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If you are in doubt as to any aspect of this circular, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Pearl Oriental Innovation Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, licensed dealer, or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of the Company.

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

(Incorporated in Bermuda with limited liability)

(Stock code: 632)

CONNECTED TRANSACTION ISSUE OF CONVERTIBLE NOTES

**Independent financial adviser to the Independent Board Committee
and Independent Shareholders**



**WALLBANCK BROTHERS
Securities (Hong Kong) Limited**

A letter from the Board is set out on pages 4 to 9 of this circular. A letter from the Independent Board Committee containing its advice to the Independent Shareholders in connection with the Proposed Issue is set out on page 10 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders in connection with the Proposed Issue is set out on pages 11 to 27 of this circular.

A notice convening the SGM to be held at Suite 1908, 19th Floor, 9 Queen's Road Central, Hong Kong at 4:30 p.m. on 16 April 2009 is set out on pages 33 to 34 of this circular. Whether or not you intend to attend the SGM in person, you are strongly urged to complete and sign the enclosed form of proxy in accordance with the instructions printed thereon, and to lodge them with the branch share registrar of the Company, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the SGM or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting should you so wish.

* For identification purpose only

26 March 2009

CONTENTS

	<i>Page</i>
DEFINITIONS	1
LETTER FROM THE BOARD	4
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	10
LETTER FROM THE INDEPENDENT FINANCIAL ADVISER	11
APPENDIX — GENERAL INFORMATION	28
NOTICE OF THE SPECIAL GENERAL MEETING	33

DEFINITIONS

“Agreement”	a conditional convertible note agreement dated 4 March 2009 between the Company and the Subscriber in respect of the subscription of the Convertible Notes
“Board”	board of Directors
“Business Day”	any day (other than Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for normal banking business
“Company”	Pearl Oriental Innovation Limited, a company incorporated in Bermuda with limited liability whose shares are listed on the main board of the Stock Exchange
“Completion”	completion of the issue of the Convertible Notes will take place within three Business Days upon the fulfillment of the conditions of the Proposed Issue (or such other date as the parties may agree)
“Conversion Shares”	up to 150,000,000 new Shares which would fall to be issued by the Company upon the exercise of the conversion rights attached to the Convertible Notes
“Conversion Price”	the conversion price of HK\$0.30 per Conversion Share (subject to adjustment)
“Convertible Notes”	the First Tranche Note and the Second Tranche Note
“Director(s)”	director(s) of the Company
“First Tranche Note”	convertible note due after 2 years from the date of issuance in an aggregate principal amount of HK\$30,000,000 proposed to be issued to the Subscriber
“Group”	the Company and its subsidiaries
“HK Dollar(s)” or “HK\$”	the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent board committee of the Board comprising all the independent non-executive Directors, namely Mr. Dong Zhixiong, Mr. Fung Hing Chiu, Cyril and Mr. Lam Ka Wai, Graham, who did not have material interest in the Subscription

DEFINITIONS

“Independent Shareholders”	Shareholders (other than the Subscriber, Mr. Wong and their respective concert parties and associates and those Shareholders who are involved in, or interested in the Subscription) who are not required to abstain from voting on the resolution to be proposed at the SGM to approve the Subscription under the Listing Rules
“Latest Practicable Date”	23 March 2009, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Orient Day Loan”	the loan in the principal amount of HK\$25 million advanced to the Company pursuant to a loan agreement between Orient Day and the Company dated 5 September 2008
“Proposed Issue”	the proposed issue of the First Tranche Note and the Second Tranche Note
“Second Tranche Note”	convertible notes due after 2 years from the date of issuance in an aggregate principal amount of HK\$15,000,000 proposed to be issued if the Subscriber elects to subscribe for it
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time
“SGM”	the special general meeting of the Company to be convened and held at Suite 1908, 19th Floor, 9 Queen’s Road Central, Hong Kong at 4:30 p.m. on 16 April 2009 to consider and approve the issue of the Convertible Notes
“Shareholder(s)”	shareholder(s) of the Company
“Share(s)”	ordinary share(s) of HK\$0.10 in the share capital of the Company
“Subscriber” or “Orient Day”	Orient Day Developments Limited, a company incorporated in the British Virgin Islands and wholly owned by Mr. Wong Kwan which is a majority shareholder of the Company
“Subscription”	the subscription for the Convertible Notes by the Subscriber pursuant to the Agreement
“subsidiary”	has the meaning ascribed to it under the Listing Rules
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“Wallbanck Brothers” or
“Independent Financial
Adviser”

Wallbanck Brothers Securities (Hong Kong) Limited, a
licensed corporation for carrying out types 4, 6 and 9
regulated activities (advising on securities, advising on
corporate finance and asset management) under the SFO

“%”

per cent

LETTER FROM THE BOARD



東方明珠創業有限公司*

Pearl Oriental Innovation Limited

(Incorporated in Bermuda with limited liability)

(Stock code: 632)

Executive directors:

Wong Yuk Kwan (alias: Wong Kwan)
Cheung Kwok Yu
Zhou Li Yang
Zheng Yingsheng
Johnny Yuen

Registered office:

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Independent non-executive directors:

Dong Zhixiong
Fung Hing Chiu, Cyril
Lam Ka Wai, Graham

*Head office and principal place of
business in Hong Kong:*

Suite 1908, 19th Floor
9 Queen's Road Central
Hong Kong

26 March 2009

To the Shareholders

Dear Sirs,

CONNECTED TRANSACTION ISSUE OF CONVERTIBLE NOTES

INTRODUCTION

The Board has announced that on 4 March 2009, the Subscriber, a majority Shareholder and the Company entered into the Agreement in relation to the Proposed Issue pursuant to which the Company will issue the First Tranche Note to the Subscriber partially for the settlement of the Orient Day Loan upon Completion.

CONVERTIBLE NOTES

The Convertible Notes consist of two tranches and the total principal amount is up to HK\$45,000,000.

Subject to fulfillment of the Conditions, the Subscriber shall subscribe for, and the Company shall issue, the First Tranche Note of a principal amount of HK\$30,000,000 as its full face value upon the Completion.

* For identification purposes only

LETTER FROM THE BOARD

Subject to fulfillment of the Conditions and if the Subscriber elects to subscribe for, the Company may at its sole discretion give a written notice (the “Second Tranche Notice”) to the Subscriber on or before 31 December 2009 to invite for the subscription of the Second Tranche Note of a further principal sum of HK\$15,000,000 which shall have the same rights and interests and subject to the Conditions as the First Tranche Note.

CONVERSION SHARES

Assuming full conversion of the Convertible Notes at the Conversion Price, the Convertible Notes will be converted into approximately 150,000,000 Conversion Shares, representing approximately 32.28% of the existing issued share capital of the Company and approximately 24.40% of the enlarged issued share capital of the Company as enlarged by the issue of the Conversion Shares.

CONVERSION PRICE

The Conversion Price of HK\$0.30 per Conversion Share was arrived at after arm’s length negotiation between the Subscriber and the Company and represents a premium of approximately 15.38% of the closing price of HK\$0.260 per Share as quoted on the Stock Exchange on 4 March 2009, being the last trading day immediately before the date of the Agreement and a premium of approximately 13.21% to the average closing price of HK\$0.265 per Share as quoted on the Stock Exchange for the last 5 trading days up to and including 4 March 2009. The Conversion Price will be subject to adjustment, the details of which are summarized in the “Terms of the Convertible Notes” of this circular.

CONDITIONS OF THE PROPOSED ISSUE

Completion of the Proposed Issue is conditional upon:

- the Listing Committee having granted approval for the listing of and permission to deal in the Conversion Shares; and
- the passing by the Independent Shareholders in the SGM of a resolution to approve the Proposed Issue and the issue of the Convertible Notes and the Conversion Shares thereunder in accordance with the Listing Rules.

If any of the above conditions have not been fulfilled by 30 June 2009 (or such later date as the Company and the Subscriber may agree), the Agreement will lapse.

COMPLETION

Completion of the issue of the Convertible Notes will take place within three Business Days upon the fulfillment of the conditions of the Proposed Issue (or such other date as the parties may agree).

LETTER FROM THE BOARD

TERMS OF THE CONVERTIBLE NOTES

The principal terms of the Convertible Notes are arrived after arm's length negotiation between the Company and the Subscriber and are summarized as follows:

Principal Terms:

Aggregated Principal amount	:	HK\$45,000,000
Conversion Price	:	HK\$0.30 per Conversion Share, subject to adjustments in certain events including, among other things, share consolidation, share subdivision, capitalization issue, capital distribution and rights issue.
Interest rate	:	Prime lending rate as quoted by HSBC from time to time
Maturity	:	The second anniversary of the date of issue of the Convertible Notes
Transferability	:	The Convertible Note shall be assignable and transferable in whole or in part at any time. Prompt notice will be given to the Stock Exchange of each transfer and the company has undertaken to the Stock Exchange that it will disclose to the Stock Exchange any dealing in the Convertible Notes by any connected person or his/her associates.
Conversion Period	:	The Convertible Notes are convertible at any time from the date of issue and up to the maturity date of the Convertible Notes
Conversion Rights	:	The Noteholder(s) has/have the right to convert all or part of the Convertible Notes into Conversion Shares at the Conversion Price of HK\$0.30 per Conversion Share during the Conversion Period. The Conversion Rights may only be exercisable in respect of not less than 10,000,000 Conversion Shares upon each conversion
Conversion Shares	:	The number of Conversion Shares to be issued upon full conversion of the Convertible Notes will be 150,000,000 Shares, representing approximately 32.28% of the existing issued share capital of the Company, 24.40% of the issued share capital as enlarged by the conversion of the Convertible Notes in full

LETTER FROM THE BOARD

Redemption	:	The company shall be entitled to redeem at 100% all or any part of the principal amount of the Convertible Notes, by giving not less than 7 days' written notice to the Noteholder(s) from time to time after the date of issue of the Convertible Notes provided that the Noteholder(s) shall have the right to exercise his/her Conversion Rights within 7 days from the date of the said notice.
Voting	:	The holders of the Convertible Notes will not be entitled to attend or vote at any general meetings of the Company by reason only of his/her being the Noteholder(s).
Listing	:	No application will be made for the listing of the Convertible Notes on the Stock Exchange or any other securities exchange.

This Conversion Shares will be issued under a special mandate proposed to be sought from the Independent Shareholders at the SGM. Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

EFFECT ON SHAREHOLDING OF THE COMPANY FOLLOWING COMPLETION OF THE PROPOSED ISSUE

Set out below is the table for the shareholding in the Company before and after completion of the Proposed Issue:

Shareholders	Shareholding as at the date of this circular		Shareholding after conversion of the First Tranche Note (assuming no adjustment to the Conversion Price and no further issue of Shares as at the date of this circular)		Shareholding after full conversion of the Convertible Notes (assuming no adjustment to the Conversion Price and no further issue of Shares as at the date of this circular)	
	<i>% of share</i>		<i>% of share</i>		<i>% of share</i>	
	<i>Shares</i>	<i>holding</i>	<i>Shares</i>	<i>holding</i>	<i>Shares</i>	<i>holding</i>
The Subscriber, Mr. Wong Kwan and their concert parties	261,759,800	56.32	361,759,800	64.06	411,759,800	66.98
Other Director	640,000	0.14	640,000	0.11	640,000	0.10
Public shareholders	202,338,160	43.54	202,338,160	35.83	202,338,160	32.92
Total	<u>464,737,960</u>	<u>100.00</u>	<u>564,737,960</u>	<u>100.00</u>	<u>614,737,960</u>	<u>100.00</u>

LETTER FROM THE BOARD

As at the date of this circular, the Company has no outstanding derivatives, options, warrants, conversion rights or other similar rights which are convertible or exchangeable into Shares.

CAPITAL-RAISING ACTIVITIES DURING PAST 12 MONTHS

The Company has not carried out any capital raising activities during the 12 months immediately preceding the date of this circular.

REASONS FOR THE PROPOSED ISSUE

The principle activity of the Company is investment holding. It is principally engaged in the logistics, energy and recycling business.

The principle activity of the Subscriber is investment holding.

Owing to the recent turmoil in the financial market and the resulting credit crunch has tightened the availability of fund and increased the cost of funding for the Company. Thus, the Directors consider that the Proposed Issue is an appropriate means to reduce the debts and also improve the financial position of the Company.

The Board is of the view that the financial position of the Group has to be strengthened as the Group has been suffering losses and is unable to generate any dividend income from its main investee company, China Coal Energy Holdings Limited due to the recent litigations with Zhang Jingyuan as announced by the Company on 12 August 2008.

Given that the Conversion Price was at an approximately 15.38% premium to the closing price of the Shares on 4 March 2009, being the last trading day immediately before the date of the Agreement, the Directors (excluding the independent non-executive Directors who will express their views in this circular to the Shareholders) consider that are fair and reasonable under the current market conditions and in the best interest of Shareholders and the Company as a whole.

SGM

The SGM will be held at Suite 1908, 19th Floor, 9 Queen's Road Central, Hong Kong at 4:30 p.m. on 16 April 2009 to consider and, if though fit, approve the Agreement.

Notice of the SGM is set out on page 33 to 34 of this circular and the form of proxy for use at the SGM is enclosed in this circular. Whether or not you intend to attend the SGM in person, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible but in any event not later than 48 hours before the time appointed for holding of the SGM or any adjournment thereof. Completion of the form of proxy will not preclude you from attending and voting at the SGM or any adjourned meeting thereof should you so wish.

LETTER FROM THE BOARD

RECOMMENDATION

The Board considers that the Agreement is in the interests of the Company and the Independent Shareholders as a whole and the Directors consider that the terms of the Agreement are fair and reasonable so far as the Independent Shareholders are concerned and on normal commercial terms. Accordingly, the Directors (excluding the independent non-executive Directors) recommend you to vote in favor of the resolution to be proposed at the SGM. The recommendation of the independent non-executive Directors in respect of the terms of the Agreement is set out in the letter from the Independent Board Committee on page 10 of this circular.

GENERAL

The Subscriber is a substantial Shareholder. Accordingly, the Subscription constitutes a connected transaction for the Company under the Listing Rules. Completion of the Agreement is therefore subject to, among other things, approval of the Independent Shareholders by way of poll at the SGM. The Subscriber, namely Orient Day Developments Limited, a company wholly owned by Mr. Wong Kwan, who is a majority Shareholder, chairman and executive Director of the Company and a connected person of the Company, and its associates shall abstain from voting at the SGM in respect of the Subscription. No other Shareholders are required to abstain from voting at the SGM.

As Completion of the Proposed Issue is subject to a number of conditions, which may or may not be fulfilled, Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

Your attention is drawn to the letter from the Independent Board Committee set out on page 10 of this circular and the letter of advice received from the Independent Financial Adviser on pages 11 to 27 of this circular as well as the additional information set out in the appendix to this circular.

The Board strongly advises the Independent Shareholders to read each of these letters and the appendices before reaching a decision in respect of the resolution to be proposed at the SGM.

Yours faithfully,
For and on behalf of the Board
Pearl Oriental Innovation Limited

Cheung Kwok Yu
Executive Director and Company Secretary

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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

(Incorporated in Bermuda with limited liability)

(Stock code: 632)

26 March 2009

To the Independent Shareholders

Dear Sir or Madam,

**CONNECTED TRANSACTION
ISSUE OF CONVERTIBLE NOTES**

We refer to the circular of the Company dated 26 March 2009 (the “Circular”) of which this letter forms part. Terms defined in the Circular shall have the same meanings herein unless the context otherwise requires.

We have been appointed to form the Independent Board Committee to consider and advise the Independent Shareholders as to whether, in our opinion, the Agreement, details of which are set out in the letter from the Board contained in the Circular, is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Having considered the terms of the Agreement and the advice of the Independent Financial Adviser in relation thereto as set out on pages 11 to 27 of this Circular, we are of the opinion that the terms of the Agreement are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Shareholders and the Company as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Agreement.

Yours faithfully,

For and on behalf of the Independent Board Committee

Dong Zhixiong

Fung Hing Chiu, Cyril

Lam Ka Wai, Graham

* For identification purposes only

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of a letter of advice from Wallbanck Brothers Securities (Hong Kong) Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders regarding the Proposed Issue, for the purpose of incorporation into this circular.



**WALLBANCK BROTHERS
Securities (Hong Kong) Limited**

2310, Tower 2, Lippo Centre,
89 Queensway, Central,
Hong Kong

26 March 2009

*To the independent board committee
and the independent shareholders
of Pearl Oriental Innovation Limited*

Dear Sirs,

**CONNECTED TRANSACTION
ISSUE OF CONVERTIBLE NOTES**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the Proposed Issue, details of which are set out in the letter from the Board (the “Letter from the Board”) contained in the circular dated 26 March 2009 issued by the Company to the Shareholders (the “Circular”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

It was announced on 5 March 2009 (the “Announcement”) that on 4 March 2009, the Subscriber, a majority Shareholder and the Company entered into the Agreement pursuant to which the Company will issue the First Tranche Note to the Subscriber partially for the settlement of the Orient Day Loan upon Completion.

As stated in the Letter from the Board, the Convertible Notes consist of two tranches and the total principal amount is up to HK\$45,000,000.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Subject to fulfillment of the Conditions, the Subscriber shall subscribe for, and the Company shall issue, the First Tranche Note of a principal amount of HK\$30,000,000 as its full face value upon the Completion.

Subject to fulfillment of the Conditions and if the Subscriber elects to subscribe for, the Company may at its sole discretion give a written notice (the “Second Tranche Notice”) to the Subscriber on or before 31 December 2009 to invite for the subscription of the Second Tranche Note of a further principal sum of HK\$15,000,000 which shall have the same rights and interests and subject to the Conditions as the First Tranche Note.

Assuming full conversion of the Convertible Notes at the Conversion Price, the Convertible Notes will be converted into approximately 150,000,000 Conversion Shares, representing approximately 32.28 % of the existing issued share capital of the Company and approximately 24.40% of the enlarged issued share capital of the Company as enlarged by the issue of the Conversion Shares.

The Subscriber is a substantial Shareholder. Accordingly, the subscription constitutes a connected transaction for the Company under the Listing Rules. Completion of the Agreement is therefore subject to, among other things, approval of the Independent Shareholders by way of poll at the SGM. The Subscriber and its associates shall abstain from voting at the SGM in respect of the subscription.

An Independent Board Committee comprising Mr. Dong Zhixiong, Mr. Fung Hing Chiu, Cyril and Mr. Lam Ka Wai, Graham (all being independent non-executive Directors) has been formed to advise the Independent Shareholders as to the fairness and reasonableness of the Agreement and the transactions contemplated thereunder. We, Wallbanck Brothers Securities (Hong Kong) Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

BASIS OF OUR OPINION

In formulating our opinion and recommendations, we have relied on the accuracy of the information, opinions and representations provided to us by the Directors and management of the Company, and have assumed that all information, opinions and representations contained or referred to in this circular were true and accurate at the time when they were made and will continue to be accurate at the Latest Practicable Date. We have also assumed that all statements of belief, opinion and intention made by the Directors in this circular were reasonably made after due enquiry. We have no reasons to doubt that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading. We consider that we have received sufficient information to enable us to reach an informed view and to justify reliance on the accuracy of the information contained in this circular to provide a reasonable basis for our opinions and recommendations. Having made all reasonable enquiries, the Directors have further confirmed that, to the best of their knowledge, they believe there are no other facts or representations the omission of which would make any statement in this circular, including this letter, misleading. We have not, however, carried out any independent verification of the information provided by the Directors and management of the Company, nor have we conducted an independent investigation into the business and affairs of the Company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In formulating our opinion, we have relied on the financial information provided by the Company, particularly, on the accuracy and reliability of financial statements and other financial data of the Company. We have not audited, compiled nor reviewed the said financial statements and financial data. We shall not express any opinion or any form of assurance on them. We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. The Directors have also advised us that no material facts have been omitted from the information to reach an informed view, and we have no reason to suspect that any material information has been withheld. We have not carried out any feasibility study on any past, and forthcoming investment decision, opportunity or project undertaken or to be undertaken by the Company. Our opinion has been formed on the assumption that any analysis, estimation, forecast, anticipation, condition and assumption provided by the Company are valid and sustainable. Our opinions shall not be constructed as to give any indication to the validity, sustainability and feasibility of any past, existing and forthcoming investment decision, opportunity or project undertaken or to be undertaken by the Company.

In formulating our opinion, we have not considered the taxation implications on the Independent Shareholders arising from the Proposed Issue as these are particular to the individual circumstances of each Shareholder. It is emphasized that we will not accept responsibility for any tax effect on or liability of any person resulting from his or her decision to the Proposed Issue. In particular, the Independent Shareholders who are overseas residents or are subject to overseas taxation or Hong Kong taxation on securities dealings should consult their own tax positions, and if in any doubt, should consult their own professional advisers.

Our opinions are necessarily based upon the financial, economic, market, regulatory and other conditions as they existed on, and the facts, information, representations, and opinions made available to us as of, the Latest Practicable Date.

Our opinions are formulated only and exclusively for the purpose of the Proposed Issue and shall not be used for any other purpose in any circumstance nor for any comparable purpose with any other opinions.

Our opinions are based on the Directors' representation and confirmation that there are no undisclosed private agreements/ arrangements or implied understanding with anyone concerning the Proposed Issue.

Our opinions are based on the Directors' confirmation of receipt of our advice that the Directors and the management of the Company are responsible to take all reasonable steps to ensure that the information and representations provided in any press announcement, circular and prospectus concerning the Proposed Issue are true, accurate, complete and not misleading, and that no material information or facts have been omitted or withheld.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Proposed Issue, we have taken into consideration the following principal factors and reasons:

1. Principal terms of the Agreement

a) *Convertible Notes*

As stated in the Letter from the Board, the Convertible Notes consist of two tranches and the total principal amount is up to HK\$45,000,000.

Subject to fulfillment of the Conditions, the Subscriber shall subscribe for, and the Company shall issue, the First Tranche Note of a principal amount of HK\$30,000,000 as its full face value upon the Completion.

Subject to fulfillment of the Conditions and if the Subscriber elects to subscribe for, the Company may at its sole discretion give a written notice (the “Second Tranche Notice”) to the Subscriber on or before 31 December 2009 to invite for the subscription of the Second Tranche Note of a further principal sum of HK\$15,000,000 which shall have the same rights and interests and subject to the Conditions as the First Tranche Note.

b) *Conversion Shares*

As stated in the Letter from the Board, assuming full conversion of the Convertible Notes at the Conversion Price, the Convertible Notes will be converted into approximately 150,000,000 Conversion Shares, representing approximately 32.28 % of the existing issued share capital of the Company and approximately 24.40% of the enlarged issued share capital of the Company as enlarged by the issue of the Conversion Shares.

c) *Conversion Price*

The Conversion Price of HK\$0.30 per Conversion Share was arrived at after arm’s length negotiation between the Subscriber and the Company and represents (i) a premium of approximately 27.66% of the closing price of HK\$0.235 per Share as at the Latest Practicable Date; (ii) a premium of approximately 15.38% of the closing price of HK\$0.260 per Share as quoted on the Stock Exchange on 4 March 2009, being the last trading day immediately before the date of the Agreement; and (iii) a premium of approximately 13.21% to the average closing price of HK\$0.265 per Share as quoted on the Stock Exchange for the last 5 trading days up to and including 4 March 2009.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

d) *Conditions of the Proposed Issue*

Completion of the Proposed Issue is conditional upon:

- the Listing Committee having granted approval for the listing of and permission to deal in the Conversion Shares; and
- the passing by the Independent Shareholders in the SGM of a resolution to approve the Proposed Issue and the issue of the Convertible Notes and the Conversion Shares thereunder in accordance with the Listing Rules.

If any of the above conditions have not been fulfilled by 30 June 2009 (or such later date as the Company and the Subscriber may agree), the Agreement will lapse.

(e) *Completion*

Completion of the issue of the Convertible Notes will take place within three Business Days upon the fulfillment of the conditions of the Proposed Issue (or such other date as the parties may agree).

(f) *Terms of the Convertible Notes*

The principal terms of the Convertible Notes are arrived after arm's length negotiation between the Company and the Subscriber and are summarized as follows:

Principal Terms:

Aggregated Principal amount	HK\$45,000,000
Conversion Price	HK\$0.30 per Conversion Share, subject to adjustments in certain events including, among other things, share consolidation, share subdivision, capitalization issue, capital distribution and rights issue.
Interest rate	Prime lending rate as quoted by HSBC from time to time
Maturity	The second anniversary of the date of issue of the Convertible Notes
Transferability	The Convertible Note shall be assignable and transferable in whole or in part at any time. Prompt notice will be given to the Stock Exchange of each transfer and the company has undertaken to the Stock Exchange that it will disclose to the Stock Exchange any dealing in the Convertible Notes by any connected person or his/her associates.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Conversion Period	The Convertible Notes are convertible at any time from the date of issue and up to the maturity date of the Convertible Notes
Conversion Rights	The Noteholder(s) has/have the right to convert all or part of the Convertible Notes into Conversion Shares at the Conversion Price of HK\$0.30 per Conversion Share during the Conversion Period. The Conversion Rights may only be exercisable in respect of not less than 10,000,000 Conversion Shares upon each conversion
Conversion Shares	The number of Conversion Shares to be issued upon full conversion of the Convertible Notes will be 150,000,000 Shares, representing approximately 32.28% of the existing issued share capital of the Company, 24.40% of the issued share capital as enlarged by the conversion of the Convertible Notes in full
Redemption	The company shall be entitled to redeem at 100% all or any part of the principal amount of the Convertible Notes, by giving not less than 7 days' written notice to the Noteholder(s) from time to time after the date of issue of the Convertible Notes provided that the Noteholder(s) shall have the right to exercise his/her Conversion Rights within 7 days from the date of the said notice.
Voting	The holders of the Convertible Notes will not be entitled to attend or vote at any general meetings of the Company by reason only of his/her being the Noteholder(s).
Listing	No application will be made for the listing of the Convertible Notes on the Stock Exchange or any other securities exchange.

This Conversion Shares will be issued under a special mandate proposed to be sought from the Independent Shareholders at the SGM. Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

2. Business overview of the Group

The principle activity of the Company is investment holding. It is principally engaged in the logistics, energy and recycling business.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Table 1 summarized the financial performance of the Group for the nine months ended 31 December 2007, for the two years ended 31 March 2007 and for the six months ended 30 June 2007 and 30 June 2008.

Table 1: Financial performance of the Group

	For the six months ended 30 June		For the nine months ended 31 December	For the year ended 31 March	
	2008	2007	2007	2007	2006
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i> <i>(restated)</i>
Turnover	38,270	37,079	55,620	65,344	75,157
Gross profit	13,668	10,495	15,348	14,283	17,283
Gross profit margin (%)	35.71	28.30	27.59	21.86	23.00
Loss from operations	(12,831)	(18,691)	(23,531)	(46,247)	(77,760)
Profit/(Loss) before taxation	(20,276)	(36,459)	34,228	(54,316)	(83,915)
Profit/(Loss) after taxation	(20,283)	(36,752)	33,125	(55,484)	(84,134)
		As at 30 June 2008	As at 31 December 2007	As at 31 March	
		<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
		<i>(Unaudited)</i>	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i> <i>(restated)</i>
			<i>(restated)</i>		
Cash and cash equivalents		12,622	31,617	11,184	1,785
Net assets		471,670	410,147	427,742	32,267
Gearing ratio (bank borrowings/total assets)		11.2%	11.1%	10.5%	57.0%

Source: the Company's interim/annual reports

From the above table, the Group recorded consolidated turnover of approximately HK\$65.344 million for the financial year ended 31 March 2007, representing a decrease of approximately 13.06% from HK\$75.157 million for the financial year ended 31 March 2006. Loss after taxation decreased from approximately HK\$84.134 million for the financial year ended 31 March 2006 to approximately HK\$55.484 million for the financial year ended 31 March 2007.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

According to the annual report for the year ended 31 March 2007, excluding special expenditure of approximately HK\$20,300,000 as a result of the grant of share options to staff, actual operating loss of 2007 amounted to approximately HK\$35,200,000, representing a substantial fall of 57% over the year of 2006.

The net assets of the Group as at 31 March 2007 was valued at HK\$427.742 million (31 March 2006: restated as HK\$32.267 million), representing an increase of 12.26 times as compared with those as at 31 March 2006. As at 31 March 2007, the Group's cash and cash equivalents totalled approximately HK\$11.184 million (31 March 2006: restated as HK\$1.785 million), representing an increase of 5.27 times against the balance as at 31 March 2006. The gearing ratio was 10.5% (bank borrowings/total assets) as at 31 March 2007 (31 March 2006: 57.0%).

For the nine months ended 31 December 2007, the Group recorded an audited consolidated turnover of approximately HK\$55.620 million, representing a decrease of approximately 14.88% from HK\$65.344 million for the financial year ended 31 March 2007. Profit/ loss after taxation increased from a loss of approximately HK\$55.484 million for the financial year ended 31 March 2007 to a profit of approximately HK\$33.125 million for the nine months ended 31 December 2007.

According to the annual report for the nine months period ended 31 December 2007, the financial status of the Group had further improved. The profit attributable to shareholders for the period under review amounted to HK\$38,422,000 (31 March 2007: Loss HK\$53,278,000), turnaround from loss to profit. Such increases were mainly attributable to the share of profit from associates.

The net assets of the Group as at 31 December 2007 was valued and restated at HK\$410.147 million (31 March 2007: HK\$427.742 million), representing a decrease of 4.11% as compared with those as at 31 March 2007. As at 31 December 2007, the Group's cash and cash equivalents totalled approximately HK\$31.617 million (31 March 2007: HK\$11.184 million), representing an increase of 182.70% against the balance as at 31 March 2007. The gearing ratio was 11.1% (bank borrowings/total assets) as at 31 December 2007 (31 March 2007: 10.5%).

For the six months ended 30 June 2008, the Group recorded an unaudited consolidated turnover of approximately HK\$38.270 million, representing an increase of approximately 3.21% from HK\$37.079 million of the corresponding period in 2007. Loss after taxation decreased from approximately HK\$36.752 million for the six months ended 30 June 2007 to approximately HK\$20.283 million for the six months ended 30 June 2008.

According to the interim report for the six months ended 30 June 2008, the increase in turnover was mainly due to the increase in warehouse and logistics business for Pearl Oriental Logistics (Shenzhen) Ltd. In addition, the gross profit was HK\$13,668,000 (2007: HK\$10,495,000) for the period under review, representing an increase of approximately 30% over the corresponding period last year and the gross profit margin increased from 28.30% to 35.71%. The increase in gross profit margin derived mainly from the e-commerce logistics of Guangzhou Pearl Oriental Logistics Limited as it had a higher gross margin.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The net assets of the Group as at 30 June 2008 was valued at HK\$471.670 million (31 December 2007: HK\$410.147 million), representing an increase of 15.0% as compared with those as at 31 December 2007. As at 30 June 2008, the Group's cash and cash equivalents totalled approximately HK\$12.622 million (31 December 2007: HK\$31.617 million), representing a decrease of 60.08% against the balance as at 31 December 2007. The gearing ratio was 11.2% (bank borrowings/ total assets) as at 30 June 2008 (31 December 2007: 11.1%).

3. Use of proceeds of and reasons for the Proposed Issue

As stated in the Letter from the Board, owing to the recent turmoil in the financial market and the resulting credit crunch has tightened the availability of fund and increased the cost of funding for the Company. Thus, the Directors consider that the Proposed Issue is an appropriate means to reduce the debts and also improve the financial position of the Company.

The Board is of the view that the financial position of the Group has to be strengthened as the Group has been suffering losses and is unable to generate any dividend income from its main investee company, China Coal Energy Holdings Limited due to the recent litigations with Zhang Jingyuan as announced by the Company on 12 August 2008.

Given that the Conversion Price was at an approximately 15.38% premium over the closing price of the Shares on 4 March 2009, being the last trading day immediately before the date of the Agreement, the Directors (including the independent non-executive Directors) consider that are fair and reasonable under the current market conditions and in the best interest of Shareholders and the Company as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The closing price of the Group was fluctuated in the range of HK\$0.19 on 3 November 2008 and 4 November 2008 to HK\$0.4 on 18 December 2008 and 19 December 2008. The Conversion Price was at a premium over the average closing price of HK\$0.29 for the Review Period. However, comparing with the daily closing price of Shares for March 2009 which fluctuated between HK\$0.255 and HK\$0.265, the Conversion Price is at a much higher premium than the closing price of Shares for March 2009.

The price of the Shares dropped to HK\$0.255 on 6 March 2009 and HK\$0.235 on the Latest Practicable Date subsequent to the release of the Announcement. In view of the recent poor market sentiment of the financial market, we are unable to comment at this stage on whether the current price of Shares could be sustained in the foreseeable future.

5. Review on trading liquidity of the Shares

Table 2 below sets out the average daily turnover per month and the respective percentages of the Shares' average daily turnover as compared to the total number of Shares in issue as at the Latest Practicable Date and the total number of shares held by the Independent Shareholders as at the Latest Practicable Date during the Review Period:

Month	Average daily turnover (in number of Shares)	Percentage of average daily turnover to total number of Shares in issue (Note 1) (%)	Percentage of average daily turnover to total number of Shares held by the Independent Shareholders (Note 2) (%)
2008			
September (from 6 to 30 September)	124,625	0.027	0.062
October	240,636	0.052	0.119
November	71,625	0.015	0.035
December	92,752	0.020	0.046
2009			
January	90,741	0.020	0.045
February	13,360	0.003	0.007
March (up to and including the Latest Practicable Date)	98,201	0.021	0.049

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Notes:

1. Based on 464,737,960 total issued shares of the Group as at the Latest Practicable Date.
2. Based on the total number of shares held by the Independent Shareholders of 202,338,160 Shares as at the Latest Practicable Date.
3. Trading in the Shares was suspended from 13 November 2008 to 28 November 2008, pending the release of the relevant announcement.
4. Trading in the Shares was suspended on 23 January 2009, pending the release of the relevant announcement.
5. Trading in the Shares was suspended on 5 March 2009, pending the release of the Announcement.

Source: the Stock Exchange website

The trading volume of the Shares was very thin. Save and except for the trading days which Shares were suspended in trading, 31 trading days during the Review Period recorded nil trading volume.

During the Review Period, the average daily trading volume of the Shares was traded well below 1% of the total issued shares of the Company. In addition, less than 1% of the issued shares of the Company held by the Independent Shareholders were traded during the Review Period. The maximum daily trading volume occurred on 1 December 2008, with a trading volume of 1,096,000 shares and accounted for approximately 0.24% and 0.54% of the total issued shares and shares held by the Independent Shareholders respectively.

The aggregate amount of the Conversion Shares represents approximately 1,350 times of the average daily trading volume for the Review Period. Based on the above, we consider that the trading of the Shares was relatively thin and inactive during the Review Period.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

6. Comparison with other transactions involving the issue of the convertible notes and/or convertible bonds

To assess and compare the terms of the Convertible Notes, we have identified transactions that involved the issue of convertible notes and/or convertible bonds by companies listed in Hong Kong from 1 December 2008 to the date of the Agreement. To the best of our knowledge, we found 17 companies which meet these criteria. The table below summarises our relevant findings:

Company	Stock Code	Date of announcement	Issue price of the shares HK\$	Premium/(discount) of conversion price over/to the closing price of the shares as at the last trading day prior to the release of the announcement %
Brilliance China Automotive Holdings Limited	1114	2-Dec-08	0.43	13.20
China Best Group Holding Limited	370	3-Dec-08	0.05	31.58
Golife Concepts Holdings Limited	8172	8-Dec-08	0.05	(18.03)
China Fortune Holdings Limited	110	7-Jan-09	0.7	243.75
Cosmopolitan International Holdings Limited	120	23-Jan-09	0.3	(16.67)
Asia Resources Holdings Limited	899	2-Feb-09	0.3	(21.1)
China Energy Development Holdings Limited	228	4-Feb-09	0.168	0.00
Sino Union Petroleum & Chemical International Limited	346	11-Feb-09	1.25	76.10
Long Success International (Holdings) Limited	8017	12-Feb-09	0.15	158.62
Bright International Group Limited	1163	13-Feb-09	0.25	(7.41)
Golden Resources Development International Limited	677	18-Feb-09	0.26	4.42
PME Group Limited	379	24-Feb-09	0.1	(67.21)
National Investments Fund Limited	1227	26-Feb-09	0.05	(2.00)
Smart Rich Energy Finance (Holdings) Limited	1051	27-Feb-09	0.034	(19.05)
Palmpay China (Holdings) Limited	8047	2-Mar-09	0.13	4.00
Sino Gas Group Limited	260	3-Mar-09	0.2	80.18
SEEC Media Group Limited	205	4-Mar-09	0.422	101.00
		Average		33.02
		Maximum		243.75
		Minimum		(67.21)
The Company	632	5-Mar-09	0.3	15.38

Source: the Stock Exchange website

The conversion prices of the seventeen convertible notes and/or convertible bonds comparables (the “Comparables”), which we have found, ranged from a discount of approximately 67.21% to a premium of approximately 243.75% to the respective closing prices of their shares as at the last trading day prior to the release of the relevant issue of convertible notes and/or convertible bond announcements. Accordingly, the Conversion Price, which represents a premium of 15.38% over the closing price of the Shares on the last trading day prior to the release of the Announcement, falls within the said market range and is lower in premium than the average of the Comparables.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

7. Other alternatives of financing

As stated in the Letter from the Board, the Company has not conducted any fund raising activity during the past 12 months. We have further enquired into the Directors of other fund raising methods and the Directors advised that the Group would normally consider both debt financing and equity financing for fulfilling its capital requirements. In this regard, the Directors also confirmed that, based on (i) the poor financial performance of the Group in the past few years; and (ii) to the best knowledge of the Directors, the only pledgeable asset of the Group is a warehouse in Futian, Shenzhen and has been mortgaged to a bank. There is no other pledgeable asset for the Group to pledge against its bank borrowings and it would be difficult for the Group to obtain significant borrowings/debts from banks or other sources with favourable terms.

With respect to equity financing, common means of equity financing include open offers and rights issue. Although both open offer and rights issue may allow the Shareholders to maintain their respective pro-rata shareholdings in the Company, the Directors consider that an underwriter will generally require a commission of not less than 2% of the funds underwritten and any arm's length underwriting is normally subject to standard force majeure clause in favour of the underwriter. In addition, based on the present unsatisfactory business performance of the Company, the Company would have difficulties in procuring commercial underwriting. Moreover, the Directors consider that placing of the Shares is not appropriate since the lack of liquidity of the Shares would pose difficulties for the Company in the negotiation of the placing price with placing agents. Having all these being the case, it is fair and reasonable to infer that the issue of the Convertible Notes is the most feasible, cost and time effective fund raising alternative available to the Company.

8. Potential dilution to the shareholdings of the Independent Shareholders

Set out below is the table for the shareholding in the Company before and after full conversion of the Convertible Notes:

	As at the date of the circular		Shareholding after conversion of the First Tranche Note (assuming no adjustment to the Conversion Price and no further issue of Shares as at the date of this circular)		Shareholding after full conversion of the Convertible Notes (assuming no adjustment to the Conversion Price and no further issue of Shares as at the date of this circular)	
	<i>Number of Share</i>	<i>%</i>	<i>Number of Share</i>	<i>%</i>	<i>Number of Share</i>	<i>%</i>
The Subscriber, Mr. Wong Kwan and their concert parties	261,759,800	56.32	361,759,800	64.06	411,759,800	66.98
Other Director	640,000	0.14	640,000	0.11	640,000	0.10
Public Shareholders	202,338,160	43.54	202,338,160	35.83	202,338,160	32.92
Total	<u>464,737,960</u>	<u>100.00</u>	<u>564,737,960</u>	<u>100.00</u>	<u>614,737,960</u>	<u>100.00</u>

Source: the Stock Exchange website

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, the total number of issued shares of the Company was 464,737,960. Upon the full conversion of the First Tranche Note, a total of 100,000,000 Shares will be issued, representing approximately 21.52% of the existing issued share capital of the Company as at the date of the Circular and approximately 17.71% of the total issued share capital of the Company as enlarged by the full conversion of the First Tranche Note. The shareholding of the public Shareholders will be diluted from 43.54% to 35.83% after conversion of the First Tranche Note.

Upon the full conversion of the Second Tranche Note, a total of 50,000,000 Shares will be issued, representing approximately 8.13% of the total issued share capital of the Company as enlarged by the full conversion of the First Tranche Note and the Second Tranche Note. The shareholding of the public Shareholders will be diluted from 35.83% to 32.92% after full conversion of the Convertible Notes.

Although the shareholding interests of the existing Independent Shareholders are subject to dilution of certain extent as a result of the possible conversion of the Convertible Notes, as balanced by (i) the Group is in need of capital for partially settlement of the Orient Day Loan; and (ii) the issue of the Convertible Notes being the probable fund raising method available to the Group at present, it is fair and reasonable to infer that the dilution effect to be acceptable.

9. Financial impacts of the Proposed Issue

a) Impact on net asset value

According to the 2008 Interim Report, the unaudited consolidated NAV of the Group (including minority interest) was approximately HK\$471.670 million as at 30 June 2008. The Directors represented that there would not be any material effect on the consolidated net assets value of the Group immediately upon the issue of the Convertible Notes as the bank balances and cash and the liabilities of the Group will both be increased by approximately the aggregate principal amount of the Convertible Notes.

Upon the conversion of the First Tranche Note and the Second Tranche Note in full, the consolidated net assets value of the Group would be increased by the aggregate principal amount of the Convertible Notes, which amounted to approximately HK\$45 million.

b) Impact on working capital and cash position

According to the Directors, the net proceeds from the issue of the Convertible Notes are approximately HK\$45 million and the Group intends to use it for partial settlement of the Orient Day Loan. Since the Convertible Notes bear an interest which is expected to be the prime lending rate as quoted by HSBC from time to time, the Directors expect that the issue of the Convertible Notes may create a negative impact on the cash position as a result of the interest payable by the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

c) *Impact on gearing*

As at 30 June 2008, the gearing level of the Group, which is calculated as bank borrowings divided by total assets, was approximately 11.2%. Upon the issue of the Convertible Notes, the gearing ratio should be decreased as bank borrowings remain unchanged and total assets increased. However, the Convertible Notes would increase the total assets and total liabilities of the Group by approximately the same amount. Accordingly, the total liabilities of the Group would be increased by a relatively much larger extent than the total assets after taken into account the issue of the Convertible Notes. However, it is expected that the liability position of the Group would be largely improved when the Convertible Notes are entirely or partly converted into the Conversion Shares.

RECOMMENDATION

Having considered the principal factors and reasons as discussed above and as summarized below:

- (i) the Proposed Issue is an appropriate means to reduce the debts (including the settlement of the Orient Day Loan) and also improve the financial position of the Company;
- (ii) the Conversion Price represents a premium over the closing price of the Shares on the last trading day prior to the release of the Announcement and the Latest Practicable Date, and the 5-day average closing price of the Shares prior to the release of the Announcement;
- (iii) the very thin trading volume of the Shares in the Review Period;
- (iv) the Conversion Price, which represents a premium of 15.38% over the closing price of the Shares on the last trading day prior to the release of the Announcement, falls within the market range of the Comparables;
- (v) the issue of the Convertible Notes may be the most feasible, cost and time effective fund raising alternative available to the Company given the recent turmoil in the international financial markets and the resulting credit crunch;
- (vi) the dilution effect to the shareholding of the Independent Shareholders is acceptable; and
- (vii) the possible positive financial impacts on the net assets value and gearing of the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Having considered the above factors and reasons and Directors' representations, on balance, we are of opinion that in such circumstances of the Group, the terms of the Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and the Proposed Issue, is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the forthcoming SGM to approve the Agreement and the transactions contemplated therein and we recommend the Independent Shareholders to vote in favour of the resolutions in this regard.

Yours faithfully,
For and on behalf of
WALLBANCK BROTHERS
Securities (Hong Kong) Limited
Phil Chan
Chief Executive Officer

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date was as follows:

<i>Authorised:</i>	<i>HK\$</i>
200,000,000,000 Shares of HK\$0.1 each	20,000,000,000
<i>Issued and fully paid:</i>	<i>HK\$</i>
464,737,960 Shares of HK\$0.1 each	46,473,796

3. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executive were deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be recorded in the register therein, or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules 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		
Wong Kwan (<i>Note</i>)	180,000	—	261,579,800	261,759,800	56.32%
Johnny Yuen	640,000	—	—	640,000	0.14%

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

Save as disclosed above, none of the directors, chief executive 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 which were required to be notified to the company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short position which the Directors and chief executive were deemed or taken to have under such provisions of SFO, or which were required, pursuant to section 352 of the SFO, to be recorded in the register therein, or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for securities Transactions by Directors of Listed Companies contained in the Listing Rules.

4. SUBSTANTIAL SHAREHOLDERS' INTERESTS

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	261,759,800	56.32%

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

Save as disclosed above, the Directors and chief executive of the company are not aware of any person (other than a Director or chief executive of the Company) who as at the Latest Practicable Date had interests and/or short position in the shares and underlying shares of the Company which would full to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO or was expected, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

5. LITIGATIONS

The Group have below litigation at the date of this circular.

- a) The Group had three pending litigation claims from 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 interests 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. Trial of one of these claims has been held in January 2009 and the Group and its legal representative are unable to ascertain the possible effects of the claims as at the Latest Practicable Date.

- b) 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 nonperformance 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.
- c) 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.

6. MATERIAL ADVERSE CHANGES

The Directors are of the opinion that there has not been any material adverse change in the financial or trading position of the Group since 31 December 2007, being the date to which the latest published audited accounts of the Group were made up. In line with the worldwide economic slowdown however it is possible that its financial or trading position may deteriorate in the future, in which case the Company will make further disclosure pursuant to the Listing Rules if necessary.

7. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or was proposing to enter, into any service contract with any member of the Group (excluding contracts expiring or determinable by such member of the Group within one year without payment of compensation (other than statutory compensation)).

8. DIRECTOR'S INTERESTS IN THE COMPANY AND ITS SUBSIDIARIES' ASSETS OR CONTRACTS

As at the Latest Practicable Date, none of the Directors of the Company had any interest in any assets which have been since 31 December 2007 (being the date to which the latest published audited accounts of the Company were made up) acquired or disposed of by or leased to the Company and its subsidiaries, or were proposed to be acquired or disposed of by or leased to the Company and its subsidiaries.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which was significant in relation to the business of the Company.

9. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors or their respective associates had any business or interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

10. EXPERT AND CONSENT

- (a) The following are the qualifications of the expert who has given opinion or advice which are contained in this circular:

Name	Qualification
Wallbanck Brothers	a licensed corporation for carrying out types 4, 6 and 9 regulated activities (advising on securities, advising on corporate finance and asset management) under the SFO

- (b) As at the Latest Practicable Date, Wallbanck Brothers does not have any shareholding interest in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (c) Wallbanck Brothers has given and has not withdrawn its written consent to the issue of this circular with inclusion of its letter and/or references to its name in the form and context in which it appears.

11. MISCELLANEOUS

- A. The company secretary of the Company is Mr. Cheung Kwok Yu, who is a professional accountant in Hong Kong and also qualified as a solicitor in Hong Kong.
- B. The principal share registrar and transfer office of the Company is Codan Services Limited whose address is 2 Church Street, Hamilton HM11, Bermuda.
- C. The branch share registrar and transfer office of the Company in Hong Kong is Tricor Tengis Limited whose address is 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- D. The registered office of Wallbanck Brothers is located at Room 2310, Tower 2, Lippo Centre, 89 Queensway, Central, Hong Kong.
- E. The English text of this circular shall prevail over the Chinese text in case of any inconsistency.

12. DOCUMENTS FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours from Monday to Friday (other than public holidays) at Suite 1908, 19th floor, 9 Queen's Road Central, Hong Kong from the date of this circular up to and including 16 April 2009:

- (a) the memorandum of association and the bye-laws of the Company;
- (b) the Agreement.

NOTICE OF THE SPECIAL GENERAL MEETING



東方明珠創業有限公司*

Pearl Oriental Innovation Limited

(Incorporated in Bermuda with limited liability)

(Stock code: 632)

NOTICE IS HEREBY GIVEN that a special general meeting of Pearl Oriental Innovation Limited (the “Company”) will be held at Suite 1908, 19th Floor, 9 Queen’s Road Central, Hong Kong at 4:30 p.m. on 16 April 2009 for the purpose of considering and, if though fit, passing with or without amendments, the following resolution of the Company:

ORDINARY RESOLUTION

1. **“THAT** conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited approving the listing of, and granting permission to deal in the Conversion Shares (as defined below):
 - (a) a conditional convertible note agreement dated 4 March 2009 (the “Agreement”) entered into between the Company and Orient Day Developments Limited (the “Subscriber”) for the issue of convertible notes in the aggregate principal amount of HK\$45,000,000 to the Subscriber convertible up to 150,000,000 Shares (the “Conversion Shares”) in total at the conversion price of HK\$0.30 per Conversion Share within 2 years from the date of issue of the convertible note (information relating to the Agreement is set out in the circular of the Company dated 26 March 2009, and a copy of the Agreement has been produced to the meeting marked “A” and signed by the chairman of this meeting for the purpose of identification) and the transactions contemplated thereunder, be and are hereby approved, ratified and confirmed and any directors of the Company (the “Directors”) be and are hereby authorized to make such changes or amendments to the Agreement and to execute any other documents in relation thereto as such Director, in their absolute discretion deems fit; and
 - (b) any one of the Directors be and are hereby authorized to do all such further acts and things, take all steps and execute all such further documents which in his opinion may be necessary, desirable or expedient for the purpose of giving effect to and/or to implement the transactions contemplated in the Agreement and any other documents or matters incidental thereto and/or as contemplated therein.”

By Order of the Board
Peal Oriental Innovation Limited
Cheung Kwok Yu
Executive Director and Company Secretary

Hong Kong, 26 March 2009

* For identification purposes only

NOTICE OF THE SPECIAL GENERAL MEETING

Principal place of business:

Suite 1908, 19th Floor
9 Queen's Road Central
Hong Kong

Notes:

1. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.
2. A form of proxy for use at the meeting is enclosed. To be valid, the form of proxy, together with the notarially certified power of attorney or other authority (if any) under which it is signed must be lodged at the Company's branch share registrar, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible and in any event, not less than 48 hours before the time appointed for holding of the meeting or any adjournment thereof.
3. Where there are joint holders of any share, any one of such holders may vote at the meeting, either in person or by proxy, in respect of such shares as if he were solely entitled to vote, but if more than one of such joint holders be present at the meeting in person or by proxy, the person so present whose name stands first in the register of member of the Company in respect of such share shall alone be entitled to vote in respect of it.
4. Completion and return of the form of proxy will not preclude a member from attending the meeting and voting in person at the meeting or any adjourned meeting if he so desires. If a member attends the meeting after having deposited the form of proxy, his form of proxy will be deemed to have been revoked.
5. The votes to be taken at the meeting for the resolution will be by way of poll.