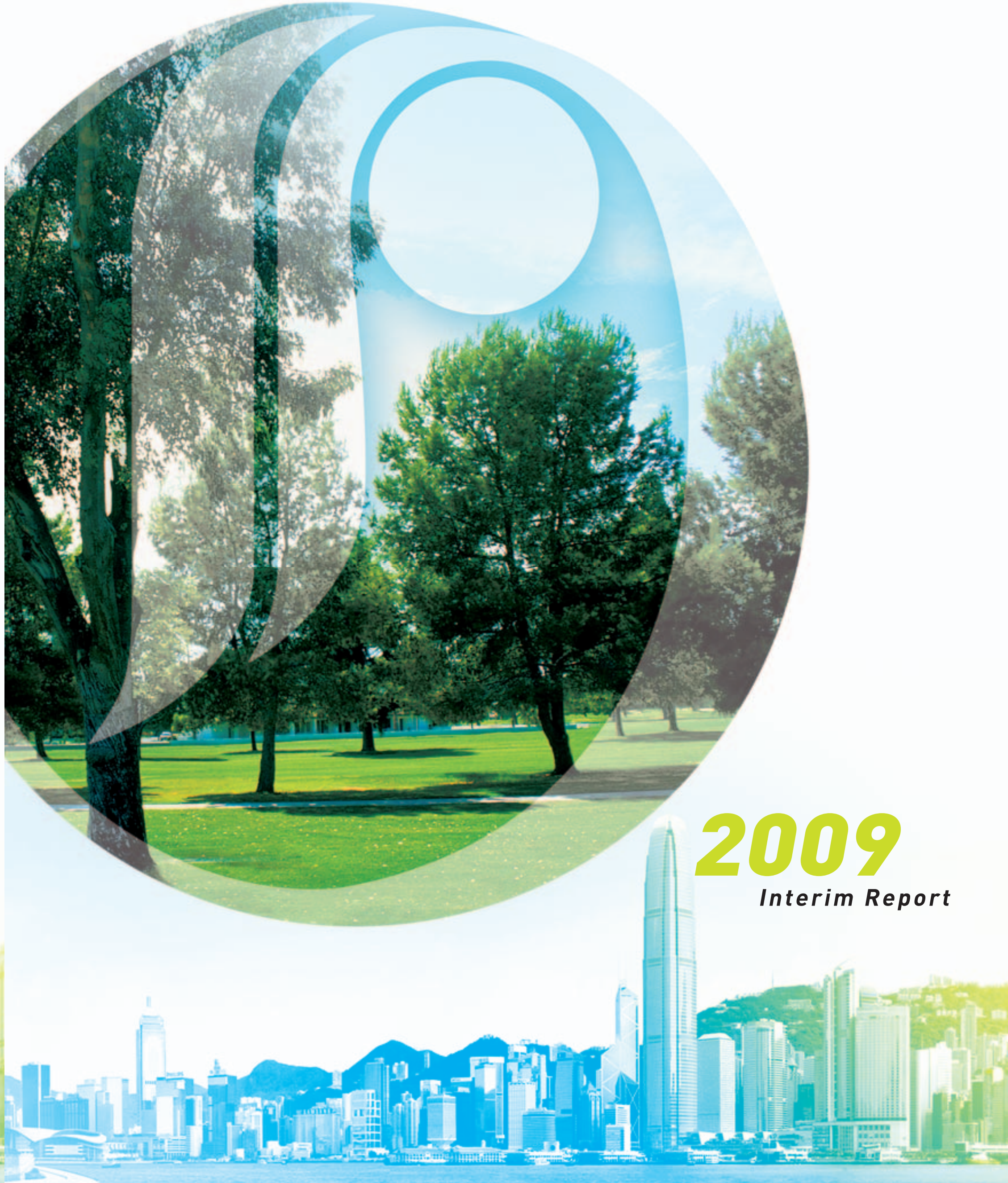
東方明珠創業有限公司

# Pearl Oriental Innovation Limited

Stock Code ：0632



# 2009

## Interim Report

## Statements from the Board

After the financial tsunami has brought traumatic impact to global economy for the first half year, Pearl Oriental Innovation Limited (the "Company") has faced many challenges but at the same time has also created many opportunities.

For the period ended 30 June 2009, the turnover of the Company and its subsidiaries (collectively the "Group") was approximately HK$12,959,000, representing a decrease of 66.1% in comparison with the turnover of HK$38,270,000 in the corresponding period last year, with a loss of HK$11,430,000, representing an improvement as compared to the loss of HK$18,695,000 in the corresponding period last year. The improvement in results is mainly due to the Board's decision of disposing of the loss making business, Guangzhou Pearl Oriental Logistics Limited in the first half year.

In July 2009, the Company has completed the acquisition of 15.18% equity interest of China Coal Energy Holdings Limited ("China Coal"). Accordingly, the Group holds an aggregate 55.11% controlling shareholding of China Coal and it renders the Group at a better position. This transaction has brought HK$80 million tangible assets to the Group. Though the litigations of China Coal are still in progress, the Group's shares of the results of China Coal could not be included in the Company's financial statements yet, the Board of Directors is confident about the chance of winning the lawsuits.

The Company is optimistic on the potential development of the environmental plastic recycling business. In August 2009, the Company announced to invest at a total of HK$100 million to acquire IB Group's recycled plastic business with its annual turnover exceeds HK$550 million and 20% minority interest of Euro Resources China Limited and also holds 60% equity interest of the restructured China Environmental Resources Limited. The Board anticipates that the plastic recycling business will make a significant contribution to the leap development of the Group in next year.

Mr. Dong Zhixiong ("Mr. Dong") will resign as the independent non-executive director ("INED") with effect from 1 October 2009, and take up his new position as Senior Consultant of the Company. The Board takes this opportunity to welcome Mr. Yu Jianmeng ("Mr. Yu") as a new INED, and believes Mr. Dong and Mr. Yu will give great contribution to the Company.

The Board would like to thank our controlling shareholder, Mr. Wong Kwan ("Mr. Wong") for his continuous financial support during the difficult time. Mr. Wong has converted HK$45 million shareholders' loan into new shares of the Company which underlines that he is very confident with the future development of the Group.

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 2009 (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

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2009** | 2008 |
| | | **(Unaudited)** | (Unaudited) |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| Turnover | 3 | **12,959** | 38,270 |
| Cost of sales | | **(8,503)** | (24,602) |
| Gross profit | | **4,456** | 13,668 |
| Other revenue and net income | | **41** | 230 |
| Selling and distribution expenses | | **—** | (7,167) |
| General and administrative expenses | | **(22,885)** | (19,562) |
| Loss from operations | 4 | **(18,388)** | (12,831) |
| Finance costs | | **(2,410)** | (3,260) |
| Share of loss of associates | | **(467)** | (4,185) |
| Gain on disposal of subsidiaries | 12 | **8,169** | — |
| Loss before tax | | **(13,096)** | (20,276) |
| Tax | 5 | **—** | (7) |
| Loss for the period | | **(13,096)** | (20,283) |
| Attributable to: | | | |
| Equity shareholders of the Company | | **(11,430)** | (18,695) |
| Minority interests | | **(1,666)** | (1,588) |
| | | **(13,096)** | (20,283) |
| Loss per share | | | |
| Basic | 7 | **(2.6) cents** | (4) cents |

## CONDENSED CONSOLIDATED BALANCE SHEET

| | Notes | At 30 June 2009 (Unaudited) HK$'000 | At 31 December 2008 (Audited) HK$'000 |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | | **158,047** | 165,331 |
| Interests in leasehold land held for own use under operating leases | | **18,774** | 18,868 |
| Goodwill | 8 | **16,921** | 16,921 |
| Interests in associates | 9 | **420,436** | 420,903 |
| | | **614,178** | 622,023 |
| Current assets | | | |
| Inventory | 10 | **8,210** | 9,083 |
| Trade receivables | 11 | **4,357** | 10,250 |
| Prepayments, deposit and other receivables | 11 | **5,232** | 11,195 |
| Held-to-maturity Investment | 12 | **8,125** | — |
| Amount due from associates | 13 | **5,868** | 5,593 |
| Cash and cash equivalents | | **16,211** | 15,787 |
| | | **48,003** | 51,908 |
| Current liabilities | | | |
| Trade payables | 14 | **4,743** | 8,767 |
| Other payables and accruals | 14 | **11,613** | 19,886 |
| Interest-bearing bank borrowings, secured | 15 | **8,720** | 8,382 |
| Due to minority shareholders of subsidiaries | 16 | **6,011** | 5,167 |
| Tax payable | 18 | **16,438** | 16,451 |
| | | **47,525** | 58,653 |
| Net current assets / (current liabilities) | | **478** | (6,745) |
| Total assets less current liabilities | | **614,656** | 615,278 |

## CONDENSED CONSOLIDATED BALANCE SHEET *(CONTINUED)*

| | Notes | At 30 June 2009 (Unaudited) HK$'000 | At 31 December 2008 (Audited) HK$'000 |
|---|---|---|---|
| Non-current liabilities | | | |
| Due to minority shareholders of subsidiaries | 16 | **11,496** | 16,337 |
| Interest-bearing bank borrowings, secured | 15 | **47,956** | 51,998 |
| Loan from immediate parent and ultimate controlling party | 17 | **10,000** | 25,000 |
| | | **69,452** | 93,335 |
| NET ASSETS | | **545,204** | 521,943 |
| Capital and reserves | | | |
| Share capital | 21 | **58,140** | 46,474 |
| Reserves | | **480,185** | 466,822 |
| Total equity attributable to equity shareholders of the Company | | **538,325** | 513,296 |
| Minority interests | | **6,879** | 8,647 |
| TOTAL EQUITY | | **545,204** | 521,943 |

# Condensed Consolidated Statement of Changes in Equity (Unaudited)

| | Attributable to equity shareholders of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Issued capital HK$'000 | Share premium HK$'000 | Treasury share HK$'000 | Capital reserve HK$'000 | Exchange fluctuation reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 | Minority interest HK$'000 | Total equity HK$'000 |
| At 31 December 2008 | 46,474 | 384,008 | (10,556) | 403,851 | 7,797 | (318,278) | 513,296 | 8,647 | 521,943 |
| Issue of new shares | 11,666 | 23,334 | – | – | – | – | 35,000 | – | 35,000 |
| Exchange difference on translation of financial statement of subsidiaries outside Hong Kong | – | – | – | – | 1,459 | – | 1,459 | (102) | 1,357 |
| Loss for the period | – | – | – | – | – | (11,430) | (11,430) | (1,666) | (13,096) |
| At 30 June 2009 | 58,140 | 407,342 | (10,556) | 403,851 | 9,256 | (329,708) | 538,325 | 6,879 | 545,204 |

| | Attributable to equity shareholders of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Treasury share HK$'000 | Capital reserve HK$'000 | Exchange reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 | Minority interest HK$'000 | Total equity 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 CASH FLOW STATEMENT

| | Six months ended 30 June | |
|---|---|---|
| | **2009** | 2008 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Net cash outflow from operating activities | **(14,807)** | (14,382) |
| Net cash outflow from investing activities | **2,178** | (15,578) |
| Net cash outflow before financing activities | **(12,629)** | (29,960) |
| Net cash inflow from financing activities | **13,436** | 10,413 |
| Decrease in cash and cash equivalents | **807** | (19,547) |
| Effect of changes in exchange rate | **(383)** | 552 |
| Cash and cash equivalents brought forward | **15,787** | 31,617 |
| Cash and cash equivalents carried forward | **16,211** | 12,622 |

# 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 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 2008.

In the current period, the Group has applied for the first time the following new and revised HKFRSs issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual financial period beginning on 1 January 2009.

| | |
|---|---|
| HKAS 1 (Revised) | Presentation of Financial Statements |
| HKAS 23 (Revised) | Borrowing Costs |
| HKFRS 1 and HKAS 27 (Amendments) | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or an Associate |
| HKFRS 2 (Amendments) | Share-based Payment – Vesting Conditions |
| HKFRS 7 (Amendments) | Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments |
| HKFRS 8 | Operating Segments |
| HKFRSs (Amendments) | Improvements to HKFRSs 2008 |

Other than as noted below, the adoption of these new and revised HKFRSs has had no material impact on this interim financial report.

### HKAS 1 (Revised) Presentation of Financial Statements

As a result of the adoption of HKAS 1 (Revised), details of changes in equity during the period arising from transaction with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expenses are presented in the consolidated income statement, if they are recognized as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. The new format for the consolidated statement of comprehensive income and the consolidated statement of changes in equity has been adopted in this interim financial report and corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

## 2. Principal Accounting Policies (continued)

### HKAS 27 Amendment – Cost of an investment in a subsidiary

The amendment requires the investor to recognize dividends from a subsidiary, jointly controlled entity or associate in profit or loss irrespective the distributions is out of the investee's preacquisition or post-acquisition reserves. In prior years, the Company recognized dividends out of pre-acquisition reserves as a recovery of its investment in the subsidiaries (i.e. a reduction of the cost of investment). Only dividends out of post-acquisition reserves were recognized as income in profit or loss.

Under the new accounting policy, if the dividend distribution is excessive, the investment would be tested for impairment according to the Company's accounting policy on impairment of non-financial assets.

For the current interim period, the Company did not receive any dividends from its subsidiaries. The new accounting policy has been applied prospectively as required by the amendments to HKAS 27, and therefore no comparatives have been restated.

### HKFRS 8 Operating Segments

HKFRS 8 "Operating Segments" replaces HKAS 14 "Segment Reporting". It requires a "management approach" under which segment information is presented on the same basis as that used for internal reporting purposes. On first-time adoption of HKFRS 8 "Operating Segments", the Group determined that the operating segments were the same as the business segments previously identified under HKAS 14 "Segment Reporting".

HKICPA has issued a number of new standards, amendments to standards and interpretations that are effective for accounting periods beginning after 1 January 2009. The Group has carried out an assessment of these standards, amendments and interpretations and considered that they have no significant impact on these interim financial statements.

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective.

| | |
|---|---|
| HKFRSs (amendments) | Improvement to HKFRSs issued in 2009[2] |
| HKFRS 2 (amendments) | Group Cash – Settled Share-Based Payment Transactions[3] |
| HKFRS 3 (revised) | Business Combinations[1] |
| HKFRS 5 (amendments) | Non-current Assets Held for Sale and Discontinued Operations – Classification of Non-current assets (or disposal groups) as held for sale[1] |
| HK(IFRIC) – Int 17 | Distribution of Non-cash Assets to Owners[1] |
| HK(IFRIC) – Int 18 | Transfer of Assets from Customers[1] |
| HKAS 27 (revised) | Consolidated and Separate Financial Statements[1] |
| HKAS 28 (amendment) | Investments in associates |
| HKAS 31 (amendment) | Interests in joint ventures |
| HKAS 39 (amendment) | Eligible Hedged Items[1] |

## 2. Principal Accounting Policies (continued)

### HKFRS 8 Operating Segments (continued)

*Notes:*

1. Effective for annual periods beginning on or after 1 July 2009
2. Amendments that are effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate
3. Effective for annual periods beginning on or after 1 January 2010

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

The Directors of the Company anticipate that the application of these HKFRSs will have no material impact on the results and financial position of the Group.

## 3. Segment Information

| | Turnover | | Loss from operations | |
|---|---|---|---|---|
| | Six months ended 30 June | | Six months ended 30 June | |
| | **2009** | 2008 | **2009** | 2008 |
| | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| By principal activity: | | | | |
| Continuing operations – logistics | **11,279** | 38,270 | **(479)** | (3,979) |
| Sales of recycling material | **1,680** | — | **(8,327)** | — |
| Unallocated corporate expenses | | | **(9,582)** | (8,852) |
| | **12,959** | 38,270 | **(18,388)** | (12,831) |
| By geographical area: | | | | |
| Hong Kong | **948** | — | | |
| The People's Republic of China ("PRC") | **11,279** | 38,270 | | |
| France | **732** | — | | |
| | **12,959** | 38,270 | | |

## 4. Loss From Operations

| | Six months ended 30 June | |
|---|---|---|
| | **2009** | 2008 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| The Group's loss from operations has been arrived at after charging: | | |
| Depreciation and amortization | **4,634** | 2,687 |
| and after crediting: | | |
| Bank interest income | **7** | 143 |
| Others | **34** | 87 |

## 5. Tax

| | Six months ended 30 June | |
|---|---|---|
| | **2009** | 2008 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Current tax: | | |
| Provision for PRC enterprise income tax | **—** | 7 |

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 2008: 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 2008: 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 2009 ranged from 18% to 25% (30 June 2008: 18% to 25%).

## 6. Dividends

No dividends were paid during the Period. The directors do not recommend the payment of an interim dividend for the Period (2008: 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:

| | Six months ended 30 June | |
|---|---|---|
| | **2009** | 2008 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Loss for the purpose of calculating basic loss per share: | | |
| Net loss for the period | **(11,430)** | (18,695) |
| Weighted average number of shares for the purpose of calculating basic loss per share (in thousands) | **440,504** | 437,926 |

## 8. Goodwill

| | At | At |
|---|---|---|
| | **30 June** | 31 December |
| | **2009** | 2008 |
| | **(Unaudited)** | (Audited) |
| | **HK$'000** | *HK$'000* |
| Cost and carrying amount: | | |
| Arising from acquisition of a subsidiary | **16,921** | 16,921 |

Impairment testing of goodwill

Goodwill acquired business combination has been allocated to the processing and sales of recycling materials cash generating unit, which is a reportable segment, for impairment testing.

The carrying amount of goodwill relevant to the processing and sales of recycling materials cash-generating unit is as follows:

| | At | At |
|---|---|---|
| | **30 June** | 31 December |
| | **2009** | 2008 |
| | **(Unaudited)** | (Audited) |
| | **HK$'000** | *HK$'000* |
| Carrying amount of goodwill | **16,921** | 16,921 |

## 9. Interests in Associates

| | At 30 June 2009 (Unaudited) HK$'000 | At 31 December 2008 (Audited) HK$'000 |
|---|---|---|
| Share of net assets | **364,545** | 365,012 |
| Goodwill arising from acquisition | **55,891** | 55,891 |
| | **420,436** | 420,903 |

## 10. Inventory

| | At 30 June 2009 (Unaudited) HK$'000 | At 31 December 2008 (Audited) HK$'000 |
|---|---|---|
| Raw materials | **8,210** | 9,083 |

## 11. Trade and Other Receivables

Included in trade and other receivables (net of impairment losses for bad and doubtful debts) with and an ageing analysis as at 30 June 2009 as follows:

| | At 30 June 2009 (Unaudited) HK$'000 | At 31 December 2008 (Audited) HK$'000 |
|---|---|---|
| Less than 3 months | **3,786** | 9,063 |
| 3 to 6 months | **91** | 194 |
| 6 to 12 months | **480** | 993 |
| Over 1 year | **—** | — |
| | **4,357** | 10,250 |
| Prepayments, deposits and other receivables | **5,232** | 11,195 |

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.

## 12. HELD-TO-MATURITY INVESTMENT

| | At 30 June 2009 (Unaudited) HK$'000 | At 31 December 2008 (Audited) HK$'000 |
|---|---|---|
| The face value of convertible notes of HK$9,000,000 for two years | 8,125 | — |

As a result of the Group's disposal (the "Disposal") of subsidiary Pearl Oriental Express Holdings Limited ("POEHL") which in turn owned Guangzhou Pearl Oriental Logistics Limited ("GZPO") in February 2009, there was a gain on the Disposal of approximately HK$8,169,000 for the Group, the Group holds the convertible bonds issued by POEHL of a principal sum of HK$9,000,000 with a maturity of 2 years from the completion date of the Disposal and which is converted into 20% of the enlarged capital of GZPO, POEHL or any of their holding companies (as the case may be) at the Group's sole discretion, on a fully diluted basis.

## 13. AMOUNTS DUE FROM ASSOCIATES

The amount due from associates were unsecured and interest-free and with no fixed repayment terms.

| | At 30 June 2009 (Unaudited) HK$'000 | At 31 December 2008 (Audited) HK$'000 |
|---|---|---|
| China Coal Energy Holdings Limited | 5,868 | 5,593 |

## 14. Trade and Other Payables

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

| | At 30 June 2009 (Unaudited) HK$'000 | At 31 December 2008 (Audited) HK$'000 |
|---|---|---|
| Less than 3 months | 1,413 | 4,136 |
| 3 to 6 months | 10 | 548 |
| 6 to 12 months | 2,300 | 3,270 |
| Over 1 year | 1,020 | 813 |
| | 4,743 | 8,767 |
| Other payables and accruals | 11,613 | 19,886 |

## 15 Interest-bearing bank borrowings, secured

As 30 June 2009, bank borrowings were repayable as follows:

| | Effective interest rate (%) | Maturity | At 30 June 2009 (Unaudited) HK$'000 | At 31 December 2008 (Audited) HK$'000 |
|---|---|---|---|---|
| Bank loans-secured | Prime rate | 2014 | 56,676 | 60,370 |
| Bank overdrafts-secured | Prime rate | On demand | — | 10 |
| Analysed into: | | | | |
| Bank loans repayable : | | | | |
| Within one year or on demand | | | 8,720 | 8,382 |
| In the second year | | | 9,278 | 8,922 |
| In the third to fifth years, inclusive | | | 32,642 | 31,099 |
| Beyond five years | | | 6,036 | 11,977 |
| Total | | | 56,676 | 60,380 |
| Current portion | | | (8,720) | (8,382) |
| | | | 47,956 | 51,998 |

## 15 Interest-bearing bank borrowings, secured (*continued*)

The Company's banking facilities were secured by:

(a) a charge on the premises of the Group's leasehold building of HK$86,271,000 (2008: HK$86,896,000),which together with the prepaid land lease payments of HK$ 19,251,000(2008: HK$19,341,000),which is situate in the PRC.

(b) Corporate guarantees given by the Company and a subsidiary of the Company.

(c) the Group's banking 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 breaches the covenants, the drawn down facilities would become payables on demand. The Group regularly monitors its compliance with these covenants. As at 30 June 2009, none of the covenants relating to the drawn down facilities had been breached (2008: Nil).

(d) a charge on the trade receivable of Pearl Oriental Warehouse (Shenzhen) Limited, a wholly owned subsidiary of the Company, of approximately HK$45,462 (2008: HK$419,932).

## 16. Due to minority shareholders of subsidiaries

The total amount of due to minority shareholders of subsidiaries of HK$6,011,000 are unsecured, interest fee and have no fixed repayment terms and the balance of HK$11,496,000 which was not repayable within the one year after the date of this report.

## 17. Loan from Immediate Parent and Ultimate Controlling Party

The Company entered into a loan facility agreement dated 5 September 2008 with Orient Day Developments Limited ("Orient Day"), the immediate holding company of the Company, in relation to the grant of a loan facility of not exceeding HK$25,000,000 by Orient Day to the Company. Orient Day is a company incorporated in the British Virgin Islands and is wholly-owned by a director of the Company.

The total amount of HK$10,000,000 has been drawn down by the Company during the Period and remained outstanding as at 30 June 2009. The loan is unsecured and is not repayable within one year from the date of this report. The loan of HK$10,000,000 bears interest at the Hong Kong Prime Rate as quoted by the Hong Kong and Shanghai Banking Corporation from time to time.

## 18. Tax payable

Current taxation in the consolidated balance sheet represents:

| | **At 30 June 2009 (Unaudited) *HK$'000*** | At 31 December 2008 (Audited) *HK$'000* |
|---|---|---|
| Provision for PRC enterprise income tax for the year | **—** | 13 |
| Balance of PRC enterprise income tax relating to prior years | **16,438** | 16,438 |
| | **16,438** | 16,451 |

## 19. Capital Commitments

| | **At 30 June 2009 (Unaudited) *HK$'000*** | At 31 December 2008 (Audited) *HK$'000* |
|---|---|---|
| Authorised, but not contracted for : | | |
| Proposed acquisition of a subsidiary | **8,461** | 8,461 |

The Company did not have significant commitments as at 30 June 2009 (2008: Nil).

## 20. Contingent Liabilities

As 30 June 2009, the Company had given guarantees of approximately HK$56.7 million (31 December 2008: HK$60 million) to banks in respect of banking facilities granted to a subsidiary. The extent of such facilities utilized by the subsidiary at 30 June 2009 amounted to approximately HK$56.7 million (31 December 2008: HK$60 million).

## 21. Share Capital

| | **Authorised Ordinary shares Of HK$0.10 each** No. of shares *'000* | *HK$'000* |
|---|---|---|
| At 1 January 2009 | 20,000,000 | 2,000,000 |
| At 30 June 2009 | 20,000,000 | 2,000,000 |

| | **Issued and fully paid Ordinary shares of HK$0.10 each** No. of shares | *HK$'000* |
|---|---|---|
| At 1 January 2009 | 464,737,960 | 46,474 |
| Issue of new shares | 116,666,000 | 11,666 |
| At 30 June 2009 | 581,403,960 | 58,140 |

Notes :

The Company issued 116,666,000 new ordinary shares of HK$0.10 each to Orient Day on 21 May 2009. Orient Day, is a company wholly owned by the Company's majority shareholder, Mr. Wong Kwan, has converted convertible notes of HK$35,000,000 into 116,666,000 new shares at a conversion price of HK$0.30 each.

## 22. Post Balance Sheet events

(i) A conditional sale and purchase agreement were entered into between Mr. Wong Chok Wah, Favour Good Investments Limited and Champion Merry Investments Limited, a wholly owned subsidiary of the Company on 27 May 2009 in relation to the acquisition of 100% equity interest of Get Wealthy Investments Limited ("Get Wealthy") and 0.18% equity interest in China Coal Energy Holdings Limited at a consideration of HK$57,312,000 satisfied by issue of 143,280,000 consideration shares and HK$688,000 to be satisfied by issue of 1,720,000 consideration shares. The Acquisition has been approved in the special general meeting held on 15 July 2009 and completed on 30 July 2009.

(ii) On 5 August 2009, the Company granted a total of 30,000,000 Share Options pursuant to the New Share Option Scheme approved in the special general meeting held on 15 July 2009.

(iii) A conditional sale and purchase agreement was entered into between Grand Ascend Investments Limited, a wholly owned subsidiary of the Company and Mr. Tan Kian Chung on 30 July 2009, in relation to the acquisition of 100% equity interest of Poly Keen Limited, which owned 20% of equity interest in Euro Resources at a consideration of HK$50,000,000 satisfied by issue of 100,000,000 shares.

(iv) The Company entered into the Merger Agreement with Mr. Cheung Mo Kit on 30 July 2009, pursuant to which a joint venture company will be established for the development of the business of waste plastic recycling.

# Management Discussion And Analysis

## Results and Review of Operations

For the six months ended 30 June 2009 (the "Period"), the Group recorded a consolidated turnover of HK$12,959,000 (2008: HK$38,270,000), representing an decrease of approximately 66.1% over in the corresponding period last year. The loss attributable to the Shareholders of the Company for the Period decreased to HK$11,430,000 (2008: HK$18,695,000). Basic loss per share was 2.6 HK cents for the Period as compared to the loss per share of 4 HK cents per share for the six months ended 30 June 2008.

The decrease in turnover was mainly due from Pearl Oriental Logistics (Shenzhen) Ltd has decreased in warehouse and logistics business as a result of the effect of global financial crisis in the first half of 2009 and also the completion of the disposal of the business in Guangzhou Pearl Oriental Logistics Limited ("GZPO") in February 2009. In addition, Euro Resources China Limited has become a subsidiary of the Company in November 2008. However, the gross profit was HK$ 4,456,000 (2008: HK$13,668,000) for the Period, which represented a decrease of approximately 67.4% over the corresponding period last year and the gross profit margin has decreased from 35.7% to 34.4%.

The loss attributable to the shareholders for the Period decreased from HK$18,695,000 to HK$11,430,000 is due to the completion of the disposal of the loss-making business in GZPO in February 2009 and the gain on the disposal of GZPO amounting to HK$8,169,000.

# Prospects

## Plastic Recycling Industry

The Group has 80% 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, management of Euro Resources is in negotiation for acquisitions of few collection facilities in Europe like United Kingdom, Germany, Italy and etc. Furthermore, Euro Resources is also in negotiation with a view to generate more profits and broaden the customers' base in the manufacturing process of plastic granulation in China.

On 30 July 2009, the Company entered into Merger Agreements with a vendor (the "Vendor") who owns 20% equity interest of Euro Resources China Limited ("Euro Resources") and Mr. Cheung Mo Kit, the sole shareholder of IB Group Trading Limited ("IB Group") respectively to invest a total of HK$100 million to acquire IB Group's business and 20% equity interest in Euro Resources. The Company will issue 200 million new shares to satisfy the aggregate consideration of HK$100 million.

After completion of the acquisition and restructuring, China Environmental Resources Limited ("China Environmental") will own the entire equity interest of IB Environmental Plastic and Euro Resources.

The Board is pleased to point out that Mr. Cheung Mo Kit has founded the IB Group to operate the environmental plastic business for over 30 years, and has a large number of stable customers in China and has a good reputation in the market, and also has extensive supplier networks in Japan. The turnover of IB Group amount to HK$550 million for the year 2008 and it is expected that the profit relating to its business (after carving out non-business expenses) will be around HK$20 million for the year 2009.

ERI, a subsidiary of Euro Resources, is one of the few qualified recycled plastic producers and exporters which have been approved by the French Government and in compliance with the international environmental standard, the Company's plastic recycling business will have a greater development potential after the joining of Mr. Cheung Mo Kit and the management team led by him given their solid experience.

The board of directors of China Environmental strongly believes that, after completion, there will be synergy and the plastic recycling business in Japan and Europe under China Environmental will form a complimentary strategic combination. It will have the leading position in the plastic recycling market in China, and bring big growth potential for the future results of the Company.

The Company has strong confidence in the business model and development potential of China Environmental given the strong market demand of products of IB Group, China Environmental and Euro Resources in China, and also the increasing concern of the public over the importance of environmental protection and the strong support of the environmentally friendly operations of Euro Resources from various parties due to the increasing awareness of the importance of environmental protection.

## Liquidity, Financial Resources and Capital Structure

The Group generally finances its operations with internally generated resources and loan facilities granted by the majority shareholder and principal bankers in the PRC and Hong Kong.

As at 30 June 2009, the Group's gearing ratio had slightly decreased to 8.6% (calculated on the basis of the Group's bank borrowings over total assets) from 9% as at 31 December 2008. At 30 June 2009, the Group's total bank borrowings amounted to approximately HK$56.7 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 2009 have increased to HK$16,211,000 from approximately HK$15,787,000 as at 31 December 2008. The current ratio (calculated on the basis of the Group's current assets over current liabilities) has increased to 1.01 as at 30 June 2009 (31 December 2008: 0.89).

At 30 June 2009, 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 2009 and 31 December 2008, 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 has below litigations at the date of this report.

(a) The Group had three pending litigation claims with the ex-directors of a disposed subsidiary, Dransfield Holdings Limited ("DHL"), who claim against the Group for a total sum of not less than HK$11.4 million. As disclosed in the Company's announcement dated 23 August 2005, the Company's interest in DHL was disposed of on 23 July 2005. It was alleged in these claims that by disposing of all its shares in DHL, the Company was evading liabilities and denying these claimants' benefits of the debts owned by DHL. A judgment was given in favour of Horace Yao Yee Cheong, Habile International Holdings Limited and Makdavy Holdings Limited against the Company on 22 May 2009 for the aggregate sum of approximately HK$6.9 million together with interests thereon and legal costs. The Company has filed an appeal against the judgment.

(b) 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, Get Wealthy, Champion Merry Investment Limited ("Champion Merry"), 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 alias, against the Company and Champion Merry 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 25 October 2006 in favour of the Company in respect of all of Zhang's shares in China Coal Energy Holdings Limited ("China 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 and the Company has issued counterclaim against Zhang, including without limitation, the dividend from China Coal of HK$80,000,000, damages for breaches of the Joint Venture Agreement and other relief. In addition, China Coal has taken legal action against Zhang and other 4 persons for their breaches of duties as directors of Taiyuan Sanxing Coal Gasification Company Limited in the High Court of Shanxi, and the directors of China Coal are very confident in this legal action.

## Employees and Remuneration Policies

As at 30 June 2009, the number of employees of the Group was 100. 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

Although the market seems to be much better than before subsequent to the recent financial tsunami and credit crisis, we expect the outlook will remain challenging for most industries and sectors. The Board and Management will therefore continue to 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, in particular in the waste plastic recycling business after the formation of the joint venture company, China Environmental which we expect that the transaction will be completed in the fourth quarter of 2009.

# Additional Information Required under the Listing Rules

## Directors' interests and short positions in shares, underlying shares and debentures

As at 30 June 2009, 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

### Ordinary shares of HK$0.10 each of the company

| Name of directors | Number of Shares held in the Capacity of: 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)* | — | — | 378,425,800 | — | 378,425,800 | 65.09% |
| Johnny Yuen | 640,000 | — | — | — | 640,000 | 0.11% |
| Fung Hing Chiu, Cyril | — | — | — | 1,272,090 | 1,272,090 | 0.22% |

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

## 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 2009, 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 *(Note)* | Beneficial owner | 378,425,800 | 65.09% |

*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 2009.

## 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 2009 (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 separated 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 four independent non-executive directors, namely Mr. Lam Ka Wai, Graham (Chairman of the Audit Committee), Mr. Yu Jian Meng, 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 2009.

On behalf of the Board
**Cheung Kwok Yu**
*Executive Director and Company Secretary*

Hong Kong, 25 September 2009