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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)**

**(1) SETTLEMENT OF LEGAL ACTIONS RELATING TO CHINA COAL**

**AND**

**DISPOSAL OF 55.11% EQUITY INTEREST IN CHINA COAL**

**AND**

**(2) RESUMPTION OF TRADING**

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

**SETTLEMENT AGREEMENT**

The Board is pleased to announce that on 31 July 2010, the Group entered into a Settlement Agreement with Mr. Zhang Jingyuan. Pursuant to the Settlement Agreement, Mr. Zhang and the Group, inter alia, shall make relevant applications to withdraw or settle all their legal claims against any parties to those litigations in Hong Kong and Mainland China as soon as possible, and also the Group shall dispose of the Sale Shares which represents approximately 55.11% of the issued shares of China Coal to Mr. Zhang. The net proceeds on the Disposal to be received by the Group will be HK\$168.6 million.

**RESUMPTION OF TRADING**

At the request of the Company, trading of the Shares has been suspended with effect from 9:30 a.m. on 2 August 2010, pending the release of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:30a.m. on 3 August 2010.

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

Reference is made to the Company's circular (the "Circular") and announcement (the "Announcement") dated 15 September 2006 and 12 August 2008 respectively. Terms defined in the Circular and the Announcement shall have the same meanings when used herein unless the context requires otherwise.

The Board is pleased to announce that on 31 July 2010, the Group entered into a Settlement Agreement with Mr. Zhang Jingyuan ("Mr. Zhang"). Pursuant to the Settlement Agreement, Mr. Zhang and the Group, inter alias, shall make relevant applications (the "Applications") to withdraw or settle all their legal claims against any parties to those litigations in Hong Kong and Mainland China as soon as possible, and also the Group shall dispose of the Sale Shares which represents approximately 55.11% of the issued shares of China Coal Energy Holdings Limited (the "China Coal") to Mr. Zhang (the "Disposal"). The net proceeds on the Disposal to be received by the Group will be HK\$168.6 million.

## **SETTLEMENT AGREEMENT**

Date : 31 July 2010

Parties : The Group, Mr. Zhang, inter alios, and Favour Good Investments Limited ("Favour Good")

Assets to be disposed of : 55,110,760 shares (the "Sale Shares") in China Coal representing 55.11% equity interest of China Coal which shall cease to be a subsidiary of the Company after completion.

Consideration : The aggregate consideration payable by Mr. Zhang is HK\$192,000,000, as to HK\$168.6 million payable to the Company and as to HK\$23.4 million payable to Favour Good and which shall be paid by Mr. Zhang by instalments according to the following timetable :

First Payment Date	HK\$32,000,000
Within 6 months after the First Payment Date	HK\$50,000,000
Within 12 months after the First Payment Date	HK\$50,000,000
Within 18 months after the First Payment Date	HK\$30,000,000
Within 24 months after the First Payment Date	HK\$30,000,000
Total	<u><u>HK\$192,000,000</u></u>

As a result, the parties also agreed that China Coal shall be no longer liable to repay to Favour Good, an independent third party and an existing creditor of China Coal, a loan with principal sum of USD3,000,000 (equivalent to HK\$23.4 million) and interests thereon. The Group and Favour Good will receive their respective portion of the payment by instalments from Mr. Zhang in the ratio of approximately 87.8% : 12.2%.

The said consideration was arrived at after arm's length negotiations between the parties and on normal commercial terms, and was determined by taking into account, including without limitation, the value of China Coal which has been adversely affected in view of the absence of a valid mining permit of Shanxi Sanxing in respect of the Coal Mine.

The Board acknowledges that no Director has a material interest in the Disposal.

### **Condition precedent**

The Disposal may constitute a connected and discloseable transaction of the Company under Rule 14A.13 of the Listing Rules. The completion of the Disposal may be, among, other things, subject to independent shareholders' approval (if required).

The Group will receive the first instalment of HK\$32,000,000 within 3 Business Days after the satisfaction of the said condition precedent (if necessary).

### **INFORMATION ON THE GROUP**

The principle activity of the Company is an investment holding company. It is principally engaged in the energy and recycling businesses.

### **INFORMATION ON MR. ZHANG**

To the best knowledge of the Company, Mr. Zhang is an independent third party save as he is a shareholder of the remaining 44.89% of the issued shares of China Coal.

Save as disclosed herein, to the best knowledge of the Directors and having made all reasonable enquiries, Mr. Zhang does not have any relationship with the Company or any of its associates, and is a third party independent of the Company and connected persons of the Company.

## **INFORMATION ON CHINA COAL**

The principal activity of China Coal is investment holding and the principal asset of China Coal is an 100% equity interest in Taiyuan Sanxing. Taiyuan Sanxing was established in the PRC with limited liabilities and the Taiyuan Sanxing Group is principally engaged in the coal gasification and coal mining. The principal assets of Taiyuan Sanxing and its subsidiary Shanxi Sanxing Coal and Coke Limited (山西三興煤焦有限公司) (“Shansi Sanxing”) (collectively, the “Taiyuan Sanxing Group”) are certain coal mines.

Because of the above legal claims between the Company and Mr. Zhang, China Coal had not been provided with the operating and financing information of Taiyuan Sanxing since 1 January 2008 and China Coal was unable to exercise its powers on the financial and operating matters of Taiyuan Sanxing. The loss of the operating and financing control over Taiyuan Sanxing had become apparent to China Coal’s board of directors because the legal representative, directors and senior management of Taiyuan Sanxing were either appointed based on the recommendation of Mr. Zhang and/or ex-senior management of Taiyuan Sanxing prior to the Group’s acquisition of the present equity interests in China Coal and therefore in Taiyuan Sanxing. Following all the shareholders of China Coal except Mr. Zhang had become aware of the loss of control over Taiyuan Sanxing, the board of directors of China Coal had passed certain key resolutions demanding structural reform to the board of directors of Taiyuan Sanxing. However, due to the above management structure unfavourable to the Group, those board resolutions of China Coal cannot be executed on or by Taiyuan Sanxing. As a result of the loss of control or significant influence over Taiyuan Sanxing, China Coal’s equity interests in Taiyuan Sanxing were reclassified as an available-for-sales investment at its carrying value during the year ended 31 December 2008.

As disclosed in the 2009 Annual Report of the Company, in view of the above litigations and the inability of China Coal to deal with its interests in Taiyuan Sanxing as well as the significant deterioration of the Taiyuan Sanxing Group’s operations and assets, particularly as evidenced by the cancellation of the title of the Coal Mine, a full provision of impairment loss in respect of China Coal and Taiyuan Sanxing has been made by the Group during the year ended 31 December 2009.

## **FINANCIAL EFFECT OF THE DISPOSAL**

It is expected that there will be a gain of approximately HK\$168.6 million for the Group from the Disposal and the net proceeds will be used as general working capital of the Group.

## **REASONS FOR ENTERING INTO THE SETTLEMENT AGREEMENT**

The prolonged legal actions in relation to China Coal have last for almost two years, the Group cannot afford to spend any further time, resources and effort in these efforts and liaising with various governmental authorities and the outcome of these legal actions are uncertain, therefore the Board believes that it is in the best interests of the Group to enter into the Settlement Agreement with Mr. Zhang which can generate a net proceeds of HK\$168.6 million to the Group.

Further, as disclosed in the Company's 2009 Annual Report and announcement dated 27 October 2009, the transfer of the title of the Coal Mine to Shanxi Sanxing in April 2002 by the Department of Land and Resources, Shanxi Province (山西省國土資源廳) has been confirmed as an illegal administrative action, and the mining permit of Shanxi Sanxing issued by the Department of Land and Resources, Shanxi Province (山西省國土資源廳) in December 2006 should be cancelled.

In addition, the Group can fully focus on its oil and gas core businesses after the disputes in relation to China Coal has been resolved and it can remove the uncertainty on the prospect of the Group's future development.

In the circumstances, it is in the best interests of the Group to dispose of the Sale Shares in order to achieve a full and final settlement of all legal actions and disputes in relation to China Coal.

## **RESUMPTION OF TRADING**

Trading of the Shares has been suspended with effect from 9:30 a.m. on 2 August 2010. pending the release of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:30 a.m. on 3 August 2010.

## **DEFINITIONS**

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings when used herein:

“Business Day”	Any day (other than Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for normal banking business
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“China Coal”	China Coal Energy Holdings Limited, a company incorporated in Hong Kong with limited liability
“First Payment Date”	the day on which the first instalment of HK\$32,000,000 is paid by Mr. Zhang to his lawyers in Hong Kong as stakeholder and which shall be within 7 Business Days after the lawyers of the Group and Mr. Zhang have made the Applications.
“Sale Shares”	55,110,760 issued shares in the capital of China Coal

*As at the date hereof, the Board comprises six executive Directors, namely Mr. Wong Yuk Kwan (alias: Wong Kwan), Dr. Lew Mon Hung, Mr. Cheung Kwok Yu, Mr. Zhou Li Yang, Mr. Zheng Yingsheng and Mr. Johnny Yuen; and three independent non-executive Directors, namely Mr. Yu Jianmeng, 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, 2 August 2010

\* For identification purposes only