1. 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 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 Court appointing Mr. Stephen Liu Yiu Keung and Mr. Yeo Boon Ann, of Ernst and Young Transactions Limited, as the joint and several receivers of the Company. 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.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

a. Qualified representation by the Receivers

The Receivers have taken all reasonable steps and have used their best endeavours to prepare the Group's and the Company's financial statements for the year ended 30 June 2004. Despite their efforts in ascertaining the affairs of the Group, the Receivers have only had limited access to the books and records of Hongxin and certain original documents of Longbai as their former legal representatives and directors, who are believed to be Mr. Chau's associates, have been uncooperative.

The Receivers and their staff became the legal representatives and the directors of Longbai and Hongxin on 16 December 2003 and 15 January 2004 respectively. In the course of the Receivers' investigations, they understand that such books and records and documents are currently kept by Shanghai Nongkai.

Hongxin's management accounts for the period from 1 July 2003 to 30 June 2004 are not available because the former legal representative and directors of Hongxin have failed to surrender Hongxin's books and records to the Receivers and their staff. Hongxin's management accounts were prepared according to the available bank statements obtained from various banks and the auditor of Hongxin is therefore unable to form an opinion on Hongxin's audited financial statements for the year ended 31 December 2003 and for the six months ended 30 June 2004.

As a consequence, the Receivers have been unable to satisfy themselves as to whether certain balances relating to Hongxin and Longbai have been properly accounted for in the financial statements.

Before the Receivers' appointment on 7 June 2003, Bowyer appointed Shanghai Nongkai as manager to act on its behalf for all matters relating to the leasing of its investment properties in Jun Ling Plaza including but not limited to receiving income and making payments of expenses related thereto. Shanghai Nongkai prepared monthly financial reports in respect of the leasing status and cash position of Bowyer's investment properties in Jun Ling Plaza.

2. **BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS** *(Continued)*

a. **Qualified representation by the Receivers** *(Continued)*

In the March and April 2004 financial reports prepared by Shanghai Nongkai, the Receivers noticed that legal expenses of RMB4,180,000 have been recorded but not properly supported. Despite numerous requests by the Receivers, Shanghai Nongkai has failed to respond to queries raised by the Receivers and has failed to return the rental proceeds and other relevant records of Bowyer to the Receivers. However, a representative of Shanghai Nongkai has orally confirmed to the Receivers that the money has been used to settle legal fees incurred by Mr. Chau. The Receivers terminated the service of Shanghai Nongkai on 29 April 2004 and have appointed FPDSavills (Shanghai) as the manager on 10 June 2004. The Receivers have taken out legal actions to recover all rental proceeds and relevant sums from Shanghai Nongkai, as detailed in Note 33i to the financial statements. 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. The Receivers have not received any financial reports from Shanghai Nongkai since May 2004. The monthly financial reports for the period from 1 July 2003 to 30 April 2004 prepared by Shanghai Nongkai were used for the preparation of the Group's financial statements. Given the above, the Receivers have been unable to ascertain whether certain balances relating to Bowyer have been properly accounted for in the financial statements.

Under the circumstances, the Receivers 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. The Receivers 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 had reviewed and discussed the financial statements with the Receivers 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 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 the Receivers will continue to manage the Company in the near future until further order of the Court, the Receivers 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 the Receivers 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.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS *(Continued)*

b. Longbai

The major assets of Longbai, being the hotel properties, were allegedly secured against a purported loan advanced to Longbai, as detailed in Notes 16b and 23 to the financial statements. As a result of the decrease in the carrying value of the hotel properties to RMB170,000,000 (equivalent to HK$160,650,000), Longbai had net liabilities as at 30 June 2004. Thus, Longbai might have a going concern problem.

An enforcement notice against Longbai was served by Liuli SRCC and a judgment related to the Longbai Purported Loan pursuant to the Longbai Purported Loan Agreements was issued by the Intermediate Court, as detailed in Note 33g to the financial statements. Longbai might lose its ownership of Hotel Longbai should Liuli SRCC resume its enforcement action against Longbai.

c. Hongxin

The major asset of Hongxin, being the property under development with a carrying value of RMB285,000,000 (equivalent to HK$269,325,000), as detailed in Notes 16c and 23 to the financial statements, was allegedly secured against a purported loan advanced to Hongxin. The Receivers have been unable to determine whether Hongxin is able to meet all its liabilities due to insufficient books and records. Further, according to the information available to the Receivers, funds equivalent to the purported loan were advanced to a PRC entity, as detailed in Note 20h to the financial statements. Should this receivable become irrecoverable and the proceeds from realisation of the property under development be insufficient to cover the purported loan and other liabilities, Hongxin might have a going concern problem.

An enforcement notice against Hongxin was served by Shijidadao SRCC and a judgment related to the Hongxin Purported Loan pursuant to the Hongxin Purported Loan Agreements was issued by the Intermediate Court, as detailed in Note 33h to the financial statements. Hongxin might lose its land use right in respect of the land at Wuzhong Road should Shijidadao SRCC resume its enforcement action against Hongxin.

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 SFIC before the Receivers' appointment. Pursuant to the new business licence issued to one of the Receivers 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, 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.

2. **BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS** *(Continued)*

c. **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 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, FEC has verbally rejected Hongxin's application to extend the payment of the additional registered capital to 24 November 2005. The Receivers are currently considering all legal options in this respect. Should the business licence of Hongxin be revoked, Hongxin might also have a going concern problem.

d. **Measurement basis**

The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of certain fixed assets and non-trading securities, as explained in the principal accounting policies set out in Note 4 to the financial statements.

3. **IMPACT OF A REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE ("SSAP")**

SSAP 12 (Revised) "Income taxes" is effective for the first time for the current year's financial statements. SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future;

- a deferred tax liability has been recognised on the revaluation of certain of the Group's fixed assets;

- a deferred tax asset has been recognised for tax losses arising in the current/prior periods to the extent that it is probable that there will be sufficient future taxable profits against which such losses can be utilised; and

3. IMPACT OF A REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE ("SSAP") *(Continued)*

Disclosures:

- the related note disclosures are now more extensive than previously required. These disclosures are presented in Notes 12 and 24 to the financial statements and include a reconciliation between the accounting loss and the tax expense for the year.

Further details of these changes and the prior year adjustments arising from the adoption of this SSAP are included in the accounting policy for taxation in Notes 4m and 24 to the financial statements respectively.

4. PRINCIPAL ACCOUNTING POLICIES

a. Statement of compliance

These financial statements have been prepared in accordance with all applicable SSAPs (other than SSAP 19 "Borrowing costs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Companies Ordinance.

b. Basis of consolidation

(i) The consolidated financial statements include the financial statements of the Company and all of its subsidiaries. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from or to their effective dates of the acquisition or disposal, as appropriate. All material intra-group transactions and balances within the Group are eliminated on consolidation.

(ii) Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 3 to 20 years. Goodwill arising on the acquisition of subsidiaries is presented as a separately identified asset on the consolidated balance sheet.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

b. Basis of consolidation *(Continued)*

(iii) Negative goodwill arising on the acquisition of subsidiaries represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated income statement when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated income statement on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill that has not been recognised in the consolidated income statement.

c. Subsidiaries

A subsidiary, in accordance with the Companies Ordinance, is a company in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of its voting power, or controls the composition of its board of directors.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated in the Company's balance sheet at cost less any impairment losses.

d. Non-trading securities

Non-trading securities are stated at fair value on the basis of their estimated market prices at the balance sheet date. Changes in valuation are dealt with in the investment revaluation reserve until the securities are sold, or otherwise disposed of, or until there is objective evidence that the securities are impaired, at which time the relevant cumulative gain or loss is transferred from the investment revaluation reserve to the income statement.

Profits or losses on disposal of non-trading securities are determined as the difference between the net disposal proceeds and the carrying amount of the securities and are accounted for in the income statement as they arise.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

e. Investment properties

Investment properties are completed properties that are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market values based on independent professional valuations at the balance sheet date. The net surplus or deficit on revaluation is taken to investment property revaluation reserve except when a deficit arises, whereupon it is charged to the income statement, if and to the extent that it exceeds the amount held in investment property revaluation reserve immediately prior to the revaluation; and when a surplus arises, it is credited to the income statement, if and to the extent that a deficit on revaluation in respect of the portfolio of investment properties had previously been charged to the income statement. On disposal of an investment property, the related portion of surpluses or deficits previously taken to the investment property revaluation reserve is transferred to the income statement for the year.

No depreciation is provided for investment properties with an unexpired lease term over 20 years.

f. Hotel properties

Hotel properties, which represent interests in land and buildings and their integral fixed plant and machinery which are used collectively for hotel operations, are stated at their open market values based on independent professional valuations at the balance sheet date.

No depreciation is provided in respect of hotel properties held on leases of more than 20 years. It is the Group's policy to maintain the hotel properties in such condition that their value is not currently diminished by the passage of time. The related maintenance and repairs expenditure is charged to the income statement when incurred.

On disposal of hotel properties, the surplus previously taken to the hotel properties revaluation reserve is transferred to the income statement for the year.

g. Property under development

Property under development held for investment purpose is stated at cost less impairment losses. Cost comprises land cost and development costs including attributable borrowing costs and charges capitalised, if any, during the development period.

No depreciation will be provided until the development is completed and ready for use and is reclassified to appropriate category of fixed assets.

h. Other fixed assets and depreciation

Other fixed assets are stated at cost less accumulated depreciation and any impairment losses. The cost of other fixed assets comprises the purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the other fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situation where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the other fixed assets, the expenditure is capitalised as an additional cost of the assets.

4. **PRINCIPAL ACCOUNTING POLICIES** *(Continued)*

h. **Other fixed assets and depreciation** *(Continued)*

Depreciation of other fixed assets is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life, taken as being between three and ten years.

On disposal of other fixed assets, the gain or loss on disposal is determined as the difference between the net sales proceeds and the carrying amount of the relevant assets and is recognised in the income statement.

i. **Impairment of assets**

At each balance sheet date, both internal and external sources of information are reviewed to consider whether there is any indication that assets may have been impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the carrying amount of an asset to its recoverable amount. An asset's recoverable amount is calculated at the higher of the asset's value in use or its net selling price. Such impairment loss is recognised in the income statement, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

j. **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis while net realisable value is based on the estimated selling prices less direct selling costs.

k. **Revenue recognition**

Provided it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, revenue is recognised in the income statement as follows:

(i) Rental income receivable under operating leases is recognised in the income statement in equal installments over the accounting periods covered by the respective lease terms;

(ii) Revenue from hotel investment is recognised when services are rendered; and

(iii) Interest income is accrued on a time-apportioned basis by reference to the principal outstanding and the effective interest rate applicable.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

l. Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the respective lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the respective lease terms.

m. Taxation

Income tax comprises current and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

n. Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the income statement.

On consolidation, the financial statements of the Group's overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The income statements of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

4. **PRINCIPAL ACCOUNTING POLICIES** *(Continued)*

o. Provisions and liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group and the Company have a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

p. Employee benefits

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to Mandatory Provident Funds for all Hong Kong employees as required under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) are charged to the income statement when incurred.

(iii) Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan that is without realistic possibility of withdrawal.

(iv) Pursuant to the PRC laws and regulations, contributions to the basic old age insurance and other allowances for the subsidiaries' PRC staff are to be made monthly to a government agency based on the standard salary set by the provincial government. The government agency is responsible for the pension liabilities relating to such staff on their retirement. The contributions are charged to the income statement when incurred.

q. Share option scheme

The Company operates a share option scheme for the purpose of providing eligible participants with the opportunity to acquire proprietary interests in the Company and to encourage the participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. The financial impact of share options granted under the share option scheme is not recorded in the Company's nor the Group's balance sheets until such time as the options are exercised, and no charge is recorded in the income statement or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account.

4. **PRINCIPAL ACCOUNTING POLICIES** *(Continued)*

r. Related parties

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

s. Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, which are readily convertible into known amounts of cash which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired and form an integral part of the Group's cash management.

t. Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables, fixed assets and operating cash. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, financial and corporate income and expenses.

5. TURNOVER AND SEGMENTAL INFORMATION

Turnover represents income from operations from the hotel investment and rental income from investment properties earned during the year and is analysed as follows:

Business segments

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

	Hotel investment		Property investment		Property development		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Restated)		(Restated)		(Restated)		(Restated)
Turnover	51,885	13,290	1,383	1,816	–	–	53,268	15,106
Segment results	19,397	3,058	884	1,445	–	–	20,281	4,503
Interest income							12,821	26,737
Unallocated administrative expenses net of other revenue							(75,635)	(32,055)
Loss from operations							(42,533)	(815)
Finance costs							(29,861)	(2,716)
Surplus/(deficit) on revaluation of investment properties	–	–	1,965	(12,360)	–	–	1,965	(12,360)
Deficit on revaluation of hotel properties	(200,350)	(111,500)	–	–	–	–	(200,350)	(111,500)
Impairment loss on property under development written back/(provided)	–	–	–	–	71,325	(136,925)	71,325	(136,925)
Amortisation of goodwill	–	(383)	–	(18)	–	(12,214)	–	(12,615)
Impairment loss on goodwill written back/(provided)	10,000	(17,998)	–	(418)	–	(61,071)	10,000	(79,487)
Loss from ordinary activities before taxation							(189,454)	(356,418)
Taxation							31,161	109,750
Loss attributable to shareholders							(158,293)	(246,668)

5. TURNOVER AND SEGMENTAL INFORMATION *(Continued)*

Business segments *(Continued)*

	Hotel investment		Property investment		Property development		Unallocated		Consolidated	
	2004	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**
	HK$'000	*HK$'000* (Restated)	*HK$'000*	*HK$'000* (Restated)	*HK$'000*	*HK$'000* (Restated)	*HK$'000*	*HK$'000* (Restated)	*HK$'000*	*HK$'000* (Restated)
Segment assets	509,270	712,373	39,156	36,529	919,280	855,640	–	–	1,467,706	1,604,542
Unallocated assets									1,254,173	1,247,597
Total assets									2,721,879	2,852,139
Segment liabilities	(7,027)	(6,642)	(364)	(415)	(33,978)	(10,367)	–	–	(41,369)	(17,424)
Unallocated liabilities									(735,687)	(731,599)
Total liabilities									(777,056)	(749,023)
Other segment information:										
Capital expenditure incurred during the year	2,220	474,284	–	45,360	–	334,925	69	4,080	2,289	858,649
Depreciation	776	202	–	–	–	–	1,255	1,283	2,031	1,485

Certain figures for 2003 have been restated to conform with current year's presentation.

No inter-segment sales and transfer were transacted during both financial years.

The Group disposed of all its wireless technology companies on 28 March 2003 and since then ceased its wireless technology investment activity. The segment results in respect of the wireless technology investment in 2003 of HK$181,000 were included as unallocated administrative expenses net of other revenue.

Geographical segments

No geographical analysis is provided as the property investment, hotel investment and property development activities for both financial years were all carried out in the PRC.

6. OTHER REVENUE

	The Group	
	2004	**2003**
	HK$'000	*HK$'000*
Interest income	12,821	26,737
Sundry income	818	1,234
	13,639	27,971

7. LOSS FROM OPERATIONS

The loss from operations is arrived at after charging/(crediting):

		The Group	
		2004	**2003**
	Note	*HK$'000*	*HK$'000*
Staff costs, including retirement scheme contributions of HK$1,362,000 (2003: HK$163,000) and excluding directors' remuneration		14,593	9,441
Provision for bad debts		2,837	–
Depreciation	16	2,031	1,485
Operating lease charges – office rental (net)*		(350)	4,790
– equipment rental		131	23
		(219)	4,813
Auditors' remuneration		557	500
Legal and professional fees		64,026	7,534
Cost of services rendered		15,714	5,096
Rental income from investment properties less outgoings of HK$486,000 (2003: HK$356,000)		(897)	(1,460)
Other operating lease income		(1,002)	–
(Gain)/loss on disposal of other fixed assets		147	(17)

* An amount of HK$5,762,000 (2003: HK$1,043,000), being reimbursements of lease charges from sub-leases, has been net off.

8. DISCONTINUED OPERATIONS

Pursuant to a resolution passed at an extraordinary general meeting held on 25 March 2003, the Company exercised its rights under a put option agreement dated 3 May 2002 (the "Put Option Agreement") entered into between the Company and Investor Investment imGO Limited ("Investor imGo") (the "Put Option") to dispose of all the wireless technology companies held by the Group to Investor imGo for a consideration equal to the aggregate net book value of the investments of US$13,037,500 (equivalent to approximately HK$101,684,000). The exercise of the Put Option was completed on 28 March 2003 and there was no profit or loss arising from the disposal. There was also no tax charge or credit arising from the disposal. The proceeds were received on 1 April 2003.

The above cash inflow of approximately HK$101,684,000 was however placed with the Company's subsidiary, Great Hero Limited, and HK$53,157,294 of which was subsequently transferred to Great Center for and on behalf of Hongxin without proper cause, details of which are set out in Note 33d to the financial statements.

The carrying amounts of the total assets and total liabilities disposed of are detailed in Note 28c to the financial statements.

The turnover, other revenue, expenses, results and cash flows of the discontinued operations of the wireless technology segment included in the financial statements are as follows:

	1 July 2002 to 28 March 2003 *HK$'000*
Turnover	–
Direct expenses	–
	–
Other revenue	–
Administrative expenses	(181)
Loss attributable to shareholders	(181)
Net cash outflow from operating activities	(181)

9. FINANCE COSTS

	The Group	
	2004	**2003**
	HK$'000	*HK$'000*
Interest expenses on loans wholly repayable within five years		
– Longbai Purported Loan*	29,861	2,338
– Secured bank loans	–	378
	29,861	2,716

* Interest payment in the sum of approximately RMB10,330,000 (equivalent to approximately HK$9,762,000) had been made by Longbai to Liuli SRCC prior to the Receivers took control of its management at the end of December 2003. Based on the information available to the Receivers, approximately RMB21,269,000 (equivalent to approximately HK$20,099,000) representing interest payable on the Longbai Purported Loan together with penalty interest up to 30 June 2004 have been accrued in the financial statements. The Receivers are unable to ascertain the accuracy of the interest expenses on the Longbai Purported Loan.

10. DIRECTORS' REMUNERATION

Directors' remuneration, disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance, is as follows:

	The Group	
	2004	**2003**
	HK$'000	*HK$'000*
Fees	400	1,744
Salaries, allowances and benefits in kind	1,580	2,300
Retirement scheme contributions	12	15
	1,992	4,059

The Receivers are of the view that services have not been rendered by certain Directors of the Company, and no payments have been made to these Directors since August 2003. Salaries, allowances and benefits in kind to such Directors of HK$880,000 have been accrued as at 30 June 2004 in the financial statements.

Included in the above are the following remuneration paid to Independent Non-Executive Directors:

	2004	**2003**
	HK$'000	*HK$'000*
Fees	200	195
Benefits in kind	–	–
	200	195

10. DIRECTORS' REMUNERATION *(Continued)*

The number of directors whose remuneration falls within the following bands is as follows:

	Number of directors	
	2004	**2003**
HK$ Nil – HK$1,000,000	10	18
HK$2,000,001 – HK$2,500,000	–	1
	10	19

11. REMUNERATION OF THE FIVE HIGHEST PAID INDIVIDUALS

Of the five individuals with the highest remuneration, two (2003: two) of them are Directors of the Company. The aggregate of the remuneration in respect of the three (2003: three) non-director, highest paid individuals is as follows:

	The Group	
	2004	**2003**
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	1,532	1,569
Bonuses	152	61
Retirement scheme contributions	32	34
	1,716	1,664

The number of non-director, highest paid individuals whose remuneration falls within the following bands is as follows:

	Number of individuals	
	2004	**2003**
HK$ Nil – HK$1,000,000	3	3

12. TAXATION

The amounts of taxation charged/(credited) to the consolidated income statement represent:

		The Group	
		2004	**2003**
	Note	*HK$'000*	*HK$'000* (Restated)
Current tax			
– PRC income tax		292	477
Deferred tax	24	(31,453)	(110,227)
		(31,161)	(109,750)

Current tax

No provision for Hong Kong profits tax has been made in the financial statements as the companies operating in Hong Kong did not have any estimated assessable profits in both current and prior years. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

A reconciliation of the tax expense applicable to loss from ordinary activities before taxation using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax credit at the effective tax rates are as follows:

	The Group					
	Hong Kong		**PRC**		**Total**	
	2004	**2003**	**2004**	**2003**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Loss from ordinary activities before taxation	(63,188)	(5,744)	(126,266)	(350,674)	(189,454)	(356,418)
Statutory tax rates	17.5%	17.5%	33%	33%	27.8%	32.8%
Tax at the statutory tax rates	(11,058)	(1,005)	(41,668)	(115,722)	(52,726)	(116,727)
Tax losses not recognised	1,157	2,917	27,623	1,867	28,780	4,784
Income not subject to tax	(2,124)	(4,734)	–	–	(2,124)	(4,734)
Expenses not deductible for tax	12,025	2,822	967	–	12,992	2,822
Others	–	–	(18,083)	4,105	(18,083)	4,105
Tax credit at the Group's effective rate	–	–	(31,161)	(109,750)	(31,161)	(109,750)
Effective rates	–	–	24.7%	31.3%	16.4%	30.8%

13. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The Group's loss attributable to shareholders included a loss of HK$56,322,000 (2003: a profit of HK$11,182,000) which has been dealt with in the financial statements of the Company.

14. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to shareholders for the year of HK$158,293,000 (2003: HK$246,668,000, restated) and on 3,051,438,765 (2003: 3,051,438,765) ordinary shares in issue during the year.

No diluted loss per share is presented as the potential issue of ordinary shares in connection with the Company's share options did not give rise to an increase in loss per share and therefore had no dilutive effect on the calculation of diluted loss per share.

15. NON-TRADING SECURITIES

	The Group		The Company	
	2004	**2003**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Club debenture, at fair value	2,000	2,000	2,000	2,000

16. FIXED ASSETS

The Group

	Investment properties *HK$'000*	**Hotel properties** *HK$'000*	**Property under development** *HK$'000*	**Other fixed assets** *HK$'000*	**Total** *HK$'000*
Cost or valuation:					
At 1 July 2003	33,000	361,000	334,925	15,367	744,292
Additions	–	–	–	2,289	2,289
Disposals	–	–	–	(469)	(469)
Surplus/(deficit) on revaluation	1,965	(200,350)	–	–	(198,385)
At 30 June 2004	34,965	160,650	334,925	17,187	547,727
Accumulated depreciation and impairment:					
At 1 July 2003	–	–	136,925	10,609	147,534
Charge for the year	–	–	–	2,031	2,031
Impairment loss written back in the consolidated income statement	–	–	(71,325)	–	(71,325)
Disposals	–	–	–	(82)	(82)
At 30 June 2004	–	–	65,600	12,558	78,158
Net book value:					
At 30 June 2004	34,965	160,650	269,325	4,629	469,569
At 30 June 2003	33,000	361,000	198,000	4,758	596,758
Analysis of cost or valuation:					
At cost	–	–	334,925	17,187	352,112
At valuation	34,965	160,650	–	–	195,615
	34,965	160,650	334,925	17,187	547,727

16. FIXED ASSETS *(Continued)*

The Group's properties are situated in the PRC and are held under the following lease terms:

	2004	2003
	HK$'000	*HK$'000*
At cost or valuation:		
Long term lease	334,925	334,925
Medium term leases	195,615	394,000
	530,540	728,925

a. Investment properties

The Group's investment properties, held by Bowyer, were revalued at 30 June 2004 by A.G. Wilkinson & Associates ("AGW"), an independent professionally qualified property valuer, on an open market basis for vacant units with reference to comparable market transactions and the investment approach in valuing the leased units of the investment properties. As a result of the appraisal, a surplus on revaluation of HK$1,965,000 was credited to the consolidated income statement in the current year while a deficit of HK$12,360,000 was charged to the consolidated income statement in the previous year. The investment properties are leased to third parties under operating leases, further details of which are set out in Note 31a to the financial statements.

Location	Lease expiry	Use	Approximate floor area *(sq.m.)*	The Group's interest
Units 202, 501, 503, 504, 505, 506, 705, 907, 908 and the whole of level 30	23 February 2044	Commercial	2,455.93	100%
Car parks on 2 basement levels of Jun Ling Plaza, 500 Chengdu North Road, Huangpu District, Shanghai, the PRC	23 February 2044	Car park	2,009.28	100%

16. FIXED ASSETS *(Continued)*

b. Hotel properties

The Group's hotel properties, held by Longbai, were revalued by AGW, on a forced sale basis, as at 30 June 2004, in the sum of RMB170,000,000 (equivalent to HK$160,650,000). As a result of the appraisal, a deficit on revaluation of HK$200,350,000 (2003: HK$111,500,000) was charged to the consolidated income statement.

The hotel properties have been allegedly pledged to Liuli SRCC for a loan of RMB350,000,000 (equivalent to HK$330,750,000) purportedly granted to Longbai, details of which are set out in Notes 23 and 33g to the financial statements. Longbai might lose its ownership of the hotel properties should Liuli SRCC resume its enforcement action against Longbai and Longbai fails to fulfill the alleged payment obligations. As such, it is considered appropriate to adopt the forced sale basis for the valuation.

Location	**Lease expiry**	**Use**	**Approximate floor area** *(sq.m.)*	**The Group's interest**
2451 Hong Qiao Road, Changning District, Shanghai, the PRC	27 August 2035	Tourism	31,365	100%

c. Property under development

The recoverable amount of the Group's property under development, held by Hongxin, was based on the higher of the net selling price and value in use. The net selling price as at 30 June 2004 in the sum of RMB285,000,000 (equivalent to HK$269,325,000) was based on the valuation prepared by AGW on a forced sale basis. As a result, an impairment loss of HK$71,325,000 recognised in the consolidated income statement in the previous year was written back in the current year.

The property under development has been allegedly pledged to Shijidadao SRCC for a loan of RMB300,000,000 (equivalent to HK$283,500,000) purportedly granted to Hongxin, details of which are set out in Notes 23 and 33h to the financial statements. Hongxin might lose its ownership of the property under development should Shijidadao SRCC resume its enforcement action against Hongxin and Hongxin fails to fulfill the alleged payment obligations. As such, it is considered appropriate to adopt the forced sale basis for the valuation.

Location**	**Lease expiry**	**Use**	**Stage of completion**	**Estimated completion date***	**The Group's interest**
Lot Number 26, Wuzhong Road, Hong Qiao Town, Shanghai, the PRC	7 March 2066	Residential	Two occupiers yet to vacate	December 2005	100%

* Pursuant to the Supplementary Document No. (2002) 499 issued by the Shanghai Housing and Land Resources Administrative Bureau on 5 September 2002 (上海市房屋土地資源管理局文件滬房地產用[2002]499號－關於同意閔行區虹橋鎮吳中路26號地塊延長建設期限通知), the building covenant period has been extended to December 2005.

** The land area of the property under development is 96,317 sq.m.. The Receivers are currently unable to ascertain the plot ratio.

The Receivers decided that it would not be appropriate to incur any further capital expenditure on the property under development.

17. INTERESTS IN SUBSIDIARIES

	The Company 2004 HK$'000	2003 HK$'000
Unlisted shares, at cost	–	–
Amounts due from subsidiaries	1,092,255	1,159,033
Less: Provision for doubtful debts	(809)	(809)
	1,091,446	1,158,224

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Percentage of equity interest attributable to the Company 2004	2003	Nominal value of issued ordinary/ registered share capital	Principal activities
Gold Favour Limited ("Gold Favour")	Hong Kong/ Hong Kong	100	100	Ordinary HK$2	Provision of nominee and secretarial services
Capital Sky Limited ("Capital Sky")	BVI/ Hong Kong	100	100	Ordinary US$1	Investment holding
Remix Holdings Limited	BVI/ Hong Kong	100	100	Ordinary US$1	Investment holding
China Horizon Limited	BVI/ Hong Kong	100	100	Ordinary US$1	Dormant
City King Limited	BVI/ Hong Kong	100	100	Ordinary US$1	Dormant
Profitex	Hong Kong/ Hong Kong	100	100	Ordinary HK$2	Provision of management services
Finance Achieve Limited	BVI	100	100	Ordinary US$1	Not yet commenced business

17. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the subsidiaries are as follows *(Continued)*:

Name	Place of incorporation/ registration and operations	Percentage of equity interest attributable to the Company		Nominal value of issued ordinary/ registered share capital	Principal activities
		2004	2003		
Great Hero Limited	Hong Kong/ Hong Kong	100	100	Ordinary HK$2	Dormant
King Success	BVI/ Hong Kong	100	100	Ordinary US$1	Investment holding
Bowyer	BVI/PRC	100	100	Ordinary US$1	Property investment
Eastern Talent Limited	BVI	100	100	Ordinary US$1	Not yet commenced business
Prospect Profits Limited	BVI	100	100	Ordinary US$1	Not yet commenced business
Eastar Development Limited	BVI/ Hong Kong	100	100	Ordinary US$1	Investment holding
China Honest Limited	Hong Kong/ Hong Kong	100	100	Ordinary HK$10,000,000	Investment holding
Hongxin	PRC/PRC (外商獨資企業)	100	100	Registered capital US$30,000,000 *(Note c)*	Property development
Hip Yick Profits Limited ("Hip Yick")	BVI/ Hong Kong	100	100	Ordinary US$1	Investment holding
Longbai	PRC/PRC (外商獨資企業)	100	100	Registered capital JPY2,255,000,000	Hotel investment

Notes:

a. All subsidiaries are indirectly held by the Company except for Gold Favour and Capital Sky.

b. Hongxin and Longbai were not audited by Nexia Charles Mar Fan & Co..

c. Hongxin's paid up capital was US$16,700,000. Details of the Receivers' actions taken for the restoration of Hongxin's registered capital to its original amount of US$16,700,000 are set out in Note 2c to the financial statements.

18. GOODWILL/(NEGATIVE GOODWILL)

The amounts of the goodwill/(negative goodwill) recognised in the consolidated balance sheet, arising from the acquisition of subsidiaries, are as follows:

	Notes	Goodwill HK$'000	Negative goodwill HK$'000
Gross amount:			
Acquisition of subsidiaries and as at 30 June 2003, as previously reported		–	(117,616)
Prior year adjustment:			
Effect of adopting SSAP 12 (Revised)	24, 28b	92,102	117,616
As at 30 June 2003, as restated		92,102	–
Retention consideration written back	22d	(10,000)	–
As at 30 June 2004		82,102	–
Accumulated amortisation and impairment:			
Recognised as income during the year and as at 30 June 2003, as previously reported		–	(3,480)
Prior year adjustments:			
Effect of adopting SSAP 12 (Revised)	24	–	3,480
Goodwill amortised for the year	24	12,615	–
Impairment loss provided	24	79,487	–
As at 30 June 2003, as restated		92,102	–
Impairment loss written back in respect of retention consideration		(10,000)	–
As at 30 June 2004		82,102	–
Carrying amount:			
As at 30 June 2004		–	–
As at 30 June 2003, as restated		–	–

19. INVENTORIES

	The Group	
	2004	**2003**
	HK$'000	*HK$'000*
Food and beverages	279	295
Hotel consumables	915	1,061
	1,194	1,356

Inventories were carried at cost.

20. DEBTORS, DEPOSITS AND PREPAYMENTS

		The Group		The Company	
		2004	**2003**	**2004**	**2003**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade debtors with aging analysis:	a				
0 – 30 days		2,256	514	–	–
31 – 60 days		628	106	–	–
61 – 90 days		159	352	–	–
More than 90 days		722	452	–	–
		3,765	1,424	–	–
Interest receivable		115	129	115	42
Deposits, prepayments and other receivables:					
– Deposit to Great Center	b	53,157	53,157	–	–
– Deposit and advance to Fuyou	c	369,968	369,968	–	–
– Advance to Shanghai Mechanic International Trading Limited (上海機械國際貿易有限公司) ("Shanghai Mechanic")	d	210,650	210,650	–	–
– Prepayments of Hongxin	e	51,932	4,168	–	–
– Payments to Shanghai Nongkai	f	3,950	–	–	–
– Others	g	8,760	7,838	276	307
Short term loan receivable:					
– Advance to Huatip	h	283,500	283,500	–	–
		985,797	930,834	391	349

20. DEBTORS, DEPOSITS AND PREPAYMENTS *(Continued)*

Notes:

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

b. Hongxin entered into an agreement on 4 April 2003 with Great Center. Pursuant to this agreement, Hongxin paid RMB56,251,105 (equivalent to HK$53,157,294) to Great Center as a 30% deposit purportedly for the acquisition of construction materials for the Group's property under development. The Receivers considered that no services had actually been provided by Great Center and accordingly had taken legal action against Great Center to recover the deposit, details of which are set out in Note 33d to the financial statements.

c. Deposit and advance to Fuyou

(i) According to the information made available to the Receivers, Hongxin placed a deposit of RMB44,500,000 (equivalent to approximately HK$42,053,000) with Fuyou on 19 May 2003 purportedly for the acquisition of the PRC government bonds and relevant investments to be managed by Fuyou for the period from 19 May 2003 to 18 May 2004. Fuyou should repay the principal together with interest at 6.5% per annum to Hongxin upon expiry of the said period. Despite numerous demands made by the Receivers, no repayment was made by Fuyou as of the date of this report.

(ii) A sum of RMB347,000,000 (equivalent to HK$327,915,000) was advanced to Fuyou by Longbai on 29 April 2003. The Receivers applied to the High People's Court of Shanghai, the PRC (上海市高級人民法院) (the "High People's Court") to commence legal proceedings against Fuyou and reported the above to the relevant government authorities. For further details, please refer to Note 33f(i) to the financial statements.

As the Receivers have not been able to obtain further information nor confirmation on the balances/amounts advanced to Fuyou, they are unable to ascertain whether these amounts are recoverable.

d. On 30 May 2003, Hongxin advanced a sum of RMB222,910,000 (equivalent to approximately HK$210,650,000) to Shanghai Mechanic. The Receivers applied to the High People's Court to commence legal proceedings against Shanghai Mechanic and reported the matter to the relevant government authorities, as detailed in Note 33f(ii) to the financial statements. The Receivers have not been able to obtain Shanghai Mechanic's confirmation on this loan, and no repayment has been received up to the date of this report. As a result, the Receivers are unable to ascertain whether this amount is recoverable.

e. Prepayments of Hongxin

(i) The Receivers are unable, due to limited information available, to ascertain the nature of the payment of RMB18,435,563 (equivalent to approximately HK$17,422,000), which had been debited from Hongxin's bank account.

(ii) The Receivers are unable, due to limited information available, to ascertain the nature of the payments totaling RMB10,678,000 (equivalent to approximately HK$10,091,000), which had been debited from Hongxin's bank account maintained with Shijidadao SRCC.

(iii) Based on information available to the Receivers, approximately RMB20,809,000 (equivalent to approximately HK$19,665,000) estimated to be interest payable on the Hongxin Purported Loan up to 30 June 2004 together with the penalty interest had been accrued, as detailed in Notes 22b, 23 and 33h to the financial statements. The accrued interest expenses have been recorded as prepayments since Hongxin has not commenced operations in accordance with accounting principles generally accepted in the PRC.

(iv) Enforcement court fee of approximately RMB303,000 (equivalent to approximately HK$286,000) had also been accrued as detailed in Notes 23 and 33h to the financial statements.

(v) The Receivers are unable to verify other prepayments of Hongxin aggregating to HK$4,468,000.

f. During the year, Shanghai Nongkai withdrew RMB4,180,000 (equivalent to approximately HK$3,950,000) from a bank account in trust for Bowyer. Shanghai Nongkai has failed to provide a satisfactory answer and/or any documents in support of the withdrawal. However, the representative of Shanghai Nongkai has orally confirmed to the Receivers that this money belonging to the Group has been used to settle legal fees incurred by Mr. Chau. The Receivers terminated the management agreements between Bowyer and Shanghai Nongkai on 29 April 2004 and have taken legal actions against Shanghai Nongkai to recover the said sum, as detailed in Note 33i to the financial statements. The Receivers have appointed FPDSavills (Shanghai) as the new manager of Bowyer on 10 June 2004. The Receivers are currently unable to ascertain whether this amount is recoverable.

g. Other receivables include an amount of HK$2,386,000 (2003: HK$2,386,000) which represents deposits paid for an office unit in Hong Kong and is thus expected to be recovered after the expiration of the lease and an amount due from Shun Loong of HK$3,885,000 as detailed in Note 33e to the financial statements.

20. DEBTORS, DEPOSITS AND PREPAYMENTS *(Continued)*

Notes: (Continued)

h. Pursuant to a loan agreement dated 13 May 2003, Hongxin advanced a sum of RMB300,000,000 (equivalent to HK$283,500,000) to Huatip. The loan together with interest of 10% per annum was due for repayment on 11 July 2003. The Receivers applied to the High People's Court to commence legal proceedings against Huatip for full repayment of this amount and reported the matter to the relevant government authorities, as detailed in Note 33f(iii) to the financial statements. As of the date of this report, there are no records of the loan having been repaid by Huatip and the Receivers are unable to ascertain whether this amount is recoverable.

21. CASH, BANK BALANCES AND DEPOSITS

		The Group		The Company	
		2004	**2003**	**2004**	**2003**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cash and bank balances:					
– Bowyer account	a	237	3,518	–	–
– Hongxin and Longbai account	c, d	11,899	78,820	–	–
– Others		44,952	43,308	43,902	9,564
		57,088	125,646	43,902	9,564
Deposits with original maturity period within three months when placed		1,178,151	1,195,545	1,178,151	1,195,545
		1,235,239	1,321,191	1,222,053	1,205,109
Hongxin's pledged deposit	b	28,080	–	–	–
		1,263,319	1,321,191	1,222,053	1,205,109

Notes:

a. Included in cash and bank balances of Bowyer is a balance of approximately RMB108,000 (equivalent to approximately HK$102,000) (2003: RMB3,647,000, equivalent to approximately HK$3,446,000) recorded in the accounting records of Bowyer that is maintained in a bank account with the Shanghai Branch of Guangdong Development Bank registered in the name of and operated by Shanghai Nongkai while they were acting as the manager for Bowyer's leasing matters. The Receivers have taken legal actions against Shanghai Nongkai to pursue the bank balance maintained in this account as well as the sum which Shanghai Nongkai has taken from this account without Bowyer's consent. Details of such actions are set out in Note 33i to the financial statements.

b. According to the information available to the Receivers, a sum of US$3,600,000 (equivalent to HK$28,080,000) 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.

c. According to available information, a receipt of RMB25,000,000 (equivalent to HK$23,625,000) was credited to Hongxin's account and a payment of RMB18,435,563 (equivalent to HK$17,421,607) was debited from Hongxin's accounts on the same day. The Receivers are unable to ascertain the nature of such receipt and payment as of the date of this report.

d. The Receivers are unable to ascertain whether the remaining cash and bank balances of Hongxin and Longbai are fairly stated in the financial statements and are free of any charges.

22. CREDITORS AND ACCRUALS

		The Group		The Company	
		2004	**2003**	**2004**	**2003**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade creditors with aging analysis:					
0 – 30 days		384	1,322	–	1,017
31 – 60 days		529	130	–	–
61 – 90 days		373	347	–	–
More than 90 days		291	303	–	–
		1,577	2,102	–	1,017
Interest payable	a, b	39,764	–	–	–
Accrued expenses and other payables	c	51,788	21,432	11,246	3,699
Retention consideration	d	–	10,000	–	–
Rental deposits and rental received in advance		228	378	–	–
		93,357	33,912	11,246	4,716

Notes:

a. Based on the information available to the Receivers, the interest payable on the Longbai Purported Loan of approximately HK$20,099,000, as detailed in Note 9 to the financial statements, has been accrued. However, the Receivers are unable to ascertain the accuracy of the amount accrued.

b. The Receivers are unable to ascertain the amount of interest paid before the change of Hongxin's legal representative on 15 January 2004. However, based on available information to the Receivers, the interest payable on the Hongxin Purported Loan should be approximately HK$19,665,000, as detailed in Note 20e to the financial statements. However, the Receivers are unable to ascertain the accuracy of the amount accrued.

c. Included in accrued expenses and other payables of the Group is an amount of HK$33,978,000 (2003: HK$10,367,000) payable by Hongxin. The Receivers have not been able to obtain sufficient information to ascertain whether this amount has been properly accounted for in the financial statements.

d. The retention consideration of HK$10,000,000 withheld by King Success on the acquisition of its subsidiaries, Hip Yick and Longbai, was written back in accordance with the profit guarantee from the ex-owner, Ms. Yu Kwo, since Longbai did not have any net profit after tax as per the audited profit and loss account of Longbai.

23. PURPORTED LOANS

	The Group	
	2004	**2003**
	HK$'000	*HK$'000*
Repayable:		
Within one year	614,250	283,500
In the third to fifth years, inclusive	–	330,750
	614,250	614,250
Less: Amount included under current liabilities	(614,250)	(283,500)
	–	330,750

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

Pursuant to the Hongxin Purported Loan Agreements signed by the former legal representative of Hongxin, the Group's property under development 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 from 27 March 2003 with interest payable quarterly and charged at an interest rate of 5.31% per annum.

Please refer to Notes 20e and 33h to the financial statements for further details of the Hongxin Purported Loan.

Pursuant to the Longbai Purported Loan Agreements signed by the former legal representative of Longbai, the Group's hotel properties 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 and charged at an interest rate of 5.58% per annum. As Liuli SRCC may resume its enforcement action against Longbai, the Longbai Purported Loan has been reclassified under current liabilities.

Please refer to Notes 9 and 33g to the financial statements for further details of the Longbai Purported Loan.

24. DEFERRED TAX LIABILITIES

Movements in deferred tax liabilities relating to revaluation of properties recognised by the Group during the year are as follows:

		The Group	
		2004	**2003**
	Notes	*HK$'000*	*HK$'000*
			(Restated)
At 1 July			
As previously reported		–	–
Prior year adjustment:			
SSAP 12 – restatement of deferred tax		99,491	–
As restated		99,491	–
Acquisition of subsidiaries	28b	–	209,718
Credit for the year	12	(31,453)	(110,227)
At 30 June		68,038	99,491

The principal components of the unprovided deferred tax assets of the Group and of the Company are as follows:

	The Group		The Company	
	2004	**2003**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Tax losses:				
Hong Kong	4,627	3,541	597	597
PRC	72,599	44,463	–	–
	77,226	48,004	597	597

The tax losses arising in Hong Kong are available to be carried forward indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Tax losses incurred by the PRC subsidiaries can be set off against profits made by them in the succeeding year or years, subject to a maximum of five financial years. Deferred tax assets have not been recognised in respect of these losses as they have arisen in the Company and the subsidiaries that have been loss-making for some time.

SSAP 12 (Revised) was adopted during the year, as further explained in Note 3 to the financial statements. This change in accounting policy has resulted in an increase in the Group's deferred tax liabilities as at 30 June 2004 and 2003 by HK$68,038,000 and HK$99,491,000 respectively. In addition, the Group's negative goodwill as at 30 June 2004 and 2003 decreased by HK$110,656,000 and HK$114,136,000 respectively. As a consequence, the consolidated loss attributable to shareholders for the years ended 30 June 2004 and 2003 have been decreased by HK$27,973,000 and HK$14,645,000* respectively, and the consolidated accumulated losses at 1 July 2003 have been reduced by HK$14,645,000 as detailed in the consolidated statement of changes in equity. There was no effect on the consolidated accumulated losses as at 1 July 2002.

24. DEFERRED TAX LIABILITIES *(Continued)*

As the Receivers have not been able to ascertain whether certain balances relating to Hongxin, Longbai and Bowyer have been properly accounted for in the consolidated balance sheet as at 30 June 2003 and the accuracy of certain tax information of Hongxin, Longbai and Bowyer, they are unable to confirm the accuracy and completeness of the above adjustments arising from the adoption of SSAP 12 (Revised).

* Reconciliation of decrease of loss attributable to shareholders for the year ended 30 June 2003 on the adoption of SSAP 12 (Revised):

	Notes	*HK$'000*
Loss attributable to shareholders, as previously reported		(261,313)
Negative goodwill recognised as income written back	18	(3,480)
Impairment loss of goodwill	18	(79,487)
Amortisation of goodwill	18	(12,615)
Deferred tax	12	110,227
		14,645
Loss attributable to shareholders, as restated		(246,668)

25. SHARE CAPITAL

	2004		2003	
	No. of shares *in '000*	*HK$'000*	**No. of shares** *in '000*	*HK$'000*
Authorised:				
Ordinary shares of HK$0.50 each	40,000,000	20,000,000	40,000,000	20,000,000
Issued and fully paid:				
Ordinary shares of HK$0.50 each	3,051,439	1,525,720	3,051,439	1,525,720

26. SHARE OPTION SCHEME

The Company adopted a share option scheme that was approved by the shareholders on 23 October 2001 to provide eligible participants with the opportunity to acquire proprietary interests in the Company and to encourage the participants to work towards enhancing the value and the shares of the Company for the benefit of the Company and its shareholders as a whole. Pursuant to the share option scheme, all directors, full time employees and any other persons who, in the sole discretion of the Board, have contributed to the Group are eligible to participate in the share option scheme.

The share option scheme provides that the subscription price of the options of the Company (the "Options") will not be less than the higher of (i) the closing price of the shares of the Company on the date of grant of the Options; (ii) the average closing price of the shares of the Company for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company on the date of grant.

The total number of securities available for issue under the share option scheme is 305,143,876 shares, representing 10% of the issued share capital of the Company as at the date of this Annual Report.

26. SHARE OPTION SCHEME *(Continued)*

The maximum entitlement of each participant under the share option scheme in any 12-month period must not exceed 1% of the shares of the Company in issue.

The Company will specify the period within which the Options must be exercised at the time of grant. This period must expire no later than 10 years from the date of grant of the Options. The amount payable on acceptance of the Options is HK$1.00. No Options may be granted under the share option scheme after the tenth anniversary of 23 October 2001, the date of adoption of the share option scheme.

Options do not confer rights on the holders to dividends or to vote at shareholders' meeting.

No options of the Company were granted, exercised and lapsed during the year or outstanding at 30 June 2004 and 2003 respectively.

27. RESERVES

a. The Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 37.

b. The Company

	2004	2003
	HK$'000	*HK$'000*
Share premium account		
At 1 July and 30 June	1,830,548	1,830,548
Capital contribution reserve		
At 1 July and 30 June	11,800	11,800
General reserve		
At 1 July and 30 June	5,542	5,542
Investment revaluation reserve		
At 1 July and at 30 June	1,500	1,500
Accumulated losses		
At 1 July	(1,014,144)	(1,025,326)
Profit/(loss) for the year	(56,322)	11,182
At 30 June	(1,070,466)	(1,014,144)
Total reserves	778,924	835,246

27. RESERVES *(Continued)*

The application of the share premium account is governed by Section 48B of the Companies Ordinance. The general reserve, investment revaluation reserve and capital contribution reserve have been set up and will be dealt with in accordance with the accounting principles generally accepted in Hong Kong.

There were no distributable reserves of the Company as at 30 June 2004 calculated under Section 79B of the Companies Ordinance (2003: HK$ Nil).

The PRC laws and regulations require wholly-foreign owned enterprises to provide for certain statutory funds, namely, the reserve fund and staff and workers' bonus and welfare fund, which are appropriated from the net profit after taxation but before dividend distribution. Each PRC subsidiary is required to allocate at least 10% of its net profit to the reserve fund until the balance of such fund has reached 50% of its registered capital. Appropriation to the staff and workers' bonus and welfare fund is at the discretion of the subsidiaries' directors.

The reserve fund can only be used, upon approval by the relevant authority, to offset accumulated losses or increase the capital of the subsidiary. The staff and workers' bonus and welfare fund can only be used for special bonuses or collective welfare of the subsidiary's employees, and assets acquired through this fund shall not be taken as the subsidiary's assets. Appropriations to the staff and workers' bonus and welfare fund have been included as expenses and the balance of the fund as a liability of the Group.

During both financial years, the subsidiaries in the PRC did not appropriate any amount to these statutory reserve funds as they did not earn any net profit after taxation.

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

a. Prior year adjustments

SSAP 12 (Revised) has been adopted during the current year, as detailed in Note 3 to the financial statements, which has resulted in a change to the calculation of goodwill and negative goodwill arising from the acquisition of subsidiaries in the previous year and hence the amortisation and impairment losses thereon. The comparative figures in the 2003 comparative consolidated cash flow statement have been restated to conform with the current year's presentation.

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

b. Acquisition of subsidiaries

	Notes	2004 HK$'000	2003 HK$'000 (Restated)
Net assets acquired:			
Investment properties		–	45,360
Hotel properties		–	472,500
Property under development		–	330,750
Other fixed assets		–	1,711
Inventories		–	1,421
Debtors, deposits and prepayments		–	57,585
Cash and bank balances		–	22,293
Creditors and accruals		–	(18,980)
Secured bank loans		–	(48,573)
Tax payable		–	(1,356)
Deferred tax liabilities	24	–	(209,718)
		–	652,993
Goodwill on acquisition	18	–	92,102
		–	745,095
Satisfied by:			
Cash		–	735,095
Other payables	22d	–	10,000
		–	745,095

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2004 HK$'000	2003 HK$'000
Cash consideration	–	(735,095)
Cash and cash equivalents acquired	–	(26,280)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	–	(761,375)

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

c. Disposal of subsidiaries

	Note	**2004** *HK$'000*	**2003** *HK$'000*
Net assets disposed of:			
Unlisted equity and debt securities		–	101,684
Loss on disposal of subsidiaries	8	–	–
		–	101,684
Satisfied by:			
Cash received		–	101,684
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries		–	101,684

The results of the subsidiaries disposed of during the year ended 30 June 2003 are set out in Note 8 to the financial statements.

d. Major non-cash transaction

During the year, the retention consideration of HK$10,000,000 was written back against goodwill, as detailed in Notes 18 and 22d to the financial statements.

29. STAFF RETIREMENT SCHEMES

For Hong Kong employees, mandatory contributions to a master trust Mandatory Provident Fund scheme operated by a subsidiary of the Company, are made by both the employers and employees at 5% of the employees' monthly relevant income capped at HK$20,000 and the Group's contributions are charged to the consolidated income statement when incurred.

For the PRC employees, contributions to relevant pension funds managed by PRC local governments have been made by respective PRC subsidiaries.

30. COMMITMENTS

As at 30 June 2004, the Group and the Company had the following capital commitments:

	The Group		The Company	
	2004	**2003**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Contracted, but not yet provided for	–	633	–	–
Authorised, but not yet contracted for	661,500	661,500	–	–
	661,500	662,133	–	–

By the Conditional Agreement, the Group sought to acquire the Dé Oriental London in Shanghai from Fortune Harbour. 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 agreement was postponed until further notice. Details of the transactions are set out in Note 32b to the financial statements.

31. OPERATING LEASE ARRANGEMENTS

a. As lessor

The Group leases its investment properties (Note 16a to the financial statements) under operating lease arrangements and the terms of the leases generally do not exceed four years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

In addition, the Group also sub-lets its office properties under sub-tenancy agreements for terms of two to three years. The lease terms will be expired in June 2005.

During the year, the Group entered into lease agreements with certain PRC parties to provide them with site and facilities in Hotel Longbai for terms of one to five years.

31. **OPERATING LEASE ARRANGEMENTS** *(Continued)*

a. **As lessor** *(Continued)*

At 30 June 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	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Not later than one year	426*	1,373	3,251	4,589	1,583	–	5,260	5,962
Later than one year, but not later than five years	–	425	–	3,251	3,663	–	3,663	3,676
	426*	1,798	3,251	7,840	5,246	–	8,923	9,638

* Certain tenancy agreements have been renewed during the current financial year and are 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**

The Group leases the office properties, staff quarters and certain office equipment under operating lease arrangements and the terms of the leases are ranging from two to five years.

As at 30 June 2004, the total future minimum lease payments under non-cancellable operating leases in respect of the office properties, staff quarters and certain office equipment of the Group and the Company were payable as follows:

	The Group		The Company	
	2004	2003	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Not later than one year	5,576	7,911	23	23
Later than one year, but not later than five years	10	5,608	10	33
	5,586	13,519	33	56

32. RELATED PARTY TRANSACTIONS

The related party transactions disclosed below are prepared based on the information available to the Receivers. The Receivers are not able to verify the completeness, accuracy and/or the pricing policy of the related party transactions.

a. Sub-tenancy agreements and management agreement

Profitex entered into sub-tenancy agreements in 2002 and 2003 with two affiliated companies, namely Worldmark, a wholly-owned subsidiary of Shanghai Merchants in which Mr. Chau had approximately 63.18% beneficial equity interest at the time of execution of the relevant sublease, and Shun Loong, a company wholly-owned by Mr. Chau at that time. The sub-tenancy agreements are contracts on arm's length terms and based on the actual rental paid by Profitex to the independent landlord.

Profitex also entered into a management agreement with Worldmark on 21 November 2002 for the provision of human resources, administration and secretarial services for a monthly management fee calculated on a cost basis.

The rental income and management fee income from these companies during the current and previous years and the balances due from these companies as at the balance sheet dates were as follows:

	The Group	
	2004	**2003**
	HK$'000	*HK$'000*
Rental income from Worldmark	735	515
Rental income from Shun Loong	5,027	391
Management fee from Worldmark	–	429
Rental receivable from Worldmark	77	113
Rental receivable from Shun Loong	3,885	629

Rentals receivable from Worldmark and Shun Loong are unsecured, interest bearing at 12% per annum compounded daily and repayable on demand. Details of actions in relation to outstanding rent from Shun Loong are set out in Note 33e to the financial statements.

b. Proposed acquisition of Dé Oriental London

On 25 April 2003, King Success, Fortune Harbour and Mr. Chau entered into the Conditional Agreement whereby King Success conditionally agreed to purchase and Fortune Harbour conditionally agreed to sell (i) the entire issued share capital and shareholder's loan of Artic Star as at Completion; and (ii) the entire issued share capital and shareholder's loan of Hero Palace as at Completion, for a consideration of RMB700,000,000 (equivalent to HK$661,500,000), subject to downward adjustment. Mr. Chau, as a guarantor for Fortune Harbour, has agreed to provide certain undertakings and warranties to King Success pursuant to the Proposed Transaction.

32. RELATED PARTY TRANSACTIONS *(Continued)*

b. Proposed acquisition of Dé Oriental London *(Continued)*

Artic Star and Hero Palace, in aggregate, hold 100% equity interest in Shanghai Paullee Real Estate Development Co., Ltd. (上海寶域房地產發展有限公司), a wholly-owned foreign enterprise established in the PRC, which in turn wholly owns the Development. Upon completion of the Development, Dé Oriental London will comprise 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 is wholly-owned by Mr. Chau. Accordingly, Fortune Harbour is a connected person of the Company under the Listing Rules. The Proposed Transaction constitutes a discloseable and connected transaction for the Company under the Listing Rules and requires approval from the Independent Shareholders other than Mr. Chau at an extraordinary general meeting whereby Mr. Chau and his associates would abstain from voting in respect of the resolution approving the Proposed Transaction. Details of the Proposed Transaction were disclosed in the press announcement dated 28 April 2003 and a circular of the Company dated 19 May 2003.

On 2 June 2003, the Company announced that the extraordinary general meeting originally scheduled to be held on 3 June 2003 to consider and approve the Conditional Agreement was postponed until further notice. As the passing by the Independent Shareholders other than Mr. Chau of an ordinary resolution at the extraordinary general meeting approving the Conditional Agreement was one of the conditions precedent of the Proposed Transaction, the Proposed Transaction has not been completed.

c. Leasing of investment properties

Pursuant to the management agreement made on 11 April 2001, Bowyer appointed Shanghai Nongkai as manager to act on its behalf for all matters relating to the leasing affairs in its investment properties at a monthly fee of RMB200. Bowyer and Shanghai Nongkai entered into another agreement on 31 December 2002 to further appoint Shanghai Nongkai to act as manager for the period from 31 December 2002 to 31 December 2004 for its investment properties, empowering Shanghai Nongkai to open a separate bank account to deposit all income received and to make payments of expenses in respect of Bowyer's investment properties. During the year ended 30 June 2004, the Group paid Shanghai Nongkai management fee of RMB2,000 (2003: RMB2,000).

As Shanghai Nongkai has failed to repay the rental proceeds in respect of the investment properties to Bowyer, the Receivers terminated the service of Shanghai Nongkai on 29 April 2004. For details, please refer to Note 33i to the financial statements.

d. Disposal of wireless technology investments in 2003

As described in Note 8 to the financial statements, the Company entered into the Put Option Agreement in 2002 with a former substantial shareholder of the Company and disposed of all the Group's interests in wireless technology investments in 2003.

33. LITIGATION AND CONTINGENT LIABILITIES

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

The Receivers commenced legal proceedings 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"), 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, 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 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 the Receivers have 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 maintain that the Solicitors did not have authority to act for Mr. Chau during the period from 11 September 2003 to 13 July 2004.

33. 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 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, 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 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, the Receivers applied for a Mareva Injunction order against Mr. Chau and an appointment of them 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 STCC, SHKIS and Ms. Mo in relation to the disposal of Shun Loong

On 4 February 2004, the Receivers have, 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, 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 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, the Receivers made a public announcement in respect of legal proceedings commenced by them on behalf of Shanghai Finance as mentioned above 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 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.

The Receivers are currently unable to ascertain whether there are any contingent liabilities in relation to this action.

33. LITIGATION AND CONTINGENT LIABILITIES *(Continued)*

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

The Company, through the Receivers, commenced legal proceedings against 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. As Great Center failed to file any notice of intention to defend the legal proceedings within the time allowed, the Company obtained judgment in default against Great Center 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 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. 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 commenced legal proceedings against Shun Loong and a writ of summons was filed by Profitex with the Court on 17 October 2003 to claim an aggregate sum of HK$2,214,769 against Shun Loong for rent in arrears, air-conditioning, management and electricity charges and other payments outstanding as of 30 September 2003 for its breach of the sub-tenancy agreement entered into with Profitex on 23 May 2003 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.

33. 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 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.

As at the date of this report, the Receivers are unable to ascertain if the amount due from Shun Loong as at 30 June 2004 of HK$3,885,000, included in deposits, prepayments and other receivables in Note 20g to the financial statements, is fully recoverable.

f. PRC recovery actions

On 19 July 2003, the Company, through 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, details of which are set out in Notes 20c, 20d and 20h to the financial statements.

(i) Deposit and advance to Fuyou

On 19 July 2003, legal action had been commenced for the recovery of RMB347,000,000 being amount due to Longbai by 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 amount due to Hongxin.

In July 2004, the High People's Court advised that the Company's application to commence legal proceedings of RMB347,000,000 against Fuyou and any further claims should be made to the Intermediate Court on behalf of Hongxin and Longbai.

(ii) Advance to Shanghai Mechanic

On 30 January 2004, the Receivers, in their capacity as Hongxin's directors demanded Shanghai Mechanic to repay RMB222,910,000 due to Hongxin but have received no response to date.

In July 2004, the High People's Court advised that the Company's application to commence legal proceedings for any claims against Shanghai Mechanic should be made to the Intermediate Court on behalf of Hongxin.

(iii) *Advance to Huatip*

On 27 June 2003, the Receivers, in their capacity as Hongxin's directors, demanded Huatip to repay RMB300,000,000 due to Hongxin but have received no response to date.

In July 2004, the High People's Court advised that the Company's application to commence legal proceedings for any claims against Huatip should be made to the Intermediate Court on behalf of Hongxin.

33. LITIGATION AND CONTINGENT LIABILITIES *(Continued)*

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 Liuli SRCC's enforcement application against Longbai regarding the Longbai Purported Loan of RMB350,000,000 purportedly made by Liuli SRCC to Longbai pursuant to 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.

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.

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.

33. LITIGATION AND CONTINGENT LIABILITIES *(Continued)*

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

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.

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 judgement 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.

The Receivers 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 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. 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 Shijidadao SRCC's enforcement application against Hongxin regarding the Hongxin Purported Loan of RMB300,000,000 purportedly made by Shijidadao SRCC to Hongxin pursuant to 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.

33. LITIGATION AND CONTINGENT LIABILITIES *(Continued)*

h. Legal 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.

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 has been 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 have 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 decision 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 judgment would be given.

On 17 November 2004, a judgement 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.

33. LITIGATION AND CONTINGENT LIABILITIES *(Continued)*

h. Legal 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.

The Receivers 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 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.

i. Legal actions relating to Bowyer

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

The Receivers 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 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 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.

33. LITIGATION AND CONTINGENT LIABILITIES *(Continued)*

i. Legal 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.

j. Contingent liabilities in respect of the legal actions

The Receivers consider that, 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 financial statements.

k. 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 legal 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.

34. POST BALANCE SHEET EVENTS

As detailed in Notes 33g and 33h to the financial statements, Hotel Longbai and the land at Wuzhong Road have been frozen by the Intermediate Court pursuant to the Summons served by the SRCC on Longbai and Hongxin respectively for the Longbai Purported Loan and the Hongxin Purported Loan.

35. COMPARATIVE AMOUNTS

As further explained in Note 3 to the financial statements, due to the adoption of SSAP 12 (Revised) during the current year, the accounting treatment and presentation of certain items in the financial statements and certain supporting notes have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been restated to conform with the current year's presentation.

36. ULTIMATE HOLDING COMPANY

New Nongkai, incorporated in the BVI, was the ultimate holding company as at 30 June 2004 and is currently in receivership.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Receivers on 23 December 2004.