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

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STYLAND HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 211)

**DISCLOSEABLE AND CONNECTED TRANSACTIONS
RELATING TO THE GRANTING OF GRATUITY TO FORMER DIRECTORS**

**Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders**



A letter from the Independent Board Committee is set out on page 15 of this circular and a letter from Guangdong Securities is set out on pages 16 to 25 of this circular.

A notice convening the SGM to be held at 28/F, Aitken Vanson Centre, 61 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong on Thursday, 25 August 2011 at 10:30 a.m. is set out on pages 47 to 49 of this circular.

Whether or not you intend to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the office of 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 and in any event not less than 48 hours before the appointed time for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM and any adjournment thereof (as the case may be) should you so wish.

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DEFINITIONS

In this circular, the following expressions have the following meanings unless the context otherwise requires:

“Announcement”	the announcement of the Company dated 29 November 2010
“associate(s)”	has the meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“Bonus Issue Proposals”	the Company’s proposed issues of bonus shares are as follows: (a) on the basis of one bonus share for every ten Shares, details of which are set out in the circular of the Company dated 15 March 2010; (b) on the basis of one bonus share for every ten Shares, details of which are set out in the circular of the Company dated 30 August 2010; and (c) on the basis of one bonus share for every twenty Shares, details of which are set out in the circular of the Company dated 28 March 2011
“Business Day”	a day (other than a Saturday, Sunday or public holiday) on which banks are open for general banking business in Hong Kong
“BVI”	the British Virgin Islands
“Bye-laws”	the bye-laws of the Company
“CB Subscription Agreements”	the eight subscription agreements all dated 9 July 2007 and entered into between the Company and the various subscribers in relation to the subscription of certain convertible bonds to be issued by the Company, details of which are set out in the announcement of the Company dated 16 August 2007
“Company”	Styland Holdings Limited, a company incorporated under the laws of Bermuda with limited liability, whose issued Shares are listed on the Stock Exchange (stock code: 211)
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“Convertible Bond(s)”	the zero coupon convertible bonds in aggregate principal amount of HK\$9,880,000 due 2012 to be issued by the Company to the subscribers pursuant to the CB Subscription Agreements
“Director(s)”	the director(s) of the Company
“Former Director(s)”	Ms. Yeung and Ms. Chan

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“Gratuity”	the gratuity proposed to be paid to the Former Directors in the sum of HK\$3,000,000 for each Former Director pursuant to the terms of the Offer Letters
“Gratuity Share(s)”	the new Share(s) to be issued and allotted (if any) if the Former Directors elect to receive the Gratuity by way of Shares in lieu of cash
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Board comprising four independent non-executive Directors, namely Mr. Zhao Qingji, Mr. Yeung Shun Kee, Mr. Li Hancheng and Mr. Lo Tsz Fung Philip, which has been formed for the purpose of advising the Independent Shareholders as to the granting of the Gratuity to the Former Directors
“Independent Financial Adviser” or “Guangdong Securities”	Guangdong Securities Limited, a licensed corporation to carry on type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) of the regulated activities under the SFO and the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the granting of the Gratuity
“Independent Shareholder(s)”	(i) in respect of the resolution(s) on the granting of the Gratuity to Ms. Yeung, Shareholders other than Ms. Yeung and her associates (including Mr. Cheung); (ii) in respect of the resolution(s) on the granting of the Gratuity to Ms. Chan, Shareholders other than Ms. Chan and her associates
“Independent Third Party(ies)”	party(ies) who is(are) not connected person(s) of the Company and who together with its ultimate beneficial owner(s) are independent of and not connected with the Company and its connected person(s)
“Latest Practicable Date”	8 August 2011, being the latest practicable date prior to the printing of this circular for ascertaining certain information herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Cheung”	Mr. Cheung Chi Shing Kenneth
“Ms. Chan”	Ms. Chan Chi Mei Miranda, being one of the Former Directors

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“Ms. Yeung”	Ms. Yeung Han Yi Yvonne, being one of the Former Directors
“New Shares Subscription Agreements”	the three subscription agreements all dated 15 November 2007 made by the Company with three subscribers in respect of the subscription of new Shares, details of which are set out in the announcements of the Company dated 19 November 2007, 17 January 2008 and 2 January 2009
“Offer Letter(s)”	the offer letter(s) dated 31 January 2011 confirmed and signed by the Company and the Former Directors embodying the terms of the granting of the Gratuity
“Option(s)”	370,000,000 options granted by the Company to the option subscriber pursuant to the Option Agreement, details of which are set out in the announcement of the Company dated 21 June 2007
“Option Agreement”	the agreement dated 7 June 2007 entered into between the Company and the option subscriber in relation to the grant of the Options by the Company to the option subscriber
“Percentage Ratios”	the “percentage ratios” as defined in Rule 14.04(9) of the Listing Rules
“Petition”	the Petition dated 4 September 2008 issued by the SFC and served on the Company and certain former Directors in relation to, <i>inter alia</i> , the transactions defined in the Supplemental Circular, the extract of which is set out in the Appendix II of this circular
“PRC”	the People’s Republic of China
“Scrip Dividend Schemes”	the Company’s proposed scrip dividend schemes are as follows: <ul style="list-style-type: none">(a) proposed interim scrip dividend of HK0.18 cent per Share without a scrip alternative for the six months ended 30 September 2008;(b) proposed interim cash dividend of HK0.16 cent per Share with a scrip alternative for the six months ended 30 September 2009;(c) proposed final cash dividend of HK0.12 cent per Share with a scrip alternative for the year ended 31 March 2010; and(d) proposed interim cash dividend of HK0.05 cent per Share with a scrip alternative for the six months ended 30 September 2010
“SFC”	the Securities and Futures Commission

DEFINITIONS

“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“SGM”	the special general meeting of the Company to be convened to approve, inter alia, the granting of the Gratuity
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Specific Mandate(s)”	the specific mandate(s) to be granted by the Independent Shareholders at the SGM to the Directors in relation to the issue and allotment of the Gratuity Shares
“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“Subscription Price”	the subscription price of HK\$0.052 per Gratuity Share
“Subscription Right”	the right to subscribe for the Gratuity Shares proposed to be granted to the Former Directors
“Supplemental Circular”	the supplemental circular of the Company dated 9 April 2009 relating to various discloseable and connected transactions
“Takeovers Code”	the Code on Takeovers and Mergers
“Term”	the period commencing on the date of the Offer Letters and ending on the 5th anniversary of such date, both dates inclusive
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent

LETTER FROM THE BOARD



STYLAND HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 211)

Directors:

Executive Directors:

Mr. Cheung Hoo Win (*Chief Executive Officer*)

Mr. Ng Yiu Chuen

Ms. Ho Mei Sheung

Ms. Zhang Yuyan

Ms. Chen Lili

Independent non-executive Directors:

Mr. Zhao Qingji (*Chairman*)

Mr. Yeung Shun Kee

Mr. Li Hancheng

Mr. Lo Tsz Fung Philip

Registered Office:

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

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

28th Floor, Aitken Vanson Centre
61 Hoi Yuen Road
Kwun Tong
Kowloon
Hong Kong

10 August 2011

To the Independent Shareholders

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTIONS
RELATING TO THE GRANTING OF GRATUITY TO FORMER DIRECTORS**

INTRODUCTION

As mentioned in the Announcement, Ms. Yeung and Ms. Chan voluntarily retired as executive Directors and all their other positions in the Group with effect from 5 December 2010.

The Company announced on 1 February 2011 and 24 February 2011 that the Company and the Former Directors confirmed and signed the Offer Letters pursuant to which the Company granted to each of the Former Directors the Gratuity to be paid wholly or partly in cash; or, at the option of the Former Directors, by way of new Shares to be issued and allotted by the Company at the Subscription Price.

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By virtue of being former Directors whose retirement took effect on 5 December 2010, both of the Former Directors are connected persons of the Company. The granting of the Gratuity to each Former Director by way of issuing Gratuity Shares in lieu of cash constitutes a discloseable and connected transaction for the Company under the Listing Rules which requires the approval of the Independent Shareholders pursuant to the Listing Rules.

The purpose of this circular is to provide you with further information regarding, among other things, the Gratuity, the recommendation from the Independent Board Committee to the Independent Shareholders in relation to the grant of the Gratuity, the advice from Guangdong Securities to the Independent Board Committee and the Independent Shareholders in respect of the grant of the Gratuity and the notice of the SGM.

GRANT OF GRATUITY

In view of the Former Directors' valuable contribution to the Group during their tenure of service in the past 30 years, the Board had proposed to grant to each of the Former Directors the Gratuity and the Board issued the Offer Letters to the Former Directors, offering to each of the Former Directors the Gratuity of HK\$3,000,000. On 31 January 2011, the Company and each of the Former Directors confirmed and signed the Offer Letters pursuant to which the Company granted to each of the Former Directors the Gratuity. The Gratuity for each of the Former Directors was determined with reference to her remuneration immediately before her retirement and her years of service with the Group.

Details of the Offer Letters are as follows:

Parties	:	(1) the Company (2) Ms. Yeung/Ms. Chan
Gratuity	:	HK\$3,000,000
Manner of payment	:	Gratuity to be paid wholly or partly (i) in cash; or, at the option of the Former Directors, (ii) by way of new Shares to be issued and allotted by the Company at the subscription price of HK\$0.052 per Gratuity Share in lieu of cash, subject to compliance with the Listing Rules, if applicable.
Notice for payment	:	each Former Director shall be entitled to the Gratuity in cash or by way of the Gratuity Shares during the Term by giving not less than 10 Business Days' prior written notice to the Company.
Term	:	the period commencing on the date of the Offer Letters and ending on the 5th anniversary of such date, both dates inclusive.

The subscription price of HK\$0.052 per Gratuity Share was determined by the Board with reference to the closing price of HK\$0.011 per Share as quoted on the Stock Exchange on the date before the publication of the Announcement, the prevailing market conditions and the range of HK\$0.024 to HK\$0.08 per Share as voluntarily suggested by the Former Directors after taking into

LETTER FROM THE BOARD

account of the exercise price/conversion price/subscription price for the proposed issue of Options/Convertible Bonds/new Shares under the Option Agreement, the CB Subscription Agreements and the New Shares Subscription Agreements respectively (for details please refer to the announcements of the Company dated 21 June 2007, 16 August 2007 and 19 November 2007).

The subscription price was initially proposed as HK\$0.011 per Gratuity Share, being the closing price per Share as quoted on the Stock Exchange on the date before the publication of the Announcement. Subsequent to the proposed offer of the Gratuity to the Former Directors, the Former Directors, having taken into account of the exercise price/conversion price/subscription price for the earlier proposed issue of the Options/Convertible Bonds/new Shares, voluntarily suggested and proposed that the subscription price per Gratuity Share could be adjusted and set within the range of HK\$0.024 to HK\$0.08 per Share at the Board's final determination.

The aforesaid voluntary request for the adjustment of subscription price by the Former Directors were highly appreciated by the Board and the subscription price for the Gratuity Shares has therefore been adjusted and fixed at HK\$0.052 per Gratuity Share by the Board, being the average of the lowest and highest of the exercise price/conversion price/subscription price for the abovementioned proposed issue of Options, Convertible Bonds and new Shares under the Option Agreement, the CB Subscription Agreements and the New Shares Subscription Agreements respectively. The Board further resolved that once the share price of the Company is equal to or higher than HK\$0.057 per Share (equivalent to approximately 10% increase comparing to the Subscription Price), the Former Directors' right to receive the Gratuity in cash will be forfeited and the Former Directors will only be allowed to receive the Gratuity wholly by way of new Shares in lieu of cash.

The Subscription Price is subject to adjustment(s) pursuant to the terms of the Offer Letters upon the occurrence of certain events including, among others, share consolidation and share subdivision of the Shares.

Based on the Subscription Price, the maximum number of Gratuity Shares which may be subscribed by each Former Director upon exercise of her Subscription Right is thus 57,692,307 Shares, which represents approximately 3.08% of the existing issued share capital of the Company as at the Latest Practicable Date and approximately 1.46% of the entire issued share capital of the Company as enlarged by the issue of the Gratuity Shares and the Shares to be issued under the Option Agreement, CB Subscription Agreements, New Shares Subscription Agreements, the Scrip Dividend Schemes and the Bonus Issue Proposals as stated in the announcements of the Company dated 21 June 2007, 16 August 2007, 19 November 2007 and circulars of the Company dated 22 July 2009, 15 March 2010, 30 August 2010 and 28 March 2011.

The issue and allotment of the Gratuity Shares will be made under the Specific Mandates. There is no restriction on the subsequent sale of the Gratuity Shares and the Gratuity Shares will rank *pari passu* in all respects with all other Shares in issue on the date of allotment and issue of the Gratuity Shares.

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Conditions precedent

The granting of the Gratuity to each Former Director by way of issuing the Gratuity Shares in lieu of cash is conditional upon the following:

- (i) the relevant Independent Shareholders having approved by poll at the SGM the payment of the Gratuity by way of issuing Gratuity Shares in lieu of cash to such Former Director; and
- (ii) the Listing Committee of the Stock Exchange having granted the listing of and the permission to deal in the Gratuity Shares to be issued if the relevant Former Director elects to receive the Gratuity Shares in lieu of cash.

Restrictions on subscription for Gratuity Shares

Notwithstanding the aforesaid, the Former Directors shall not have the right to subscribe for the Gratuity Shares in lieu of cash to the extent that immediately after such subscription, the Former Director concerned together with parties acting in concert with her taken together will, directly or indirectly, control or be interested in 30% or more of the voting rights of the Company (or in such percentage as may from time to time be specified in the Takeovers Code being the level for triggering a mandatory general offer) or otherwise:

- (i) a general offer shall be given; or
- (ii) a waiver should be obtained in accordance with the requirement of the Takeovers Code.

The Former Directors shall not have the right to subscribe for the Gratuity Shares in lieu of cash to the extent that immediately after such subscription, there will not be sufficient public float of the Shares as required under the Listing Rules.

INFORMATION ABOUT THE FORMER DIRECTORS

Ms. Yeung's and Ms. Chan's profiles

Ms. Yeung, aged 54, had served the Group for more than 30 years. She has extensive experience in business management. Ms. Yeung, before her retirement, was responsible for the Group's administration, personnel and general management. Ms. Yeung completed the Course on Corporate Governance jointly organised by the School of Continuing and Professional Education of City University of Hong Kong and ET Business College of Hong Kong Economic Times. Ms. Yeung is the mother of Mr. Cheung Hoo Win, the Company's Chief Executive Officer and executive Director.

Ms. Chan, aged 50, joined the Group in 1979 and was appointed as an executive Director in 1993. Ms. Chan has over 20 years of experience in the trading business and over 12 years' expertise in the securities business. Before her retirement, Ms. Chan was responsible for the securities brokerage and financing businesses of the Group. Ms. Chan completed the New Leadership Advance Course organised by Tsing Hua University.

LETTER FROM THE BOARD

Ms. Yeung's and Ms. Chan's contributions over the past 30 years from 1979 to 2010

Ms. Yeung and Ms. Chan are two of the founders of the Group. They served and made an enormous contribution to the Group's growth for more than 30 years. The Group started from a small trading company in 1977. With the Former Directors' efforts, the Group had established the Eastern Europe customer base, including but not limited to Romania, Hungary and Poland, for the Group in the 1980s. Following business expansion, the Company became a listed company and its shares were listed on the Stock Exchange in 1991.

Ms. Yeung and Ms. Chan led the Group through the crisis arising from political reforms in the Eastern European countries and the macro-economic control in mainland China. With the contribution of the Former Directors, the Group has overcome various challenges, including:

- (i) the financial turmoil in 1997;
- (ii) the burst of the information and technology bubbles in 2000;
- (iii) the outbreak of the severe acute respiratory syndrome in 2003; and
- (iv) the financial tsunami in 2008.

In recent years, benefiting from their prudent investment strategy, the Group did not involve itself in Lehman bonds or any derivative related products, thus it could preserve its strength for the market recovery. For further details relating to the improvements in the operating results of the Group, please refer to the annual report of the Company for the year ended 31 March 2010 and the interim report of the Company for the six months ended 30 September 2010.

Notwithstanding that trading in the Shares has been suspended since 2004, under the management and supervision of, inter alia, Ms. Yeung and Ms. Chan, the Group recorded substantial profits of approximately HK\$66 million for the year ended 31 March 2010 and approximately HK\$17 million for the six months ended 30 September 2010 respectively, which was approximately HK\$83 million in total. During the aforesaid periods, the Group had managed a total fund flow of approximately HK\$18.5 billion under its brokerage and financial business without any customer complaints.

LETTER FROM THE BOARD

REASONS FOR THE GRANT OF GRATUITY

The Group is principally engaged in investment holding, brokerage, financing, trading of securities, general trading as well as property redevelopment and investment. The Company is grateful to Ms. Yeung and Ms. Chan for their valuable contribution to the Group during their tenure of service over the past 30 years, which is summarized under the subsection headed “Ms. Yeung’s and Ms. Chan’s contributions over the past 30 years from 1979 to 2010”.

The Board proposes to grant to each of them a gratuity of HK\$3,000,000 (in cash or in Gratuity Shares in lieu of cash) for their contribution over the past 30 years, which was determined with reference to their remuneration immediately before their retirement and the years of their service with the Group.

In proposing the grant of Gratuity to each of Ms. Yeung and Ms. Chan, the Company had taken into consideration the disciplinary action and Petition taken against certain former Directors including Ms. Yeung and Ms. Chan in relation to certain past transactions of the Group, in which the concerned former Directors including Ms. Yeung and Ms. Chan were alleged, among others, to have breached the then relevant Listing Rules including but not limited to the omission to seek prior shareholders’ approval for the concerned transactions. To rectify this inadvertent omission, i.e. seeking prior shareholders’ approval for the concerned transactions, the Company sought its independent shareholders’ ratification of all ten discloseable and concerned transactions as contained in the Supplemental Circular in a special general meeting of the Company held on 29 April 2009. Having considered the information disclosed herein in its entirety, the Directors (including independent non-executive Directors) are of the opinion that the terms of the granting of the Gratuity are on normal commercial terms, fair and reasonable and that the granting of the Gratuity is in the interests of the Company and the Shareholders as a whole.

EFFECTS ON SHAREHOLDING

The effects of the payment of the Gratuity on the shareholding structure of the Company (assuming that the Former Shareholders exercise their right to elect to subscribe for the Gratuity Shares in lieu of cash in full) is illustrated in the following table:

- (i) **The effect of the allotment and issue of the Gratuity Shares on the shareholding structure assuming that there is no further allotment and issue of Shares since the Latest Practicable Date**

Name of Shareholder	As at the Latest Practicable Date		Upon Ms. Yeung and Ms. Chan electing to receive the Gratuity wholly by way of Gratuity Shares in lieu of cash on the basis of HK\$0.052 per Gratuity Share	
	<i>No. of Shares</i>	<i>Approximate % of issued Shares</i>	<i>No. of Shares</i>	<i>Approximate % of issued Shares</i>
	<i>No. of Shares</i>	<i>Shares</i>	<i>No. of Shares</i>	<i>Shares</i>
Mr. Cheung <i>(Note)</i>	369,995,967	19.77	369,995,967	18.63
Ms. Yeung <i>(Note)</i>	30,000,000	1.61	87,692,307	4.41
Ms. Chan	39,288	0.00	57,731,595	2.91
Public Shareholders	1,471,153,424	78.62	1,471,153,424	74.05
Total	1,871,188,679	100.00	1,986,573,293	100.00

LETTER FROM THE BOARD

- (ii) **The effect of the allotment and issue of the Gratuity Shares on the shareholding structure assuming that full exercise of the Options to be issued under the Option Agreement, full conversion of the Convertible Bonds to be issued under the CB Subscription Agreements and completion of the New Shares Subscription Agreements, the Scrip Dividend Schemes and the Bonus Issue Proposals**

Name of Shareholder	As at the Latest Practicable Date		Upon full exercise of the Options, full conversion of the convertible Bonds and completion of the New Shares Subscription Agreements, the Scrip Dividend Schemes and the Bonus Issue Proposals		After Ms. Yeung and Ms. Chan electing to receive the Gratuity wholly by way of Gratuity Shares in lieu of cash on the basis of HK\$0.052 per Gratuity Share, upon full exercise of the Options, full conversion of the Convertible Bonds and completion of the New Shares Subscription Agreements, the Scrip Dividend Schemes and the Bonus Issue Proposals	
	No. of Shares	Approximate %	No. of Shares	Approximate %	No. of Shares	Approximate %
		of issued Shares		of issued Shares		of issued Shares
Mr. Cheung (Note)	369,995,967	19.77	587,465,605	15.28	587,465,605	14.84
Ms. Yeung (Note)	30,000,000	1.61	47,632,860	1.24	105,325,167	2.66
Ms. Chan	39,288	0.00	53,036	0.00	57,745,343	1.46
Option holder	—	—	370,000,000	9.62	370,000,000	9.34
Holder(s) of Convertible Bonds	—	—	380,000,000	9.88	380,000,000	9.60
Subscriber(s) for new Shares	—	—	300,000,000	7.80	300,000,000	7.58
Holder(s) of scrip Shares (excluding Mr. Cheung, Ms. Yeung and Ms. Chan) under Scrip Dividend Schemes	—	—	320,295,183	8.33	320,295,183	8.09
Holder(s) of bonus Shares (excluding Mr. Cheung, Ms. Yeung and Ms. Chan) under Bonus Issue Proposals	—	—	367,788,366	9.57	367,788,366	9.29
Existing public Shareholders	<u>1,471,153,424</u>	<u>78.62</u>	<u>1,471,153,424</u>	<u>38.28</u>	<u>1,471,153,424</u>	<u>37.14</u>
Total	<u><u>1,871,188,679</u></u>	<u><u>100.00</u></u>	<u><u>3,844,388,474</u></u>	<u><u>100.00</u></u>	<u><u>3,959,773,088</u></u>	<u><u>100.00</u></u>

Note: Ms. Yeung personally holds 30,000,000 Shares. Mr. Cheung personally holds 299,995,967 Shares. As Mr. Cheung is the sole shareholder of K.Y. Limited, he is deemed to have interests in 60,000,000 Shares held by K.Y. Limited 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 K.Y. Limited. 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.

LETTER FROM THE BOARD

IMPLICATIONS OF THE LISTING RULES

By virtue of being former Directors whose retirement took effect on 5 December 2010, both of the Former Directors are connected persons of the Company. As the applicable Percentage Ratios in respect of the granting of the Gratuity to each Former Director is less than 25% and the amount of Gratuity granted to each of the Former Directors is less than HK\$10,000,000, the option to allow each of the Former Directors to receive the Gratuity by way of Gratuity Shares in lieu of cash constitutes a discloseable and connected transaction for the Company under the Listing Rules which requires the approval of the Independent Shareholders pursuant to the Listing Rules.

Application(s) will be made to the Stock Exchange for the listing of and the permission to deal in the Gratuity Shares. No part of the securities of the Company is listed or dealt in or on which listing or permission to deal is being or is proposed to be sought on any other stock exchange.

Votes of Directors and Connected Persons

Mr. Cheung Hoo Win, an executive Director and the Chief Executive Officer of the Company, is the son of Ms. Yeung. By way of this relationship, Mr. Cheung Hoo Win is considered to have a material interests in the granting of the Gratuity to Ms. Yeung and Mr. Cheung Hoo Win has abstained from voting in respect of the resolution(s) for approving the grant of the Gratuity to Ms. Yeung in the relevant Board meetings. Save as disclosed above, no Director has any material interest in the granting of the Gratuity.

As at the Latest Practicable Date, Ms. Yeung, being one of the Former Directors, personally owned 30,000,000 Shares, representing approximately 1.61% of the existing issued share capital of the Company and Mr. Cheung, the spouse of Ms. Yeung, is entitled to control, directly or indirectly, the voting rights in respect of 369,995,967 Shares, representing approximately 19.77% of the existing issued share capital of the Company. Ms. Yeung and Mr. Cheung are therefore connected persons of the Company with material interest in the granting of the Gratuity to Ms. Yeung. Thus Ms. Yeung and Mr. Cheung and their associates will abstain from voting in the SGM in respect of the granting of the Gratuity to Ms. Yeung.

As at the Latest Practicable Date, Ms. Chan, being one of the Former Directors, personally owned 39,288 Shares, is a connected person of the Company with material interest in the granting of the Gratuity to herself. Thus Ms. Chan and her associates will abstain from voting in the SGM in respect of the granting of the Gratuity to Ms. Chan.

The Independent Board Committee has been formed to advise the Independent Shareholders in respect of the granting of the Gratuity. The Company has appointed Guangdong Securities as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the granting of the Gratuity.

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, save and except Ms. Yeung, Ms. Chan and Mr. Cheung and their respective associates, no other Shareholder is required to abstain from voting on the resolutions in relation to the granting of the Gratuity to be approved at the SGM.

LETTER FROM THE BOARD

SGM

A notice convening the SGM to be held at 28/F, Aitken Vanson Centre, 61 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong on Thursday, 25 August 2011 is set out on pages 47 to 49 of this circular. Whether or not you intend to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the office of 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 and in any event not less than 48 hours before the appointed time for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM and any adjournment thereof (as the case may be) should you so wish.

There had been no voting trust or other agreement or arrangement or understanding entered into by or binding upon any such Shareholders, and no obligation or entitlement of any such Shareholders whereby any one of them has passed, or may temporarily or permanently pass, control over the exercise of the voting right in respect of their respective interest in the Company to a third party either especially or on a case-by-case basis.

DISCIPLINARY ACTION AND PETITION

Disciplinary action taken by the Stock Exchange

On 23 December 2004, the Listing Division of the Stock Exchange issued a report (the "Disciplinary Report") commencing the disciplinary action against the Company and certain former Directors, including Ms. Yeung and Ms. Chan, for alleged breaches of the Listing Rules and other alleged misconduct identified by the Listing Division in relation to certain past transactions of the Group which took place from 1998 to 2002. All ten discloseable and connected transactions contained in the Supplemental Circular had been duly ratified and approved by the Company's independent Shareholders at the special general meeting held on 29 April 2009. Reference is made to the Supplemental Circular and the announcement of the Company dated 29 April 2009 for the results of the special general meeting in respect of the ratification of the aforesaid discloseable and connected 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 former Directors including Ms. Yeung and Ms. Chan, and there was a decision that a range of sanctions would be imposed against the same. The Company and three of the former Directors, including Ms. Yeung and Ms. Chan, had applied for a review of the said decision of the Listing Committee based on their different views on certain concerned transactions and their implication under the then Listing Rules and the non-disclosure of the certain transactions being an inadvertent omission. Reference is also made to the Stock Exchange's announcement dated 2 May 2008 in relation, among others, to the said disciplinary action.

Subsequent to the Listing Committee's decision on 8 April 2008, the Listing Committee, on 19 August 2008, conducted a disciplinary (review) hearing on the application of the Company and three former Directors including Ms. Yeung and Ms. Chan. The Review Committee upheld the Listing Committee's decision of 8 April 2008. After that, the Company and three of its former Directors

LETTER FROM THE BOARD

including Ms. Yeung and Ms. Chan further applied for a review. The Appeal Committee therefore convened a hearing to discuss this matter on 14 May 2009. The appeal hearing was subsequently adjourned pending for judgement of the SFC's petition as mentioned below.

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 former Directors including Ms. Yeung and Ms. Chan under Section 214 of the SFO. The SFC alleged that certain former Directors including Ms. Yeung and Ms. Chan had breached their duties to the Company resulting in the Group incurring substantial losses in a number of past transactions of the Group, which should have been disclosed to shareholders (and the market) and required shareholders' approval which was not sought or given, and from which Ms. Yeung was alleged to have received financial benefits. The SFC has been seeking orders that the former Directors including Ms. Yeung and Ms. Chan or any of them (i) be disqualified as company directors; and (ii) pay compensation to the Company for losses allegedly caused by their misconduct. Details of the background of the concerned transactions and the allegations made by the SFC in the Petition are 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

Shareholders may also refer to Appendix II to this circular for the details of the Petition.

Hearing for the Petition was conducted and completed in January 2011 and the Company is awaiting the judgement of the hearing.

RECOMMENDATION

Having considered the information disclosed herein in its entirety, the Directors (including independent non-executive Directors) are of the opinion that the terms of the granting of the Gratuity are on normal commercial terms, fair and reasonable and that the granting of the Gratuity is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the resolutions as set out in the notice of the SGM to approve, among other things, the granting of the Gratuity to the Former Directors at the SGM.

ADDITIONAL INFORMATION

Your attention is also drawn to the letter from the Independent Board Committee which sets out its recommendation to the Independent Shareholders, the letter from Guangdong Securities which contains its advice to the Independent Board Committee and the Independent Shareholders and information set out in the Appendices to this circular.

By order of the Board
Styland Holdings Limited
Zhao Qingji
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



STYLAND HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 211)

10 August 2011

To the Independent Shareholders

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTIONS
RELATING TO THE GRANTING OF GRATUITY TO FORMER DIRECTORS**

We refer to the circular of the Company dated 10 August 2011 (the “**Circular**”) of which this letter forms part. Unless the context otherwise defines, capitalised terms used in this letter shall have the same meanings as defined in the Circular.

We have been appointed by the Board to advise the Independent Shareholders in respect of the granting of the Gratuity to the Former Directors, details of which are contained in the letter from the Board as set out on pages 5 to 14 of the Circular. Guangdong Securities has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the grant of the Gratuity.

We have considered the various details of the granting of the Gratuity, in particular, the reasons for the granting of the Gratuity and the effect thereof. We have also reviewed the advice given by Guangdong Securities, the Independent Financial Adviser, on the terms of the granting of the Gratuity as set out in their letter reproduced on pages 16 to 25 of the Circular.

Having considered the information set out in the letter from the Board and taking into account the advice from Guangdong Securities, we consider that the terms of the granting of the Gratuity are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and the granting of the Gratuity is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions as set out in the notice of the SGM.

Yours faithfully,

Independent Board Committee

Zhao Qingji	Yeung Shun Kee	Li Hancheng	Lo Tsz Fung Philip
<i>Independent</i>	<i>Independent</i>	<i>Independent</i>	<i>Independent</i>
<i>Non-executive Director</i>	<i>Non-executive Director</i>	<i>Non-executive Director</i>	<i>Non-executive Director</i>

LETTER FROM GUANGDONG SECURITIES

Set out below is the text of a letter received from Guangdong Securities, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Gratuity for the purpose of inclusion in this circular.



Units 2505–06, 25/F.
Low Block of Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

10 August 2011

*To: The independent board committee and the independent shareholders
of Styland Holdings Limited*

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTIONS RELATING TO THE GRANTING OF GRATUITY TO FORMER DIRECTORS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Gratuity, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 10 August 2011 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

Ms. Yeung and Ms. Chan voluntarily retired as executive Directors and all their other positions with the Group with effect from 5 December 2010. The Company would like to take this opportunity to thank for their valuable contribution to the Group during their tenure of service. As such, the Board proposed, subject to the approval of the Independent Shareholders at the SGM and compliance with the Listing Rules, to grant to each of them the Gratuity of HK\$3 million for their contribution over the past 30 years.

Mr. Cheung, Ms. Yeung and their respective associates shall abstain from voting on the proposed resolution(s) approving the Gratuity to Ms. Yeung and the Specific Mandate in relation to the issue and allotment of the Gratuity Shares to Ms. Yeung at the SGM. Ms. Chan and her associates shall abstain from voting on the proposed resolution(s) approving the Gratuity to Ms. Chan and the Specific Mandate in relation to the issue and allotment of the Gratuity Shares to Ms. Chan at the SGM.

The Independent Board Committee comprising Mr. Zhao Qingji, Mr. Yeung Shun Kee, Mr. Li Hancheng and Mr. Lo Tsz Fung Philip (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Gratuity are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Gratuity is in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the relevant resolution(s) to approve the Gratuity, the Specific Mandate and the

LETTER FROM GUANGDONG SECURITIES

transactions contemplated thereunder at the SGM. We, Guangdong Securities, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, Ms. Yeung, Ms. Chan or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the granting of the Gratuity. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of Guangdong Securities is to ensure that such information has been correctly extracted from the relevant sources.

LETTER FROM GUANGDONG SECURITIES

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Gratuity, we have taken into consideration the following principal factors and reasons:

1. Background of and reasons for the Gratuity

Business overview of the Group

The Company is an investment holding company and the Group is principally engaged in general trading, securities dealing and broking, financing, trading of securities as well as property redevelopment and investment.

Set out below are the audited financial information of the Group for each of the six years ended 31 March 2011:

	For the year ended 31 March 2011 <i>HK\$'000</i> <i>(audited)</i>	For the year ended 31 March 2010 <i>HK\$'000</i> <i>(audited)</i>	For the year ended 31 March 2009 <i>HK\$'000</i> <i>(audited)</i>	For the year ended 31 March 2008 <i>HK\$'000</i> <i>(audited)</i>	For the year ended 31 March 2007 <i>HK\$'000</i> <i>(audited)</i>	For the year ended 31 March 2006 <i>HK\$'000</i> <i>(audited)</i>	% change from financial year 2006 to financial year 2011
Turnover	327,201	277,147	132,146	187,604	108,793	71,604	356.96
Gross profit	41,596	49,939	10,590	19,642	14,552	17,508	137.58
Profit/(Loss) attributable to owners of the Company	64,469	66,418	(18,818)	18,549	6,008	(13,990)	N/A

	As at 31 March 2011 <i>HK\$'000</i> <i>(audited)</i>	As at 31 March 2010 <i>HK\$'000</i> <i>(audited)</i>	As at 31 March 2009 <i>HK\$'000</i> <i>(audited)</i>	As at 31 March 2008 <i>HK\$'000</i> <i>(audited)</i>	As at 31 March 2007 <i>HK\$'000</i> <i>(audited)</i>	As at 31 March 2006 <i>HK\$'000</i> <i>(audited)</i>	% change from 31 March 2006 to 31 March 2011
Net assets value attributable to owners of the Company ("NAV")	270,350	207,054	141,945	160,716	142,153	134,588	100.87

Source:

1. *For the year ended 31 March 2011/as at 31 March 2011 — The Company's annual report for the year ended 31 March 2011*
2. *For the year ended 31 March 2010/as at 31 March 2010 — The Company's annual report for the year ended 31 March 2010*
3. *For the year ended 31 March 2009/as at 31 March 2009 and for the year ended 31 March 2008/as at 31 March 2008 — The Company's annual report for the year ended 31 March 2009*

LETTER FROM GUANGDONG SECURITIES

4. *For the year ended 31 March 2007/as at 31 March 2007 — The Company's annual report for the year ended 31 March 2007*
5. *For the year ended 31 March 2006/as at 31 March 2006 — The Company's annual report for the year ended 31 March 2006*

From the above table, we noted that the turnover of the Group for the year ended 31 March 2011 increased by approximately 356.96% as compared to that for the year ended 31 March 2006. In addition, we also noted from the above table that the NAV of the Group was increased by approximately 100.87% to approximately HK\$270.35 million as at 31 March 2011 as compared to that as at 31 March 2006. As advised by the Directors, the Group had been enhancing its marketing capacity and improve its internal controls system to expand its customer base thus it could capitalize on the territory's economic recovery over the past few years and this was the main reason for the aforesaid growth of the financial position of the Group. The profit making position sustained for the year ended 31 March 2011.

For the six years ended 31 March 2011 (the “**Review Period**”), the Company had (i) proposed a final cash dividend of HK0.22 cent per Share with a scrip alternative for the year ended 31 March 2007 (the “**2007 Final Dividend**”); (ii) proposed a final cash dividend of HK0.22 cent per Share with a scrip alternative for the year ended 31 March 2008 (the “**2008 Final Dividend**”); (iii) proposed an interim scrip dividend of HK0.18 cent per Share for the six months ended 30 September 2008; (iv) proposed an interim cash dividend of HK0.16 cent per Share with a scrip alternative for the six months ended 30 September 2009; (v) proposed a final cash dividend of HK0.12 cent per Share with a scrip alternative for the year ended 31 March 2010; and (vi) proposed an interim cash dividend of HK0.05 cent per Share with a scrip alternative for the six months ended 30 September 2010. As advised by the Directors, the proposals for the 2007 Final Dividend and the 2008 Final Dividend were lapsed as certain conditions were not fulfilled.

The Directors considered that the bank balances and cash of the Group has reached a new high as at 31 March 2011 of approximately HK\$100.04 million as compared to its bank balances and cash of approximately HK\$4.83 million as at 31 March 2004 (before the suspension of trading in the Shares on the Stock Exchange on 21 April 2004 (the “**Suspension**”). As advised by the Directors, the Group will make good use of its working capital to develop its core business. The Directors believe that with a deliberate operation strategy in place and efficient internal controls for minimizing business risks, the Group will continue to attain good results in the future.

Information on Ms. Yeung

With reference to the Board Letter, Ms. Yeung had served the Group for more than 30 years. She has extensive experience in business management. Ms. Yeung, before her retirement, was responsible for the Group's administration, personnel and general management. Ms. Yeung completed the Course on Corporate Governance jointly organized by the School of Continuing and Professional Education of City University of Hong Kong and ET Business College of Hong Kong Economic Times.

LETTER FROM GUANGDONG SECURITIES

As advised by the Directors, during her terms of appointment, Ms. Yeung had assisted the Group to (i) established the Eastern Europe customer base, including but not limited to Romania, Hungary and Poland, for the Group in 1980s; (ii) pass through the crisis arising from political reform in the Eastern European countries, macro-economic control and Asian financial turmoil; (iii) materialize the listing of the Company in 1991; (iv) materialize the disposal of an investment property in 2009 which provide satisfactory investment gain for the Group; and (v) improve the Group's corporate governance measures.

Information on Ms. Chan

With reference to the Board Letter, Ms. Chan, joined the Group in 1979 and was appointed as executive Director in 1993. Ms. Chan had served the Group for 32 years and has over 20 years of experience in the trading business and over 12 years' expertise in the securities business. Before her retirement, Ms. Chan was responsible for the securities brokerage and financing businesses of the Group. Ms. Chan completed the New Leadership Advance Course organised by Tsing Hua University.

As advised by the Directors, during her terms of appointment, Ms. Chan had assisted the Group to (i) establish the Eastern Europe customer base, including but not limited to Romania, Hungary and Poland, for the Group in 1980s; (ii) materialize the listing of the Company in 1991; (iii) develop the general trading business since 1980s; and (iv) achieve growth in the Group's brokerage and financial services, broking services, financing and trading of securities segment.

With reference to the Board Letter, under the leadership of the then directors of the Company (including the Former Directors), the Group has overcome various challenges, including the financial turmoil in 1997, the burst of information and technology bubbles in 2000, the outbreak of the severe acute respiratory syndrome in 2003 and the financial tsunami in 2008. In recent years, benefiting from their prudent investment strategy, the Group did not involve in Lehman bonds or any accumulator products, thus it could preserve its strength for the market recovery. Further details relating to the improvements in the operating results of the Group are set out in the annual report of the Company for the year ended 31 March 2011 (the "**2011 Annual Report**").

Reasons for the Gratuity

With reference to the Board Letter, Ms. Yeung and Ms. Chan are two of the founders of the Group. They have served the Group and have contributed a lot to the Group's growth for more than 30 years.

The Company would like to take this opportunity to thank for their valuable contribution to the Group during their tenure of service. As such, the Board proposes, subject to the approval of the Independent Shareholders and compliance with the Listing Rules, to grant to each of them the Gratuity of HK\$3 million for their contribution over the past 30 years, which are determined with reference to their remuneration and years of service with the Group. As confirmed by the Directors, save as and except for Ms. Yeung and Ms. Chan, no other Directors were retired since its date of incorporation.

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In view of (i) the reasons for the Gratuity as presented above; (ii) the general growth in financial position of the Group during the Review Period (*Note: the Group recorded loss attributable to owners of the Company for the year ended 31 March 2009 and the year ended 31 March 2006*) under the management and supervision of the then directors of the Company (including the Former Directors), as illustrated under the section headed “Business overview of the Group” in this letter; (iii) the dividends declared during the Review Period; and (iv) the contribution of Ms. Yeung and Ms. Chan as illustrated under the sections headed “Information on Ms. Yeung” and “Information on Ms. Chan” respectively in this letter, we concur with the Directors that the reasons for the Gratuity is justifiable.

We noted that the Share price performance was weak prior to the Suspension on 21 April 2004. Given that the Share price performance was affected by various factors, it may not have direct relationship with the contribution of Ms. Yeung and Ms. Chan to the Group.

We noted from the Board Letter that the Listing Division of the Stock Exchange commenced disciplinary action (the “**Disciplinary Action**”) against the Company and certain former Directors, including Ms. Yeung and Ms. Chan, for alleged breaches of the Listing Rules and other alleged misconduct identified by the Listing Division in relation to certain transactions took place from 1998 to 2002 (the “**Past Transactions**”). In addition, the Petition had been issued by the SFC against the Company and certain former Directors including Ms. Yeung and Ms. Chan under Section 214 of the SFO. The SFC alleged that certain former Directors including Ms. Yeung and Ms. Chan had breached their duties to the Company resulting in the Group incurring substantial losses in a number of past transactions of the Group, which should have been disclosed to the Shareholders (and the market) and required Shareholders’ approval which was not sought or given, and from which Ms. Yeung was alleged to have received financial benefits. Further details of the Disciplinary Action and the Petition were set out under the section headed “Disciplinary action and petition” in the Board Letter and Appendix II to this circular.

Subsequent to the Listing Committee’s decision in relation to the Disciplinary Action on 8 April 2008, the Listing Committee, on 19 August 2008, conducted a disciplinary (review) hearing on the application of the Company and three former Directors including Ms. Yeung and Ms. Chan. The Review Committee upheld the Listing Committee’s decision of 8 April 2008. After that, the Company and three of its former Directors including Ms. Yeung and Ms. Chan had further applied for a review. The Appeal Committee therefore convened a hearing to discuss this matter on 14 May 2009. The appeal hearing was subsequently adjourned pending for judgement of the Petition.

Furthermore, hearing for the Petition was conducted and completed in January 2011 and the Company is awaiting the judgement of the hearing.

Given that the results of the Disciplinary Action and the Petition are uncertain and the contribution of Ms. Yeung and Ms. Chan to the Group is significant and proven, we are of the view that the grant of Gratuity is on normal commercial terms and in the interest of the Company and the Shareholders as a whole. Furthermore, we are of the view that Independent Shareholders should bear in mind the above Disciplinary Action and Petition when considering the Gratuity.

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2. Terms of the Gratuity

With reference to the Board Letter, the Board proposed to grant to each of the Former Directors a gratuity of HK\$3,000,000, subject to, among other things, the approval of the Independent Shareholders and compliance with the Listing Rules. Each Former Director shall be entitled to the Gratuity in cash or by way of the Gratuity Shares during the Term (being the period commencing on the date of the Offer Letters and ending on the 5th anniversary of such date, both dates inclusive) by giving not less than 10 Business Days' prior written notice to the Company.

Each of the Former Directors has been offered a right to elect at her discretion to receive any unpaid gratuity wholly or partly (i) in cash or (ii) by way of new Shares in lieu of cash. The subscription price of the Gratuity Shares was initially proposed as HK\$0.011 per Gratuity Share, being the closing price as quoted on the Stock Exchange at the date before publication of the Announcement. However, the Former Directors voluntarily suggested and proposed that the Subscription Price could be set within the range of HK\$0.024 to HK\$0.08 at the Board's final determination, having taken into account the exercise price/conversion price/subscription price (before possible adjustments to be made in relation to the dividends declared and the bonus issues of Shares since the Suspension) for the earlier proposed issue of the Options/Convertible Bonds and new Shares under the Option Agreement, the CB Subscription Agreements and the New Shares Subscription Agreements respectively (as detailed under the announcements of the Company dated 21 June 2007, 16 August 2007 and 19 November 2007 respectively) (the "Issues").

The requests of the Former Directors are highly appreciated by the Board and the Subscription Price has been adjusted and fixed at HK\$0.052 by the Board, being the average of the lowest and highest of the exercise price/conversion price/subscription price (before possible adjustments to be made in relation to the dividends declared and the bonus issues of Shares since the Suspension) under the Issues. The Board further resolved that once the closing price of the Shares is equal to or higher than HK\$0.057 per Share (equivalent to approximately 10% increase comparing to the Subscription Price), the Former Directors' right to receive the Gratuity in cash will be forfeited. In other words, both Former Directors will only be allowed to receive the Gratuity wholly by ways of new Shares in lieu of cash.

The Subscription Price is subject to adjustment pursuant to the terms of the Gratuity upon the occurrence of certain events including, among others, share consolidation and share subdivision of the Shares. The issue and allotment of the Gratuity Shares will be made under the Specific Mandate.

Notwithstanding the aforesaid, the Former Directors shall not have the right to subscribe for the Gratuity Shares in lieu of cash to the extent that immediately after such subscription, the Former Director concerned together with parties acting in concert with her taken together will, directly or indirectly, control or be interested in 30% or more of the voting rights of the Company (or in such percentage as may from time to time be specified in the Takeovers Code being the level for triggering a mandatory general offer) or otherwise: (i) a general offer shall be given; or (ii) a waiver should be obtained in accordance with the requirement of the Takeovers Code. The Former Directors shall not have the right to subscribe for the Gratuity Shares in lieu of cash to the extent that immediately after such subscription, there will not be sufficient public float of the Shares as required under the Listing Rules.

LETTER FROM GUANGDONG SECURITIES

Basis of the Gratuity

With reference to the Board Letter, the amount of the Gratuity is determined with reference to Ms. Yeung's and Ms. Chan's remuneration immediately before their retirement and years of service with the Group.

As advised by the Directors, given the amount of the Gratuity of HK\$3 million and the year of services in the Group of Ms. Yeung and Ms. Chan of over 30 years, the Gratuity of HK\$3 million represents an annual amount of approximately HK\$100,000.

Having taken into account the above and the bank balances and cash of the Group as at 31 March 2011 of approximately HK\$100.04 million, we are of the view that the amount of the Gratuity is fair and reasonable.

We have also enquired into the Directors regarding basis of determining the Subscription Price. As advised by the Directors, the Subscription Price has been adjusted and fixed at HK\$0.052 by the Board, being the average of the lowest and highest of the exercise price/conversion price/subscription price (before possible adjustments to be made in relation to the dividends declared and the bonus issues of Shares since the Suspension) under the Issues. Given that the trading in Shares has been suspended since 21 April 2004, the Directors are of the view that the said basis of determining the Subscription Price is an objective reference obtained from historical transactions and hence be an appropriate reference for the determination of the Subscription Price.

Furthermore, the Directors advised us that the Term was determined after taking into consideration of the prolonged Suspension.

Conclusion

Taking into consideration of the above, we are of the view that the terms of the Gratuity are fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM GUANGDONG SECURITIES

3. Possible dilution effect on the shareholding interests of the existing public Shareholders

As extracted from the Board Letter, the table below demonstrates the possible shareholding structure of the Company before and after Ms. Yeung and Ms. Chan's election to receive the Gratuity wholly by way of new Gratuity Shares in lieu of cash on the basis of HK\$0.052 per Gratuity Share, upon full exercise of the Options, full conversion of the Convertible Bonds and completion of the New Shares Subscription Agreements, the Scrip Dividend Schemes and the Bonus Issue Proposals:

Name of Shareholder	Upon full exercise of the Options, full conversion of the Convertible Bonds and completion of the New Shares Subscription Agreements, the Scrip Dividend Schemes and the Bonus Issue Proposals		After Ms. Yeung and Ms. Chan electing to receive the Gratuity wholly by way of new Gratuity Shares in lieu of cash on the basis of HK\$0.052 per Gratuity Share, upon full exercise of the Options, full conversion of the Convertible Bonds and completion of the New Shares Subscription Agreements, the Scrip Dividend Schemes and the Bonus Issue Proposals	
	No. of Shares	Approximate % of issued Shares	No. of Shares	Approximate % of issued Shares
Mr. Cheung <i>(Note)</i>	587,465,605	15.28	587,465,605	14.84
Ms. Yeung <i>(Note)</i>	47,632,860	1.24	105,325,167	2.66
Ms. Chan	53,036	0.00	57,745,343	1.46
Option Holder	370,000,000	9.62	370,000,000	9.34
Holders(s) of the Convertible Bonds	380,000,000	9.88	380,000,000	9.60
Subscriber(s) for new Shares	300,000,000	7.80	300,000,000	7.58
Holder(s) of Scrip Shares (excluding Mr. Cheung, Ms. Yeung and Ms. Chan) under Scrip Dividend Schemes	320,295,183	8.33	320,295,183	8.09
Holder(s) of bonus Shares (excluding Mr. Cheung, Ms. Yeung and Ms. Chan) under Bonus Issue Proposals	367,788,366	9.57	367,788,366	9.29
Existing public Shareholders	<u>1,471,153,424</u>	<u>38.28</u>	<u>1,471,153,424</u>	<u>37.14</u>
Total	<u><u>3,844,388,474</u></u>	<u><u>100</u></u>	<u><u>3,959,773,088</u></u>	<u><u>100</u></u>

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

As demonstrated by the above table, the shareholding interests of the existing public Shareholders in the Company would be diluted by approximately 1.14 percent point as a result of Ms. Yeung and Ms. Chan's election to receive the Gratuity wholly by way of new Gratuity Shares in lieu of cash on the basis of HK\$0.052 per Gratuity Share. Taking into account (i) the reasons for the Gratuity; and (ii) the terms of the Gratuity being fair and reasonable, we are of the view that the aforementioned level of dilution to the shareholding interests of the existing public Shareholders is acceptable.

LETTER FROM GUANGDONG SECURITIES

4. Possible financial effects of the Gratuity

Effect on NAV

As extracted from the 2011 Annual Report, the audited NAV of the Group was approximately HK\$270.35 million as at 31 March 2011. The Directors expect that the NAV of the Group will (i) decrease should the Former Directors elect to receive the Gratuity wholly or partly in cash; and (ii) not be materially affected should the Former Directors elect to receive the Gratuity wholly by way of new Gratuity Shares in lieu of cash.

Effect on earnings

As confirmed by the Directors, the Gratuity would reduce the Group's future earnings.

Effect on gearing

According to the 2011 Annual Report, the Group's gearing ratio (calculated by total bank borrowings and financial leases to shareholders' fund) was approximately 0.03 as at 31 March 2011. The Directors expect that the gearing ratio of the Group would not be materially affected upon granting of the Gratuity, regardless of whether the Former Directors elect to receive the Gratuity (i) wholly or partly in cash; or (ii) wholly by way of new Gratuity Shares in lieu of cash.

Effect on working capital

As advised by the Directors, should the Former Directors elect to receive the Gratuity wholly or partly in cash, the working capital of the Group will be reduced.

It should be noted that the aforementioned analyses are for illustrative purpose only and does not purport to represent how the financial position of the Group will be upon granting of the Gratuity.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above in their entirety, we are of the opinion that (i) the terms of the Gratuity are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Gratuity is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the SGM to approve the Gratuity, the Specific Mandate and the transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
Guangdong Securities Limited
Graham Lam
Managing Director

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

- (a) the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive; and
- (b) there are no other matters the omission of which would make any statement in this circular misleading.

2. DISCLOSURE OF INTERESTS**(a) Interest of Directors and chief executive in the Company and its associated corporations**

As at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interest or short position in the Shares, underlying Shares or debentures of the Company or any of 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 and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

As at the Latest Practicable Date, none of the Directors was a director or an employee of a company which had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(b) Interests of substantial shareholders and other persons required to be disclosed under the SFO

As at the Latest Practicable Date, so far as was known to any Director or the chief executive of the Company, the following persons (not being a Director or the chief executive of the Company) had interests or short positions, if any, in the Shares or underlying Shares which would fall 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% 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:

Name of person/entity	No. of Shares held/interested			Total	Approximate % of issued share capital as at the Latest Practicable Date
	Family interest	Beneficial owner/personal interest	Interest in controlled corporation		
Mr. Cheung (Note 1)	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)	—	112,441,667	—	112,441,667	6.01%
Gloryrise Group Limited (Note 4)	—	370,000,000	—	370,000,000	19.77%
Mr. Tai Kwok Leung Alexander (Note 6)	—	—	370,000,000	370,000,000	19.77%

Notes:

- Mr. Cheung personally holds 299,995,967 Shares. As Mr. Cheung is the sole shareholder of K.Y. Limited, he is deemed to have interests in 60,000,000 Shares held by K.Y. Limited 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 K.Y. Limited. 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.
- 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.
- 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 regarding his shareholding in the Company and received a letter dated 13 December 2004 from Mr. Rajkumar M Daswani saying 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.
- 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 fulfillment of the conditions precedent of the Option Agreement had been extended to 31 December 2011. As at the Latest Practicable Date, the conditions precedent to the Option Agreement had not been fulfilled.

6. 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.
7. On 20 August 2002, Mr. Lin Wen (林文先生) (“Mr. Lin”) and Mr. Sun Jinlin (孫進林先生) (“Mr. Sun”) notified the Company that they respectively held 165,050,000 and 150,800,000 Shares. To ensure the accuracy of its register of members, the Company wrote to Mr. Lin and Mr. Sun to enquire into their then shareholdings in the Company on 14 June 2004. On 13 December 2004, the Company received a letter from Mr. Lin, claiming that he held approximately 5 million Shares, which was substantially different from the record of Mr. Lin’s interests available from the website of the Stock Exchange and the Company. The Company could not reach Mr. Lin or Mr. Sun thereafter. As at the Latest Practicable Date, the Company has not received any further response from Mr. Lin or Mr. Sun. According to the High Court order (case no. HCA3544/03), Mr. Lin and Mr. Sun were ordered to pay the legal costs of HK\$861,818 to the Company. The Group has been considering the way to recover the costs.

Save as disclosed above, as at the Latest Practicable date, so far as was known to the Directors or the chief executive of the Company, no persons (not being a Director or the 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% 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.

3. DIRECTORS’ INTERESTS IN ASSETS AND CONTRACTS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which have since 31 March 2011 (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 the Company or any of its subsidiaries, or are proposed to be acquired or disposed of by or lease to 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.

4. SERVICE CONTRACT

As at the Latest Practicable Date, none of the Directors had 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).

5. DIRECTORS’ INTERESTS IN COMPETING BUSINESSES

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.

6. EXPERT AND CONSENT

The following is the qualification of the expert which has given advice contained in this circular:

Name	Qualification
Guangdong Securities Limited	A licensed corporation to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) of the regulated activities under the SFO

Guangdong Securities is not beneficially interested in the share capital of any member of the Group and has no right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group and has no interest, either directly or indirectly, in any assets which have been, since 31 March 2011, the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

The letter given by Guangdong Securities is given as of the date of this circular for incorporation herein. Guangdong Securities has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name and letter in the form and context in which it appears.

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 March 2011, the date to which the latest published audited financial statements of the Group were made up.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copy of the following documents are available for inspection during normal business hours on any weekday (except for Saturdays, Sundays and public holidays) at the office of the Company at 28/F, Aitken Vanson Centre, 61 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong up to and including the date of the SGM:

- (a) the Offer Letters;
- (b) the letter from the Independent Board Committee, the text of which is set out on page 15 of this circular;
- (c) the letter of advice from Guangdong Securities, the text of which is set out on pages 16 to 25 of this circular; and
- (d) written consent of Guangdong Securities, referred to in the paragraph headed “Expert and Consent” in this Appendix.

9. MISCELLANEOUS

The English text of this circular shall prevail over the Chinese text.

**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. Kipton Limited ("Kipton") 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 authorised 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 authorised 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 had 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 fund flows is attached at Appendix II hereto.

F. Kipton 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 Kipton back in November 1997 and increased its shareholding therein to 49% some time in 1998. Kipton 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 Kipton 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 Kipton 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 discloseable 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 8 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(1) 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 Marton*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 “chineseeyes.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 14.26(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 fund 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.

NOTICE OF SGM



STYLAND HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 211)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the “**SGM**”) of Styland Holdings Limited (the “**Company**”) will be held at 28/F, Aitken Vanson Centre, 61 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong on Thursday, 25 August 2011 at 10:30 a.m. for the purpose of considering and if thought fit, passing the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. “**THAT**

- (i) the granting of gratuity in the amount of HK\$3,000,000 (the “**Gratuity**”) to Ms. Yeung Han Yi Yvonne (“**Ms. Yeung**”), a former executive director of the Company, wholly or partly by way of new shares of HK\$0.01 each (the “**Gratuity Share(s)**”) to be issued and allotted by the Company in lieu of cash at the subscription price of HK\$0.052 per Gratuity Share, and pursuant to the terms of the offer letter dated 31 January 2011 (a copy of which has been produced to the meeting marked “**A**” and signed by the Chairman of the meeting for the purpose of identification) (“**Yeung’s Gratuity**”) be and is hereby approved;
- (ii) conditional upon, among others, the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the Gratuity Shares, the issue and allotment of such number of Gratuity Shares which may fall to be issued under Yeung’s Gratuity be and is hereby approved; and
- (iii) the directors of the Company (the “**Directors**”) be and are hereby authorised to do such acts and/or things and/or execute all such documents incidental to, ancillary to or in connection with matters contemplated under or relating to Yeung’s Gratuity as set out above as the Directors may in their absolute discretion consider necessary, desirable or expedient to give effect to Yeung’s Gratuity and the implementation of all transactions contemplated thereby.”

2. “**THAT**

- (i) the granting of gratuity in the amount of HK\$3,000,000 (the “**Gratuity**”) to Ms. Chan Chi Mei Miranda (“**Ms. Chan**”), a former executive director of the Company, wholly or partly by way of new shares of HK\$0.01 each (the “**Gratuity Share(s)**”) to be issued and allotted by the Company in lieu of cash at the subscription price of HK\$0.052 per Gratuity Share, and pursuant to the terms of the offer letter dated 31

NOTICE OF SGM

January 2011 (a copy of which has been produced to the meeting marked “B” and signed by the Chairman of the meeting for the purpose of identification) (“**Chan’s Gratuity**”) be and is hereby approved;

- (ii) conditional upon, among others, the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the Gratuity Shares, the issue and allotment of such number of Gratuity Shares which may fall to be issued under Chan’s Gratuity be and is hereby approved; and
- (iii) the Directors be and are hereby authorised to do such acts and/or things and/or execute all such documents incidental to, ancillary to or in connection with matters contemplated under or relating to Chan’s Gratuity as set out above as the Directors may in their absolute discretion consider necessary, desirable or expedient to give effect to the granting of Chan’s Gratuity and the implementation of all transactions contemplated thereby.”

By order of the Board
Styland Holdings Limited
Wang Chin Mong
Company Secretary

Hong Kong, 10 August 2011

Registered office:

Canon’s Court
22 Victoria Street
Hamilton HM12
Bermuda

Principal place of business in Hong Kong:

28th Floor
Aitken Vanson Centre
61 Hoi Yuen Road
Kwun Tong
Kowloon
Hong Kong

Notes:

- (1) Any member entitled to attend and vote at the meeting is entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a member of the Company.
- (2) The instrument appointing a proxy must be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of any officer, attorney or other person authorised to sign the same.
- (3) In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, 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, not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

NOTICE OF SGM

- (4) In the case of joint registered holders of any shares of the Company, any one of such joint registered holders may vote at the 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 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 shares shall be accepted to the exclusion of the votes of the other joint registered holder(s).
- (5) A circular dated 10 August 2011 giving details of the granting of gratuity to Ms. Yeung and Ms. Chan has been sent to the Company's shareholders.

As at the date hereof, the executive Directors of the Company are Mr. Cheung Hoo Win, Mr. Ng Yiu Chuen, Ms. Ho Mei Sheung, Ms. Zhang Yuyan and Ms. Chen Lili; and the independent non-executive Directors are Mr. Zhao Qingji, Mr. Yeung Shun Kee, Mr. Li Hancheng and Mr. Lo Tsz Fung Philip.