

# Statement from the Receivers

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We hereby present the annual report (“Annual Report”) of Shanghai Land Holdings Limited (Receivers Appointed) (the “Company”) and its subsidiaries (collectively the “Group”) for the financial year ended 30 June 2004.

## GENERAL BACKGROUND

On 7 June 2003, due to the uncertainties caused by the reported arrest of Mr. Chau Ching Ngai (“Mr. Chau”), the Company’s board of directors (the “Board”) obtained an order from the High Court of Hong Kong (the “Court”) appointing us, Stephen Liu Yiu Keung and Yeo Boon Ann of Ernst & Young Transactions Limited, as the joint and several receivers of the Company (the “Receivers”) until further order. No winding-up petition has been filed against the Company and the Company is therefore not in liquidation.

## DISCLAIMER OF LIABILITIES

We have taken all reasonable steps and have used our best endeavours to prepare the Group’s and the Company’s financial statements for the year ended 30 June 2004.

Despite our efforts in ascertaining the affairs of the Group, we have only had limited access to the books and records of Shanghai Hongxin Real Estate Development Company Limited (上海宏興房地產發展有限公司) (“Hongxin”) and Bowyer Profits Limited (“Bowyer”) and certain original documents of Shanghai Yihe Longbai Hotel Limited (上海逸和龍柏酒店有限公司) (“Longbai”).

In light of the above, we are unable to give an unqualified representation that all the transactions affecting the Group during the year ended 30 June 2004 have been included in the financial statements and whether the financial statements present a true and fair view of the operations and cash flows of the Group for the year ended 30 June 2004 and the financial position of the Company and of the Group as at 30 June 2004. We therefore disclaim any liabilities in respect of the financial statements of the Company and of the Group in relation to the affairs of the Company and of the Group for the year ended 30 June 2004.

The audit committee of the Company (the “Audit Committee”) had reviewed and discussed the financial statements with us and the Board. Based on the results of the inquiries and the inspection of the books and records of the Company and its subsidiaries available in Hong Kong and the People’s Republic of China (“PRC”), the members of the Audit Committee were unable to satisfy themselves as to whether the financial statements present 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 financial statements of the Company and of the Group for the year ended 30 June 2004.

The Board at a meeting held on 7 December 2004 had resolved not to approve the financial statements for the year ended 30 June 2004 as the Company has not been under the management of the Board for the relevant accounting period for which the financial statements were prepared.

In light of the above circumstances and in view of the fact that we will continue to manage the Company in the near future until further order of the Court, we consider it appropriate, notwithstanding the limitations referred to above, to take up the responsibility from the Board to prepare and approve the financial statements. An order of the Court was obtained on 20 December 2004 conferring upon us powers to lay before the Company at its annual general meeting the profit and loss accounts, together with group accounts, balance sheets, auditors’ report and reports by the Receivers prepared in respect of the Company and of the Group for the year ended 30 June 2004; 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 year ended 30 June 2004.

Shareholders and other users are recommended to read the Annual Report with extreme caution.

# Statement from the Receivers *(Continued)*

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## GENERAL OVERVIEW

Apart from having taken over the general management and conduct of the affairs of the Company, we have initiated and defended various legal actions with a view to preserving or maximising the value of assets of the Company.

Upon our appointment, we were specifically informed that two purported loans totalling RMB650,000,000 had been taken out by Hongxin and Longbai, the Company's subsidiaries in the PRC, without the knowledge of the Board. During the year, we have also been carrying out investigations into these purported loan transactions and various transactions of the Company involving suspicious fund flows.

Details of our work done and findings are set out as follows:

### 1. Change of legal representative for Longbai

On 16 December 2003, the Shanghai Administrative Bureau for Industry and Commerce (上海市工商行政管理局) ("Shanghai AIC") of the PRC endorsed:

- the change of legal representative for Longbai to Mr. Yeo Boon Ann; and
- the appointment of the Receivers and Mr. Laurence Yegene Ip (an employee of our firm) as Longbai's directors.

Longbai's former legal representative refused to surrender Longbai's official seal, financial chop and certain original documents to us.

As Longbai's official seal and financial chop are vital to Longbai's daily operations, and 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, we 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. This enabled new chops to be made.

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 a new official seal and financial chop for Longbai. The new official seal and financial chop were obtained by us on 23 February 2004.

Following the above, we have effected our control over the management of Longbai. A number of our staff are currently stationed at Hotel Yihe Longbai Shanghai (上海逸和龍柏飯店) ("Hotel Longbai") to oversee its operations on a full-time basis.

In the course of our investigations, we understand that certain original licences and agreements of Longbai/Hotel Longbai are kept by Shanghai Nongkai Development Group Limited (上海農凱發展(集團)有限公司) ("Shanghai Nongkai"), a PRC company known to be controlled by Mr. Chau.

# Statement from the Receivers *(Continued)*

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## GENERAL OVERVIEW *(Continued)*

### 2. Change of legal representative for 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 has yet to surrender the books and records, official seal and financial chop of Hongxin to us. On 27 February 2004, we reported the matter to the Shanghai Ministry of Public Security of Huangpu District Branch (上海市黃埔公安分局) and have obtained approval to make a new official seal and financial chop.

We understand that Hongxin's books and records are currently kept by Shanghai Nongkai.

The registered capital of Hongxin was US\$16,700,000 as of 20 January 2003 but an application to increase Hongxin's registered capital to US\$30,000,000 was made to Shanghai Foreign Investment Commission (上海市外國投資工作委員會) ("SFIC") before our appointment as the Receivers. Pursuant to the new business licence issued to one of us acting as the legal representative of Hongxin effective on 15 January 2004, the registered capital of Hongxin is listed at US\$30,000,000, of which US\$16,700,000 has been paid-up. The investment amount, which was originally listed at US\$50,000,000, is listed at US\$90,000,000 pursuant to the Certificate of Approval (批准證書) of Hongxin.

On 6 February 2004, Hongxin applied to SFIC for the restoration to its original registered capital of US\$16,700,000 and investment amount of US\$50,000,000. The deadline for paying up the additional registered capital was 24 May 2004. On 30 April 2004, we requested SFIC to extend the deadline to 24 November 2004. SFIC, however, advised that Hongxin's annual inspection of the Certificate of Approval for 2003 ("SFIC Annual Inspection") was required for their consideration.

Furthermore, the business licence of Hongxin would be revoked if the annual inspection of Hongxin's business licence for 2003 ("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.

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. We then continued to consult SFIC, Shanghai AIC, and the Foreign Economic Commission of Huangpu District Shanghai (對外經濟委員會) ("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.

In light of the judgment on Hongxin dated 17 November 2004 issued by Shanghai No. 1 Intermediate Court (上海市第一中級人民法院) (the "Intermediate Court") as mentioned in Point 4 of the Statement from the Receivers, FEC has verbally rejected Hongxin's application to extend the payment of the additional registered capital to 24 November 2005. We are currently considering all legal options in this respect. Should the business licence of Hongxin be revoked, Hongxin might have a going concern problem.

# Statement from the Receivers *(Continued)*

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## GENERAL OVERVIEW *(Continued)*

### 3. 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 Shanghai Pudong New District Liuli Rural Credit Cooperative Union's (上海市浦東新區六裏農村信用合作社) ("Liuli SRCC") enforcement application 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 was also served on Longbai stating, among other things, that the Intermediate Court had ruled 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 (the "Longbai Enforcement Notice").

On 5 July 2004, Longbai filed a statement of claim against Liuli SRCC (the "Longbai SOC") with the Intermediate Court to apply for the invalidation of the Longbai Purported Loan Agreements and the Intermediate Court accepted the application on the same day. The Intermediate Court 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.

On 13 July 2004, Longbai received from the Intermediate Court an order dated 6 July 2004 stating that:

- (i) the respective bank deposits of Longbai be frozen to satisfy the Longbai Enforcement Notice; and
- (ii) 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.

We 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 Securities Brokerage Co., Limited (富友證券經紀有限責任公司) ("Fuyou") on the basis that these parties had conspired to execute the Longbai Purported Loan Agreements with the intention to deceive Longbai.

On 11 August 2004, the Intermediate Court rejected Longbai's application to add co-defendants to the Longbai SOC 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.

On 20 August 2004, an appeal was brought against the Intermediate Court's decision in rejecting Longbai's application to add co-defendants to the Longbai SOC.

# Statement from the Receivers *(Continued)*

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## GENERAL OVERVIEW *(Continued)*

### 3. Actions relating to Longbai *(Continued)*

At the August 2004 Hearing, the Intermediate Court advised that Longbai's appeal for adding co-defendants was not accepted. The Intermediate Court did not deliver any judgment and did not indicate any definite time as to when a judgment would be given.

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 are legally binding, the Intermediate Court does not support Longbai's application for the invalidation of the Longbai Purported Loan Agreements and the return by Liuli SRCC of interest paid by Longbai of approximately RMB9,928,000 and payment of an amount of approximately RMB399,000, being the interest accrued on the interest paid by Longbai, and further ruled that Longbai must bear the court fees of approximately RMB1,760,000, which had already been paid.

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

Longbai might lose its ownership of Hotel Longbai should Liuli SRCC resume its enforcement action against Longbai.

We are currently unable to determine whether there are any other contingent liabilities should Liuli SRCC resume its enforcement action against Longbai. Based on the information available to us 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.

### 4. 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 the Shijidadao Branch of Shanghai Pudong New District Rural Credit Cooperative Union's (上海市浦東新區農村信用合作社聯合社世紀大道分社) ("Shijidadao SRCC") enforcement application 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 was also served on Hongxin stating, among other things, that the Intermediate Court had ruled 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 (the "Hongxin Enforcement Notice").

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.

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 and the Intermediate Court accepted the application on 12 July 2004. The Intermediate Court scheduled the hearing to take place on 7 September 2004 (the "September 2004 Hearing").

On 13 July 2004, Hongxin filed with the Intermediate Court an application for the suspension of execution of the Hongxin Enforcement Notice.

# Statement from the Receivers *(Continued)*

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## GENERAL OVERVIEW *(Continued)*

### 4. Actions relating to Hongxin *(Continued)*

At the same hearing on 13 July 2004, Hongxin received from the Intermediate Court an order dated 6 July 2004 stating that:

- (i) the respective bank deposits of Hongxin be frozen to satisfy the Hongxin Enforcement Notice; and
- (ii) 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.

We 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 Shanghai Huatip Trading Limited (上海華疊貿易有限公司) (“Huatip”) on the basis that these parties had conspired to execute the Hongxin Purported Loan Agreements with the intention to deceive Hongxin, and to add co-third-parties to the Hongxin SOC namely the two guarantors for Huatip, Shanghai Agricultural Industrialization Development (Group) Company Limited (上海市農業產業化發展(集團)有限公司) and Shanghai Agricultural Investment General Company (上海市農業投資總公司).

On 26 August 2004, the Intermediate Court rejected Hongxin’s application to add co-defendants to the Hongxin SOC 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 rejecting Hongxin’s application to add co-defendants and co-third-parties in light of the Intermediate Court’s decisions on Longbai.

At the September 2004 Hearing, the Intermediate Court did not deliver any judgment and did not indicate any definite time as to when a judgment would be given.

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 are legally binding, the Intermediate Court does not support Hongxin’s application for the invalidation of the Hongxin Purported Loan Agreements and the return by Shijidadao SRCC of interest paid by Hongxin of RMB4,071,000 and payment of an amount of approximately RMB194,500, being the interest accrued on the interest paid by Hongxin, and further ruled that Hongxin must bear the court fees of approximately RMB1,510,000, which had already been paid.

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

# Statement from the Receivers *(Continued)*

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## GENERAL OVERVIEW *(Continued)*

### 4. Actions relating to Hongxin *(Continued)*

Hongxin might lose its land use right in respect of the land at Wuzhong Road should Shijidadao SRCC resume its enforcement action against Hongxin.

We are currently unable to determine whether there are any other contingent liabilities should Shijidadao SRCC resume its enforcement action against Hongxin. Based on the information available to us 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.

### 5. Actions relating to Bowyer

In the March and April 2004 financial reports prepared by Shanghai Nongkai, we noticed that legal expenses of RMB4,180,000 have been recorded but not properly supported. Despite our numerous requests, Shanghai Nongkai has failed to respond to queries raised by us and has failed to return the rental proceeds and other relevant records of Bowyer to us. However, a representative of Shanghai Nongkai has orally confirmed to us that this money belonging to the Group has been used to settle legal fees incurred by Mr. Chau.

We terminated the service of Shanghai Nongkai on 29 April 2004 and appointed FPD Savills Property Services (Shanghai) Company Limited ("FPDSavills (Shanghai)") as the manager on 10 June 2004.

On 30 July 2004, Bowyer made two applications to the Shanghai Arbitration Tribunal (上海仲裁委員會) (the "SAT") to:

- seek an order that (i) the management 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 manager 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").

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 Shanghai Second Intermediate Court (上海市第二中級人民法院) (the "Second Intermediate Court") and the application was accepted on the same day.

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.



# Statement from the Receivers *(Continued)*

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## GENERAL OVERVIEW *(Continued)*

### 5. **Actions relating to Bowyer** *(Continued)*

At the hearing on 18 October 2004, Shanghai Nongkai disputed whether the SAT had jurisdiction over any dispute arising from the management agreement dated 31 December 2002. The SAT ruled that it is empowered to hear any dispute in relation to the management agreement dated 11 April 2001 and the management agreement dated 31 December 2002 cannot be deemed as a replacement of the management 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 further ruled that Shanghai Nongkai's objection to its empowerment to hear the dispute be revoked, and the next hearing is fixed for 27 December 2004.

### 6. **Proposal by certain Directors to appoint additional Directors and the appointment/resignation of Directors**

On 18 December 2003, a number of the Company's Directors received a notice proposing to convene a Board meeting on 19 December 2003. According to the notice, the purpose of the Board meeting was to consider and appoint Mr. Zhou Zhen Ming, Mr. Chau's brother, as an alternate Director for Mr. Chau, and appoint three additional Directors. The notice was not served on us. The Board meeting was then adjourned to 22 December 2003. On 22 December 2003, a Court order was obtained to prevent the Board or any of its Directors under Articles 95, 96(A) and 108 of the Company's memorandum and articles of association from appointing new or alternate Directors. A copy of the Court order was provided to each Director. We understand that no Board resolution was passed on 22 December 2003 and no alternate or additional Directors were appointed.

Mr. Ho Yau Hoo, Ronald was appointed as the Company's new Independent Non-Executive Director and an Audit Committee member of the Company at a Board meeting held on 28 September 2004. Mr. Ho's appointment was proposed by one of the Independent Non-Executive Directors of the Company. The appointment of Mr. Ho was approved by us pursuant to the Court order dated 22 December 2003.

Mr. Shan Zhenglin has tendered his resignation as an Executive Director effective from 3 November 2004.

Mr. Liu Lit Man has tendered his resignation as an Independent Non-Executive Director and Audit Committee member effective from 11 November 2004.

At a Board meeting held on 1 December 2004, the Board resolved, by majority of the votes of the Directors present at the meeting, to nominate for appointment a candidate as an Independent Non-Executive Director of the Company and resolved, by majority of the votes of the Directors present at the meeting, to nominate for appointment three candidates as Executive Directors of the Company. The appointments of Directors of the Company is subject to the approval of the Court or us pursuant to an order of the Court dated 22 December 2003.



# Statement from the Receivers *(Continued)*

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## GENERAL OVERVIEW *(Continued)*

### 7. Legal actions

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

Legal proceedings have been 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 against, among others, Mr. Chau for US\$34,200,000, being funds Mr. Chau and others transferred from the bank accounts of the Company to some third parties outside of the Group, as mentioned in Note 20 to the financial statements, which are believed to be connected to Mr. Chau, through the bank accounts of the Company's subsidiaries 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"), we 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"). We were empowered to take into our 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 us 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, we have been challenging 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 we have since been advised not to challenge the Solicitors' authority to act for Mr. Chau based on the new evidence provided by the Solicitors, we maintain that the Solicitors did not have authority to act for Mr. Chau during the period from 11 September 2003 to 13 July 2004.

# Statement from the Receivers *(Continued)*

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## GENERAL OVERVIEW *(Continued)*

### 7. Legal actions *(Continued)*

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

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 heard on 18 October 2004.

On 1 September 2004, we 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 an order that the Default Judgment and the 28 August 2003 Order be set aside. The application is to be heard in January 2005.

On 22 September 2004, we applied for a Mareva Injunction order against Mr. Chau and an appointment of us 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 commencing on 10 November 2004, the Court further directed, among other things, that the hearing be adjourned to 21 February 2005 and that no steps are to be taken on Chau's Assets until further order.

(b) *Action against Sun Tai Cheung Credits Limited ("STCC"), SHKIS and Ms. Mo Yuk Ping ("Ms. Mo") in relation to the disposal of Shun Loong Holdings Limited ("Shun Loong")*

On 4 February 2004, we have, in our capacity as receivers appointed by way of equitable execution over Chau's Assets and the directors of Shanghai Finance Holdings Limited ("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, have applied to strike out Shanghai Finance's claim. At a hearing on 18 October 2004, 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 British Virgin Islands ("BVI") in relation to the winding-up petition against Shanghai Finance subject to certain conditions.

(c) *Libel action against the Company and other parties*

On 5 February 2004, we made a public announcement in respect of the legal proceedings commenced by us on behalf of Shanghai Finance to maximise the recovery of the debt under the Default Judgment. In response to the announcement, Sun Hung Kai & Co. Limited ("SHK"), STCC and SHKIS instituted a libel action against us, the Company and two newspaper publishers on 7 February 2004. Together with the Company, we have 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.

# Statement from the Receivers *(Continued)*

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## GENERAL OVERVIEW *(Continued)*

### 7. Legal actions *(Continued)*

(d) *Action to recover HK\$53,157,294 from Great Center Limited ("Great Center")*

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. We 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 Holdings Limited ("Shanghai Merchants"), Great Center was restricted from, inter alia, disposing of or otherwise dealing with or diminishing the value of its assets pursuant to an injunction order obtained from the Court by Shanghai Merchants (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. We 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 Investments Limited ("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 was instituted 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 withdrew its appeal against the Summary Judgment and paid the judgment sum to Profitex prior to the balance sheet date.

On 25 May 2004, Shun Loong filed an Originating Summons 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.

The date for the hearing of the Originating Summons was scheduled to be held on 11 January 2005.

# Statement from the Receivers *(Continued)*

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## GENERAL OVERVIEW *(Continued)*

### 8. Maximising the Value of the Company

Upon seeking further advice from senior counsel, we consider that the loan assignment proposal (as stated in the Company's announcement dated 13 October 2003 and the annual report for the year ended 30 June 2003) was not feasible and should not be pursued.

We have been seeking legal and financial advice on various proposals to maximise the value of the Company. We are obliged to report to the Court on this issue and will inform shareholders of further details upon obtaining approval from the Court.

In addition, we are aware that various parties have expressed their interests in acquiring the issued share capital of the Company, but none has proceeded.

### 9. Possible Sale of Shares in the Company by New Nongkai Global Investments Limited (Receivers and Managers Appointed) ("New Nongkai")

The joint and several receivers and managers of New Nongkai, Messrs. Kennic L.H. Lui and Ruby M.Y. Leung (the "New Nongkai Receivers") issued an announcement dated 25 June 2003 that they intended to enter into discussions with various parties who had expressed, or might express, an interest in acquiring the 2,288,521,317 shares representing approximately 75% of the Company's issued share capital beneficially owned by New Nongkai. If a sale of all or some of such shares does take place, it is possible that such sale may result in the purchaser(s) making a general offer for all of the Company's issued shares pursuant to Rule 26 of the Code on Takeovers and Mergers. The New Nongkai Receivers further announced on 25 July 2003 that on 23 July 2003 they had dispatched an invitation to make a preliminary offer on a non-binding basis for all the Company's shares beneficially owned by New Nongkai to a wide selection of potentially interested parties. Since then they have issued a series of further announcements, the latest of which dated 10 November 2004 stated that discussions with parties potentially interested in purchasing the 2,288,521,317 shares in the Company held by New Nongkai had been suspended due to the difficulties encountered in arriving at a mutually satisfactory basis for an offer.

## OUTLOOK

As outlined above, we will continue to consider all feasible options to maximise the value of the Company for the benefit of its shareholders and creditors. At this juncture, we are not in a position to determine when the receivership will conclude.

For and on behalf of  
**Shanghai Land Holdings Limited**  
*(Receivers Appointed)*

**Stephen Liu Yiu Keung**  
**Yeo Boon Ann**  
*Joint & Several Receivers*

Hong Kong, 23 December 2004