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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)**

**PROPOSED CAPITAL REORGANISATION**

**AND**

**CANCELLATION OF ALL OUTSTANDING SHARE OPTIONS  
GRANTED BUT NOT EXERCISED**

The Company proposes to put forward to its Shareholders the following proposals that:

- (1) Issued Capital Reduction — the nominal value of all the issued Existing Shares be reduced from HK\$0.50 each to HK\$0.10 each by cancelling HK\$0.40 paid up on each issued Existing Share by way of a reduction of capital;
- (2) Authorised Capital Reduction — the nominal value of all shares in the authorised share capital of the Company be also reduced from HK\$0.50 each to HK\$0.10 each, resulting in the reduction of the authorised share capital from HK\$3,000,000,000 to HK\$600,000,000 divided into 6,000,000,000 shares of HK\$0.10 each;
- (3) Authorised Capital Increase — upon the Issued Capital Reduction and the Authorised Capital Reduction becoming effective, the authorised share capital of the Company be increased from HK\$600,000,000 divided into 6,000,000,000 shares of HK\$0.10 each to HK\$20,000,000,000 divided into 200,000,000,000 shares of HK\$0.10 each by the creation of 194,000,000,000 new shares;

- (4) Set-off against Accumulated Losses — the credit arising from such reduction will be applied towards cancelling the accumulated losses of the Company with the balance (if any) to be transferred to the distributable capital reserve account of the Company; and
- (5) cancel all outstanding Share Options granted pursuant to the Share Option Scheme but not exercised.

In accordance with provisions governing cancellation of the Share Options, cancellation of the Share Options granted but not exercised must be approved by the Shareholders, by way of poll, with the Option Holders (if they have exercised the Share Options) and their associates abstaining from voting at the SGM. Option Holders that have exercised part of the Share Options granted to become Shareholders and who continue to be the Option Holders at the date of the SGM, together with their associates, will be abstained from voting at the SGM.

A circular containing further details on the proposed Capital Reorganisation and the cancellation of Share Options together with a notice convening the SGM, will be despatched to the Shareholders as soon as practicable.

The expected timetable for the implementation of the Capital Reorganisation is set out below.

## **PROPOSED CAPITAL REORGANISATION**

It is proposed that:-

- (i) Issued Capital Reduction — the nominal value of all the issued Existing Shares be reduced from HK\$0.50 each to HK\$0.10 each by cancelling HK\$0.40 paid up on each issued Existing Share by way of a reduction of capital;
- (ii) Authorised Capital Reduction — the nominal value of all shares in the authorised share capital of the Company be also reduced from HK\$0.50 each to HK\$0.10 each, resulting in the reduction of the authorised share capital from HK\$3,000,000,000 to HK\$600,000,000 divided into 6,000,000,000 shares of HK\$0.10 each; and
- (iii) Authorised Capital Increase — upon the Issued Capital Reduction and the Authorised Capital Reduction becoming effective, the authorised share capital of the Company be increased from HK\$600,000,000 divided into 6,000,000,000 shares of HK\$0.10 each to HK\$20,000,000,000 divided into 200,000,000,000 shares of HK\$0.10 each by the creation of 194,000,000,000 new shares;

(iv) Set-off against Accumulated Losses — the credit arising from such reduction will be applied towards cancelling the accumulated losses of the Company with the balance (if any) to be transferred to the distributable capital reserve account of the Company.

The Capital Reorganisation (which will be effected in accordance with the bye-laws of the Company and the Companies Act) is conditional upon:-

- (i) the passing of a special resolution to approve the Capital Reorganisation by Shareholders at the SGM;
- (ii) the compliance with the relevant legal procedures and requirements under the Companies Act to effect the Capital Reorganisation; and
- (iii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Adjusted Shares in issue upon the Capital Reorganisation becoming effective.

No shareholder is required to abstain from voting on the Capital Reorganisation at the SGM.

Save for the Share Options to subscribe for 12,056,800 Existing Shares which are outstanding under the Share Option Scheme, there are no warrants or other securities convertible into or giving rights to subscribe for the Existing Shares.

Application will be made by the Company to the Listing Committee of the Stock Exchange for listing of, and permission to deal in, the Adjusted Shares and any Adjusted Shares which may be issued pursuant to the exercise of options that may be granted under the share option scheme of the Company adopted 21 June 2002.

The share capital of the Company consists of 464,737,960 Existing Shares in issue and the aggregate nominal value of the issued share capital of the Company is approximately HK\$232.4 million. On the basis of 464,737,960 Existing Shares in issue as at the date of this announcement (assuming no Existing Shares are issued from the date hereof until the effective date of the Capital Reorganisation), a total credit of approximately HK\$ 185.9 million will arise in the books of the Company as a result of the Adjustment Proposal which will be applied as mentioned in the following paragraph.

After the Issued Capital Reduction and the Authorised Capital Reduction, the authorised share capital of the Company be reduced from HK\$3,000,000,000 to HK\$600,000,000 divided into of 6,000,000,000 Adjusted Shares of HK\$0.10 each, of which approximately 464,737,960 Adjusted Shares will be in issue and the aggregate nominal value of the issued share capital of the Company will become HK\$46,473,796 (assuming no Existing Shares are issued from the date hereof until the effective date of the Capital Reorganisation). Assuming the Capital Reorganisation is implemented, subject to any applicable laws and regulations and any restrictions contained in the bye-laws of the Company, the total credit arising from the Adjustment Proposal will be used to set off any accumulated losses of the Company at the relevant time with the balance (if any) to be transferred to the distributable capital reserve account of the Company. As at 31 December 2007, the accumulated losses of the Company were HK\$164,895,000.

### **Proposed Increase in Authorised Share Capital**

In order to provided the Group with flexibility in its future expansion and growth by means of issuing new Shares and fund-raising activities as the Directors may consider appropriate from time to time, the Directors proposed to increase the authorised share capital of the Company to HK\$20,000,000,000 divided into 200,000,000,000 shares of HK\$0.10 each by the creation of 194,000,000,000 new shares. The increase in authorised share capital of the Company is conditional upon the passing of an ordinary resolution by the Shareholders at the SGM and no Shareholders are required to abstain from voting for such resolution.

### **Effect of the Capital Reorganisation**

Other than the relevant expenses incurred, the implementation of the Capital Reorganisation will have no effect on the consolidated net asset value of the Group, nor will it alter the underlying assets, business, operations, management or financial position of the Company or the interest of the Shareholders as a whole. The Directors believe that the Capital Reorganisation will not have any material adverse effect on the financial position of the Group.

The Adjusted Shares will rank pari passu in all respects with each other and the Capital Reorganisation will not result in any change in the relative rights of the Shareholders.

### **Free exchange of Adjusted Share certificates and trading arrangements**

Subject to the Capital Reorganisation, Shareholders may, during a period to be specified in a further announcement to be made by the Company, submit certificates for Existing Shares to the Company's registrar for exchange, at the expense of the Company, for certificates for Adjusted Shares. Thereafter, certificates for Existing

Shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such other amount as may from time to time be allowed by the Stock Exchange) for each new certificate issued for Adjusted Shares. Nevertheless, certificates for Existing Shares will continue to be good evidence of legal title and may be exchanged for certificates for Adjusted Shares at any time at the expense of the Shareholders in question.

## **Reasons**

The Existing Shares of the Company has been trading at a price below its nominal value of HK\$0.50 each since 18 August, 2008. Under the Companies Act, it is not permissible for a Bermuda company to issue shares at a discount to the nominal value of its shares, unless in compliance with Companies Act, which includes, inter alia, requirements to obtain authorisation of members of the Company. Given the current trading prices, the Company is unable to conduct any fund raising activity. In addition, due to the expected time lag needed to effect a Capital Reorganisation, the Company proposes to effect the Capital Reorganisation as soon as practicable to provide it with flexibility to effect fund raising exercises as and when opportunities arise to provide funding for the Company to expand its current businesses including energy, recycling and logistics services and/or to explore other investment opportunities.

## **CANCELLATION OF SHARE OPTIONS**

### **The Share Options**

As at the date of this announcement, the total outstanding Share Options granted but not exercised are 12,056,800. The said outstanding Share Options represent approximately 2.59% of the existing issued share capital of 464,737,960 Shares and approximately 2.53% of the enlarged issued share capital of 476,794,760 Shares if all outstanding Share Options are exercised.

Details of the Share Options granted are set out below :

<b>Exercise Period</b>	<b>Exercise price (HK\$)</b>	<b>Outstanding Share Options as at the date of this announcement</b>
20 May 2004 — 21 June 2012	HK\$6.000	220,000
18 August 2005 — 20 June 2012	HK\$3.100	356,800
29 August 2006 — 20 June 2012	HK\$3.150	1,530,000
13 June 2007 — 20 June 2012	HK\$3.375	8,950,000
1 January 2008 — 20 June 2012	HK\$3.375	1,000,000

## **Reasons for Cancellation and effect on the Company**

The purpose of the Share Option Scheme is to provide incentives or rewards to the Option Holders for their contribution to the Group and to enable the Group to recruit and retain high-calibre employees. As the exercised prices of the Share Options are comparatively high when compared with the recent market prices of the Shares, which deters the Option Holders from exercising the Share Options to subscribe for the Shares of the Company, the Directors consider that it will be in the interest of the Company as well as the Option Holders to cancel all the outstanding Share Options granted but not exercised.

The relevant Option Holders whose Shares Options have been cancelled shall not be entitled to any compensation or any consequential loss as a result of such cancellation. Therefore, there will not be any adverse financial effect as a result of the cancellation of the outstanding Share Options granted but not exercised.

## **Approval by the Shareholders**

Pursuant to the provisions governing cancellation of the Share Options, cancellation of the Share Options granted but not exercised must be approved by the Shareholders, by way of poll, with the Option Holders and their associates abstaining from voting.

Option Holders that have exercised part of the Share Options granted to become Shareholder and who continue to be the Option Holders at the date of the SGM, together with their associates, will be abstained from voting at the SGM. As at the date of this announcement, 80,000 Share Options had been exercised, representing approximately 0.017% of the existing issued share capital of 464,737,960 Shares.

In the event that the cancellation of all the outstanding Share Options granted but not exercised is not approved by the Shareholders, all the outstanding Share Options shall remain valid and exercisable at the exercise prices, subject to adjustment.

## **GENERAL**

A circular containing details of the Capital Reorganisation and the cancellation of Share Options and a notice convening the SGM to approve the Capital Reorganisation and the cancellation of Share Options, will be despatched to Shareholders as soon as practicable.

## EXPECTED TIMETABLE

The expected timetable for the Capital Reorganisation is set out below:

Despatch of Circular and proxy form of SGM .....21 October 2008

Latest time for return of proxy form of SGM

(not less than 48 hours) .....4:00 p.m., 10 November 2008

Expected date and time of SGM .....4:00 p.m., 12 November 2008

*The following events are conditional on the results of the SGM, the dates are therefore tentative.*

Announcement of expected effective date

of the Capital Reorganisation .....before 12 November 2008

Effective date of the Capital Reorganisation .....9:30 a.m., 13 November 2008

Commencement of dealings in Adjusted Shares .....13 November 2008

Free exchange of existing share certificates for

new share certificates for the Adjusted

Shares commences .....13 November 2008

Last day of free exchange of existing share

certificates for new share certificates .....31 December 2008

All times and dates in this announcement refer to Hong Kong local times and dates. Dates or deadlines specified in expected timetable above depends on the results of the SGM and the relevant Court hearings and are therefore indicative only. An announcement will be made regarding any changes to the expected timetable as and when appropriate.

## DEFINITIONS

“Adjusted Shares”	shares of HK\$0.10 each in the capital of the Company upon the Capital Reorganisation becoming effective
“Adjustment Proposal”	the proposal to be put forward to Shareholders for the reduction in nominal value of the Existing Shares unissued shares by way of a reduction in capital and the Set-off against the Accumulated Losses as described in the section headed “Proposed Capital Reorganisation” in this announcement
“Authorised Capital Increase”	upon the Issued Capital Reduction and the Authorised Capital Reduction becoming effective, the increase of the authorised share capital of the Company from HK\$600,000,000 divided into 6,000,000,000 shares of HK\$0.10 each to HK\$20,000,000,000 divided into 200,000,000,000 shares of HK\$0.10 each by the creation of 194,000,000,000 new shares;
“Authorised Capital Reduction”	the reduction of the nominal value of all shares in the authorised share capital of the Company from HK\$0.50 each to HK\$0.10 each, resulting in the reduction of the authorised share capital from HK\$3,000,000,000 to HK\$600,000,000 divided into 6,000,000,000 shares of HK\$0.10 each;
“Capital Reorganisation”	the Issued Capital Reduction, the Authorised Capital Reduction, the Authorised Capital Increase and the Set-off against Accumulated Losses as described in the section headed, “Proposed Capital Reorganisation” in this announcement.
“Companies Act”	Companies Act 1981 of Bermuda (as amended)
“Company”	Pearl Oriental Innovation Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
“Directors”	directors of the Company

“SGM”	a special general meeting of the Company to be convened as soon as practicable to consider the Capital Reorganisation proposals and the cancellation of Share Options referred to in this announcement
“Existing Share(s)”	existing ordinary share(s) of HK\$0.50 each in the share capital of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Issued Capital Reduction”	the reduction of the nominal value of all the issued Existing Shares be reduced from HK\$0.50 each to HK\$0.10 each by cancelling HK\$0.40 paid up on each issued Existing Share by way of a reduction of capital;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Option Holders”	holders of Share Options
“Reduced Shares(s)”	ordinary share(s) of HK\$0.10 each in the capital of the Company in issue upon completion of the Adjustment Proposal
“Set-off against Accumulated Losses”	The credit arising from such reduction will be applied towards cancelling the accumulated losses of the Company with the balance (if any) to be transferred to the distributable capital reserve account of the Company;
“Share Options(s)”	Means the outstanding options granted pursuant to the Share Option Scheme and “Share Option” shall be construed accordingly
“Share Option Scheme”	share option scheme of the Company adopted on 21 June 2002

“Shareholder(s)”                      holder(s) of the Existing Shares

“Stock Exchange”                      The Stock Exchange of Hong Kong Limited

*As at the date hereof, 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. Lam Ka Wai, Graham.*

By order of the Board  
**PEARL ORIENTAL INNOVATION LIMITED**  
**Cheung Kwok Yu**  
*Executive Director and Company Secretary*

Hong Kong, 6 October 2008

\* *For identification purposes only*