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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)

**DISCLOSEABLE TRANSACTION –  
FORMATION OF A JOINT VENTURE COMPANY  
FOR DEVELOPMENT OF THE OIL EXPLOITATION BUSINESS  
AND  
ISSUE OF NEW SHARES  
AND  
REFRESHMENT OF GENERAL MANDATE**

**Financial adviser to Pearl Oriental Innovation Limited**



**South China Capital Limited**

**Independent Financial Adviser to the Independent Board Committee and  
the Independent Shareholders**



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

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A letter from the Independent Board Committee to the Independent Shareholders, containing its recommendation to the Independent Shareholders, is set out on page 11 of this circular. A letter of advice from Wallbanck Brothers Securities (Hong Kong) Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, is set out on pages 12 to 19 of this circular.

A notice convening a special general meeting of Pearl Oriental Innovation Limited to be held on Monday, 16 April 2007 at 4:00 p.m. at Unit 3611, 36/F., West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong is set out on pages 26 to 28 of this circular. A form of proxy for use at the special general meeting is also enclosed. Whether or not you are able to attend the special general meeting, please complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the special general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting if you so wish.

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# CONTENT

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	<i>Page</i>
<b>Definitions</b> .....	1
<b>Letter from the Board</b> .....	3
<b>Letter from the Independent Board Committee</b> .....	11
<b>Letter from Wallbanck Brothers</b> .....	12
<b>Appendix – General information</b> .....	20
<b>Notice of SGM</b> .....	26

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## DEFINITIONS

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*In this circular, the following expressions have the meanings set out below unless the context requires otherwise:*

“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Company”	Pearl Oriental Innovation Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
“Completion”	completion of the Joint Venture and Merger & Acquisition Agreement
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Consideration Shares”	8,000,000 new Shares to be issued by the Company to the JV Partner as an one-off marketing and consultation fee for development of the oil exploitation business pursuant to the Joint Venture and Merger & Acquisition Agreement
“Directors”	the directors of the Company
“Existing General Mandate”	the general mandate approved at the Previous Annual Meeting to grant the Directors the power to issue and allot 49,768,392 new Shares
“Global Bay” or “Joint Venture Company”	環球海灣資源有限公司 (GLOBAL BAY RESOURCES LTD), a shell company established in Hong Kong and will be jointly owned by the Company and the JV Partner upon Completion
“Group”	the Company together with its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board, comprising Dr. Anwar Ibrahim, Dr. Lee G. Lam and Mr. Victor Yang, all of whom being independent non-executive Directors appointed by the Board to advise the Independent Shareholders in respect of the refreshment of the Existing General Mandate

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## DEFINITIONS

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“Independent Financial Adviser” or “Wallbanck Brothers”	Wallbanck Brothers Securities (Hong Kong) Limited, a licensed corporation under the SFO to carry on Types 4, 6 and 9 regulated activities, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the refreshment of the Existing General Mandate
“Independent Shareholders”	Shareholders other than Orient Day Developments Limited and its associates
“Joint Venture and Merger & Acquisition Agreement”	the joint venture and merger & acquisition agreement dated 26 February 2007 entered into between the Company and the JV Partner for the establishment of the Joint Venture Company
“JV Partner”	中信通商企業管理有限公司 (CITIC MERCHANT CO. LTD), a company incorporated in the PRC with limited liability and its controlling shareholder being the CITIC Group
“Latest Practicable Date”	19 March 2007, being the latest practicable date prior to the printing of this circular for the purposes of ascertaining certain information for inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	The People’s Republic of China
“Previous Annual Meeting”	the annual general meeting of the Company held on 30 August 2006
“SFO”	the Securities and Futures Ordinance of Hong Kong (Chapter 571 of the Laws of Hong Kong)
“SGM”	a special general meeting of the Company to be convened on 16 April 2007 for approving (i) the grant of the Specific Mandate for the issue and allotment of the Consideration Shares; and (ii) the refreshment of the Existing General Mandate
“Share(s)”	ordinary share(s) of HK\$0.50 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Specific Mandate”	the specific mandate to be granted by the Shareholders at the SGM for the issue and allotment of the Consideration Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent.



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:*

Mr. Wong Yuk Kwan (*alias: Wong Kwan*)

Mr. Chan Yiu Keung

Mr. Cheung Kwok Yu

Mr. Zhou Li Yang

Mr. Zheng Yinsheng

Mr. Johnny Yuen

*Non-executive Director:*

Dr. Robert Fung Hing Piu

*Independent non-executive Directors:*

Dr. Anwar Ibrahim

Dr. Lee G. Lam

Mr. Victor Yang

*Registered office:*

Clarendon House

2 Church House

Hamilton HM11

Bermuda

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

Unit 3611, 36/F.

West Tower, Shun Tak Centre

168-200 Connaught Road Central

Hong Kong

23 March 2007

**DISCLOSEABLE TRANSACTION –  
FORMATION OF A JOINT VENTURE COMPANY  
FOR DEVELOPMENT OF THE OIL EXPLOITATION BUSINESS  
AND  
ISSUE OF NEW SHARES**

**AND**

**REFRESHMENT OF GENERAL MANDATE**

*To the Shareholders*

Dear Sirs,

**INTRODUCTION**

On 1 March 2007, the Directors announced that the Company entered into the Joint Venture and Merger & Acquisition Agreement with the JV Partner on 26 February 2007 for the formation of the Joint Venture Company for development of the oil exploitation business. The formation of the Joint Venture Company constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules.

\* For identification purpose only

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## LETTER FROM THE BOARD

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In addition, the Board proposes to seek approval from the Independent Shareholders to refresh the Existing General Mandate to authorise the Directors to issue and allot 76,328,392 new Shares at the SGM.

The purpose of this circular is to provide you with information relating to (i) details of the Joint Venture and Merger & Acquisition Agreement; (ii) the proposed refreshment of the Existing General Mandate; (iii) the recommendation from the Independent Board Committee; and (iv) the recommendation from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

A notice for convening the SGM is also set out on pages 26 to 28 of this circular.

### THE JOINT VENTURE AND MERGER & ACQUISITION AGREEMENT

**Date:** 26 February 2007

**Parties:** The Company

中信通商企業管理有限公司 (CITIC MERCHANT CO. LTD), the JV Partner, a company incorporated in the PRC with limited liability and its ultimate controlling shareholder being the CITIC Group. The JV Partner is principally engaged in merchant banking, merger and acquisition, and the exploitation of natural resources such as gold.

To the best of the Director's knowledge, information and belief, and having made all reasonable enquiries, the JV Partner and its ultimate beneficial owner are third parties independent of the Company and its connected persons (as defined under the Listing Rules).

**Principal terms:**

The Joint Venture Company

環球海灣資源有限公司 (GLOBAL BAY RESOURCES LTD), a shell company established in Hong Kong. Upon Completion, Global Bay 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 Global Bay will become HK\$100 million comprising 100 million shares of HK\$1 per each share. Of the total amount of registered capital, HK\$60 million will be contributed by the Company while the remaining HK\$40 million will be contributed by the JV Partner. Accordingly, Global Bay will be owned as to 60% by the Company and 40% by the JV Partner upon Completion. Global Bay will become a 60% owned subsidiary of the Company and its financial results will be consolidated into the Group's financial accounts.

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## LETTER FROM THE BOARD

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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 and/or funds to be raised by placement of new Shares. As at the Latest Practicable Date, the specific amount to be raised by the aforementioned means of financing and the arrangement (including the timing) of the share placement (save and except for the top-up placing which was announced by the Company on 15 March 2007) have not been finalized yet.

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

Save as and except for the share of the registered capital as mentioned above, the Company has no other capital commitment to the Joint Venture Company and the total investment of the Joint Venture Company has not yet been determined.

Salient co-operative terms:

The parties to the Joint Venture and Merger & Acquisition Agreement agreed, primarily through the Joint Venture Company, to develop and acquire new oil fields in the PRC, and to expedite potential oil exploitation projects in the PRC and overseas.

It is also the intention of the Company and the JV Partner to strengthen their relationship and cooperation with the major famous oil conglomerates in the PRC through the existing business connection of the JV Partner with those oil conglomerates. It is expected that the annual oil production of the Joint Venture Company will reach or exceed 500,000 tons (equivalent to approximately 3.65 million barrels) within two years upon Completion based on the estimation from the existing oil exploitation projects in which the JV Partner has equity interests and may be injected into the Joint Venture Company.

The Company will issue 8,000,000 new Shares, representing approximately 2.27% and 2.22% of the total issued share capital of the Company as at the Latest Practicable Date and the issued share capital of the Company as enlarged by the Consideration Shares, to the JV Partner as an one-off marketing and consultation fee for development of the oil exploitation business. The Consideration Shares will be issued and allotted under the Specific Mandate, the grant of which is subject to the Shareholders' approval at the SGM.

The total market value of the Consideration Shares are approximately HK\$20,720,000, HK\$23,200,000 and HK\$21,888,000 respectively based on (i) the closing price of the Shares of HK\$2.59 per Share as quoted on the Stock Exchange as at the Latest Practicable Date; (ii) the closing price of the Shares

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## LETTER FROM THE BOARD

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of HK\$2.9 per Share as quoted on the Stock Exchange on 23 February 2007, being the day prior to the suspension of trading in the Shares pending the release of the announcement in relation to this transaction; and (iii) the average closing price of the Shares of HK\$2.736 per Share as quoted on the Stock Exchange from 8 February 2007 to 23 February 2007 (both days inclusive), being the last ten trading days immediately before and up to the suspension of trading in the Shares. The total market value of the Consideration Shares based on the average closing price of the Shares of HK\$2.752 per Share as quoted on the Stock Exchange from 15 February 2007 to 23 February 2007, being the last five trading days immediately before and up to the suspension of trading in the Shares, represents approximately 2.41%, 2.16% and 2.29% of the total market capitalization of the Company based on the closing prices and average closing price of the Shares on the days and period as specified in (i), (ii) and (iii) above and the total number of issued shares of the Company as at the Latest Practicable Date.

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

The JV Partner will be responsible for assisting the Joint Venture Company in fund raisings from banks for strengthening the working capital requirement of the Joint Venture Company. In addition, the Joint Venture Company will have the preferential right to acquire the oil exploitation and oil related projects which are owned by the JV Partner if there are comparable offers. The Directors, including the independent non-executive Shareholders, are of the opinion that the issue of the Consideration Shares to the JV Partner is fair and reasonable and on normal commercial terms.

The 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 Consideration Shares.

Furthermore, the JV Partner intends to increase its shareholding in the Company after the Completion when opportunities arise or when, subject to the board of directors of the Joint Venture Company's approval, the JV Partner injects new oil exploitation projects into the Joint Venture Company. However, no specific arrangement (including the method and timing) of such increase has been formulated by the JV Partner.

As at the Latest Practicable Date, the JV Partner has not assigned any representatives to the Board.



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## LETTER FROM THE BOARD

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Composition of the board: The board of directors of the Joint Venture Company will consist of seven members, four of whom will be appointed by the Company and the remaining three will be appointed by the JV Partner. All major investment decisions of the Joint Venture Company, including the approval of injection of new oil exploitation projects by the JV Partner as aforementioned, will have to be unanimously approved by its board of directors.

The parties to the Joint Venture and Merger & Acquisition Agreement agreed that the Joint Venture Company will distribute no less than 50% of its net profits after tax as dividend to its shareholders after taking into account the cash position of the Joint Venture Company.

Conditions precedent: Completion of the Joint Venture and Merger & Acquisition Agreement is conditional upon:

- (a) the obtaining of the approval of the board of directors of the JV Partner and the Shareholders at the SGM in relation to the issue and allotment of the Consideration Shares to the JV Partner; and
- (b) the obtaining of the approval of the Stock Exchange in respect of the listing of and dealing in the Consideration Shares.

Completion: Completion of the Joint Venture and Merger & Acquisition Agreement is expected to take place on or before 30 May 2007.

The Company was advised and confirmed by the JV Partner in writing on 5 March 2007 that all the terms of the Joint Venture and Merger & Acquisition Agreement have been agreed and approved by the board of directors of the JV Partner.

### **REASONS FOR THE FORMATION OF THE JOINT VENTURE COMPANY**

The Group is principally engaged in operating bonded warehouse, provision of logistics and related services and logistic-related property investment in the PRC and investing in energy and natural resources sectors through its associated companies, namely China Coal Energy Holdings Limited and Euro Resources China Limited.

Upon Completion, the Joint Venture Company will focus on the business of oil exploitation leveraging on the experience and expertise of the JV Partner and the new experts in the oil exploitation business to be hired by the Company. Therefore, the formation of the Joint Venture Company coincides with the Group's strategy to focus on the development of the energy and natural resources sectors. In view of the limited supply and continuous strong demand of oil in the world market, especially in the PRC, the Directors consider that the entering into of the oil industry would be beneficial to the further expansion of the Group. In addition, the JV Partner is also regarded as an important strategic partner of the Company, which could pave the way to build up the Company's relationship with the major famous oil conglomerates in the PRC. The Directors are confident that such partnership would help the Group to explore substantial business opportunities in relation to the oil exploitation business in the near future.

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## LETTER FROM THE BOARD

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Having the above being the case, the Directors, including the independent non-executive Directors, are of the view that the terms of the Joint Venture and Merger & Acquisition Agreement are fair and reasonable and are on normal commercial terms and that entering into of the Joint Venture and Merger & Acquisition Agreement is in the interests of the Company and the Shareholders as a whole.

### **FUTURE MERGER & ACQUISITION OF THE JOINT VENTURE COMPANY**

The Company and the JV Partner are now negotiating the merger and acquisition of a few oil exploitation and oil related projects (including and without limitations those projects in which the JV Partner has equity interests) in the PRC by the Joint Venture Company. Such negotiations are at the preliminary stage and appropriate disclosure will be made by the Company if and when formal acquisition agreements have been entered into by the Joint Venture Company in accordance with the Listing Rules.

### **FINANCIAL EFFECT OF JOINT VENTURE AND MERGER & ACQUISITION AGREEMENT ON THE GROUP**

As mentioned in the section headed “The Joint Venture and Merger & Acquisition Agreement” of this circular, upon Completion, the Joint Venture Company will become a 60% owned subsidiary of the Company. Accordingly, the financial results of the Joint Venture Company will be consolidated into the financial accounts of the Group. It is expected that the Joint Venture Company will broaden the revenue and income base of the Group when it commences operation. Furthermore, given also the optimistic future prospect of the oil industry and the strengthening of the Company’s relationship with other major famous oil conglomerates in the PRC through the existing business connection of the JV Partner, the Directors expect that the Group’s future financial performance would be improved. Since the Joint Venture Company is currently a shell company, the entering into of the Joint Venture and Merger & Acquisition Agreement would not have material impact on the assets and liabilities of the Group.

### **REFRESHMENT OF GENERAL MANDATE**

The Board proposes to seek approval from the Independent Shareholders to refresh the Existing General Mandate to issue and allot new Shares at the SGM pursuant to Rule 13.36(4) of the Listing Rules.

The Directors are authorized to issue and allot up to 49,768,392 new Shares under the Existing General Mandate which was granted by the Shareholders at the Previous Annual Meeting. Save and except for the Existing General Mandate, there had been no other refreshment of general mandates since the Previous Annual Meeting.

According to the announcement of the Company dated 15 March 2007, the Company has reached the share sale and subscription agreements on 15 March 2007 (the “Subscription Agreements”) pursuant to which Orient Day Development Limited (“Orient Day”) would sell a total of 29,500,000 Shares to several institutional investors and there would be a subscription of 29,500,000 new Shares by Orient Day. Since all of such new Shares will be issued under the authority of the Existing General Mandate, the Existing General Mandate will be utilized as to 29,500,000 Shares, representing approximately 59.27% of the Existing General Mandate. The subscription of 29,500,000 new Shares by Orient Day is expected to be completed on or before 29 March 2007.

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## LETTER FROM THE BOARD

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Immediately following the completion of the Subscription Agreements, 20,268,392 new Shares, representing only approximately 40.73% of the Existing General Mandate, may be further issued and allotted by the Director under the Existing General Mandate.

In order to give the Company greater flexibility in the issuance of new Shares in the future as and when the Company considers desirable for the benefit of the development of the Company, the Company will seek the Independent Shareholders' approval to refresh the Existing General Mandate at the SGM to authorise the Directors to issue, allot and deal with new Shares of up to 20% of the aggregate nominal amount of the total issued share capital of the Company as at the date of the SGM.

Based on the total number of issued Shares upon completion of the Subscription Agreements and assuming no Shares are issued and/or repurchased by the Company thereafter and until the date of the SGM, upon approval of the refreshment of the Existing General Mandate by the Independent Shareholders at the SGM, the Directors will be able to issue and allot up to 76,328,392 new Shares, representing 20% of the issued share capital of the Company as at the date of the SGM.

An Independent Board Committee is formed and Wallbanck Brothers has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the proposed refreshment of the Existing General Mandate.

### **THE SGM**

As mentioned previously, Shareholders' approval is required in relation to the grant of the Specific Mandate which will be taken on a vote by way of poll at the SGM and no Shareholders shall abstain from voting in favour of the relevant resolution.

Pursuant to Rule 13.36(4)(a) of the Listing Rules, the refreshment of the Existing General Mandate requires the approval of the Independent Shareholders which will be taken on a vote by way of poll at the SGM. In addition, the controlling Shareholder and its associates shall abstain from voting in favour of the relevant resolution. Orient Day is the controlling Shareholder holding 150,718,800 Shares and 180,218,800 Shares respectively, representing approximately 42.80% and 46.25% of the total issued share capital of the Company as at the Latest Practicable Date and immediately upon completion of the Subscription Agreements. Accordingly, Mr. Wong Kwan and other associates of Orient Day shall abstain from voting in favour of the resolution approving the refreshment of the Existing General Mandate.

### **PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS**

Pursuant to bye-law 66 of the Company's Bye-Laws, a resolution put to the vote at the general meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is duly demanded by:

- (i) the chairman of the meeting; or
- (ii) at least three Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorized representative) or by proxy for the time being entitled to vote at the meeting; or

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## LETTER FROM THE BOARD

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- (iii) a Shareholder or Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorized representative) or by proxy and representing not less than one-tenth of the total voting rights of all the Shareholders have the right to vote at the meeting; or
- (iv) a Shareholder or Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorized representative) or by proxy and holding Shares conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the Shares conferring that right.

### RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on page 11 of this circular which contains the recommendation of the Independent Board Committee to the Independent Shareholders concerning the refreshment of the Existing General Mandate and the letter from the Independent Financial Adviser set out on pages 12 to 19 of this circular containing its advice to the Independent Board Committee and the Independent Shareholders in this regard. The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, is of the opinion that the refreshment of the Existing General Mandate is in the interests of the Company and the Shareholders as a whole and is fair and reasonable so far as the Independent Shareholders are concerned. Therefore, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution in relation to the refreshment of the Existing General Mandate to be proposed at the SGM.

### ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendix to this circular.

By Order of the Board  
**Pearl Oriental Innovation Limited**  
**Wong Kwan**  
*Chairman and Chief Executive*



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

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 632)

23 March 2007

*To the Independent Shareholders*

Dear Sirs or Madams,

**REFRESHMENT OF GENERAL MANDATE**

We refer to the circular of the Company dated 23 March 2007 (the “Circular”) of which this letter forms part. Unless the context requires otherwise, capitalized terms used herein shall have the same meanings as defined in the Circular.

We have been appointed by the Board to advise the Independent Shareholders as to whether the terms of the proposed refreshment of the Existing General Mandate are fair and reasonable so far as the Independent Shareholders are concerned. Wallbanck Brothers has been appointed as the Independent Financial Adviser to advise us in this respect.

Having considered the principal reasons and factors considered by, and the advice from Wallbanck Brothers, as set out in its letter of advice on pages 12 to 19 of the Circular, we are of the opinion that the refreshment of the Existing General Mandate is in the interests of the Company and the Shareholders as a whole and the terms of which are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the refreshment of the Existing General Mandate.

Yours faithfully,

**Anwar Ibrahim**

**Lee G. Lam**

**Victor Yang**

*Independent non-executive Director*

**Member of the Independent Board Committee**

\* *For identification purpose only*

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## LETTER FROM WALLBANCK BROTHERS

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*The following is the full text of a letter of advice from Wallbanck Brothers, the independent financial adviser to the Independent Board Committee and the Independent Shareholders regarding the refreshment of the Existing General Mandate, for the purpose of incorporation into this circular.*



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

1005B, Tower 1, Lippo Centre,  
89 Queensway, Central,  
Hong Kong

23 March 2007

*To the Independent Board Committee and  
the Independent Shareholders*

Dear Sirs,

### **REFRESHMENT OF THE EXISTING GENERAL MANDATE**

#### **INTRODUCTION**

We refer to our engagement to advise the Independent Board Committee and the Independent Shareholders in respect of the proposed refreshment of the Existing General Mandate pursuant to Rule 13.36(4) of the Listing Rules, particulars of which are set out in the letter from the Board (the “Letter from the Board”) of this circular to the Shareholders dated 23 March 2007 (the “Circular”) and in which this letter is reproduced. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as given to them under the definitions section of the Circular.

Pursuant to the Listing Rules, the refreshment of the Existing General Mandate is subject to the approval of the Independent Shareholders at the SGM by way of poll. Accordingly, the Independent Board Committee (comprising Dr. Anwar Ibrahim, Dr. Lee G. Lam and Mr. Victor Yang being all the independent non-executive Directors) has been established to advise on the refreshment of the Existing General Mandate, and we have been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders to advise on the refreshment of the Existing General Mandate.

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# LETTER FROM WALLBANCK BROTHERS

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## **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.

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 refreshment of the Existing General Mandate 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 refreshment of the Existing General Mandate. 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. We disclaim any undertaking or obligation to advise any person of any change in any fact or matter affecting the opinion expressed herein which may come or be brought to our attention before and after the SGM.

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## LETTER FROM WALLBANCK BROTHERS

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Our opinions are formulated only and exclusively for the purpose of the refreshment of the Existing General Mandate and shall not be used for any other purpose in any circumstance nor for any comparable purpose with any other opinions.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our opinion to the Independent Board Committee in respect of the refreshment of the Existing General Mandate, we have taken into consideration the following principal factors and reasons:

#### **1. Background for the Refreshment of the Existing General Mandate**

As mentioned in the Letter from the Board, the Shareholders approved an ordinary resolution to grant to the Directors the Existing General Mandate to issue and allot up to 49,768,392 Shares, representing 20% of the Shares in issue as at the date of Previous Annual Meeting. Save and except for the Existing General Mandate, there had been no other refreshment of general mandates since the Previous Annual Meeting.

According to the announcement of the Company dated 15 March 2007, the Company has reached a share sale and subscription agreements on 15 March 2007 (the "Subscription Agreements") pursuant to which Orient Day Developments Limited ("Orient Day") would sell a total of 29,500,000 new Shares to several institutional investors and there would be a subscription of 29,500,000 new Shares by Orient Day. Since all of such new Shares will be issued under the authority of the Existing General Mandate, the Existing General Mandate will be utilized as to 29,500,000, representing approximately 59.27% of the Existing General Mandate. The subscription of 29,500,000 new Shares by Orient Day is expected to be completed on or before 29 March 2007.

Immediately following the completion of the Subscription Agreements, new Shares, representing only approximately 40.73% of the Existing General Mandate or 20,268,392 Shares, may be further issued and allotted under the Existing General Mandate.

In order to give the Company greater flexibility in the issuance of Shares in the future as and when the Company considers desirable for the benefit of the development of the Company, the Directors propose to refresh the Existing General Mandate to issue and allot new Shares not exceeding 20% of the issued share capital of the Company at the date of the SGM (the "New General Mandate").

Based on the total number of issued Shares upon completion of the Subscription Agreements and assuming no Shares are issued and/or repurchased by the Company thereafter and until the date of the SGM, upon the Independent Shareholders' approval of the refreshment of the Existing General Mandate at the SGM, the Directors will be authorized to allot and issue up to a limit of 76,328,392 Shares, representing 20% and approximately 16.67% of the existing issued share capital and the enlarged issued share capital of the Company upon completion of the Subscription Agreements respectively. The Directors consider that the refreshment of the Existing General Mandate is in the interest of the Company and the Shareholders as a whole.



### 2. Reasons for the Refreshment of the Existing General Mandate

According to the Letter from the Board, the Directors believe that refreshment of the Existing General Mandate to the Directors will give the Company greater flexibility in the issuance of Shares in the future as and when the Company considers desirable for the benefit of the development of the Company. Accordingly, the Directors consider that the refreshment of the Existing General Mandate is in the interests of the Company and its Shareholders as a whole.

### 3. Fund raising activities of the Company

According to the information provided by the Directors, the Company has not undertaken any fund raising activities over the past twelve months save and except the following fund raising activities:

- 1) according to the announcement of the Company dated 15 March 2007, the Company has carried out a top-up placing of 29,500,000 existing Shares at a price of HK\$2.59 per Share. The net proceeds generated from the top-up placing of existing Shares of approximately HK\$74.5 million were intended to be used partly for the Joint Venture and Merger & Acquisition Agreement and partly as general working capital of the Group as mentioned in the Letter from the Board
- 2) according to the announcement and circular of the Company respectively dated 23 March 2006 and 4 May 2006, the Company has carried out a share subscription of 4,000,000,000 subscription Shares at a price of HK\$0.01 per Share, issue of convertible notes and grant of option (the "Issues"). The net proceeds generated from the share subscription and issue of convertible notes were approximately HK\$69.6 million, approximately HK\$30.0 million of which was earmarked for settlement of the outstanding loan owed to Guangdong Development Bank, Shenzhen Xiangmihu Branch; while the balance of the proceeds and the proceeds to be received upon exercise of the option by the subscriber (if any) were earmarked for general working capital of the Group. As at the Latest Practicable Date, the net proceeds of the Issues of approximately HK\$79.6 million in total have been applied towards the settlement of a loan owing to Guangdong Development Bank by the Group as to approximately HK\$28.8 million and as to the remaining HK\$50.8 million as the general working capital of the Group.

The Company is engaged in logistics business and investments in energy and natural resources sectors. According to the annual report of the Company for the year ended 31 March 2006, we note that the cash and cash equivalents and the total indebtedness of the Group amounted to approximately HK\$1.8 million and HK\$88.8 million as at 31 March 2006 respectively.

We consider that it is reasonable for the Directors to propose the refreshment of the Existing General Mandate in the SGM in order to give the Company greater flexibility in the issuance of Shares in future as and when the Company considers desirable for the benefit of the development of the Company.

#### **4. Status of Utilization of the Existing General Mandate**

According to the Letter from the Board, the Existing General Mandate was granted by the Shareholders at the Previous Annual Meeting. Save and except for the Existing General Mandate, there had been no other refreshment of general mandates since the Previous Annual Meeting.

The Company will have in issue an aggregate of 381,641,960 Shares based on the total number of issued Shares upon completion of the Subscription Agreements. Subject to the passing of the proposed resolution for the approval of the New General Mandate and on the basis that no Shares would be issued and/or repurchased by the Company from the Latest Practicable Date up to the date of the SGM, the New General Mandate would allow the Directors to allot and issue up to a maximum of 76,328,392 Shares, representing 20% of the aggregate nominal amount of the issued Shares at the SGM. The New General Mandate will, if approved, remain effective until the earliest of: (i) the conclusion of the next annual general meeting of the Company; (ii) the expiration of the period within which the next annual general meeting of the Company is required to be held by Bermuda law or Bye-laws; and (iii) its revocation or variation by ordinary resolutions of the Shareholders in general meeting.

#### **5. Other Alternatives of Financing**

The Directors represented that they had considered other alternatives of fund raising such as bank financing and placement of new Shares. For bank financing, the Directors are of the view that interest expenses to be borne by the Company will be inevitably incurred, possibly expanding the Company's loss position. Furthermore, a loan obtained from banks will eventually have to be repaid sometime in the future. In fact, it is difficult for the Company to obtain further debt financing as the banks were reluctant to offer bank loans and credit facilities to the Group in view of loss suffered by the Company for the previous year; and lack of other property to be used as security for such financing. Whereas for equity financing, common means of equity financing include open offers and placement of new shares. Therefore, the New General Mandate, which will allow the Directors to allot and issue up to 76,328,392 Shares, will serve as one of the equity financing alternatives for the Company to obtain capital.

We are represented that it is the Directors' belief that the refreshment of the Existing General Mandate will provide the Company with an additional alternative of equity funding when there is funding requirement or when any business opportunities arise in the future. It is reasonable to suggest that the refreshment of the Existing General Mandate could enhance the financing flexibility of the Company to raise equity fund, if and when required, by way of issue of new Shares or other convertible instruments for further development of the Group. In addition, the Directors consider that if investment or acquisition opportunities arise, it would be possible that decisions may have to be made within a limited period of time. The New General Mandate would provide the Group with higher degree of flexibility as allowed under the Listing Rules to issue new Shares or other convertible instruments to raise capital and strengthen the capital base of the Company as consideration or otherwise for such potential investments and/or acquisitions in the future as and when such opportunities arise. However, from our enquiry to the Directors, the Directors represented that there is no concrete proposal for any new investment or acquisition for the Group at present.

## LETTER FROM WALLBANCK BROTHERS

On the above basis, we hold the view that there are reasonable grounds for the Directors to propose the refreshment of the Existing General Mandate in the SGM.

### 6. Potential dilution to shareholding interests of the Independent Shareholders

Based on information available from public source and from the Directors, we set out below a table setting out the shareholding structure of the Company upon completion of the Subscription Agreements and upon full utilization of the New General Mandate:

	Upon completion of the Subscription Agreements		Upon full utilization of the New General Mandate	
	(No. of Shares)	(%)	(No. of Shares)	(%)
Orient Day Developments Limited ( <i>Note</i> )	180,218,800	47.22	180,218,800	39.35
Public Shareholders	201,423,160	52.78	201,423,160	43.98
Shares issued under the New General Mandate	–	–	76,328,392	16.67
Total	<u>381,641,960</u>	<u>100.00</u>	<u>457,970,352</u>	<u>100.00</u>

Source: [www.hkex.com.hk](http://www.hkex.com.hk)

Note: Orient Day Developments Limited is a company incorporated with limited liability in the British Virgin Islands and is wholly and beneficially owned by Mr. Wong Kwan.

Assuming that (i) the refreshment of the Existing General Mandate will be approved at the SGM; (ii) upon completion of the Subscription Agreements and assuming no Shares are issued and/or repurchased by the Company thereafter and until the date of the SGM (both dates inclusive); and (iii) upon full utilization of the New General Mandate, 76,328,392 Shares are to be issued, representing 20% and approximately 16.67% of the existing issued share capital and the enlarged issued share capital of the Company upon completion of the Subscription Agreements respectively. The aggregate shareholding of the existing public Shareholders will be diluted from approximately 52.78% to approximately 43.98% upon full utilization of the New General Mandate.

Taking into consideration that the New General Mandate will increase the amount of capital which may be raised thereunder and provides more options to the Group for financing further development of its business as well as other investments/acquisitions as and when such opportunities arise and the fact that the shareholding of all the Shareholders will be diluted to the same extent upon any utilization of the, we consider that the potential dilution to the shareholding of the Shareholders is acceptable.

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## LETTER FROM WALLBANCK BROTHERS

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Shareholders should note that the Existing General Mandate will be revoked upon approval at the SGM of the New General Mandate which will be and continue to be in force until the earliest of (i) the conclusion of the Company's next annual general meeting; (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable law to be held; and (iii) the revocation or variation of the authority given under the relevant resolution to be proposed at the SGM by ordinary resolution of the Shareholders in general meeting. Such duration is in compliance with the Listing Rules.

### **7. Terms of the New General Mandate**

According to Rule 13.36(4) of the Listing Rules, it is stipulated that an ordinary resolution shall be proposed at the forthcoming SGM to obtain approval from the Shareholders to refresh the Existing General Mandate before the next annual general meeting of the Company to authorize the Directors to allot and issue new Shares of not exceeding 20% of the total number of issued shares of the Company as at the date of the forthcoming SGM. It is further required that Such an approval should be taken on a vote by way of poll, and the controlling shareholders of the Company, Orient Day and their respective associates shall abstain from voting in favor of the ordinary resolution for approving the New General Mandate.

As mentioned before, it is further stipulated that upon approval of the New General Mandate at the forthcoming SGM, the Existing General Mandate will be revoked and the New General Mandate will be and continue to be effective until the earliest of (i) the conclusion of the next annual general meeting of the Company; (ii) the expiration of the period within which the next annual general meeting of the Company is required to be held by Bermuda law or Bye-Laws; and (iii) the revocation or variation of the authority given under the relevant resolution to be proposed by ordinary resolution of the Shareholders in general meeting. Such duration is in compliance with Rule 13.36(3) of the Listing Rules.

In view of the said stringent provisions and requirements of the Listing Rules, we have reason to believe that there to be sufficient control and measures to guide the refreshment of the Existing General Mandate and the continuity of the New General Mandate. In this respect, we hold the view that the terms of the refreshment of the Existing General Mandate are fair and reasonable so far as the Independent Shareholders are concerned.

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## LETTER FROM WALLBANCK BROTHERS

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### RECOMMENDATION

Having considered the above principal factors and reasons and Directors' representations, on balance, we are of the opinion that in such circumstance the refreshment of the Existing General Mandate are fair and reasonable so far as the Independent Shareholders are concerned and the refreshment of the Existing General Mandate is in the interest of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Shareholders, and also recommend the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the resolution approving the refreshment of the Existing General Mandate at the SGM.

Yours faithfully,  
For and on behalf of  
**WALLBANCK BROTHERS**  
**Securities (Hong Kong) Limited**

**Phil Chan**  
*Chief Executive Officer*

**RESPONSIBILITY STATEMENT**

This circular includes particulars given in compliance with the Listing Rules 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 in this circular misleading.

**SHARE CAPITAL OF THE COMPANY****(a) Share Capital***Authorized capital:*

	<i>HK\$</i>
600,000,000 ordinary Shares of HK\$0.50 each	<u>300,000,000</u>

*Issued and fully paid or credited as fully paid:**As at the Latest Practicable Date*

352,141,960 ordinary Shares of HK\$0.50 each	<u>176,070,980</u>
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*Upon completion of the Subscription Agreements:*

381,641,960 ordinary Shares of HK\$0.50 each	<u>190,820,980</u>
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*Upon issue and allotment of the Consideration Shares:*

381,641,960 existing Shares	190,820,980
<u>8,000,000</u> Consideration Shares	<u>4,000,000</u>
<u>389,641,960</u> Shares	<u>194,820,980</u>

All existing issued Shares rank equally in all respects, including capital, dividends and voting rights. The Shares in issue are listed on the Stock Exchange.

**(b) Share Options**

Pursuant to the Company's share option scheme (the "Scheme"), the total number of Shares in respect of which options may be granted under the Scheme is not permitted to exceed 30% of the issued share capital of the Company from time to time, without prior approval from the Shareholders. The number of Shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the Company's issued share capital or with a value in excess of HK\$5 million, otherwise it must be approved by the Shareholders.

The following table sets out the details of the outstanding share options as at the Latest Practicable Date:

Exercise Price	Exercise Period	Outstanding options as at the Latest Practicable Date
HK\$6.000	20.5.2004 – 21.6.2012	300,000
HK\$3.100	18.8.2005 – 20.6.2012	478,400
HK\$3.120	28.9.2005 – 20.6.2012	40,000
HK\$3.320	6.4.2006 – 20.6.2012	100,000
HK\$3.150	29.8.2006 – 20.6.2012	2,430,000
HK\$1.390	17.2.2007 – 20.6.2012	80,000
HK\$3.375	13.6.2007 – 20.6.2012	16,500,000
HK\$3.375	1.1.2008 – 20.6.2012	1,000,000
		<hr style="border-top: 1px solid black;"/> <u>20,928,400</u>

As at the Latest Practicable Date, save as and except for the above, the Company did not have any other outstanding options, warrants or other securities convertible into Shares.

## DISCLOSURE OF INTERESTS

### A. Interests in the Company or its associated companies

#### (a) *Interests of Directors and chief executive*

As at the Latest Practicable Date, the interests of the Directors in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which had been notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions of which they were taken or deemed to have under such provisions of the SFO) and/or required to be entered in the register maintained by the Company pursuant to section 352 of the SFO or which

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 were as follows:

(i) *Long position in the Shares*

Name of Directors	Number of Shares held in the capacity of				Total number of Shares held	Percentage of the issued share capital of the Company
	Beneficial owner	Family interest	Held by controlled corporation	Held by trust		
Wong Kwan ( <i>Note</i> )	-	-	150,718,800	-	150,718,800	42.80%
Robert Fung Hing Piu	46,109	-	1,200,000	1,272,090	2,518,199	0.72%
Johnny Yuen	300,000	-	-	-	300,000	0.09%

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

(ii) *Share options*

Name of Directors	Capacity	Number of options held	Number of underlying Shares
Wong Kwan	Beneficial owner	2,400,000	2,400,000
Anwar Ibrahim	Beneficial owner	2,000,000	2,000,000
Lee G. Lam	Beneficial owner	2,000,000	2,000,000
Chan Yiu Keung	Beneficial owner	1,000,000	1,000,000
Cheung Kwok Yu	Beneficial owner	1,000,000	1,000,000
Johnny Yuen	Beneficial owner	1,000,000	1,000,000
Zheng Yingsheng	Beneficial owner	2,030,000	2,030,000
Zhou Li Yang	Beneficial owner	1,410,000	1,410,000
Robert Fung Hing Piu	Beneficial owner	1,070,000	1,070,000
Victor Yang	Beneficial owner	1,040,000	1,040,000



Save as disclosed above, as at the Latest Practicable Date, none of the Directors had any interests or short positions in any shares, underlying shares and debentures of the Company or 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/or short positions of which they were taken or deemed to have under such provision of the SFO) and/or required to be entered in the register maintained by the Company pursuant to section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Listing Rules relating to securities transactions by the Directors.

*(iii) Other Interests*

As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which have been, since 31 March 2006 (being the date to which the latest published audited consolidated accounts of the Group were made up), acquired or disposed of by or leased to, any member of the Group, or which are proposed to be acquired or disposed of by or leased to, any member of the Group.

There was no contract or arrangement subsisting at the Latest Practicable Date in which any Director was materially interested and which was significant in relation to the business of the Group.

**B. Substantial Shareholders and other persons' interests in Shares and underlying Shares**

As at the Latest Practicable Date, so far as is known to the Directors or chief executive of the Company, the persons (other than a Director or chief executive of the Company) who had interests and/or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were 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 and the amount of each of such person's interests in such securities, together with particulars of any options in respect of such capital are as follows:

<b>Name of substantial Shareholders</b>	<b>Capacity</b>	<b>Number of Shares held</b>	<b>Number of underlying shares held</b>
Orient Day <i>(Note 1)</i>	Beneficial owner	150,718,800 <i>(Note 2)</i>	Nil

*Note:*

- Orient Day is wholly-owned by Mr. Wong Kwan.
- The number of Shares held by Orient Day will increase to 180,218,800 Shares upon completion of its subscription of 29,500,000 new Shares under the Subscription Agreements.

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.

#### **DIRECTORS' INTERESTS IN COMPETING BUSINESSES**

As at the Latest Practicable Date, none of the Directors and their associates was interested in any business apart from the Group's businesses which competes or is likely to compete, either directly or indirectly, with business of the Group.

#### **DIRECTORS' SERVICE CONTRACTS**

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had service contract with any member of the Group which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

#### **MATERIAL LITIGATIONS**

As at the Latest Practicable Date, the Group had three pending litigation claims from the ex-directors of a disposed subsidiary who claim against the Group for a sum of not less than HK\$11.4 million. The actions are at the initial stage and the Group and its legal representative are unable to ascertain the possible effects of the claims.

In addition, the Company issued a writ of summons on 31 August 2006 against Dichain Holdings Limited, three former Directors, namely Fan Di, Li Xinggui and Wu Shiyue, Hero Vantage Limited and 大連雙喜商貿發展有限公司(Dalian Shuangxi Trade Development Limited) for damages of a sum of RMB64.5 million.

On 31 October 2006, the Company also issued a writ of summon against DiChain Holdings Limited in respect of the breach of warranties under the subscription agreements dated 22 February 2006 and 20 March 2006 respectively.

As at the Latest Practicable Date, there were no further proceedings in respect of all the material litigations as disclosed above.

Furthermore, save as disclosed above, as at the Latest Practicable Date, neither the Company nor any of its subsidiaries was involved in any litigation or arbitration of material importance and no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

**MISCELLANEOUS**

- (a) The company secretary and the qualified accountant of the Company is Mr. Cheung Kwok Yu . Mr. Cheung is qualified as a solicitor in Hong Kong and a fellow member of The Association of Chartered Certified Accountants.
- (b) The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.
- (c) The principal place of business of the Company is situate at Unit 3611, 36/F., West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.
- (d) The English text of this circular and the accompany form of proxy shall prevail over their respective Chinese texts for the purpose of interpretation.



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** the special general meeting of Pearl Oriental Innovation Limited (the “Company”) will be held on Monday, 16 April 2007 at 4:00 p.m. at Unit 3611, 36/F., West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong for the purpose of considering and if thought fit, passing with or without modifications, the following resolutions as ordinary resolutions of the Company:

**ORDINARY RESOLUTIONS**

1. **“THAT** the directors of the Company be and are hereby authorized to issue and allot to 中信通商企業管理有限公司 (CITIC MERCHANT CO. LTD) (the “JV Partner”) 8,000,000 new shares of the Company (the “Shares”) pursuant to a joint venture and merger & acquisition agreement entered into between the Company and the JV Partner under a specific mandate (the “Specific Mandate”) and being also subject to the Listing Committee of The Stock Exchange of Hong Kong Limited granting (if necessary) the listing of, and permission to deal in the Shares to be issued. The Specific Mandate be and is hereby approved and the respective directors of the Company be and are hereby authorised to sign, seal, execute, perfect and deliver all such documents and do all such deeds, acts matters and things as they may in their discretion consider necessary or desirable for the purpose of the implementation of the Specific Mandate.”
2. **“THAT:**
  - (a) subject to paragraph 2(c) below, the exercise by the directors of the Company (the “Directors”) during the Relevant Period (as hereinafter defined) of all the powers of the Company to issue, allot and deal with unissued shares of HK\$0.50 each in the capital of the Company and to make or grant offers, agreements and options (including warrants, bonds and debentures convertible into Shares) which might require the exercise of such power be and is hereby generally and unconditionally approved;
  - (b) the approval in paragraph 2(a) above shall be in addition to any other authorization given to the Directors and shall authorize the Directors during the Relevant Period to make or grant offers, agreements and options (including warrants, bonds and debentures convertible into Shares) which would or might require the exercise of such powers after the end of the Relevant Period;

\* For identification purpose only

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## NOTICE OF SGM

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- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); (ii) an issue of Shares under any options granted under the share option scheme adopted by the Company; (iii) an issue of Shares upon the exercise of subscription rights attached to the warrants which might be issued by the Company; (iv) an issue of Shares in lieu of the whole or part of a dividend pursuant to any scrip dividend scheme or similar arrangement in accordance with the Bye-laws of the Company; and (v) any adjustment, after the date of grant or issue of any options, rights to subscribe or other securities referred to in (ii) and (iii) above, in the price at which Shares shall be subscribed, and/or in the number of Shares which shall be subscribed, on exercise of relevant rights under such options, warrants or other securities, such adjustment being made in accordance with, or as contemplated by, the terms of such options, rights to subscribe or other securities, shall not exceed:
- (i) 20% of the aggregate nominal amount of the share capital of the Company in issue as at the time of passing this resolution; and
  - (ii) the aggregate nominal amount of share capital of the Company repurchased by the Company after the date of passing this resolution pursuant to the general mandate to repurchase Shares given by the Company to the Directors from time to time (subject to a maximum number equivalent to 10% of the then existing issued share capital of the Company).
- (d) for the purpose of this resolution:

“Relevant Period” means the period from the time of the passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Memorandum of Association and Bye-laws of the Company or any applicable laws of Bermuda to be held; and
- (iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting.

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## NOTICE OF SGM

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“Right Issue” means an offer of Shares open for a period fixed by the Directors to holders of the Shares on the register of members on a fixed record date in proportion to their then holdings of such Shares (subject to such exclusive or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of any relevant jurisdiction, or the requirements of any recognized regulatory body or any stock exchange).”

By Order of the Board  
**Pearl Oriental Innovation Limited**  
**Wong Kwan**  
*Chairman and Chief Executive*

Hong Kong, 23 March 2007

*Registered Office:*

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

*Principal Place of Business in Hong Kong:*

Unit 3611, 36/F.  
West Tower, Shun Tak Centre  
168-200 Connaught Road Central  
Hong Kong

*Notes:*

1. Any shareholder 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 shareholder of the Company.
2. In order to be valid, a form of proxy in the prescribed form together with the power of attorney or other authority (if any) under which it is signed must be deposited at the Company’s Hong Kong branch share registrar, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for the holding of the special general meeting.
3. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorized in writing or, if the appointor is a corporation, either under its common seal or under the hand of an officer or attorney or other person duly authorized.
4. Delivery of the form of proxy will not preclude a member from attending and voting in person at the meeting convened and in such event, the form of proxy shall be deemed to be revoked.
5. Where there are joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, then one of the said persons so present being the most, or as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holder stand on the register in respect of the relevant joint holding.