THIS SUPPLEMENTAL CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this supplemental circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Styland Holdings Limited, you should at once hand this supplemental circular and the accompanying proxy form to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

STYLAND HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 211)

SUPPLEMENTAL CIRCULAR

TO THE CIRCULAR DATED 11 SEPTEMBER 2003

RELATING TO

VARIOUS DISCLOSEABLE AND CONNECTED TRANSACTIONS

This supplemental circular shall be read in conjunction with the circular of the Company dated 11 September 2003.

A notice convening a special general meeting of Styland Holdings Limited to be held at Macau Jockey Club, Golden Restaurant, 1/F East Wing, Shun Tak Centre, 200 Connaught Road Central, Sheung Wan, Hong Kong at 10:30 a.m. on Wednesday, 29 April 2009 is set out on pages 69 to 71 of this supplemental circular. Whether or not you are able to attend the meeting, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding such meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting should you so wish.

9 April 2009

CONTENT

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In this supplemental circular, capitalized terms and expressions set out in the section headed "Definition" of the Circular will be adopted whilst the following expressions have the following meanings unless the context requires otherwise.

"Circular"	the circular of the Company dated 11 September 2003 which sets out, among other things, the details of the Transactions and other relevant information
"Company"	Styland Holdings Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the main board of the Stock Exchange (Stock Code: 211)
"Independent Committee"	the independent committee comprising Mr. Kwong Chi Ho, a practising solicitor of Hong Kong, and Mr. Liu Hing Hung, a certified public accountant, who were appointed by the Company to look into the Transactions
"Independent Shareholders"	Shareholders other than Mr. Cheung, Mr. Ng, Mr. Ngai and their respective associates
"Latest Practicable Date"	8 April 2009, being the latest practicable date for ascertaining certain information referred to in this supplemental circular prior to the printing of this supplemental circular
"Listing Division"	the Listing Division of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange applicable at the relevant time
"Petition"	the Petition dated 4 September 2008 issued by the SFC and served on the Company and certain current and former Directors in relation to, inter alia, the Transactions, the extract of which is set out in the Appendix II of this supplemental circular
"SFC"	The Securities and Futures Commission
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time
"SGM"	the special general meeting of the Company to be held at 10:30 a.m. on Wednesday, 29 April 2009, notice of which is set out on pages 69 to 71 of this supplemental circular

STYLAND HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)
(Stock Code: 211)

Registered Office:
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22 Victoria Street
Hamilton HM 12
Bermuda

Principal Place of Business in Hong Kong:
28th Floor
Aitken Vanson Centre
61 Hoi Yuen Road
Kwun Tong, Kowloon
Hong Kong

9 April 2009

To the shareholders of Styland Holdings Limited

Dear Sir/Madam,

DISCLOSEABLE AND CONNECTED TRANSACTIONS

I. BACKGROUND

This supplemental circular should be read in conjunction with the Circular which contains, inter alia, information on the Transactions. The purpose of this supplemental circular is to give Shareholders further information relating to the events happened after the date of the Circular insofar as the Transactions are concerned.

Reference is made to the following announcements issued by the Company:

(i) The announcement dated 8 August 2002 regarding the Company's inadvertent omission to seek prior Shareholders' approval for certain connected transactions under the then Rule 14.26 of the Listing Rules.

(ii) The announcement dated 3 June 2003 in which the Company admitted that it had overlooked a discloseable transaction which would have been subject to disclosure requirement under the then Listing Rules, and another eight connected transactions which would have been subject to disclosure and/or shareholders' approval requirements under the then Listing Rules.

(iii) The announcement dated 20 August 2003 in which the Company admitted, inter alia, that during the annual review of the financial statements of the Group, the Directors discovered that the Company overlooked another connected transaction which would have been subject to disclosure requirement under the then Listing Rules.

The Transactions set out above had not been disclosed and/or approved by the eligible Shareholders as required under the then Listing Rules on a timely basis.

Hence, on 11 September 2003, the Company issued the Circular with a view to, among other things, providing Shareholders with the details of the Transactions and other relevant information, and to convene a special general meeting of the Company for the purpose of, among other things, considering and, if the Shareholders thought fit, passing resolutions for the ratification and confirmation of the Transactions. In the Circular, the then Directors admitted that the non-compliance with the then Listing Rules mentioned above was due to their inadvertent omission at the times. The said special general meeting, which should have been held on 29 September 2003, was subsequently adjourned, and was eventually held on 29 October 2003. In the said adjourned special general meeting, the resolutions purported to approve, ratify, and confirm the Transactions concerned were deferred until the Independent Committee to be appointed by the Company having completed its investigation on the Transactions and made its report and further notice.

For details regarding the aforesaid special general meeting, and the adjournment and result thereof, please refer to the Circular, and the announcements of the Company dated 25 September 2003, 26 September 2003, 29 September 2003, 3 October 2003, 14 October 2003, 17 October 2003, and 29 October 2003.

The Independent Committee comprising Mr. Kwong Chi Ho, a practising solicitor of Hong Kong, and Mr. Liu Hing Hung, a certified public accountant, had subsequently been appointed by the Company to look into the Transactions. The report of the Independent Committee summarizing its findings and conclusions in respect of its investigation on the Transactions is set out in Appendix I to this supplemental circular.

The Board announced on 11 September 2008 that the Petition had been issued by SFC against the Company and certain current and former Directors under Section 214 of SFO. Further details of the Petition are set out in sub-paragraph (d) in the paragraph headed "Events Subsequent to the issue of the Circular" on page 6 of this supplemental circular.

The purposes of this supplemental circular are:

(i) to provide the Shareholders with the updated information on events happened subsequent to the issue of the Circular insofar as the Transactions are concerned;

(ii) to set out the report of the Independent Committee in respect of the Transactions;

(iii) to set out the summary of the Petition;

(iv) to reconvene the SGM to, inter alia, consider and, if thought fit, ratify and let Shareholders express their views on the Transactions; and

(v) to discuss the agenda proposed by certain minority shareholders of the Company as more particularly described in the sub-paragraph headed "Requisition for special general meeting by minority shareholders" on page 6 of this supplemental circular.

II. EVENTS SUBSEQUENT TO THE ISSUE OF THE CIRCULAR

The Board wishes to draw the Shareholders' attention to certain events occurred after the issue of the Circular:

(a) Trading Suspension of the Company

Trading of securities of the Company has been suspended since 21 April 2004 at the request of the Company pending the release of an announcement relating to a proposed rights issue which had lapsed subsequently. According to the Stock Exchange's announcement dated 2 May 2008, the Stock Exchange declined the resumption of trading in the securities of the Company because of further regulatory concerns which arose from certain breaches of the Listing Rules acknowledged by the Company in its announcement dated 3 June 2003 and further concerns which subsequently came to light during the Listing Division's investigation of the conduct of certain Directors in the commission of those and other breaches alleged by the Listing Division and based on the materials obtained by the Listing Division in the course of the investigation. Reference is made to the Stock Exchange's announcement dated 2 May 2008 regarding the prolonged trading suspension of the Company (the "Stock Exchange's Announcement").

(b) Disciplinary Action taken by the Stock Exchange

The Stock Exchange has commenced disciplinary hearing on the Company and certain of its current and former Directors in respect of their alleged breaches of the then Listing Rules.

On 23 December 2004, the Listing Division issued a report (the "Disciplinary Report") commencing the disciplinary action against the Company and certain of its former and current Directors for the alleged breaches of the Listing Rules and other alleged misconduct identified by the Listing Division in relation to the Transactions.

The disciplinary hearing, after a few adjournments and rescheduling, was eventually reconvened on 21 February 2008.

On 8 April 2008, the Listing Committee concluded, in summary, that there had been breaches of the then Listing Rules by the Company and each of the respondent Directors, and there was a decision that a range of sanctions would be imposed against the same. The Company and three of the respondent Directors had applied for a review of the said decision of the Listing Committee.

Reference is also made to the paragraph headed "Disciplinary Action" in the Stock Exchange's Announcement.

(c) Agreements for issue of securities

The Company had entered into several agreements for the issue of options, convertible bonds and Shares after the issue of the Circular, a brief summary of which is set out below:

(i) Options

The Company had entered into a conditional option agreement with Gloryrise Group Limited ("Gloryrise") dated 7 June 2007, pursuant to which Gloryrise conditionally agreed to subscribe for and the Company conditionally agreed to grant certain options for Shares and completion of which is yet to take place as at the Latest Practicable Date.

Reference is made to the announcements of the Company dated 21 June 2007, 10 July 2007, 1 November 2007, 4 February 2008, 2 July 2008 and 5 January 2009 respectively.

(ii) Convertible bonds

The Company as issuer had entered into several conditional subscription agreements all dated 9 July 2007 with 8 subscribers in relation to the issue and subscription of certain convertible bonds in the principal amount of HK$9,880,000 and the completion of which is yet to take place as at the Latest Practicable Date.

Reference is made to the announcements of the Company dated 16 August 2007, 23 October 2007, 1 November 2007, 4 February 2008, 2 July 2008, and 5 January 2009 respectively, and the circular of the Company dated 4 October 2007.

(iii) New Shares (under special mandate)

The Company as issuer had entered into several subscription agreements with 8 subscribers on 15 November 2007 for the issue and allotment of 600,000,000 Shares to the said subscribers. Five of the subscribers had subsequently withdrawn their agreements to subscribe for the Shares. Completion of the issue and subscription of the Shares as aforesaid relating to the remaining three subscribers is yet to take place as at the Latest Practicable Date.

Please refer to the announcements of the Company dated 19 November 2007, 17 January 2008, 22 April 2008, 16 July 2008, 2 January 2009 and 1 April 2009 respectively, and the circular of the Company dated 28 November 2007 for further details of the aforesaid subscription of the Shares.

(iv) New Shares (under general mandate)

The Company as issuer had entered into a subscription agreement with Mr. Chen Rong Lei as subscriber on 21 February 2008 for the issue and allotment of 120,000,000 Shares to the said subscriber. Since the conditions precedent as regards the resumption of trading of the Shares on the Stock Exchange and the approval by the Listing Committee of the Stock Exchange of the listing of and permission to deal in the Shares could not be fulfilled by the long stop date under the said subscription agreement, the said subscription agreement had subsequently been cancelled.

Please refer to the announcements of the Company dated 25 February 2008 and 22 April 2008 for further details of the aforesaid subscription of the Shares.

(d) Petition issued by the SFC

The Board announced on 11 September 2008 that the Petition had been issued by the SFC against the Company and certain current and former Directors under Section 214 of the SFO. Details of the allegations made by the SFC in the Petition is available on the website of the SFC in the form of an extract of the Petition. Shareholders or investors who wish to obtain further information regarding the Petition may access such details at the following address:

http://www.sfc.hk/sfc/doc/EN/general/general/press_release/08/08pr136_summary.pdf

A copy of the aforesaid extract of the Petition summarizing the SFC's allegations is set out in Appendix II to this supplemental circular.

(e) Requisition for special general meeting by minority shareholders

Reference is also made to the Company's announcement dated 28 October 2008 in which it was announced that the Company had received a letter from a voluntary group of minority Shareholders of the Company (the "Concern Group") who requisitioned that a special general meeting of the Company be convened as soon as possible for the purpose of discussing and understanding (i) how to resolve the legal proceedings with the SFC; (ii) how to protect the rights of the Shareholders; and (iii) issues as to the suspension of the trading of the Shares on the Stock Exchange.

The requisitioning Shareholders also proposed the following agenda for the contemplated special general meeting: (i) to discuss the possibility of reaching an amicable settlement instead of brining legal proceedings regarding the Petition; and (ii) to discuss the objective of the legal proceedings instituted by the SFC and its impact on the prospect of the resumption of trading of the Shares.

Shareholders are also referred to the website of the Concerned Group (http://www.211concern.org) for further information relating to their requisitions.

After careful consideration, the Board has resolved that, pursuant to Bye-law 62 of the Bye-laws of the Company and Section 74 of the Companies Act 1981 of Bermuda, a special general meeting shall be convened on the requisition of the requisitioning Shareholders as contained in their letter.

III. SPECIAL GENERAL MEETING

Resolutions will be proposed at the SGM as ordinary resolutions to approve, ratify and confirm the Transactions. The agenda as proposed by the minority Shareholders as referred to in the paragraph headed "Requisition for special general meeting by minority shareholders" on page 6 above will also be discussed at the SGM.

A notice convening the SGM to be held at Macau Jockey Club, Golden Restaurant, 1/F East Wing, Shun Tak Centre, 200 Connaught Road Central, Sheung Wan, Hong Kong on Wednesday, 29 April, 2009 at 10:30 a.m. is set out on pages 69 to 71 of this supplemental circular.

A form of proxy for use at the SGM is enclosed. Whether or not you are able to attend the SGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding such meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting should you so wish.

The Company understands that the Transactions cannot be ratified for the purpose of compliance with the then Listing Rules, but proposes to ratify the Transactions at the SGM in order to provide an opportunity for the Shareholders to express their views on the Transactions.

Shareholders should note that the Transactions have been completed and the position of the Group in respect of the Transactions cannot be restored even if the resolutions proposed for the ratification of the Transactions are voted down by the Shareholders.

In compliance with the Listing Rules, the votes to be taken at the SGM will be taken by poll, the results of which will be announced after the SGM in accordance with the Listing Rules.

Your attention is drawn to the letter from the joint independent financial advisers appointed by the Company for the purpose of advising the Independent Shareholders of the Company in respect of the ratification of the Transactions that are connected transactions, and the valuation report on the business of Inworld Holdings respectively set out on pages 31 to 49 and pages 50 to 58 of the Circular, the notice of the SGM and the information set out in the Appendices to this supplemental circular.

By Order of the Board
STYLAND HOLDINGS LIMITED
Zhang Yuyan
Director

A. INTRODUCTION

1. On 20th December 2002, Styland Holdings Limited "HKSE Code 211" (the "Company") received a letter from The Stock Exchange requesting the Company to provide information on certain transactions that were alleged by the Stock Exchange as breaching some of the Listing Rules. On 3rd June 2003, the Company made an announcement regarding all such transactions. On 24th September 2003, legal action was instituted by certain shareholders of the Company (the "Plaintiff") against the Company and its Directors. It was alleged by the Plaintiff in the Statement of Claim ("SOC") filed under the case number of HCA 3544 of 2003 that the Directors were in breach of their fiduciary duties as directors in recommending and causing the Company to enter into the transactions (collectively "the Transactions") as more particularly set out in the below.

2. We, Mr. Raymond C. H. Kwong ("Kwong"), practising solicitor in Hong Kong and Mr. Edwin H. H. Liu ("Liu"), Certified Public Accountant, are then appointed by the Company to set up an Independent Committee ("the Committee") for the purpose of investigating and advising on whether the directors of the Company were in breach of their duties as directors in recommending and causing the Company to enter into the Transactions.

3. The Transactions include the following transactions:

   (1) The acquisition through a 100% subsidiary (Data Store) of 90% of the issued share capital of West Marton on 10th October 2000 (§§2633). No prudent board, the SOC alleges, would have invested $120,000,000 in West Marton (which was loss-making at the time with no significant assets) solely because of "the speculative state of the market for internet related stock". Further, Styland wrongly sold 10% and 20% of its holdings in West Marton to Mr. Ngai Kwok In ("Mr. Ngai") and Mr. W. L. Chan respectively, both of whom were connected persons.

   (2) The acquisition through a 100% subsidiary (Thunderbolt) of 55% of the issued share capital of Couttias Profits from Gloria Development (owned by the 1st Defendant) on 24th November 1998 (SOC §§34-38). SOC §38 alleges that "it is to be inferred... that [the acquisition] was in whole or in part motivated by or a consequence of the 1st Defendant's position as Chairman of the Company and/or the personal relationship between the 1st Defendant and the other directors of the Company and/or a desire to benefit him personally".

   (3) The acquisition by a 100% subsidiary ("Global Eagle") of 40% of the issued shared capital of Cyber World on 13th January 2000 (SOC §§39-42). In a subsequent restructuring in May 2001, Global Eagle was issued 39.22% of the issued capital of Riverhill Limited ("Riverhill"). Riverhill was then listed on the GEM on 1st June 2001. SOC §41 complains the acquisition of 40% of the-issued shares of Cyber World because of the drop in the market value of Cyber World's shares as at 31st March 2002 and Riverhill's poor financial performance also as at 31st March 2002.

(4) The acquisition by a 100% subsidiary ("Iwana") of 36% of the issued share capital of Inworld Holdings Limited ("Inworld") by agreement dated 5th July 1999 (SOC §§43-46). Before the acquisition Inworld was owned by Mr. Ngai and Mr. W. L. Chan. The transaction was not in the best interest of the Company according to SOC §45, because Inworld had no business or major assets at the time of the purchase. SOC §46 further complains that Mr. Ngai and Mr. W. L. Chan were connected persons.

(5) The loan or advance by Iwana to Mr. Ngai of $107,781,438.36 (SOC §§47-51).

(6) The loan by Iwana to Inworld of $13,558,847 (SOC §§52-53). SOC §53 points out that neither Mr. Ngai nor Mr. W. L. Chan made similar contributions of capital to Inworld, even though they remained as shareholders.

(7) Loans of $6,000,000, $4,800,000 and $200,000 (made on 22nd January and 31st March 1998 and 20th January 1999) respectively to Mr. Ng, a director of Ever-Long Securities, a 100% subsidiary of Styland (SOC §§54-55).

(8) Various loans to other connected persons (SOC §§56-57).

(9) Payment of a commission of $3,000,000 to the 1st Defendant for introducing Companion Marble to Iwana (SOC §§58-61). Iwana sold 15 shares in Gold Cloud to Companion Marble at $38,000,000 in October 2000.

4. In this Report, Kwong will give a brief account of the relevant law and then give an analysis on whether the directors were in breach of their duties in causing the Company to enter into the Transactions in respect of each and every transaction included therein, whilst Liu will give an opinion on whether the Transactions are lack of commercial senses, whether the Transactions were a genuine exercise of the power of the Board of Directors at the material time and whether the Board of Directors at the material times had made such decision in breach of their due care and fiduciary duties which they owed to the Company and or its shareholders.

5. After reviewing the relevant documents, including various board minutes in respect of the respective transactions, and business plans, forecasts, agreements, valuation reports, if any, in respect of the relevant transactions, and interviewing some of the directors at the material times of the Transactions including Ms Yeung Han-yi Yvonne ("Yvonne Yeung") and Ms Chan Chi-mei Miranda ("Miranda Chan"), together with the assistance of Mr Johnny Tam and Mr. Edward Yeung, directors of the Company at present, we, the Committee, form the view that the directors at the material times were not in breach of their director's duties in approving the Transactions.

B. LEGAL STUDY – WHAT ARE THE DUTIES OF DIRECTORS

6. Before it can be considered whether the directors were in breach of their duties in causing the Company to enter into the Transactions, a study on what duties do the directors owe to the Company at law is necessary and is set out hereinbelow.

7. Directors owe the following principal fiduciary duties to the company whose assets they are appointed to manage:

   (1) a duty to act at all times in good faith in the best interest of the company;

   (2) a duty to act at all times for a proper purpose and not to act for a collateral or improper purpose;

   (3) a duty not to place themselves in a position where their duties owed to the company conflict with their personal interests or with duties that they owe to others. Subsumed within this duty is the rule that directors must not, unless expressly authorized, profit from the office of director.

   See: Company Directors Law and Liability, para. 3.1

8. As a general rule, directors owe fiduciary duties to the company alone. In particular, a director does not *generally* owe fiduciary duties to the individual members of the company. See: *Percival v. Wright* 1902 2 Ch 421

B1. Duty To Act Bona Fide In The Best Interest Of The Company

9. In exercising their powers, the directors act not on their own account but for the benefit of the company on whose behalf they are appointed to act. As fiduciaries, directors must act at all times *bone fide* in what *they consider* to be the interests the company.

10. In *Re Smith & Fawcett* 1942 Ch 304, Lord Greene summarized this subjective rule as follows; "directors... must exercise their discretion *bone fide* in what they consider – not what a court may consider – is in the interests of the company.

11. The Court thus is reluctant to interfere with the commercial judgment of directors. The Court generally consider their role to be to ensure the *propriety* of a decision but not to question its prudence. The shareholders are regarded as having entrusted the management of the company to its directors. Unless an absence of *bona fides* can be shown the Court *will not* interfere with the exercise of a director's management discretion in order to substitute its own judgment for that of the director. As was stated by Lord Wilberforce in *Howard Smith Ltd v. Ampol Petroleum Ltd* 1971 AC 821 at 832:–

> "There is not an appeal on the merits from management decisions to courts of law, nor will the courts of law assume to act as a kind of supervisory board over decisions within the powers of management *honestly* arrived at." (Emphasis added)

12. The Court therefore will not generally interfere with the commercial judgment of directors. However, a number of basic obligations are in practice imposed upon directors who seek to comply with their duty to act in good faith in the best interests of the company. They are as follows:–

(1) When taking any decision concerning the management of a company directors must positively apply their minds to the question of what the interests of the company are. If they fail to carry out that task, the courts may intervene and impugn the decision. In *Re W & M Roith Ltd* 1967 1 WLR 432 the controlling shareholder and director of a company, wishing to make provision for his wife in the event of his death, procured the company to alter its memorandum in order to permit the payment of a widow's pension and subsequently to enter into a service agreement with him whereby on his death his widow was entitled to a pension for life. The court found on the facts that the sole purpose for entering into the new service agreement was to make provision for the widow and that *no thought had been given* by the director to the question of whether the arrangement was for the benefit of the company. The court held that the director had breached his fiduciary duties and the company was not bound by the terms of the service agreement.

(2) The belief held by the directors that a particular decision is in the best interests of the company must be one held *honestly*. In *Richard Brady Franks Ltd v. Price* (1937) 58 CLR 112 the company in question was in financial difficulties. In order to enable it to continue trading, various persons provided the company with short-term funding and guaranteed its overdraft. Some of these fund providing persons were directors of the company. The board resolved to issue debentures to these persons. The plaintiff challenged the issue of the debentures and claimed that they had not been issued *bona fide* in the interests of the company but guided by the desire to secure the interests of the debenture holders. The court rejected the claim on the facts. However, the court accepted that if it had on the evidence found that the directors had acted in the interests of the debenture holders and not honestly in the interests of the company, it would have been prepared to set aside the issue of the debentures.

(3) A director must *independently* apply his mind to the interests of the company and exercise his discretion in accordance with those interests. He must not act unthinkingly on the instructions of a third party. See: *Selangor United Rubber Estates Ltd v. Craddock (No. 3)* 1968 1 WLR 1555.

(4) A director must not fetter his discretion in advance, for example by undertaking to a third party to exercise his discretion in a particular manner. See: *Re Eaglesfield Colliery Co* (1878) 8 Ch D 388.

13. The courts are willing to intervene where a decision reached by directors is so *unreasonable* that no reasonable body of directors could probably have reached it. Such a finding will, as a matter of evidence) disprove the directors' assertions that they did act in what they thought were the company's best interests, since save in the case of a lunatics, the unreasonableness of a decision is evidence of lack of bona fides. See: *Re Saul D Harrison & Sons plc* (1994) BCC 475; *Charterbridge Corporation Ltd v. Lloyds Bank Ltd* 1970 Ch 62 at 74 *per* Pennycuick J.

14. It is also possible that the court may intervene where a director or board of directors can be shown to have taken into account irrelevant considerations or to have failed to have taken into account relevant factors. See: Company Directors Law and Liability, para. 3.9

B1.1 What are the interest of the company

15. The general rule is that the interests of the company equate with the interests of its shareholders, as a general body, both present and future: *Greenhalgh v. Arderne Cinemas Ltd* 1951 Ch 286 at 291. Directors are required to balance the short-term interests of the present members against the long-term interests of an unascertained class of future members.[1]

B2. Duty to act for proper purposes

16. In exercising each of the powers conferred upon them by a company's constitution, the discretion of directors is limited not only by the requirement that they must act *bona fide* in the interests of the company. They must in addition ensure that they act for a proper purpose: *Re Smith & Fawcett Ltd*, supra. Where directors act for an improper or "collateral" purpose the court will intervene and set aside the act in question. In *Bennett's Case* (1854) 5 De G M & G 284 at 298 Turner LJ expressed the rule as follows:–

> "... in the exercise of the powers given to them... directors must, as I conceive, keep within the proper limits. Powers given to them for one purpose cannot, in my opinion, be used by them for another and different purpose. To permit such proceedings on the part of directors of companies would be to sanction not the use but the abuse of their powers. It would be to give effect and validity to an illegal exercise of a legal power."

1 There are certain situations where the directors should also consider the interests of the creditors and/or employees of the company. However, these considerations do not appear to apply in the present case. See: Company Directors Law and Liability, paras. 3.12-3.16

See also: *Hogg v. Cramphorn* 1967 Ch 254; *Howard Smith Ltd v. Ampol Petroleum Ltd* 1974 AC 821

B2.1 What is an improper purpose

17. A proper purpose is one for which, on a true construction of the articles of association of the company or the statutory provision conferring it, the power can be said to have been conferred. Any other purpose will be an improper purpose.

18. The Privy Council in *Howard Smith*, supra, held that the court should not seek to find the proper purpose for which a power can be exercised but instead should adopt a two-stage process. First, the court should seek to ascertain on the facts for what purpose the power was exercised. Secondly, having ascertained the purpose for which the power was exercised, it should consider whether that purpose was in all the circumstances a proper one.

19. Of a company that it had allotted shares for the purpose of increasing the capital of the company, it was held that the true purpose for which the power of allotment was exercised was to undermine the existing majority shareholders' opposition to a proposed takeover bid.

20. As the second stage, Lord Wilbeforce in *Howard Smith* also set out the approach that the courts will adopt in seeking to ascertain whether a particular purpose for which a power was exercise was proper. At 835 he said as follows:–

> "To define in advance exact limits beyond which directors must not pass is, in their lordships' view, impossible. This clearly cannot be done by enumeration, since the variety of situations facing directors of different types of company in different situations cannot be anticipated. No more, in their lordships' view, can this be done by the use of a phrase such as 'bona fide in the interest of the company as a whole', or 'for some corporate purpose'. Such phrases, if they do anything more than restate the general principle applicable to fiduciary powers, at best serve, negatively, to exclude from the area of validity cases where the directors are acting sectionally, or partially: ie improperly favouring one section of the shareholders against another ...
>
> In their lordships' opinion it is necessary to start with consideration of the power whose exercise is in question. Having ascertained, on a fair view, the nature of the power, and having defined as can best be done in light of modern conditions the, or some, limits within which it may be challenged, to examine the substantial purpose for which it was exercised, and to reach a conclusion whether that purpose was proper or not. In doing so it will necessarily give credit to the bona fide opinion of the directions, if such is found to exist, and will respect their judgment as to matters of management; having done this, the ultimate conclusion has to be as to the side of a fairly broad line on which the case falls."

21. In many cases, the board may exercise a particular power for more than one reason, only one which is improper. In this context it appears that the court will seek to ascertain what was the primary or substantial purpose for which the power was exercised to determine whether to set aside the transaction or not.

B3. The No-Conflict Rule

22. Directors, as fiduciaries, are subject to a number of restrictions imposed upon them by the rules of equity. One of the most important restrictions is the rule that directors must not place themselves in a position where their personal interests may conflict with the duties they owe to the company of which they are directors: *Aberdeen Rly Co v Blaikie Bros* (1854) 1 Macq 461. In addition, a director is not permitted to put himself in a position in which his duty to the company may conflict with any duty owed to another, for example a second company of which he is a director: *Transvaol Lands Co v New Belguim (Transvaal,) Land and Development Co* 1914 2 Ch 488. Where a director does find himself in a position of potential conflict of interest, he is duty bound to disregard his personal interests: *Imperial Mercantile Credit Association v Coleman* 1871 LR 6 Ch App 558 per Malins V-C at 563.

23. This is a strict rule which does not enquire as to whether the director has actually preferred his own interests, only whether or not he is in a position where they conflict with his duties. Where a director does place himself in a position of conflict any transaction with the director which is entered into by the company is voidable at the instance of the company and the director is liable to account to the company for any profit he has made from his position. In *Aberdeen Rly Co v Blaikie Bros* (1854) 1 Macq 461 at 471-472 Lord Cranworth summarised this rule in the following terms:

> "... it is a rule of universal application that no-one having such (fiduciary) duties to discharge shall be allowed to enter into an engagement in which he has or can have a personal interest conflicting or which may possibly conflict with the interests of those whom he is bound to protect."

24. In *Aberdeen Rly Co v Blaikie Bros* the Company entered into a contract with a firm of which one of its directors was a partner. The court refused to enquire as to the fairness or otherwise of the contract and held that the company was entitled to set it aside.

25. As will be seen below, the equitable restrictions are wide ranging and will prevent a director from making a profit from his position as a director (unless otherwise approved by the company).

B4. General duties of disclosure

26. Whenever either a company is proposing to enter into a transaction in which a director is interested or a director becomes interested in an existing contract to which the company is a party, the director's interest must *prima facie* be disclosed at the earliest meeting of directors pursuant to s. 162 of the Companies Ordinance (Cap. 32).

27. As will be seen below, the articles of association of the relevant company may effectively disapply the equitable duty to disclose to the general meeting. However, the statutory duties set out above are mandatory in nature and cannot be excluded.

B4.1 Disclosure to the board: s. 162 Companies Ordinance

28. A director who is in any way, whether directly or indirectly, interest in a contract or a proposed contract with the company of which he is a director must declare the existence and nature of that interest at a meeting of the directors of the company.

29. It is not clear what is required in order for a director to be considered as having an interest in a contract. In short, as the company is entitled to the undivided loyalty of its directors, any transaction under which the director has an interest which will or could potentially divert his mind from giving sole consideration to the best interests of the company should be considered as transactions in which the director has an interest: see *Boulting v Association of Conematograph, Television and Allied Technicians* 1963 2 QB 606. A direct financial interest will clearly be sufficient. Accordingly, a director is interested in any service agreement he may have as a director, an agreement whereby he is allotted shares or issued with debentures by a company (*Neal v Quinn* 1916 WN 223; Re *North Eastern Insurance Co* 1919 1 Ch 198) and an agreement under which he is granted an indemnity by a company: *Lee Panavision Ltd v Lee Lighting Ltd* 1991 1 BCLC 575. Similarly, a director will be considered as being interested in a contract in which he has an indirect financial interest, such as a contract entered into by a company of which he is a director on the one hand and a company in which he holds shares (whether beneficially or as trustee) or a partnership of which he is a partner on the other: *Transvaal Lands Co v New Belgium (Transvaal) Land & Development Co* 19142 Ch 488; *Imperial Mercantile Credit Association v Coleman* (1873) LR 6 HL189. In certain circumstances, a director would be considered as being interested in a contract between the company of which he is a director and a second company by which he is employed. This will largely depend upon the role that the director has within the company by which he is employed and the extent to which he benefits as a result of the relevant contract.

30. The purpose of the provision is to ensure that a board considering a proposed transaction in which one of its number is interested is fully appraised of all material matters and that the other directors are aware of how the views of the interested director may be coloured by his interest. Accordingly, a director should declare not merely the existence of an interest in a contract; he must also disclose the nature and extent of that interest.

31. Disclosure must be made to the first full board meeting that considers the proposed contract or in the case of an existing contract to which a director subsequently becomes interested, to the first full board meeting following the director becoming interest in it. Disclosure to a committee of the board is insufficient: *Guinness plc v Saunders & Another* (1988) 4 BCC 377. Where the relevant contract is one which would not otherwise be considered by the board the director is under a duty to disclose his interest at the first available board meeting. If necessary the director should request that a board meeting he called for the specific purpose of enabling him to disclose his interest.

32. The director consequences of a breach of s. 162 appear to be purely criminal. A director who fails to make the requisite declaration of interest will be liable to a fine: S. 162(3). It is important to note that a breach of s. 162 *per se* does not directly affect the underlying validity of the contract itself: *Hely-Hutchinson v Brayhead Ltd* 1968 1 QB 549; *Guinness plc v Saunders* 1990 2 AC 663. However, those two cases also recognise that if the articles of association require disclosure in accordance with s. 162 as a condition of a relaxation of the no-conflict rule, then a breach of s. 162 may indirectly affect the validity of the relevant transaction. That consequence is usually the most important potential effect of a contravention of a. 162 in practice.

33. Compliance with the duty of disclosure imposed by s. 162 does not appear to affect the general equitable duty of disclosure to the general meeting discussed below.

B.4.2 Disclosure to the general meeting

34. In equity and subject to any modifications contained in a company's articles, whenever a director is interested in a contract to which the company is a party or a contract to which the company is to be a party, he must disclose the existence and nature of his interest to, and seek the approval of, the members of the company in general meeting: *Aberdeen Ry Co v Blaikie* (1854) 1 Mac 461. This duty arises independently of the statutory duty imposed by s. 162 (as discussed above) and is somewhat more onerous. Disclosure to the board of directors alone is insufficient: *Gray v New Auganta Porcupine Mines Ltd* (1952) 3 DLR 1.

35. If a director fails duly to disclose his interest to the members or the members, where the interest has been disclosed, fail to approve the transaction, the director is liable to account to the company for any profit be derives from the transaction. Further, the transaction itself is voidable at the instance of the company provided that the other party had sufficient notice of the director's breach of fiduciary duty when he entered into the transaction with the company, which will usually be the case in practice, since the other party will usually be either the director himself or a person connected with him in some way. This rule is subject to three exceptions:

    (1) where the company expressly or impliedly affirms the contract;

    (2) where the company unduly delays before rescinding; and

    (3) where the parties cannot be restored to their original positions.

36. In the event that a director fails to comply with the conditions attaching to any relaxation of the equitable rules, including the provisions of the company's articles requiring disclosure to the board, the general equitable rule will apply and the contract will therefore remain voidable at the instance of the company and the director will remain liable to account for any benefit that he derives from the contract. Further, if a director does disclose his interest in accordance with the provisions of the articles but the transaction is approved by virtue of the votes of other directors who are equally interested, the general equitable remedies are likely to apply, unless the articles expressly permit interested directors to vote

B.5 The No-Profit Rule

37. A director is not entitled, unless expressly provided, to benefit from his office. This principle derives from the inflexible rule of equity that a fiduciary cannot, unless otherwise expressly provided, benefit from his fiduciary position. Where a director does so profit, he is liable to account to the company for any gain that he has made. The liability to account is a personal liability and is dependent upon a profit being made by the director. A director will not generally be liable on this basis where the profit is made by a third party. However, it should be noted that where the profit is made by an individual or company associated with a director, that person or individual may incur liability for knowing receipt while the director may be liable to pay the company damages for breach of fiduciary duty. The liability to pay damages for breach of duty will be dependent upon the company being able to show that it has suffered a loss by reason of the breach of duty.

38. The strictness of the equitable rule is illustrated by the ancient case of *Keech v Sandford* (1726) Sel Cas Ch 61 in which the holder of a leasehold interest in a market devised his estate to a trustee in trust for an infant. Before the expiration of the lease the trustee applied to the lessor for a renewal of the lease for the benefit of the child. This request was legitimately refused by the lessor on the ground that the lease was not liable to the remedy of distress and accordingly enforcement of the lease would rest in covenant alone by which in fact would not be bound. Upon that refusal, the trustee took the lease in his own name and for his own benefit. Lord King, the then Lord Chancellor, granted an order sought by the infant assigning the lease to the infant and ordering an account of profits. His Lordship stated that:

> "Though I do not say that there is fraud in this case, yet be the trustee should rather have let it run out than to have had the lease to himself. This may seem hard, that the trustee is the one person of all mankind who might not have the lease; but it is very proper that the rule should be strictly pursued, and not in the least relaxed; for it is very obvious what would be the consequences of letting trustees have the lease on refusal to renew to *cestui que use* the beneficiary."

39. This rule applies to all persons occupying a fiduciary position, including directors: *GE Smith Ltd v Smith* 1952 NZLR 470. In a company law context the leading case is *Regal (Hastings) Ltd v Gulliver* 1967 2 AC 134n the fact of which are set out below.

40. Regal owned a cinema in Hastings. The board of directors resolved to purchase two other cinemas in the same area with a view to selling the three as a package as a going concern. For this purpose, a subsidiary company was incorporated to take leases over the other two cinemas. The landlord of the two cinemas indicated that the would only be prepared to grant leases to the subsidiary if either its paid-up capital was £5,000 or the directors of Regal provided personal guarantees in relation to the rent. Regal was unable to raise sufficient finance in order to capitalise its subsidiary to the requisite extent and the directors were unwilling to grant personal guarantees. Accordingly, it was agreed that the directors themselves would subscribe for the additional shares. Four of the directors took 500 shares each, the chairman of the company found outside investors for 500 more and the remaining

500 shares were offered to Regal's solicitor. A short period thereafter, the shares in Regal and the subsidiary were sold to an outside purchaser for a value far in excess of the price at which the directors had taken the shares. The new owners of Regal took proceedings against the directors who had taken shares, the chairman and the solicitor, *inter alia*, for money had and received. The House of Lords held the directors, but not the solicitor and the chairman, liable to account for the profits that they had made on the basis that they had made the profit by reason of and in the course of carrying out the office of directors. At 386 Lord Russell stated as follows:

> "The rule of equity which insists on those who by use of a fiduciary position make a profit, being liable to account for that profit, in no way depends on fraud, or absence of *bona fides*; or upon such questions or considerations as whether the profit would or should otherwise have gone to the plaintiff, or whether the profiteer was under a duty to obtain the source of the profit for the plaintiff, or whether he took a risk or acted as he did for the benefit of the plaintiff, or whether the plaintiff has in fact been damaged or benefited from his action. The liability arises from the mere fact of a profit having, in the stated circumstances, been made. The profiteer, however honest and well-intentioned, cannot escape the risk of being called upon to account...
>
> ... I am of the opinion that the directors standing in a fiduciary relationship to Regal in regard to the exercise of their powers as directors, and having obtained these shares by reason and only by reason of the fact that they were directors of Regal and in the course of the execution of that office, are accountable for the profits which they have made out of them..."

41. It is important to note that the rule only prevents directors from making an unauthorised profit. A director will be able to retain a profit which he derives from his position as a director if the company in general meeting ratifies the profit-making, at least where the members act unanimously: *New Zealand Netherlands Society Oranje Inc v Kuys* 1973 2 All ER 378 at 379. The position is less clear cut where the ratification is only by a simple majority. In *Cook v Deeks* 1916 1 AC 554 (discussed more fully below) the members purported to ratify the misappropriation of a contract which was held to belong in equity to the company. The Privy Council refused to accept the ratification. However, in *Regal (Hastings)* Lord Russell appeared to accept that the directors could have protected themselves by ratifying their conduct by a simple majority. These decisions are not easy to reconcile and they are discussed in relation to the issue of ratification generally.

42. In any event, even if profit making is not ratifiable, the board, backed by an independent majority of shareholders may effectively decide that the company should not pursue a claim against the profit-making directors. In *Smith v Croft (No 2)* 1988 Ch 114 the plaintiffs were minority shareholders claiming various heads of relief by way of derivative action on behalf of the company. The relief sought related to sums that had been paid away by the company in a manner which was both *ultra vires* and in breach of the statutory provisions prohibiting a company from providing financial assistance for the purchase of its own shares (contained in s. 151 ff, Companies Act 1985). The plaintiffs and their supporters held 14 per cent of

the issued share capital of the company, the defendants held 63 per cent and an independent group of shareholders held the remaining 21 per cent. The independent group did not wish the litigation to proceed. Knox J held that although the plaintiffs had made out a prima facie case on the merits, they had no right to sue if the majority of the shareholders who were independent of the defendants did not want the action to proceed.

43. Further, it should be noted that it is possible for a company to provide for a *Regal (Hastings*) type situation in advance by making provision in its articles for the retention of profits by directors, and many sets of articles do just that.

B5.1 The misappropriation of corporate opportunities

44. A director cannot appropriate for his own benefit a commercial opportunity which the company is pursuing or is in a position to pursue and which the director has become aware of by reason of his office of director. Commercial opportunities of that nature are regarded as assets of the company. Where a director misappropriates a corporate opportunity belonging to the company, *prima facie* he is liable to account for any profits that he makes and he holds any property acquired as a result on constructive trust for the company: *Carlton v Halestrap* (1988) 4 BCC 538.

45. A rather clear-cut example of the principle is illustrated by *Cook v Deeks* 1916 1 AC 554, a case in which three of four directors of a company resolved to terminate their business relationship with the fourth director, the plaintiff. The company was involved in the construction business and had built up considerable goodwill through having successfully completed a number of contracts for the Canadian Pacific Railway Company. Each of those contracts had been negotiated by one or other of the defendants. When a further contract became available, the defendants negotiated the contract had been negotiated but then diverted the contract away from the company and into their own names. The defendants, in their capacity as shareholders, then purported to pass a resolution confirming that the company had no interest in the contract. The plaintiff brought a claim alleging that the benefit of the contract belonged to the company and that the resolution of the defendants was invalid. On appeal, the Privy Council upheld both contentions and the defendants were ordered to account to the company for the gains they had made out of the last contract.

46. A similar conclusion was reached in the case of *Canadian Aero Service Ltd v O'Malley* (1973) 40 DLR (3d) 371 in which the president and the executive vice president of the plaintiff company commenced negotiating a contract on behalf of the plaintiff. However, having secured the contract, the two then resigned from their positions with the plaintiff and diverted the contract to a new company that they had set up. The Supreme Court of Canada held that the contract was a 'maturing business opportunity' which the plaintiff was actively pursuing, that they had negotiated the contracts on behalf of the company, that their resignations had been 'prompted or influenced' by a wish to acquired the opportunity for themselves and that it was their positions with the company rather than any fresh initiative which had led to their obtaining the corporate opportunity that the contract represented. The particularly interesting aspect of this case was that the court held that the defendants' fiduciary duties survived their resignations and ordered that they pay damages to the plaintiff for breach of duty.

47. Accordingly, it should not be thought that a director can, by the simple expedient of resigning his directorship, be enabled to take a contract for himself which otherwise might have been acquired by the company. This rule is further illustrated by the decision in *Island Export Finance Ltd v Umunna* 1986 BCLC 460 in which the managing director of a company secured a contract for the company with the Cameroon postal service. At a later date, the defendant resigned as the managing director due to a general dissatisfaction with the company. Subsequently the defendant set up his own company and obtained contracts from the Cameroon postal service. The company brought proceedings claiming that the defendant was liable to account for the profits he had made from the contract. Huchinson J accepted that a director's fiduciary duties not to divert corporate opportunities would continue notwithstanding resignation if the opportunity was a 'maturing' opportunity and the resignation had been prompted or influenced by the desire to acquire such opportunity. However, on the particular basis, Huchinson J refused to hold the defendant liable, stating that the exploitation of the corporate opportunity was not an important motive in the defendant's resignation. Further, at the date of his resignation, the company was not actively pursuing any business opportunity with the postal service.

48. In such circumstances, a director will be held liable to account if his resignation is motivated by a desire to pursue the corporate opportunity notwithstanding that the company is not in a position to exploit the opportunity. In *Industrial Development Consultants Ltd v Cooley* 1972 1 WLR 443 the defendant, the managing director of the plaintiff company, took part in negotiations with the Eastern Gas Board with a view to securing for the plaintiff a number of lucrative contracts. Ultimately the Eastern Gas Board terminated negotiations stating that they were only willing to deal with an individual architect and not a corporate consultancy. Subsequently, the Gas Board offered the contract to the defendant in his personal capacity. By falsely representing that he was suffering from ill-health, the defendant obtained a release from his employment with the plaintiff. He then entered into a contract with the Gas Board. The defendant was held liable to account for all profits that he made from the contract with the Gas Board notwithstanding that the Gas Board was not willing to offer the contract to the company.

49. The principle is not limited merely to the situation where a director diverts a contract to which the company would otherwise have been a party. A director will also be accountable where he exploits a commercial opportunity that he has become aware of by reason of his directorship. This principle has its foundation in the law of trusts. In *Boardman v Phipps* 1967 2 AC 46 a solicitor and another, acting as agents for the trustees of an estate, obtained information about a company in which the estate held shares. As a result of this information, they believed that the company could be made more profitable and without concealment personally bought some shares in the company. The company ultimately made substantial capital distributions to its shareholders which financially benefited both the estate and the defendants. However, the House of Lords held that the defendants were liable to account for their profit, it having been made by reason of the defendants' fiduciary relationship to the estate and by reason of the opportunity and knowledge which had come to them in acting in that capacity. This was so notwithstanding that there was no diversion of an opportunity from the estate and that the defendants had acted openly throughout. The rule is therefore particularly strict and appears to effectively preclude fiduciaries from taking advantage of opportunities that they become aware of by reason of their office.

50. On the other hand, the law does not seek to restrict a director's right to use his general knowledge and commercial contracts outside the company which amounts to his 'stock-in-trade' knowledge as opposed to specific maturing business opportunity. However, in many situations, the distinction between such general knowledge and specific information regarding a maturing business opportunity will in practice be hard to draw.

51. Similarly, in *IDC v Cooley* Roskill J held, *inter alia*, that the defendant was liable to account to the plaintiff for all of the profits he had made from the contract as, at the time at which he was negotiating the contract, the defendant was acting as the managing director of the plaintiff. The information that had come to him in that capacity was of concern to the plaintiff and it was his duty to pass it on to the plaintiff.

52. It seems that a director is not precluded from pursuing a commercial opportunity on his own account where the company of which he is a director has considered the opportunity and *bona fide* decided not to pursue it. In *Peso-Silver Mines Ltd v Cropper* (1966) 58 DLR (2d) I and the plaintiff, a mining company, was offered a number of prospecting claims. After *bona fide* consideration at board level, the company rejected the offer. One of the directors who had taken part in the deliberations within the company was subsequently a member of a consortium which acquired the claims for a newly incorporated company. The plaintiff then brought proceedings claiming that the defendant was accountable for the shares that he had obtained in the new company. The Canadian Supreme Court rejected this claim holding that although the defendant had stood in a fiduciary position to the company at the time of the taking of the decision not to pursue the opportunity, the board had acted in good faith, solely in the interests of the company and with sound business reasons in rejecting the offer. Cartwright J, giving the judgment of the court, approved the following passage from Lord Greene MR in the Court of Appeal in *Regal (Hastings)*:

> To say that the company was entitled to claim the benefit of those shares would involve this proposition: Where a board of directors considers an investment which is offered to the company and *bona fide* comes to the conclusion that it is not an investment which their company ought to make, any director, after that resolution is come to and *bona fide* come to, who chooses to put up the money for that investment himself must be treated as having done it on behalf of the company, so that the company can claim any profit that results to him from it. That is a proposition for which no particle of authority was cited; and goes, as it seems to me, far beyond anything that has ever been suggested as to the duty of directors, agents, or persons in a position of that kind.

53. A similar approach was taken in *Queensland Mines Ltd v Hudson* (1978) 52 ALJR 399 in which the managing director of a company entered into negotiations on its behalf for a mining licence. The company ran into financial difficulties. The managing director then took the licence in his own name, resigned as managing director and made substantial profits. The Privy Council held that the former managing director was not liable to account for those profits as he had fully discussed the situation with the board of the company and they had resolved not to proceed further in pursuit of the licence.

54. By way of summary, the following principles seem to emerge.

(1) A director cannot divert a commercial opportunity which the company is currently pursuing for his own account.

(2) A director cannot avoid the consequences of the diversion by resigning as a director.

(3) A director is similarly precluded from taking advantage of an opportunity which the company may not be actively pursuing but which came to his knowledge by reason of his office.

(4) A director will not be liable to account for any profits made by reason of his general knowledge and commercial contacts outside the company or his 'stock-in-trade' knowledge.

(5) Where the company has taken a fully-informed decision not to pursue a particular business opportunity its directors can pursue the opportunity personally. However, in such circumstances, the directors in question must be extremely careful to ensure that their conduct as directors in relation to the company's rejection of the opportunity is beyond reproach. Thus, they should not seek to persuade the board not to pursue the opportunity and it, as is highly likely, the director is of the view that the opportunity is a viable one, one would expect the director to have supported the proposal within the company and voted in favour of the company pursuing it. Those decisions which establish that a director may make a personal profit in such circumstances are clearly based on the premise that the defendant director's participation in the company's decision not to pursue the opportunity was entirely proper.

RESULTS AND FINDINGS

C1. The acquisition by Iwana of 36 shares of Inworld by agreement dated 5th July 1999.

Kwong's Findings

55. In relation to this transactions I have been provided with:–

(1) The Subscription Agreement dated 5th July 1999.

(2) The Business Plan ("the Business Plan") of Inworld.com provided by Inworld in 1999.

(3) The Circular ("the Circular") dated 11th September 2003.

56. I have also interviewed Yvonne Yeung and Miranda Chan who were the members of the board at the material time when the Subscription Agreement was approved.

57. After perusing the documents and the interview of the directors, I am of the view that the board of directors approved the transaction at that material time on the principal basis that they were of the view that internet business potential of Inworld through the operation of lnworld.com was a viable and profitable one.

58. My view is that:–

    1. With the information as disclosed in the Business Plan and after their discussions with Mr. Ngai and Mr. Chan, and given the "internet boom" sentiment existing in Hong Kong and the rest of the world at that time, the then board of directors approved the transaction based on business and commercial judgment, which was therefore done for a proper purpose and in good faith.

    2. Further, there is no evidence to show that:–

        (a) any members of the board directly or indirectly had any interest in the transaction.

        (b) any members of the board had directly or indirectly benefited or obtained any benefit out of the transaction.

59. In the circumstances, applying the principles set out in detail above, I do not think that in approving this transaction, the board or any members thereof at the material time was in breach of the director's duties.

60. There may be room for discussion as to whether it was a good commercial judgment made by the board. However, as clearly demonstrated by the authorities, even if the said decision was a bad one commercially, it does not per se support the finding of a breach of director's duties. In fact, as set out in the Circular, the independent financial advisers ("the independent Financial Advisers"), Messrs. J S Cresvale and Wallbanck. agreed with the view of the board for the reasons of entering into this transaction.

Liu's Findings

61. Motives – per discussion with the members of the Board of Directors, the Company is facing challenges of negative impact bring about by the economic downturn of Hong Kong. They are actively searching for new business opportunities that will bring in stable profit for the Company. Investment in Inworld with information technology as their core business was regarded to have good potential and opportunities for the development of new businesses in the 2000s.

62. Financial Benefits – per review of the Business Plan provided by the management of Inworld, the Company will start generating profits by the year of 2000. The profits will be developed from HK$17,807,973 in 2000 to HK$257,600,572. This provides the Company with a very good and stable stream of incomes in the future.

63. Independence – as in the opinion of the Stock Exchange, Mr. Ngai was deemed to be a connected person pursuant to Rule 14.03(2)(a)(ii) of the Listing Rules. Since Mr. Ngai was a substantial shareholder of lnworld Holdings, the subscription was deemed to be a connected transaction and fell within Rule 14.26(2) of Listing Rules, subject to disclosure and approval of independent shareholders.

64. Inevitably, such violation will jeopardize the independence of the Board of Directors at the time being in the approval of the transaction. In assessing whether the Directors have breach their fiduciary duties, the problem we have to ask is whether the Directors have:

(a) Exercise their powers for the purposes for which they were conferred and bona fide for the benefit of the Company as a whole; and

(b) Not to put themselves in a position in which their duties to the Company and their personal interests may conflict.

65. In this case, as the valuation of Inworld Holdings was made by the independent valuer, FPDsavills and their conclusion of value for 100% equity interest in Inworld is at 30th June 1999 and 3rd May 2000 is reasonably stated by the amount Hong Kong Dollars Sixty Million (HK$60,000,000) and Hong Kong Dollars Four Hundred Million (HK$400,000,000) respectively. Consequently, the setting of the consideration by the Directors for the acquisition of 36 new shares in Inworld Holdings at HK$20 million representing a 7.4% discount are for the benefit of the Company at a whole.

66. In addition, the Directors connected, Ms. Yvonne Yeung Han Yi (a Director, a substantial shareholder of the Company and the spouse of Mr. Cheung) of whom Mr. Ngai is a nephew, had made a declaration that she is not aware of the fact that her connection with Mr. Ngai will make the transaction a deemed to be a connected transactions. Moreover, Ms. Yvonne Yeung also declared that she had no personal interest in the transaction by whatsoever means.

67. Opinion – according to the facts bring to our attention and the above analysis, I am in the opinion that the directors, in approving such transaction, have exercise his due care and fiduciary duties owed to the Company.

C2. Grant of the Loan Facility to Mr. Ngai

Kwong's Findings

68. In relation to this transaction, I have been provided with:–

(1) Board Minutes of Iwana dated 3rd May 2000.

(2) The subject Loan Agreement for a facility up to HK$105,000,000.00.

(3) Indicative Valuation of Inworld as at 7th July 2000 prepared by Messrs. Chesterton Petty ("the Valuation Report").

(4) Business Forecast ("Business Forecast") of lnworld.com in 2000.

(5) Consolidated balance sheet as at 30th June 2000 and consolidated profit and loss account for the period from July 1999 to June 2000 of Inworld.

(6) The Circular.

69. 1 have also interviewed Yvonne Yeung and Miranda Chan who were the members of the board at the material time which approved the Loan.

70. There is no dispute that the Company has been carrying on loan business. Thus, *prima facie*, the Loan Agreement fell within one of the usual business purposes of the Company and thus in approving the same, the board had exercised its power for a proper purpose.

71. Under the Loan Agreement, the borrower provided a collateral of 101 shares in Inworld.

72. Under clause 4 of the Loan Agreement, Mr. Ngai, the borrower, warranted that an independent valuation would be provided within 3 months of the Agreement to show that the fair value of lnworld would be no less than HK$600,000,000.00. Failing to provide the independent valuation entitled the Company to immediately demand the repayment of the loan with interest.

73. The Independent Valuation showed that the indicative equity interest range of Inworld as at 7th July 2000 was HK$635,000,000.00 to HK$741,000,000.00. This is more or less confirmed by the Independent Financial Advisers' view set out in the Circular.

74. After perusing the documents and interviewing the directors, I am of the view that in approving the Loan Agreement:–

(1) The directors based their decision on a commercial judgment as to the ability of Mr. Ngai to repay and the worth of the collaterals.

(2) There is no evidence that any members of the board:–

(a) was directly or indirectly interested in the transaction.

(b) had directly or indirectly benefited from the transaction.

(3) There is no evidence to show that the board did not approve the transaction with good faith.

(4) In fact, the Independent Valuation Report and the report of Independent Financial Advisers clearly supported that the directors' decision was made commercially reasonably.

75. In the premises, applying the principles set out in detail above, I am of the view that in approving this transaction, neither the board nor any members thereof at the material time was in breach of the director's duties.

Liu's Finding

76. Motives – as per the report made by the independent financial advisor JS Cresvale and Wallbanck, (a) the Company had abundant cash for the Loan Facility at the time of grant; (b) Granting out loan in return for interest incomes is one of the principal business activities of the Company; and (c) The Company had entered into Subscription Agreement to purchase further shares in Inworld Holdings. The Loan Facility might serve as a bridging loan to offset the consideration for the Acquisition.

77. Financial Benefits

(1) The grant of Loan Facility was carried out in the ordinary course of business of the Group;

(2) Interest is charged at prime plus 2% (i.e. 9.5% plus 2% equal to 11.5%) which is a commercially acceptable terms of loan;

(3) The Loan Facility might serve as a bridging loan to offset the consideration for the Acquisition already entered into agreement. The interest incomes generated by such bridging loan is approximately HK$2 million.

(4) The loan is fully secured by the pledge of shares in Inworld Holdings at 1.3 times over the amount of the Loan facilities.

78. Independence

(1) As in the opinion of the Stock Exchange, Mr. Ngai was deemed to be a connected person pursuant to Rule 14.03(2)(a)(ii) of the Listing Rules at the time of granting of loan facility. Consequently, the granting of loan was deemed to be a connected transaction fell within Rule 14.26, subject to disclosure and approval of independent shareholders.

(2) Inevitably, such violation will jeopardize the independence of the Board of Directors at the time being in the approval of the transaction. In assessing whether the Directors have breach their fiduciary duties, the problem we have to ask is whether the Directors have:

i. Exercise their powers for the purposes for which they were conferred and bona fide for the benefit of the Company as a whole; and

ii. Not to put themselves in a position in which their duties to the Company and their personal interests may conflict.

(3) In that case, loan Facility was granted at the ordinary course of business of the Group. No special allowance has been given to Mr. Ngai in relation to the loan granted.

(4) The loan facility was secured by 101 ordinary shares of US$1.00 each in Inworld Holdings (representing approximately 61.59% of the then issued share capital of Inworld Holdings) owned by Mr. Ngai. According to the report from JS Cresvale and Wallbanck, a new independent valuer, was appointed to re-value the business of Inworld Holdings and such Inworld Holdings was valued at HK$400 million as at 3rd May 2000. Based on the value of Inworld Holdings of HK$400 million, the 61.59% of the then share capital of Inworld Holdings is valued at approximately HK$246.36 million which represents a substantial premium of approximately 1.3 times over the amount of the loan facility.

(5) Interest is charged at normal market rate of Hong Kong Prime rate plus 2%. This is in line with the rates for loans granted by the Company to independent third parties.

(6) In addition, the Directors connected, Ms. Yvonne Yeung Han Yi (a Director, a substantial shareholder of the Company and the spouse of Mr. Cheung) of whom Mr. Ngai is a nephew, had made a declaration that she is not aware of the fact that her connection with Mr. Ngai will made the transaction a deemed to be a connected transactions. Moreover, Ms. Yvonne Yeung also declared that she had no personal interest in the transaction by whatsoever means.

79. According to the facts bring to our attention and the above analysis, I am in the opinion that the directors, in approving such transaction, have exercise his due care and fiduciary duties owed to the Company.

C3. The acquisition by lwana of 45 shares of Inworld by agreement dated 31st August 2000 and Grant of Advance to Inworld Holdings from 13th November 2000 to 10th September 2001.

Kwong's Findings

80. In considering this transaction, I have been provided with:–

(1) Board minutes of Inwana dated 31st August 2000.

(2) The sale and purchase agreement of the subject shares dated 31st August 2000.

(3) The Circular.

81. 1 have also interviewed Yvonne Yeung and Miranda Chan who were the members of the board at the material time.

82. It is quite clear that this further acquisition of the shares in Inworld followed upon and was consistent with the board's position on the potential business viability and profitability in Inworld. The Board by this time had already had the benefit of those documents referred to in the above two transactions and formed its view as to the value of Inworld.

83. In the circumstances, I am of the view that in approving this transaction:–

1. The board based its decision on commercial business judgment.

2. There is no evidence that:

(a) any members of the board was directly or indirectly interested in the transaction;

(b) any members of the board had directly or indirectly benefited from the transaction;

(c) the board did not exercise its authority with good faith.

84. In fact, the Independent Financial Advisers were of the view as stated in the Circular that the directors' said decision and reason to cause the Company to enter into the transaction was a fair and reasonable one.

85. In the premises, applying the principles set out in detail above, I am of the view that in approving this transaction, neither the board nor any members thereof at the material time was in breach of the director's duties.

Liu's Findings

86. Motives – per discussion with the members of the Board of Directors, in anticipation of the listing of Inworld Group on the Growth Enterprise Market (GEM) of the Stock Exchange, the Company increased its investment in Inworld Holdings and, becomes the single largest shareholder of Inworld Group at the time of listing in the GEM of the Stock Exchange. Regarding the loan to Inworld Group, per discussion with the members of the Board of Directors, according to an agreement between the shareholders of Inworld Holdings, each shareholders will make interest free advance to Inworld Holdings in proportion to their shareholding for funding support for Inworld's operation and development. The Company made such advance in the trust that all other shareholders will do the same in accordance with their agreement. The other two shareholders continue in delaying their commitment to pay did not preclude the genuine motive of the Company in financing one of its investment which is consider to be with good potential to be listed in GEM of the Stock Exchange.

87. Financial Benefits

(1) The increase in the Company's investment in Inworld Holdings is in line with the original motives of the Company to diversify its business to Internet Technology that is considered to be of high growth potential.

(2) Following the successful listing of the shares of tom.com Limited in early 2000 and the anticipation of the future listing of Inworld Group on GEM of the Stock Exchange, the increase in its investment will provide good commercial benefits to the Company.

(3) For the loan granted, as mentioned earlier, following the successful listing of the shares of tom.com Limited in early 2000 and the anticipation of the future listing of Inworld Group on GEM of the Stock Exchange, the investment will provide good commercial benefits to the Company. Provision of finance by individual shareholders in proportion to their shareholdings was considered to be essential for the operation and development of the business that planned to be listed in GEM. The dishonor of promise by other two shareholders was outside the control of the Company.

88. Independence

(1) As in the opinion of the Stock Exchange, Mr. Ngai was deemed to be a connected person pursuant to Rule 14.03(2)(a)(ii) of the Listing Rules. Since Mr. Ngai was a substantial shareholder of Inworld Holdings, the subscription was deemed to be a connected transaction and fell within Rule 14.26(2) of Listing Rules, subject to disclosure and approval of independent shareholders.

(2) Similar to the above two deemed connected transactions, such violation will jeopardize the independence of the Board of Directors at the time being in the approval of the transaction. In assessing whether the Directors have breach their fiduciary duties, the problem we have to ask is whether the Directors have:

(a) Exercised their powers for the purposes for which they were conferred and bona fide for the benefit of the Company as a whole; and

(b) Not to put themselves in a position in which their duties to the Company and their personal interests may conflict.

(3) In this shares acquisition, as the valuation of Inworld Holdings was made by the independent valuer, FPDsavills and their conclusion of value for 100% equity interest in Inworld is at 30th June 1999 and 3rd May 2000 is reasonably stated by the amount Hong Kong Dollars Sixty Million (HK$60,000,000) and Hong Kong Dollars Four Hundred Million (HK$400,000,000) respectively. Consequently, the consideration of HK$107,781,436.36 for approximately 27.44% of the then issued share capital of Inworld Holdings represented approximately 1.8% discount to the value of lnworld Holdings valued by the independent valuer FPDsavills at HK$400 million at 3rd May 2000. Such valuation was made by independent valuer on an arm's length basis.

(4) In addition, the Directors connected, Ms. Yvonne Yeung Han Yi (a Director, a substantial shareholder of the Company and the spouse of Mr. Cheung) of whom Mr. Ngai is a nephew, had made a declaration that she was not aware of the fact that her connection with Mr. Ngai will made the transaction a deemed to be a connected transactions. Moreover, Ms. Yvonne Yeung also declared that she had no personal interest in the transaction by whatsoever means.

(5) Regarding the loan arrangement, since the Company granted the advances to Inworld Holdings in a greater proportion than the Company's shareholding in lnworld Holdings, the advances did not fall within Rule 14.25(2)(b) of the Listing Rules and shall be subject to disclosure and approval of independent shareholders under Rule 14.26 of Listing Rules.

(6) Similar to the above deemed connected transactions, such violation will jeopardize the independence of the Board of Directors at the time being in the approval of the transaction. In assessing whether the Directors have breach their fiduciary duties, the problem we have to ask is whether the Directors have:

I. Exercised their powers for the purposes for which they were conferred and bona fide for the benefit of the Company as a whole; and

II. Not to put themselves in a position in which their duties to the Company and their personal interests may conflict.

(7) According to the original shareholders' verbal agreement, individual shareholders will grant advance to Inworld Holdings in proportion to their shareholdings. Entering into such agreement and provision of the necessary finance to Inworld Holdings is considered to be a commercially sensible decision at the time being.

(8) In addition, the Directors connected, Ms. Yvonne Yeung Han Yi (a Director, a substantial shareholder of the Company and the spouse of Mr. Cheung) of whom Mr. Ngai is a nephew, had made a declaration that she was not aware of the fact that her connection with Mr. Ngai will made the transaction a deemed to be a connected transactions. Moreover, Ms. Yvonne Yeung also declared that she had no personal interest in the transaction by whatsoever means.

89. Opinion – According to the facts bring to our attention and the above analysis, we are in the opinion that the directors, in approving such transaction, have exercise his due care and fiduciary duties owed to the Company.

C4. Grant of term loan to Mr. Ng Shun Fu.

Kwong's Findings

90. 1 have been provided with the following documents in consideration of this transaction:

(1) Loan Agreement dated 22nd January 1998.

(2) Loan Agreement dated 31st March 1998; and

(3) Loan Agreement dated 20th January 1999.

91. The reasons the board agreed to enter into the aforesaid loan agreements with Mr. Ng have been fully set out in the Circular. I have also interviewed Yvonne Yeung and Miranda Chan who were the members of the board at the material time who confirmed with me that those reasons again when interviewed.

92. Under the transactions, as a matter of fact, no money was in fact advanced by the Company to Mr. Ng which was treated as a set-off of part of HK$10 million owed by two margin account clients, the debt which was subsequently assumed by Mr. Ng.

93. The board confirms with me that at the material time:–

(1) There was no evidence to show that the Clients were worth the money and thus no useful purpose would served by pressing them for repayment;

(2) Mr. Ng was a director of Ever-Long Securities (as subsidiary of the Company) and certain members of the Styland Group;

(3) Mr. Ng's source of income was mainly from the salaries and commissions earned working for the Group.

94. There is no or no good reason for me to cast doubt or raise query on the board's aforesaid view held at the material time.

95. In the circumstances, I am of the view that in approving the loan agreements:–

(1) The directors based their decision on a commercial judgment as to the respective ability of the Clients and Mr. Ng to repay.

(2) There is no evidence that any members of the board:

(a) was directly or indirectly interested in the transaction.

(b) had directly or indirectly benefited from the transaction.

(3) There is no evidence to show that the board did not approve the transaction with good faith.

96. In fact, as stated in the Circular, the Independent Financial Advisers concurred with the view of the directors at the material time that the entering into the said loan agreements was in the interest of the Company.

97. In the premises, applying the principles set out in detail above, I am of the view that in approving this transaction, neither the board nor any members thereof at the material time was in breach of the director's duties.

Liu's Findings

98. Motives – granting of term loan to Mr. Ng for the assumption of debts owed by two margin clients introduced by him is considered to be the best option at the time being. Tracing of debts from the two margin clients by taking legal action are considered to be not cost effective.

99. Financial Benefits

(1) This setting off arrangement minimized the loss of the Company if the whole amount due from the margin clients cannot be recovered by any means. In addition, this will save the Company time and money for taking legal action against Mr. Ng that the Company considered to be worthless.

(2) Interest is charged at prime rate plus 2%, which will in turn generate interest income to the Company.

100. Independence

(1) Mr. Ng has been a director of certain subsidiaries of the Company since 22nd September 1994 and was therefore a connected person of the Company as defined under the Listing Rules at the time of grant of the loans. The granting of the loans constituted connected transactions for the Company. Since the maximum amount outstanding of approximately HK$11 million exceeded 3 per cent of the consolidated net tangible assets of the Company as disclosed in the Company's annual report for the year ended 31st March 1997 after adjustment for the unaudited consolidated net profit of the Company for the six months ended 30th September 1997, pursuant to Rule 14.26 of the Listing Rules, the granting of the loans should be subject to disclosure and approval of the Shareholders requirement.

(2) Clearly, the Company had not complied with the requirement under Rule 14.26 of the Listing Rules and such violation will jeopardize the independence of the Board of Directors at the time being in the approval of the transaction. In assessing whether the Directors have breached their fiduciary duties, the problem we have to ask is whether the Directors have:

i. Exercised their powers for the purposes for which they were conferred and bona fide for the benefit of the Company as a whole; and

ii. Not to put themselves in a position in which their duties to the Company and their personal interests may conflict.

(3) In this case, the independence of the transaction is upheld as:

i. It is the common practice for Ever-Long Securities Company Limited (a subsidiary of the Company) ("Ever-Long") to consider guarantee from its employee who acts as account executive ("AE") as the primary obligor for the payment to Ever-Long in the event on demand of sum due to Ever-Long by the AE's commission clients and the AE's account though enforcement of guarantee would be at the discretion of Ever-Long.

ii. Furthermore, it is the ordinary course of business of the Group to provide margin financing to clients and that the terms granted to the Clients were on normal commercial terms as any other clients referred by other AEs.

101. Opinion – according to the facts bring to our attention and the above analysis, we are in the opinion that the directors, in approving such transaction, have exercise his due care and fiduciary duties owed to the Company.

C5. Disposal of 15 shares in Gold Cloud and the payment of HK$3 million as commission to Mr. Cheung

Kwong's Findings

102. I have been provided with:–

(1) The sale and purchase agreement between lwana and Companion Marble (BVI) Ltd dated 30th October 2000.

(2) Board minutes of Iwana dated 27th October 2000.

(3) Board minutes of Iwana dated 31st July 2002.

103. I have also interviewed Yvonne Yeung and Miranda Chan who were members of the board.

104. Those directors confirmed with me that it considered the transaction represented a good opportunity for the Company to realise the investment in Gold Cloud. They also confirmed with me that the directors of the Company at the material time considered the consideration involved was a fair and reasonable one.

105. The said directors, together with Mr. Li Wang Tai Steven, who was also one of the directors at the material times, also confirmed in writing that the directors have discussed at the material meeting and agreed to pay a commission of 10% of the net proceeds of the disposal to any agent who could successfully liase with the purchaser and close the deal. Mr. Cheung indicated that he might be one of the agents. The commission of HK$3 million was subsequently paid to Mr. Cheung who successfully concluded the deal with earned a net profit of HK$30 million add for the Company.

106. The Independent Financial Advisers, after reviewing all financial documentation, were also of the view that:–

(1) The entering into the transaction encompassed a logical commercial rationale and represented a good opportunity to realise the investments had the then opportunity arisen.

(2) The consideration for the said transaction was fair and reasonable.

107. After reviewing the documents and interviewing the said directors, I also arrive at the view that:–

(1) The directors based their decision on a commercial judgment, which is subsequently confirmed to be reasonable by the Independent Financial Advisers.

(2) There is no evidence that any members of the board:–

i. was directly or indirectly interested in the transaction.

ii. had directly or indirectly benefited from the transaction.

(3) There is no evidence to show that the board did not approve the transaction with good faith.

(4) There is no evidence to show that the payment of HK$3 million as commission, which represented 10% of the consideration, to Mr. Cheung was unreasonable.

108. In the premises, applying the principles set out in detail above, I am of the view that in approving this transaction, neither the board nor any members thereof at the material time was in breach of the director's duties.

Liu's Findings

109. Motives – the motive of such disposal is clearly indicates the Company's intention to capitalize the good opportunities to realize the investment. In addition, the consideration of the disposal represent a premium of approximately 6.9 times over the closing price of HK$0.50 per share as quoted on the Stock Exchange on 30th October 2000.

110. Financial Benefits

(1) Enable the Company, while, divesting in loss making investment, to generate cash inflow;

(2) A net gain of approximately HK$29.8 million arose from the disposal of the 15 shares in Gold Cloud. Thus, based on the audited net profit for the year ended 31st March 2000 and the then pro forma net profit for the year ended 31st March 2000 would increase from approximately HK$12.5 million to approximately HK$42.3 million upon the completion of the shares disposal transaction; and

(3) In addition, the shares disposal transaction will also bring about positive impact to the Company's net asset value as well as its working capital position.

111. Independence

(1) Companion Marble was a wholly owned subsidiary of Skynet, which in turn was an associate of Companion. By virtue of Companion being a substantial shareholder of a subsidiary of the Company, Companion was a connected person of the Company as defined under the Listing Rules and so the disposal constituted a connected transaction of the Company. Since the consideration exceeded 3% of the consolidated net tangible assets of the Company as disclosed in the Company's annual report for the year ended 31st March 2000, pursuant to Rule 14.26 of the Listing Rules, the disposal should be subjected to disclosure and approval of the Shareholders requirements.

(2) Clearly, the Company had not complied with the requirement under Rule 14.26 of the Listing Rules and such violation will jeopardize the independence of the Board of Directors at the time being in the approval of the transaction. In assessing whether the Directors have breached their fiduciary duties, the problem we have to ask is whether the Directors have:

(a) Exercised their powers for the purposes for which they were conferred and bona tide for the benefit of the Company as a whole; and

(b) Not to put themselves in a position in which their duties to the Company and their personal interests may conflict.

(3) In this case, the independence of the transaction is upheld as;

(4) The commercial benefit and not the identity of the vendor is the key elements of the disposal;

(5) For the commission paid to Mr. Cheung, as per discussion with the directors, it is noted that;

(a) Prior to the disposal, commission was agreed and set at 10% on the gain arising from the disposal and it is a common practice to paid commission on that kind of transaction;

(b) Approval was obtained from other board members after thorough discussion within the board.

(6) Accordingly, the independence of the transaction is maintained.

112. According to the facts bring to our attention and the above analysis, we are in the opinion that the directors, in approving such transaction, have exercised their due care and fiduciary duties owed to the Company.

C6. Acquisition in relation to Kippton and Sheng Da

Kwong's Findings

113. 1 have been provided with the following documents for consideration:–

(1) Board minutes of Styland Infrastructure dated 31st August 2000.

(2) Supplemental Deed in relation to the sale and purchase of shares in Kippton dated 25th September 2000.

(3) Agreement relating to the sale and purchase of shares in Kippton.

(4) Chinese authority documents concerning toll road fee increase.

(5) Consolidated balance sheet as at 31st August 2000 and consolidated profit and loss account from 1st April to 31st August 2000 of Kiptton.

(6) The Circular.

114. I have also interviewed Yvonne Yeung and Miranda Chan who were members of the board at the material time. Those directors confirmed with me that their reason for approving the transaction was based their view held at the material time of the potential growth of business and profit potential in toll expressway in the PRC. This is clearly a commercial judgment apparently held by the board at the material time.

115. After looking at the documents and interviewing the directors I form the view that:–

(1) The board based its decision on commercial business judgment.

(2) There is no evidence that:–

(a) any members of the board was directly or indirectly interested in the transaction;

(b) any members of the board had directly or indirectly benefited from the transaction;

(c) the board did not exercise its authority with good faith.

116. In the premises, applying the principles set out in detail above, I am of the view that in approving this transaction, neither the board nor any members thereof at the material time was in breach of the director's duties.

117. There may or may not be room for debate as to whether it was a good commercial judgment made by the board. However, as clearly demonstrated by the authorities, even if the said decision was a bad one commercially, it does not per se support the finding of a breach of director's duties.

Liu's Findings

118. Motives – having seen the rapid growth of the traffic flow of the toll expressway from 5.4 million vehicles in 1998 to 5.9 million vehicles in 1999 and over 10 per cent historical growth rate of real gross domestic products in Hubei province and taking into account the review report and the projected discounted cash flow prepared by the Company, the Board believed that it was in the interest of the Company to increase its interest in Kippton Limited and acquire direct interest in Sheng Da Investment Holding (Hong Kong) Limited as to enjoy a higher recurrent income stream.

119. Financial Benefits – with the successful experience of several H-shares like Anhui Expressway (HKSE Code 0995) Shenzhen Express (HKSE Code 0548) and Zhejiang Express (HKSE Code 0576), increase in interest in Kippton Limited and acquire direct interest in Sheng Da Investment Holding (Hong Kong) Limited may definitely provide a stable and attractive recurrent income stream to the Company.

120. Independence

(1) The consideration was determined on an arm's length basis.

(2) The Vendor was an independent third party.

(3) This transaction is only a discloseable transaction and did not fall into the definition of connected transaction according to the Listing Rules.

121. Opinion – according to the facts bring to our attention and the above analysis, we are in the opinion that the directors, in approving such transaction, have exercise his due care and fiduciary duties owed to the Company.

C7. Acquisition of 90% shareholding in West Marton

Kwong's Findings

122. 1 have been provided with:–

(1) Board minutes of Data Store Investment Limited dated 19th October 2000.

(2) Business Plan of Chineseyes.com.

(3) Sale and purchase agreement relating to 54 shares in the capital of Marton dated 10th October 2000.

(4) The Circular.

123. 1 have also interviewed Yvonne Yeung and Miranda Chan who were members of the board concerning this transaction.

124. Those directors confirmed with me that, in light of the successful listing of Tom.com and the "internet bubble economy" sentiment at the material time both in Hong Kong and the major markets of the world, the board was of the view that the business protocol of Chineseyes.com provided by Marton was of good business and profit potential. Thus, they decided to approve the transaction.

125. After looking at the documents and interviewing the said directors I form the view that:–

(1) The board based its decision on commercial business judgment.

(2) There is no evidence that:–

i. any members of the board was directly or indirectly interested in the transaction;

ii. any members of the board had directly or indirectly benefited from the transaction;

iii. the board did not exercise its authority with good faith.

126. In the premises, applying the principles set out in detail above, I am of the view that in approving this transaction, neither the board nor any members thereof at the material time was in breach of the director's duties.

127. There may or may not be room for debate as to whether it was a good commercial judgment made by the board. However, as clearly demonstrated by the authorities even if the said decision was a bad one commercially, it does not per se support the finding of a breach of director's duties.

Liu's Findings

128. Motives – similar to the investment in Inworld Holdings, acquisition of 90 per cent in West Marton which principally engaged in developing and operating a series of electronic commerce portals including "chineseye.com" and the provision of other information technology and internet related services are in line with the original motives of the Company to diversify its business to Internet Technology which is considered to be of high growth potential.

129. Financial Benefits – following the successful listing of the shares of tom.com Limited in early 2000, the Company is likely to be benefited from the prospect of the information technology industry and that the acquisition would increase the value of the shares of the Company.

130. Independence

(1) The consideration was determined on an arm's length basis;

(2) The Vendor was an independent third party;

(3) The acquisition did not constitute a notifiable transaction and was not subject to any disclosure and/or approval requirements under the Listing Rules.

131. According to the facts bring to our attention and the above analysis, we are in the opinion that the directors, in approving such transaction, have exercised their due care and fiduciary duties owed to the Company.

C8. The acquisition by a 100% subsidiary ("Global Eagle") of 40% of the issued shared capital of Cyber World on 13th January 2000 (SOC §§39-42)

Kwong's Findings

132. In relation to this transaction, I have been provided with the following documents:

(1) The sale and purchase agreement dated 13th January 2000 ("the Cyber World Agreement") between Zelma's Co Ltd and Global Eagle and Liu Wei, He Xiao Feng in relation to the sale and purchase of the shares in Cyber World.

(2) Minutes of the Special General Meeting of the members of the Company held on 22nd February 2000 in relation to the approval of the Cyber World Agreement.

(3) Circular dated 16th February 2000 issued by the Company in relation to the issue and listing of new shares.

(4) A brochure of Cyber World and a brochure of Beijing Spatial Port Network Technology Ltd.

(5) Valuation report dated 2nd February 2000 provided by LCH (Asia-Pacific) Surveyor's Ltd on the valuation of fair market value of Beijing Spatial Port Network Technology Ltd., which was in turn owned 100% by Cyber World.

133. Under clause 2.1 of the Cyber World Agreement, the agreement was conditional upon, *inter alia*,

(1) the Company's shareholders' approval of the same and the issue and allotment of the shares as part of the consideration therein;

(2) the Cyber Agreement had been cleared of all the disclosure and approval requirements applicable to the Company under the listing rules;

(3) the listing committee of the stock exchange granting the listing of, and permission to deal in, the shares issued as part of the consideration of the agreement.

134. I am satisfied that all these pre-conditions have been complied with after looking at the aforesaid board minutes of the Special General Meeting and the aforesaid circular. I have also interviewed Ms Yvonne Yeung, who was one of the members of the board at the material time and she confirmed to me the same.

135. Further, from the valuation, it appears that the consideration provided under the Cyber World Agreement is not unreasonable.

136. In the circumstances I am satisfied that the transaction under the Cyber World Agreement:

(1) was approved by the shareholders of the Company;

(2) was in compliance with the listing rules for disclosure; and

(3) was entered into based on commercial judgment and at a fair market value.

137. Further, there is no evidence to show that:–

(1) any members of the board was directly or indirectly interested in the transaction;

(2) any members of the board had directly or indirectly benefited from the transaction; and

(3) the board did not exercise its authority with good faith.

138. In the premises, applying the principles set out in detail above, I am of the view that in approving this transaction, neither the board nor any members thereof at the material time was in breach of the director's duties.

Liu's Findings

139. Motives – Cyber World Technology Limited (hereinafter known as "Cyber World") is the holding company of its wholly owned subsidiary Beijing Spatial Port Network Technology Limited which deal primarily with offering products and services, connected with the interrelated industries of Geographical Information System ("GIS"), Global Positioning System ("GPS") and Remote Sensing ("RS") in the People Republic of China. The subsidiary also involved in the Internet related services such as website design.

140. Further, with the strong management team behind the Company together with the favourable outlook of China, the directors believe that investment in the Cyber World with strong high-tech base is of the benefit to the Company and the shareholders.

141. Financial Benefits

(1) With the profit forecast listed in the company's profile, the management of Cyber World forecast the profits of the company to be RMB33,000,000 and RMB55,000,000 for the year of 2000 and 2001 respectively.

(2) With the high-tech background of Cyber World, it is reasonable for the directors to believe that Cyber World have a good listing value that may attract investors at the time of listing of the company in the GEM.

142. Independence

(1) Shares are acquired from third parties namely Cyber Town Company which is beneficially owned by Mr. Liu Wei, Mr. He Xiao Feng and Mr. Yick Chong San.

(2) Valuation of shares was made by independent valuer LCH (Asia-Pacific) Surveyors Limited. The consideration of the acquisition of HK$148 million was determined by reference to 40 per cent of the valuation of HK$370 million as reported by LCH.

143. According to the facts bring to our attention and the above analysis, we are in the opinion that the directors, in approving such transaction, have exercise his due care and fiduciary duties owed to the Company.

C9. The acquisition through a 100% subsidiary (Thunderbolt) of 55% of the issued share capital of Couttias Profits from Gloria Development (owned by the 1st Defendant) on 24th November 1998 (SOC §§34-38).

Kwong's Findings

144. In relation to this transaction, I am provided with the following documents:–

(1) The sale and purchase agreement dated 24th November 1998 ("the Couttias Profits Agreement") between Gloria Development Ltd and Cheung Chi-Shing, Kenneth and Thunderbolt Property Corp.

(2) Board minutes of Thunderbolt of a board meeting held on 26th January 2000.

(3) An announcement issued by the Company on Hong Kong Standard dated 27th January 2000.

(4) Clause 2.3(1) of the Couttias Profits Agreement provided that the agreement was conditional upon, *inter alia*, the independent shareholders' approval of it.

145. I note from the aforesaid announcement:–

(1) Couttias Profits was an investment holding company which owned the entire issued capital in Easyrich Development Ltd which held an interest in a joint venture company to develop a 30-storey apartment building in Guangzhou, PRC.

(2) The independent shareholders of the Company approved the agreement at the SGMs held on 7th January and l2th August 1999.

146. I have also interviewed Yvonne Yeung and Miranda Chan who were members of the board at the material time who confirmed to me that the agreement entered into based purely on commercial judgment. I have and I see no reason to doubt this.

147. Further, 1 understand from the Company that it has exercised a put option to dispose of the interests in Couttias Profits.

148. Further, there is no evidence to show that:–

(1) any members of the board was directly or indirectly interested in the transaction;

(2) any members of the board had directly or indirectly benefited from the transaction; and

(3) the board did not exercise its authority with good faith.

149. In the premises, applying the principles set out in detail above, I am of the view that in approving this transaction, neither the board nor any members thereof at the material time was in breach of the director's duties.

Liu's Findings

150. Motives – the principal assets of Couttias Profits Limited was site in PRC. The acquisition of shares of Couttias may offer the Company with a chance to enter the boomed property market of PRC.

151. Financial Benefits – the primary assets of Couttias Profits Limited is its interest in an investment in the Site which intended to be development a 30-storey apartment building having a gross area of about 27,358 sq. m. as a stand-alone phase development of Gloria City. As the Site is located in the prime area of PRC, the development profits generated from the investment will be considerable.

152. Independence:

(1) Shares are acquired from Gloria Development Limited, a company beneficially owned by Mr. Cheung, who is, at the time of the agreement, a substantial shareholders and then chairman of the Company. The acquisition was deemed to be a connected transaction and fell within Rule 14.26(2) of Listing Rules, subject to disclosure and approval of independent shareholders.

(2) According to the requirements set out in the Listing Rule, proper disclosure and approval of independent shareholders was obtained by a resolution passed in the special general meeting held on 12th August 1999.

(3) In addition, as the consideration of the acquisition was determined after arm's length negotiation between the parties with reference to a valuation prepared by LCH (Asia-Pacific) Surveyors Limited, an independent property consultant.

(4) On the other hand, once the Company aware of the adverse result of the revised town planning policy, the Company had exercised its put option on 26th January 2000 to dispose of the 55 per cent interest in the share capital of Couttias Profits Limited and debts due to Gloria Development Limited at the acquisition consideration. This proof that the Board of Directors have protected the overall benefits of the Company in such transaction.

153. According to the facts bring to our attention and the above analysis, we are in the opinion that the directors, in approving such transaction, have exercise his due care and fiduciary duties owed to the Company.

C.10 Various loans to other connected persons (SOC §§56-57)

Kwong's Findings

154. I have been provided with the following documents for consideration:–

(1) Margin Client's Agreement dated 29th June 2001 entered into between Ever-Long Securities Co., Ltd ("Ever-Long") and Mr. Ngai.

(2) Client's Agreement dated 18th February 2002 entered into between Ever-Long and Mr. Ngai.

(3) Uniform Cash Client's Agreement dated 17th March 1993 entered into between Ever-Long and Ms. Chan Chi Mei.

155. I understand from the Company that the stock broking and the margin financing services were provided by Ever-Long to these persons on normal commercial terms and the commission rate and interest rate were within the same range available to clients independent to Ever-Long. Moreover, proper and usual client's agreements had been entered into between each of these persons and Ever-Long.

156. Since these transactions were conducted at arm's length, on normal commercial terms and in the ordinary and usual course, in the premises, I am of the view that neither the board nor any members thereof at the material time was in breach of the director's duties.

Liu's Findings

157. Since all these loans are made in the ordinary course of business and terms are set at normal commercial rates at arm's length, we are in the opinion that the directors, in approving such transaction, have exercise his due care and fiduciary duties owed to the Company.

D. OTHER MATTERS FOR CONSIDERATION

158. In paragraphs 16, 17, 18 and 19 of the SOC and paragraph 49 of the Affirmation of Sun Jin Lin ("the Affirmation"), it is alleged that the directors were in breach of their duties as they through the announcements dated 10th, 29th and 30th July 2003 notified the shareholders that the board was unable to comply with Rule 14.13(2), 14.29(2) and 8(1) of the Listing Rules.

159. 1 have also interviewed Yvonne Yeung, Miranda Chan and SM Ching who were members of the board at the material times and am confirmed that the reason for the board's inability to comply with the aforesaid rules was:

(1) extra time was required for the preparation of the circular concerned since the related documents were voluminous, and the valuer and independent financial adviser required substantial time to finalise their works which needed to be included in the circular.

(2) the auditor required further time to complete the audit as some of the investments of the Company failed to provide their respective accounts on a timely basis.

160. In the premises, applying the principles set out above, I am satisfied that the directors had exercised their best endeavour and skill in seeking to comply with the listing rules and the failure to comply was more a result of things out of the directors' control. I am therefore of the view that the directors are not in breach of their directors' duties.

161. Paragraph 22 of the SOC and paragraph 58 of the Affirmation allege that the directors were in breach of Rules 14.30 and/or 14.31 of the Listing Rules in publishing the circular dated 11th September 2003.

162. 1 understand from the directors that the said circular was based on the relevant requirements of the Listing Rules and was cleared by the Listing Division of the Stock Exchange. In the premises, I do not see any basis to show that the directors were in breach of their directors' duties in issuing the said circular.

163. In paragraph 47 of the Affirmation, it was alleged that the Company's failure to disclose its acquisition of interest in Kippton Limited and Sheng Da Investment Holding (Kong Kong) Ltd through its subsidiary was in breach of Rule 14.26 of the Listing Rules. I understand from the directors that such transaction did not fall within one of the categories of notifiable transactions as set out in the Listing Rules which requires disclosure.

164. In paragraph 50 of the Affirmation, it was alleged that the directors proposed to replace the auditors of the Company, Messrs. Ernst & Young, with Messrs. Li, Lai & Cheung at the annual general meeting held on 26th September 2003. I understand from the directors that it was because the fee of Messrs. Ernst & Young was approximately 180% higher than that of Messrs. Li, Lai & Cheung.

165. Paragraph 51 of the Affirmation alleges that the balance of the consideration for the acquisition of shares in Well Pacific was not made to the independent person but to Ms. Mona Leung. I understand from the directors that Ms. Mona Leung is an independent person not connected with the directors, chief executives or substantial shareholders of the Company or its subsidiaries or any of their respective associates under the definition of the Listing Rules.

166. In paragraph 57 of the Affirmation, it was alleged that the Circular did not provide shareholders with an objective and adequate assessment of each of the disclosed transactions. The Affirmation however does not proceed to explain in greater detail and particularize the allegation.

167. After perusing the Circular and given that it was also provided therein the independent financial advisers report, I do not find that it sets out to present an objective and adequate assessment of each of the disclosed transactions therein.

168. On this note, I am further of the view that in relation to the transaction concerning the acquisition of 100 per cent interest in E-Teck Business Limited as disclosed and set out in the Circular, I do not find anything stated therein to be of suspicion.

169 I have further interviewed Yvonne Yeung and Miranda Chan who were members of the board at the material time of the aforesaid transaction who confirmed to me the contents of the Circular again. I am satisfied that the transaction was entered into based on commercial judgment.

170. There is also no evidence to show that:–

(1) any members of the board was directly or indirectly interested in the transaction;

(2) any members of the board had directly or indirectly benefited from the transaction; and

(3) the board did not exercise its authority with good faith.

171. In the premises, applying the principles set out above, I am of the view that the directors were not in breach of their directors' duties in relation to the transaction involving the acquisition of the interest in E-Teck.

Liu's Findings

172. For the matters raised in this section, most of it involved legal opinion rather than financial opinion, in these respect, I concurred with the opinion of Kwong.

E. CONCLUSION

173. In summary, after reviewing the documents both available to the board of directors at the material times and subsequently, principally the Independent Financial Advisers' view as set out in the Circular, and after interviewing the directors, and upon performing all our professional works as required, we conclude that, applying the relevant legal principles, the directors were not in breach of their due care and/or fiduciary duties. I therefore so advise and report to the Company.

174. We further take this opportunity to thank all the directors, former or present, who have made themselves available for interview and providing the documents for review.

SFC's Allegations against Respondents

(an extract from the SFC's Petition filed with the Court)

Transactions entered into by the Company and/or its subsidiaries during the period from 1999 to 2001 ("the Relevant Period")

4. During the Relevant Period, save for Angelina Swee Yan Goh and Henry Bing Kwong Chan who resigned on 2 October 1999 and 4 May 2000 respectively, Cheung Chi Shing Kenneth, Yeung Han Yi Yvonne, Li Wang Tai Steven and Chan Chi Mei Miranda (the Directors) were the only executive directors and thus in control of the Company. Some of them were at the same time directors and also in control of those subsidiaries of the Company involved in the transactions described below.

5. During the Relevant Period, the Directors have caused the Company and/or its subsidiaries to enter into a number of transactions with the following parties:

   5.1. Inworld Holdings Limited ("Inworld Holdings") and Kevin Ngai Kwok Kin ("Kevin Ngai") (Section D).

   5.2. Cyber World Technology Limited ("Cyber World") (Section E).

   5.3. Kippton Limited ("Kippton") and Sheng Da Investment Holding (Hong Kong) Limited ("Sheng Da") (Section F).

   5.4. Gold Cloud Agents Limited ("Gold Cloud") (Section G).

   5.5. West Marton Group Limited ("West Marton") (Section H).

   5.6, Well Pacific Investments Limited ("Well Pacific") (Section I).

(D). INWORLD HOLDINGS AND KEVIN NGAI

D(1). Subscription for 36 newly issued shares in Inworld Holdings on 5 July 1999

6. By an agreement dated 5 July 1999 ("the Subscription Agreement"), Iwana Company Limited ("Iwana"), an indirect wholly owned subsidiary of the Company, subscribed for 36 newly issued shares in Inworld Holdings (known as Eastern United Services Limited prior to 7 October 1999) at a consideration of $20,000,000 or $555,555.56 per share. Under the Subscription Agreement, the purchase price would become payable only upon completion which was scheduled to take place on or before 15 May 2000.

7. Notwithstanding such contractual stipulation and prior to the allotment of the subscription shares, $15,495,500 (approximately 80% of the consideration) was paid to Inworld Holdings by Styland (Hong Kong) Limited ("Styland HK") and Styland Finance Company Limited ("Styland Finance"), both of which were wholly owned subsidiaries of the Company, on behalf of Iwana before the completion on 15 May 2000. At all material times, Yvonne Yeung, Steven Li and Miranda Chan were directors of Styland Finance whereas all the Directors were directors of both Iwana and Styland HK.

8. Inworld Holdings was incorporated in the British Virgin Islands ("BVI") on 11 July 1997. As at the date of the Subscription Agreement, Kevin Ngai and Joyview International Limited ("Joyview", a company owned by Alan Chan Wai Lun ("Alan Chan")) were the shareholders of Inworld Holdings and its directors were Kevin Ngai and Yick Chong San ("Yick"). When the Subscription Agreement was entered into, however, Inworld Holdings had no major assets and liabilities and had in fact not commenced business.

9. Kevin Ngai is the nephew of Yvonne Yeung. On or about 18 August 2000, he was appointed as a director of Oriental Max Investment Limited (renamed Styland Datareach Computer Technology Limited ("Styland Datareach") on 15 September 2000), a subsidiary of the Company. Kevin Ngai was thus at all material times a connected person of the Company under Rule 14.03(2)(a)(ii) of the Rules Governing the Listing of Securities on the Stock Exchange applicable at the time ("Listing Rules"), and additionally according to the definition of *"connected person"* in Chapter One of the Listing Rules after 18 August 2000. Yvonne Yeung, Steven Li and Miranda Chan were directors of Styland Datareach who resolved in favour of appointing Kevin Ngai as an additional director.

10. In approving the Subscription Agreement, the Directors relied solely on a business plan and discounted cash flow projections provided by Kevin Ngai and Alan Chan both of which were completely speculative on the profitability of Inworld Holdings. Moreover, no due diligence exercise has ever been carried out by the Directors, whether by engaging independent professionals or otherwise, to assess the value of Inworld Holdings' shares or the viability of its profit forecasts.

11. On or about 30 June 1999, just 5 days before the date of the Subscription Agreement, Inworld Holdings granted Kevin Ngai and Joyview options to subscribe for 51 and 23 shares at par value, i.e. US$1.00 each. The grant of such options was expressly stated in the Subscription Agreement and thus brought to the attention of the Directors, but none of them had objected thereto or questioned why those options were granted at par value only. Not only did the Directors fail to take any step to ensure that the terms of the Subscription Agreement would prevent any unfair dilution of the interest of Iwana in Inworld Holdings, they acquiesced in if not actively facilitated such dilution.

12. In or about June 2000, Kevin Ngai and Joyview exercised their share options and were allotted 50 and 14 shares respectively. As a result, the shareholding of Iwana in Inworld Holdings was reduced from 26% to 15.9%.

13. The subscription by Iwana for the shares in Inworld Holdings was a connected transaction under the Listing Rules. In failing to obtain the prior approval of its shareholders and make proper notification and disclosure after the terms of the subscription were agreed, the Company had acted in breach of Rules 14.26(2), 14.29(1) and 14.29(2) of the Listing Rules. It was not until almost 4 years later, on 3 June 2003, and upon request by the Stock Exchange, that the subscription was disclosed.

D(2). Loan facility of $105,000,000 granted by Iwana to Kevin Ngai on 3 May 2000

14. On 3 May 2000, which was less than two weeks before the completion under the Subscription Agreement, Iwana granted to Kevin Ngai a loan facility of up to $105,000,000. The entire sum was then drawn down in three tranches on 9 May 2000 ($30,000,000), 25 May 2000 ($20,000,000) and 29 June 2000 ($55,000,000).

15. Iwana accepted Kevin Ngai's 101 shares (including those shares which he would be allotted upon exercise of the share options granted on 30 June 1999 referred to above) in Inworld Holdings as collateral for the loan facility. In addition, Kevin Ngai gave the contractual warranty that the value of Inworld Holdings was not less than $600,000,000 at the material time and that he would obtain an independent valuation to that effect within 3 months of executing the loan facility agreement.

16. On or about 13 July 2000, subsequent to both the execution of and drawdown under the loan facility agreement, Kevin Ngai obtained and produced to the Directors a report prepared by Chesterton Petty, in which it was concluded that the value of Inworld.com was between $635,000,000 and $741,000,000. In arriving at this conclusion, Chesterton Petty had applied a discounted cash flow method of valuation on the basis of financial information and forecasts furnished by Inworld Holdings. Moreover, Chesterton Petty did not express any opinion in the report on the viability of the business of Inworld Holdings or the reasonableness or attainability of the assumptions underlying the financial forecasts.

17. The loan facility was a connected transaction under the Listing Rules. In failing to obtain the prior approval of its shareholders and make proper notification and disclosure after the terms of the loan facility were agreed, the Company had acted in breach of Rules 14.26(6)(a), 14.29(1) and 14.29(2) of the Listing Rules. It was not until more than 3 years later, on 3 June 2003, and upon request by the Stock Exchange, that the loan facility was disclosed.

18. In approving the grant of loan facility to Kevin Ngai, the Directors have clearly failed to exercise the degree of skill, care, diligence and competence as is reasonably expected of persons of their knowledge and experience and holding their offices and functions with the Company:

    18.1. Pursuant to the loan facility agreement, Kevin Ngai was only required to produce an independent valuation report of Inworld Holdings within three months after the transaction. In fact, the entire loan had been drawn down well before the report was actually produced.

18.2. When the loan facility was approved and granted, the Directors had failed to assess whether Kevin Ngai's 101 shares in Inworld Holdings constituted adequate security. While accepting such collateral implied that each share in Inworld Holdings was worth about $1,039,604 at the material time, this was almost double the price paid by Iwana when it subscribed for 36 shares in Inworld Holdings just ten months earlier.

18.3. Such difference was not justified by the Directors and could not be justified by the business performance of Inworld Holdings because the latter had incurred a net loss of approximately $4,216,000 for the period from 30 August 1999 to 30 June 2000 alone.

19. As regards this loan facility of $105,000,000, the Petitioner has conducted a fund tracing exercise which reveals the following.

19.1. On 9 May 2000:

19.1.1. upon request by Kevin Ngai, the Company on behalf of Iwana transferred the first tranche of $30,000,000 of the loan to the bank account of Inworld Holdings;

19.1.2. Inworld Holdings paid $28,000,000 by cheque to Extra Yield Resources Limited, of which Yick was at that time the sole director and authorised bank signatory; and

19.1.3. Extra Yield Resources Limited paid $25,000,000 by cheque (signed by Yick and Kevin Ngai) to KC (Investment) Limited, whose directors were at all material times Kenneth Cheung and Yvonne Yeung and whose shares were owned as to 1% by Yvonne Yeung and as to 99% by K.Y. Limited, whose sole shareholder was at all material times Kenneth Cheung.

19.2. On 29 June 2000, Styland HK and Crosby Design (Far East) Company Limited ("Crosby") jointly on behalf of Iwana transferred the third tranche of $55,000,000 of the loan facility to the bank account of Inworld Holdings. Styland HK and Crosby were both subsidiaries of the Company, and Yvonne Yeung, Steven Li and Miranda Chan were at all material times directors of Crosby. Later, on 7 July 2000:

19.2.1. Inworld Holdings paid $9,000,000 by cheque to Ebbing Hill Services Limited ("Ebbing Hill") whose director and authorized bank signatory was Li Sui Hang, an employee who worked for Kevin Ngai at Inworld (Hong Kong) Limited, which was at all material times a subsidiary of Inworld Holdings;

19.2.2. Ebbing Hill paid a total sum of $8,950,000 by cheques to Colindale Enterprises Limited ("Colindale") whose director and authorized bank signatory at the material time was Szeto Suet Kwan, an employee in the accounts department of Inworld (Hong Kong) Limited from 1999 to 2000; and

19.2.3. Colindale paid $2,000,000 by cheque to Kenneth Cheung; and $6,950,000 by cheque to UBS AG, which then credited the same to the personal bank account of Yvonne Yeung.

19.3. Further, out of the third tranche of $55,000,000:

19.3.1. on 30 June 2000, Inworld Holdings paid $25,200,000 by cheque to Carmona International Limited ("Carmona") whose director and authorised bank signatory was then Ting Wai Man, a subordinate of Yick who joined Riverhill in 2000;

19.3.2. Carmona immediately paid $25,000,000 by cashier order dated 30 June 2000 to Styland Finance; and

19.3.3. out of the $25,000,000 paid to Styland Finance:

(a) $4,000,000 was paid on 5 July 2000 by cheque to Mona Leung Yuk Kit ("Mona Leung"), who bad been an employee of the Company until July 1999; and

(b) $21,250,000 was transferred on 12 July 2000 to Styland HK, the reason for which is unknown to the Petitioner as at the date of this Petition.

20. A chart showing the above fund flows is attached at Appendix I hereto.

D(3). Sale of 10 Inworld Holdings shares back to Kevin Ngai and Alan Chan on 15 May 2000

21. On 15 May 2000, viz. the completion date under the Subscription Agreement, Iwana sold one share and nine shares in Inworld Holdings back to Kevin Ngai and Joyview respectively at the original price of $555,555 per share under the Subscription Agreement. As the purchase price would be paid two years after completion, each of Kevin Ngai and Joyview then executed a share charge over the sale shares in favour of Iwana.

22. This transaction could not be justified commercially and did not appear to be in the best interests of the Company and/or Iwana. As pleaded above, on 3 May 2000, the Directors accepted Kevin Ngai's 101 shares in Inworld Holdings as collateral for the loan facility of $105,000,000 granted by Iwana, thereby implying a valuation on their part of $1,039,604 for each share in Inworld Holdings. However, less than two weeks later, Iwana sold 10 Inworld Holdings shares back to Kevin Ngai and Joyview at the much lower price of $555,555 per share.

23. This sale to Kevin Ngai was a connected transaction under the Listing Rules. In failing to obtain the prior approval of its shareholders and make proper notification and disclosure after the terms of the sale were agreed, the Company had acted in breach of Rules 14.26(2), 14.29(1) and 14.29(2) of the Listing Rules. It was again not until more than 3 years later, on 3 June 2003, and upon request by the Stock Exchange, that the sale was disclosed.

D(4). Further acquisition of 45 Inworld Holdings shares by Iwana from Kevin Ngai on 31 August 2000

24. By an agreement dated 31 August 2000, Iwana purchased 45 ordinary shares in Inworld Holdings from Kevin Ngai at a consideration to be satisfied by setting off against the sum of $107,781,438.36 which was then owed by Kevin Ngai to Iwana under the loan facility which the latter had granted on 3 May 2000.

25. This transaction again could not be justified commercially and did not appear to be in the best interests of the Company and/or Iwana. In agreeing to the purchase price, this acquisition gave an implied valuation of about $2,400,000 per share in Inworld Holdings, which was a significant increase from either the subscription price that Iwana agreed to pay on 5 July 1999, or the purchase price it received on 15 May 2000. There was no justification for such increase. Subsequently, the Company wrote off $93,882,949 as an impairment loss in its accounts for the year ended 31 March 2002.

26. Such further acquisition was a connected transaction under the Listing Rules. In failing to obtain the prior approval of its shareholders and make notification and disclosure after the terms of the acquisition were agreed, the Company had again acted in breach of Rules 14.26(2), 14.29(1) and 14.29(2) of the Listing Rules. Again, it was not until 3 June 2003 and upon request by the Stock Exchange that the purchase was disclosed.

27. The net result of this series of transactions referred to in paragraphs 19 to 39 above was that Iwana had paid approximately $120,000,000 to acquire 71 shares in Inworld Holdings, the book value of which fell to just $16,120,345 in about 30 months as at 31 March 2002. In the meantime, Kenneth Cheung and Yvonne Yeung had either personally or through their companies received a total sum of $33,950,000.

D(5). Shareholder's loans from Iwana to Inworld Holdings

28. The Company expressly acknowledged in its audited accounts for the year ended 31 March 2001 the *"prevailing unfavourable economic environment in the high technology sector"*. Nevertheless, Iwana, with funding from Styland HK, had advanced a total of $13,558,847 to Inworld Holdings in the period from 13 November 2000 to 10 September 2001. It is notable that in extending these shareholder's loans, Iwana had neither entered into any written loan agreement with nor requested the provision of any guarantee or security from Inworld Holdings.

29. In seeking to justify such injection of capital despite the adverse circumstances, the public and the shareholders of the Company were informed that the above advances had been made as a result of an agreement amongst the shareholders of Inworld Holdings to inject working capital into the latter proportionate to their respective shareholding. However, as at the date of this Petition, the Petitioner has failed to obtain, nor are the Directors able to adduce, any evidence that any of the other shareholders of Inworld Holdings had injected any capital to it, whether in accordance with their shareholding or otherwise.

30. Iwana eventually wrote off approximately $5,280,000 of its shareholder's loans to Inworld Holdings as a result of the reorganisation of the Inworld Group:–

30.1. On 20 September 2001, Inworld Holdings, Iwana and other shareholders of Inworld Holdings entered into a Swap and Merge Deed for the purpose of corporate reorganisation of the Inworld Group. As stated in the Swap and Merge Deed, Inworld Holdings at that time owed Iwana a sum of $14,001,847 representing all outstanding advances previously made by Iwana with interest.

30.2. As part of the reorganisation mechanism, Iwana agreed to release and discharge Inworld Holdings from $12,195,029 of the said debt, and the other parties to the Swap and Merge Deed, namely Kevin Ngai, Joyview and Jet Concord Inc., agreed to pay Iwana a total sum of $6,915,801.

30.3. On 29 November 2001, Iwana assigned the remaining $1,806,819 of the debt owed by Inworld Holdings to Globemax Pacific Limited at a consideration of the exact amount of such debt.

31. The grant of such shareholder's loans to Inworld Holdings was a connected transaction under the Listing Rules. In failing to obtain the prior approval of its shareholders and make notification and disclosure after Iwana agreed to grant the shareholder's loans to Inworld Holdings, the Company had acted in breach of Rules 14.26(6)(a), 14.29(1) and 14.29(2) of the Listing Rules. It was again not until 3 June 2003 and upon request by the Stock Exchange that such loans to Inworld Holdings were disclosed.

E. CYBER WORLD

32. By an agreement dated 13 January 2000, Global Eagle Investments Limited ("Global Eagle"), an indirect wholly owned subsidiary of the Company, acquired 40 shares (40% of the issued share capital) in Cyber World from Zelma's Company Limited ("Zelma") at a consideration of $148,000,000. At that time, Kevin Ngai was a director of Cyber World whereas Yick was both a director and shareholder of Zelma.

33. The investment in Cyber World turned out to be a serious failure, with the Company eventually writing off $91,762,611 as an impairment loss in its accounts for the year ended 31 March 2002. Furthermore, in 2001, pursuant to certain restructuring arrangements undertaken by Cyber World for the purpose of its listing on the Growth Enterprise Market of the Stock Exchange, the Styland Group had agreed to and did exchange its interest in Cyber World for an interest in the latter's holding company Riverhill, of which Yick was an executive director and shareholder. Upon the listing of Riverhill on 1 June 2001, Global Eagle's interest therein was diluted to 28%.

34. As regards this acquisition of Cyber World, the Petitioner has also conducted a fund tracing exercise which reveals the following.

34.1. On 21 March 2000, the Company on behalf of Global Eagle remitted $39,000,000 as part of the purchase price to Zelma and on 22 March 2000:–

34.1.1. Zelma paid $39,000,000 by cheque to Kenneth Cheung; and

34.1.2. Yvonne Yeung issued five cheques all dated 22 March 2000 drawn on the personal bank account of Kenneth Cheung in the total sum of $35,345,694.94 in favour of the Company to pay for his subscription in a rights issue.

34.2. On 30 March 2000, the Company on behalf of Global Eagle remitted another $49,300,000 as part of the purchase price to Zelma and on or about 31 March 2000:

34.2.1. Zelma paid $1,612,624 by cheques to each of Li Sui Hang and Chu Ching Kei (staff of Inworld (Hong Kong) Limited) who then, on 31 March 2000 and at the direction of Kevin Ngai, paid the same amount by cheques to Styland Finance for no discernable reason;

34.2.2. Zelma paid $16,284,042 by cheque to Kingsway Investments Group Limited which then on 1 April 2000 paid $5,863,874 by two cheques to Styland Finance for no discernable reason; and

34.2.3. Zelma paid $29,790,710 to Extra Yield Resources Limited (of which Yick was then the sole director and authorised bank signatory) which then on 1 April 2000 paid $4,238,859 by two cheques to Styland Finance again for no discernable reason.

35. A chart showing the above find flows is attached at Appendix II hereto.

F. KIPPTON AND SHENG DA

36. The Company through a wholly owned subsidiary Wealth Fine Limited (whose name was changed to Styland Infrastructure Limited ("Styland Infrastructure") in 1998/1999) acquired 4,000 shares (40% of the issued share capital) in Kippton back in November 1997 and increased its shareholding therein to 49% some time in 1998. Kippton was a 51% beneficial owner of Sheng Da, which cooperated with a sino-foreign joint venture in the development and operation of a toll expressway in the People's Republic of China.

37. By an agreement dated 31 August 2000 and a supplemental deed dated 25 September 2000, Styland Infrastructure acquired 3,100 shares (31% of the issued share capital) in Kippton at an aggregate consideration of $46,581,430.60. At the same time, by an assignment agreement dated 31 August 2000, Simplex Inc. (another wholly owned subsidiary of the Company) purchased the debt of $15,835,008.40 owed by Kippton to one of its shareholders.

38. By another agreement dated 28 September 2000, Styland Infrastructure acquired 9,551 shares (4.68% of the issued share capital) in Sheng Da at an aggregate consideration of $18,608,092.

39. Such acquisitions by Styland Infrastructure of Kippton and Sheng Da in 2000 were disclosable transactions under the Listing Rules. In failing to make any or any proper disclosure of them, the Company had acted in breach of Rules 14.13(1) and 14.13(2) of the Listing Rules. It was not until almost 3 years later on 3 June 2003, and upon request by the Stock Exchange, that the acquisitions were disclosed.

40. As regards the above acquisitions of Kippton and Sheng Da, the Petitioner has again conducted a fund tracing exercise which reveals the following.

40.1. On 6 September 2000, Styland HK on behalf of Styland Infrastructure paid $54,416,439 by cheque to Elephant Tusk Holdings Limited ("Elephant Tusk"), the nominated payee for the purpose of the acquisition of Kippton whose director and authorised bank signatory was again Li Sui Hang, after which:–

40.1.1. Elephant Tusk issued a cash cheque of $19,526,339 which was paid into the bank account of West Marton on 7 September 2000. On 18 September 2000, West Marton paid $10,000,000 to Zelma and $9,526,339 to Cyber Cycle Consultants Limited (whose director and authorised bank signatory was Kevin Ngai) which then paid $9,526,000 to Zelma on the same day; and

40.1.2. on 7 September 2000, Elephant Tusk issued another cash cheque of $19,969,045 which was paid into the bank account of Balaton Development Limited (whose authorised bank signatory was Alan Chan) and the latter paid $19,000,000 to Zelma on 7 September 2000 and 8 September 2000.

40.2. Earlier on 31 August 2000, Zelma paid $43,800,000 by cheque to Styland Finance, which cashed in the cheque on 14 September 2000 and remitted $43,750,000 to Styland HK on 18 September 2000 for no discernable reason.

40.3. On 28 September 2000, Styland HK on behalf of Styland Infrastructure paid $16,108,092 by cheque to Elephant Tusk (the nominated payee again for the purpose of the acquisition of Sheng Da), after which:

40.3.1. on 30 September 2000, Elephant Tusk paid $15,980,000 by cashier order to Key Success Enterprises Limited ("Key Success") whose director and sole authorised bank signatory was Kevin Ngai; and

40.3.2 on 3 October 2000, Key Success issued a cash cheque of $10,000,000 which was paid into the bank account of KC (Investment) Limited.

41. A chart showing the above fund flows is attached at Appendix III hereto.

G. GOLD CLOUD

42. By an agreement dated 30 October 2000, Iwana sold 15 shares in Gold Cloud to Companion Marble (BVI) Limited ("Companion Marble") at a consideration of $38,000,000 in cash.

43. Companion Marble was a connected person of the Company, and thus the sale was a connected transaction, under Rule 14.26 of the Listing Rules. In failing to obtain the prior approval of its shareholders and make proper notification and disclosure after the terms of the sale were agreed, the Company had acted in breach of Rules 14.26(2), 14.29(l) and 14.29(2) of the Listing Rules. It was not until 3 June 2003, and upon request by the Stock Exchange, that the sale was disclosed.

44. Furthermore, on or about 22 August 2002, Iwana paid $3,000,000 to Kenneth Cheung allegedly as commission for his introduction of Companion Marble as the purchaser in the above sale and his assistance in the negotiation of the deal. There was no written agreement relating to this belated payment.

45. Such payment of commission to Kenneth Cheung was again a connected transaction under the Listing Rules. In failing to disclose it until one year later on 20 August 2003, the Company had acted in breach of Rule 14.25(1) of the Listing Rules.

H. WEST MARTEN

H(1). Acquisition of a 90% interest in West Marton on 10 October 2000

46. By a letter of intent dated 5 August 2000, Data Store Investments Limited ("Data Store"), an indirect wholly owned subsidiary of the Company, agreed to acquire 54 shares (90% of the issued share capital) in West Marton from Fu Tsin Man ("Raymond Fu") at a consideration of $120,000,000 or $2,222,222 per share. Raymond Fu was a high school classmate of Kevin Ngai and Alan Chan and once an employee of Inworld Holdings.

47. On 10 October 2000, Raymond Fu and Data Store entered into a formal sale and purchase agreement in respect of the West Marton shares.

48. At the time of the acquisition, West Marton had three wholly owned subsidiaries: New Great China Technology Holdings Limited. ("New Great China"), Stylish Vogue Incorporated ("Stylish Vogue") and e-Union Information Science & Technology (Shenzhen) Co Limited.

49. According to Raymond Fu, the estimated net worth of New Great China was $323,748,562. However, at the time of the acquisition, West Marton had no meaningful commercial activity except the provision of internet portal services through a worldwide website (known as "chineseyes.com" and held by New Great China) and the design of various websites. In fact, West Marton had been trading at a loss at the time when the decision to acquire it was made: at 31 July 2000, the unaudited net liabilities of West Marton were approximately $500,000 and for the period from 1 April 2000 to 31 July 2000, West Marton reported an unaudited net loss of approximately $200,000.

50. In approving the acquisition, the Directors have failed to carry out adequate due diligence of West Marton and obtain independent professional advice regarding its value. As admitted by the Directors, their decision to pay $120,000,000 in the acquisition was made not only by reference to a self-serving business plan with profit forecasts prepared and provided by Raymond Fu in which he gave an estimated net worth of $323,748,562 for New Great China alone, but also the price which Iwana had paid in the acquisition of Inworld which was clearly an unrelated and irrelevant transaction.

H(2). Sale of 30% interest in West Marton to Joyview and Kevin Ngai on 10 August 2001

51. The Company then disposed of 30% of its interest in West Marton within just ten months after its acquisition to connected persons at a much lower price.

52. By two separate agreements dated 10 August 2001, Data Store sold:–

52.1. 6 shares (10% of the issued share capital) in West Marton to Kevin Ngai at a consideration of $7,000,000; and

52.2. 12 shares (20% of the issued share capital) in West Marton to Joyview at a consideration of $14,000,000.

53. While it was later alleged that one reason for the disposals was to replenish the general working capital of the Company in the light of losses which it had suffered, the aggregate consideration obtained in these transactions with Kevin Ngai and Joyview suggested a valuation of approximately $1,166,667 per share of West Marton, which was a drastic but unexplained reduction from that of $2,222,222 which the Company, through Data Store, paid Raymond Fu just 10 months earlier.

54. In its belated Announcement on 8 August 2002, the Directors explained that the consideration for the disposals to Kevin Ngai and Joyview were negotiated and determined with reference to the net value of West Marton at the material time of approximately $70,000,000 arrived at by a discounted cash flow approach based on a five-year profit forecast of the West Marton Group from 1 July 2001 to 30 June 2006. This was considerably less than the estimate of $323,748,562 suggested by Raymond Fu and accepted by the Directors only 10 months earlier, and showed that the investment in West Marton was clearly a serious failure.

55. The Company incurred significant losses in the West Marton investment:–

55.1. By August 2001, only 10 months after the Company had acquired a 90% interest in West Marton for $120,000,000, it wrote down the carrying value of its investment in West Marton to only $24,000,000.

55.2. As at 31 March 2002, the carrying value of the Company's remaining 60% interest in West Marton had been written down to $8,000,000, with the Company booking $72,000,000 as provision for impairment loss.

55.3. The West Marton Group had incurred unaudited consolidated net losses of about $886,000 and $2,079,000 for the two years ended 31 March 2001 and 31 March 2002; and had unaudited consolidated net liabilities of about $1,169,000 and $3,247,000 as at 31 March 2001 and 31 March 2002 respectively.

56. The disposals to Kevin Ngai and Joyview were connected transactions under the Listing Rules. In failing to obtain the prior approval of its shareholders and make proper notification and disclosure after the terms were agreed, the Company had again acted in breach of Rules 1426(2), 14.29(1) and 14.29(2) of the Listing Rules. It was not until 8 August 2002 that the Company disclosed the transactions.

I. WELL PACIFIC

57. By an agreement dated 29 August 2001, Yick purchased 17,500 shares (35% of the issued share capital) in Well Pacific at a consideration of $40,000,000. He paid a deposit of $500,000.

58. By a deed of novation dated 7 September 2001, Yick assigned to Ever-Long Investments Holdings Limited ("Ever-Long") and Iwana, both of which were wholly owned subsidiaries of the Company, all his rights and benefits under the above agreement dated 29 August 2001. The aggregate consideration under the deed of novation was $22,000,000. As a result, Ever-Long and Iwana held respectively 8,850 and 8,650 shares in Well Pacific.

59. In other words, the Company had acquired via its subsidiaries 17,500 shares in Well Pacific at an aggregate consideration of $61,500,000, which was settled in September 2001.

60. In approving the acquisition, the Directors have failed to carry out adequate due diligence of Well Pacific and obtain independent professional advice regarding its value. In particular, it was unexplained and in any event hardly justified for the Company to pay an acquisition price of $61,500,000, when Yick was only asked to pay $40,000,000 a week before. While the Directors later publicly asserted that the consideration had been determined on an arm's length basis with reference to a limited review report drafted by an independent accounting firm, the said report (prepared by Grant Thornton) was undated and again self-serving as it was prepared and furnished to the Company by the vendors. Furthermore, the accountants had never expressed any view on the value of Well Pacific.

61. The acquisition of Well Pacific turned out to be another investment disaster. In just seven months after the acquisition, as at 31 March 2002, the Company booked $21,500,000 as provision for impairment loss in Well Pacific. For the next financial year ended 31 March 2003, the Company booked $14,400,000 as provision for impairment loss in the same investment.

62. As regards the acquisition of Well Pacific, the Petitioner has also conducted a fund tracing exercise which reveals the following.

62.1. On or about 14 September 2001, Ever-Long paid $19,975,714 as part of the acquisition price of Well Pacific to Mona Leung, who then:–

62.1.1. on divers dates from 14 September 2001 to 18 September 2001 paid a total sum of $10,900,000 by cheques to Detailed Decision Corporation, whose director and authorised bank signatory was a Jerry Wai Leung Yip ("Jerry Yip"), a non-executive director of the Company in the period from 14 July 1999 to 31 March 2003; and

62.1.2. on 14 September 2001 paid $9,000,000 by cheque to Profits Return Limited of which Jerry Yip was also the authorised bank signatory.

62.2. On 17 September 2001, Detailed Decision Corporation paid $1,000,000 by cheque to Profits Return Limited.

62.3. On divers dates from 18 September 2001 to 20 September 2001, Detailed Decision Corporation and Profits Return Limited paid Styland Finance $9,886,658.45 and $10,000,000 respectively for no discernable reason.

63. A chart showing the above hind flows is attached at Appendix IV hereto.

J. BREACH OF FIDUCIARY DUTIES BY KENNETH CHEUNG AND YVONNE YEUNG

64. Kenneth Cheung, whether himself or through his companies, has received sums totalling $79,000,000, all of which were funds of the Company and/or its subsidiaries:–

64.1. $39,000,000 in March 2000 out of the purchase price paid to Zelma by the Company in the acquisition of Cyber World (Section E and Appendix II);

64.2. $27,000,000 in May 2000 out of the loans advanced to Kevin Ngai by Iwana (Section D(2) and Appendix I);

64.3. $10,000,000 in September 2000 out of the purchase price paid by Styland HK to Elephant Tusk in the acquisition of Kippton and Sheng Da (Section F and Appendix III); and

64.4. $3,000,000 in August 2002 in the form of commission paid by Iwana in the sale of its 15 shares in Gold Cloud (Section G).

65. Yvonne Yeung personally received $6,950,000 in May 2000 out of the loans advanced to Kevin Ngai by Iwana (Section D(2) and Appendix I).

66. In receiving such sums without disclosing the same to and/or obtaining the approval of the shareholders of the Company, Kenneth Cheung and Yvonne Yeung have acted in breach of:–

66.1. their fiduciary duties owed to the Company; and

66.2. Rules 3.08(a), (d) and (e) of the Listing Rules.

67. Further or alternatively, in causing or permitting the Company to enter into the transactions in relation to Inworld Holdings and Kevin Ngai pleaded in Section D above, whereby Kevin Ngai (a nephew of Yvonne Yeung) has obtained personal benefits directly or indirectly at the expense of the Company, Kenneth Cheung and Yvonne Yeung have acted in breach of their fiduciary duties owed to the Company.

68. In the premises, Kenneth Cheung and Yvonne Yeung have conducted the business or affairs of the Company in a manner:

68.1. oppressive to its members or part of its members other than themselves;

68.2. involving defalcation, misfeasance or misconduct towards the Company, its members or part of its members other than themselves;

68.3. resulting in its members or part of its members (other than themselves) not having been given all the information with respect to its business or affairs that they might reasonably expect; and

68.4. unfairly prejudicial to its members or part of its members other than themselves.

K. SERIOUS MISMANAGEMENT OF THE COMPANY

69. In failing to carry out any or any adequate due diligence and/or obtain independent professional valuation advice in causing or permitting the Company and/or its subsidiaries to enter into the following transactions, which resulted in substantial and unjustified losses, the Directors have failed to exercise the degree of skill, care, diligence and competence as is reasonably expected of persons of their knowledge and experience and holding their offices and functions with the Company and acted in breach of Rules 3.08(f) and 3.09 of the Listing Rules:–

69.1. the transactions relating to Inworld Holdings (Section D);

69.2. the acquisition of Cyber World (Section E);

69.3. the transactions relating to West Marton (Section H); and

69.4. the acquisition of Well Pacific (Section I).

70. In the premises, the Directors have conducted the business or affairs of the Company in a manner:–

70.1. involving defalcation, misfeasance or misconduct towards the Company, its members or part of its members other than themselves; and

70.2. unfairly prejudicial to its members or part of its members other than themselves.

L. RECURRENT BREACHES OF THE LISTING RULES

71. During the Relevant Period, when the Directors were at all material times in office and thus control of the Company, they have caused the Company to act repeatedly in breach of the Listing Rules as regards the following transactions:–

71.1. Iwana's subscription for 36 newly issued shares in Inworld Holdings on 5 July 1999 (Section D(1));

71.2. Iwana's grant of $105,000,000 loan facility to Kevin Ngai on 3 May 2000 (Section D(2));

71.3. Iwana's sale of 1 share in Inworld Holdings back to Kevin Ngai on 15 May 2000 (Section D(3));

71.4. Iwana's further acquisition of 45 shares in Inworld Holdings from Kevin Ngai on 31 August 2000 (Section D(4));

71.5. Iwana's advance of shareholder's loans to Inworld Holdings in the period from 13 November 2000 to 10 September 2001 (Section D(5));

71.6. Styland Infrastructure's acquisition of 3,100 shares in Kippton and 9,551 shares in Sheng Da on 31 August 2000 (Section F);

71.7. Iwana's sale of 15 shares in Gold Cloud to Companion Marble on 30 October 2000 (Section G);

71.8. Iwana's payment of $3,000,000 commission to Kenneth Cheung for his assistance in its sale of 15 shares in Gold Cloud to Companion Marble (Section G); and

71.9. Data Store's sale of 6 shares and 10 shares in West Marton to Kevin Ngai and Joyview respectively on 10 August 2001 (Section H(2)).

72. By virtue of the Declaration and Undertaking given and signed by the Directors under the Listing Rules, they have undertaken to comply to the best of their ability with the Listing Rules from time to time in force.

73. Further, given that the Directors are obliged by Rule 3.12 of the Listing Rules to accept and have at all material times accepted full responsibility, collectively and individually, for the Company's compliance with the Listing Rules, they are responsible for the repeated non-compliance set out in paragraph 84 above.

74. On 23 December 2004, the Listing Division of the Stock Exchange commenced disciplinary proceedings against the Company and the Directors. On 8 April 2008, the Listing Committee of the Stock Exchange concluded that there had been breaches of the Listing Rules by the Company and each of the Directors and decided to impose a range of sanctions against the same. The Company and three of the Directors applied for a review of the said decision of the Listing Committee and the review hearing took place on 18 August 2008. The outcome of the review is not known as at the date of this Petition.

75. In the premises, by causing or failing to prevent, negligently or deliberately, the Company from committing the above breaches of the Listing Rules, the Directors have been grossly incompetent and/or negligent and have conducted the business or affairs of the Company in a manner:

    75.1. involving defalcation, misfeasance or misconduct towards the Company, its members or part of its members other than themselves; and

    75.2. resulting in its members or part of its members (other than themselves) not having been given all the information with respect to its business or affairs that they might reasonably expect.

1. RESPONSIBILITY STATEMENT

This supplemental circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this supplemental circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement contained in this supplemental circular misleading.

2. SHARE CAPITAL

The authorized and issued share capital of the Company as at the Latest Practicable Date were as follows:

	HK$
Authorized:	
200,000,000,000 Shares	2,000,000,000.00
Issued and fully paid up:	
1,871,188,679 Shares	18,711,886.79

All Shares in issue rank pari passu in all respects including as to dividends, voting rights and interest in capital.

3. DISCLOSURE OF INTERESTS

(a) Directors and Chief Executive

As at the Latest Practicable Date, the interests or short positions of the Directors or chief executive of the Company in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which any such Director or chief executive officer were taken or deemed to have under such provisions of the SFO); or which were required to be entered into the register required to be kept by the Company pursuant to Section 352 of the SFO or to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (together, "Discloseable Interests"), were as follows:

	Number of ordinary shares of HK$0.01 each held and nature of interest				
Name of Directors	**Family interests**	**Personal interests**	**Interests in controlled corporation**	**Total**	**Shareholding Percentage**
Ms. Yeung Han Yi Yvonne ("Ms. Yeung") *(Note)*	369,995,967	30,000,000	–	399,995,967	21.38%
Ms. Chan Chi Mei Miranda	–	39,288	–	39,288	0.00%

Note:

Mr. Cheung personally holds 299,995,967 Shares. As Mr. Cheung is the sole shareholder of K.Y. Limited ("KY"), he is deemed to have interests in 60,000,000 Shares held by KY and Mr. Cheung is further deemed to be interested in 10,000,000 Shares held by K.C. (Investment) Limited, a wholly owned subsidiary of KY.

Ms. Yeung is the spouse of Mr. Cheung and accordingly deemed to be interested in the 369,995,967 Shares that Mr. Cheung is beneficially interested.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company had any Discloseable Interests.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which have since 31 March 2008 (being the date to which the latest published audited consolidated accounts of the Group were made up) been acquired or disposed of by or leased to or by the Company or any of its subsidiaries, or are proposed to be acquired or disposed of by or leased to or by the Company or any of its subsidiaries.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries, which was subsisting and was significant in relation to the business of the Group.

As at the Latest Practicable Date, none of the Directors has any service contracts with the Company or any of its subsidiaries which does not expire or is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

As at the Latest Practicable Date, none of the Directors or their respective associates had any business or interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

(b) Substantial Shareholders and other persons

So far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, the following persons (not being a Director or chief executive of the Company) had interests in the Shares or underlying Shares which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or were directly or indirectly interested in 10 per cent or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

	Number of ordinary shares of HK$0.01 each held and nature of interest				
Name of Shareholders	Family interests	Personal interests	Interests in controlled corporation	Total	Shareholding Percentage
Mr. Cheung *(Note1)*	30,000,000	299,995,967	70,000,000	399,995,967	21.38%
Ms. Yeung *(Note 2)*	369,995,967	30,000,000	–	399,995,967	21.38%
Mr. Rajkumar M Daswani *(Note 3)*	–	112,411,667	–	112,411,667	6.01%
Gloryrise Group Limited *(Note 4)*	–	370,000,000	–	370,000,000	19.77%
Tai Kwok Leung, Alexander *(Note 4)*	–	–	370,000,000	370,000,000	19.77%

Notes:

1. Mr. Cheung personally holds 299,995,967 Shares. As Mr. Cheung is the sole shareholder of K.Y. Limited ("KY"), he is deemed to have interests in 60,000,000 shares held by KY and Mr. Cheung is further deemed to be interested in 10,000,000 Shares held by K.C. (Investment) Limited, a wholly owned subsidiary of KY. Mr. Cheung is the spouse of Ms. Yeung and accordingly deemed to be interested in the 30,000,000 Shares beneficially interested by Ms. Yeung.

2. Ms. Yeung is the spouse of Mr. Cheung and accordingly deemed to be interested in the 369,995,967 Shares beneficially interested by Mr. Cheung.

3. The interests of Mr. Rajkumar M Daswani are set out based on his notification given to the Company on 1 April 2004 pursuant to the SFO. On 7 December 2004, the Company wrote to Mr. Rajkumar M Daswani for his shareholding in the Company and received a letter dated 13 December 2004 from Mr. Rajkumar M Daswani that he and Shalini R Daswani in joint account held 114,731,667 Shares as at 30 September 2004. As at the Latest Practicable Date, the Company has not received valid notification pursuant to the SFO from Shalini R Daswani.

4. The Company had entered into an option agreement (the "Option Agreement") with Gloryrise Group Limited ("Gloryrise") on 7 June 2007, pursuant to which Gloryrise conditionally agreed to subscribe and the Company conditionally agreed to grant options which, upon full exercise, would entitle the holder of the options to require the Company to allot and issue up to 370,000,000 Shares at the subscription price of HK$8,880,000 in total (equivalent to HK$0.024 per Share). Gloryrise is hence interested in the 370,000,000 underlying Shares that may fall to be issued under the Option Agreement.

   The latest time for the fulfilment of the conditions precedent of the Option Agreement had been extended to 30 June 2009. As at the Latest Practicable Date, the conditions precedent had not been fulfilled.

   Mr. Tai Kwok Leung, Alexander beneficially owns the entire issued share capital of Gloryrise, and is therefore deemed to be interested in the 370,000,000 underlying Shares that may fall to be issued under the Option Agreement.

5. On 20 August 2002, Mr. Lin Wen (林文先生) and Mr. Sun Jinlin (孫進林先生) notified the Company that they respectively held 165,050,000 and 150,800,000 Shares. To ensure the accuracy of its Register, the Company wrote to Mr. Lin Wen and Mr. Sun Jinlin to inquire into their then shareholdings in the Company on 14 June 2004. On 13 December 2004, the Company received a letter from Mr. Lin Wen, claiming that he held approximately 5 million Shares, which was substantially different from the record of Mr. Lin Wen's interests available from the web site of the Stock Exchange and the Company. The Company has repeatedly tried to seek valid notification under the SFO from Mr. Lin Wen and Mr. Sun Jinlin. As at the Latest Practicable Date, the Company has not received any further response from Mr. Lin Wen or Mr. Sun Jinlin. Mr. Lin Wen and Mr. Sun Jinlin took legal action against the Company in 2003. Mr. Lin Wen and Mr. Sun Jinlin were ordered to pay the legal cost of HK$862,000 to the Company in 2004. As at the Latest Practicable Date, the amount remained outstanding.

Furthermore, as at the Latest Practicable Date, Ms. Wan Qinghua and Ms. Lai Kai Yin held 50,000 shares and 21,633 shares of HK$1 each in Sheng Da Investment Holding (Hong Kong) Limited (a non-wholly owned subsidiary of the Company) respectively, representing approximately 24.5% and 10.6% of the issued share capital of Sheng Da Investment Holding (Hong Kong) Limited respectively.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors or the chief executive of the Company, no persons (not being a Director or chief executive of the Company) had any interest in the Shares or underlying Shares which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was interested in 10 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

4. LITIGATION

(a) Lawsuit in respect of Hainan Wanzhong Shiye Touzi Co., Ltd. (海南萬眾實業投資有限公司) ("Hainan Wanzhong")

In June 2003, Hainan Wanzhong urged the Haikou Intermediate People's Court of Hainan Province (海南省海口市中級人民法院) to issue a Notice for Assistance in Execution (協助執行通知書) to Wuhan Dongseng Highway Building Development Co. Limited to retain an amount of RMB19,270,000 to be distributed to Sheng Da Investment Holding (Hong Kong) Ltd. ("Sheng Da (HK)") (the "Lawsuit").

In October 2006, the Court dismissed the claims from Hainan Wanzhong and Sheng Da (HK) had recovered the retained money of RMB19,270,000.

On 16 March 2007, Sheng Da (HK) received a copy of notice which was published on a PRC newspaper and became aware that Hainan Wanzhong had filed its appeal against the judgement of Haikou Intermediate People's Court and the hearings were scheduled on 10 and 17 May 2007 respectively.

In June 2007, Sheng Da (HK) was informed by its shareholders Ms. Li Kai Yin (李繼賢女士), Ms. Wan Qinghua (萬慶華女士) and Mr. Huang Zhaohua (黃招華先生) (collectively "Li, Wan & Huang") that the Haikou Intermediate People's Court of Hainan issued a Notice for Assistance in Execution on 6 June 2007 to Wuhan Transport Development Co., Ltd. ("Wuhan Transport"), the Chinese JV partner of Sheng Da (HK) in Wuhan Dongseng, requesting for retaining an amount of RMB19,270,000 from the payment of equity transfer amount to Sheng Da (HK) until the dispute is resolved.

In June 2008, Sheng Da (HK) was informed by Wuhan Transport that it had received a Notice for Assistance in Execution accompanied by a letter from Haikou Intermediate People's Court of Hainan, pursuant to which Wuhan Transport was requested to execute the judgement and transfer RMB27,234,582 to the accounts of the Court.

In February 2009, Sheng Da (HK) received from one of its shareholders the judgement of the PRC Supreme Court, pursuant to which the PRC Supreme Court accepted Sheng Da (HK)'s application for appeal.

Pursuant to a shareholders' resolution of Sheng Da (HK) passed in 2003 (reference no. of the shareholders' resolution: HKSDSM2003002), Li, Wan & Huang undertook that they would bear the liabilities and legal costs arising from the Lawsuit (the "Undertaking"). Subsequently, Sheng Da (HK) several times received letters from Li, Wan & Huang, who intended to revoke the Undertaking.

The Directors are of the opinion that the Group is not liable for any debt arising from the Lawsuit and the claim from Hainan Wanzhong has no ground. The Directors consider that the Lawsuit does not have material impact on the Group and no provision has been made as at 31 March 2008 and 31 March 2007.

The Directors consider that it is unacceptable and without legal basis for Li, Wan & Huang to withdraw the Undertaking unilaterally. To preserve the interests of the Company and its shareholders as a whole, the Board concurred that the Company would not accept the withdrawal of the Undertaking by Li, Wan & Huang unilaterally, and will take legal action against Li, Wan & Huang for damages if the Company or Sheng Da (HK) sustains any loss from the Lawsuit.

(b) Litigation regarding Messrs. Sun Jinlin and Lin Wen

On 24 September 2003, the Company received a writ of summons from the High Court of Hong Kong, in which Messrs. Sun Jinlin and Lin Wen sued the Company and its existing and former Directors for breach of various duties owed to the Company. The legal action was dismissed subsequently, and Mr. Sun and Mr. Lin were ordered to pay the legal cost of HK$862,000 to the Company. The Company has endeavoured to recover the aforesaid legal costs from Mr. Sun and Mr. Lin, but they could not be located. The amount remained outstanding as at the Latest Practicable Date.

(c) Petition issued by the SFC

On 4 September 2008, the Petition has been presented by the SFC against the Company and certain current and former Directors under Section 214 of the SFO. Please refer to sub-paragraph (d) of the paragraph headed "Events Subsequent to the Issue of the Circular" in the section headed "Letter from the Board" on page 6 of this supplemental circular.

Save as aforesaid, as at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or claim of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the Group's financial or trading position since 31 March 2008, the date to which the latest published audited consolidated accounts of the Group were made up.

6. GENERAL

(a) The registered office of the Company is at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda. The principal place of business and office of the Company in Hong Kong is at 28th Floor, Aitken Vanson Centre, 61 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong.

(b) The Company's Hong Kong branch share registrar and transfer office is Tricor Tengis Limited, whose office is at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(c) The secretary of the Company is Mr. Wang Chin Mong, AHKSA, FCCA.

(d) The English text of this supplemental circular shall prevail over the Chinese text.

7. DOCUMENTS AVAILABLE FOR INSPECTION

Apart from the documents mentioned in the paragraph headed "Documents Available for Inspection" under the section headed "General Information" of the Circular, copies of the following documents are also available for inspection during normal business hours on any weekday (public holidays excepted) at the principal office of the Company at 28th Floor, Aitken Vanson Centre, 61 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong up to and including 29 April 2009 and at the SGM:

(a) the share sale agreement entered into between Iwana and Mr. Ngai dated 15 May 2000;

(b) the share sale agreement entered into between Iwana and Joyview dated 15 May 2000;

(c) the sale and purchase agreement entered into between, amongst others, Iwana and Globemax Pacific Limited dated 29 November 2001;

(d) the deed of assignment entered into by Iwana and Globemax Pacific Limited dated 29 November 2001;

(e) the assignment agreement dated 31 August 2000 under which Simplex Inc. purchased the debt owed by Kippton to Parkview Overseas Holdings Limited;

(f) the sale and purchase agreement dated 10 October 2000;

(g) the letter of intent dated 5 August 2000 entered into between Mr. Fu Tsin Man and Data Store Investments Limited;

(h) the deed of novation dated 7 September 2001;

(i) the share transfer agreement dated 29 August 2001;

(j) the sale and purchase agreement dated 13 January 2000; and

(k) the report of the Independent Committee dated 6 February 2004.

STYLAND HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)
(Stock Code: 211)

NOTICE IS HEREBY GIVEN that a special general meeting (the "Special General Meeting") of the abovenamed company (the "Company") will be held at Macau Jockey Club, Golden Restaurant, 1/F East Wing, Shun Tak Centre, 200 Connaught Road Central, Sheung Wan, Hong Kong on Wednesday, 29 April 2009 at 10:30 a.m. for the following purpose:

1. To consider and, if thought fit, pass the following resolutions as ordinary resolutions:

ORDINARY RESOLUTIONS

(a) "**THAT** the transaction detailed in paragraph number 2(a) in the section headed "Letter from the Board" (the "Letter from the Board") of the circular of the Company dated 11 September 2003 (the "Circular"), a copy of which has been tabled at the meeting and signed by the Chairman of the meeting for the purpose of identification, be and is hereby approved, ratified and confirmed."

(b) "**THAT** the transaction detailed in paragraph number 2(b) of the Letter from the Board of the Circular be and is hereby approved, ratified and confirmed."

(c) "**THAT** the transaction detailed in paragraph number 2(c) of the Letter from the Board of the Circular be and is hereby approved, ratified and confirmed."

(d) "**THAT** each of the transactions detailed in paragraph number 2(d) of the Letter from the Board of the Circular be and is hereby approved, ratified and confirmed."

(e) "**THAT** each of the transactions detailed in paragraph number 3 of the Letter from the Board of the Circular be and is hereby approved, ratified and confirmed."

(f) "**THAT** each of the transactions detailed in paragraph number 4 of the Letter from the Board of the Circular be and is hereby approved, ratified and confirmed."

(g) "**THAT** each of the transactions detailed in paragraph number 5 of the Letter from the Board of the Circular be and is hereby approved, ratified and confirmed."

(h) "**THAT** each of the transactions detailed in paragraph number 6 of the Letter from the Board of the Circular be and is hereby approved, ratified and confirmed."

(i) "**THAT** the transaction detailed in paragraph number 7 of the Letter from the Board of the Circular be and is hereby approved, ratified and confirmed."

(j) "**THAT** the transaction detailed in paragraph number 8 of the Letter from the Board of the Circular be and is hereby approved, ratified and confirmed."

2. To discuss the possibility of reaching an amicable settlement instead of bringing legal proceedings regarding the petition dated 4 September 2008 issued by the Securities and Futures Commission against, among others, the Company; and

3. To discuss the objective of the legal proceedings instituted by the Securities and Futures Commission and its impact on the prospect of the resumption of trading of the shares of the Company.

By Order of the Board
STYLAND HOLDINGS LIMITED
Wang Chin Mong
Company Secretary

Hong Kong, 9 April 2009

Principal Place of Business and Office in Hong Kong:
28th Floor
Aitken Vanson Centre
61 Hoi Yuen Road
Kowloon
Hong Kong

Notes:

1. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint proxies to attend and, in the event of a poll, vote in his stead. A proxy needs not be a member of the Company.

2. A form of proxy for the meeting is enclosed. Whether or not you are able to attend the meeting, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon as soon as possible. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or poll should you so wish.

3. In the case of joint registered holders of any shares of the Company, any one of such joint registered holders may vote at the Special General Meeting, either in person or by proxy, in respect of such shares as if he/she/it were solely entitled thereto; but if more than one of such joint registered holders be present at the Special General Meeting, either in person or by proxy, the vote of that one of them so present, either in person or by proxy, whose name stands first on the register of members in respect of such share shall alone be entitled to vote in respect thereof.

4. In order to be valid, the form of proxy must be deposited at the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong together with a power of attorney or other authority, if any, under which it is signed or a certified copy of that power of attorney or authority, not less than 48 hours before the time for holding the meeting or any adjourned meeting or poll.

5. **Shareholders should note that the transactions proposed to the ratified (the "Transactions") have been completed and the position of the Company and its subsidiaries in respect of such Transactions cannot be restored even if the resolutions proposed for ratification of the Transactions are voted down by the shareholders of the Company.**

6. **Shareholders should note that the Company has warned its shareholders they may have a right to make a claim against the Directors in respect of the Transactions if they do not approve of the Transactions as a shareholder, but shareholders may be estopped from making such a claim against the Directors in respect of the Transactions if they approve of the Transactions as a shareholder.**

7. In compliance with the Listing Rules, the votes to be taken at the Special General Meeting will be taken by poll.

8. The Chinese translation of this notice is for reference only. In case of any inconsistency, the English version shall prevail.

As at the date of this notice, the Board of Directors of the Company consists of four Executive Directors, Ms. Yeung Han Yi Yvonne, Ms. Chan Chi Mei Miranda, Mr. Cheung Hoo Win and Ms. Zhang Yuyan and four Independent Non-executive Directors, Mr. Yeung Shun Kee Edward, Mr. Li Hancheng, Mr. Zhao Qingji and Mr. Lo Tsz Fung Philip.