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If you have sold or transferred all your shares in Pearl Oriental Innovation Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, licensed dealer, or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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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)

**PROPOSED CAPITAL REORGANISATION
AND
CANCELLATION OF ALL OUTSTANDING SHARE OPTIONS GRANTED
BUT NOT EXERCISED**

A notice convening the special general meeting of Pearl Oriental Innovation Limited to be held at Suite 1908, 19/F, 9 Queen's Road Central, Hong Kong at 4:00 p.m. on 12 November 2008, Wednesday is set out in this circular. A form of proxy for use at the special general meeting is enclosed. Such form of proxy is also published on the website of The Stock Exchange of Hong Kong Limited (www.hkex.com.hk). Whether or not you are able to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time fixed for holding the special general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the special general meeting or any adjourned meeting if you so wish.

* For identification purpose only

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EXPECTED TIMETABLE

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

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 SGM4:00 p.m., 12 November 2008

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

Announcement of expected effective date of
the Capital Reorganisationbefore 12 November 2008

Effective date of the Capital Reorganisation9:30 a.m., 13 November 2008

Commencement of dealings in Adjusted Shares13 November 2008

Free exchange of existing share certificates for
new share certificates for
the Adjusted Shares commences13 November 2008

Last day of free exchange of existing share
certificates for new share certificates31 December 2008

All times and dates in this circular refer to Hong Kong local times and dates. Dates or deadlines specified in expected timetable above depends on the results of the SGM 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 share 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 circular
“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 of HK\$0.10 each
“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 circular
“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
“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

DEFINITIONS

“Latest Practicable Date”	16 October 2008, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Option Holders”	holders of Share Options
“SGM”	the special general meeting of the Company expected to be held at 4:00p.m. on 12 November 2008, Wednesday at which resolutions will be proposed to consider and, if thought fit, approve the Capital Reorganisation
“Set-off against Accumulated Losses”	The credit arising from the Issued Capital 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 in accordance with the bye-laws 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

LETTER FROM THE BOARD



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:

Wong Yuk Kwan (alias: Wong Kwan)
Chan Yiu Keung
Cheung Kwok Yu
Zhou Li Yang
Zheng Yingsheng
Johnny Yuen

Independent non-executive directors:

Dong Zhixiong
Fung Hing Chiu, Cyril
Lam Ka Wai, Graham

Registered office:

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

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

Suite 1908, 19th Floor
9 Queen's Road Central
Hong Kong

21 October 2008

To the Shareholders

Dear Sirs,

PROPOSED CAPITAL REORGANISATION AND CANCELLATION OF ALL OUTSTANDING SHARE OPTIONS GRANTED BUT NOT EXERCISED

INTRODUCTION

The purpose of this circular is to provide you with information in respect of the ordinary and special resolutions to be proposed at the SGM for the approval of (i) the Proposed Capital Reorganisation; (ii) the cancellation of all outstanding Share Options granted but not exercised; and also a notice of the SGM.

1. 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;

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LETTER FROM THE BOARD

- (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 of HK\$0.10 each;
- (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 in accordance with the bye-laws 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.

LETTER FROM THE BOARD

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 of HK\$0.10 each. 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.

LETTER FROM THE BOARD

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.

2. CANCELLATION OF SHARE OPTIONS

Pursuant to a written resolution of the sole shareholder passed on 21 June 2002, the Share Option Scheme was set up for the primary purpose of providing incentives to directors and eligible employees, and which will expire on 20 June 2012. Based on the terms and conditions of the Share Option Scheme, there are provisions governing cancellation of the outstanding Share Options granted.

The Share Options

As at the Latest Practicable Date, 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 outstanding Share Options granted but not yet exercised are set out below :

Directors	Exercise Periods	Exercise price (HK\$)	Outstanding Options as at the Latest Practicable Date
Mr. Wong Kwan (Chairman and Executive Director)	13/06/2007- 20/06/2012	3.375	2,400,000
Chan Yiu Keung (Executive Director)	13/06/2007- 20/06/2012	3.375	1,000,000
Cheung Kwok Yu (Executive Director)	13/06/2007- 20/06/2012	3.375	1,000,000

LETTER FROM THE BOARD

Directors	Exercise Periods	Exercise price (HK\$)	Outstanding Options as at the Latest Practicable Date
Zhou Li Yang (Executive Director)	20/05/2004-21/06/2012	6.000	70,000
	18/08/2005-20/06/2012	3.100	240,000
	29/08/2006-20/06/2012	3.150	100,000
	13/06/2007-20/06/2012	3.375	1,000,000
Zheng Yingsheng (Executive Director)	20/05/2004-21/06/2012	6.000	150,000
	18/08/2005-20/06/2012	3.100	60,000
	29/08/2006-20/06/2012	3.150	820,000
	13/06/2007-20/06/2012	3.375	1,000,000
Johnny Yuen (Executive Director)	01/01/2008-20/06/2012	3.375	1,000,000
Employees	18/08/2005-20/06/2012	3.100	56,800
	29/08/2006-20/06/2012	3.150	610,000
	13/06/2007-20/06/2012	3.375	2,550,000
Total			<u>12,056,800</u>

LETTER FROM THE BOARD

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 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. As at the Latest Practicable Date, 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

The principal activity of the Company is investment holding. The Group is principally engaged in the logistics, energy and recycling business.

LETTER FROM THE BOARD

THE SGM, PROXY ARRANGEMENT AND DEMAND BY POLL

A notice convening the SGM to be held at Suite 1908, 19/F, 9 Queen's Road Central, Hong Kong on 12 November 2008, Wednesday at 4:00 p.m. is set out on pages 11 to 12 of this circular.

A form of proxy for use at the SGM is enclosed with this circular. Such form of proxy is also published on the website of The Stock Exchange of Hong Kong Limited (www.hkex.com.hk). Whether or not you are able to attend the SGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM (or any adjournment thereof) to the office of the Company's share registrar in Hong Kong, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

Pursuant to clause 66 of the Bye-laws, every resolution put to vote at a general meeting shall be decided on a show of hands unless voting by way of a poll is required by the Listing Rules or demanded (before or upon the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll):

- (a) by the chairman of the meeting; or
- (b) by at least 3 Shareholders present in person or in the case a Shareholder being a corporation by its duly authorized representative or by proxy for the time being entitled to vote at the meeting; or
- (c) by a Shareholder or Shareholders present in person or in the case 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 having the right to vote at the meeting; or
- (d) by a Shareholder or Shareholders present in person or in the case 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 Shares conferring that right.

A demand by a person as proxy for a Shareholder or in the case of a Shareholder being a corporation by its duly authorized representative shall be deemed to be the same as a demand by a Shareholder.

Unless a poll is duly demanded and the demand is not withdrawn, a declaration by the chairman of the meeting that a resolution has been carried, or carried unanimously, or by a particular majority, or not carried by a particular majority, or not, and an entry to that effect made in the minute book of the Company, shall be conclusive evidence of the facts without proof of the number or proportion of the votes recorded for or against the resolution.

LETTER FROM THE BOARD

RECOMMENDATION

The Directors consider that all the proposed resolutions in the SGM are in the interests of the Company and the Shareholders as a whole and, accordingly, the Directors recommend all Shareholders to vote in favour of all the resolutions to be proposed at the SGM in respect thereof.

Yours faithfully,
For and on behalf of the Board
Pearl Oriental Innovation Limited
Cheung Kwok Yu
Executive Director and Company Secretary

NOTICE OF SPECIAL GENERAL MEETING



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 at Suite 1908, 19/F, 9 Queen’s Road Central, Hong Kong, on Wednesday, 12 November 2008 at 4:00 p.m. for the following purpose:-

AS A SPECIAL RESOLUTION

“**THAT** with effect from 9:30 p.m. on 13 November 2008 (Hong Kong time):

1. (a) the issued share capital of the Company be reduced by cancelling paid up capital to the extent of HK\$0.40 on each of the Shares in issue such that the nominal value of all the issued will be reduced (the “Issued Capital Reduction”) from HK\$0.50 each to HK\$0.10;
- (b) the nominal value of all shares in the authorized share capital of the Company be reduced from HK\$0.50 each to HK\$0.10 each, resulting in the reduction of the authorized 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 (the “Authorised Capital Reduction”);
- (c) upon the Issued Capital Reduction and the Authorised Capital Reduction becoming effective, the credit amount arising from the Issued Capital Reduction be transferred to the distributable capital reserve account of the Company be applied to set off against the accumulated losses of the Company with the balance (if any) in accordance with the bye-laws of the Company;
- (d) the Directors be and are hereby authorized to do all things and acts and execute all such documents and deeds which they consider necessary, desirable, or in connection with the implementation of the above.

AS ORDINARY RESOLUTIONS

2. (a) upon the Issued Capital Reduction and the Authorised Capital Reduction becoming effective, the authorized 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 of HK\$0.10 each (the “Authorised Capital Increase);
- (b) the Directors be and are hereby authorized to do all things and acts and execute all such documents and deeds which they consider necessary, desirable, or in connection with the implementation of the above.

* For identification purpose only

NOTICE OF SPECIAL GENERAL MEETING

3. (a) “THAT all the outstanding share options which have been granted but not exercised as at the date hereof, pursuant to a share option scheme adopted by shareholders of the Company on 21 June 2002, be cancelled; and
- (b) the Directors be and are hereby authorized to do all things and acts and execute all such documents and deeds which they consider necessary, desirable, or in connection with the implementation of the above.

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

Hong Kong, 21 October 2008

As at the date of this notice, the executive directors of the Company are Messrs. Wong Kwan, Chan Yiu Keung, Johnny Yuen, Cheung Kwok Yu, Zhou Li Yang and Zheng Yingsheng; and the independent non-executive directors of the Company are Messrs. Dong Zhixiong, Fung Hing Chiu, Cyril and Lam Ka Wai, Graham.

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, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time for holding the meeting or the adjourned meeting or poll (as the case may be).
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.
6. The enclosed form of proxy must be signed by the appointor or by his attorney authorized in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person duly authorized to sign the same.