

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

This announcement appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities.



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

(Incorporated in Bermuda with limited liability)

(Stock code: 632)

**(1) VERY SUBSTANTIAL ACQUISITION — TRANSFER OF
PLASTIC RECYCLING BUSINESS**

**(2) FORMATION OF A JOINT VENTURE COMPANY
CHINA ENVIRONMENTAL RESOURCES LIMITED**

**(3) A CONNECTED AND DISCLOSEABLE TRANSACTION
AND**

(4) RESUMPTION OF TRADING

The Directors are pleased to announce that the Company entered into the Merger Agreement with the JV Partner on 30 July 2009, after the trading hours, pursuant to which the Joint Venture Company will be established for the development of the business of waste plastic recycling.

The Company will contribute HK\$30 million as registered capital of the Joint Venture Company; whereas the JV Partner will contribute HK\$20 million as registered capital of the Joint Venture Company. The total registered capital of the Joint Venture Company therefore will be HK\$50 million and the Joint Venture Company will become a 60% owned subsidiary of the Company upon Completion. In addition, pursuant to the Merger Agreement, the Company will issue 100,000,000 new Shares to the JV Partner as the JV Consideration Shares will be issued and allotted under a special mandate, the issue of which is subject to the Shareholders' approval at the SGM. The Group will inject 100% equity interest in Euro Resources to the Joint Venture Company pursuant to the Merger Agreement. For this purpose, the Company has entered into the S&P Agreement to increase its stake in Euro Resources to 100%.

The formation of the Joint Venture Company and the intended transfer of the Business to IBE pursuant to the Merger Agreement constitutes a very substantial acquisition of the Company under the Listing Rules, and therefore is subject to the shareholders' approval at the SGM.

The Board is also pleased to announce that, on 30 July 2009, the Group entered into the S&P Agreement to acquire the entire issued share capital of Poly Keen Limited ("Poly Keen") (the "Acquisition") for an aggregate consideration of HK\$50,000,000 which shall be satisfied by the issue of 100,000,000 new shares at a price of HK\$0.50 per share. Poly Keen currently owns 20% of the issued share capital of Euro Resources. The Group will own 100% of Euro Resources after the completion of the S&P Agreement.

The Acquisition contemplated under the S&P Agreement constitutes a connected and discloseable transaction of the Company under Rule 14.06 of the Listing Rules. The completion of the S&P Agreement is, among other things, subject to a special mandate for the issue of the ER Consideration Shares proposed to be sought from the Independent Shareholders at the SGM and the Listing Committee of the Stock Exchange granting approval of the listing of and permission to deal in the ER Consideration Shares.

An Independent Board Committee (comprising independent non-executive Directors only) will be formed to advise the Independent Shareholders as to the fairness and reasonableness of the S&P Agreement and the transactions contemplated thereunder, and as to whether the Acquisition is in the interests of the Company and the Shareholders as a whole and will advise the Shareholders on how to vote. An independent financial adviser will be appointed to advise the Independent Board Committee in this regard.

A circular containing details regarding the Acquisition, the formation of the Joint Venture Company and a notice of convening the SGM will be dispatched to the Shareholders as soon as practicable.

Trading of the Shares has been suspended with effect from 9:30 a.m. on 31 July 2009 pending the release of this announcement. Trading of the Shares will resume at 9:30 a.m. on 5 August 2009. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:30 a.m. on 5 August 2009.

SUMMARY OF THE AGREEMENTS

THE MERGER AGREEMENT

Date: 30 July 2009

Parties: The Company

Mr. Cheung Mo Kit (the “JV Partner”), the beneficial owner of 100% capital of IB Group Trading Limited (“IBG”)

To the best of Director’s knowledge, information and belief, and having made all reasonable enquiries, the JV Partner is a third party independent of the Company and its connected persons (as defined under the Listing Rules) of the Company.

Principal terms:

The Joint Venture
Company

CHINA ENVIRONMENTAL RESOURCES LIMITED (中國環保資源有限公司), a new company to be established in Hong Kong. Upon completion, the Joint Venture Company will be jointly owned by the Company and the JV Partner in the manner as detailed below.

Registered capital and
capital contribution :

The registered capital of the Joint Venture Company will be HK\$50 million comprising 50 million shares of HK\$1 per share of the total amount of registered capital, HK\$30 million will be contributed by the Company while the remaining HK\$20 million will be contributed by the JV Partner. Accordingly, the Joint Venture Company will be owned as to 60% by the Group and 40% by the JV Partner upon completion. The Joint Venture Company will become a 60% owned subsidiary of the Company and its financial results will be consolidated into the Group’s financial accounts.

A new operating company, IB Environmental Plastic Limited (百利環保塑料有限公司) (“IBE”) will be set up as the wholly owned subsidiary of the Joint Venture Company to operate all the Business in the plastic recycling industry in Europe, Japan, the PRC and other countries.

The Company’s total capital commitment in the Joint Venture Company and IBE is HK\$30 million. The Company will contribute its share of the registered capital of the Joint Venture Company in cash, which will be funded by the Group’s internal resources.

The JV Partner will contribute its share of the registered capital of the Joint Venture Company by way of cash.

Other co-operative
terms:

The parties to the Merger Agreement agreed, primarily through the Joint Venture Company, to develop the Business.

The JV Partner shall procure all the Business to be transferred effectively from IBG to IBE from 1 September 2009 onwards, and that all the existing banking facilities of IBG shall be made available to support the Business of IBE.

The Company shall cause and procure 100% equity interest of Euro Resources to be transferred to the Joint Venture Company upon completion. For this purpose, the Company has entered into the S&P Agreement to increase its stake in Euro Resources to 100%.

The Company will issue 100,000,000 new Shares (“JV Consideration Shares”) at the price of HK\$0.50 per Share, representing approximately 13.16% and 10.42% of the total issued share capital of the Company as at the date of this announcement and the issued share capital of the Company as enlarged by the JV Consideration Shares (and after the completion of the S&P Agreement), to the JV Partner as consideration for the JV Partner’s agreeing to enter into the Merger Agreement. The JV Consideration Shares will be issued and allotted under special mandate, the grant of which is subject to the Shareholders’ approval at the SGM.

The JV Partner shall not dispose of the JV Consideration Shares without the Company's consent, however, he is free to do so after one year from the date of completion of the Merger Agreement.

The amount of the JV Consideration Shares was arrived at after arm's length negotiations between the Company and the JV Partner.

The JV Consideration Shares will rank pari passu with all the existing issued Shares. Moreover, the Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the JV Consideration Shares.

Composition of the board:

The board of directors of the Joint Venture Company will consist of five members, three of whom will be appointed by the Company and the remaining two will be appointed by the JV Partner.

The JV Partner will be appointed as the managing director of the Joint Venture Company and IBE for a period of five years.

Conditions precedent :

Completion of the Merger Agreement is conditional upon:

- (a) the Company is satisfied with the legal, financial and operational due diligence on the Business;
- (b) the obtaining of the approval of the Shareholders at the SGM in relation to the Merger Agreement and the issue and allotment of the JV Consideration Shares to the JV Partner;
- (c) the obtaining of the approval of the Stock Exchange in respect of the listing of and dealing in the JV Consideration Shares; and
- (d) the completion of the S&P Agreement.

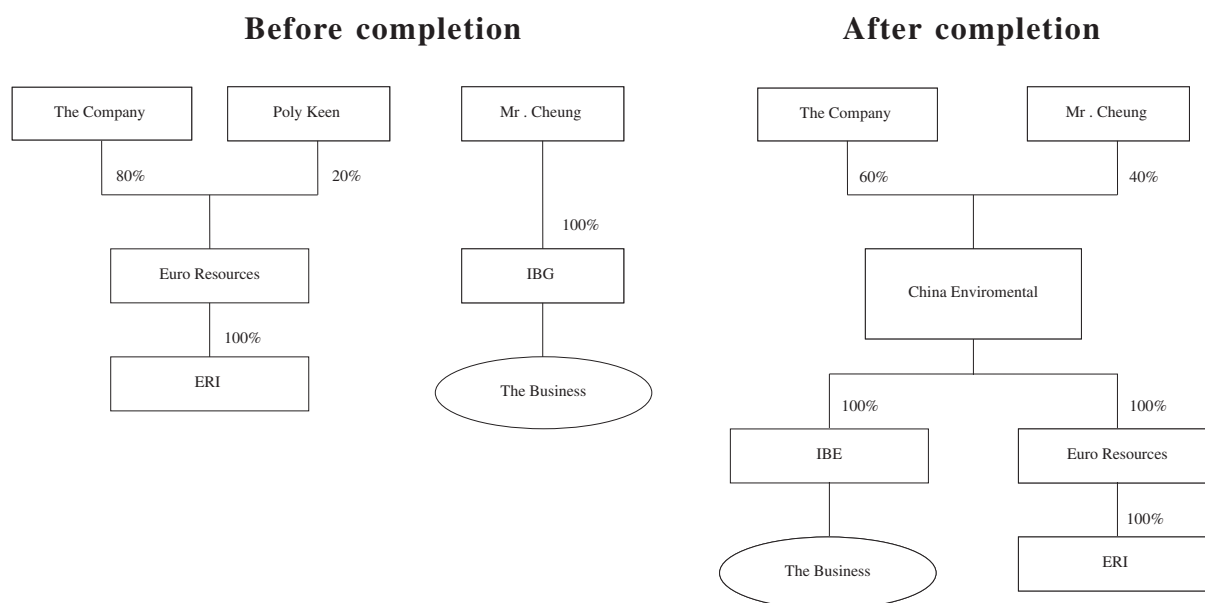
Non-competition
clause:

The JV Partner undertakes to the Company that he shall wholly devote his time and effort to develop the Business of the Joint Venture Company and IBE. For a period of 10 years after the Completion, the JV Partner warrants that he and IBG shall not engage in or invest in any plastic recycling activities which shall compete or in conflict with the Business to be operated by the Joint Venture Company and IBE, except in case the Joint Venture Company and IBE change or cease their business in plastic industry and recycling of waste plastic.

Completion :

Completion of the Merger Agreement is expected to take place on or before 30 September 2009.

Shareholding structure of China Environmental before and after completion of the Acquisition and the Merger Agreement



REASONS FOR THE FORMATION OF THE JOINT VENTURE COMPANY

Mr. Cheung has over 30 years experience in the plastic industry especially in the manufacturing of processing and trading of recycled plastic and IBG has extensive supplier networks in Japan and Malaysia which has a large number of customers in China and Taiwan for its products. To the best knowledge of the Company, IBG has good reputation and is one of the market leaders in the plastic market in China and Hong Kong.

The formation of the Joint Venture Company can substantially enlarge the scale of the Group's business in the plastic recycling sector, in particular, the turnover of IBG were approximately HK\$465.8 million and HK\$557 million for the years end 31 December 2007 and 2008 respectively.

In addition, the Group's plastic recycling business will be benefited from the solid experience and expertise of Mr. Cheung in the industry.

Despite the substantial drops in demand and prices of waste materials last year as a result of the global financial tsunami and sharp decrease in oil price, the prices has been picking up gradually in the recent months. The Board is confident in the long term development potential of recycling business of waste plastic since the demand in the PRC for such recycled plastic raw material which can serve to reduce manufacturing costs will continue to be high in the long run, and therefore the Company is willing to further increase its stake in Euro Resources and then to form a joint venture with the JV Partner.

The Board considers that the Merger Agreement was entered into on normal commercial terms which are fair and reasonable and in their interests of the Shareholders as a whole.

INFORMATION OF IBG

IBG is a company incorporated in Hong Kong with limited liability which engages in plastic business since 1995.

Based on the information available to the Company, the net profit before and after tax of IBG for years 2007 and 2008 and the first half of year 2009 are approximately as follows:-

	Year ended 31 December 2007 HK\$'000 (Audited)	Year ended 31 December 2008 HK\$'000 (Audited)	Six-month ended 30 June 2009 HK\$' 000 (Unaudited)
Turnover	465,844	557,001	284,772
Net Profit before tax	14,750	3,080	8,193
Net Profit after tax	13,910	2,430	6,841

The net asset value of IBG is approximately HK\$24,240,000 as at 31 December 2008. To the best knowledge of the Company, the unaudited net profits from the Business (after carving out the income and expenses of IBG which are not related to the Business) for the year ended 31 December 2008 and the 6-month period ended 30 June 2009 amounted to approximately HK\$7,320,000 and HK\$9,800,000 respectively.

Sale & Purchase Agreement (the “S&P Agreement”)

Date: 30 July 2009

Parties

Purchaser: Grand Ascend Investments Limited (“Grand Ascend”), a wholly owned subsidiary of the Company, which owns 50% of the issued capital of Euro Resources

Vendor : Mr. Tan Kian Chung (“Mr Tan”)

Assets to be acquired: 100% equity interest of Poly Keen Limited (“Poly Keen”) which shall become a wholly owned subsidiary of the Company after completion. Poly Keen currently owns 20% of equity interest in Euro Resources. The unaudited book value of Poly Keen is approximately HK\$26.9 million as at 31 December 2008.

Consideration: HK50,000,000 to be satisfied by the issue of 100,000,000 new Shares

The aggregate consideration for the Acquisition is HK50,000,000 (the “Consideration”) which shall be satisfied by the issue of an aggregate of 100,000,000 new shares (the “ER Consideration Shares”) at a price of HK\$0.50 per Share.

To the best knowledge of the Company, the principal activity of Poly Keen is investment holding, and its only asset is the 20% shareholding in Euro Resources as at the date of this announcement, and it has no trading activity since its date of incorporation on 18 May 2006. Therefore, Poly Keen has no historical record since the date of its incorporation.

The ER Consideration Shares are subject to a lock-up period of one year after the issuance of them, and Mr. Tan shall not dispose of any of the ER Consideration Shares during such period without prior written consent of the Company.

The amount of the ER Consideration Shares was arrived at after arm's length negotiations between the Company and Mr. Tan.

Completion Date: On or before 30 September 2009

Mr. Tan is currently a director of Euro Resources and ERI. He will resign as a director of Euro Resources and ERI and the Group shall have the right to appoint a director to replace Mr. Tan upon the completion of the S&P Agreement. Based on the information available to the Company, the original purchase cost of 20% equity interest of Euro Resources by Mr. Tan was approximately HK\$41.5 million.

INFORMATION ON THE GROUP

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

INFORMATION ON THE VENDOR

To the best knowledge of the Company, Mr. Tan is an independent third party save as he is a director of both Euro Resources and ERI. Mr. Tan currently owns 8,356,000 Shares in the Company. Save as disclosed herein, to the best knowledge of the Directors and having made all reasonable enquiries, the Vendor does not have any relationship with the Company or any of its associates, and is a third party independent of the Company and connected persons of the Company.

INFORMATION ON EURO RESOURCES

Euro Resources is an investment holding company incorporated in Hong Kong with limited liabilities. Apart from Poly Keen, Euro Resources is currently a 80% subsidiary of the Group. Euro Resources currently owns 100% equity interest of ERI.

ERI is mainly engaged in collecting, recycling and trading of waste plastic materials in France and selling them as raw materials in the PRC market since 2006. ERI is successful in recycling waste plastic materials by applying automatic and environmental friendly procedures in processing these waste plastic materials.

The net profit before and after tax of Euro Resources for years 2007 and 2008 and the first half of year 2009 are approximately as follows:-

	Year ended 31 December 2007 HK\$'000 (Audited)	Year ended 31 December 2008 HK\$'000 (Audited)	Six-month ended 30 June 2009 HK\$'000 (Unaudited)
Turnover	2,670	1,250	1,352
Net (Loss) / Profit before tax	(11,290)	(19,200)	2,513
Net (Loss) / Profit after tax	(11,290)	(19,200)	2,513

There is no further update on the status of the legal claims in relation to the profit guarantee of Euro Resources as disclosed in the Company's circular dated 27 November 2008, the Group still reserves the right to claim against Mr. Laurent Kim and Mr. Ung Phong as guarantors.

Conditions precedent:

The S&P Agreement is subject to certain conditions precedent including without limitation the following, being satisfied or waived by the party entitled to their benefit:

- (i) The ER Consideration Shares shall have been approved for listing, and permission to deal in the shares granted, by the Stock Exchange; and
- (ii) The Company shall have obtained approval of the Independent Shareholders in the SGM for the transactions contemplated under the S&P Agreement.

The Acquisition contemplated under the S&P Agreement constitutes a connected and discloseable transaction of the Company under the Listing Rules. The completion of the S&P Agreement is, among other things, subject to a special mandate for the issue of the ER Consideration Shares proposed to be sought from the Independent Shareholders at the SGM and the Listing Committee of the Stock Exchange granting approval of the listing of and permission to deal in the ER Consideration Shares.

Mr. Tan and his associates shall abstain from voting at the SGM in respect of the Acquisition. All other Shareholders do not have any material interests in the Acquisition as the Acquisition does not confer upon any Shareholders or their associates a benefit (economic or otherwise) not available to other Shareholders.

EFFECT ON SHAREHOLDING OF THE COMPANY FOLLOWING COMPLETION OF THE ACQUISITION AND THE MERGER AGREEMENT

Set out below is the table for the shareholding in the Company before and after completion of the Acquisition and the Merger Agreement:

Shareholders	Shareholding as at the date of this announcement		Shareholding after the completion of setting up the Joint Venture but before the conversion of Convertible Notes approved by SGM on 15 July 2009		Shareholding after full conversion of the Convertible Notes approved by SGM on 15 July 2009 (assuming no adjustment to the Conversion Price and no further issue of Shares) and the completion of setting up the Joint Venture (Note)	
	<i>Shares</i>	<i>% of shareholding</i>	<i>Shares</i>	<i>% of shareholding</i>	<i>Shares</i>	<i>% of shareholding</i>
Orient Day, Mr. Wong Kwan and their concert parties	411,759,800	54.20	411,759,800	42.90	661,759,800	54.70
Other Director	640,000	0.08	640,000	0.07	640,000	0.05
JV Partner	—	—	100,000,000	10.42	100,000,000	8.27
Mr. Tan	8,356,000	1.10	108,356,000	11.29	108,356,000	8.96
Mr. Wong Chok Wah	97,522,000	12.84	97,522,000	10.16	97,522,000	8.06
Other public shareholders	241,460,160	31.78	241,460,160	25.16	241,460,160	19.96
Subtotal of public shareholders	<u>241,460,160</u>	<u>31.78</u>	<u>241,460,160</u>	<u>25.16</u>	<u>447,338,160</u>	<u>36.98</u>
Total	<u>759,737,960</u>	<u>100</u>	<u>959,737,960</u>	<u>100</u>	<u>1,209,737,960</u>	<u>100</u>

Note: Mr. Wong Chok Wah and Mr. Tan will be regarded as public shareholders.

In addition, as disclosed in the Company's circular dated 25 June 2009, no conversion of the Convertible Notes will be allowed in the event that such conversion will result in non-compliance with the 25% minimum public float requirement.

As at the date of this announcement, 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

Except that the Company has issued convertible notes of HK\$45,000,000 in aggregate to Orient Day in May 2009, the, save as disclosed herein, Company did not have any capital-raising activities during the past 12 months preceding the date of this announcement.

In aggregate, convertible notes (as announced on 5 March 2009) of HK\$45 million have been issued by the Company, and the Company has not yet invited the Subscriber to subscribe for the Convertible Notes (as disclosed in the Company's announcement dated 4 June 2009) for the sum of HK\$100 million up to the date of this announcement.

Given that the price of HK\$0.50 per Share was at an approximately 4.17% premium to the closing price of the Shares on 30 July 2009, being the last trading day immediately before the date of the Agreements and at a premium of approximately 4.17% to the average closing price of HK\$0.5 per Share as quoted on the Stock Exchange for the last 50 trading days up to and including 30 July 2009, the Directors (excluding the independent non-executive Directors who will express their views in the circular to the Shareholders) consider that the price of the ER Consideration Shares and the JV Consideration Shares is fair and reasonable under the current market conditions and in the best interest of Shareholders and the Company as a whole.

GENERAL

The formation of the Joint Venture Company and the intended transfer of the Business to IBE pursuant to the Merger Agreement constitutes a very substantial acquisition of the Company under of the Listing Rules, and therefore is subject to the Shareholders' approval at the SGM.

The S&P Agreement constitutes a connected and discloseable transaction for the Company under the Listing Rules. Completion of the S&P Agreement is therefore subject to, among other things, approval of the Independent Shareholders by way of poll at the SGM. Mr. Tan and his associates shall abstain from voting at the SGM in respect of the Acquisition.

An Independent Board Committee (comprising all the 3 independent non-executive Directors) will be formed to advise the Independent Shareholders as to the fairness and reasonableness of the S&P Agreement and the transactions contemplated thereunder, and as to whether the Acquisition is in the interests of the Company and the Shareholders as a whole and will advise the Shareholders on how to vote. All the 3 members of the Independent Board Committee do not have any material interests in the Acquisition. An independent financial adviser will be appointed to advise the Independent Board Committee in this regard.

The completion of the Merger Agreement is conditional on that of the Acquisition.

A circular containing details regarding the Acquisition, the Merger Agreement and a notice convening the SGM will be dispatched to the Shareholders as soon as practicable.

RESUMPTION OF TRADING

Trading of the Shares has been suspended with effect from 9:30 a.m. on 31 July 2009 pending the release of this announcement. Trading of the Shares will resume at 9:30 a.m. on 5 August 2009. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:30 a.m. on 5 August 2009.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings when used herein:

“Acquisition”	the proposed acquisition by the Company from Mr. Tan of 100% of equity interest in Poly Keen
“Agreements”	The Merger Agreement and S&P Agreement
“S&P Agreement”	An agreement for the sale and purchase dated 30 July 2009 between the Company and Mr. Tan in respect of the acquisition of 100% equity interest of Poly Keen
“Board”	board of Directors
“Business”	All the existing business of IBG including without limitation its customer base, suppliers and management team in waste plastic industry to be transferred to IBE, a subsidiary of the Joint Venture Company pursuant to the Merger Agreement
“Business Day”	Any day (other than Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for normal banking business
“CN Agreement”	A conditional convertible note agreement dated 27 May 2009 between the Company and the Subscriber in respect of the subscription of the Convertible Notes
“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

“Conversion Shares”	Up to 250,000,000 new Shares which would fall to be issued by the Company upon the exercise of the conversion rights attached to the Convertible Notes
“Convertible Notes”	Convertible notes due after 2 years from the date of issue in an aggregate principal amount of up to HK\$100,000,000 proposed to be issued to the Subscriber pursuant to the CN Agreement.
“Director(s)”	Director(s) of the Company
“ER Consideration Shares”	100,000,000 new Shares to be issued by the Company to the Vendor as consideration pursuant to the S&P Agreement
“ERI”	Exploitation Ressources Internationales, S.A., a company incorporated in France with limited liability and which is wholly owned by Euro Resources
“Euro Resources”	Euro Resources China Limited, a company incorporated in Hong Kong with limited liability
“Group”	The Company and its subsidiaries
“HK Dollar(s)” “HK\$”	the lawful currency of Hong Kong
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“IBG”	IB Group Trading Limited, a company incorporated in Hong Kong with limited liability
“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 interests in the Acquisition
“Independent Shareholders”	Shareholders (Other than Mr. Tan and his respective concert parties and associates and those Shareholders who are involved in, or interested in the Acquisition) who are not required to abstain from voting on the resolutions to be proposed at the SGM to approve the Acquisition under the Listing Rules

“Joint Venture Company” or “China Environmental”	China Environmental Resources Limited, a company to be formed pursuant to the Merger Agreement
“JV Consideration Shares”	100,000,000 new Shares to be issued by the Company to the JV Partner as consideration pursuant to the Merger Agreement
“JV Partner” or “Mr. Cheung”	Mr. Cheung Mo Kit
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Merger Agreement”	An agreement dated 30 July 2009 entered into between the Company and the JV Partner in relation to the formation of the Joint Venture Company
“SGM”	A special general meeting of the Company to be convened to consider and approve the Acquisition and the Merger Agreement
“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 Development Limited
“subsidiary”	Has the meaning ascribed to it under the Listing Rules
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Vendor” or “Mr. Tan”	Mr. Tan Kian Chung

“%”

per cent

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

By Order of the Board

Pearl Oriental Innovation Limited

Cheung Kwok Yu

Executive Director and Company Secretary

Hong Kong, 4 August 2009

** For identification purposes only*