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

(the “Company”)

(Incorporated in Bermuda with limited liability)

(Stock Code: 632)

**ANNOUNCEMENT REGARDING LEGAL ACTIONS
AND
RESUMPTION OF TRADING**

This announcement is made by the Company pursuant to Rule 13.09(1) of the Listing Rules.

In the afternoon of 7 August 2008, Zhang issued and served the Writ in the High Court of Hong Kong against, inter alios, the Company, Champion, a subsidiary of the Company and Mr. Wong Kwan, Chairman, Chief executive, executive director and also a majority beneficial shareholder of the Company, in which Zhang claimed, inter alios, against the Company and Champion for damages for alleged breaches of the Joint Venture Agreement, and Zhang also applied for an order that the Joint Venture Agreement and the Deed of Charge in favour of the Company in respect of all of Zhang’s shares in China Coal be rescinded.

The Company confirms that the Company, its directors, chief executive, management or any of their respective associates have never given any verbal commitments whatsoever to Zhang or entered into any verbal agreements with Zhang save for those terms in the Joint Venture Agreement. The Board is of the view that the above allegations are of no substance, groundless and are not in line with the terms of the Agreements.

After considering opinion from the Company’s legal advisors, the Company is of the view that all the claims in the Writ are of no substance and groundless, and the Board will strongly defend such claims.

With a view to protect the interests of the Company and its shareholders as a whole, the Company issued a statement of claim on 12 August 2008 in the High Court of Hong Kong against Zhang, including without limitation, the shortfall of dividend from China Coal of HK\$40,000,000, damages for breaches of the Joint Venture Agreement and other relief.

The Shareholders and public investors are advised to exercise caution when dealing in shares in the Company.

At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 3:19 p.m. on 7 August 2008 pending the issue of this announcement regarding the above legal actions immediately after the receipt of the Writ. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares with effect from 9:30 a.m. on 13 August 2008.

Reference is made to the Company's circular (the "Circular") dated 15 September 2006 and the Company's results announcement for the nine-month period ended 31 December 2007 (the "Period") and announcement dated 25 April 2008 and 20 June 2008 respectively. Terms defined in the Circular shall have the same meanings when used herein unless the context requires otherwise.

WRIT OF SUMMONS AGAINST THE COMPANY AND OTHERS

In the afternoon of 7 August 2008, Zhang Jingyuan (formerly known as: Zhang Genyu) ("Zhang") issued and served a writ of summons (the "Writ") in the High Court of Hong Kong against, inter alios, the Company, Champion Merry Investment Limited ("Champion"), a subsidiary of the Company and Mr. Wong Kwan, Chairman, Chief executive, executive director and also a majority beneficial shareholder of the Company, in which Zhang claimed, inter alios, against the Company and Champion, inter alia, for damages for alleged breaches of the Joint Venture Agreement, and Zhang also applied for an order that the Joint Venture Agreement and a deed of charge dated 25 October 2006 (the "Deed of Charge") in favour of the Company in respect of all of Zhang's shares in China Coal be rescinded.

In an indorsement of claim issued by Zhang as part of the Writ, Zhang claimed, inter alia, an order that the Company should take all necessary steps to transfer to Zhang such shares in China Coal registered in the names of Favour Good and Get Wealthy (as defined below).

Further, Zhang claimed a declaration that the Company is neither entitled to any compensation under the Joint Venture Agreement, nor to enforce the guarantees given by Zhang to the Company and/or the Deed of Charge made by Zhang in favour of the Company.

In addition, Zhang claimed against Mr. Wong Kwan for damages for alleged misrepresentation which induced Zhang to enter into the Joint Venture Agreement, a Shareholders' Agreement dated 25 October 2006 and the Deed of Charge (together the "Agreements"); and also damages for alleged breaches of oral collateral contract of injecting as well as arranging funding for the operation of China Coal and also procuring the public listing of China Coal within 18 months from the signing of the Joint Venture Agreement.

The Company confirms that the Company, its directors, chief executive, management or any of their respective associates have never given any verbal commitments whatsoever to Zhang or entered into any verbal agreements with Zhang save for those terms in the Joint Venture Agreement. The Board is of the view that the above allegations are of no substance, groundless and are not in line with the terms of the Agreements.

After considering opinion from the Company's legal advisors, the Company is of the view that all the claims in the Writ are of no substance and groundless, and the Board will strongly defend such claims.

STATEMENT OF CLAIM AGAINST ZHANG

With a view to protect the interests of the Company and its shareholders as a whole, the Company issued a statement of claim on 12 August 2008 in the High Court of Hong Kong against Zhang, including without limitation, the shortfall of dividend from China Coal of HK\$40,000,000, damages for breaches of the Joint Venture Agreement and other relief.

The summary of the statement of claim against Zhang is as follows:–

Prior to the entering into of the Joint Venture Agreement, the financial position of Taiyuan Sanxing was relatively weak. As at 31st December 2005 and according to the unaudited consolidated balance sheet of Taiyuan Sanxing, Taiyuan Sanxing had current assets of RMB 137,898,813 including cash and bank balance of only RMB10,788,678, but its current liabilities was RMB 406,922,874 which included short term bank loans of an aggregate amount of RMB77,600,000.

Pursuant to the Joint Venture Agreement, the Company would invest a sum of approximately HK\$395,620,000 to acquire 40% equity interests in China Coal which in turn would wholly own Taiyuan Sanxing.

The Joint Venture Agreement also stipulates that China Coal or Taiyuan Sanxing shall proceed to raise funds to the amount of HK\$200 million from foreign financial institutions. Such funds raising plan shall be coordinated and arranged by the Company together with other financial consultants.

The Joint Venture Agreement further stipulates that China Coal will proceed to take steps to be independently listed in the stock exchange(s) of Hong Kong or overseas as soon as possible. The Company shall be responsible to coordinate and plan all matters concerning the listing of China Coal.

As set out in the Circular, Zhang has guaranteed to the Company that the Audited Net Profit for the three financial years ending 31 December 2009 shall in aggregate be not less than HK\$600 million. Should the aggregate Audited Net Profit falls below HK\$600 million, Zhang will pay the shortfall on a dollar-to-dollar basis to China Coal.

If the profit after tax of the 1st or 2nd financial years (i.e. from 1 January 2007 to 31 December 2008) is each less than HK\$200,000,000 per year, the Company shall have priority to payment of dividend pursuant to the Joint Venture Agreement at the sum of HK\$40,000,000. Any sums short of HK\$40,000,000 of the aforesaid dividend must be made up and compensated by Zhang.

Pursuant to the Joint Venture Agreement, Zhang also agreed to mortgage his then 60% shareholdings in China Coal to the Company until China Coal is successfully and independently listed or the full performance of the guarantee hereunder, whichever is the sooner. Zhang subsequently executed the Deed of Charge on 25 October 2006 to mortgage all of Zhang's shares in China Coal from time to time in favour of the Company.

The Company has been advised that Zhang has subsequently agreed to transfer 15% beneficial interests in China Coal to Get Wealthy Investments Limited ("Get Wealthy") in consideration of consultancy service and technical assistance to be provided by Get Wealthy to Zhang.

The then three shareholders of China Coal entered into a shareholders' agreement on 25 October 2006 in which they confirmed the below shareholding structure as well as their respective beneficial interests in China Coal:—

Zhang	45% shareholding
the Company	40% shareholding
Get Wealthy	15% shareholding

In the performance of its obligations under the Joint Venture Agreement, the Company had successfully coordinated and arranged, with the assistance from Get Wealthy and/or other consultants, the followings for China Coal:—

- a. a reverse-take-over ("RTO") proposal by China Coal of securing USD40,000,000 cash owned by China Opportunity Acquisition Corporation, an "Over-the-counter" listed company in the United States of America, however the Company and Zhang have unanimously agreed not to proceed with such RTO proposal.
- b. discussions for the purpose of the fund raising for China Coal with a number of investment funds and investment banks including, but not limited to Credit Suisse, Stark Investments, Deutsche Bank, Macquarie Bank and an investment consortium from Singapore (comprising but not limited to United Overseas Bank and Development Bank of Singapore).
- c. the Company has successfully coordinated and arranged for an offer of a 2-year term loan from an independent third party, Favour Good Investments Limited ("Favour Good") in the sum of USD 3,000,000 in favour of China Coal, which was accepted by Zhang for China Coal on 22 December 2007.

- d. all from Merrill Lynch (Asia Pacific) Ltd. (“Merrill Lynch”), a term loan for 2-year in the sum of USD65,000,000 followed by Merrill Lynch’s assistance for China Coal’s intended public offerings namely acting as the Global Coordinator, Lead Bookrunner, Lead Manager and Lead Sponsor of China Coal, as evidenced by a head agreement on 6 February 2008 signed by Merrill Lynch, China Coal, the Company and Zhang. At all material times, it was a condition from Merrill Lynch that a satisfactory preliminary technical report proposed (at the costs of China Coal) of the mining operation and reserve evaluation of Taiyuan Sanxing, had to be prepared by a technical consultant namely John T. Boyd Company (“JT Boyd”) and be submitted to Merrill Lynch; but Zhang had been failing to provide accurate or sufficient information of the mining operation and reserve evaluation of Taiyuan Sanxing to JT Boyd with due diligence, and also failed to provide such information to JT Boyd on time before 31 March 2008; thereby obstructing the Company’s performance of the Joint Venture Agreement. Subsequently, Zhang refused to allow China Coal to commit to a term of a fixed repayment date previously agreed by Zhang, thereby destructing the fruits of the Company’s performance of the Joint Venture Agreement by the said term loan from Merrill Lynch.
- e. a term loan for 2-year in the sum of USD65,000,000 from Pine Street Asset Management Ltd (“Pine Street”) evidenced by a term sheet signed by Pine Street, China Coal, Get Wealthy, the Company and Zhang on 6 February 2008. At the material times, Pine Street was satisfied its own due diligence reviews on China Coal and was willing to finalize the terms and conditions of the aforesaid term loan, and in fact Pine Street’s solicitors, on 27 April 2008, presented the 6th draft of a formal loan agreement relating to the aforesaid term loan to China Coal and Zhang. But Zhang had subsequently refused to allow China Coal to commit to a term of a fixed repayment date previously agreed by Zhang, thereby destructing the fruits of the Company’s performance of the Joint Venture Agreement by the said term loan from Pine Street.
- f. offers of loans in early May 2008, in the aggregate sum of USD4,310,000 from independent investors, including but not limited to the Honourable Legislative Councilor, Mr. Tommy Cheung Yu-yan, under the same terms as the loan advanced by Favour Good referred to in above, but Zhang had subsequently refused to allow China Coal to commit to a term of a fixed repayment date, thereby destructing the fruits of the Company’s performance of the Joint Venture Agreement by such loans.

Zhang had also unreasonably or without any justifications rejected or ignored a reasonable proposal made by the Company in June 2008, of a plan to “reverse take over” an existing listed company for the purpose of achieving the public listing status of China Coal.

Since May 2008, Zhang has requested the Company to waive his obligations under the Joint Venture Agreement regarding the profit and dividend guarantees in respect of China Coal, and also requested the Company to release and return his shares in China Coal which have been mortgaged to the Company as collateral for the said profit and dividend guarantees given by Zhang in favour of the Company. Furthermore, Zhang has since 9 July 2008 repeatedly threatened to wind up China Coal including a letter received by Champion on 25 July 2008 from solicitors acting for and on behalf of Zhang.

As a matter of fact, the coal prices in Mainland China have been increasing since the entering into the Joint Venture Agreement, in particular the raw coking coal selling price (ex-pit) of the coal mine under Taiyuan Sanxing has substantially increased from around RMB300 per tonne in July 2006 to more than RMB800 per tonne in July 2008.

By reasons of the above, Zhang has repeatedly and unreasonably accused and alleged that the Company was in breach of the Joint Venture Agreement because financing has not yet been arranged for China Coal and China Coal has not yet been listed (including issuing the Writ against inter alios the Company) and at around the same time, unreasonably demanded the Company to sell out its interests in China Coal to him or his nominees at a very low consideration of HK\$200,000,000 based on such alleged breaches, and it would result into a substantial loss to the Company's investment of approximately HK\$396 million in China Coal if the Company had been forced to accept such unreasonable consideration proposed by Zhang.

As mentioned in the Company's announcement dated 20 June 2008, China Coal has not achieved a consolidated profit after tax of HK\$200,000,000 and has not declared and distributed any dividends to all shareholders including the Company for the year ended 31 December 2007. Therefore the Company's solicitors by a letter dated 11th July 2008 formally demanded Zhang to pay the Company the shortfall of dividend of HK\$40,000,000 but Zhang denied such liability to pay the shortfall of dividend through its solicitors.

In short, the Company has diligently performed its obligations under the Joint Venture Agreement but the fruits of the Company's performance have been destructed by Zhang's obstructing and failure to cooperate with the Company in performance of its obligations under the Joint Venture Agreement. Zhang has not only wilfully breached his duties and obligations but also taken actions to damage the interests of China Coal and its shareholders including the Company.

The Shareholders and public investors are advised to exercise caution when dealing in Shares.

SUSPENSION AND RESUMPTION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 3:19 p.m. on 7 August 2008 pending the issue of this announcement regarding the above legal actions immediately after the receipt of the Writ. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares with effect from 9:30 a.m. on 13 August 2008.

Further announcement will be published if the Company has any updated information on the above legal actions when appropriate and necessary.

TERMS USED IN THE ANNOUNCEMENT

In this announcement, the following terms have the following meanings:

“China Coal”	China Coal Energy Holdings Limited, a company incorporated in Hong Kong with limited liability
“Joint Venture Agreement”	the agreement for the sale and purchase of 40,000,000 shares in China Coal (representing 40% of its entire issued share capital) dated 15 July 2006 entered into by the Company and Zhang
“USD”	United States dollars, the lawful currency of the United States

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

Hong Kong, 12 August 2008

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 Yingsheng and Mr. Johnny Yuen; and three independent non-executive Directors, namely Mr. Dong ZhiXiong, Mr. Fung Hing Chiu, Cyril and Mr. Lai Shi Hong, Edward.

* *For identification purposes only*