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

(Incorporated in Bermuda with limited liability)

(Stock Code: 632)

INTERIM RESULTS ANNOUNCEMENT 2010 AND CHANGE OF DIRECTOR

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 2010 (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	
		2010	2009
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
Revenue	*3*	**286,212**	12,959
Cost of sales		**(273,036)**	(8,503)
Gross profit		**13,176**	4,456
Other income and gains		**1,018**	41
Excess of the Group's interest in fair value of acquiree's identifiable net assets over costs	*10*	**741,098**	—
Selling and distribution expenses		**(2,829)**	—
General and administrative expenses		**(47,989)**	(22,885)
Impairment of property, plant and equipment	*14*	**(47,335)**	—
Impairment of goodwill	*14*	**(59,906)**	—
Finance costs		**(15)**	(2,410)
Share of loss of associates		**—**	(467)
Gain on disposal of subsidiaries		**—**	8,169
Profit/(loss) before tax	*4*	**597,218**	(13,096)
Income tax expense	*5*	**(675)**	—
Profit/(loss) for the Period		**596,543**	(13,096)

* *For identification purpose only*

	Notes	Six months ended 30 June **2010** **(Unaudited)** ***HK$'000***	2009 (Unaudited) *HK$'000*
Attributable to:			
Owners of the Company		**616,950**	(11,430)
Non-controlling interests		**(20,407)**	(1,666)
		596,543	(13,096)
Earnings/(loss) per share			
Basic	*7*	**45 cents**	(3) cents
Diluted	*7*	**44 cents**	(3) cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	At 30 June 2010 (Unaudited) *HK$'000*	At 31 December 2009 (Audited) *HK$'000*
Non-current assets			
Property, plant and equipment		**10,658**	64,465
Deposits paid	*8*	**—**	761
Goodwill	*9*	**62,039**	121,945
Interest in Gas and Oil properties	*10*	**2,293,200**	—
		2,365,897	187,171
Current assets			
Inventories	*11*	**2,228**	8,707
Trade receivables	*12*	**8,440**	6,199
Prepayments, deposit and other receivables	*12*	**142,405**	47,521
Derivative financial instruments	*10*	**7,898**	—
Cash and cash equivalents		**102,952**	224,314
		263,923	286,741
Current liabilities			
Trade payables	*13*	**7,458**	5,700
Other payables and accruals	*13*	**47,001**	51,696
Tax payable	*15*	**994**	319
Loan from immediate parent and ultimate controlling party	*16*	**—**	4,910
		55,453	62,625
Net current assets		**208,470**	224,116
Total assets less current liabilities		**2,574,367**	411,287

	Notes	At 30 June 2010 (Unaudited) HK$'000	At 31 December 2009 (Audited) HK$'000
Non-current liabilities			
Loan from immediate parent and ultimate controlling party	16	—	66,300
		—	66,300
NET ASSETS		**2,574,367**	344,987
Equity attributable to owners of the Company			
Issued Capital	18	**164,178**	115,922
Reserves		**1,235,436**	212,906
		1,399,614	328,828
Consideration shares to be issued	10	**1,170,000**	—
		2,569,614	328,828
Non-controlling interests		**4,753**	16,159
TOTAL EQUITY		**2,574,367**	344,987

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Preparation

The unaudited condensed consolidated interim 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

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2009, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The following new standards, new interpretations and amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2010, but are not currently relevant for the Group.

HK(IFRIC)-Int 17	Distributions of non-cash assets to owners
HKFRS 1 (Amendment)	Additional exemptions for first-time adopters
HKAS 39 (Amendment)	Eligible hedged items
HKFRS 2 (Amendment)	Group cash-settled share-based payment transaction

First improvements to HKFRS (2008) were issued in May 2008 by the IASB and October 2008 by the HKICPA. The improvement related to HKFRS 5 "Non-current assets held for sale and discontinued operations".

Second improvements to HKFRS (2009) were issued in April 2009 by IASB and May 2009 by the HKICPA.

The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted:

HKFRS 9 'Financial instruments'[1]
HKAS 24 (Revised) 'Related party disclosures'[2]
Amendment to HKAS 32[4]
Amendments to HK(IFRIC) Int-14 'Prepayments of a minimum funding requirement'[2]
HK(IFRIC)-Int 19 'Extinguishing financial liabilities with equity instruments'[3]
Amendment to HKFRS 1[3]

Third improvements to HKFRS (2010) were issued in May 2010 by the HKICPA.

[1] Effective for annual periods beginning on or after 1 January 2013

[2] Effective for annual periods beginning on or after 1 January 2011

[3] Effective for annual periods beginning on or after 1 July 2010

[4] Effective for annual periods beginning on or after 1 February 2010

For the application of these standards or interpretations, management is either assessing the impact of or considers that there will have no material impact on the results and the financial position of the Group.

3. Operating Segment Information

	Revenue		**Loss from operations**	
	Six months ended 30 June		**Six months ended 30 June**	
	2010	2009	**2010**	2009
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
By principal activity:				
Continued operations — logistics	**—**	11,279	**(353)**	(479)
Sales of recycling material	**286,212**	1,680	**(10,802)**	(8,327)
	286,212	12,959		
Unallocated corporate expenses			**(22,228)**	(9,582)
Loss from operations			**(33,383)**	(18,388)
By geographical area:				
Hong Kong	**284,857**	948		
The People's Republic of China ("PRC")	**—**	11,279		
France	**1,355**	732		
	286,212	12,959		

4. Profit/(Loss) Before Tax

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
The Group's profit/(loss) from operations has been arrived at after charging:		
Depreciation and amortization	**3,552**	4,634
and after crediting:		
Interest income from bank deposits	**140**	7
Interest income from loan receivable	**490**	—
Waiver off other payable	**384**	—
Others	**4**	34

5. Income Tax Expense

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current tax:		
Hong Kong Profits Tax	**675**	—

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 2009: Nil).

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

6. Dividends

No dividends were paid during the Period. The directors do not recommend the payment of an interim dividend for the Period (2009: Nil).

7. Earnings/(Loss) Per Share

(i) *Basic earnings per share*

The calculation of the basic earnings/(loss) per share attributable to the owners of the Company is based on the following data:

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
Profit/(Loss) for the purpose of calculating basic earnings/(loss) per share:		
Net profit/(loss) for the Period (HK'000)	**616,950**	(11,430)
Weighted average number of shares for the purpose of calculating basic earnings/(loss) per share (in thousands)	**1,356,896**	440,504

(ii) *Diluted earnings per share*

Diluted earnings per share is presented as share options which were exercised after their respective vesting periods. The calculation of diluted earnings per share for the period is based on the Group's profit attributable to the owners of the Company of HK$616,950,000 (2009: Loss HK$11,430,000) and the weighted average number of ordinary shares for the purpose of diluted earnings per share during the Period of 10,001,000 (2009: N/A).

8. Deposits Paid

	At 30 June 2010	At 31 December 2009
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Deposits paid	**—**	761

9. Goodwill

	At 30 June 2010 (Unaudited) *HK$'000*	At 31 December 2009 (Audited) *HK$'000*
Cost and carrying amount:		
Balance as at 1 January	**121,945**	16,921
Acquisition of minority interest	**—**	42,985
Acquisition of a business	**—**	62,039
Less: Impairment *(note 14)*	**(59,906)**	—
	62,039	121,945

Impairment testing of goodwill

Goodwill acquired through business combinations and acquisition of a business has been allocated to the relevant cash-generating units for impairment testing as follows:

	At 30 June 2010 (Unaudited) *HK$'000*	At 31 December 2009 (Audited) *HK$'000*
Carrying amount of goodwill relevant to the processing and sales of plastic recycling material in the ERC Group	**—**	59,906
Carrying amount of goodwill relevant to the sale of plastic recycling material in the IBE Group	**62,039**	62,039
	62,039	121,945

10. Interest in Gas and Oil Properties

On 9 January 2010, 18 March 2010 and 10 May 2010, the Company entered into an agreement and two supplement agreements to acquire from Charcon Assets Limited and Marvel Sunlight Limited 100% of issued share capital of Festive Oasis Limited which indirectly owns 70% interest of certain gas and oil assets in Utah, USA (the "Utah Gas and Oil Field") for a total consideration of US$200 million (the "Acquisition"). Details of the Acquisition were set out in a circular issued by the Company on 24 May 2010. The consideration for the Acquisition would be satisfied by (i) as to US$50 million (equivalent to approximately HK$390 million) by cash; and (ii) as to US$150 million (equivalent to approximately HK$1,170 million) by the issue of 847,810,000 Consideration Shares at the price of HK$1.38 per Consideration Share. The Acquisition was completed on 21 June 2010.

The Company further has a right to buy the remaining 30% ownership interest in the Utah Gas and Oil Field at a consideration of US$25 million on or before 11 December 2011 (the "30% Option to Buy").

The fair value of the identifiable assets and liabilities of Oasis Group as at the completion date of the Acquisition and the corresponding carrying amounts immediately before the completion date of the Acquisition are as follows:

	Fair value recognised on acquisition (Unaudited) *HK$'000*	Previous carrying amount (Unaudited) *HK$'000*
70% Ownership interest (USD 420million x 7.8 x 70%)	2,293,200	3,878
Due to a shareholder of the Oasis Group (the "Sale Loan")	(4,913)	(4,913)
	2,288,287	(1,035)
Elimination of the Sale Loan	4,913	
Fair value of the derivative financial instruments, the 30% Option to Buy	7,898	
Excess of the Group's interest in fair value of acquiree's identifiable net assets over cost	(741,098)	
Satisfied as:		
Consideration	1,560,000	
Consideration of the Acquisition satisfied:		
By the issue of the Consideration Shares:*	1,170,000	
Cash	390,000	
	1,560,000	

* As at 30 June 2010, the Company has not yet issued 847,810,000 Consideration Shares.

11. Inventories

	At 30 June 2010 (Unaudited) ***HK$'000***	At 31 December 2009 (Audited) *HK$'000*
Raw materials	**2,228**	8,707

12. Trade Receivables and Prepayments, Deposits and other Receivables

An ageing analysis of trade and other receivables (net of impairment losses for bad and doubtful debts) with as at the end of the reporting period is as follows:

	At 30 June 2010 (Unaudited) *HK$'000*	At 31 December 2009 (Audited) *HK$'000*
Less than 3 months	**8,339**	5,995
3 to 6 months	**—**	96
6 to 12 months	**—**	108
Over 1 year	**101**	—
	8,440	6,199
Prepayments, deposits and other receivables	**142,405**	47,521
	150,845	53,720

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.

13. Trade and Other Payables and Accruals

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

	At 30 June 2010 (Unaudited) *HK$'000*	At 31 December 2009 (Audited) *HK$'000*
Less than 3 months	**4,781**	3,622
3 to 6 months	**—**	—
6 to 12 months	**590**	—
Over 1 year	**2,087**	2,078
	7,458	5,700
Other payables and accruals	**47,001**	51,696
	54,459	57,396

14. Impairment loss of property, plant and equipment and goodwill

A voluntary liquidation of a subsidiary (the "Subsidiary") of China Environmental engaged in waste plastic processing and manufacturing in France has been taken out subsequent to the end of the Period in July 2010. The French Court has appointed a liquidator for the Subsidiary to handle the related matters in accordance with the relevant legal procedures. Property, plant and equipment and the corresponding goodwill of the Subsidiary of HK$47,335,000 and HK$59,906,000 (note 9), respectively have been fully impaired during the Period.

15. Tax Payable

Current taxation in the consolidated statement of financial position represents:

	At 30 June 2010 (Unaudited) *HK$'000*	At 31 December 2009 (Audited) *HK$'000*
Provision for Hong Kong Profits Tax	**994**	319

16. Loan from Immediate Parent and Ultimate Controlling Party

	At 30 June 2010 (Unaudited) *HK$'000*	At 31 December 2009 (Audited) *HK$'000*
Current portion *(note (i))*	—	4,910
Non current portion *(note (ii))*	—	66,300
	—	71,210

As at 31 December 2009, the loan from immediate parent and ultimate controlling party of HK$71,210,000 represented:

(i) a loan with an aggregate amount of approximately HK$4,910,000 granted by Orient Day during the year with the following terms:

Approximately HK$3,112,000 advanced to the Company, which was unsecured, bored interest at HSBC Prime Rate from time to time and had no fixed repayment terms, and; approximately HK$1,798,000 advanced to a subsidiary of the Group, which was unsecured, interest-free and had no fixed repayment terms.

These loans have been fully settled subsequent to the end of the reporting period in February 2010.

(ii) An amount of HK$66,300,000 representing the amounts received for the subscription of the Company's shares by Orient Day. The subscription has been completed subsequent to the end of the reporting period in January 2010.

The Company entered into various share sales and subscription agreements with certain independent third parties (the "Purchasers") and Orient Day, on 12 December 2009 and 13 December 2009. Pursuant to which, Orient Day agreed to sell an aggregate of 65,000,000 existing ordinary shares (the "Sale Share(s)") of the Company to the Purchasers at a price of HK$1.02 per Sales Share. In addition, Orient Day has conditionally agreed to subscribe for an aggregate of 65,000,000 new shares (the "Subscription Share(s)") of the Company at a price of HK$1.02 per Subscription Share, resulting in an aggregate gross proceeds of HK$66.3 million as additional working capital of the Company. The subscription has been completed in January 2010.

17. Capital Commitments

	At 30 June 2010 (Unaudited) *HK$'000*	At 31 December 2009 (Audited) *HK$'000*
Authorised, but not contracted for:		
Proposed acquisition of a subsidiary	**8,352**	8,352
Leasehold improvement	**—**	32
	8,352	8,384

Except for the above, the directors have authorised a proposed development cost in respect of (i) repairing the 7 existing old wells; and (ii) drilling and completing 7 new wells, which are estimated at total cost of US$2.4 million (equivalent to approximately HK$18.72 million) and US$12.6 million (equivalent to approximately HK$98.28 million), respectively.

18. Issued Capital

	Authorised Ordinary shares Of HK$0.10 each	
	No. of shares '000	*HK$'000*
At 1 January 2010	**200,000,000**	20,000,000
At 30 June 2010	**200,000,000**	20,000,000

	Issued and fully paid Ordinary shares of HK$0.10 each	
	No. of shares	*HK$'000*
At 1 January 2010	1,159,216,960	115,921
Issue of new shares *(Note 16(ii))*	65,000,000	6,500
Exercise of share options *(Note a)*	11,200,000	1,120
Issue of subscription shares *(Note b)*	231,367,000	23,137
Conversion of convertible notes *(Note c)*	175,000,000	17,500
At 30 June 2010	1,641,783,960	164,178

Notes:

(a) During the Period, the total proceeds of HK$6,272,000 as arised from the exercise of employee share options of 11,200,000 shares at a price of HK$0.56 per share.

(b) During the period from 15 April 2010 to 20 April 2010, the Company has entered into several subscription agreements with certain subscribers (the "Subscriptions"), pursuant to which, these subscribers have conditionally agreed to subscribe for an aggregate of 231,367,000 subscription shares (the "Subscription Share(s)") at a price of HK$1.38 per subscription Share. The gross proceeds from the Subscriptions are approximately HK$319,000,000, the issue of the Subscription Shares was completed on 3 May 2010.

(c) In May 2009, Orient Day Developments Limited ("Orient Day"), the immediate parent and ultimate controlling party of the Company, and the Company has entered into an subscription agreement in relation to the proposed issue of convertible notes by the Company to Orient Day, and the total principal amount is up to HK$100,000,000. Convertible Notes of principal value of HK$70,000,000 have been converted into new ordinary shares of the Company at an exercise price of HK$0.40 per ordinary share, resulting in the issue of an aggregate of up to 175,000,000 new ordinary shares of the Company.

19. Events After the Reporting Period

In addition to note 14, on 31 July 2010, the Group entered into a Settlement Agreement with Mr. Zhang Jingyuan ("Mr. Zhang"). Pursuant to the Settlement Agreement, Mr. Zhang and the Group, *inter alios*, shall make relevant application (the "Applications") to withdraw or settle all their legal claims against any parties to those litigations in Hong Kong and Mainland China as soon as possible, and also the Group shall dispose of the Sale Shares which represents approximately 55.11% of the issued shares of China Coal Energy Holdings Limited ("China Coal") to Mr. Zhang (the "Disposal"). The net total proceeds on the Disposal to be received by the Group by instalments will be HK$168.6 million. The first instalment of payment of HK$32 million under the Settlement Agreement has been received by the Company, and it will contribute to the results of the Group in the 2nd half of year 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

The Company has entered into a new era since 2010 and taken a series of positive steps to achieve for the best interest of the Shareholders.

Results and Review of Operations

For the six months ended 30 June 2010 (the "Period"), the Group recorded a consolidated turnover of HK$286,212,000 (2009: HK$12,959,000), representing an increase of approximately 21 times over the corresponding period last year. The profit attributable to the Shareholders of the Company for the Period to HK$616,950,000 (2009: Loss HK$11,430,000). Basic earnings per share was 45 HK cents for the Period as compared to the loss per share of 3 HK cents per share for the six months ended 30 June 2009. For illustration purpose only, assuming that 847,810,000 Consideration Shares (see Note 10) were issued on 21 June 2010, the earnings per share would be 44 HK cents.

The increase in turnover was mainly due to the formation of the joint venture by the Group and Mr. Cheung Mo Kit, China Environmental Resources Limited in 2009. However, the gross profit was HK$13,176,000 (2009: HK$4,456,000) for the Period, which represented an increase of approximately 196% over the corresponding period last year and the gross profit margin has decreased from 34.4% to 4.6%.

The earnings attributable to the shareholders for the Period from loss HK$11,430,000 to HK$616,950,000 is mainly due to the difference of approximately HK$741,098,000 between the fair value of 70% ownership interest in the Utah Gas and Oil Field and the relevant consideration of the acquisition has been recognised in the consolidated income statement during the Period.

The Group has restructured its core business last year, the Group has resolutely cut loss by disposing of logistics business and the bonded warehouse which had been suffering losses for years. After the disposal, the Group does not have any outstanding bank loans by then.

Financing

The Company's issue of new shares for a fund raising of HK$319 million to various international funds and institutional investors including JP Morgan was completed on 3 May 2010. Together with the first round of share placement in mid December 2009, the Company has already successfully raised an aggregate amount of over HK$500 million which financed the Group for its acquisition of 70% ownership interest of the Utah Gas and Oil Field project.

In addition, Mr. Wong Kwan, the controlling shareholder, who is also the Chairman and Chief Executive, has converted his Convertible Notes into new Shares of the Company in a principal amount of HK$70,000,000, the conversion has further strengthened the financial capability of the Company. It demonstrated Mr. Wong Kwan's strong confidence in the Company's future development. The Company will become an international energy and resources investment and operating platform on which the Company can build up long-term mutual beneficial relationship with sizeable state-owned enterprises in China, and it will bring desirable return on investment to the Company and its shareholders.

Oil and Gas Business

The Special General Meeting of the Company held on 8 June 2010, got an unanimous 100% in favour from attending shareholders to approve the US$225 million acquisition of 100% ownership interest of the Utah Gas and Oil Field project.

The acquisition has been approved by the Committee of Foreign Investment of the United States. At the same time, the Company is going to take this opportunity to build up a long-term mutual beneficial partnership with large-scale state-owned enterprises. On 21 July 2010, the Company signed Strategic Cooperation Agreement with Sinopec International Petroleum Exploration and Production Corporation (中國石化集團國際石油勘探開發有限公司), a wholly owned subsidiary of China Petrochemical Corporation (中國石油化工集團公司), for possible cooperation in exploration and exploitation of various overseas gas and oil fields.

The Company completed the Phase 1 Acquisition of the Utah Gas and Oil Field on 21 June 2010 and legally holds 70% Ownership Interest of the Utah Gas and Oil Field. The Operating Company of the Utah Gas and Oil Field and Halliburton have also signed an agreement for project management and consulting services for the design, exploitation, production and management of the 14 new and existing wells of Utah Gas and Oil Field.

Halliburton has excellent track record in worldwide oil and gas field services with a leading position. It has 38 sizeable oil field projects including in the United States, Latin America, Middle East, Europe and China.

In addition, a gas purchase agreement for five years with Anadarko Group has been extended to a period of 12 years beginning from February 2010. Anadarko Group has a gas pipeline running through the Utah Gas and Oil Field. It is intended that all gas production from the Utah Gas and Oil Field will be sold to Anadarko's midstream operations.

Settlement of Litigation

On 31 July 2010, the Company entered into a Settlement Agreement with Mr. Zhang Jingyuan ("Mr. Zhang"), the joint venture party, to withdraw all legal claims against any parties to those litigations in Hong Kong and Mainland China and to dispose of 55.11% equity interest of China Coal Energy Holdings Limited ("China Coal") to Mr. Zhang. Upon completion of the disposal, the Company will have an aggregate net proceeds of HK$168.6 million to be received by instalments within 2 years. As a full provision of impairment loss in respect of China Coal has been made before, therefore, the disposal of equity interest of China Coal will bring a considerable amount of non-recurring gain to the Company. The first instalment of payment of HK$32 million under the Settlement Agreement has been received by the Company, and it will contribute to the results of the Group in the 2nd half of year 2010.

The entering into the Settlement Agreement allows the Company to have a considerable proceeds which is not only beneficial to strengthen financial capability of the Group, but also for Management to focus its energy and resources on developing oil and gas core businesses at full speed.

Recycling Plastic Business

The Group and Mr. Cheung Mo Kit, our joint venture partner are intending to dispose of their 100% interests in China Environmental Resources Limited ("China Environmental"), a 60% owned subsidiary of the Group, at a premium to an overseas listed company (the "Listed Vehicle") to further develop and restructure its plastic recycling businesses, and they may also jointly acquire controlling stake shareholding of the single largest shareholder of the Listed Vehicle (collectively, the "Transaction"). China Environmental has a plan of expanding into and acquiring related waste plastic processing facilities and factories in China by raising further fund through the Listed Vehicle. If the Transaction completes, the Company will still hold its interests in China Environmental through the Listed Vehicle in the form of listed securities.

Due to high labour cost (which is estimated to be over 10 times that in China), after due and careful consideration, China Environmental is intending to relocate the processing activities to China from France and also to dispose of the processing factory and machinery in France to independent third parties. Accordingly, a voluntary liquidation of a subsidiary (the "Subsidiary") of China Environmental engaged in waste plastic processing and manufacturing in France has been taken out in order to facilitate the restructuring of the plastic recycling businesses of China Environmental. The French Court has appointed a liquidator for the Subsidiary to handle the related matters in accordance with the relevant legal procedures.

The Board expects that the aforesaid restructuring can help the Group to achieve good return through possible capital appreciation in the plastic recycling sector.

OUTLOOK

The Company will become a pure oil and gas company. The Utah Gas and Oil Field which the Company holds 70% Ownership Interest, is under the assistance and management of Halliburton, a world-wide famous oil and gas engineering company. The drilling of wells is in full swing. If there is no unpredictable situation, it is expected that the Utah Gas and Oil Field will have oil and gas production by October 2010 which will bring stable income for the Company. Dr. Lew Mon Hung, our deputy Chairman, has led the professional technical team of the Company to go to Kazakhstan in early August to visit the government authorities as well as to pay a site visit to several Kazakhstan oil fields which are under the negotiation for a possible acquisition.

On 10 August 2010, the Company signed a Strategic Cooperation Agreement with Bank Center Credit ("BCC") in Kazakhstan, pursuant to which BCC will also introduce some other energy resources projects with potential development to the Company, and the Company will assist BCC to introduce oil and gas Kazakhstan enterprises to be listed on Stock Exchange of Hong Kong and/or to raise funds in the capital markets which will be of great benefit to broaden the business relationship and other opportunities between Hong Kong and Kazakhstan.

The Board believes that the professional engineering services and support to be provided by Halliburton and the gas purchase services provided by Anadarko which are the two leading giants in the oil and gas industry will be beneficial to the enhancement of the pace of production and quality of products of the Utah Gas and Oil Field, and it is expected that it will bring long-term stable income for the Company soon.

Liquidity, Financial Resources and Capital Structure

The Group generally finances its operations with issue of new shares and convertible notes and internally generated resources.

At 30 June 2010, the Group had no bank borrowings (31 December 2009: Nil). As a result of the completion of the Utah Gas and Oil project in June 2010, the Group's cash and bank balances as at 30 June 2010 have decreased to HK$103 million from approximately HK$224 million as at 31 December 2009. The current ratio (calculated on the basis of the Group's current assets over current liabilities) has decreased to 4.6 as at 30 June 2010 (31 December 2009: 4.7).

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

(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 successfully appealed against the judgment during the Period.

(b) As announced by the Company on 12 August 2008, on 7 August 2008, Mr. Zhang Jingyuan (formerly know as Zhang Genyu ("Mr. Zhang")) issued and served a writ ("the Writ") in the High Court of Hong Kong against, inter alios, the Company, Get Wealthy Investment Limited, 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 Mr. 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 Mr. 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 Mr. Zhang's shares in China Coal Energy Holdings Limited ("China Coal") be rescinded.

    On 31 July 2010, the Group entered into a Settlement Agreement with Mr. Zhang Jingyuan ("Mr. Zhang"). Pursuant to the Settlement Agreement, Mr. Zhang and the Group, *inter alios*, shall make relevant application (the "Applications") to withdraw or settle all their legal claims against any parties to those litigations in Hong Kong and Mainland China as soon as possible, and also the Group shall dispose of the Sale Shares which represents approximately 55.11% of the issued shares of China Coal to Mr. Zhang (the "Disposal"). The net total proceeds on the Disposal to be received by the Group by instalments will be HK$168.6 million. The first instalment of payment of HK$32 million under the Settlement Agreement has been received by the Company, and it will contribute to the results of the Group in the 2nd half of year 2010.

Employees and Remuneration Policies

As at 30 June 2010, the number of employees of the Group was around 60. 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.

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 2010 (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 three independent non-executive directors, namely Mr. Lam Ka Wai, Graham (Chairman of the Audit Committee), Mr. Yu Jian Meng, 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 2010.

GENERAL

Change of Director

The Board of the Company announces that Mr. Zheng Yingsheng ("Mr. Zheng") has tendered his resignation as an executive director of the Company with effect from 1 September 2010 due to his other engagements which require more of his dedication.

Mr. Zheng has confirmed that there is no disagreement between him and the Board and there is no matter relating to his resignation that needs to be brought to the attention of the shareholders of the Company.

The Board hereby extends its great appreciation for Mr. Zheng's great contributions to the Company during his tenure of office, and wishes him all the best in future.

On behalf of the Board
Pearl Oriental Innovation Limited
Cheung Kwok Yu
Executive Director and Company Secretary

Hong Kong, 27 August 2010

As at the date hereof, the Board comprises six executive Directors, namely Mr. Wong Yuk Kwan (alias: Wong Kwan), Dr. Lew Mon Hung, Mr. Cheung Kwok Yu, Mr. Zhou Li Yang, Mr. Zheng Yingsheng and Mr. Johnny Yuen; and three independent non-executive Directors, namely Mr. Yu Jianmeng, Mr. Fung Hing Chiu, Cyril, and Mr. Lam Ka Wai, Graham.