

**PEARL ORIENTAL INNOVATION LTD:  
A GLUE FAILURE IN THE PAGES OF THE 2006 AGREEMENT ?**

The Chairman of [Pearl Oriental Innovation Ltd \(\)](#) (Code: 632, Main Board, The Stock Exchange of Hongkong Ltd) has been accused of, inter alia, *'misrepresentation made in around July 2006 which induced'* Mr Zhang Jing Yuan (), formerly known as Mr Zhang Gen Yu (), to enter into a joint venture agreement with Pearl Oriental Corporation Ltd ().

Mr Zhang Jing Yuan has sued Mr Wong Yuk Kwan (), formerly known as Wong Kwan (), in an Action, filed in the High Court of the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC), naming the Chairman as the First Defendant to this Action, along with the following 5 Defendants:

Pearl Oriental Innovation Ltd ()    Second Defendant  
Pearl Oriental Corporation Ltd ()    Third Defendant  
Champion Merry Investments Ltd    Fourth Defendant  
Favour Good Investments Ltd ()    Fifth Defendant  
Get Wealthy Investments Ltd ()    Sixth Defendant

The Third Defendant is an HKSAR-domiciled corporation, but it is owned, almost entirely, by North China Development Corporation, a company that is domiciled in the British Virgin Islands.

This company, with an Issued and Fully Paid-Up Share Capital of \$HK10 million, has issued 9,999,999, \$HK1.00 shares to the British Virgin Islands company and one share was held, as at November 15, 2007, by Mr Wong Yuk Kwan, the Chairman of Pearl Oriental Innovation Ltd.

The Fourth, Fifth and Sixth Defendants are not registered in the HKSAR.

The Indorsement of Claim, attached to Writ of Summons, Number 1475, seeks the following:

- '1. An Order that the following agreements be rescinded:*
  - (1) the Joint Venture Agreement () dated 15 July 2006 ("JV Agreement") entered into between the Plaintiff and the 2nd Defendant;*
  - (2) the Co-operation Agreement () made on around 24 or 25 July 2006 between the Plaintiff and the 3rd Defendant ("D3 Co-operation Agreement"); and*
  - (3) the Deed of Charge () dated 25 October 2006 made between the Plaintiff and the 2nd Defendant ("Deed of Charge").*
- '2. An Order that each of the 2nd and 3rd Defendants do take all necessary steps to transfer to the Plaintiff or his nominee(s) any and all of their interests in China Coal Energy Holdings Limited () ("CCEHL") (whether held in their own names or in the names of their nominees), including:*
  - (1) the 2nd and/or 3rd Defendants do procure the 4th and 5th Defendants to transfer to the Plaintiff or his nominee(s) all the shares of CCEHL which are registered in the names of the 4th and 5th Defendants;*
  - (2) each of the 4th and 5th Defendants does forthwith transfer the shares in CCEHL registered in*

*their names to the Plaintiff or his nominee(s) and to take any and all such steps as may be necessary to effect the said transfer.*

*‘3. Alternatively and in the event this Court does not see fit to grant the relief prayed in paragraphs 1 and 2 above:*

*(1) as against the 1st Defendant:*

- (a) damages for misrepresentation made in around July 2006 which induced the Plaintiff to enter into the JV Agreement, the D3 Co-operation Agreement and the Deed of Charge;*
- (b) damages for breaches of oral collateral contract and/or warranty made in around July 2006 whereby the 1st Defendant undertook and/or warranted that, in return of the Plaintiff agreeing to enter into the JV Agreement and/or the D3 Co-operation Agreement and/or the Deed of Charge, the 1st Defendant would and could: (i) inject as well as arrange funding for the operation of CCEHL; and (ii) procure the public listing of the shares of CCEHL as soon as possible and in any event within 18 months from the signing of the JV Agreement.*

*(2) as against the 2nd Defendant, damages for breaches of the JV Agreement (in particular clauses 5E, F and H thereof);*

*(3) as against the 3rd Defendant, damages for breaches of the D3 Co-operation Agreement (in particular clause 7 thereof).*

*‘The Plaintiff claims against the 2nd Defendant:*

*‘4. A Declaration that the 2nd Defendant is neither entitled to any compensation under clause 8.B of the JV Agreement, nor to enforce the guarantee under clauses 8.B and 8.C of the JV Agreement and/or the Deed of Charge dated 25 October 2006 made by the Plaintiff in favour of the 2nd Defendant.*

*‘The Plaintiff claims against the 1st and 6th Defendant:*

*‘5. An Order that the Contract of Trust () and the Co-operation Agreement (), which were both signed by the Plaintiff in around February 2008 as a result of misrepresentation by the 1st and/or 6th Defendants but back-dated by them to 6 October 2006, be rescinded.*

*‘6. A Declaration that the 15,000,000 shares in CCEHL registered in the name of the 6th Defendant were at all material times and still are held on trust by the 6th Defendant in favour of the Plaintiff.*

*‘7. An Order that the 6th Defendant do forthwith transfer to the Plaintiff or his nominee(s) the said 15,000,000 shares in CCEHL registered in the name of the 6th Defendant and to take any and all such steps as may be necessary to effect the said transfer.*

*‘8. Damages in addition to rescission.*

*‘9. Alternatively and in the event this Court does not see fit to grant the relief prayed in paragraphs 5 to 8 above, damages in lieu of rescission and/or damages for misrepresentation.*

*‘The Plaintiff claims against all the Defendants:*

*‘10. Interest on such sums or damages as may be held payable by any of the Defendants to the Plaintiff in equity or pursuant to section 48 of the High Court Ordinance (Cap. 4) at such rate or rates and for such period or periods of time as this Court may think fit.*

*‘11. Costs.*

*‘12. Such further or other relief as this Court may think fit.’*

As soon as the above Writ of Summons was filed, Pearl Oriental Innovation Ltd suspended trading in its shares on The Stock Exchange of Hongkong Ltd, '*pending the release of an announcement relating to certain price sensitive information of the Company.*'

### **The Background**

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