

REPORT OF THE INSIDER DEALING TRIBUNAL OF HONG KONG

on whether insider dealing took place
in relation to the listed securities of

Dransfield Holdings Limited
later renamed “China Merchants DiChain (Asia) Limited”
now known as
“Pearl Oriental Innovation Limited”

between

3rd December and 20th December 2001 (inclusive)

and on other related questions



**The Chairman of a division of the
Insider Dealing Tribunal
Established under section 15 of the
Securities (Insider Dealing) Ordinance
Cap. 395 of the Laws of Hong Kong**

**Section 16(2) of the
Securities (Insider Dealing) Ordinance Cap. 395**

Whereas it appears to me that insider dealing (as that term is defined in the Ordinance) in relation to the listed securities of a corporation, namely, Dransfield Holdings Limited (now renamed China Merchants Dichain (Asia) Limited) ("the company"), has taken place or may have taken place, the Tribunal is hereby required to inquire into and determine-

- (a) whether there has been insider dealing in relation to the company connected with or arising out of the dealings in the listed securities of the company by or on behalf of-
 - (i) Wang Bin James [王斌] between 3 December 2001 and 20 December 2001,
 - (ii) Tai Ching Nam (also known as Dai Zhengnan) [戴正楠] on 18 December 2001,
 - (iii) Wu Shiyue Denny [伍世岳] on 19 December 2001
- (b) in the event of there having been insider dealing as described in paragraph (a) above, the identity of each and every insider dealer; and
- (c) the amount of any profit gained or loss avoided as a result of such insider dealing.

Dated this 27th day of June 2005.

(Henry Tang)
Financial Secretary



The Chairman of a division of the
Insider Dealing Tribunal
Established under section 15 of the
Securities (Insider Dealing) Ordinance
Cap. 395 of the Laws of Hong Kong

**Amendment to Notice dated 27 June 2005
Under Section 16(2) of the
Securities (Insider Dealing) Ordinance Cap. 395**

I refer to a notice under my hand dated 27 June 2005 ("the Notice", copy attached) issued pursuant to Section 16(2) of the Securities (Insider Dealing) Ordinance, Cap. 395. It has come to my attention that the company, having been renamed as China Merchants DiChain (Asia) Limited then, had further changed its name to Pearl Oriental Innovation Limited on 2 August 2006.

Accordingly, pursuant to Section 46 of the Interpretation and General Clauses Ordinance, Cap. 1 (and all other powers enabling me to do so) I hereby amend the Notice by replacing the description of the company with "Dransfield Holdings Limited (later renamed as China Merchants DiChain (Asia) Limited and now known as Pearl Oriental Innovation Limited) ("the company")". There has been no other change to the Notice, which in all respects remains in full force and effect.

Dated this 1st day of November 2006.

(Henry Tang)
Financial Secretary

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ABBREVIATIONS

Access Capital	— Access Capital Limited
China Merchants	— China Merchant Holdings (International) Co. Ltd.
DiChain	— DiChain Systems Limited
Dransfield	— Dransfield Holdings Limited
GEM	— Growth Enterprise Market
SEHK	— The Stock Exchange of Hong Kong Ltd.
SFC	— Securities and Futures Commission
The Ordinance	— The Securities (Insider Dealing) Ordinance Cap. 395
The Tribunal	— Insider Dealing Tribunal

ANNEXURES

- Annexure A — Dransfield's announcement on the proposed acquisition of a majority shareholding in Dransfield by DiChain and Farsight Holdings Ltd. released on 23rd January 2002 and published on 24th January 2002
- Annexure B — Dransfield's share trading history
- Annexure C — Discussion paper setting out details and steps to be taken by way of placement of new shares to DiChain and its obtaining control of Dransfield presented at the 19th November 2001 meeting
- Annexure D — Proposal document presented by Access Capital on 27th November 2001 setting out a suggested timetable for the acquisition

CHAPTER 1

INTRODUCTION

Dransfield Holdings Ltd., now renamed China Merchants DiChain (Asia) Ltd. (“Dransfield”) became a listed company in Hong Kong in 1993. Its core business was food and beverage distribution and warehousing operations. It was controlled by two Hong Kong families who owned 49% of its issued share capital.

By late 2001 the financial position of Dransfield had deteriorated considerably. In 2000 the company had reported a small profit. But for the year ended 31st March 2001 the company reported a net loss of \$131.5 million. That report was published on 5th September 2001. Further, the auditors’ report of Ernst and Young carried a disclaimer to the effect they were unable to form an opinion as to whether the financial statements, which were prepared on a going concern basis, gave a true and fair view of Dransfield’s financial position.

By late September, Dransfield’s primary financier the Bank of East Asia Limited had exercised its rights as mortgagee to take possession of property Dransfield held at Tai Kok Tsui. The bank also requested changes be made to Dransfield’s board of directors before it considered any possible restructuring of its loans to the company.

Dransfield’s financial advisor was Access Capital Ltd. (“Access Capital”). Access Capital recognised that Dransfield required a considerable infusion of new blood to survive.

Access Capital was aware that DiChain Systems Ltd. (“DiChain”) a subsidiary of China Merchant Holdings (International) Co. Ltd. (“China Merchants”) was considering a back-door listing on Hong Kong’s Growth Enterprise Market (“GEM”) board.

In October 2001, Access Capital suggested to the Chairman of DiChain Dr. Fan Di (who was also the Chief Financial Officer of China Merchants) that an acquisition of a controlling interest in

Dransfield by DiChain would obtain a back-door listing on the main board. Dr. Fan expressed interest in the idea and preliminary conversations took place between DiChain and Access Capital, progressing by 13th November 2001 to a site visit by DiChain representatives to Dransfield's Shenzhen warehouse for an inspection of its facilities there.

Matters then continued to progress. A summary of events is as follows:

23rd November 2001: At a meeting between representatives of DiChain, Dransfield and Access Capital, the latter outlined a proposal whereby DiChain/China Merchants become a 50% controlling shareholder of Dransfield by Dransfield issuing as new shares the equivalent of its existing share capital and those new shares being taken up by way of a placement to DiChain at \$0.0274 a share resulting in a \$50 million injection into Dransfield.

27th November 2001: A further meeting was held at which it was proposed a new holding company jointly owned by DiChain and China Merchants would become a 55% controlling shareholder of Dransfield by way of placement, resulting in a \$55 million injection to Dransfield.

Due diligence inspections of Dransfield's financial status then commenced. That continued (perhaps understandably) for some time and,

10th December 2001: At a further meeting between the parties DiChain was proposed as the controlling shareholder of Dransfield on the basis of it injecting a maximum of \$50 million for the allotment of 2.3 billion new Dransfield shares

at a price of about \$0.218 per share. It was agreed the parties would aim to sign a provisional agreement to this effect by the Christmas holidays.

17th December 2001: A detailed proposal was presented at a meeting between the parties based on the terms put forward at the 10th December meeting. A conditional agreement was to be signed by the 22nd December.

21st December 2001: A conditional agreement was signed which accorded with the detailed proposal put forward at the 17th December meeting. Some small details had been added or altered but it was largely the same as the earlier proposal.

24th December 2001: The board of Dransfield requested that trading in its shares be suspended pending an announcement (which was eventually released on 23rd January and published on 24th January 2002) “in connection with the ... entering into a conditional share subscription agreement, which if signed, may lead to a change in control of the company.”

During the course of the negotiations and prior to the suspension of trading of Dransfield’s shares three DiChain executives purchased Dransfield shares.

They were:

- (1) Wang Bin, James (“James Wang”) who was the Financial Controller of DiChain.
- (2) Tai Ching Nam (“Tai”) who was the Assistant President of DiChain; and

- (3) Wu Shiyue, Denny (“Denny Wu”) who was an Assistant Vice President of DiChain.

They purchased shares in the following amounts and on the following dates:

James Wang

Between 3rd December and 20th December 2001, James Wang bought a total of 3.8 million shares, namely,

Date	Quantity	Price per share \$	Total consideration ⁽¹⁾ \$
3/12/2001	1,000,000	\$0.039	39,143.68
7/12/2001	300,000	\$0.042	12,714.51
17/12/2001	150,000	\$0.041	6,257.74
18/12/2001	500,000	\$0.04	39,644.75
	500,000	\$0.039	
20/12/2001	50,000	\$0.035	51,034.23
	300,000	\$0.037	
	1,000,000	\$0.038	
Total:	3,800,000		\$148,794.91

Note:

- (1) The consideration includes stamp duty and other charges.

Tai

On 18th December 2001, Tai bought 1.2 million Dransfield shares (his only deal).

Date	Quantity	Price per share \$	Total consideration ^{(1)(see note above)} \$
18/12/2001	1,200,000	\$0.04	\$48,073.73

Denny Wu

On 19th December 2001, Denny Wu bought 1 million Dransfield shares (his only deal).

Date	Quantity	Price per share \$	Total consideration ^{(1)(see note above)} \$
19/12/2001	1,000,000	\$0.039	39,145.38

All three at various times had attended meetings forming part of the negotiations between Dransfield and DiChain prior to their having purchased Dransfield shares. All three had been involved in the due diligence inspection of Dransfield's financial position.

On the 24th December 2001 Dransfield's shares were suspended from trading pending an announcement concerning a share subscription agreement which if completed would lead to a change in control. On 23rd January 2002 Dransfield announced the acquisition of a majority shareholding in Dransfield by DiChain and Farsight Holdings Ltd. (which was a company owned by directors of DiChain). A copy of that announcement is at Annexure A hereto.

Trading in Dransfield's shares resumed on that day and their price surged by 127% from the pre-suspension closing price of \$0.04 to close at \$0.091. A copy of Dransfield's share trading history is at Annexure B hereto.

As a result of the share purchases of James Wang, Tai Ching Nam and Denny Wu an investigation was commenced by the Securities & Futures Commission ("SFC") and in due course the Financial Secretary issued a notice under section 16(2) of the Securities (Insider Dealing) Ordinance, Cap. 395 ("the Ordinance") directed to a chairman of this Tribunal. That notice is at page (i) of this report. An amendment to that notice concerning a subsequent change of name of Dransfield is at page (ii) of this report.

CHAPTER 2

PROCEDURE

Upon receipt of the Financial Secretary's notice pursuant to section 16(2) of the Ordinance dated 27th June 2005, this present Tribunal was constituted with the Honourable Mr. Justice McMahon as Chairman. Two lay members Mr. Ho Ka Shi, Henry and Mr. Law Chi Shing, Kevin were appointed on the 17th July 2006.

On the 3rd August 2006 Counsel assisting the Tribunal Mr. Ip Tak Keung, Peter was appointed pursuant to paragraph 18 of the Schedule to the Ordinance and on the 15th August 2006 a meeting was held between the Tribunal members and counsel assisting whereby the timetable for the present proceedings was established.

Counsel assisting was eventually instructed by the Tribunal to issue notificatory letters (or "Salmon" letters) to three individuals, namely:

- (a) Wang Bin, James
- (b) Tai Ching Nam
- (c) Wu Shiyue, Denny.

Those three individuals (the implicated parties) were thought by the Tribunal members to be at risk of being found to be insider dealers.

Each of the implicated parties received their Salmon letters between 11th and 20th September 2006. Those letters notified each of the implicated parties that a preliminary sitting of the Tribunal would take place on 9th October 2006.

On that day, the first sitting of the Tribunal took place. The three implicated parties were present although unrepresented by counsel or solicitors. They were informed by way of an introductory statement made by the Chairman of the procedures which would be adopted during the course of the hearing and were reminded of their right

to legal representation. At no stage however throughout the proceedings did any of the implicated parties have legal representation.

At the conclusion of the Chairman's introductory statement, each of the three implicated parties indicated that they wished to admit insider dealing on the basis of a summary of facts which had been provided to them by counsel assisting at the time of their receipt of the Salmon letters.

The preliminary hearing was adjourned to the 6th November 2006 for the preparation of formal agreed facts.

On the 6th November the Tribunal re-convened. The three implicated parties were present. The agreed facts had been served on them and on the Tribunal the day previously.

The Tribunal wished to consider the contents of those facts in the context of the other documents and materials which formed the evidence submitted to it and adjourned to the 20th November for that purpose.

On the 20th November each implicated party affirmed that he agreed the admitted facts and had nothing to add to or qualify them. The other materials provided to the Tribunal, i.e. witness statements and documentary exhibits were formally admitted into evidence. The Tribunal then adjourned briefly for deliberation and upon resumption of the hearing announced that it was satisfied that the admitted facts were an accurate reflection of the events it was concerned with and were supported by the other evidence before the Tribunal.

On that basis the Tribunal was able to state that:-

It was satisfied there had been insider dealing arising out of the dealings in Dransfield's shares by James Wang, Tai Ching Nam and Denny Wu and that those three individuals were insider dealers.

It then adjourned its proceedings until the 4th December 2006 so as to hear evidence as to what profit was made by each of the three implicated parties and to determine what orders to make in respect of each of them.

Each of James Wang, Tai Ching Nam and Denny Wu were informed that on that day they could provide any mitigation they thought appropriate and that they, although still unrepresented, remained entitled to be represented if they so wished.

On the 4th December the hearing resumed at which time only James Wang and Tai Ching Nam were present. Denny Wu was absent. The Tribunal was informed by Tai Ching Nam that Denny Wu could not obtain an exit visa from the Mainland authority. The Tribunal was then provided with a statement of Dr. Richard Chow Kam To (“Richard Chow”), an enforcement officer of the SFC as to the profits made by each of the insider dealers.

The Tribunal heard mitigation from James Wang and Tai Ching Nam the two implicated parties present and then adjourned to 5:00 p.m. on 11th December 2006 to hear mitigation from Denny Wu who had been informed to attend by telephone by an officer of the SFC.

On 11th December Denny Wu did attend before the Tribunal and presented his mitigation.

The Tribunal then adjourned to consider its orders and subsequently forwarded its report to the Financial Secretary, counsel assisting and the implicated parties.

CHAPTER 3

THE LAW

In this chapter we deal with the important statutory provisions in the Ordinance which were applicable to our findings and set out other general principles of law which were relevant to the inquiry.

Statutory Provisions

So far as all three implicated parties were concerned, the only type of insider dealing which realistically arose was that contained within the provisions of section 9(1)(a) of the Ordinance:

Section 9(1)

“9. When insider dealing takes place

- (1) Insider dealing in relation to a listed corporation takes place –
 - (a) when a person connected with that corporation who is in possession of information which he knows is relevant information in relation to that corporation deals in any listed securities of that corporation or their derivatives (or in the listed securities of a related corporation or their derivatives) or counsels or procures another person to deal in such listed securities knowing or having reasonable cause to believe that such person would deal in them;”

The above provision applies to circumstances when a “person connected” to a corporation (in this case Dransfield) deals in its securities.

Section 4

A “person connected” is defined by section 4 of the Ordinance:

“4. “Connected with a corporation”

“(1) A person is connected with a corporation for the purposes of section 9 if, being an individual –

- (a) he is a director or employee of that corporation or a related corporation; or
- (b) he is a substantial shareholder in the corporation or a related corporation; or
- (c) he occupies a position which may reasonably be expected to give him access to relevant information concerning the corporation by virtue of –
 - (i) any professional or business relationship existing between himself (or his employer or a corporation of which he is a director or a firm of which he is a partner) and that corporation, a related corporation or an officer or substantial shareholder in either of such corporations; or
 - (ii) his being a director, employee or partner of a substantial shareholder in the corporation or a related corporation; or
- (d) he has access to relevant information in relation to the corporation by virtue of his being connected (within the meaning of paragraph (a), (b) or (c)) with another corporation, being information which relates to any transaction (actual or contemplated) involving both those corporations or involving one of them and the listed securities of the other or their derivatives or to the fact that such transaction is no longer contemplated; or (*Amended 29 of 1994 s. 4*)
- (e) he was at any time within the 6 months preceding any insider dealing in relation to the corporation a person connected with the corporation within the meaning of paragraph (a), (b), (c) or (d). (*Amended 29 of 1994 s. 4*)”

It will be seen in due course that all three implicated persons were found by us to be persons connected to Dransfield on the basis of section 4(1)(c)(i) and section 4(1)(d).

Section 9(1)(a) requires also that any person found to be an insider dealer under its provisions possess relevant information.

Section 8

Relevant information is defined by section 8 of the Ordinance as follows:

“8. “Relevant information”

In this Ordinance “relevant information” (有關消息) in relation to a corporation means specific information about that corporation which is not generally known to those persons who are accustomed or would be likely to deal in the listed securities of that corporation but which would if it were generally known to them be likely materially to affect the price of those securities.”

In the present case we found each of the three implicated parties to possess relevant information.

Section 9 finally requires that any person to be an insider dealer must deal in the corporation’s shares while in possession of relevant information.

Section 6

“Deal” is defined by section 6 of the Ordinance:

“6. “Dealing in securities or their derivatives”

For the purposes of this Ordinance, a person deals in securities or their derivatives if (whether as principal or agent) he buys, sells, exchanges or subscribes for, or agrees to buy, sell, exchange or subscribe for, any securities or their derivatives or acquires or disposes of, or agrees to acquire or dispose of, the right to buy, sell, exchange or subscribe for, any securities or their derivatives. (*Amended 29 of 1994 s. 5*)”

Paragraph 13

All decisions of fact were resolved by all three Tribunal members. Decisions of law were determined by the Chairman alone.

That is in accordance with paragraph 13 of the Schedule to the Ordinance which is in these terms:

“13. Every question before the Tribunal shall be determined by the opinion of the majority of the members except a question of law which shall be determined by the chairman.”

General Principles of Law

Standard of Proof

The standard of proof adopted and applied by the Tribunal before finding any of the implicated parties to be insider dealers was to a high degree of probability.

That is a standard which is a genuinely high standard and which has been adopted by all previous Tribunal proceedings under the Securities (Insider Dealing) Ordinance Cap. 395: (See *Report of the Insider Dealing Tribunal of Hong Kong in relation to the listed securities of Chinney Alliance Group Ltd. inquiry, page 19*).

Inferences

Though given the admissions of the three implicated parties inferences played a relatively minor role in the Tribunal's findings, in regard to any drawing of inferences the Tribunal directed itself that any inference to be drawn against an implicated party from a set of facts proven to the Tribunal's satisfaction must be the only reasonable inference which could be drawn from those established facts.

The Admissions of the Implicated Parties

There is no provision in the Ordinance that an admission by an implicated party that he was an insider dealer be binding on the Tribunal. For that reason the Tribunal upon receipt of each implicated party's admission that he had in fact acted as an insider dealer in purchasing Dransfield shares during the relevant period had nevertheless to go on and satisfy itself from the other evidence available that the

particular admission was correct. Effectively such an admission is no more than a statement (though under oath or affirmation) by an implicated party. Because it is an admission against interest it will usually carry significant weight and the present case was no exception.

Accordingly, we placed considerable weight on the admissions of the implicated parties, but before finding each to have been an insider dealer in Dransfield shares during the relevant period satisfied ourselves from the other material provided to the Tribunal that the admissions of each implicated party were reliable.

CHAPTER 4

THE ADMITTED FACTS AND OTHER EVIDENCE

As has been stated in Chapter 2 above, each of the implicated parties from the point of time of the preliminary sitting of this Tribunal indicated they wished to admit their role as insider dealers.

The Admissions

On the 20th November 2006 each implicated party, under affirmation, agreed certain facts. Those facts were reduced to writing and signed by each implicated party. We set out those facts in their entirety:

“

Insider Dealing Tribunal Enquiry

Dransfield Holdings Limited

**(later renamed “China Merchants DiChain (Asia) Limited,
now known as “Pearl Oriental Innovation Limited”) (“the Company”)**

Statement of Facts for the purpose of admission
of insider dealings in the shares of
Dransfield Holdings Limited

by

Mr. WANG BIN JAMES,

Mr. TAI CHING NAM (also known as Dai Zheng Nan)

And

Mr. WU SHIYUE DENNY

Background:

1. Dransfield Holdings Limited (“Dransfield”) was listed in Hong Kong in 1993. Its core business included food and beverage distributions, paper manufacturing and logistics warehousing operation.

2. DiChain System Limited (“DiChain”) was incorporated in Hong Kong in 2000 as a subsidiary of China Merchant Holdings (International) Co. Ltd. (which in turn was listed in Hong Kong in 1992 as the flagship of the China Merchant Group (“CMG”), with a focus on information technology and e-Logistics.
3. There was a proposed acquisition of 2.5 billion shares (or about 55.5% of the then issued Share Capital) of Dransfield by DiChain which was announced on 24th January, 2002.
4. The financial position of Dransfield was far from promising before the proposed acquisition:
 - a) There had been a reported loss of HK\$131.5 million for the year ended 31st March 2001 (in contrast with a HK\$2.1 million profit for the previous year) released on 5th September 2001. In fact, the situation could have been worse as the auditors’ report by Ernst and Young in a disclaimer expressly stated that they were unable to form an opinion as to whether the financial statements (which had been prepared on a going concern basis) gave a true and fair view of the state of affairs.
 - b) On 29th September, 2001, it was further announced that The Bank of East Asia had:
 - i) Exercised its power as mortgagee to take possession of Dransfield’s property at Tai Kok Tsui; and
 - ii) Requested changes to the composition of Dransfield’s board of directors before it would re-consider its position regarding any possible restructuring of Dransfield’s borrowings.
 - c) Its Tai Kok Tsui property was sold in October, 2001.
 - d) Its interim results published on 28th December, 2001 reported an un-audited loss of HK\$64 million.

Trading of Dransfield Shares

5. In November 2001, Dransfield shares traded at \$0.027 to \$0.039 with an average daily turnover of about 1.57 million shares. In December 2001, the closing price surged from \$0.039 of 3rd December 2001 to \$0.042 of 11th December 2001 (7.69%) with an average turnover of 1.73 million shares while

the Hang Seng Index saw an increase of 4.82% during the same period. Between 12th December 2001 and 21st December 2001, Dransfield's share price was fairly stable between \$0.035 and \$0.041 with the turnover increasing from 500,000 to 13.1 million shares as of 21st December 2001 which represented the largest daily turnover since 5th October 2001. Trading in Dransfield shares was suspended on 24th December 2001. Upon resumption of trading on 24th January 2002, Dransfield's share price rose 127% with trade volume increasing 7.5 times whereas the Hang Seng Index experienced a rather steady drop of some 500 points during that period of suspension.

6. On 24th December, 2001, Dransfield shares were suspended from trading pending an announcement of further detail in connection with a share subscription agreement, which if signed, might lead to a change in its control. As mentioned above, the last closing price of Dransfield share before the suspension was \$0.04 per share.
7. On 23rd January, 2002 Dransfield announced a proposed acquisition of 2.5 billion Dransfield shares (55% of its then total issued share capital) by DiChain and Farsight Holding Limited ("Farsight"). Farsight was a company owned by certain executive directors of DiChain and members of its senior management. It was also stated in the announcement that Dransfield had disposed of its non-core assets and business "with a view of focusing management resources on its logistics and warehousing operations.
8. As mentioned above, Dransfield shares resumed trading on 24th January 2002. On that day, its share price surged 127.5% from its pre-suspension close of \$0.040 to close at \$0.091. Turnover also increased to 98 million shares traded compared to only 13.1 million shares traded on 21st December, 2001.

Expert Evidence

9. Richard Chow, director of Surveillance Department, stated that by early September 2001, there had already been various signs that Dransfield was having liquidity problems and it had defaulted on its repayment of loans to creditors. In view of its then financial position, the proposed acquisition, if fully implemented, would allow it to recapitalize its balance sheet, improve its cash position, and relieve its liquidity problem. The proposed acquisition could be perceived as a favourable solution with DiChain, the "White Knight", coming in to rescue Dransfield. Richard Chow was of the opinion that the

proposed acquisition was non-public price sensitive information. However, this relevant information become available to insiders as early as November 2001 when various meetings were held between representatives of DiChain, Dransfield and its investment advisors.

Events leading to the proposed acquisition:

10. Dr. Fan Di (Dr. Fan), Chairman of DiChain and C.E.O. of CMG, initially planned to have DiChain listed in the GEM Board but, by October, 2001, decided to turn to backdoor listing in the Main Board.
11. On 5th October, 2001, Ambrose Lam and Tom Li of Access Capital Limited (“ACL”) which at that time was the financial advisor of Dransfield, introduced various investment projects to Dr. Fan and Gordon Chen, included acquiring stakes in Dransfield as substantial shareholder.
12. On 18th October 2001 Dr. Fan expressed interest in acquiring Dransfield shares and Ambrose Lam introduced the management group of Dransfield to meet Dr. Fan. From 19th October to early November 2001 various meetings held among Dr. Fan, other senior executives of DiChain, Ambrose Lam and senior executives of Dransfield.
13. On 13th November 2001 Aaron Zhu, Senior Vice President of DiChain, Li Xing Gui, Chief Operating Officer of DiChain and Wang Bin James (James Wang) who was an Assistant Vice President and Finance Manager of DiChain, led by Dransfield’s Andy Pang and Emma Cheung, Acting Chief Executive Officer and company secretary of Dransfield, visited Dransfield warehouse in Futain, PRC.
14. On 23rd November 2001 Tai Ching Nam (also known as Dai Zhengnan) (“Tai”) who was an Assistant President of DiChain, first joined James Wang and Gordon Chen to attend meeting with Dransfield. The purpose of the meeting was to discuss with Dransfield regarding the proposal of acquiring controlling stakes in Dransfield. Dr. Robert Fung, Kenneth Fung and Daniel Fung represented Dransfield to attend the meeting. In the meeting ACL outlined the terms for DiChain as a controlling shareholder of Dransfield providing that DiChain would subscribe for 1.8248 billion new shares at \$0.0274 per share by way of placement.

15. On 26th November 2001 ACL was appointed by Dransfield as its financial advisor to handle the offer from DiChain.
16. On 27th November 2001 Dr. Fan, Gordon Chen, James Wang and Tai represented DiChain to attend a presentation organized by ACL concerning the acquisition proposal by forming a new holding corporate to replace listing of Dransfield upon approval by the Stock Exchange of Hong Kong Limited.
17. On 1st December 2001 Ambrose Lam used email and attached a draft of interim results of Dransfield for the 6-month ended 30th September 2001 with other financial reports for Dr. Fan, Gordon Chen, Aaron Zhu and James Wang.
18. On 3rd December 2001 representatives of Dransfield and DiChain met again to reach an agreement that DiChain would only use Dransfield's non-public information for performing due diligence works. In the morning session, James Wang began to purchase Dransfield shares and bought 1 million shares at \$0.039.
19. On 4th December 2001 Wu Shiyue Denny ("Denny Wu") who was an Assistant Vice President, Corporate Finance of DiChain, joined James Wang, Tai, Gordon Chen to meet with representatives of Dransfield at DiChain's offices at Shekou, Shenzhen. It was the first time for Denny Wu to meet the representatives of Dransfield and that meeting was to learn about the financial position of Dransfield.
20. On 5th December 2001 Dr. Fan, on behalf of DiChain, signed a confidentiality letter with Dransfield for keeping Dransfield's non-public information within the scope of performing due diligence works but not for other purposes.
21. James Wang purchased 300,000 shares of Dransfield at \$0.042 on 7th December 2001.
22. On 10th December 2001 representatives from DiChain and Dransfield met at the offices of China Merchants Group in the afternoon to review a presentation. Later on the same day Ambrose Lam and Tom Li of ACL met with Gordon Chen, James Wong and Tai to prepare an outline of the investment proposal, in which DiChain agreed to use maximum cash payment of HK\$50 million for acquiring the controlling stake of Dransfield.

23. On 12th December 2001 Ambrose Lam sent an email to Dr. Fan, Gordon Chen, Aaron Zhu, James Wang and Tai to confirm the contents of a draft proposal regarding details of share subscription, including the number of shares, share price and proposed date for accepting the offer by Dransfield.
24. On 17th December 2001 Ambrose Lam presented a proposal to the representatives of Dransfield and DiChain that a Newco will be setup to replace Dransfield's listing in Hong Kong so that any undisclosed liabilities at Dransfield would be eliminated. DiChain and Farsight would subscribe for 55.5% and 4% of Newco shares respectively and the trustees of Fung & Yao would decrease its shareholding to about 20% in the Newco. The board of Dransfield anticipated that a conditional agreement would be entered into before the Christmas holidays. The meeting was held in the afternoon at around 15:00 hours and James Wang purchased another 150,000 shares at \$0.041 in the morning at 11:37 hours on the same day.
25. James Wang purchased 1 million Dransfield shares at \$0.04 and Tai purchased 1.2 million shares at \$0.04 on 18th December 2001.
26. At 00:18 hours of 19th December 2001, Ambrose Lam sent an email to Dr. Fan, Gordon Chen, Aaron Zhu, James Wang and Tai to confirm the discussion details as at 17th December 2001. Denny Wu purchased 1 million shares of Dransfield at \$0.04 on 19th December 2001 and James Wang purchased another 1.35 million shares at around \$0.035 on 20th December 2001.
27. On 20th December 2001 representatives of DiChain at Shekou, including James Wang, Tai and Denny Wu met Ambrose Lam and Tom Li to discuss the conditional agreement so as to prepare it for signing with Dransfield on 21st December 2001.
28. On 21st December 2001 Dr. Fan signed on behalf of DiChain and Farsight on the conditional agreement regarding the terms and conditions of acquisition.
29. On Monday 24th December 2001 Dransfield suspended its trading with an announcement released to the public regarding a new investor intended to subscribe its share and change of substantial shareholder in the Company.
30. On 8th January 2002 a formal agreement pursuant to the acquisition signed by Dr. Fan, Gordon Chen and Andy Pang, the Acting Chief Executive Officer at the material time.

31. A formal announcement with details of the acquisition of Dransfield shares by DiChain and Farsight was released on 23rd January 2002 and published on 24th January 2002.

Insider dealings of James Wang, Tai and Denny Wu

James Wang

32. He traded in Dransfield shares for the first time on the following dates:

<u>Date</u>	<u>Bought/Sold</u>	<u>Price</u>	<u>Volume</u>
3.12.01	Bought	\$0.039	1 million shares
7.12.01	Bought	\$0.042	300,000 shares
17.12.01	Bought	\$0.041	150,000 shares
18.12.01	Bought	\$0.04	1 million shares
20.12.01	Bought	\$0.035	<u>1.35 million shares</u>
		Total:	3.8 million shares

33. At the time and before James Wang traded in Dransfield's shares, he was a "connected person" within the meaning of S.4 of the Securities (Insider Dealing) Ordinance, Cap. 395 ("The Ordinance") and was in possession of "relevant information" within the meaning of S.8 of the Ordinance.
34. James Wang now admits that at the time of his purchase of 3.8 million Dransfield shares as referred to in paragraph 32 above he was a person connected with that corporation who was in possession of information which he knew was relevant information in relation to that corporation within the meaning of S.9(1)(a) of the Ordinance.
35. James Wang further admits that he committed insider dealing within the meaning of S.9(1)(a) of the Ordinance when he bought the 3.8 million shares of Dransfield referred to in paragraph 32 above.
36. Before James Wang's first purchase of Dransfield shares was transacted on 3rd December 2001 the followings had already occurred:
- a) James Wang, in the Company of two other senior members of DiChain (Li Xinggui, Chief Operation Officer and Aaron Zhu, Senior Vice President) visited Dransfield's warehouse on 13th November 2001;

- b) Dr. Fan and Gordon Chen brought James Wang and Tai to attend the presentation on 27th November 2001. Dr. Fan called Ambrose Lam thereafter to ask ACL “to recommend a legal firm” which Mr. Lam regarded, in his own words, as a “good sign” in his e-mail to Dransfield on 28th November 2001 at 16:41 hrs.
 - c) James Wang (as well as Dr. Fan and Gordon Chen) knew Dransfield was keen to proffer up-to-date financial data to DiChain as ACL told them by e-mails on 30th November 2001 that Dransfield “anticipate to complete the work during this weekend [i.e. 1st and 2nd December 2001]”.
 - d) Dransfield did, through ACL feed to James Wang, Dr. Fan, Gordon Chen and Aaron Zhu the financial data as expected *vide* e-mail on 1st December 2001 (Saturday) at 11:24 hrs.
37. James Wang, was in possession of at least the following information which he now admits is relevant information which he knew was relevant information at the time he bought Dransfield shares mentioned above within the meaning of S.8 of the Ordinance:
- a) As at 3rd December 2001, the proposed acquisition of Dransfield by DiChain was under serious commercial contemplation by Dransfield and DiChain and which was under immediate negotiation contained the following general parameters, namely that DiChain/CMG:
 - i) Was to become the controlling shareholder of Dransfield;
 - ii) By way of placement of a quantity of new shares which would be the same as the existing number of Dransfield shares; and
 - iii) At a share price which would translate into the injection of some HK\$50 million to HK\$55 million.
 - b) On 3rd December 2001, both James Wang and Tai met with representatives from Dransfield over the conduct of the due diligence exercise of the proposed acquisition.
38. When James Wang bought 300,000 Dransfield shares on 7th December 2001, he (together with both Tai and Denny Wu) had also attended a meeting in Shekou, Shenzhen on 4th December 2001 to discuss Dransfield’s financial

position with their representatives, after having had the benefit of the meeting in the afternoon of 3rd December 2001.

Tai

39. On 18th December, 2001, he bought 1.2 million shares of Dransfield at a price of HK\$0.04.
40. At the time and before Tai's purchase of 1.2 million shares of Dransfield, he was a "connected person" within the meaning of S.4 of the Ordinance and was in possession of "relevant information" within the meaning of S.8 of the Ordinance.
41. Tai now admits that at the time of his buying of the 1.2 million shares of Dransfield referred to in paragraph 39 above, he was a person connected with that corporation who was in possession of information which he knew was relevant information in relation to that corporation within the meaning of S.9(1)(a) of the Ordinance.
42. Tai further admits that he committed insider dealing within the meaning of S.9(1)(a) of the Ordinance when he bought the 1.2 million shares of Dransfield referred to in paragraph 39 above.
43. Tai was in possession of at least the following information which he now admits, is relevant information which he knew was relevant information at the time he bought the above Dransfield shares within the meaning of Section 8 of the Ordinance:

Tai first attended a meeting on the proposed acquisition as early as 23rd November 2001 and had since attended 5 other meetings with representatives of Dransfield including the 17th December 2001 presentation mentioned above. When he bought his 1.2 million Dransfield shares on 18th December 2001, he knew the parties were aiming at signing the agreement of the proposed acquisition of Dransfield shares by DiChain before Christmas with the broad terms having already taken shape.

Denny Wu

44. On 19th December 2001, Denny Wu bought 1 million Dransfield shares at a price of HK\$0.04 per share.

45. At the time and before Denny Wu bought the Dransfield shares, he was a “connected person” within the meaning of S.4 of the Ordinance and was in possession of “relevant information” within the meaning of S.8 of the Ordinance.
46. Denny Wu now admits at the time of his purchase of 1 million Dransfield shares referred to in paragraph 44 above he was a person connected with that corporation who was in possession of information which he knew was relevant information in relation to that corporation within the meaning of S.9(1)(a) of the Ordinance.
47. Denny Wu further admits that he committed insider dealing within the meaning of Section 9(1)(a) of the Ordinance when he bought the 1 million shares of Dransfield referred to in paragraph 44 above.
48. Denny Wu was in possession of at least the following information which he now admits is relevant information which he knew was relevant information at the time of his purchase of Dransfield shares mentioned above, within the meaning of S.8 of the Ordinance:

When Denny Wu bought his 1 million Dransfield shares at 10:58 hrs on 19th December 2001, he had read, inter alia, Ambrose Lam’s e-mail dated 19th December 2001 at 00:18 hrs to various people in DiChain, including Dr. Fan (to whom Denny Wu reported direct), Gordon Chen, James Wang and Tai. This e-mail showed clearly how the plan of the proposed acquisition of Dransfield shares by DiChain was to be implemented with a timetable contemplating a public announcement to be made in the week commencing 24th December 2001 (Monday). This is also to be viewed against the background that Denny Wu himself got involved as early as 4th December 2001 when he, together with James Wang and Tai, joined Gordon Chen to meet Dransfield’s representatives at DiChain’s Shekou office and that all correspondence to DiChain’s Chairman on the proposed acquisition was copied to Denny Wu as the Personal Assistant to the Chairman.

The Financial Secretary's notice:

49. On 27th June, 2005, pursuant to Section 16(2) of the Ordinance, the Financial Secretary issued a notice (and later a recommendation was made to him for amending the said notice to include the subsequent change of name of Dransfield to Pearl Oriental Innovation Limited on 7th September 2006) requiring the Insider Dealing Tribunal to inquire into the insider dealings of James Wang, Tai and Denny Wu on the following terms:

“Whereas it appears that insider dealing (as that term is defined in the Ordinance) in relation to the listed securities of a corporation, namely, Dransfield Holdings Limited (now renamed China Merchants DiChain (Asia) Limited (“the company”), has taken place or may have taken place, the Tribunal is hereby required to inquire into and determine -

- (a) whether there has been insider dealing in relation to the Company connected with or arising out of the dealings in the listed securities of the Company by and on behalf of –
 - (i) Wang Bin James [王斌] between 3 December, 2001 and 20 December 2001,
 - (ii) Tai Ching Nam (also known as Dai Zhengnan) [戴正楠] on 18 December, 2001,
 - (iii) Wu Shiyue Denny [伍世岳] on 19 December, 2001
- (b) in the event of there having been insider dealing as described in paragraph (a) above, the identity of each and every insider dealer; and
- (c) the amount of any profit gained or loss avoided as a result of such insider dealing.”

The Tribunal Hearings:

50. Pursuant to the Financial Secretary's S.16(2) notice, a division of the Insider Dealing Tribunal consisting of the Honourable Mr. Justice McMahon as its Chairman and Mr. Ho Ka Shi. Henry and Mr. Law Chi Shing, Kevin as its members held the preliminary hearing of insider dealing inquiry on 9th October, 2006, at the Insider Dealing Tribunal (“The Tribunal”) on the 38th floor, Immigration Tower, 7 Gloucester Road, Wan Chai, Hong Kong.
51. Now, James Wang, Tai and Denny Wu each of whom admits before the Tribunal that they had committed insider dealings in that they had relevant

information in their possession at the time when they bought the Dransfield shares and that they knew the information they possessed was relevant information at the time when they bought Dransfield shares which were insider dealings and were prohibited under the Ordinance.

The Relevant Legislation:

52. In order to avoid any doubts the relevant sections of the Ordinance are set out below.

Section 4

“Connected with a corporation”

(1) A person is connected with a corporation for the purposes of section 9 if, being an individual -

- (a) he is a director or employee of that corporation or a related corporation; or
- (b) he is a substantial shareholder in the corporation or a related corporation; or
- (c) he occupies a position which may reasonably be expected to give him access to relevant information concerning the corporation by virtue of -
 - (i) any professional or business relationship existing between himself (or his employer or a corporation of which he is a director or a firm of which he is a partner) and that corporation, a related corporation or an officer or substantial shareholder in either of such corporations; or
 - (ii) his being a director, employee or partner of a substantial shareholder in the corporation or a related corporation; or
- (d) he has access to relevant information in relation to the corporation by virtue of his being connected (within the meaning of paragraph (a), (b) or (c)) with another corporation, being information which relates to any transaction (actual or contemplated) involving both those corporations or involving one of them and the listed securities of the other or their derivatives or to the fact that such transaction is no longer contemplated.

Section 6

“Dealing in securities or their derivatives”

For the purposes of this Ordinance, a person deals in securities or their derivatives if (whether as principal or agent) he buys, sells, exchanges or subscribes for, or agrees to buy, sell, exchange or subscribe for, any securities or their derivatives or acquires or disposes of, or agrees to acquire or dispose of, the right to buy, sell, exchange or subscribe for, any securities or their derivatives.

Section 8

“Relevant information”

In this Ordinance “relevant information” in relation to a corporation means specific information about that corporation which is not generally known to those persons who are accustomed or would be likely to deal in the listed securities of that corporation but which would if it were generally known to them be likely materially to affect the price of those securities.

Section 9(1)(a)

“When insider dealing takes place”

(1) Insider dealing in relation to a listed corporation takes place -

(a) when a person connected with that corporation who is in possession of information which he knows is relevant information in relation to that corporation deals in any listed securities of that corporation or their derivatives (or in the listed securities of a related corporation or their derivatives) or counsels or procures another person to deal in such listed securities knowing or having reasonable cause to believe that such person would deal in them.

Admission of authenticity of documents:

53. James Wang, Tai and Denny Wu also admit that each and every document contained in the bundles presented to the Tribunal for the purpose of conducting inquiries into whether insider dealings of Dransfield shares within the terms of reference of the above-mentioned Financial Secretary's notice, had taken place are accurate. They take no dispute as to the authenticity of the documents.
54. They further admit that the English translations of any documents which are in Chinese are true and accurate translations.

Dated this 20th day of November, 2006.

(signed)	(signed)	(signed)
Wang Bin James ("James Wang")	Tai Ching Nam (also known as Dai Zhengnan) ("Tai")	Wu Shiyue Denny ("Denny Wu")

”

It can be seen from those admitted facts ("the admissions") that each implicated party comprehensively admitted his role as an insider dealer.

But as we say those admissions are not binding upon this Tribunal and have the status simply as affirmed evidence given by each implicated party. It remained the Tribunal's duty to independently arrive at any conclusion as to insider dealing from the whole of the evidence before it.

That was particularly so regarding any matter sufficiently outside the knowledge of the implicated parties in respect of which their admissions were not sufficient for the Tribunal to base its findings upon. There were two such matters in the present inquiry. Firstly, the question of whether the implicated parties were "connected persons" for the purposes of section 4 of the Ordinance, and secondly, whether the

information they possessed was relevant information for the purposes of section 8 of the Ordinance. Both these matters were mixed questions of fact and law and were uniquely for the Tribunal to resolve.

Other Evidence

The admissions were supported by other evidence before the Tribunal. That evidence was contained in statements provided by persons who worked with the implicated parties and who were present at various meetings where China Merchants, through DiChain, negotiated its taking of a controlling interest in Dransfield.

Those persons were: Fan Di, Frank (“Fan Di”) who at the time was the Chairman of DiChain and Director and Chief Financial Officer of China Merchants; Gordon Chen Gang (“Gordon Chen”) who was the President of DiChain working under Fan Di; Ambrose Lam, the Chairman of Access Capital Ltd. (“Access Capital”) a Hong Kong business consulting company working for Dransfield, and Tom Li a vice president of Access Capital. Their statements provided to the Tribunal were in agreement (and were not challenged) to the effect that by 18th October 2001 Fan Di had expressed interest on behalf of DiChain in investing in Dransfield so as to gain control of it and achieving a back-door listing for DiChain on the SEHK.

On 19th October a meeting took place between Fan Di and various members of the board of Dransfield who were its controlling shareholders. This meeting could best be described as exploratory but it was promising enough for a consensus to be arrived at that further negotiations take place and for Access Capital to provide to DiChain a follow-up draft proposal as to how DiChain could go about gaining a majority interest in Dransfield. At this stage DiChain (i.e. Fan Di) was still interested in an alternative investment in another company and a draft proposal was included in the Access Capital correspondence to DiChain in respect of that possible investment as well.

But things moved on in respect of the possible Dransfield investment. On 7th November 2001 there was another exploratory meeting between a director of Dransfield and Fan Di during which further

details of the possible acquisition were discussed. That meeting resulted one week later, on the 13th November, in DiChain staff, including James Wang, visiting Dransfield's major asset, a bonded warehouse, in Futian, Shenzhen. It is of interest that the visit was conducted in some secrecy so as to in the words of Ambrose Lam "not to arouse too much attention. Dransfield handled this in a low profile manner to avoid any speculation by others which may affect Dransfield shares."

Following that visit, DiChain was more focused on acquiring Dransfield and requested Access Capital to prepare an investment plan. Access Capital, as we say, represented Dransfield and its controlling shareholders. Ambrose Lam was of the view at this time that the board of Dransfield had a positive attitude to the acquisition of Dransfield by the China Merchants Group.

On 19th, 23rd and 27th November 2001 Access Capital had a series of meetings with DiChain and Dransfield executives including James Wang and Tai Ching Nam concerning the possible acquisition by DiChain of Dransfield. The common theme of those meetings was that DiChain would acquire a 50% plus stake in Dransfield and have the controlling say in its management. Documents prepared for those meetings set out in considerable detail the steps to be taken by way of placement of new shares to DiChain and its obtaining control of Dransfield. A discussion paper presented at the 19th November meeting is at Annexure C. It is noteworthy both for its detail and its secrecy. Project "Dickie" was the name given to the proposed acquisition. That name referred to DiChain. Other code names namely "Charlie" and "Daniel" were used for China Merchants and Dransfield respectively.

At the meeting of 27th November 2001 a more formal proposal document was presented by Access Capital. That document set out a suggested timetable for the acquisition. That document is at Annexure D.

On the 28th November 2001 Gordon Chen asked Access Capital (which by now was acting as a general middleman in the negotiations rather than being perceived as representing Dransfield exclusively) to recommend a legal firm to represent DiChain in the

transaction. Ambrose Lam did so and reported by e-mail to the Dransfield board that this was “a good sign”.

Not unsurprisingly, things progressed quite rapidly. Dransfield was in a difficult position with its bankers and had to rationalise its position with them to allow the acquisition to proceed. On the 3rd December another meeting took place between executives of DiChain, including James Wang, Tai Ching Nam, and the controlling shareholders of Dransfield where DiChain expressed its sincerity in proceeding with the acquisition. On the 4th December executives of Dransfield and Access Capital went to DiChain’s offices in Shekou to meet with Gordon Chen, James Wang, Tai Ching Nam and Denny Wu to discuss aspects of Dransfield’s financial position, and to answer various questions DiChain had concerning their due diligence inquiry into Dransfield. A confidentiality agreement was signed by DiChain to this effect on 5th December 2001. Because Dransfield was in financial difficulties the due diligence aspect of the negotiations was to take some time.

To allow the acquisition to proceed in accordance with the timetable proposed at the meeting of 27th November 2001, Fan Di required a guarantee from the controlling shareholders of Dransfield as to any undisclosed liabilities of Dransfield and that guarantee was given.

Between 10th and 17th December 2001 there were further meetings between Dransfield and DiChain executives which resolved further details of the acquisition.

At the 17th December 2001 meeting Fan Di stated that the takeover proposal was acceptable. That was confirmed by the forwarding of a term sheet for the transaction from Access Capital to DiChain on 19th December and by 21st December a formal offer letter was sent by the board of DiChain to the board of Dransfield and signed by both parties. That offer letter set out the main terms of the transaction.

On the 24th December Dransfield requested its shares be suspended from trading.

The above is a summary of the evidence (as contained in their statements) of the four primary witnesses involved in the negotiations i.e. Fan Di and Gordon Chen (for DiChain/China Merchants Group) and Ambrose Lam and Tom Li of Access Capital (for Dransfield).

There was remarkable consistency amongst those witnesses as to the progress of the negotiations concerning DiChain's acquisition of Dransfield.

CHAPTER 5

RELEVANT INFORMATION

Although all three implicated parties admitted they possessed relevant information for the purposes of section 9 of the Ordinance, as we have said, that question remained a matter for this Tribunal to resolve. That is firstly because any facts agreed by an implicated party are not binding upon a Tribunal (and indeed may be rejected by a Tribunal) and secondly, because the concept of what amounts to relevant information is a mixed question of fact and law and it remains for the Tribunal to apply the correct principles of law to facts which it is satisfied have been properly proven.

Relevant information is defined by section 8 of the Ordinance. That section is set out in full in Chapter 3 of this report.

For information concerning a company to be relevant for the purposes of section 8 of the Ordinance it must fulfil three fundamental criteria which can be summarised as follows:-

- (1) The information must be specific.
- (2) The information must be generally unknown to the actual and potential market for the company's shares.
- (3) The information must be price sensitive in the sense it, if known, would likely have a material effect on the price of the company's shares.

Was the information specific?

For the purposes of this report we adopt the test proposed in the Chinney Alliance Group Ltd. inquiry to the effect that:-

“information concerning a company's affairs is sufficiently specific if it carries with it such particulars as to a ... proposed transaction,

event or matter so as to allow (it) to be identified and its nature to be coherently described and understood.”¹

Further as was said by the Tribunal in the Firststone International Holdings Ltd. inquiry:-

“The fact that a transaction is only contemplated or under negotiation and has not yet been subjected to any formal or informal final agreement does not necessarily cause the information concerning that contemplated course of action or negotiation to be non-specific.”²

It is quite plain, in our view, that by the 27th November 2001 meeting the information concerning DiChain’s acquisition of a controlling interest in Dransfield was specific.

It is true at that stage there had been no formal agreement and there were still significant matters to be resolved (primarily the due diligence examination of Dransfield’s financial position), but by that time negotiations had been proceeding on a serious commercial basis for some weeks and had progressed to the point of time where the parties were in a position to agree in principle that China Merchants and DiChain (through a holding company) would take a 55% majority shareholding in Dransfield.

A timetable for the way forward was also discussed at that meeting and it was envisaged that an announcement could be made on or about 7th December 2001. In short, negotiations were far advanced by the end of November 2001 and it is fair to say were entering the final phase prior to the signing of agreements and a formal announcement being made.

It can be seen from the “proposal” document of 27th November (and its precursor discussion paper of 19th November) at

¹ Report of Insider Dealing Tribunal of Hong Kong in the Chinney Alliance Group Ltd. inquiry.

² Report of Insider Dealing Tribunal of Hong Kong in the Firststone International Holdings Ltd. inquiry.

Annexures D and C respectively, that negotiations were already well advanced at the meetings held on those days.

In our view by that date, and indeed earlier, the fact of advanced negotiations taking place between DiChain (or the China Merchants Group) and Dransfield as to DiChain, a subsidiary of China Merchants, obtaining a controlling interest in Dransfield was specific information. Indeed it can be seen from the contents of the discussion paper of 19th November 2001 and the “proposal” paper of 27th November that the negotiations were quite detailed and had long before left behind any possible description of being “merely exploratory” in nature.

Accordingly as of 27th November 2001 specific information was in existence concerning negotiations for DiChain (whether by itself or in conjunction with its parent company China Merchants) taking a majority shareholding in Dransfield.

Was that information generally known?

The answer to that question is clearly that it was not. Significant steps had been taken to prevent the fact that negotiations were taking place reaching the public domain. The DiChain’s executives visit to the Futian warehouse of Dransfield was “low-key”. No business cards were exchanged. The documents circulated concerning the negotiations were encoded with names other than those of the negotiating parties so as to preserve secrecy.

There was no newspaper article concerning Dransfield relevant to the negotiations between it and China Merchants/DiChain prior to the suspension of trading of Dransfield’s shares on 24th December 2001. All newspaper articles prior to that date during the period of the negotiations concerned Dransfield’s financial problems and its attempts to restructure its debt.

There was nothing in Dransfield’s share price movement during the period of the negotiations to suggest that any substantial information had leaked into the market concerning the contemplated investment by China Merchants/DiChain.

We are satisfied that the information was not generally known to the market in the terms of section 8 of the Ordinance.

Was the information price sensitive?

We are satisfied that the information as to DiChain (and in conjunction, China Merchants) negotiating for the acquisition of a majority interest in Dransfield was price sensitive within the terms of section 8 of the Ordinance as of 27th November 2001.

We say that for a number of reasons:-

Firstly, we agree with Dr. Richard Chow who we accepted as an expert witness in this field and who is presently in charge of the market surveillance department of the SFC that in late 2001 the Hong Kong market had considerable interest in logistically oriented companies. That was in large part due to the Hong Kong Government's initiative to make Hong Kong the logistics hub of the rapidly developing Pearl River Delta. According to Dr. Chow there were, between 1st October 2001 and 28th January 2002, some 3,002 media articles concerning the subject matter of logistics published in Hong Kong newspapers. We accept that there was in Hong Kong at that time (and in its stock market) a growing interest in logistics oriented companies. Part of Dransfield's operations at that time related to warehousing. DiChain specialised in providing solutions for companies operating within the logistics field and provided "supply chain management" for various industries including the manufacturing distribution and transportation industries. In our view, Dransfield coming under the control of a company such as DiChain would plainly be perceived as "good news" by the market.

Secondly, the China Merchants Group, we accept, was a highly regarded group of companies in Hong Kong at the time. For Dransfield, which had struggled financially for some time, to come within that group would be seen as very good news. We agree with Dr. Chow that for DiChain and China Merchants to (through a jointly held subsidiary) become the majority shareholders of Dransfield would be perceived as a "white knight" coming to Dransfield's rescue.

By the 27th November 2001 the possibility of the acquisition coming to fruition was, in our view, now a probability. Negotiations were advanced. Fan Di was in favour of it subject to certain attainable conditions being met and we are satisfied from Ambrose Lam's evidence that the board of Dransfield was also favourable towards the acquisition.

In our judgment for these reasons the specific information concerning the negotiations between DiChain/China Merchants and Dransfield was price sensitive in that if it had been known to the market for Dransfield shares (in the terms of section 8 of the Ordinance), there would very likely have been a material effect upon Dransfield's share price.

That can be tested to some extent by comparing the trading figures for Dransfield's shares immediately before their suspension on the 24th December 2001 (i.e. on Friday 21st December) with their figures for the first day's trading after the announcement was published on 24th January 2002.

On Friday 21st December 2001 Dransfield's share price closed at \$0.04 with a turnover of 13,150,000. On Thursday 24th January 2002 its share price closed at \$0.091 (a rise of some 120%) and turnover increased to 98,042,000.

The scheme agreed on between the parties as announced on 24th January 2002 differed somewhat in its structural details from the proposal of 27th November 2001 which became the basis for negotiations between the parties (see Annexure D). A new company ("Newco") was to supplant Dransfield by an exchange of shares which would result in Newco holding 100% of Dransfield's shares. DiChain was to hold the majority of shares in Newco.

But while it is true that the terms of that Announcement differed in some details from the stage which negotiations between the parties had reached on the 27th November 2001, it is fair to say that the fundamentals of Dransfield being taken control of by DiChain (but by

way of Newco) had effectively the same result. Newco was now the 100% shareholder in Dransfield and DiChain was the majority shareholder of Newco with China Merchants retaining the other major interest. Newco was intended to have its shares listed on the SEHK in place of Dransfield.

It should be noted that the agreement underlying the Announcement of 24th January 2002 was itself provisional. It depended on the various conditions in clause 6 of the announced subscription agreement being met. It also depended on the successful completion of the due diligence investigations as set out in clause 5 of the announced agreement. Yet, even so Dransfield's shares more than doubled in price. We are perfectly satisfied that even at an earlier stage of negotiations on the 27th November, when the only obstructions perceived to the deal going ahead consisted of the same matters set out in clauses 5 and 6 of the announced agreement, the information as it existed at that time would have been price sensitive within the terms of section 8.

Accordingly for the reasons we have set out, we are satisfied relevant information came into existence on or before 27th November 2001 concerning China Merchants in conjunction with its subsidiary DiChain seeking to take a majority shareholding in Dransfield.

CHAPTER 6

THE ROLE OF THE IMPLICATED PARTIES

In this chapter we set out our conclusions, based on the evidence before us, as to the role of each of James Wang, Tai Ching Nam and Denny Wu. Before we do so, however, there are two preliminary matters to deal with.

“Connected with a corporation”

In our view, all three of the implicated parties were persons connected with Dransfield within the terms of section 4 of the Ordinance. Each of James Wang, Tai Ching Nam and Denny Wu were employed as executives at the relevant time by DiChain. Each came into possession of the information concerning DiChain (together with China Merchants) taking a controlling interest in Dransfield as a result of their position within DiChain and their involvement with and knowledge of the negotiations taking place between DiChain/China Merchants and Dransfield.

James Wang and Tai Ching Nam were actively engaged in negotiations between DiChain and Dransfield, James Wang was present at various meetings from 13th November and Tai Ching Nam first attended a meeting between the parties on 23rd November 2001. Denny Wu first attended a meeting with Dransfield executives on 4th December 2001 at Shekou in Shenzhen. But according to Gordon Chen who was responsible for the conduct of negotiations between the parties Denny Wu, as the assistant of Fan Di, attended many meetings with Fan Di without being recorded as present. Additionally, all of the correspondence concerning the project generally was sent to Denny Wu as the assistant of Fan Di.

We are satisfied from the evidence that each of James Wang, Tai Ching Nam and Denny Wu were persons connected with Dransfield for the purposes of section 9 as, pursuant to section 4(1)(c)(i)

they occupied positions within DiChain which gave them access to the relevant information because of the business relationship between their employer DiChain and Dransfield.

Additionally, they are connected persons for the purposes of section 9 as, pursuant to section 4(1)(d), they had access to the relevant information in relation to Dransfield by virtue of their being directors or employees of DiChain or China Merchants in circumstances where the relevant information involved both Dransfield and DiChain or China Merchants.

The second preliminary matter is this: In considering the role of each of the implicated parties, we had to determine which provision of section 9(1) of the Ordinance may have been applicable to them. Those provisions are set out in Chapter 3 above. Quite obviously, the provision which most realistically applied to the implicated parties were the provisions of section 9(1)(a).

However we considered also whether the provisions of section 9(1)(b) may have applied. The provisions of section 9(1)(b) are narrowly expressed. Its application is limited to “a person who is contemplating or has contemplated making a takeover offer”. The terms of section 9(1)(b) expressly restrict its operation to a person contemplating (or having contemplated) making a take-over offer. It is difficult to read the express language of that provision to include an individual within a corporation who is assisting in negotiations concerning a proposed takeover but who has no power to make any such offer. On its face the provision relates to a company or the persons within that company who are empowered to make any such offer and where that company or those persons are in fact contemplating (or has/have contemplated) making such an offer. In the circumstances of the present case, we heard no argument on this question and in any event, because of the clear applicability of section 9(1)(a) did not have to decide the matter.

We proceed therefore in respect of each implicated party to consider their role pursuant only to section 9(1)(a) of the Ordinance.

James Wang

We take into account the admissions (which have been set out in the previous chapter) which were agreed by James Wang on affirmation.

Those admissions are comprehensive. By paragraphs 36 and 37 it is plain that James Wang admits possessing information which, we are satisfied, was relevant information at the time he commenced his purchases of Dransfield shares on the 3rd December 2001. His admissions in that regard are independently proven, in our view, by the evidence of his attendance at meetings concerning the Dransfield negotiations from 23rd November 2001 onwards.

That evidence particularly shows that he was present at the meeting of 27th November 2001 when the power point “proposal” document was circulated and when Ambrose Lam presented Access Capital’s proposal for what was effectively the takeover of Dransfield by the China Merchants Group. James Wang was aware of the negotiations concerning Dransfield by 3rd December 2001. He must have known that information was not known to the general public from the secretive nature of the negotiations themselves. He obviously knew it was price sensitive. That was why he bought Dransfield’s shares.

We accept from all the evidence before us that when James Wang commenced his purchases of Dransfield shares on the 3rd December 2001 and throughout his subsequent purchases up to and including his purchases of 20th December 2001 he was in possession of relevant information and must have known, as he has admitted, that it was relevant information. James Wang in respect of all his purchases of Dransfield shares is in breach of section 9(1)(a) of the Ordinance.

Tai Ching Nam

Again, we taken into account the admissions which were agreed by Tai Ching Nam on affirmation. Those admissions are set out in full in Chapter 4. By paragraphs 41 to 43 of those admissions Tai Ching Nam plainly admits possessing information which we have found

to be relevant information at the time he made his sole purchase of Dransfield shares on 18th December 2001.

By that time Tai Ching Nam had, from the evidence of Tom Li, the director of Access Capital been present at five meetings between DiChain and Dransfield (at least). He was present at the 27th November 2001 presentation, we have referred to, when Ambrose Lam laid out a “proposal” for the takeover of Dransfield by the China Merchants Group and a timetable for doing so. On the day before his purchase of Dransfield shares he had been present at another presentation when a far more formal and detailed proposal was presented by Ambrose Lam to the executives of both Dransfield and DiChain which, in its terms, plainly proceeded on the basis that the acquisition was virtually a “done deal”.

Tai Ching Nam obviously possessed relevant information and must have known it was so. Again, from the secretive nature in which the negotiations had proceeded and the lack of any newspaper reportage of it he must have been aware it was not information generally known to the market. He must have known it was likely price sensitive, indeed there is no other reason why he would have purchased Dransfield shares. Tai Ching Nam in respect of his purchase of Dransfield shares on 18th December 2001 is in breach of section 9(1)(a) of the Ordinance.

Denny Wu

Denny Wu comprehensively admitted being in possession of information we have found to be relevant information.

In paragraphs 46 to 48 of those admissions Denny Wu accepted he, at the time he bought Dransfield shares on 19th December 2001, was in possession of that relevant information and knew it to be such.

We are satisfied that must have been so. Denny Wu was present at the Shekou meeting with Dransfield and Access Capital representatives on the 4th December 2001. It was plain to all at that meeting that the negotiations concerning DiChain/China Merchants acquiring Dransfield were serious and ongoing. We are satisfied also as

Gordon Chen said that Denny Wu, given his position as assistant to Fan Di, would have been aware in considerable detail of the state of the negotiations as they had progressed throughout October to December 2001.

We are satisfied from all the evidence that Denny Wu's admissions as contained in the admitted facts produced before us are correct and that he was in possession of relevant information knowing it to be so when he purchased Dransfield shares on 19th December 2001.

In that regard he, like the other implicated parties, must have been aware that the relevant information he possessed was not known to the market and was price sensitive. We are satisfied he also was in breach of section 9(1)(a) of the Ordinance when he purchased Dransfield shares.

Their profits

We accept the evidence of Dr. Richard Chow Kam To as to the calculation of profits made by each of the implicated parties. Dr. Chow's calculations were not disputed by the implicated parties and were as follows:

Profits made by James Wang

James Wang bought a total of 3.8 million Dransfield shares between 3rd December 2001 and 20th December 2001 at prices ranging from \$0.035 to \$0.042:

Date	Shares Purchased	Average Price	Consideration*
03/12/2001	1,000,000	\$0.039	\$39,143.68
07/12/2001	300,000	0.042	12,714.51
17/12/2001	150,000	0.041	6,257.74
18/12/2001	1,000,000	0.040	39,644.75
20/12/2001	1,350,000	0.035	51,034.23
Total	3,800,000		\$148,794.91

Note:

* Consideration includes other costs such as stamp duty.

After the publication of the relevant information on 24th January 2002, James Wang bought and sold the following Dransfield shares:

Date	Shares Purchased(Sold)	Average Price	Consideration
24/01/2002	1,000,000	\$0.094	\$94,340.28
28/01/2002	(2,800,000)	0.090	(246,603.54)
28/01/2002	500,000	0.085	43,079.46
29/01/2002	(1,300,000)	0.087	(111,693.29)
29/01/2002	1,500,000	0.082	123,445.26
31/01/2002	500,000	0.091	45,665.22

The total profits gained by James Wang from his insider dealing can therefore be determined as follows:

Sales proceeds of 2.8 million shares at \$0.09 on 28 th January 2002	\$246,603.54
Re-rated trading price of the remaining 1 million shares @\$0.088	88,000.00
	<hr/> \$334,603.54
Less: Cost of the 3.8 million shares between \$0.035 to \$0.042	(148,794.91)
Notional profits made	<hr/> \$185,808.63 <hr/>

Profits made by Tai Ching Nam

Tai Ching Nam bought at an average price of \$0.040 a total of 1.2 million Dransfield shares on 18th December 2001 but had not, as at 30th June 2002, sold any of the shares after the announcement was published on 24th January 2002. The total consideration paid by him for the purchases was \$48,073.73.

Tai Ching Nam did not sell any of the Dransfield shares after the publication of the relevant information on 24th January 2002. Accordingly applying the principles set out by the Court of Final Appeal in *The Insider Dealing Tribunal – v – Shek Mei Ling* (1999)2 HKC 1 regarding the calculation of notional profit, the notional profits made by Tai are calculated by firstly determining a re-rated trading price for Dransfield shares following the announcement of 24th January 2002. We

agree with Dr. Chow that the appropriate re-rated price is \$0.88. That leaves the calculation of notional profit as follows:

Sales proceeds of 1.2 million shares at re-rated price of \$0.088	\$105,600.00
Less: Cost of the 1.2 million shares at average price of \$0.040	(48,073.73)
Notional profits made	<u>\$57,526.27</u>

Profits made by Denny Wu

Denny Wu bought a total of 1 million Dransfield shares at \$0.039 on 19th December 2001 for a consideration of \$39,145.38. He did not sell them within the re-rated period following the 24th January 2002 announcement and his profits were notionally calculated as follows:

Sales proceeds of 1 million shares at re-rated price of \$0.088	\$88,000.00
Less: Cost of the 1.2 million shares at average price of \$0.039	(39,145.38)
Notional profits made	<u>\$48,854.62</u>

CHAPTER 7

CONCLUSIONS

1. We find there was insider dealings in relation to Dransfield connected with dealings by James Wang Bin in Dransfield's shares between 3rd December and 20th December 2001; by Tai Ching Nam (also known as Dai Zhengnan) on 18th December 2001 and by Denny Wu Shiyue on 19th December 2001.
2. The insider dealers were James Wang Bin, Tai Ching Nam (also known as Dai Zhengnan) and Denny Wu Shiyue.
3. The profits made by each were as follows:

James Wang:	\$185,808.63
Tai Ching Nam:	\$57,526.27
Denny Wu:	\$48,854.62

CHAPTER 8

ORDERS MADE BY THE TRIBUNAL

General matters considered

In determining what the appropriate sanctions were in respect of each of the three insider dealers we took into account in respect of each that they had admitted their roles at effectively the earliest opportunity, i.e. at the first preliminary sitting of the Tribunal. We bore in mind also that from their earliest interviews by the SFC each had not attempted to fabricate any excuse for their actions but had admitted their roles in the Dransfield negotiations and the purchasing of the shares. Each had purchased the shares on his own account and in his own name.

For those reasons we regarded the frank and early admissions made by each of them to amount to significant mitigation on their behalf. We accept that as mainlanders they dealt in Dransfield's shares as insiders while being substantially in ignorance of Hong Kong's laws in that regard.

We take into account as a mitigatory factor the delay which has occurred in bringing this matter to a conclusion. Five years have elapsed since the occurrence of the dealings the subject of the inquiry.

We take into account, as James Wang asked us to, that each insider dealer was a "first offender" and of good character.

We bear in mind also that none of the three insider dealers were particularly well off and indeed earned only moderate incomes. They were, as mid-level staff, not particularly well paid at the time of the insider dealing. Their circumstances have not improved since then. We make the following orders.

James Wang

1. Section 23(1)(a)

James Wang lost his job at DiChain two years ago and is presently self-employed in the computer industry in the mainland. We accept his income is small. There is no realistic prospect of him working in Hong Kong in the near future but nevertheless we think it appropriate to make the following order:

James Wang Bin is ordered that he not, without the leave of the Court of First Instance, be a director of any listed or other company in Hong Kong for a period of 12 months.

2. Section 23(1)(b)

James Wang Bin is ordered to pay to the Government of the Hong Kong Special Administrative Region a sum representing the amount of profit made by him from his insider dealing, namely HK\$185,808.63.

3. Section 23(1)(c)

Given the strong mitigatory factors, we have already referred to we order that James Wang Bin pay a penalty of HK\$50,000 to the Government of the Hong Kong Special Administrative Region.

Tai Ching Nam

1. Section 23(1)(a)

Tai Ching Nam still works within the China Merchants Group but not for its listed company. He remains a mid-level staff member within his company. We think it appropriate to make the following order:

Tai Ching Nam is ordered that he not, without the leave of the Court of First Instance, be a director of any listed or other company in Hong Kong for a period of 12 months.

In making that order we think it appropriate to specify that it does not prohibit Tai Ching Nam from a management role within his company.

2. Section 23(1)(b)

Tai Ching Nam is ordered to pay to the Government of the Hong Kong Special Administrative Region a sum representing the amount of profit made by him from his insider dealing, namely HK\$57,526.27.

3. Section 23(1)(c)

Again given the strong mitigatory factors we have mentioned, we order that Tai Ching Nam pay a penalty of HK\$35,000 to the Government of the Hong Kong Special Administrative Region.

Denny Wu Shiyue

1. Section 23(1)(a)

Denny Wu lost his job with the China Merchants Group last year. He is currently unemployed and living on his savings. He is unlikely to work in Hong Kong in the foreseeable future, but in any event we think it appropriate to make the following order:-

Denny Wu Shiyue is ordered that he not, without the leave of the Court of First Instance, be a director of a listed or other company in Hong Kong for a period of 12 months.

2. Section 23(1)(b)

Denny Wu Shiyue is ordered to pay to the Government of the Hong Kong Special Administrative Region a sum representing the amount of profit made by him from his insider dealing, namely HK\$48,854.62.

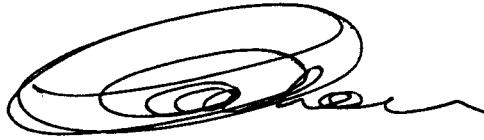
3. Section 23(1)(c)

For the same strong mitigatory factors we have previously mentioned, we order that Denny Wu Shiyue pay a penalty of HK\$25,000 to the Government of the Hong Kong Special Administrative Region.

Section 27

We do not make any order under section 27 of the Ordinance. We do not think it appropriate to do so in this case. As a result of the cooperation of the implicated parties the costs of the inquiry were relatively small. The costs incurred were institutional stemming from the necessary setting-up of the Tribunal and could not have been avoided by the implicated parties though it was obvious that one of their primary concerns was to admit their role as soon as possible and avoid the incurring of costs. We think it fair to not order any of the implicated parties to pay any part of the Tribunal's costs.

We think it appropriate also, given their present circumstances, to allow each of the three parties, i.e. James Wang Bin, Tai Ching Nam and Denny Wu Shiyue six months to pay the sums they have been ordered to pay pursuant to sections 23(1)(b) and (c) of the Ordinance.

A handwritten signature in black ink, featuring a large, stylized 'M' and 'J' followed by a cursive 'McMahon'.

The Honourable Mr. Justice McMahon
Chairman

A handwritten signature in black ink, written in a cursive style that appears to read 'Henryth'.

Mr. Ho Ka Shi, Henry
Member

A handwritten signature in black ink, written in a cursive style that appears to read 'Kevin'.

Mr. Law Chi Shing, Kevin
Member

Dated: 22nd December 2006

ANNEXURES

ANNEXURES

- Annexure A — Dransfield's announcement on the proposed acquisition of a majority shareholding in Dransfield by DiChain and Farsight Holdings Ltd. released on 23rd January 2002 and published on 24th January 2002
- Annexure B — Dransfield's share trading history
- Annexure C — Discussion paper setting out details and steps to be taken by way of placement of new shares to DiChain and its obtaining control of Dransfield presented at the 19th November 2001 meeting
- Annexure D — Proposal document presented by Access Capital on 27th November 2001 setting out a suggested timetable for the acquisition

Annexure A

Dransfield's announcement on the proposed acquisition of a majority shareholding in Dransfield by DiChain and Farsight Holdings Ltd. released on 23rd January 2002 and published on 24th January 2002

Dransfield's share trading history





Stock Historical Data



Stock	00632 - DRANSFIELD HOLD
Date (dd/mm/yyyy)	01/07/2001 - 31/01/2002
Max / Min Closing Price	0.109 / 0.015
Max / Min Price	0.118 / 0.014
Weighted Average Price	0.061

Total Volume	942,296,000 shares
Daily Average	6,498,593 shares
Total \$ Turnover	57,074,974
Average \$ Turnover	393,621

Date	Volume	\$ Turnover	High	Low	Close	%Change	HSt Close
03/07/2001	0	0	-	-	0.100	0.00	13,184.75
04/07/2001	128,000	11,370	0.105	0.088	0.105	5.00	13,207.53
05/07/2001	0	0	-	-	0.100	-4.76	12,999.48
09/07/2001	0	0	-	-	0.100	0.00	12,690.68
10/07/2001	0	0	-	-	0.099	-1.00	12,713.90
11/07/2001	0	0	-	-	0.099	0.00	12,527.90
12/07/2001	0	0	-	-	0.099	0.00	12,660.20
13/07/2001	402,000	35,778	0.000	0.000	0.099	0.00	12,612.79
16/07/2001	12,046,000	1,241,920	0.110	0.088	0.109	10.10	12,624.53
17/07/2001	14,108,000	1,527,444	0.118	0.098	0.105	-3.67	12,495.25
18/07/2001	9,828,000	935,970	0.109	0.088	0.100	-4.76	12,427.19
19/07/2001	0	0	-	-	0.095	-5.00	12,279.82
20/07/2001	1,822,000	170,958	0.099	0.092	0.099	4.21	12,301.68
23/07/2001	1,010,000	98,916	0.101	0.096	0.100	1.01	12,236.45
24/07/2001	0	0	-	-	0.100	0.00	12,214.10
26/07/2001	0	0	-	-	0.100	0.00	12,039.82
27/07/2001	1,726,000	163,702	0.102	0.092	0.101	1.00	12,182.17
30/07/2001	408,000	41,228	0.104	0.088	0.100	-0.99	12,086.66
31/07/2001	370,000	34,870	0.101	0.086	0.101	1.00	12,316.69
01/08/2001	0	0	-	-	0.099	-1.98	12,478.74
02/08/2001	0	0	-	-	0.096	-3.03	12,466.37
03/08/2001	102,000	9,392	0.096	0.092	0.096	0.00	12,269.08
06/08/2001	0	0	-	-	0.096	0.00	12,148.81
07/08/2001	794,000	71,042	0.100	0.086	0.100	4.17	12,007.19
08/08/2001	154,000	14,128	0.096	0.091	0.096	-4.00	11,958.01
09/08/2001	32,100,000	4,009,600	0.096	0.096	0.095	-1.04	11,716.77
10/08/2001	25,000,000	2,383,700	0.096	0.094	0.094	-1.05	11,765.81
13/08/2001	12,000,000	1,164,000	0.097	0.097	0.097	3.19	11,694.29
14/08/2001	0	0	-	-	0.093	-4.12	11,991.01
15/08/2001	1,798,000	166,320	0.093	0.090	0.090	-3.23	12,141.63
16/08/2001	72,330,000	3,486,860	0.088	0.039	0.040	-55.56	11,832.44
17/08/2001	55,126,000	2,172,072	0.044	0.037	0.038	-5.00	11,754.81
20/08/2001	102,014,000	3,923,632	0.043	0.034	0.035	-7.89	11,458.70
21/08/2001	34,770,000	1,216,978	0.037	0.033	0.035	0.00	11,440.35
22/08/2001	20,698,000	694,664	0.037	0.032	0.034	-2.86	11,188.57
23/08/2001	36,220,000	1,204,420	0.036	0.032	0.033	-2.94	11,345.38
24/08/2001	13,062,000	441,094	0.035	0.033	0.033	0.00	11,110.30

	27/08/2001	5,120,000	163,500	0.033	0.031	0.032	-3.03	11,234.72
	28/08/2001	12,510,000	380,416	0.031	0.028	0.028	-12.50	11,300.53
	29/08/2001	7,300,000	198,160	0.028	0.025	0.026	-7.14	11,242.41
	30/08/2001	3,040,000	83,040	0.029	0.023	0.029	11.54	11,315.63
	31/08/2001	200,000	5,400	0.027	0.027	0.027	-6.90	11,090.48
	03/09/2001	424,000	12,648	0.030	0.027	0.030	11.11	10,902.64
	04/09/2001	1,578,000	49,716	0.033	0.027	0.027	-10.00	11,136.86
👉	05/09/2001	700,000	19,300	0.028	0.027	0.028	3.70	10,943.14
	06/09/2001	332,000	9,038	0.033	0.027	0.033	17.86	10,664.32
	07/09/2001	1,278,000	35,006	0.032	0.027	0.027	-18.18	10,384.20
	10/09/2001	500,000	12,500	0.025	0.025	0.025	-7.41	10,366.32
	11/09/2001	300,000	7,500	0.025	0.025	0.025	0.00	10,417.36
	12/09/2001	3,540,000	70,980	0.022	0.019	0.020	-20.00	9,493.62
	13/09/2001	9,956,000	181,632	0.020	0.017	0.018	-10.00	9,569.21
	14/09/2001	5,374,000	98,328	0.023	0.015	0.023	27.78	9,655.45
👉	17/09/2001	0	0	-	-	0.021	-8.70	9,319.35
	18/09/2001	1,650,000	28,380	0.018	0.017	0.020	-4.76	9,307.90
	19/09/2001	2,500,000	46,900	0.019	0.018	0.019	-5.00	9,558.15
	20/09/2001	160,000	2,700	0.020	0.015	0.020	5.26	9,317.98
	21/09/2001	0	0	-	-	0.020	0.00	8,934.20
	24/09/2001	0	0	-	-	0.020	0.00	9,284.50
	25/09/2001	2,996,000	45,816	0.018	0.014	0.017	-15.00	9,210.06
	26/09/2001	2,480,000	41,980	0.017	0.015	0.017	0.00	9,371.75
👉	27/09/2001	7,700,000	117,850	0.016	0.015	0.016	-5.88	9,600.79
	28/09/2001	700,000	10,800	0.016	0.015	0.015	-6.25	9,950.70
	03/10/2001	350,000	6,050	0.019	0.017	0.019	26.67	9,897.14
👉	04/10/2001	14,040,000	284,958	0.023	0.019	0.021	10.53	10,286.39
👉	05/10/2001	4,632,000	112,380	0.026	0.022	0.026	23.81	10,277.38
	08/10/2001	7,322,000	187,416	0.029	0.023	0.024	-7.69	9,967.83
	09/10/2001	1,500,000	37,500	0.025	0.025	0.025	4.17	10,358.93
	10/10/2001	2,450,000	63,400	0.027	0.025	0.025	0.00	10,298.24
	11/10/2001	300,000	7,500	0.025	0.025	0.025	0.00	10,522.61
	12/10/2001	400,000	10,000	0.025	0.025	0.025	0.00	10,274.13
	15/10/2001	600,000	14,400	0.025	0.023	0.025	0.00	10,130.59
	16/10/2001	400,000	9,200	0.023	0.023	0.023	-8.00	10,148.49
	17/10/2001	700,000	19,200	0.029	0.027	0.027	17.39	10,260.81
👉	18/10/2001	800,000	21,100	0.027	0.022	0.027	0.00	9,880.61
	19/10/2001	2,516,000	69,464	0.029	0.027	0.029	7.41	9,825.84
	22/10/2001	1,400,000	39,900	0.029	0.027	0.028	-3.45	9,797.54
	23/10/2001	3,400,000	97,300	0.030	0.028	0.029	3.57	10,219.84
	24/10/2001	1,700,000	50,000	0.030	0.029	0.030	3.45	10,243.46
	26/10/2001	1,096,000	34,272	0.034	0.030	0.033	10.00	10,404.74
	29/10/2001	0	0	-	-	0.033	0.00	10,178.09
	30/10/2001	1,100,000	33,800	0.032	0.030	0.030	-9.09	10,076.43
	31/10/2001	200,000	6,000	0.030	0.030	0.030	0.00	10,073.97

	01/11/2001	400,000	11,400	0.030	0.027	0.030	0.00	10,158.85
	02/11/2001	860,000	26,100	0.031	0.030	0.031	3.33	10,186.06
	05/11/2001	1,570,000	48,256	0.032	0.028	0.028	-9.68	10,430.72
	06/11/2001	3,896,000	108,588	0.028	0.027	0.028	0.00	10,356.05
	07/11/2001	1,684,000	51,070	0.031	0.030	0.030	7.14	10,269.79
	08/11/2001	554,000	16,974	0.031	0.030	0.030	0.00	10,538.62
	09/11/2001	1,126,000	36,328	0.033	0.032	0.033	10.00	10,609.25
	12/11/2001	1,000,000	30,000	0.030	0.030	0.031	-6.06	10,592.45
	13/11/2001	500,000	15,000	0.030	0.030	0.030	-3.23	10,662.84
	14/11/2001	5,246,000	157,680	0.031	0.030	0.031	3.33	10,950.04
	15/11/2001	800,000	24,000	0.030	0.030	0.030	-3.23	11,239.39
	16/11/2001	0	0	-	-	0.030	0.00	11,287.37
	19/11/2001	1,050,000	31,500	0.030	0.030	0.030	0.00	11,360.26
	20/11/2001	1,200,000	36,000	0.030	0.030	0.030	0.00	11,225.79
	21/11/2001	840,000	25,780	0.032	0.030	0.032	6.67	11,173.92
	22/11/2001	900,000	28,400	0.035	0.028	0.032	0.00	11,253.30
	23/11/2001	2,300,000	77,660	0.036	0.032	0.036	12.50	11,322.36
	26/11/2001	0	0	-	-	0.036	0.00	11,391.96
	27/11/2001	2,436,000	89,984	0.038	0.034	0.038	5.56	11,261.54
	28/11/2001	5,500,000	201,500	0.038	0.031	0.031	-18.42	11,066.19
	29/11/2001	360,000	13,320	0.037	0.037	0.037	19.35	11,090.74
	30/11/2001	2,440,000	92,880	0.039	0.037	0.039	5.41	11,279.25
	03/12/2001	2,100,000	81,900	0.039	0.039	0.039	0.00	11,155.15
	04/12/2001	700,000	26,600	0.038	0.038	0.038	-2.56	11,427.28
	05/12/2001	2,550,000	102,650	0.042	0.038	0.040	5.26	11,678.44
	06/12/2001	1,700,000	67,000	0.040	0.039	0.039	-2.50	11,745.84
	07/12/2001	1,060,000	42,490	0.043	0.034	0.042	7.69	11,832.18
	10/12/2001	3,800,000	156,000	0.043	0.040	0.042	0.00	11,784.92
	11/12/2001	200,000	8,400	0.042	0.042	0.042	0.00	11,693.05
	12/12/2001	500,000	20,000	0.040	0.040	0.040	-4.76	11,847.06
	13/12/2001	1,330,000	53,070	0.044	0.038	0.038	-5.00	11,529.54
	14/12/2001	1,000,000	36,500	0.038	0.035	0.038	0.00	11,466.11
	17/12/2001	1,150,000	44,010	0.041	0.035	0.036	-5.26	11,465.78
	18/12/2001	2,700,000	105,200	0.040	0.036	0.039	8.33	11,486.93
	19/12/2001	9,700,000	372,500	0.039	0.038	0.038	-2.56	11,565.23
	20/12/2001	8,450,000	315,750	0.038	0.035	0.038	0.00	11,601.14
	21/12/2001	13,150,000	513,516	0.041	0.037	0.040	5.26	11,158.10
	24/12/2001	0	0	-	-	0.040	0.00	11,209.78
	27/12/2001	0	0	-	-	0.040	0.00	11,359.50
	28/12/2001	0	0	-	-	0.040	0.00	11,431.59
	31/12/2001	0	0	-	-	0.040	0.00	11,397.21
	02/01/2002	0	0	-	-	0.040	0.00	11,350.85
	03/01/2002	0	0	-	-	0.040	0.00	11,423.52
	04/01/2002	0	0	-	-	0.040	0.00	11,702.15
	07/01/2002	0	0	-	-	0.040	0.00	11,892.64
	08/01/2002	0	0	-	-	0.040	0.00	11,713.71

	09/01/2002	0	0	-	-	0.040	0.00	11,440.72
	10/01/2002	0	0	-	-	0.040	0.00	11,256.07
	11/01/2002	0	0	-	-	0.040	0.00	11,166.46
	14/01/2002	0	0	-	-	0.040	0.00	11,209.43
	15/01/2002	0	0	-	-	0.040	0.00	11,013.59
	16/01/2002	0	0	-	-	0.040	0.00	10,964.09
	17/01/2002	0	0	-	-	0.040	0.00	11,013.84
	18/01/2002	0	0	-	-	0.040	0.00	10,972.96
	21/01/2002	0	0	-	-	0.040	0.00	11,000.25
	22/01/2002	0	0	-	-	0.040	0.00	10,797.69
	23/01/2002	0	0	-	-	0.040	0.00	10,762.14
	24/01/2002	98,042,000	8,677,650	0.100	0.050	0.091	127.50	10,741.46
	25/01/2002	77,748,000	6,937,294	0.098	0.082	0.088	-3.30	10,772.96
	28/01/2002	35,862,000	3,119,942	0.091	0.080	0.082	-6.82	10,767.46
	29/01/2002	24,472,000	2,045,728	0.087	0.081	0.082	0.00	11,014.24
	30/01/2002	21,056,000	1,794,120	0.087	0.082	0.086	4.88	10,756.96
	31/01/2002	37,104,000	3,486,746	0.098	0.089	0.091	5.81	10,725.30

**Discussion paper setting out details and steps to be taken by way of
placement of new shares to DiChain and its obtaining control of
Dransfield presented at the 19th November 2001 meeting**

STRICTLY PRIVATE AND CONFIDENTIAL

Discussion paper

on

PROJECT "DICKIE"

Prepared by

Access Capital Limited

19th November 2001

on 4/11

Background and objectives

- Charlie is interested in acquiring a Hong Kong Main Board listed company as its primary vehicle to develop its logistics business.
- Daniel's shares are listed on the Hong Kong Main Board. Its most valuable asset is its bonded logistics center located in Futian.
- Daniel is in the process of disposing all its non-core assets with the view of focusing on the business of its logistics center in future. It is in discussion with its bankers to restructure its bank borrowings. It is also seeking a influential business partner and major investor.
- Dickie is a provider of e-commerce based solutions for applications in logistics operation and supply chain management in China.
- Dickie is undergoing preparation for its listing on the Growth Enterprise Board "GEM" in Hong Kong. Charlie and Dickie's management group owns 24.4% and 38.4% of Dickie's issued share capital respectively.
- This proposal outlines a deal structure which could fulfill the objectives stated above and to maximize the potential business synergies between Charlie, Daniel and Dickie.

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Outline of and terms of the Proposal

The following summarizes the key elements of the Proposal:

- Daniel will conditionally placed (the "Placing") a total of 1.825 billion new shares to Charlie at the issue price of \$0.10 (par value) per share to raise \$ 182.5 million cash. The Placing shares represents approximately 50% of the share capital of Daniel as enlarged by the Placing.
- The Placing will be conditional upon, inter alia, approval of Daniel shareholders at its general meeting and confirmation from the SFC of its consent to waive the obligation of Charlie to make a general offer under the Hong Kong Takeovers Code.
- Upon completion of the Placing, Charlie will nominate its representatives to join the board of Daniel.
- Daniel will use part of the proceeds from the Placing to acquire a long-term, strategic stake of, say, 18% of Dickie from Charlie and / or the management group of Dickie. Based on an assumed valuation of \$450 million for Dickie, this investment would cost \$81 million.
- Daniel will not equity account the results of Dickie and will carry this investment at cost on its balance sheet. Dickie will be freed to continue with its listing plan on the GEM board
- Daniel and Dickie will enter into commercial arrangements to leverage on each other's business platforms to their mutual benefits.

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Perceived benefits to Charlie, Daniel and Dickie

Charlie	Daniel	Dickie
Control of a main board listed vehicle to develop its logistics business and a waiver on the general offer obligation on Daniel	Admission of Charlie as an influential business partner and controlling shareholder – instant acquisition of management expertise for its logistics center operations.	Admission of Daniel as a long-term strategic investor and the business synergies that could accrued from Daniel's physical business platform
Effectively paying only a modest premium of around \$26 million over the attributable NAV of its holding in Daniel	Placing priced at a significant premium over current share price.	Achieve a high valuation benchmark for any subsequent financing rounds and IPO.
Readily retain a 25% public float after the Placing in Daniel	Forging a useful strategic business relationship with Dickie and to leverage on its on-line logistics strengths	Provide good incentives to Management group as it would have realized part of its investment in Dickie
Achieved / realized a high benchmark valuation for its investment in Dickie	Strengths its balance sheet - Resolve Daniel's liquidity problems with net cash for future business deployment	By broadening its investor base to include Daniel, Dickie can potentially tap into Daniel's shareholding base in future rights issues
Retains (together with Dickie's management), a 45% stake in Dickie	Potential of gains on its stake in Dickie and instant NAV enhancement	Retain Charlie as its significant investor

Summary of transaction statistics

(all in HK\$)	Daniel (31/3/01 adjusted for sale of TKT property)	Dickie (31/7/01 + projection to year end)
<u>1. Current Statistics</u>		
No of shares in issue	1,825,150,000	204,572,000
Adjusted NAV	130,000,000	30,000,000
Adjusted NAV per share	0.071	
Adjusted (loss) earnings	(131,521,000)	15,000,000
Share price (6 months high low)	0.116 / 0.015	N/A
Share price (6 months average)	0.064	N/A
% share holding of major shareholders:		
Fungs + Yaos	49.1%	-
Charlie + management & Staff	-	62.8%
<u>2. Placing of new Daniel Shares</u>		
Issue price	0.10	
No. of Placing shares to issue	1,825,100,000	
Gross amount raised	182,500,000	
Placing price / Adjusted NAV	140%	
Placing price / 6 mths average	157%	
<u>3. Sale of 18% in Dickie</u>		
Valuation of 100% Dickie		450,000,000
Sale consideration of 18%		81,000,000
Sale price / 2001 earnings		30 times
Sale price / 2001 NAV		15 times

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Summary of transaction statistics (continue)

(all in HK\$)	Daniel (31/3/01 adjusted for sale of TKT property)	Dickie (31/7/01 + projection to year end)
<p><u>4. Resultant position</u></p> <p>Shareholdings:</p> <p>Charlie</p> <p>Fungs + Yaos</p> <p>Charlie + management & Staff</p> <p>NAV as enlarged by Placing *</p> <p>NAV / share (as enlarged) *</p> <p>NAV / share enhancement *</p> <p>Effect on profitability *</p> <p>Retained cash after investment in</p> <p>Dickie</p> <p>*Investment in Dickie by Daniel be carried at cost and not equity account</p>	<p>50.0%</p> <p>24.6%</p> <p>-</p> <p>312,500,000</p> <p>0.086</p> <p>20.2%</p> <p>N/A</p> <p>101,500,000</p>	<p>44.8%</p>
<p><u>5. Implied premium paid by Charlie</u></p> <p>Consideration for Placing</p> <p>Charlie's % in enlarged Daniel</p> <p>% of attributable NAV</p> <p>Effective premium</p>	<p>182,500,000</p> <p>50%</p> <p>156,243,579</p> <p>26,256,421</p>	

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Issues for consideration

Listing Rules issues:

- Acquisition of Dickie shares should be a Major Transaction but Exchange may well argue it as a Very Substantial Acquisition (VSA).
- Counsel advise required to ensure that even the acquisition of shares in Dickie by Daniel is considered a VSA, it would not be subject to the application requirement of a new listing by Daniel.
- Ascertain % ownership in Dickie (by Charlie and Dickie management group) after transaction to ensure that it would not cause any delays to Dickie's IPO timetable on GEM Board.

SFC issues:

- Early consultation with SFC is required on transaction structure.
- Should consider increase the amount of Placing to reach 51% ownership in Daniel after the deal – but need to consider VSA implications

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Suggested timetable for transaction

Events	Date (by)
	2001
• Discussion of Proposal with Charlie, Dickie & Daniel	19 Nov
• Agreement deal parameters	23 Nov
• Due diligence and drafting of legal documents	28 Nov
• Prior consultation with SFC	4 Dec
• Signing of agreements and announcement	7 Dec
• Despatch of Daniel EGM circular	28 Dec
	2002
• Daniel EGM	14 Jan
• Completion of transactions	18 Jan

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Annexure D

**Proposal document presented by Access Capital on 27th November 2001
setting out a suggested timetable for the acquisition**

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STRICTLY PRIVATE & CONFIDENTIAL

Project "Dickie"
Placement of new shares by Daniel

Prepared by

Access Capital Limited

27th November 2001

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Key objectives

This Proposal seeks to accomplish the following:

- Admission of Dickie (in conjunction with Charlie) as a controlling shareholder in Daniel subject to a "Whitewash Waiver" from the SFC
- Maintain the listing status of Daniel and positions it as a major logistics player in China
- Review the net realizable value of the major assets in Daniel to decide the quantum of further write-down in Daniel's forthcoming interim results figures
- Strengthen the balance sheet of Daniel and restructure its existing bank debts with the Bank of East Asia
- Address the various issues which are relevant for potential asset injections in Daniel by Charlie and Dickie

Outline of and the terms of the Proposal

1. Daniel will conditionally place (the "Placing") a total of approximately 2.2 billion new shares to Holdco (a private company owned jointly by Charlie and Dickie) at the effective issue price of, say, \$0.025 per share (assuming subscription price of \$0.10 per share and allotment of free bonus share from Daniel's share premium account) to raise \$55.0 million cash (before expenses). The Placing shares represent approximately 55% of the share capital of Daniel as enlarged by the Placing.
2. The Placing will be conditional upon, inter alia, the relevant approvals of Daniel independent shareholders at its general meeting and confirmation from the SFC of its consent to waive the obligation of Charlie to make a general offer under the Hong Kong Takeovers Code (the "Whitewash Waiver"). The SFC would normally consent to the Whitewash Waiver subject to the above-mentioned shareholders' approval and provided that neither the investor (Holdco in this case) or parties acting in concert with such investor have acquired shares in the 6 months before the posting of the shareholders circular relating to the Whitewash Waiver. Any waiver granted would also be invalidated if the investor in question acquire shares in the period between the shareholders' circular and the shareholders' general meeting.
3. A small part of the Placing proceeds will be applied to reduce Daniel's current bank debts of around \$72 million. The Placing would be conditionally on a permanent restructuring of bank debts to a repayment profile of no less than 5 years.
4. Implement a share capital reduction scheme to reduce the par value of the shares from \$0.10 to \$0.01 in order to provide flexibility for new issue of shares in future.

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Outline of and the terms of the Proposal (Cont'd)

5. Following completion of the Placing, the new board of Daniel will seek to expand the NAV of Daniel through acquisition from independent third parties, suitable assets / businesses and finance such acquisitions through a rights issue of Daniel shares (possibly with new bonus warrants). As the Takeovers Code requires that any new shares issued to Holdco (and parties acting in concert) in the 12 months period following the completion of the Placing to be subject to the approval of the independent shareholders, any rights issue in the same period will also require approval from the independent shareholder. Financing such acquisition by a rights issue would enable Holdco to maintain its shareholding in Holdco above 55% all the time.
6. Following the increase of Daniel's NAV to an appropriate size under step 5, Charlie / Dickie can sell suitable assets / business ("Asset Injection") into Daniel in return for new issue of shares. Such Asset Injection would constitute a Connected Transaction under the Listing Rules and would subject to the following considerations:
 - * The 12 months share issue restriction as mentioned in step 5 above.
 - * The Four Tests in determining classification of transactions under the Listing Rules. Should ensure that the Assets Injection would not fall under a Very Substantial Acquisition which may result in the requirement of a new listing application for Daniel.

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Transaction statistics (Cont'd)

(All in HK\$ unless otherwise stated)

Basic statistics	Daniel	Remarks
No of Issue shares in issue	1,825,150,000	
Adjusted NA V	100,000,000	Daniel NA V - adjusted for TKT sale and additional est provision for loss on sale of Paper & Brewery
Adjusted NA V / share	0.055	
Adjusted earnings (loss) for year	(131,521,000)	Assumes Pickle to provide profit warranty on this figu
Adjusted bank debts	74,166,000	After sale of TKT Property
Latest share price	0.036	
Average 3 months share price	0.027	
Share price - 6 months hi/lo	0.015 / 0.036	
Current holdings of:		
Fungs and Yaos	856,119,814	47%
KF	40,000,000	2.2%
Public	969,030,186	53.1%
Net debt / Adjusted NA V	74%	

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Transaction statistics (Cont'd)

(All in HK\$ unless otherwise stated)

2	Placing of new Daniel shares	
	No of placing shares to place with Charlie/Holdco	2,200,000,000
	Gross amount of placing proceeds	\$55,000,000
	Placing price / existing NAV	46%
	Placing price / 3 mth avg price	94%
3	Proforma resultant effects on Daniel (before expenses)	
	Enlarged no. of shares in issue	4,025,150,000
	Charlie's/Holdco's % in enlarged company	54.7%
	F & Y's % in enlarged company	21.3%
	Public shareholding %	24.1%
	NAV as enlarged by Placing	155,000,000
	NAV/ share after Placing	0.039
	NAV per share dilution	-29.7%

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Transaction statistics (Cont'd)

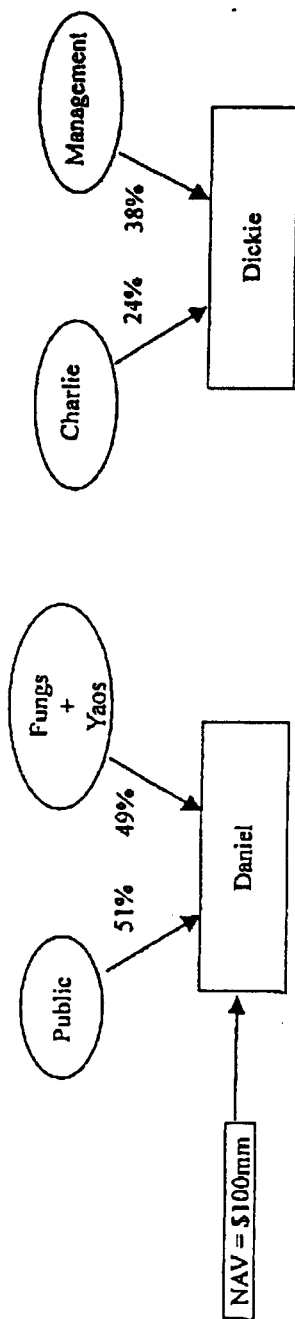
(All in HK\$ unless otherwise stated)

4	Implied premium paid by Charlie/Holdco	
	Consideration for Placing shares	55,000,000
	% of shareholding in enlarged Daniel	54.66%
	% of attributable enlarged NAV	84,717,340
	Effective discount of Placing outlay / adjusted NAV	(29,717,340)
5	Net cashflow position	
	Consideration for Placing shares	55,000,000
	Apply for reduction of bank debts	12,500,000
	Net cash balance for future acquisitions	42,500,000
6	Net Debt position	
	Reduced bank indebtedness	61,666,000
	Net debt / NAV (post - transaction)	12.4%

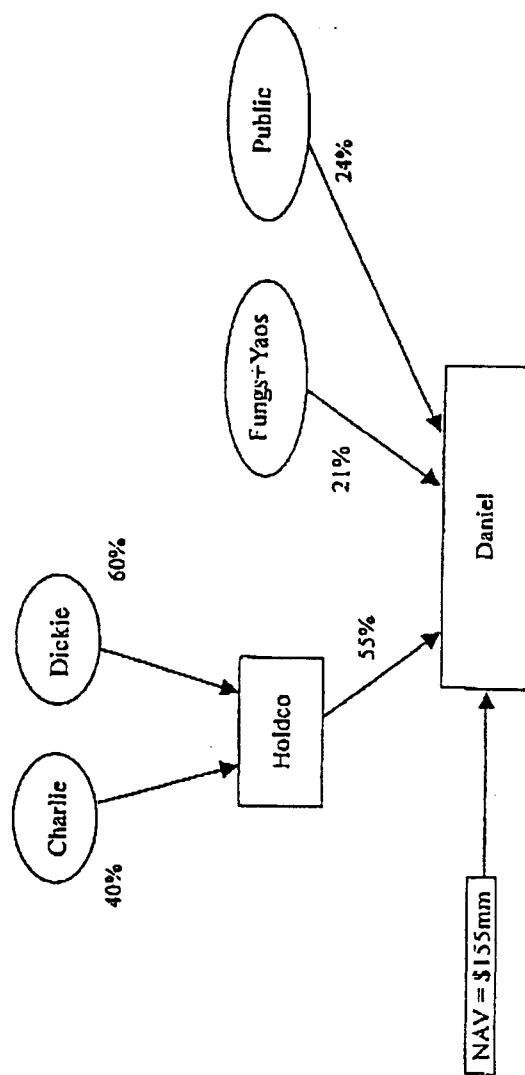
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Transaction diagrams

Now:



After Placement:



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Issues for consideration

SFC issues:

- Early consultation with SFC is required on transaction structure.
- An Independent Financial Adviser to Daniel will be appointed to advise Daniel's Independent Board Committee in assessing the Proposal.
- SFC will require Daniel's shareholder circular to comply with the provisions of the Takeovers Code to fulfill the requirements under an Offer document. All relevant parties should also comply with the share dealing and other restrictions under the Code.

Others:

- Daniel will need to seek shareholders' consent by a special resolution to allow the allotment of free bonus shares under the Placing..

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Suggested key dates timetable

Events	Date (by)
	2001
• Discussion of Proposal with Charlie, Dickie & Daniel	27 Nov
• Reach consensus on major terms	30 Nov
• Due diligence and drafting of legal documents	3 Dec
• Prior consultation with SFC	4 Dec
• Signing of agreements and announcement	7 Dec
• Despatch of Daniel EGM circular	28 Dec
	2002
• Daniel EGM	23 Jan
• Completion of transactions	30 Jan

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