

Notes to the Interim Financial Report

31 December 2004

1. BASIS OF PREPARATION OF THE INTERIM FINANCIAL REPORT AND PRINCIPAL ACCOUNTING POLICIES

a. General information

The Company is incorporated in Hong Kong with limited liability and has its shares listed on the Stock Exchange. The trading of the Company's shares on the Stock Exchange has been suspended since 9:30 a.m. on 2 June 2003 at the request of the Company.

The Company is an investment holding company. The principal activities of its subsidiaries are property investment, hotel investment and property development in the PRC.

On 7 June 2003, due to the uncertainties caused by the reported arrest of Mr. Chau in the PRC, the Board obtained an order from the High Court of Hong Kong appointing Mr. Stephen Liu Yiu Keung and Mr. Yeo Boon Ann of EYTL as the Receivers.

Pursuant to the order of the Court, the Receivers were appointed to take all appropriate actions to preserve the assets of the Company, to carry on the businesses of the Company and to do all other things as reasonably necessary for the purpose of protecting the value of the Company's assets and its businesses. No winding-up petition has been filed against the Company and the Company is therefore not in liquidation.

b. Qualified representation by the Receivers and the Board

The Receivers have taken all reasonable steps and have used their best endeavours to prepare the Group's interim financial report for the six months ended 31 December 2004.

Despite their efforts in ascertaining the affairs of the Group, the former legal representative of Shanghai Hongxin Real Estate Development Company Limited (上海宏興房地產發展有限公司) ("Hongxin") and former agent of Bowyer Profits Limited ("Bowyer") were uncooperative and failed to surrender the books and records to the Receivers. As a result, the Receivers only had limited access to the books and records of Hongxin and Bowyer. In addition, the Receivers could not obtain certain original documents of Shanghai Yihe Longbai Hotel Limited (上海逸和龍柏酒店有限公司) ("Longbai"). The details are set out in (i) to (iii) below.

(i) Longbai

On 16 December 2003, Shanghai AIC endorsed the change of Longbai's legal representative to Mr. Yeo Boon Ann; and the appointment of the Receivers and Mr. Laurence Yegene Ip as Longbai's directors.

Longbai's former legal representative refused to surrender Longbai's official seal, financial chop and certain original documents to the Receivers. The official seal and financial chop are vital to Longbai's daily operations. After consulting with the Shanghai Ministry of Public Security of Changning District Branch (上海市長寧公安分局) on 5 February 2004, the Receivers lodged an application with the Shanghai AIC to change Longbai's name from 上海逸和龍柏飯店有限公司 to 上海逸和龍柏酒店有限公司 in order that new chops could be made for Longbai in its new name.

Notes to the Interim Financial Report *(Continued)*

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1. BASIS OF PREPARATION OF THE INTERIM FINANCIAL REPORT AND PRINCIPAL ACCOUNTING POLICIES *(Continued)*

b. Qualified representation by the Receivers and the Board *(Continued)*

(i) Longbai *(Continued)*

On 16 February 2004, Shanghai AIC issued the new business licence for Longbai reflecting its change of name. On 20 February 2004, the Shanghai Ministry of Public Security of Changning District Branch approved the making of Longbai's new official seal and financial chop. The Receivers finally obtained the new official seal and financial chop on 23 February 2004 and commenced their control over the management of Longbai.

In the course of the Receivers' investigation, they understand that certain original licences and agreements of Longbai/Hotel Longbai are kept by Shanghai Nongkai, a PRC company controlled by connected parties of Mr. Chau.

(ii) Hongxin

On 15 January 2004, the Shanghai AIC endorsed the change of legal representative for Hongxin to Mr. Yeo Boon Ann; and the appointment of the Receivers and Mr. Laurence Yegene Ip as Hongxin's directors.

Hongxin's former legal representative refused to surrender Hongxin's books and records, official seal and financial chop to the Receivers. On 27 February 2004, the Receivers reported the matter to the Shanghai Ministry of Public Security of Huangpu District Branch (上海市黃埔公安分局) and obtained the approval to make a new official seal and financial chop.

The registered capital of Hongxin was US\$16,700,000 as of 20 January 2003 and an application to increase Hongxin's registered capital to US\$30,000,000 was made to SFIC prior to the appointment of the Receivers as legal representative and directors of Hongxin effective on 15 January 2004.

The new business licence showed the registered capital of Hongxin to be listed at US\$30,000,000, of which US\$16,700,000 had been paid-up and the Certificate of Approval showed the investment amount of Hongxin to be listed at US\$90,000,000 compared to the original amount of US\$50,000,000.

On 6 February 2004, Hongxin applied to SFIC for the restoration of its original registered capital to US\$16,700,000 and investment amount to US\$50,000,000.

The deadline for paying up the additional registered capital was 24 May 2004. On 30 April 2004, the Receivers requested SFIC to extend the deadline to 24 November 2004. SFIC, however, advised that the SFIC Annual Inspection was required for their consideration.

Furthermore, the business licence of Hongxin would be revoked if the AIC Inspection was not completed. The AIC Inspection could only be processed after the SFIC Annual Inspection had been passed and the deadline to pay the additional registered capital was extended.

Notes to the Interim Financial Report *(Continued)*

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1. BASIS OF PREPARATION OF THE INTERIM FINANCIAL REPORT AND PRINCIPAL ACCOUNTING POLICIES *(Continued)*

b. Qualified representation by the Receivers and the Board *(Continued)*

(ii) Hongxin (Continued)

Subsequent to the completion of Hongxin's 2003 audit on 2 August 2004 and Hongxin's 2003 foreign exchange audit on 28 September 2004, the SFIC Annual Inspection was passed on 9 October 2004. The Receivers then continued to consult SFIC, Shanghai AIC, and the FEC to restore the registered capital and investment amount of Hongxin to their original amounts, US\$16,700,000 and US\$50,000,000 respectively.

Following confirmation by FEC that the application for restoration would not be accepted, an application was submitted to FEC on 25 November 2004 to extend the deadline for the payment of the additional capital to 24 November 2005. The application was also verbally rejected by FEC.

The Receivers are currently considering all legal options in this respect. Should the business licence of Hongxin be revoked, Hongxin might have a going concern problem.

(iii) Bowyer

Pursuant to an agency agreement dated 11 April 2001, Bowyer appointed Shanghai Nongkai to act on its behalf on all matters relating to the leasing of its investment properties. The Receivers also understand that certain books and records of Bowyer were kept by Shanghai Nongkai, a PRC company controlled by connected parties of Mr. Chau.

In the March and April 2004 financial reports prepared by Shanghai Nongkai, the Receivers noted that legal expenses of RMB4,180,000 had been recorded but not properly supported. A representative of Shanghai Nongkai orally confirmed to the Receivers that this money belonging to the Group had been used to settle legal fees incurred by Mr. Chau. Despite numerous requests, Shanghai Nongkai failed to respond to the Receivers' enquiries.

Bowyer terminated the service of Shanghai Nongkai on 29 April 2004 and appointed FPD Savills (Shanghai) as the manager on 10 June 2004. Despite repeated requests, Shanghai Nongkai has yet to return all the relevant records and documents and monies held in trust for Bowyer.

In light of the above, the Receivers are unable to give an unqualified representation that all the transactions affecting the Group during the six months ended 31 December 2004 have been included in the interim financial report and whether the interim financial report presents a true and fair view of the Group's operations and cash flows for the six months ended 31 December 2004 and the Group's financial position as at that date. The Receivers therefore disclaim any liabilities in respect of the interim financial report of the Group in relation to the affairs of the Group for the six months ended 31 December 2004.

Notes to the Interim Financial Report *(Continued)*

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1. BASIS OF PREPARATION OF THE INTERIM FINANCIAL REPORT AND PRINCIPAL ACCOUNTING POLICIES *(Continued)*

b. Qualified representation by the Receivers and the Board *(Continued)*

The Audit Committee had reviewed and discussed the interim financial report with the Receivers and the Board. The members of the Audit Committee were unable to satisfy themselves as to whether the interim financial report presented a true and fair view and, under such circumstances, the Audit Committee was unable to make recommendation to the Board in accepting and/or adopting the interim financial report of the Group for the six months ended 31 December 2004.

The Board at a meeting held on 22 March 2005 had resolved not to approve the interim financial report for the six months ended 31 December 2004 as the Company had not been under the management of the Board for the relevant accounting period for which the interim financial report was prepared. In view of the fact that the Receivers would continue to manage the Company in the near future until further order of the Court, the Receivers considered it appropriate, notwithstanding the limitations referred to above, to take up the responsibility from the Board to prepare and approve the interim financial report. An order of the Court was obtained on 20 December 2004 conferring upon the Receivers powers to lay before the Company at its annual general meetings the profit and loss accounts, together with group accounts, balance sheets, auditors' reports and reports by the Receivers prepared in respect of the Company and of the Group for the relevant accounting periods; and to approve and sign any profit and loss accounts, group accounts, balance sheets and reports in respect of the Company and of the Group for the relevant accounting periods.

Notes to the Interim Financial Report *(Continued)*

31 December 2004

1. BASIS OF PREPARATION OF THE INTERIM FINANCIAL REPORT AND PRINCIPAL ACCOUNTING POLICIES *(Continued)*

c. Principal accounting policies

The interim financial report is unaudited, but has been reviewed by Nexia Charles Mar Fan & Co. (“NCMF”) in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). NCMF’s independent review report to the Board is set out on pages 29 to 33.

The interim financial report has been prepared in accordance with the requirements of the Listing Rules of the Stock Exchange, including compliance with Statement of Standard Accounting Practice 25 “Interim financial reporting” issued by the HKICPA.

The financial information relating to the financial year ended 30 June 2004 included in this interim financial report does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 30 June 2004 are available from the Company’s registered office. The auditors had issued a disclaimer opinion on those financial statements in their report dated 23 December 2004.

The accounting policies and methods of computation adopted are consistent with those followed in the preparation of the Group’s statutory financial statements for the year ended 30 June 2004.

Notes to the Interim Financial Report *(Continued)*

31 December 2004

2. TURNOVER AND SEGMENTAL INFORMATION

Turnover represents income from operations from the hotel investment and rental income from investment properties earned during the six months ended 31 December 2004 and is analysed as follows:

Business segments

Business segment analysis is chosen as the primary reporting format as the Group's results during the current and prior interim periods were principally affected by hotel investment, property investment and property development activities.

	Six months ended 31 December							
	Hotel investment		Property investment		Property development		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Turnover	32,825	25,921	1,381	944	-	-	34,206	26,865
Segment results	13,353	8,789	991	780	-	-	14,344	9,569
Interest income							10,478	6,266
Unallocated administrative expenses net of other revenue							(49,639)	(45,177)
Loss from operations							(24,817)	(29,342)
Finance costs							(20,221)	(10,326)
Loss from ordinary activities before taxation							(45,038)	(39,668)
Taxation	(618)	(132)	(327)	(257)	-	-	(945)	(389)
Loss attributable to shareholders							(45,983)	(40,057)

No inter-segment sales and transfers were transacted during the current and prior interim periods.

Geographical segments

No geographical analysis is provided as the hotel investment, property investment and property development activities during the current and prior interim periods were all carried out in the PRC.

Notes to the Interim Financial Report *(Continued)*

31 December 2004

3. OTHER REVENUE

	Six months ended	
	31 December	
	2004	2003
(Unaudited)	(Unaudited)	
HK\$'000	HK\$'000	
Interest income	10,478	6,266
Sundry income	124	154
	<u>10,602</u>	<u>6,420</u>

4. LOSS FROM OPERATIONS

The loss from operations is arrived at after charging:

	Six months ended	
	31 December	
	2004	2003
(Unaudited)	(Unaudited)	
HK\$'000	HK\$'000	
Provision for bad debts	4	2,837
Depreciation	1,046	1,045
Staff costs, including net retirement scheme contributions of HK\$61,000 (2003: HK\$36,000)	6,171	8,104
Legal and professional fees	<u>41,803</u>	<u>32,692</u>

5. FINANCE COSTS

	Six months ended	
	31 December	
	2004	2003
(Unaudited)	(Unaudited)	
HK\$'000	HK\$'000	
Interest expenses on Longbai Purported Loan wholly repayable within five years	<u>20,221</u>	<u>10,326</u>

Based on the information available to the Receivers, approximately RMB21,398,000 (equivalent to approximately HK\$20,221,000) representing interest payable on the Longbai Purported Loan together with penalty interest for the six months ended 31 December 2004 have been accrued in the interim financial report. The Receivers are unable to ascertain the accuracy of the interest expenses on the Longbai Purported Loan.

Notes to the Interim Financial Report (Continued)

31 December 2004

6. TAXATION

	Six months ended	
	31 December	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current tax – PRC income tax	327	257
Deferred tax	618	132
	<u>945</u>	<u>389</u>

- a. No provision for Hong Kong profits tax has been made as the Group did not have any assessable profits arising in Hong Kong for both current and prior interim periods.
- b. Provision has been made for PRC income tax at the applicable tax rate of 33% on the estimated taxable income of Bowyer for both current and prior interim periods.

7. BASIC LOSS PER SHARE

The calculation of basic loss per share is based on the consolidated loss attributable to shareholders for the six months ended 31 December 2004 of HK\$45,983,000 (2003: HK\$40,057,000) and 3,051,438,765 shares (2003: 3,051,438,765 shares) in issue during the interim period. There were no dilutive potential ordinary shares in existence during the current and prior interim periods.

8. DEBTORS, DEPOSITS AND PREPAYMENTS

Included in debtors, deposits and prepayments are trade debtors of HK\$6,281,000 (30 June 2004: HK\$3,765,000). The aging analysis of trade debtors is as follows:

	As at	As at
	31 December	30 June
	2004	2004
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
0 – 30 days	1,705	2,256
31 – 60 days	2,084	628
61 – 90 days	1,051	159
> 90 days	1,441	722
	<u>6,281</u>	<u>3,765</u>

The Group allows an average credit period of 60 days to its customers.

Also included in debtors, deposits and prepayments is approximately RMB54,118,000 (equivalent to approximately HK\$51,142,000) estimated to be interest payable on the Hongxin Purported Loan together with the penalty interest up to 31 December 2004 had been accrued, of which RMB20,809,000 (equivalent to approximately HK\$19,665,000) was accrued as at 30 June 2004, based on the information available to the Receivers. The accrued interest expenses have been recorded as prepayments since Hongxin has not commenced operations in accordance with accounting principal generally accepted in the PRC.

Notes to the Interim Financial Report *(Continued)*

31 December 2004

9. CREDITORS AND ACCRUALS

Included in creditors and accruals are trade creditors of HK\$1,917,000 (30 June 2004: HK\$1,577,000). The aging analysis of trade creditors is as follows:

	As at 31 December 2004 (Unaudited) HK\$'000	As at 30 June 2004 (Audited) HK\$'000
0 – 30 days	678	384
31 – 60 days	471	529
61 – 90 days	436	373
> 90 days	332	291
	<u>1,917</u>	<u>1,577</u>

10. PLEDGE OF ASSETS

- a. Pursuant to the Hongxin Purported Loan Agreements signed by the former legal representative of Hongxin, the Group's property under development, with a carrying value of RMB285,000,000 (equivalent to HK\$269,325,000) based on valuation on a forced sale basis as at 30 June 2004, was purportedly pledged as the alleged security for a loan of RMB300,000,000 (equivalent to HK\$283,500,000) purportedly granted by Shijidadao SRCC to Hongxin for a term of one year commencing 27 March 2003 with interest payable quarterly at an interest rate of 5.31% per annum.

Pursuant to the Longbai Purported Loan Agreements signed by the former legal representative of Longbai, the Group's hotel properties, with a carrying value of RMB170,000,000 (equivalent to HK\$160,650,000) based on valuation on a forced sale basis as at 30 June 2004, were purportedly pledged as the alleged security for a loan of RMB350,000,000 (equivalent to HK\$330,750,000) purportedly granted by Liuli SRCC to Longbai for a term of five years commencing from 18 April 2003 with interest payable quarterly at an interest rate of 5.58% per annum.

The above purported loans had not been duly authorised and approved by the Board.

In November 2004, the Intermediate Court ruled that the above purported loans were legally binding. On 7 March 2005, the Intermediate Court issued enforcement resumption notices to Longbai and Hongxin and fixed a date for a hearing on 14 March 2005. At the hearing on 14 March 2005, the Intermediate Court indicated that the enforcement procedure against Hongxin would commence immediately and the enforcement procedure against Longbai would commence within seven days of the date of the hearing. In view of the enforcement resumption notices issued by the Intermediate Court against the pledged properties, no updated valuation of the properties has been conducted. The Group will lose the above pledged properties if the enforcement actions are completed.

- b. According to the information available to the Receivers, a sum of US\$3,600,000 (equivalent to HK\$28,080,000) included in cash, bank balances and deposits has been pledged to Shijidadao SRCC by the former management of Hongxin. As of the date of this report, the Receivers are unable to obtain any information in relation to such pledged deposit.

Notes to the Interim Financial Report *(Continued)*

31 December 2004

11. CAPITAL COMMITMENTS

As at 31 December 2004, the Group had the following capital commitments:

	As at 31 December 2004 (Unaudited) <i>HK\$'000</i>	As at 30 June 2004 (Audited) <i>HK\$'000</i>
Contracted, but not yet provided for	–	–
Authorised, but not yet contracted for	<u>661,500</u>	<u>661,500</u>
	<u><u>661,500</u></u>	<u><u>661,500</u></u>

By a conditional sale and purchase agreement dated 25 April 2003, the Group sought to acquire Dé Oriental London in Shanghai from Fortune Harbour Limited, a development which upon completion would comprise of two inter-connected 25-storey residential buildings, a four-storey service apartment building, a clubhouse and carparks.

Mr. Chau is the beneficial controlling shareholder of the Company and Fortune Harbour Limited is wholly-owned by Mr. Chau.

On 2 June 2003, the Company announced that the extraordinary general meeting scheduled to be held on 3 June 2003 to consider and approve the above conditional sale and purchase agreement was postponed until further notice.

Given the current status of the Group, the Receivers decided that it would not be appropriate to incur any capital expenditure on any investments. Hence, the Group has neither appropriated nor arranged funding for any future capital commitments.

Notes to the Interim Financial Report *(Continued)*

31 December 2004

12. OPERATING LEASE ARRANGEMENTS

a. As lessor

As at 31 December 2004, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Investment properties*		Sub-tenancy of office properties		Hotel site and facilities		Total	
	As at 31 December 2004 (Unaudited) HK\$'000	As at 30 June 2004 (Audited) HK\$'000	As at 31 December 2004 (Unaudited) HK\$'000	As at 30 June 2004 (Audited) HK\$'000	As at 31 December 2004 (Unaudited) HK\$'000	As at 30 June 2004 (Audited) HK\$'000	As at 31 December 2004 (Unaudited) HK\$'000	As at 30 June 2004 (Audited) HK\$'000
Not later than one year	655	426	1,574	3,251	1,198	1,583	3,427	5,260
Later than one year, but not later than five years	156	-	-	-	3,200	3,663	3,356	3,663
	<u>811</u>	<u>426</u>	<u>1,574</u>	<u>3,251</u>	<u>4,398</u>	<u>5,246</u>	<u>6,783</u>	<u>8,923</u>

* Certain tenancy agreements have been renewed during the year ended 30 June 2004 and the six months ended 31 December 2004 and are currently kept by Shanghai Nongkai. As these agreements are not available to the Receivers, the future minimum lease receivables under such leases cannot be quantified.

b. As lessee

As at 31 December 2004, the total future minimum lease payments under non-cancellable operating leases in respect of the office properties and certain office equipment were as follows:

	As at 31 December 2004 (Unaudited) HK\$'000	As at 30 June 2004 (Audited) HK\$'000
Not later than one year	2,718	5,576
Later than one year, but not later than five years	-	10
	<u>2,718</u>	<u>5,586</u>

Notes to the Interim Financial Report *(Continued)*

31 December 2004

13. LITIGATION AND CONTINGENT LIABILITIES

a. Action to recover US\$34,200,000 from Mr. Chau under High Court Action No. 2704 of 2003

Legal proceedings commenced for and on behalf of the Company against, among others, Mr. Chau for the recovery of certain misappropriated funds. A writ of Summons was filed by the Company with the Court on 23 July 2003 to claim a sum of US\$34,200,000 against Mr. Chau and others being funds transferred from the Company's bank accounts to bank accounts of the Company's subsidiaries. These funds were further funnelled to third parties outside of the Group believed to be connected to Mr. Chau without the authority or approval of the Company. On 21 August 2003, the Company obtained a judgment in default against Mr. Chau in the amount of the judgment debt of US\$34,200,000 plus interest (the "Default Judgment").

Consequently and pursuant to an order made by the Honourable Mr. Justice Sakhrani on 28 August 2003 (the "28 August 2003 Order"), the Receivers were appointed by the Court as the joint and several receivers of specified assets, as referred to in the 28 August 2003 Order, belonging to Mr. Chau in Hong Kong or elsewhere ("Chau's Assets"). The Receivers were empowered to take into their control Chau's Assets with powers to manage the same in order to preserve the value thereof and to apply the same in satisfaction of the Default Judgment.

On 11 September 2003, a firm of solicitors (the "Solicitors") purporting to be acting for Mr. Chau filed a Notice to Act with the Court.

On 29 September 2003, the Solicitors applied to the Court to set aside the Default Judgment and to vacate the 28 August 2003 Order appointing the Receivers as the joint and several receivers of Chau's Assets ("Chau's Application").

On 10 October 2003, the Company applied to set aside the Solicitors' Notice to Act and Chau's Application (the "Company's Application").

On 5 November 2003, the Court ordered (the "5 November Order") that Chau's Application would not be heard until after the final determination by the Court of the Company's Application.

On 8 January 2004, the Solicitors' appeal against the 5 November Order was heard by the Court, however, the Court upheld the 5 November Order.

On 8 April 2004, Sun Hung Kai Investment Services Limited ("SHKIS") applied to join itself as a defendant to the action on the basis that it is a judgment creditor of Mr. Chau. SHKIS's application was dismissed by the Court on 12 July 2004.

Since October 2003, the Receivers continued to challenge the authority of the Solicitors to act for Mr. Chau. However, in June 2004, the Solicitors provided new evidence to substantiate their appointment as Mr. Chau's solicitors.

On 14 July 2004, the Solicitors filed a fresh Notice to Act for Mr. Chau (without prejudice to the one filed on 11 September 2003). Although the Receivers had since been advised not to challenge the Solicitors' authority to act for Mr. Chau based on the new evidence provided by the Solicitors, the Receivers maintained that the Solicitors did not have authority to act for Mr. Chau during the period from 11 September 2003 to 13 July 2004.

On 15 July 2004, the Solicitors filed a fresh Summons for setting aside the Default Judgment and the 28 August 2003 Order (without prejudice to the one filed on 29 September 2003). This Summons was to be heard on 18 October 2004.

Notes to the Interim Financial Report *(Continued)*

31 December 2004

13. LITIGATION AND CONTINGENT LIABILITIES *(Continued)*

a. Action to recover US\$34,200,000 from Mr. Chau under High Court Action No. 2704 of 2003 *(Continued)*

On 1 September 2004, the Receivers filed a Statement of Claim in the action without prejudice to the Default Judgment and the fresh Summons for setting aside the Default Judgment and the 28 August 2003 Order.

On 13 September 2004, the Solicitors took out an application for a declaration that the Writ of Summons and the Statement of Claim had not been duly served on Mr. Chau as he was out of Hong Kong and for an order that the Default Judgment and the 28 August 2003 Order be set aside. The application was to be heard in January 2005.

On 22 September 2004, the Receivers applied for a Mareva Injunction order against Mr. Chau and their appointment as receivers in aid of the Mareva Injunction order to be granted. The application was scheduled to be heard together with the fresh Summons for setting aside the Default Judgment and the 28 August 2003 Order on 18 October 2004.

At the hearing on 18 October 2004, the Court gave further directions and adjourned the hearing to 10 November 2004. At the four-day hearing commenced on 10 November 2004, the Court ordered, among other things, that the Default Judgment be set aside and the Receivers' appointment as the joint and several receivers of Chau's Assets be discharged but the discharge should not take effect until the February 2005 Hearing and that no steps were to be taken on Chau's Assets until further order.

At the February 2005 Hearing, Mr. Justice Waung, on 25 February 2005, ordered that leave be granted to the Company to amend and serve the Writ of Summons filed on 23 July 2003 out of jurisdiction on Mr. Chau and the service of the amended Writ of Summons be dispensed with. Leave is also granted to the Company to amend the Statement of Claim within twenty-one days from 25 February 2005.

On 3 March 2005, at the continuation of the February 2005 Hearing, Mr. Chau and Ms. Mo gave their undertaking not to, without leave of the Court, sell, transfer and encumber certain assets as set out in the 28 August 2003 Order. Pursuant to the undertakings, Mr. Justice Waung further ordered by consent that,

- (i) no order be made in respect of the application on 22 September 2004 for a Mareva Injunction order against Mr. Chau and the appointment as receivers in aid of the Mareva Injunction;
- (ii) the discharge of the Receivers' appointment as joint and several receivers of Chau's Assets pursuant to the 28 August 2003 Order shall take immediate effect;
- (iii) the costs of the Summons filed on 15 July 2004 by the Solicitors for setting aside the Default Judgment and the 28 August 2003 Order be adjourned to a date to be fixed; and
- (iv) certain conditions being stipulated regarding High Court Action No. 200 of 2004.

Details of ruling regarding High Court Action No. 200 of 2004 are set out in Note 13(b) below.

Notes to the Interim Financial Report *(Continued)*

31 December 2004

13. LITIGATION AND CONTINGENT LIABILITIES *(Continued)*

b. **Action against STCC, SHKIS and Ms. Mo in relation to the disposal of Shun Loong under High Court Action No. 200 of 2004**

On 4 February 2004, the Receivers, in their capacity as receivers appointed by way of equitable execution over Chau's Assets and the directors of Shanghai Finance, and with a view to preserving and securing the assets of Mr. Chau for the benefit of the Company as his judgment creditor, caused Shanghai Finance, a company indirectly wholly-owned by Mr. Chau, to commence legal proceedings against STCC, SHKIS and Ms. Mo for disposing of Shun Loong, a company previously held by Shanghai Finance, at an undervalue.

STCC and SHKIS, on 25 February 2004, and Ms. Mo, on 27 March 2004, applied to strike out Shanghai Finance's claim. At a hearing on 18 October 2004, under High Court Action No. 2704 of 2003, Mr. Justice Waung made an order to stay all proceedings in this action and all applications made in the future shall be made before Mr. Justice Waung.

At the hearing before Mr. Justice Waung under High Court Action No. 2704 of 2003 which took place on 15 November 2004, Shun Loong and Shun Loong Finance Limited (collectively "the Petitioners") agreed to refrain from taking further steps in the proceedings in the BVI in relation to the winding-up petition against Shanghai Finance subject to certain conditions.

On 3 March 2005, at the February 2005 Hearing under High Court Action No. 2704 of 2003, Mr. Justice Waung ordered, among other things, that the order made on 18 October 2004 to stay all proceedings under High Court Action No. 200 of 2004 is to continue until the final resolution of High Court Action No. 2704 of 2003. In the event that the Petitioners take any step in the BVI proceedings in relation to the winding-up petition against Shanghai Finance, the Receivers shall, without any further application or order to be made by the Court, be appointed as the Shanghai Finance Receivers, and take such steps as may be necessary to appear in and contest the proceedings against the Petitioners; and the stay of proceedings in High Court Action No. 200 of 2004 against STCC and SHKIS, but not Ms. Mo, will be lifted and the Shanghai Finance Receivers can continue the claim against STCC and SHKIS.

c. **Libel action against the Company and other parties**

On 5 February 2004, the Receivers made a public announcement in respect of legal proceedings commenced by them in High Court Action No. 200 of 2004 on behalf of Shanghai Finance to maximise the recovery of the debt under the Default Judgment. In response to the announcement, SHK, STCC and SHKIS instituted a libel action against the Receivers, the Company and two newspaper publishers on 7 February 2004. Together with the Company, the Receivers filed a Defence on 2 April 2004 and SHK, STCC and SHKIS filed a Reply on 30 April 2004. No further steps were taken by SHK, STCC and SHKIS in that action since then.

Notes to the Interim Financial Report *(Continued)*

31 December 2004

13. LITIGATION AND CONTINGENT LIABILITIES *(Continued)*

d. Actions to recover HK\$53,157,294 from Great Center

A writ of summons was filed by the Company with the Court on 17 July 2003 to claim HK\$53,157,294 against Great Center, being money received by Great Center on 4 April 2003 which belonged to the Company. Great Center did not file any notice of intention to defend the legal proceedings within the time allowed and the Company obtained judgment in default on 5 August 2003 in the amount of HK\$53,157,294 plus interest. Consequently, the Receivers were appointed as the joint and several provisional liquidators of Great Center on 20 August 2003 by the BVI High Courts.

Pursuant to a winding up order dated 5 November 2003, the BVI High Court ordered that Great Center be wound up pursuant to the BVI laws. The Receivers were appointed jointly and severally as Great Center's official liquidators on the same day.

According to available information, Great Center's only asset consists of a bank deposit of US\$4,500,000. In the press announcement dated 2 July 2003 made by the former receivers and managers of Shanghai Merchants, Great Center was restricted from, inter alia, disposing of or otherwise dealing with or diminishing the value of its assets pursuant to the Injunction Order. The Injunction Order is still valid as of the date of this report.

The former receivers and managers of Shanghai Merchants were discharged by the Court on 19 May 2004 and by the Supreme Court of Bermuda on 2 July 2004.

The Receivers are in the process of negotiating with the new management of Shanghai Merchants over the bank deposit in satisfaction of the Company's judgment against Great Center.

e. Action to recover outstanding rent from Shun Loong

Profitex, an indirect wholly-owned subsidiary of the Company, claimed against Shun Loong for arrears of rent and other expenses under High Court Action No. 3868 of 2003.

On 18 March 2004, Profitex obtained a Summary Judgment against Shun Loong for the sum of HK\$2,378,000 plus interest and costs representing outstanding rent and charges owed by Shun Loong to Profitex for the period from June to October 2003 in relation to the premises leased by Profitex at 67th Floor, The Center, 99 Queen's Road Central, Hong Kong (the "Summary Judgment"). An appeal against the Summary Judgment was filed by Shun Loong but was subsequently abandoned.

On 16 April 2004, Shun Loong applied to the Court ("Shun Loong's Application") for an injunction to restrain Profitex from presenting a winding-up petition against Shun Loong based on the Summary Judgment. Shun Loong's Application was dismissed by the Court on 23 April 2004.

On 10 May 2004, Shun Loong, after withdrawing its appeal against the Summary Judgment, settled the judgment sum.

Notes to the Interim Financial Report *(Continued)*

31 December 2004

13. LITIGATION AND CONTINGENT LIABILITIES *(Continued)*

e. Action to recover outstanding rent from Shun Loong *(Continued)*

On 25 May 2004, Shun Loong filed an Originating Summons under High Court Miscellaneous Proceedings No. 1307 seeking declaratory reliefs against Profitex to the effect that the sub-tenancy agreement entered into between Shun Loong and Profitex dated 23 May 2003 effectively came to an end on 19 October 2003 by virtue of Shun Loong's own repudiation of it. On 13 September 2004, Profitex filed an affirmation in opposition to the Originating Summons and the date for the hearing of the Originating Summons was scheduled to be held on 11 January 2005.

At the hearing on 11 January 2005, it was ordered that the Originating Summons be set down for argument by Counsel before Judge in open court on a date to be fixed. Hearing is now scheduled for 29 September 2005.

Rent and other expenses from November 2003 up to the balance sheet date amounting to approximately HK\$5,896,000 remains outstanding and unpaid.

f. PRC recovery actions

On 19 July 2003, the Receivers applied to the High People's Court to commence legal proceedings against various recipients, including Fuyou, Shanghai Mechanic and Huatip, for the recovery of advances made by Hongxin and Longbai.

(i) *Deposit and advance to Fuyou*

Hongxin placed a deposit of RMB44,500,000 with Fuyou on 19 May 2003 for a period of 1 year, maturing on 18 May 2004, purportedly for the acquisition of the PRC government bonds and relevant investments to be managed by Fuyou. Interest is payable at 6.5% per annum on the maturity of the deposit. Despite numerous demands made by Hongxin, Fuyou failed to repay the principal and interest to Hongxin.

Longbai advanced RMB347,000,000 to Fuyou on 29 April 2003. On 19 July 2003, the Receivers commenced legal action in the High People's Court for the recovery of the advance to Fuyou. On 9 February 2004, the Receivers met with Fuyou's representative to demand repayment of the amount due to Longbai and, in addition, RMB44,500,000 being the amount due to Hongxin.

In July 2004, the High People's Court advised that the application to commence legal proceedings for the recovery of RMB347,000,000 against Fuyou and any further claims should be made to the Intermediate Court by the Company on behalf of Hongxin and Longbai. The Receivers are now assessing their legal options in this respect.

(ii) *Advance to Shanghai Mechanic*

On 30 May 2003, Hongxin advanced a sum of RMB222,910,000 to Shanghai Mechanic. On 30 January 2004, the Receivers demanded Shanghai Mechanic to repay the advance to Hongxin but received no response to date. On 19 July 2003, the Receivers commenced legal proceedings in the High People's Court against Shanghai Mechanic.

Notes to the Interim Financial Report *(Continued)*

31 December 2004

13. LITIGATION AND CONTINGENT LIABILITIES *(Continued)*

f. PRC recovery actions *(Continued)*

(ii) Advance to Shanghai Mechanic (Continued)

In July 2004, the High People's Court advised that the application to commence legal proceedings for any claims against Shanghai Mechanic should be made to the Intermediate Court by the Company on behalf of Hongxin. The Receivers are now assessing their legal options in this respect.

(iii) Advance to Huatip

Pursuant to a loan agreement dated 13 May 2003, Hongxin advanced a sum of RMB300,000,000 to Huatip. The loan together with interest at 10% per annum was repayable on 11 July 2003. Huatip failed to make any repayment.

On 19 July 2003, the Receivers commenced legal proceedings in the High People's Court against Huatip. On 30 January 2004, the Receivers, in their capacity as Hongxin's directors, demanded Huatip to repay RMB300,000,000 due to Hongxin but received no response to date.

In July 2004, the High People's Court advised that the application to commence legal proceedings for any claims against Huatip should be made to the Intermediate Court by the Company on behalf of Hongxin. The Receivers are now assessing their legal options in this respect.

g. Legal actions relating to Longbai

On 28 June 2004, a Summons was served on Longbai by the Intermediate Court requiring Longbai or its respective attorney to appear at the hearing held on 6 July 2004. The hearing was in relation to an enforcement application by Liuli SRCC against Longbai regarding the loan of RMB350,000,000 purportedly made by Liuli SRCC to Longbai (the "Longbai Purported Loan") pursuant to a loan agreement dated 11 April 2003 and the accompanying security agreement dated 11 April 2003 entered into between Liuli SRCC and Longbai (the "Longbai Purported Loan Agreements").

An enforcement notice dated 28 June 2004 (the "Longbai Enforcement Notice") was also served on Longbai stating, among other things, that Longbai should pay Liuli SRCC RMB354,934,911.58 (with accrued penalty interest and an enforcement fee of RMB356,935) in relation to the Longbai Purported Loan.

On 5 July 2004, Longbai filed a statement of claim against Liuli SRCC (the "Longbai SOC") with the Intermediate Court to invalidate the Longbai Purported Loan Agreements. The Intermediate Court accepted the application on the same day and scheduled the hearing to take place on 24 August 2004 (the "August 2004 Hearing").

At the hearing on 6 July 2004, Longbai filed with the Intermediate Court an application for the suspension of execution of the Longbai Enforcement Notice.

Notes to the Interim Financial Report *(Continued)*

31 December 2004

13. LITIGATION AND CONTINGENT LIABILITIES *(Continued)*

g. Legal actions relating to Longbai *(Continued)*

On 13 July 2004, Longbai received from the Intermediate Court an order dated 6 July 2004 stating that, the respective bank deposits of Longbai be frozen to satisfy the Longbai Enforcement Notice; assets of Longbai of equivalent value be frozen, foreclosed or auctioned in the event of any shortfall; and a list of the assets of Longbai to be frozen which included the real estate property (i.e. Hotel Longbai) but excluded the bank accounts and other assets of Longbai.

The Receivers understood from the Intermediate Court that in view of the application filed by Longbai for the suspension of execution of the Longbai Enforcement Notice and the Longbai SOC seeking the invalidation of the Longbai Purported Loan Agreements, the Intermediate Court would not freeze the bank accounts of Longbai and other assets before the Intermediate Court concluded on the invalidation application. The formal judgment in respect of the application by Longbai for the suspension of execution of the Longbai Enforcement Notice was reserved by the Intermediate Court pending their judgment in respect of the August 2004 Hearing.

On 4 August 2004, Longbai filed an application to add various co-defendants to the Longbai SOC namely the former legal representative of Longbai, Shanghai Nongkai and Fuyou on the basis that these parties had conspired to execute the Longbai Purported Loan Agreements with the intention to deceive Longbai.

The application was rejected by the Intermediate Court on 11 August 2004 on the grounds that the evidence submitted by Longbai did not show that Liuli SRCC was part of the conspiracy and Longbai's claims against the alleged co-defendants were irrelevant to the invalidation of the Longbai Purported Loan Agreements. Longbai appealed against the Intermediate Court's decision on 20 August 2004.

At the August 2004 Hearing, the Intermediate Court ruled that Longbai's appeal for adding co-defendants was not accepted but did not deliver any judgment on the Longbai SOC.

On 19 November 2004, a judgment in respect of the August 2004 Hearing was issued by the Intermediate Court ruling that, among other things, the Longbai Purported Loan Agreements were legally binding. The Intermediate Court did not support Longbai's application for the invalidation of the Longbai Purported Loan Agreements and the refund by Liuli SRCC of interest paid by Longbai of approximately RMB9,928,000 and interest accrued on interest of approximately RMB399,000, and further ruled that Longbai must bear the court fees, which had already been paid, of approximately RMB1,760,000.

Longbai did not file any appeal against the Intermediate Court's judgment dated 19 November 2004 in light of legal advice obtained.

On 6 January 2005, the Judge of the Enforcement Tribunal of the Intermediate Court handed down an order dated 23 December 2004 stating that the action under the Longbai Enforcement Notice instigated by Liuli SRCC be suspended in light of the Longbai SOC. However, when the Receivers sought further clarification on the aforesaid order, the Judge advised that the judgment dated 19 November 2004 on the Longbai SOC should have become effective as the reason for the suspension of the Longbai Enforcement Notice no longer existed.

Notes to the Interim Financial Report *(Continued)*

31 December 2004

13. LITIGATION AND CONTINGENT LIABILITIES *(Continued)*

g. Legal actions relating to Longbai *(Continued)*

On 7 March 2005, the Intermediate Court issued an enforcement resumption notice to Longbai and fixed a date for a hearing on 14 March 2005.

At the hearing on 14 March 2005, the Intermediate Court indicated that the enforcement procedure would commence within seven days from the date of the hearing.

Longbai continues to own Hotel Longbai but will lose its ownership if the enforcement action against Longbai is completed.

The Receivers are currently unable to determine whether there are any other contingent liabilities pursuant to the enforcement action. Based on the information available to the Receivers so far, there is no information indicating that the Company has provided any guarantee for the Longbai Purported Loan or that Liuli SRCC has any recourse against the Company in respect of the Longbai Purported Loan.

h. Libel action by Liuli SRCC

On 15 January 2005, a Summons was served on Longbai by the Intermediate Court requiring Longbai or its respective attorney to appear at the hearing on 14 April 2005 in relation to a libel action instituted by Liuli SRCC naming Longbai as the first defendant, EYTL as the second defendant, Yeo Boon Ann and Stephen Liu Yiu Keung as the third and fourth defendants respectively.

In the statement of claim, Liuli SRCC alleged that the basis of the Longbai SOC was unfounded and the action brought by Longbai under the instructions of the Receivers had seriously damaged the reputation of Liuli SRCC amongst the financial sector. Liuli SRCC is seeking a public apology to mitigate the adverse effect on its reputation and claiming compensation of RMB1, legal costs of RMB125,000 and all related litigation costs.

The Receivers are of the opinion, and this is supported by their PRC legal advisors, that Liuli SRCC's claim has no basis. The Receivers will vigorously defend the libel action.

i. Legal actions relating to Hongxin

On 28 June 2004, a Summons was served on Hongxin by the Intermediate Court requiring Hongxin or its respective attorney to appear at the hearing held on 6 July 2004. The hearing was in relation to an enforcement application by Shijidadao SRCC against Hongxin regarding the loan of RMB300,000,000 purportedly made by Shijidadao SRCC to Hongxin (the "Hongxin Purported Loan") pursuant to a loan agreement dated 27 March 2003 and the accompanying security agreement dated 27 March 2003 entered into between Shijidadao SRCC and Hongxin (the "Hongxin Purported Loan Agreements").

An enforcement notice dated 28 June 2004 (the "Hongxin Enforcement Notice") was also served on Hongxin stating, among other things, that Hongxin should pay Shijidadao SRCC RMB301,447,005.54 (with accrued penalty interest and an enforcement fee of RMB303,447) in relation to the Hongxin Purported Loan.

As Hongxin did not receive the Summons and the Hongxin Enforcement Notice from the Intermediate Court until 6 July 2004, the Intermediate Court adjourned the hearing in relation to the Hongxin Enforcement Notice to 13 July 2004.

Notes to the Interim Financial Report *(Continued)*

31 December 2004

13. LITIGATION AND CONTINGENT LIABILITIES *(Continued)*

i. Legal actions relating to Hongxin *(Continued)*

On 8 July 2004, Hongxin filed a statement of claim against Shijidadao SRCC (the “Hongxin SOC”) with the Intermediate Court seeking the invalidation of the Hongxin Purported Loan Agreements. The Intermediate Court accepted the application on 12 July 2004 and scheduled the hearing to take place on 7 September 2004 (the “September 2004 Hearing”).

At the hearing on 13 July 2004, Hongxin filed with the Intermediate Court an application for the suspension of execution of the Hongxin Enforcement Notice. At the same hearing, Hongxin received from the Intermediate Court an order dated 6 July 2004 stating that, the respective bank deposits of Hongxin be frozen to satisfy the Hongxin Enforcement Notice; assets of Hongxin of equivalent value be frozen, foreclosed or auctioned in the event of any shortfall; and a list of the assets of Hongxin to be frozen which included the real estate property (i.e. the land at Wuzhong Road) but excluded the bank accounts and other assets of Hongxin.

The Receivers understood from the Intermediate Court that in view of the application filed by Hongxin for the suspension of execution of the Hongxin Enforcement Notice and the Hongxin SOC seeking the invalidation of the Hongxin Purported Loan Agreements, the Intermediate Court would not freeze the bank accounts of Hongxin and other assets before the Intermediate Court concluded on the invalidation application. The formal judgment in respect of the application by Hongxin for the suspension of execution of the Hongxin Enforcement Notice was reserved by the Intermediate Court pending their judgment in respect of the September 2004 Hearing.

On 11 August 2004, Hongxin filed an application to add various co-defendants to the Hongxin SOC namely the former legal representative of Hongxin, Shanghai Nongkai and Huatip on the basis that these parties had conspired to execute the Hongxin Purported Loan Agreements with the intention to deceive Hongxin, and further, to add co-third-parties to the Hongxin SOC namely the two guarantors for Huatip, Shanghai Agricultural Industrialization Development (Group) Company Limited and Shanghai Agricultural Investment General Company.

The application was rejected by the Intermediate Court on 26 August 2004 on the grounds that the evidence submitted by Hongxin did not show that Shijidadao SRCC was part of the conspiracy and Hongxin’s claims against the alleged co-defendants and co-third-parties were irrelevant to the invalidation of the Hongxin Purported Loan Agreements.

Hongxin did not file any appeal against the Intermediate Court’s decision in light of its similar ruling on 24 August 2004 to reject Longbai application to add co-defendants to the Longbai SOC.

At the September 2004 Hearing, the Intermediate Court did not deliver any judgment on the Hongxin SOC.

On 17 November 2004, a judgment in respect of the September 2004 Hearing was issued by the Intermediate Court ruling that, among other things, the Hongxin Purported Loan Agreements were legally binding. The Intermediate Court did not support Hongxin’s application for the invalidation of the Hongxin Purported Loan Agreements and the refund by Shijidadao SRCC of interest paid by Hongxin of RMB4,071,000 and interest accrued on interest of approximately RMB194,500, and further ruled that Hongxin must bear the court fees, which had already been paid, of approximately RMB1,510,000.

Notes to the Interim Financial Report *(Continued)*

31 December 2004

13. LITIGATION AND CONTINGENT LIABILITIES *(Continued)*

i. Legal actions relating to Hongxin *(Continued)*

Hongxin did not file any appeal against the Intermediate Court's judgment dated 17 November 2004 in light of legal advice obtained.

On 6 January 2005, the Judge of the Enforcement Tribunal of the Intermediate Court handed down an order dated 23 December 2004 stating that the action under the Hongxin Enforcement Notice instigated by Shijidadao SRCC be suspended in light of the Hongxin SOC. However, when the Receivers sought further clarification on the aforesaid order, the Judge advised that the judgment dated 17 November 2004 on the Hongxin SOC should have become effective as the reason for the suspension of the Hongxin Enforcement Notice no longer existed.

On 7 March 2005, the Intermediate Court issued an enforcement resumption notice to Hongxin and fixed a date for a hearing on 14 March 2005.

At the hearing on 14 March 2005, the Intermediate Court indicated that the enforcement proceedings would commence immediately.

Hongxin continues to own the land at Wuzhong Road but will lose its ownership if the enforcement action against Hongxin is completed.

The Receivers are currently unable to determine whether there are any other contingent liabilities pursuant to the enforcement action. Based on the information available to the Receivers so far, there is no information indicating that the Company has provided any guarantee for the Hongxin Purported Loan or that Shijidadao SRCC has any recourse against the Company in respect of the Hongxin Purported Loan.

j. Legal actions relating to Bowyer

Bowyer terminated the service of Shanghai Nongkai on 29 April 2004 and appointed FPDSavills (Shanghai) as the manager on 10 June 2004.

On 30 July 2004, Bowyer made two applications to the SAT to:

- seek an order that (i) the agency agreements dated 11 April 2001 and 31 December 2002 entered into between Bowyer and Shanghai Nongkai regarding the appointment of Shanghai Nongkai as Bowyer's agent on all matters relating to the leasing of Bowyer's investment properties in Jun Ling Plaza be terminated; (ii) all rental proceeds and relevant sums received by Shanghai Nongkai be repaid; (iii) all tenancy agreements and relevant documents be returned; and (iv) Shanghai Nongkai be precluded from receiving rental income from the properties (the "Arbitration Application"); and
- freeze Shanghai Nongkai's assets up to an amount of RMB4,288,173.61 (the "Asset Preservation Application") representing monies relating to the leasing of Bowyer's properties yet to be returned to Bowyer.

On 2 August 2004, the SAT accepted the Arbitration Application and the Asset Preservation Application.

On 3 August 2004, Bowyer filed the Asset Preservation Application with the Second Intermediate Court and the application was accepted on the same day.

Notes to the Interim Financial Report *(Continued)*

31 December 2004

13. LITIGATION AND CONTINGENT LIABILITIES *(Continued)*

j. Legal actions relating to Bowyer *(Continued)*

On 4 August 2004, two orders regarding the Asset Preservation Application were made by the Second Intermediate Court as follows:

- (i) monies in the sum of RMB4,288,173.61 in Shanghai Nongkai's bank accounts or assets of Shanghai Nongkai of equivalent value be frozen immediately; and
- (ii) three office units of Jun Ling Plaza owned by Bowyer be preserved immediately as security placed with the Second Intermediate Court for the Asset Preservation Application.

On 25 August 2004, enforcement notices were issued by the SAT to the tenants of Bowyer notifying the tenants to freeze rental payments to Shanghai Nongkai.

At the hearing on 18 October 2004, Shanghai Nongkai disputed whether the SAT had jurisdiction over disputes arising from the agency agreement dated 31 December 2002. The SAT ruled that it is empowered to hear disputes in relation to the agency agreement dated 11 April 2001 and the management agreement dated 31 December 2002 cannot be deemed as a replacement of the agency agreement dated 11 April 2001. Shanghai Nongkai had one week from 18 October 2004 to submit their written objection to the SAT's ruling to continue to hear the dispute. The hearing on 18 October 2004 was therefore adjourned.

On 22 November 2004, the SAT overruled Shanghai Nongkai's objection to its empowerment to hear the dispute and the next hearing was fixed for 27 December 2004.

At the hearing on 27 December 2004, Bowyer and Shanghai Nongkai brought the dispute before SAT. SAT reserved the arbitration order to be issued at a future date.

On 28 February 2005, SAT issued the arbitration order in favour of Bowyer, ruling that, among other things, the agency agreement dated 11 April 2001 between Bowyer and Shanghai Nongkai be terminated and Shanghai Nongkai ceased to act as the agent for Bowyer in relation to the leasing of properties; and Shanghai Nongkai to pay Bowyer, within 15 days from the date of the order, the amount of RMB4,288,173.61 representing monies relating to the leasing of Bowyer's properties for the period from 1 May 2001 to 30 April 2004, arbitration fees of RMB51,104 and asset preservation fees of RMB21,961.

As at the date of this report, Shanghai Nongkai has not made any of the payments specified in the order. The Receivers are liaising with their PRC lawyers to consider further legal options in this respect.

k. Contingent liabilities in respect of the legal actions

The Receivers have initiated and defended legal actions in Hong Kong and PRC with a view to preserving and maximizing the value of assets of the Company. Given the nature of the claims and damages under dispute and the current status of these proceedings, it is not possible to estimate the eventual outcome of the claims with reasonable certainty at this stage. As such, no provision has been made for claims and damages in the interim financial report.

Notes to the Interim Financial Report *(Continued)*

31 December 2004

13. LITIGATION AND CONTINGENT LIABILITIES *(Continued)*

1. Possible recovery in respect of the legal actions

A significant portion of the legal fees incurred in Hong Kong are recoverable from third parties under various costs orders already obtained directly or indirectly in favour of the Company in the majority of the proceedings, although it is likely that costs would only be recovered on a party-and-party basis instead of a solicitor-and-own-client basis. As of the date of this report, no costs have been taxed or recovered by the Company under those orders because most of the proceedings are still ongoing. However, it is intended that steps will be taken to recover such costs in the near future.

14. POST BALANCE SHEET EVENTS

- a. In February 2005, the staff of the Receivers at Hotel Longbai were threatened and physically assaulted on various occasions by a gang of people. The police in Shanghai were called on a number of occasions by the staff of the Receivers seeking protection.

In particular, one of the Receivers' staff was physically detained against his will at Hotel Longbai on 7 February 2005, physically assaulted and was only allowed to leave after being forced to sign a document against his will and under duress.

The Receivers currently consider that it is unsafe for their staff to work at Hotel Longbai. Currently, supervision on payments and other documents are being conducted through mail. In the circumstances, the Receivers consider that the day-to-day operation of Hotel Longbai is no longer under their control.

- b. On 7 March 2005, the Intermediate Court issued enforcement resumption notices to Longbai and Hongxin and fixed a date for a hearing on 14 March 2005.

At the hearing on 14 March 2005, the Intermediate Court indicated that the enforcement procedure against Hongxin would commence immediately and the enforcement procedure against Longbai would commence within seven days from the date of the hearing.

The Group will lose the pledged assets if the enforcement actions against Hongxin and Longbai are completed.

Should the Group cease to own Hotel Longbai and the land at Wuzhong Road, there is a risk that the Company may be unable to comply with Rule 13.24 of the Listing Rules.