

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims 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 is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities.



CITIC Merchant

A merchant banking subsidiary of CITIC Group

CITIC MERCHANT CO. LTD



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,
ISSUE OF NEW SHARES
AND
RESUMPTION OF TRADING IN SHARES**

Financial adviser to Pearl Oriental Innovation Limited



South China Capital Limited

The Joint Venture and Merger & Acquisition Agreement

The Directors are pleased to announce that the Company entered into the Joint Venture and Merger & Acquisition Agreement with CITIC MERCHANT CO. LTD on 26 February 2007, pursuant to which the Joint Venture Company will be established for development of the oil exploitation business.

The Company will contribute HK\$60 million as registered capital of the Joint Venture Company; whereas the JV Partner will contribute HK\$40 million as registered capital of the Joint Venture Company. The total registered capital of the Joint Venture Company therefore will be HK\$100 million and the Joint Venture Company will become a 60% owned subsidiary of the Company upon Completion. In addition, pursuant to the Joint Venture and Merger & Acquisition Agreement, the Company will issue 8,000,000 new 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 formation of the Joint Venture Company constitutes a discloseable transaction of the Company under Rule 14.06 (2) of the Listing Rules. A circular containing (i) further information on the establishment of the Joint Venture Company and other information required to be disclosed pursuant to the Listing Rules; and (ii) a notice of convening the SGM for approving the grant of the Specific Mandate will be despatched to the Shareholders as soon as practicable.

Resumption of trading in Shares

At the request of the Company, trading in the Shares has been suspended from 9:30 a.m. on 26 February 2007 pending the issue of this announcement. An application has been made to the Stock Exchange for the resumption of trading in the Shares with effect from 9:30 a.m. on 2 March 2007.

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 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 accounts will be consolidated into the Group's financial accounts.

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 date of this announcement, the specific amount to be raised by the aforementioned means of financing and arrangement (including the timing) of the share placement 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 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 2.32% and 2.27% of the existing issued share capital 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\$23,200,000 and HK\$21,888,000 respectively based on (i) the closing price of the Shares 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; and (ii) 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 (both days inclusive), being the last five trading days immediately before and up to the suspension of trading in the Shares, represents approximately 2.20% and 2.33% of the total market capitalization of the Company calculated using the closing price and average closing price of the Shares on the day and period as specified in (i) and (ii) above.

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 position 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 date of this announcement, the JV Partner has not assigned any representatives to the Board.

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 in 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.

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.

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 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.

GENERAL

The formation of the Joint Venture Company constitutes a discloseable transaction of the Company under Rule 14.06 (2) of the Listing Rules. A circular containing (i) further information on the establishment of the Joint Venture Company and other information required to be disclosed pursuant to the Listing Rules; and (ii) a notice of convening the SGM for approving the grant of the Specific Mandate will be despatched to the Shareholders as soon as practicable.

As at the date of this announcement, the Board comprises six executive Directors, namely Mr. Wong Yuk Kwan (alias: Wong Kwan), Mr. Chan Yiu Keung, Mr. Cheung Kwok Yu, Mr. Zhou Li Yang, Mr. Zheng Yinsheng and Mr. Johnny Yuen; one non-executive Director, namely Dr. Robert Fung Hing Piu; and three independent non-executive Directors, namely Dr. Anwar Ibrahim, Dr. Lee G. Lam and Mr. Victor Yang.

RESUMPTION OF TRADING IN SHARES

At the request of the Company, trading in the Shares has been suspended from 9:30 a.m. on 26 February 2007 pending the issue of this announcement. An application has been made to the Stock Exchange for the resumption of trading in the Shares with effect from 9:30 a.m. on 2 March 2007.

DEFINITIONS

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

“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
“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
“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
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	The People’s Republic of China
“SGM”	a special general meeting of the Company to be convened for approving the grant of the Specific Mandate for the issue and allotment of the Consideration Shares
“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

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

Hong Kong, 1 March 2007

* *For identification purpose only*

Please also refer to the published version of this announcement in The Standard.