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If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

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

**Shanghai Land Holdings Limited****上海地產控股有限公司***(Receivers Appointed)**(Incorporated in Hong Kong with limited liability)***(Stock Code: 67)**

**SETTLEMENT PROPOSAL
INVOLVING WINDING-UP OF THE COMPANY
A CONNECTED TRANSACTION AND A VERY SUBSTANTIAL DISPOSAL
UNDER THE LISTING RULES**

Financial adviser to the Board**ANGLO CHINESE
CORPORATE FINANCE, LIMITED**

**Independent financial adviser
to the Independent Board Committee and the Independent Shareholders**

taifook
TAI FOOK CAPITAL LIMITED

A letter from the Independent Board Committee is set out on pages 36 to 37 of this circular. A letter of advice from Tai Fook Capital Limited containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 38 to 66 of this circular.

A notice convening an extraordinary general meeting of Shanghai Land Holdings Limited (Receivers Appointed) to be held at Grand Hyatt Hong Kong, 1 Harbour Road, Hong Kong on 20 September 2005 at 10:00 a.m. is set out on pages 119 to 125 of this circular. Whether or not you propose to attend the Extraordinary General Meeting, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjournment (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or adjourned meeting (as the case may be) should you so desire.

27 August 2005

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DEFINITIONS

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

“AG Wilkinson”	A.G. Wilkinson & Associates (Surveyors) Limited, valuers engaged in the valuation of the PRC properties
“Anglo Chinese”	Anglo Chinese Corporate Finance, Limited, financial adviser to the Board, a corporation deemed licensed to carry out Types 1, 4, 6 and 9 regulated activities under the SFO
“associates”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“BOCHK”	Bank of China (Hong Kong) Limited, the provider of the Facility to New Nongkai, the principal business of which is the provision of banking and related financial services, who is also a connected person of the Company by virtue of it being a substantial Shareholder of the Company (according to the notice dated 2 December 2003 filed by BOCHK with the Company pursuant to section 324 of Part XV of the SFO)
“BOCHK Claim”	any debt, liability or obligation of New Nongkai or Mr Chau to BOCHK arising out of or in connection with the Facility and the relevant loan agreements, guarantee, pledge and share mortgages
“BOC (HK) Nominees”	Bank of China (Hong Kong) Nominees Limited, a wholly-owned subsidiary of BOCHK and the registered holder of approximately 75% of the issued share capital of the Company, the principal business of which is nominee services, who is a connected person by virtue of it being a substantial shareholder of the Company (according to the notice dated 2 December 2003 filed by BOCHK with the Company pursuant to section 324 of Part XV of the SFO)
“Bowyer”	Bowyer Profits Limited, a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of the Company, which owns certain units and car-parking spaces in Jun Ling Plaza
“BVI Subsidiaries”	Bowyer, Eastar and Hip Yick
“Capital Sky”	Capital Sky Limited, a company incorporated in the British Virgin Islands and a direct wholly-owned subsidiary of the Company
“Chau Claim”	a claim in the amount of US\$34.2 million (equivalent to approximately HK\$267 million) (plus interest and costs) against Mr Chau and Ms Mo made by the Company for the recovery of certain misappropriated funds

DEFINITIONS

“Company”	Shanghai Land Holdings Limited (Receivers Appointed), a company incorporated in Hong Kong and the shares of which are listed on the Main Board of the Stock Exchange
“Companies Ordinance”	the Companies Ordinance, Chapter 32 of the Laws of Hong Kong
“Costs and Expenses of the Company”	means all costs and expenses of the Company and the Receivers outstanding as at the date of the Settlement Deed and any such costs and expenses to be incurred by the Company, the Receivers and the Liquidators until the conclusion of the members’ voluntary winding-up of the Company, to be paid out of the capped reserve of HK\$36 million
“Court”	the High Court of Hong Kong
“Director(s)”	director(s) of the Company
“DTZ Debenham”	DTZ Debenham Tie Leung Limited, valuer engaged in the valuation of the PRC properties
“Estar”	Estar Development Limited, a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of the Company, which, through China Honest Limited, owns 100% of Hongxin which in turn owns the Hongxin Land
“EGM”	the extraordinary general meeting to be convened and held to seek approvals from the Shareholders for the Settlement Proposal and winding-up of the Company
“Facility”	a demand loan facility provided by BOCHK as lender and New Nongkai as borrower pursuant to the terms of a loan agreement dated 23 April 2002 (as amended by supplemental agreements respectively dated 3 May 2002 and 12 June 2002)
“FEC”	Foreign Economic Commission of Huangpu District Shanghai, the PRC
“Great Center Claim”	a claim made by the Company in the amount of approximately HK\$53.2 million (plus interest and costs) against Great Center Limited (In liquidation) being money received by Great Center which belonged to the Company
“Group”	the Company and its subsidiaries

DEFINITIONS

“High Court Action No. 879 of 2005”	High Court Action No. 879 of 2005 commenced by the Company (as the first plaintiff) and two of its subsidiaries (as the second and third plaintiffs) against Mr Chau, Ms Mo, New Nongkai, Ms Yu Kwo, Mr Siu Yim Wah, Mr Yu Ling, Mr Lee Deng Charng (a former Director) and Ms Gong Bei Ying Angela (a former Director) in relation to the Property Transactions for an aggregate amount of approximately HK\$735.1 million (plus interest and costs) as described in the Company’s announcement dated 19 May 2005
“Hip Yick”	Hip Yick Profits Limited, a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of the Company, which owns 100% of Longbai which in turn owns Hotel Longbai
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Hongxin”	上海宏興房地產發展有限公司 (Shanghai Hongxin Real Estate Development Company Limited), a company established in the PRC and an indirect wholly-owned subsidiary of the Company, which owns Hongxin Land
“Hongxin Enforcement Notice”	the enforcement notice dated 28 June 2004 served on Hongxin stating, among other things, that the Intermediate Court had ruled that Hongxin should pay to SRCCU RMB301,447,005.54 with accrued penalty interest and an enforcement fee of RMB303,447
“Hongxin Land”	a parcel of land situated at Lot Number 26, Wu Zhong Road, Hong Qiao Town, Minhang District, Shanghai, the PRC, which is held by Hongxin for development purposes
“Hotel Longbai”	上海逸和龍柏飯店 (Hotel Yihe Longbai Shanghai), which is situated at 2451 Hong Qiao Road, Hong Qiao Region, Changning District, Shanghai, the PRC, which is being operated by Longbai
“ICAC”	means The Independent Commission Against Corruption
“Independent Board Committee”	a committee of the Board comprising the independent non-executive Directors, namely Mr Mok Chiu Kuen, Mr Ho Yau Hoo, Ronald and Mr Choi Man On, established to advise the Independent Shareholders in respect of the Settlement Proposal
“Independent Shareholders”	Shareholders other than New Nongkai, BOC (HK) Nominees, BOCHK, Mr Chau, Ms Mo and their respective associates
“Intermediate Court”	上海市第一中級人民法院 (Shanghai No. 1 Intermediate Court) of the PRC

DEFINITIONS

“Jun Ling Plaza”	Jun Ling Plaza, an office building located at 500 Chengdu North Road, Huangpu District, Shanghai, the PRC
“King Success”	King Success Holdings Limited, a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of the Company
“Latest Practicable Date”	being the latest practicable date for ascertaining certain information included in this circular
“Liquidators”	means the liquidators of the Company in a voluntary winding-up pursuant to section 228(1)(b) of the Companies Ordinance (Cap.32), in which case BOCHK, BOC (HK) Nominees, the Company, the Receivers, New Nongai, the NNGI Receivers and Mr Chau shall use their best endeavours to procure that the Receivers be appointed as such liquidators
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Longbai”	上海逸和龍柏酒店有限公司 (Shanghai Yihe Longbai Hotel Limited), a company established in the PRC and an indirect wholly-owned subsidiary of the Company, which owns Hotel Longbai
“Longbai Enforcement Notice”	the enforcement notice dated 28 June 2004 served on Longbai stating, among other things, that the Intermediate Court had ruled that Longbai should pay to SRCCU RMB354,934,911.58 with accrued penalty interest and an enforcement fee of RMB356,935
“Minority Shareholders”	Shareholders other than New Nongkai and/or BOC (HK) Nominees
“Mr Chau”	Mr Chau Ching Ngai, the chairman and a connected person of the Company
“Ms Mo”	Ms Mo Yuk Ping, the former general manager of the Company and understood to be the wife of Mr Chau, who is a connected person of the Company by virtue of her being an associate of Mr Chau
“Net Realisable Value”	The estimate selling price or net selling price if management is compelled to sell immediately
“New Nongkai”	New Nongkai Global Investments Limited (Receivers and Managers Appointed), a company wholly owned by Mr Chau, which is beneficially interested in approximately 75% of the issued share capital of the Company, the principal business of which is investment holding and a connected person by virtue of it being a substantial shareholder of the Company

DEFINITIONS

“NNGI Account”	an account in the name of New Nongkai held at the BOCHK in connection with the Facility, the rights, title, interests and benefits of New Nongkai in such account having been charged to BOCHK by way of a first fixed charge
“NNGI Receivers”	Mr Kennic Lai Hang Lui and Ms Ruby Mun Yee Leung, the joint and several receivers and managers of New Nongkai, who, to the best of the knowledge of the Receivers, are the connected persons (as defined in the Listing Rules) of the Company by virtue of being parties to the Settlement Proposal
“Non-Cash Distribution”	the proceeds from the Chau Claim (if any) or any right to receive the same (if assignable), the Great Center Claim and the entire issued share capital of Capital Sky which owns (among other things) the entire issued share capital of King Success which in turn owns (among other things) the entire issued shares in and the respective shareholders’ loans to the BVI Subsidiaries, at an ascribed notional value of HK\$796 million, of which HK\$735 million represents the acquisition costs of the three PRC properties and the balance represents the ascribed value to the various claims, such value being irrevocably accepted by the Primary Parties for the purposes of the Settlement Deed
“Parties”	parties to the Settlement Deed, namely the Company, New Nongkai, BOCHK, BOC (HK) Nominees, the Receivers, the NNGI Receivers, Mr Chau and Ms Mo
“PRC”	The People’s Republic of China
“Primary Parties”	the Company, New Nongkai, BOCHK, BOC (HK) Nominees, the Receivers, the NNGI Receivers and Mr Chau
“Property Transactions”	has the meaning ascribed thereto in the subsection under the section headed “Settlement Proposal involving winding-up of the Company” in the Letter from the Receivers
“Property Transactions Claims”	any current or future debt, liability or obligation of BOCHK, Mr Chau, Ms Mo and/or New Nongkai arising out of or in connection with the Property Transactions
“Purported Loans”	the loan of RMB300 million purportedly made by SRCCU to Hongxin pursuant to a loan agreement dated 27 March 2003 and the loan of RMB350 million purportedly made by SRCCU to Longbai pursuant to a loan agreement dated 11 April 2003

DEFINITIONS

“Receivers”	Messrs Stephen Liu Yiu Keung and Yeo Boon Ann, the joint and several receivers of the Company, who are the connected persons (as defined in the Listing Rules) of the Company (save for their capacity as the Receivers) by virtue of being parties to the Settlement Proposal
“Record Date”	20 September 2005, being the record date for determining the entitlements of the Shareholders under the Settlement Proposal
“Shanghai Merchants”	Shanghai Merchants Holdings Limited, a company incorporated in Bermuda and the shares of which are listed on the Main Board of the Stock Exchange
“Settlement Deed”	a conditional settlement deed entered into on 5 July 2005 amongst the Company, New Nongkai, BOCHK, BOC (HK) Nominees, the Receivers, the NNGI Receivers, Mr Chau and Ms Mo in respect of the Settlement Proposal
“Settlement Proposal”	a settlement proposal which involves, among other things, the winding-up of the Company by way of a members’ voluntary liquidation, a distribution of the Company’s assets to its Shareholders and a settlement of claims, which is more fully described in the section headed “Settlement Proposal involving winding-up of the Company” in the Letter from the Receivers
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.50 each in the capital of the Company
“Shareholders”	the holders of the Shares
“SRCCU”	上海市農村信用合作社聯合社 (Shanghai Rural Credit Cooperatives Union) and its branches, being the lender of the Purported Loans
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tai Fook”	Tai Fook Capital Limited, a licensed corporation under the SFO to carry out the Type 6 regulated activity (advising on corporate finance) appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the terms of the Settlement Proposal

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors:

Chau Ching Ngai
Jiang Dong Liang
Mao Wei Ping

Non-Executive Director:

Tan Lim Heng

Independent Non-Executive Directors:

Mok Chiu Kuen
Ho Yau Hoo, Ronald
Choi Man On

INDEPENDENT BOARD COMMITTEE

Mok Chiu Kuen
Ho Yau Hoo, Ronald
Choi Man On

COMPANY SECRETARY

Seng Sze Ka Mee, Natalia

AUDITORS

Nexia Charles Mar Fan & Co.
11th Floor, Fortis Bank Tower
77-79 Gloucester Road
Hong Kong

SHARE REGISTRARS

Computershare Hong Kong Investor Services
Limited
46th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

REGISTERED OFFICE

18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong
Tel: (852) 2846 9888
Fax: (852) 2827 0715

STOCK CODE

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EXPECTED TIMETABLE

Latest time for lodging proxy form for the Extraordinary General Meeting	10:00 a.m. on 18 September 2005
Book Close date (<i>Note 1</i>)	
from	14 September 2005
To	20 September 2005
Record Date	20 September 2005
Extraordinary General Meeting	10:00 a.m. on 20 September 2005
Announcement on the results of the Extraordinary General Meeting	21 September 2005
Cash Distribution (<i>Note 2</i>)	30 September 2005
Non-Cash Distribution	30 September 2005
Shares delisted from the Stock Exchange by close of business on	10 October 2005
Final Distribution (if any)	20 March 2006

Notes:

- (1) The Register of Members will be closed from Wednesday, 14 September 2005 to Tuesday, 20 September 2005, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the Cash Distribution, all transfer documents accompanied with the relevant share certificates, must be lodged with the Company's Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:00 p.m. on Tuesday, 13 September 2005.
- (2) Those registered shareholders whose names appear on the Register of Members on 20 September 2005 will be entitled to Cash Distribution. The cheques will be dispatched to the latest address of the registered shareholders as shown in the Register of Members on 30 September 2005 by ordinary mail.
- (3) The latest day for dealing in the shares of the Company is not shown as trading in the shares on the Stock Exchange was suspended with effect from 9:30 a.m. on 2 June 2003 and remains suspended as at the Latest Practicable Date.
- (4) Announcements will be made in the newspapers to convene the Final Meeting if a Final Distribution is to be made. Shareholders are reminded that the services of the Share Registrar will be maintained until the dissolution of the Company.

LETTER FROM THE RECEIVERS



Shanghai Land Holdings Limited **上海地產控股有限公司**

(Receivers Appointed)

(Incorporated in Hong Kong with limited liability)

(Stock Code: 67)

Court-appointed Joint and Several Receivers:

Stephen Liu Yiu Keung

Yeo Boon Ann

Registered office:

18th Floor

Two International Finance Centre

8 Finance Street

Central

Hong Kong

27 August 2005

To the Shareholders

Dear Sir/Madam,

**SETTLEMENT PROPOSAL
INVOLVING WINDING-UP OF THE COMPANY
A CONNECTED TRANSACTION AND A VERY SUBSTANTIAL DISPOSAL
UNDER THE LISTING RULES**

1. INTRODUCTION

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 us, Stephen Liu Yiu Keung and Yeo Boon Ann, as the joint and several receivers of the Company until further order.

Upon our appointment, we have taken over the general management and conduct of the affairs of the Company and we have initiated and defended legal actions in Hong Kong and PRC with a view to preserving and maximising the value of assets of the Company. Significant efforts have also been made to maintain the Group's major business operations and assets in Shanghai, the PRC.

We, having examined the various developments, the time and costs and uncertainties involved in the pursuit of litigation by the Group against various parties, the difficulties involved in maintaining the continued listing status of the Company and restoring the trading of the Shares, consider the return of the Company's capital to Shareholders through a members' voluntary winding-up of the Company and bringing the receivership to an end to be a practicable option.

LETTER FROM THE RECEIVERS

We commenced without prejudice arm's length negotiations with representatives of Mr Chau and BOCHK which led to the terms of the settlement being agreed. The Company announced on 27 July 2005 that it entered into the Settlement Deed on 5 July 2005 with BOCHK, BOC (HK) Nominees, New Nongkai, the Receivers, the NNGI Receivers, Mr Chau and Ms Mo which involves, among other things, the winding-up of the Company by way of a members' voluntary winding-up, the return of the Company's capital to Shareholders by way of a distribution of the Company's assets and a settlement of certain significant litigation commenced by the Company and certain other claims which the Company would otherwise proceed to litigate.

BOCHK, not a creditor of the Company, granted loan facility to New Nongkai which owns approximately 75% of the Company's issued share capital. Mr Chau is beneficially interested in the entire issued share capital of New Nongkai. To secure the loan facility, New Nongkai pledged the shares of the Company to BOCHK and BOC (HK) Nominees is the registered holder of approximately 75% of the issued share capital of the Company.

Subject to the provision for or payment or discharge of all debts and liabilities of the Company, the Company's distributable assets (after setting aside an amount of HK\$36 million, being the Costs and Expenses of the Company) amounted to approximately HK\$1,920 million shall be distributed as follows: (i) HK\$480 million shall be declared and paid in cash to the Minority Shareholders in proportion to the number of Shares held by them; (ii) HK\$1,440 million shall be declared in favour of BOC (HK) Nominees who is the registered Shareholder of approximately 75% of the Company's shares or to such other party as BOC (HK) Nominees may direct. The distribution is equivalent to approximately HK\$0.629 per Share.

The distribution of HK\$1,440 million declared to BOC (HK) Nominees is made up of HK\$644 million which shall be paid in cash (equivalent to approximately HK\$0.281 per Share) and a Non-Cash Distribution at a notional value of HK\$796 million (equivalent to approximately HK\$0.348 per Share) making up a total distribution of HK\$0.629 per Share.

The Non-Cash Distribution has a notional value of HK\$796 million agreed and irrevocably accepted by the Primary Parties for the purposes of the Settlement Deed and will not be subject to any adjustment. The Non-Cash Distribution comprises the proceeds from the Chau Claim (if any) or any right to receive the same (if assignable), the Great Center Claim and the entire issued share capital of Capital Sky which owns, among other things, the entire issued share capital of King Success which in turn owns, among other things, the entire issued shares in and the respective shareholders' loans to the BVI Subsidiaries which directly own properties in the PRC. Of the notional value of HK\$796 million, HK\$735 million represents the acquisition costs of the PRC properties and the balance represents an ascribed value to the various claims. The Non-Cash Distribution shall be declared in favour of BOC (HK) Nominees and be made, pursuant to the consent and direction of BOC (HK) Nominees, to New Nongkai.

Pursuant to the Settlement Deed, Mr Chau agreed to procure payment of HK\$140 million to BOCHK. Upon receipt by BOCHK in cleared funds of HK\$140 million, the receivership over New Nongkai will be discharged and Mr Chau will regain control of New Nongkai.

Without any admission whatsoever on the part of any of the Parties as to liability or as to the validity or quantum of the claims made by or against each other, the Parties have agreed to settle all existing or potential claims between them, including, without limitation, the BOCHK Claim, the Chau Claim and the Property Transactions Claims, on the terms set out in the Settlement Deed. We believe that the Settlement Proposal is in the best interest of the Company and the Shareholders.

LETTER FROM THE RECEIVERS

The Settlement Proposal involves the winding-up of the Company and is a very substantial disposal under the Listing Rules and constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

An Independent Board Committee has been established to consider the Settlement Proposal and to advise the Independent Shareholders in respect of the Settlement Proposal and the withdrawal of listing of the Company on the Stock Exchange. Tai Fook has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

An EGM will be convened to obtain the necessary approvals from the relevant Shareholders for the Settlement Proposal, the winding-up of the Company and the withdrawal of listing on the Stock Exchange following the implementation of the Settlement Proposal. New Nongkai, BOC (HK) Nominees, BOCHK, Mr Chau, Ms Mo and their respective associates holding approximately 75% of the shareholding should abstain from voting in respect of the resolution to approve the Settlement Proposal and the withdrawal of listing for the purpose of the Listing Rules.

A resolution to approve the Settlement Proposal must be obtained from at least 75% of the Independent Shareholders voting by way of poll either in person or by proxy at the EGM. After passing the aforementioned resolution, a special resolution to approve the winding-up of the Company will be put to the Shareholders at the same EGM.

A resolution will be put to the Independent Shareholders for their consideration for the withdrawal of listing of the Company on the Stock Exchange following the implementation of the Settlement Proposal. In accordance with Rule 6.12 of the Listing Rules, the approval of withdrawal of listing must be obtained from at least 75% of the Independent Shareholders voting by way of poll either in person or by proxy at the meeting, with the number of votes cast against the same resolution amounting to not more than 10% of the Independent Shareholders entitled to vote at the Meeting.

The Primary Parties shall use their best endeavours to procure that the Receivers be appointed as the liquidators of the Company and ensure that the distributions are effective and completed in accordance with the provisions of the Settlement Deed.

The circular is aimed: (i) to give you further information on, among other matters, the Settlement Proposal; (ii) to set out the recommendation of the Board in respect of the Settlement Proposal and proposed delisting of the Shares of the Company from the Stock Exchange; (iii) to set out the recommendation of the Independent Board Committee in respect of the Settlement Proposal and proposed delisting; (iv) to set out the letter of advice from Tai Fook to the Independent Board Committee and the Independent Shareholders in respect of the Settlement Proposal; (v) to set out the Valuation Reports performed by AG Wilkinson and DTZ Debenham in relation to the PRC properties; and (vi) to give you notice of EGM to consider and, if thought fit, to approve the Settlement Proposal and the withdrawal of listing of the Company from the Stock Exchange.

The Company has no outstanding options or securities convertible into Shares.

Trading in the Shares on the Stock Exchange was suspended at the request of the Company with effect from 9:30 am on 2 June 2003.

LETTER FROM THE RECEIVERS

Shareholders should note that the Settlement Proposal, the winding-up of the Company and the withdrawal of listing are subject to a number of conditions and therefore may or may not proceed.

2. SETTLEMENT PROPOSAL INVOLVING WINDING-UP OF THE COMPANY

The Settlement Proposal involves, among other things, the winding-up of the Company by way of a members' voluntary winding-up pursuant to section 228(1)(b) of the Companies Ordinance, a distribution of the Company's assets to its shareholders and a settlement of claims.

Parties to the Settlement Deed

The Parties are the Company, New Nongkai, BOCHK, BOC (HK) Nominees, the Receivers, the NNGI Receivers, Mr Chau and Ms Mo.

BOCHK granted loan facility to New Nongkai which owns approximately 75% of the Company's issued share capital. Mr Chau is beneficially interested in the entire issued share capital of New Nongkai. To secure the loan facility, New Nongkai pledged the shares of the Company to BOCHK and BOC (HK) Nominees is the registered holder of approximately 75% of the issued share capital of the Company.

Pursuant to legal proceedings by ICAC on the alleged manipulation of share prices of the Company, the Company considers that the defendants Mo Yuk-ping, Chung Sau-ling, Sammy Lam Kai-sing and Cheung Pak-yau, who are also suspected to be Chau's associates, should abstain from voting at the EGM in any event. According to the information available, the remaining approximately 25% of the Company's issued share capital is held by the public.

Distributions upon winding-up of the Company

The terms of the Settlement Proposal are agreed on the basis that the respective values of the Company's distributable assets (being the Company's assets agreed by the Parties to be distributed by the Company upon its winding-up in accordance with the terms of the Settlement Deed) would be as follows:

<i>In HK\$ million</i>	Assets as at 5 July 2005	Capped reserve for Company expenses	Proposed Distribution to	
			75% BOC (HK) Nominees	25% Minority Shareholders
Cash and cash equivalents	1,160	36	644	480
Value of the Non-Cash Distribution	796	—	796	—
Company's distributable assets	<u>1,956</u>	<u>36</u>	<u>1,440</u>	<u>480</u>

LETTER FROM THE RECEIVERS

As at the Latest Practicable Date, there are no significant changes to the Company's distributable assets as stated above.

	Total Issued Shares	BOC (HK) Nominees	Minority Shareholders
Number of Shares	<u>3,051,438,765</u>	<u>2,288,521,317</u>	<u>762,917,448</u>
<i>In HK\$ per share</i>			
Cash and cash equivalents		\$0.281	\$0.629
Value of the Non-Cash Distribution		<u>\$0.348</u>	<u>–</u>
Company's distributable assets		<u>\$0.629</u>	<u>\$0.629</u>

The cash and cash equivalents held by the Company were determined after taking into account the assets of the Company and all known liabilities including known contingent liabilities.

The Primary Parties agree that a capped cash reserve of HK\$36 million be set aside out of the Company's distributable assets for the payment of the Costs and Expenses of the Company.

Subject to the provision for or payment or discharge of all debts and liabilities of the Company, the Company's distributable assets, after setting aside HK\$36 million for the Costs and Expenses of the Company, amounted to approximately HK\$1,920 million, shall be distributed as follows:

- (i) HK\$480 million shall be declared and paid in cash to the Minority Shareholders in proportion to the number of Shares held by them;
- (ii) HK\$644 million shall be declared in favour of BOC (HK) Nominees and be paid in cash to BOC (HK) Nominees or to such other party as BOC (HK) Nominees may direct; and
- (iii) Non-Cash Distribution, at a notional value of HK\$796 million agreed and irrevocably accepted by the Primary Parties for the purposes of the Settlement Deed shall be declared in specie in favour of BOC (HK) Nominees and be made, pursuant to the consent and direction of BOC (HK) Nominees, to New Nongkai provided that the instrument for effecting the Non-Cash Distribution shall only be delivered after the cash distributions mentioned above have been effected and delivered. The total distribution to BOC (HK) Nominees amounted to HK\$1,440 million is made up of HK\$644 million in cash and HK\$796 million in non-cash form.

Pursuant to the Settlement Deed, Mr Chau agreed to procure payment of HK\$140 million to BOCHK. Upon receipt by BOCHK in cleared funds of HK\$140 million, the receivership over New Nongkai will be discharged and Mr Chau will regain control of New Nongkai.

LETTER FROM THE RECEIVERS

Assets of the Company other than those specified in the Settlement Deed (as described above), or the proceeds from the sale thereof (if any), will be distributed to the Shareholders on a pari passu basis and in proportion to their respective shareholdings in the Company, and to the extent those assets are not capable of realisation or distribution, they will be written off as part of the winding-up of the Company.

In the event that the Costs and Expenses of the Company required to be paid out of the above reserve are less than HK\$36 million, any surplus shall be distributed only among the Minority Shareholders in proportion to the Shares held by them. BOC (HK) Nominees and New Nongkai have agreed to waive their entitlements to the pari passu distribution over any such surplus.

In the event that the Company's cash and cash equivalents (after setting aside the reserve for the payment of the Costs and Expenses of the Company) are, or have an actual value that is, greater or less than the value of HK\$1,124 million set out above at the date immediately prior to the making of any distributions, the cash distributions shall be adjusted and made to the Shareholders on a pari passu basis and in proportion to their respective shareholdings in the Company.

In the event that the Company's distributable assets are or have an actual value that is greater or less than HK\$1,956 million set out above at the date immediately prior to the making of any distributions, the capped reserve of HK\$36 million as the Costs and Expenses of the Company and the value of the Non-Cash Distribution will not be subject to any adjustment.

In the event that the Company and/or the liquidators are unable to lawfully effect the cash distributions by 31 December 2005, the Parties shall be relieved of all further obligations under the Settlement Deed.

Without any admission whatsoever on the part of any of the Parties as to liability or as to the validity or quantum of the claims made by or against each other, the Parties have agreed to settle all existing or potential claims between them, including, without limitation, the BOCHK Claim, the Chau Claim and the Property Transactions Claims, on the terms set out in the Settlement Deed.

Settlement of claims against New Nongkai and Mr Chau by BOCHK

New Nongkai, wholly owned by Mr Chau, is the beneficial owner of approximately 75% of the Company's issued share capital. BOCHK granted loan facility to New Nongkai and as security to the loan facility, New Nongkai pledged its shareholding in the Company to BOCHK.

New Nongkai is in default of its repayment obligations pursuant to the terms of the loan agreement dated 23 April 2002 (as amended by supplemental agreements dated 3 May and 12 June 2002). On 6 June 2005, BOCHK applied to the Court appointing NNGI Receivers over all the assets and property of New Nongkai and BOC (HK) Nominees is the registered shareholder of approximately 75% of the issued share capital of the Company.

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Upon the winding-up of the Company, the cash distribution of HK\$644 million shall be declared in favour of BOC (HK) Nominees and the Non-Cash Distribution, at a notional value of HK\$796 million, agreed and irrevocably accepted by the Primary Parties for the purpose of the Settlement Deed, shall be declared in specie in favour of BOC (HK) Nominees, and be made pursuant to the consent and direction of BOC (HK) Nominees to New Nongkai.

Pursuant to the Settlement Deed, Mr Chau agreed to procure the payment of HK\$140 million to BOCHK. Mr Chau already procured the payment of HK\$50 million to BOCHK on 6 July 2005 upon the execution of the Settlement Deed on 5 July 2005. Mr Chau has agreed to pay, or procure the payment of, the balance of HK\$90 million to an escrow account (to be established with BOCHK and to be held in the name of the NNGI Receivers as the escrow agent) on or before the business day immediately prior to the date of the EGM. Within two business days of the receipt by the NNGI Receivers of documents evidencing the Board approval, the Shareholders' approval and the Court sanction of the Settlement Proposal, the NNGI Receivers shall release the said HK\$90 million to BOCHK.

Without in any way limiting the power of the NNGI Receivers, BOCHK, BOC (HK) Nominees, New Nongkai, the NNGI Receivers and Mr Chau agree that upon receipt in cleared funds by BOCHK of HK\$50 million, BOCHK shall consent, and New Nongkai and/or the NNGI Receivers shall take steps to effect, the appointment of Mr Chau or such other person as he may direct, as a director of New Nongkai. Upon receipt by BOCHK in cleared funds of HK\$140 million to be paid by or on behalf of Mr Chau, the receivership over New Nongkai will be discharged and Mr Chau will regain control of New Nongkai. Upon receipt by BOCHK in cleared funds of HK\$140 million to be paid by or on behalf of Mr Chau and the receipt by BOC (HK) Nominees of HK\$644 million from the cash distribution made by the Company upon its winding-up (i.e. the receipt by BOCHK and BOC (HK) Nominees of a total cash sum of HK\$784 million), BOCHK shall release New Nongkai and Mr Chau in respect of the BOCHK Claim.

Chau Claim

As disclosed in the Company's previous announcements dated 28 July 2003, 29 August 2003, 15 September 2003, 9 January 2004 and 5 February 2004, 18 March 2005 and its various financial reports, the Company commenced High Court Action No. 2704 of 2003 against Mr Chau and Ms Mo for the recovery of certain misappropriated funds.

The Company obtained in August 2003 a judgment in default against Mr Chau in the amount of US\$34.2 million (equivalent to approximately HK\$267 million) (plus interest and costs), which default judgment was set aside in November 2004. We were appointed as the joint and several receivers over certain assets of Mr Chau in August 2003 with powers to apply the same in satisfaction of the abovementioned judgment.

We anticipate significant difficulties in the enforcement of any judgment and have serious reservations on the extent of any possible recovery from Mr Chau and Ms Mo. Our reservations were derived from our investigations of Mr Chau's assets back in August 2003 which revealed only two real properties in Hong Kong of significant values held by a company beneficially owned by Mr Chau and Ms Mo. It appears that both properties are subject to mortgages. Taking into account the amount of the indebtedness secured by the mortgages, the aggregate net current value of the two properties is estimated to be approximately HK\$50 million.

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On 3 March 2005, the Court ordered the discharge of the receivership over Mr Chau's assets upon the undertaking by Mr Chau and Ms Mo not, without leave of the Court, to deal with certain assets of Mr Chau, including and not limited to the aforementioned real estate properties.

The proceeds, if any, from the Chau Claim of US\$34.2 million (equivalent to approximately HK\$267 million) or any right to receive the same (if assignable) are included in the Non-Cash Distribution and estimated to have a potential recovery of approximately HK\$50 million even assuming that the Company eventually obtains judgment in High Court Action No. 2704 of 2003.

Under the Settlement Proposal, following the payment of HK\$50 million to BOCHK procured by Mr Chau, the Company and/or the Receivers, Mr Chau and Ms Mo have undertaken not to take any further steps in the Chau Claim (including any variation or discharge of the undertakings of Mr Chau and Ms Mo to the Court pursuant to the Court order made on 3 March 2005 as described above). Upon receipt in cleared funds by BOCHK and/or BOC (HK) Nominees of HK\$784 million, and payment of all of the Company's creditors, the distributions upon the winding-up of the Company and the Costs and Expenses of the Company, the Company and/or the Receivers, Mr Chau and Ms Mo shall fully and absolutely discharge and release all claim whatsoever against each other arising under or in connection with the Chau Claim. The Company and the Receivers reserve their rights to take any action against Mr Chau and Ms Mo (including but not limited to the Chau Claim) in the event that the Settlement Deed is rendered invalid in whatsoever manner.

Release of the Property Transactions Claims

Pursuant to the Settlement Deed, "Property Transactions" means:

- (a) the acquisition of Bowyer for approximately HK\$33.3 million by China Horizon Limited, the Company's subsidiary, from Mr Yu Ling in or about November 2002 and the transfer of funds received by the vendor to the NNGI Account subsequent to the acquisition;
- (b) the acquisition of Hip Yick for HK\$371 million by King Success, the Company's subsidiary, from Ms Yu Kwo in or about January 2003, and the transfer of funds received by the vendor to the NNGI Account subsequent to the acquisition;
- (c) the acquisition of Eastar for approximately HK\$330.8 million by King Success, the Company's subsidiary, from Mr Siu Yim Wah in or about February 2003 and the transfer of funds received by the vendor to the NNGI Account subsequent to the acquisition;
- (d) the pledging of Hotel Longbai by Longbai, the Company's subsidiary, to SRCCU for RMB350 million on or about 11 April 2003 pursuant to a loan agreement between Longbai and SRCCU, and the subsequent transfer of the funds raised from that pledge to Fuyou Securities Brokerage Company Limited on or about 29 April 2003; and
- (e) the pledging of Hongxin Land by Hongxin, the Company's subsidiary, to SRCCU for RMB300 million on or about 27 March 2003, and the subsequent on-lending of those funds to Shanghai Huatip Trading Limited on or about 13 May 2003.

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As described in the Company's announcement dated 19 May 2005, the Company (as the first plaintiff) and two of its subsidiaries, China Horizon Limited and King Success (as the second and third plaintiffs respectively) commenced High Court Action No. 879 of 2005 against Mr Chau, Ms Mo, New Nongkai, Ms Yu Kwo, Mr Siu Yim Wah, Mr Yu Ling, Mr Lee Deng Charng (a former Director) and Ms Gong Bei Ying Angela (a former Director) in relation to the Property Transactions for an aggregate amount of approximately HK\$735 million (plus interest and costs).

Upon successful implementation of the Settlement Proposal, inter alia, receipt in cleared funds by BOCHK/BOC (HK) Nominees of HK\$784 million, being HK\$644 million from the cash distribution upon the winding-up of the Company and HK\$140 million from Mr Chau or his designates, and payment of all of the Company's creditors, completion of the distributions upon the winding-up of the Company and payment of the Costs and Expenses of the Company, the Company and the Receivers shall take all reasonable steps to discontinue High Court Action No. 879 of 2005 and shall discharge and release any and all of the Property Transactions Claims that the Company may have against BOCHK, Mr Chau, Ms Mo, New Nongkai and all other defendants who are not a party to the Settlement Proposal. The Company and the Receivers reserve their rights to take any action in respect of the Property Transactions Claims in the event that the Settlement Deed is rendered invalid in whatsoever manner.

If the Company is to proceed with the Property Transactions Claims, and on the assumption that the Company is successful in High Court Action No. 879 of 2005, which is a claim for, among other things, rescission of the acquisition of the shares in the companies holding the three PRC properties, the Company will have given up its ownership in the PRC properties in return for the judgment sum of approximately HK\$735 million. It is also inevitable that very substantial legal costs will be incurred, part of which would not be recoverable even if the Company successfully obtains judgment.

Great Center Claim

The Great Center Claim is included in the Non-Cash Distribution. As disclosed in the Company's previous announcements dated 28 July 2003, 7 August 2003 and 29 August 2003 and its various financial reports, the Company commenced High Court Action No. 2636 of 2003 against Great Center Limited (In liquidation) for the Company's money amounting to approximately HK\$53.2 million received by Great Center Limited (In liquidation). The Company obtained in August 2003 a judgment in default in the amount of approximately HK\$53.2 million (plus interest and costs). Shanghai Merchants, previously controlled by Mr Chau, has also brought proceedings against Great Center Limited (In liquidation). According to information available to us, the only significant asset of Great Center Limited (In liquidation) consists of a bank deposit of approximately US\$4.5 million. The Company has disputed the proprietary claims made by Shanghai Merchants to the aforesaid bank deposit. No legal proceedings have been taken out in connection therewith. With available information, an assessment of the Company's recovery under the Great Center Claim is estimated to be about HK\$14 million.

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3. CONDITIONS PRECEDENT TO THE SETTLEMENT DEED

The following are conditions precedent to the operation of the Settlement Proposal as contained in the Settlement Deed:

- (a) approval by a majority of the Directors voting at a meeting of the Board convened for the purpose of approving the Company entering into the Settlement Deed;
- (b) the passing by the Independent Shareholders of a resolution at the EGM to approve the Settlement Deed and the transactions contemplated thereunder for the purpose of the Listing Rules, voting by way of poll;
- (c) the passing by the Shareholders of a special resolution at the EGM to approve, among other things, the winding-up of the Company upon the passing of the resolution as mentioned in (b) above (to the extent to which BOC (HK) Nominees may vote in respect of such resolution, BOCHK agreed to procure BOC (HK) Nominees to and BOC (HK) Nominees undertakes to vote in favour of such resolution); and
- (d) sanction from the Court in respect of the Receivers and the NNGI Receivers entering into the Settlement Deed in their capacity as receivers and on behalf of the Company and New Nongkai respectively and their implementation of the Settlement Deed including, without limitation, the making of the distributions.

A resolution will be put to the Independent Shareholders for their consideration for the withdrawal of listing of the Company on the Stock Exchange following the implementation of the Settlement Proposal. In accordance with Rule 6.12 of the Listing Rules, the approval of withdrawal of listing must be obtained from at least 75% of the Independent Shareholders voting by way of poll either in person or by proxy at the meeting. Upon approval by Independent Shareholders, application will be made to the Stock Exchange for withdrawal of listing of the Company's shares from the Stock Exchange.

On 27 July 2005, the Board resolved to approve the Company's entry into the Settlement Deed in order that application could be made to the Court for sanction.

At a hearing on 29 July 2005, details of which are set out in the announcement dated 1 August 2005, in relation to the application to the Court for sanction of the Receivers entering into the Settlement Deed in their capacity as receivers on behalf of the Company, it was ordered that sanction be given to us, as Receivers of the Company, to enter into the Settlement Deed dated 5 July 2005 in our capacity as receivers on behalf of the Company and for the implementation of the Settlement Deed including, without limitation, the making of the distributions as provided for in the Settlement Deed.

The NNGI Receivers, at a hearing on 26 July 2005, obtained sanction from the Court to enter into, in their capacity as receivers of New Nongkai, the Settlement Deed dated 5 July 2005 and the implementation of the Settlement Deed.

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Save for (b) and (c) above, the relevant conditions precedent will be deemed satisfied with copies of the minutes of meeting of the Board approving the Company entering into the Settlement Deed and the Court Orders granting sanction to the Receivers and NNGI Receivers delivered by the Party which was responsible for the satisfaction of the relevant condition precedent to the other parties.

Subject to compliance with the Listing Rules and the requirements of the relevant securities regulator(s), the Company by its Board shall use its best endeavours to issue within 42 days of execution of the Settlement Deed (or such other date as may be agreed in writing by the Primary Parties) a notice to convene the EGM.

The Parties may agree in writing to amend or waive any of the conditions precedent, to the extent that such conditions precedent are capable of being waived or amended, either unconditionally or subject to further terms. As at the date of the circular, none of the Parties has expressed any intention to vary or waive any of the conditions precedent.

The long stop date of the Settlement Deed is 31 December 2005 or such other date as the Primary Parties may agree in writing. If the conditions precedent are not satisfied on or before such long stop date, the Settlement Deed shall be terminated and shall be of no further effect.

4. INFORMATION ON THE GROUP

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

A chart showing the shareholding of the Company and its interests in the subsidiaries as at 30 June 2005 is set out in Appendix I of the circular.

The Group's financial results extracted from the audited accounts of 2004 and 2003 are as follows:

	Year ended 30 June	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	58,268	15,106
Loss attributable to shareholders	158,293	246,668
Consolidated net assets	1,944,823	2,103,116

Details of the Company and the Group's financial position can be referred to the Annual Report for the year ended 30 June 2004 and the Interim Report for the six months ended 31 December 2004. There are no material changes since the issuance of the Interim Report.

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The unaudited financial statements of the Group as at 30 June 2005 and the audited comparative figures for the previous year are set out in Appendix III of the circular.

Particulars of the subsidiaries are as follows:

Name	Country of incorporation	Percentage of equity interest attributable to the Company	Principal activities	Unaudited Net Assets/ (Liabilities) as at 30 June 2005 <i>HK\$</i>
Gold Favour Limited	Hong Kong	100%	Provision of nominee and secretarial services	(9,367)
Capital Sky	BVI	100%	Investment holding	(17,667)
Remix Holdings Limited	BVI	100%	Investment holding	(64,632)
China Horizon Limited	BVI	100%	Dormant	(13,572)
City King Limited	BVI	100%	Dormant	88,453
Profitex Investments Limited	Hong Kong	100%	Provision of management services	(37,130,278)
Finance Achieve Limited	BVI	100%	Not yet commenced business	(13,486)
Great Hero Limited	Hong Kong	100%	Dormant	(14,340)
King Success	BVI	100%	Investment holding	(861,512)
Bowyer	BVI	100%	Property investment	11,732,189
Eastern Talent Limited	BVI	100%	Not yet commenced business	(9,001)
Prospect Profits Limited	BVI	100%	Not yet commenced business	(14,032)
Eastar	BVI	100%	Investment holding	110,043
China Honest Limited	Hong Kong	100%	Investment holding	39,618,664
Hongxin	PRC	100%	Property development	134,657,773
Hip Yick	BVI	100%	Investment holding	(1,927,190)
Longbai	PRC	100%	Hotel investment	(742,139,082)

LETTER FROM THE RECEIVERS

The Company

The major assets of the Company include (i) cash and cash equivalents amounting to approximately HK\$1,160 million as at 30 June 2005, (ii) indirect interests in the BVI Subsidiaries which respectively own certain units and car parking spaces in Jun Ling Plaza, Hongxin Land and Hotel Longbai and (iii) claims which it has or may have against various parties.

The unaudited financial statements of the Group as at 30 June 2005 and the audited comparative figures for the previous year are set out in Appendix III of the circular. During the year, there are no exceptional or extraordinary transactions and no substantial movement of assets and liabilities. No audit has been performed on the Group's financial statements for the year ended 30 June 2005. It is considered that for the purpose of this circular relating to the implementation of the Settlement Proposal which includes the winding-up of the Company, it would be more appropriate and meaningful for the Shareholders to assess the net assets of the Company, ensuring that the Company is solvent for the purpose of the members' voluntary winding-up and that there are sufficient assets for the distribution as stipulated in the Settlement Deed.

Furthermore, in view of the uncertainties and limitations, including but not limited to, the access to all the books and records of the Company's subsidiaries, we and the Board are unlikely to be able to give unqualified representations as to whether the financial statements of the Group for the year ended 30 June 2005 would give a true and fair view. As a consequence the auditors would be bound to issue a disclaimer opinion thereon. Such audited financial statements of the Group would not be meaningful to the Shareholders.

The Settlement Proposal and the transactions contemplated are very unusual. The Settlement proposal, which involves a members' voluntary winding-up and *pari passu* distribution of assets had been sanctioned by the Court. An Independent Assurance Report has been prepared on obtaining assurance on the Company's net realisable value as at 30 June 2005. This has confirmed that the Company has sufficient assets to settle its liabilities and make distributions as stipulated by the Settlement Deed.

In light of the above and due to exceptional circumstances, the Company applied to the Stock Exchange to grant a waiver of Rule 14.68(2)(a)(i) and (ii) from inclusion of Accountants' Report and proforma financial statements of the remaining Group in the circular as the content and the format of the Accountants' Report do not aptly display the financial information of the transactions under the Settlement Deed and the inclusion of the information is not meaningful in the circumstances of a winding-up scenario.

The Settlement Proposal involves, among other things, the winding-up of the Company by way of a members' voluntary liquidation, the payment or discharge of all the debts and liabilities of the Company, the distribution of the Company's assets to its Shareholders and a settlement of claims with various parties.

The Company has to carry out an assessment of its ability to pay its debts in full for a period of not more than twelve months from the commencement of the members' voluntary winding-up. The Certificate of Solvency is a document which sets out the assets and liabilities of the Company on a particular date for determining whether the Company is solvent. The Certificate of Solvency has to be certified by at least 50% of the Directors of the Company and has to be filed with Companies Registry.

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The unaudited management accounts of the Company as at 30 June 2005 prepared by us (the “Accounts”) showed the Company’s net assets stated at their net realisable values amounted to HK\$1,157 million, the majority of which is in cash and cash equivalents. The net assets of the Company are determined with reference to their estimated net realisable values, and known liabilities, including known contingent liabilities related to the year ended 30 June 2005, where appropriate, are recognised.

The Company’s auditors, Nexia Charles Mar Fan & Co., have been engaged to perform an assurance review on the unaudited management accounts of the Company as at 30 June 2005 and to obtain a reasonable assurance on the net realisable value of the net assets (other than the interests in subsidiaries) of the Company as at 30 June 2005. A copy of the Independent Assurance Report is set out in Appendix II of this circular.

Interests in subsidiaries of HK\$1,096 million, comprised of HK\$10 being the unlisted shares at cost in two subsidiaries and the balance representing advances to subsidiaries, are considered to have zero net realisable value. Advances to King Success and Eastar, amounting to HK\$722 million and HK\$336 million respectively are considered to be not recoverable. King Success is an investment holding company which holds the companies which in turn indirectly own Hongxin Land and Hotel Longbai. The amounts due to the Company represent the finance by the Company to acquire the property holding subsidiaries. Eastar is the investment holding company which holds China Honest which in turn owns Hongxin. Both King Success and Eastar do not have any operating income.

The net realisable values of the property holding subsidiaries are detailed in below under “BVI subsidiaries and PRC assets”.

The cash and cash equivalents of the Company as at 30 June 2005 are sufficient to satisfy the cash distributions to Shareholders after setting aside HK\$36 million for the payment of the Costs and Expenses of the Company.

The transactions contemplated in the Settlement Proposal will not give rise to any proceeds nor result in any gain or loss to the Company. The assets of the Company will be distributed to the Shareholders upon the winding-up of the Company. On the dissolution of the Company, after settling all liabilities, the surplus cash, if any, will be returned to the Shareholders as a final distribution.

A confirmation on the sufficiency of working capital available to the Company is not applicable to the transactions contemplated under the Settlement Proposal as the Company will be wound up and the assets distributed to the Shareholders of the Company.

Capital Sky

Capital Sky is an investment holding company, wholly owned by the Company and is the intermediate holding company for all the Company’s indirect subsidiaries that are included in the Non-Cash Distribution.

The unaudited Consolidated Balance Sheet as at 30 June 2005 set out in Appendix III categorised the Group’s assets and liabilities under the Company, the Capital Sky Group and Gold Favour Limited.

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The Capital Sky group encompasses all the operating subsidiaries, namely Profitex Investments Limited, which provides management services to the Group and the subsidiaries holding the PRC properties. Under the Settlement Proposal, the shares of Capital Sky form part of the HK\$796 million Non-Cash Distribution to BOC (HK) Nominees. The book value of the Capital Sky Group is at a deficit of HK\$392 million as a result of the Purported Loans on the Hongxin Land and Hotel Longbai more fully described under “BVI subsidiaries and PRC assets”.

BVI Subsidiaries and PRC assets

Three BVI subsidiaries, Bowyer, Eastar and Hip Yick own properties directly and indirectly in the PRC.

Bowyer holds certain units and carparks in Jun Ling Plaza and derives rental income from its properties. The properties held by Bowyer are unencumbered. The rental proceeds for the twelve months ended 30 June 2005 amounted to RMB1.8 million of which RMB1.0 was collectable and collected. The remainder of HK\$0.8 million has collection problems. According to information available, the purchase of the properties was financed by a party related to Mr Chau and not by funds originated from Bowyer prior to the acquisition of Bowyer by the Group. This has given rise to inherent limitations for Bowyer to remit out of PRC the rental income and sale proceeds relating to the properties. In view of the uncertainties of the actual amount of cash, if any, that could be received by the Company to be distributed to the Shareholders on the winding-up of the Company, the net realisable value of the Bowyer is considered to be zero.

Hongxin, a PRC subsidiary held indirectly by Eastar, owns Hongxin Land which has been purportedly pledged to secure borrowings of RMB 300 million from SRCCU pursuant to a loan agreement dated 27 March 2003. Longbai, a PRC subsidiary held by Hip Yick, holds Hotel Longbai which has been purportedly pledged to secure borrowings of RMB 350 million from SRCCU pursuant to a loan agreement dated 11 April 2003.

SRCCU has filed enforcement applications with the Intermediate Court of the PRC against Hongxin and Longbai regarding the Purported Loans. The Company understands that the Intermediate Court should be proceeding with the procedures for the execution of the Hongxin Enforcement Notice and the Longbai Enforcement Notice. Hongxin may lose ownership of Hongxin Land and Longbai may lose ownership of Hotel Longbai as a result of the Enforcement Notices.

The Company may or may not be able to comply with Rule 13.24 of the Listing Rules regarding its suitability for listing if the enforcement actions are completed resulting in the Group losing Hongxin Land and Hotel Longbai. An issuer shall carry out, directly or indirectly, a sufficient level of operations or have tangible assets of sufficient value and/or intangible assets for which a sufficient potential value as required in Rule 13.24 can demonstrate to the Exchange to warrant the continued listing of the issuer’s securities. Henceforth losing Hotel Longbai will cause the Group to lose a significant part of its operations and in conjunction with losing Hongxin will cause the Group to lose a substantial portion of the Group’s tangible assets.

The Company has obtained valuation reports from two independent property valuers, (1) AG Wilkinson and (2) DTZ Debenham in respect to the properties in PRC.

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The following table shows the respective open market values and forced sale values as at 30 April 2005 of the abovementioned properties according to the valuation reports of AG Wilkinson (shown under (1) below) and DTZ Debenham (shown under (2) below), and where applicable, the amounts of the Purported Loans (plus interest) as at 30 June 2005 purportedly secured by Hongxin Land and Hotel Longbai.

	Open market value	Forced sale value	Amount due to SRCCU	Acquisition cost
The Group's investment properties in Jun Ling Plaza	(1) RMB38.6 million (2) RMB43.3 million	(1) RMB28.9 million (2) RMB32.5 million	N/A	HK\$33 million
Hongxin Land	(1) RMB365.0 million (2) RMB480.2 million	(1) RMB306.0 million (2) RMB336.1 million	RMB387.6 million	HK\$331 million
Hotel Longbai	(1) RMB205.0 million (2) RMB298.9 million	(1) RMB174.0 million (2) RMB208.9 million	RMB415.4 million	HK\$371 million
Total amount	(1) RMB608.6 million (2) RMB822.4 million	(1) RMB508.9 million (2) RMB577.5 million	RMB803.0 million	HK\$735 million

The valuation by DTZ Debenham is being converted from HK\$ to RMB at the exchange rate of HK\$1 to RMB1.06.

The valuation was carried out on 30 April 2005 following the commencement of the negotiation on the settlement to determine if there are other options, such as redemption of the two properties allegedly pledged to SRCCU. Given that the two properties are subject to enforcement orders and may yield nothing to the Company, a significant portion of the ascribed value of non-cash distribution was based on the acquisition costs of the three PRC properties.

In accordance with the Listing Rules, a valuation has been carried out on the above properties as at 31 July 2005. The valuation of the respective valuers and where applicable, the amounts of the Purported Loans (plus interest) as at 31 July 2005 purportedly secured by Hongxin Land and Hotel Longbai are as follows:

	Open market value	Forced sale value	Amount due to SRCCU	Acquisition cost
The Group's investment properties in Jun Ling Plaza	(1) RMB34.9 million (2) RMB43.3 million	(1) Not available (2) Not available	N/A	HK\$33 million
Hongxin Land	(1) RMB362.0 million (2) RMB480.2 million	(1) Not available (2) Not available	RMB393.2 million	HK\$331 million
Hotel Longbai	(1) RMB200.0 million (2) RMB298.9 million	(1) Not available (2) Not available	RMB419.3 million	HK\$371 million
Total amount	(1) RMB596.9 million (2) RMB822.4 million	(1) Not available (2) Not available	RMB812.5 million	HK\$735 million

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The valuation by DTZ Debenham is being converted from HK\$ to RMB at the exchange rate of HK\$1 to RMB1.04.

The above PRC properties are the subject matter of High Court Action No. 879 of 2005 which is a claim for, among other things, the rescission of the acquisition of the BVI subsidiaries which in turn directly and indirectly own the PRC properties. A successful claim in High Court Action No. 879 of 2005 would mean the Company could recover the acquisition costs but would have given up its ownership over the PRC assets. The acquisition costs of HK\$735 million form the major component of the Non-Cash Distribution on the winding-up of the Company.

Going concern problem of a PRC subsidiary

The registered capital of Hongxin was US\$16,700,000 prior to our appointment as legal representatives and directors of Hongxin. According to the new business licence, Hongxin's registered capital is listed at US\$30,000,000, of which only US\$16,700,000 has been paid up. The investment amount which was originally listed at US\$50,000,000 is subsequently listed at US\$90,000,000 pursuant to Hongxin's Certificate of Approval. Hongxin has requested the FEC to extend the deadline for paying up the additional registered capital to 24 November 2005. In light of the judgment dated 17 November 2004 by the Intermediate Court on Hongxin in respect of the Purported Loan, the FEC has verbally rejected Hongxin's application to extend the payment of the additional registered capital to 24 November 2005. Should the business licence of Hongxin be revoked, Hongxin would not be allowed to continue its business operations.

5. REASONS FOR AND BENEFITS OF THE SETTLEMENT PROPOSAL

Since our appointment on 7 June 2003, we have been exploring alternatives with a view to preserving and/or maximising the value of the assets of the Company for the benefit of the Shareholders, in particular the Minority Shareholders. As disclosed in the various announcements and financial reports made by the Company since the commencement of the receivership of the Company, the Company, through the Receivers, have commenced a number of legal proceedings against various parties with a view to, among other things, recovering misappropriated funds. Significant efforts have also been made to maintain the Group's major business operations and assets in Shanghai, the PRC.

We commenced without prejudice arm's length negotiations with representatives of Mr Chau and BOCHK, being respectively the beneficial holder and registered holder (via their respective vehicles/nominees) of the controlling equity interest of the Company, which led to the terms of the settlement being agreed.

The assets of the Company comprise mainly cash balances and existing potential claims, namely the Chau Claim, Property Transactions Claim and the Great Center Claim. Please refer to the various headings and sections of the circular for details of the claims.

LETTER FROM THE RECEIVERS

On the assumption that the Company were fully successful in all legal proceedings, the value of the Company would be:

**Unaudited as
at 5 July 2005**
HK\$ million

Cash and cash equivalent		1,160
Notional value on non-cash distributable assets agreed and irrevocably accepted by the Primary Parties for the purposes of the Settlement Deed:		
Acquisition costs of PRC properties under High Court Action No. 879 of 2005	735	
Chau Claim	50	
Great Center Claim	14	
Provision for irrecoverable legal costs	(3)	796
		<u>1,956</u>

It is with these figures in mind that we have considered it appropriate to proceed with the settlement on the basis that the Minority Shareholders of the Company should together receive approximately HK\$480 million in cash, being 25% of the Company's distributable assets and BOC (HK) Nominees receives a distribution of HK\$1,440 million partly in cash and partly in specie, in the form of distribution of non-cash assets with an ascribed value, and a capped reserve of HK\$36 million for the Company's expenses including receivership and winding-up expenses.

If the Company is to proceed fully with all of the foregoing proceedings, it is inevitable that very substantial legal costs will be incurred, part of which would not be recoverable even if the Company successfully obtains judgment. We consider the return of the Company's capital to Shareholders through a members' voluntary liquidation of the Company and bringing the receivership to an end is in the best interests of the Shareholders in that they are receiving value on account of the various claims without having to pursue expensive and protracted litigation which would otherwise be necessary. In addition, however strong the merits of a claim appear to be, there is always an element of uncertainty in litigation.

Upon implementation of the Settlement Proposal and the winding-up of the Company, the Minority Shareholders will receive an aggregate cash sum of HK\$480 million (equivalent to approximately HK\$0.629 per Share) whilst BOC (HK) Nominees will receive a cash sum of HK\$644 million (equivalent to approximately HK\$0.281 per Share in cash). BOC (HK) Nominees will also receive a non-cash distribution with a notional value of HK\$796 million (equivalent to a notional value of approximately HK\$0.348 per Share in non-cash form) agreed and irrevocably accepted by the Primary Parties for the purposes of the Settlement Deed which is ascribed to the proceeds from the Chau Claim (if any) or any right to receive the same (if assignable), the Great Center Claim and the entire issued share capital of Capital Sky which owns (among other things) the entire issued share capital of King Success which in turn owns

LETTER FROM THE RECEIVERS

(among other things) the entire issued shares in and the respective shareholders' loans to the BVI Subsidiaries. Such non-cash distribution will be transferred by BOC (HK) Nominees to New Nongkai upon receipt by BOCHK of HK\$140 million to be paid by or on behalf of Mr Chau.

The closing price of the Shares prior to the suspension of trading in the Shares on the Stock Exchange on 2 June 2003 was HK\$0.345 per share. Under the Settlement Proposal, the Minority Shareholders will be receiving a cash distribution of HK\$0.629 per share.

We consider that the Settlement Proposal through the winding-up of the Company is in the best interests of the Independent Shareholders and the terms of the Settlement Proposal are fair and reasonable so far as the Independent Shareholders are concerned.

The Board has resolved that we put forward the Settlement Proposal to the Shareholders for their consideration and approval. The views of the Board have been set out in the Letter from the Board on pages 33 and 35 of the circular.

The Independent Board Committee, having considered the terms of the Settlement Proposal and the advice from Tai Fook, are of the opinion that the terms of the Settlement Proposal are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, they recommend the Independent Shareholders to vote in favour of the resolutions at the EGM in respect of the terms of the Settlement Proposal and the withdrawal of listing of the Company from the Stock Exchange following the implementation of the Settlement Deed.

6. SUPERVISION BY THE COURT

On 7 June 2003, upon the application of the Board, the Receivers were appointed by the Court as the joint and several receivers of the Company. Since their appointment, the Receivers in their capacity as Court-appointed officers have from time to time sought directions from the Court on issues arising in the course of the receivership. The Receivers have kept the Court abreast of, among other things, the developments of the Settlement Proposal.

In the second half of 2004, in the course of the investigation of the Property Transactions, settlement negotiation was initiated and a preliminary form of the Settlement Proposal emerged which involved settlement of claims, a winding-up of the Company and a return of capital to the Shareholders. Anglo Chinese, a financial adviser, was engaged to study the preliminary settlement proposal and it concluded that the preliminary settlement proposal was feasible and reasonable. As the preliminary settlement proposal was considered worthy to pursue and the Receivers were conscious of their duties to the Court, directions were sought from the Court in September 2004 to proceed with the settlement negotiations. Since then, the Court has been continually informed of, among other things, the developments and negotiations of the settlement proposals.

In March and April 2005, the Primary Parties discussed and agreed on certain important principles of the Settlement Proposal on a non-binding basis. The negotiations came to a deadlock towards the end of April 2005. The Receivers reported the discussions and filed the relevant documents with the Court in May 2005. On 3 May 2005, Court sanction was given to the Receivers to issue a Writ of Summons against the defendants under High Court Action No. 879 of 2005. Further negotiations had proved to be fruitful.

LETTER FROM THE RECEIVERS

In June 2005, the preliminary draft of the Settlement Deed was prepared. The Receivers were mindful of their powers under the order of their appointment dated 7 June 2003. On 23 June 2005, with a view to avoiding any challenge for want of authority, the Receivers obtained directions from the Court to enter into a deed substantially in the form of the draft Settlement Deed filed but that would still be subject to further sanction of the Court. In making the said application, the Receivers had submitted to the Court the preliminary drafts of the Settlement Deed and documents analysing the terms of the Settlement Proposal. Detailed explanation of the basis and reasons for the Settlement Proposal had been provided to the Court. The Court's attention had also been drawn to the important terms of the draft Settlement Deed. The Receivers had confirmed to the Court with supporting documents that in their view, the Settlement Proposal was fair and reasonable to the Shareholders and in the best interest of the Company.

On 29 July 2005, there was another hearing of the Receivers' application to the Court for sanction for the Receivers to enter into the Settlement Deed as Receivers and on behalf of the Company and the implementation of the Settlement Deed including, without limitation, the making of the distributions as provided for in the Settlement Deed. This sanction of the Court is one of the conditions precedent to the operation of the Settlement Deed. In this application, the views of the Board were duly reported to the Court. Further, a legal opinion of a Queen's Counsel from London was also provided to confirm the legality of the Settlement Proposal.

This sanction sought from the Court is not a requirement under the Companies Ordinance or any statutory sanction which would have the effect of binding the Shareholders. Rather, it is in the nature of a direction to the Receivers as the Court's own officers approving of a proposed course of conduct in the discharge of their duties as receivers of the Company. We had submitted that the Court should consider granting the sanction if it appeared to the Court that (i) the proposed course of conduct is lawful and legally feasible; (ii) it is fair and reasonable; and (iii) it is in the interest of the Company under receivership. It had also been highlighted to the Court that the Shares of the Company had been suspended for trading since 2 June 2003 and that there was no development which gave any significant hope of resumption in trading. The Settlement Proposal therefore represented an important opportunity for the Shareholders to recover their investment. Upon hearing the Leading Counsel for the Company acting through the Receivers at the hearing on 29 July 2005, the Court granted the sanction.

As Court-appointed officers, the Receivers are under the supervision of the Court and they owe a duty to the Court to make full and frank disclosure and to act bona fide in both the execution of the Settlement Deed and the implementation of the Settlement Proposal. The Receivers consider that the Settlement Proposal is in the best interest of the Shareholders in the absence of any better alternative and the Receivers' views were reported to the Court.

LETTER FROM THE RECEIVERS

7. GENERAL

The Settlement Proposal involves the winding-up of the Company and is a very substantial disposal under the Listing Rules.

New Nongkai, wholly owned by Mr Chau, is the beneficial owner of approximately 75% of the Company's issued share capital. BOCHK granted the Facility to New Nongkai and to secure the Facility, New Nongkai pledged its shareholding in the Company to BOCHK and BOC (HK) Nominees is the registered shareholder of approximately 75% of the issued share capital of the Company. Ms Mo is understood to be the wife of Mr Chau. According to the information available, the remaining approximately 25% of the Company's issued share capital is held by the public.

Therefore, New Nongkai, BOC (HK) Nominees, BOCHK, Mr Chau and Ms Mo have material interests in the Settlement Deed and they fall within the definitions of connected persons of the Company under Rules 1.01 and 14A.11 of the Listing Rules. The Settlement Proposal constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

An EGM will be convened to obtain the necessary approvals from the relevant Shareholders for the Settlement Deed and the winding-up of the Company. A resolution by the Independent Shareholders to approve the Settlement Deed is required for the purpose of the Listing Rules. New Nongkai, BOC (HK) Nominees, BOCHK, Mr Chau, Ms Mo and their respective associates are required to abstain from voting in respect of the resolution to approve the Settlement Proposal.

The resolution by the Shareholders to approve the winding-up of the Company and the resolution by the Independent Shareholders to approve the Settlement Deed and the delisting of shares are not inter-conditional. After passing of the resolution voting by way of poll by the Independent Shareholders to approve the Settlement Deed, a special resolution to approve the winding-up of the Company will be put to the Shareholders at the EGM.

A resolution will be put to the Independent Shareholders for their consideration for the withdrawal of listing of the Company on the Stock Exchange following the implementation of the Settlement Proposal. In accordance with Rule 6.12 of the Listing Rules, the approval of withdrawal of listing must be obtained from at least 75% of the Independent Shareholders voting by way of poll either in person or by proxy at the meeting.

An Independent Board Committee has been established to consider the Settlement Proposal and withdrawal of listing and to advise the Independent Shareholders in respect of the Settlement Proposal and the withdrawal of listing of the Shares from the Stock Exchange. Tai Fook has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

The circular contains, among other things, further details of the Settlement Proposal, the recommendation from the financial adviser to the Board as set out in Appendix IV, the Letter from the Board and their approval to the Settlement Proposal, recommendations from the Independent Board Committee to the Independent Shareholders, the letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders and a notice convening the EGM to the Shareholders.

LETTER FROM THE RECEIVERS

Shareholders should note that the Settlement Proposal, the winding-up of the Company and the withdrawal of the listing are subject to a number of conditions and therefore may or may not proceed.

8. EXTRAORDINARY GENERAL MEETING

A notice convening the EGM to be held at Grand Hyatt Hong Kong, 1 Harbour Road, Hong Kong on Tuesday, 20 September 2005 at 10:00 a.m. is set out on page 119 of this circular for the purpose of considering, among other things:

- (a) the passing by the Independent Shareholders of a resolution to approve the Settlement Deed and the transactions contemplated thereunder for the purpose of the Listing Rules, voting by way of poll;
- (b) the passing by the Shareholders of a special resolution to approve the winding-up of the Company;
- (c) the passing by the Shareholders of a resolution to appoint the Receivers of the Company as liquidators of the Company; and
- (d) the passing by the Independent Shareholders of a special resolution to approve the withdrawal of listing of the Company from the Stock Exchange for the purpose of the Listing Rules, voting by way of poll.

Mr Chau, the beneficial owner of New Nongkai which owns approximately 75% of the share capital of the Company, Ms Mo, understood to be the wife of Mr Chau, BOCHK and BOC (HK) Nominees, have material interests in the Settlement Proposal and they fall within the definitions of connected persons of the Company under Rules 1.01 and 14A.11 of the Listing Rules. The Settlement Proposal constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

New Nongkai, BOCHK, BOC (HK) Nominees, Mr Chau, Ms Mo and their respective associates are required to abstain from voting in respect of resolutions (a) and (d) above.

In respect of resolution (b) above, to the extent to which BOC (HK) Nominees may vote in favour of such resolution, BOCHK shall procure BOC (HK) Nominees to, and BOC (HK) Nominees hereby undertakes to, vote in favour of such resolution.

In respect of resolution (c) above, New Nongkai, NNGI Receivers, BOCHK, BOC (HK) Nominees and Mr Chau have an obligation under the Settlement Deed to use their best endeavours, and to take all steps necessary, to appoint the Receivers as the liquidators and ensure that the distributions are effective, and completed in accordance with the terms of the Settlement Deed.

A form of proxy for use at the EGM is enclosed. Whether or not you intend to attend such meeting, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible, and in any event not less than 48 hours before the time appointed for holding the EGM, at Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting should you so desire.

LETTER FROM THE RECEIVERS

9 MISCELLANEOUS MATTERS

We would like to remind the Shareholders to update their particulars with the Company's Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong during normal office hours.

The Register of Members will be closed from Wednesday, 15 September 2005 to Tuesday, 20 September 2005, both days inclusive, during which period no transfer of shares will be effected. All transfer documents, accompanied with the relevant share certificates, must be lodged with for registration not later than 4:00 p.m. on Tuesday, 13 September 2005.

Upon the passing of the relevant resolutions, the Company will make the distributions on the dates as set out in the Expected Timetable on page 8 to those registered shareholders whose name appear on the Register of Members, including overseas shareholders, on 20 September 2005 (the "Record Date"). In order to qualify for the Cash Distribution, your name must appear on the Register of Members on the Record Date.

On 30 September 2005, cheques will be dispatched by the Share Registrar to the latest address of the registered Shareholders, including overseas shareholders, as shown in the Register of Members on 30 September 2005 by ordinary mail. The members' entitlement is calculated in proportion to the Shares held by them as at the Record Date.

On 20 March 2005, the Company will make announcements in the newspapers to convene the Final Meeting if a Final Distribution is to be made.

Shareholders are reminded that Computershare Hong Kong Investor Services Limited will remain as the Company's Share Registrar to provide the services until further notice.

Upon the completion of the implementation of the Settlement Deed, application will be made to the Stock Exchange for the withdrawal of listing of the Company's shares from the Stock Exchange.

Shareholders should consult their stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser when in doubt as to any aspect of this circular or as to the action to be taken.

10. RECOMMENDATION

We, the Receivers, believe the voluntary winding-up of the Company is in the best interests of the Company and the Shareholders and the terms of the Settlement Proposal are fair and reasonable to the Independent Shareholders. We recommend that you vote in favour of the relevant resolutions at the EGM whether in person or by proxy.

We, the Receivers, consider that it is appropriate to propose a resolution to the Independent Shareholders for the withdrawal of the listing of the Company on the Stock Exchange following the implementation of the Settlement Proposal and we recommend that the Independent Shareholders vote in favour of the resolution whether at the EGM or by proxy.

LETTER FROM THE RECEIVERS

Your attention is drawn to the letter from the Independent Board Committee to the Independent Shareholders, which is set out on pages 36 and 37 of this circular, and which contains their recommendation in respect of the Settlement Proposal.

The letter of advice from Tai Fook to the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the terms of the Settlement Proposal is set out on pages 38 to 66 of this circular.

11. ADDITIONAL INFORMATION

Your attention is drawn to the Valuation Reports and the General Information set out in the appendices V and VI to this circular.

Yours faithfully,
For and on behalf of
Shanghai Land Holdings Limited
(Receivers Appointed)
Stephen Liu Yiu Keung
Yeo Boon Ann
Joint and Several Receivers

LETTER FROM THE BOARD



Shanghai Land Holdings Limited

上海地產控股有限公司

(Receivers Appointed)

(Incorporated in Hong Kong with limited liability)

(Stock Code: 67)

Executive Directors:

Chau Ching Ngai
Jiang Dong Liang
Mao Wei Ping

Registered office:

18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

Non-Executive Director:

Tan Lim Heng

Independent Non-Executive Directors:

Mok Chiu Kuen
Ho Yau Hoo, Ronald
Choi Man On

27 August 2005

To the Shareholders

Dear Sir/Madam,

**SETTLEMENT PROPOSAL
INVOLVING WINDING-UP OF THE COMPANY
A CONNECTED TRANSACTION AND A VERY SUBSTANTIAL DISPOSAL
UNDER THE LISTING RULES**

The Company announced on 27 July 2005 that it entered into the Settlement Deed on 5 July 2005 with BOCHK, BOC (HK) Nominees, New Nongkai, the Receivers, the NNGI Receivers, Mr Chau and Ms Mo which involves, among other things, the winding-up of the Company by way of a members' voluntary winding-up, the return of the Company's capital to Shareholders by way of a distribution of the Company's assets and a settlement of certain significant litigation commenced by the Company and certain other claims which the Company would otherwise proceed to litigate.

The Company has been under receivership and the Receivers have taken over the general management and conduct of the affairs of the Company since 7 June 2003. We wish to draw your attention to the "Letter from the Receivers" set out on pages 9 to 32 of the circular which contains, inter alia, information of the Settlement Proposal.

LETTER FROM THE BOARD

Anglo Chinese has been appointed as the financial adviser to advise the Board as to whether the terms of the Settlement Proposal are in the best interests of the Company and the Shareholders. The letter and recommendations from Anglo Chinese advising the Board on the terms of the Settlement Proposal are set out in Appendix IV.

Having considered the terms of the Settlement Proposal, the Letter from the Receivers and the advice from Anglo Chinese, we are of the opinion that the terms of the Settlement Proposal are in the best interests of the Company and the Shareholders as a whole.

The Settlement Proposal involves the winding-up of the Company and is a very substantial disposal under the Listing Rules.

Mr Chau is the beneficial owner of New Nongkai which holds approximately 75% of the Company's issued share capital. BOCHK is the provider of a loan facility to New Nongkai and BOC (HK) Nominees is the registered holder of the issued share capital of the Company as a result of the shares pledged to BOCHK for the loan facility. Ms Mo is understood to be the wife of Mr Chau. New Nongkai, BOCHK, BOC (HK) Nominees, Mr Chau and Ms Mo have material interests in the Settlement Proposal and they fall within the definitions of connected persons of the Company. The Settlement Proposal constitutes a connected transaction for the Company under the Listing Rules.

An EGM will be convened to obtain the necessary approvals from the relevant Shareholders for the Settlement Proposal and the winding-up of the Company. A resolution by the Independent Shareholders voting by way of poll to approve the Settlement Deed is required for the purpose of the Listing Rules. New Nongkai, BOC (HK) Nominees, BOCHK, Mr Chau, Ms Mo and their respective associates are required to abstain from voting at the EGM in respect of the resolution to approve the Settlement Proposal.

The Company acting through the Receivers considers that it is appropriate to propose a resolution to the Independent Shareholders for their consideration for the withdrawal of listing of the Company on the Stock Exchange following the implementation of the Settlement Proposal. In accordance with Rule 6.12 of the Listing Rules, the approval of withdrawal of listing must be obtained from at least 75% of the Independent Shareholders voting by way of poll either in person or by proxy at the meeting.

The resolution by the Shareholders to approve the winding-up of the Company and the resolution by the Independent Shareholders to approve the Settlement Deed and the delisting of Shares are not inter-conditional. After passing the resolution voting by way of poll by the Independent Shareholders to approve the Settlement Deed, a special resolution to approve the winding-up of the Company will be put to the Shareholders at the EGM.

There is set out on pages 119 to 125 a notice convening the EGM to be held at 10:00 a.m. on 20 September 2005 at Grand Hyatt Hong Kong, 1 Harbour Road, Hong Kong. At the EGM, the necessary resolutions will be proposed to approve the Settlement Proposal and the withdrawal of listing of the Company from the Stock Exchange following the implementation of the Settlement Deed.

LETTER FROM THE BOARD

Shareholders should note that the Settlement Proposal, the winding-up of the Company and the withdrawal of listing are subject to a number of conditions and therefore may or may not proceed.

Yours faithfully,
For and on behalf of
Shanghai Land Holdings Limited
(Receivers Appointed)
Jiang Dong Liang, Mao Wei Ping
Executive Directors

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



Shanghai Land Holdings Limited

上海地產控股有限公司

(Receivers Appointed)

(Incorporated in Hong Kong with limited liability)

(Stock Code: 67)

27 August 2005

To the Independent Shareholders

Dear Sir/Madam,

**SETTLEMENT PROPOSAL
INVOLVING WINDING-UP OF THE COMPANY
A CONNECTED TRANSACTION AND A VERY SUBSTANTIAL DISPOSAL
UNDER THE LISTING RULES**

We refer to the circular dated 27 August 2005 of the Company (the “Circular”) of which this letter forms part. Terms defined in the Circular shall have the same meaning herein unless the context otherwise requires.

We have been appointed to form the Independent Board Committee to consider and to advise the Independent Shareholders as to whether, in our opinion, the terms of the Settlement Proposal and proposed withdrawal of listing of the shares from the Stock Exchange are fair and reasonable so far as the Independent Shareholders are concerned. Tai Fook has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Settlement Proposal and proposed withdrawal of listing of the shares from the Stock Exchange.

We wish to draw your attention to the “Letter from the Receivers” set out on pages 9 to 32 of the Circular which contains, inter alia, information of the Settlement Proposal, as well as the “Letter of advice from Tai Fook” set out on pages 38 to 66 of the Circular which contains its advice on the terms of the Settlement Proposal. In particular, we would like to draw your attention to the uncertainties relating to the various court actions involving the Company and its subsidiaries set out on pages 15 to 17 and 23 of the “Letter from the Receivers”, the uncertainties and limitations relating to the unaudited financial information of Capital Sky and its subsidiaries as set out on page 66 of the “Letter of advice from Tai Fook” and the risk of downward adjustment (uncap) to the cash distribution to Minority Shareholders as explained on page 66 of the “Letter of advice from Tai Fook”.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the terms of the Settlement Proposal and taken into account the advice of Tai Fook, we are of the opinion that the terms of the Settlement Proposal and proposed withdrawal of listing of shares from the Stock Exchange are fair and reasonable so far as the Independent Shareholders are concerned and are in the interest of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions at the EGM in respect of the terms of the Settlement Proposal and the withdrawal of listing of the Company.

Yours faithfully,

For and on behalf of

Independent Board Committee

Ho Yau Hoo, Ronald

Mok Chiu Kuen

Choi Man On

Independent Non-Executive Directors

LETTER OF ADVICE FROM TAI FOOK



Tai Fook Capital Limited
25th Floor
New World Tower
16-18 Queen's Road Central
Hong Kong

27 August 2005

To the Independent Board Committee and the Independent Shareholders
Shanghai Land Holdings Limited (Receivers Appointed)

Dear Sirs,

SETTLEMENT PROPOSAL INVOLVING WINDING-UP OF THE COMPANY

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders of the Company with respect to the Settlement Proposal, details of which are set out in the "Letter from the Receivers" of the circular of the Company dated 27 August 2005 (the "Circular"), of which this letter forms part. Terms used in this letter shall have the same respective meanings as those defined in the Circular unless the context otherwise requires.

As referred to in the "Letter from the Receivers" of the Circular, the Company, New Nongkai, BOCHK, BOC (HK) Nominees, the Receivers, the NNGI Receivers, Mr Chau and Ms Mo entered into the Settlement Deed in respect of the Settlement Proposal which involves, among other things, the winding-up of the Company by way of a members' voluntary liquidation, a distribution of the Company's assets to the Shareholders and a settlement of claims.

The Settlement Proposal constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. An EGM will be convened to obtain the approval from the Independent Shareholders in respect of the Settlement Proposal. New Nongkai, BOC (HK) Nominees, BOCHK, Mr Chau, Ms Mo, and their respective associates are required to abstain from voting in respect of the resolutions to approve the Settlement Proposal for the purposes of the Listing Rules. Pursuant to ICAC actions for alleged manipulation of share prices of the Company, the Company considers that the defendants Chung Sau-ling, Sammy Lam Kai-sing and Cheung Pak-yau, who are also suspected to be Mr Chau's associates, should also abstain from voting in respect of the resolutions to approve the Settlement Proposal for the purposes of the Listing Rules.

In our capacity as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to provide you with an independent opinion and recommendations as to whether the terms of the Settlement Proposal are fair and reasonable and are in the interest of the Independent Shareholders, and advise the Independent Shareholders how to vote on the resolutions approving the Settlement Proposal and the transactions contemplated thereunder at the EGM and the withdrawal of listing of the Shares on the Stock Exchange. Mr Mok Chiu Kuen, Mr Ho Yau Hoo, Ronald and Mr Choi Man On, being the independent non-executive Directors, are the members of the Independent Board Committee.

LETTER OF ADVICE FROM TAI FOOK

BASES AND ASSUMPTIONS

In formulating our recommendations, we have relied on the information and facts supplied and representations in relation to the Group expressed by the Receivers. We have been advised by the Receivers that no material facts have been omitted from the information supplied and representations in relation to the Group expressed to us and we are not aware of any facts or circumstances which would render such information and representations in relation to the Group untrue, inaccurate or misleading. We have assumed that the information contained and representations in relation to the Group made or referred to in the Circular were complete, true and accurate at the time they were made and continue to be so at the date of despatch of the Circular.

Our review and analyses were based upon, among others, the documents/information provided by the Receivers as set out below:

- (i) the Settlement Deed;
- (ii) certain unaudited financial information of Capital Sky and its subsidiaries up to 30 June 2005;
- (iii) certain unaudited financial information of the Group (other than Capital Sky and its subsidiaries) up to 30 June 2005;
- (iv) the annual report of the Company for the financial year ended 30 June 2004 (the "Annual Report");
- (v) the interim report of the Company for the six months ended 31 December 2004 (the "Interim Report");
- (vi) various announcements made by the Company and/or the Receivers since June 2003;
- (vii) various correspondences between the Stock Exchange and the Securities and Futures Commission on the one hand and the Company and/or the Receivers on the other since June 2003;
- (viii) writ of summons issued under High Court Action No. 879 of 12 May 2005;
- (ix) rescue or takeover proposals received from various parties during the period from June 2003 to October 2004; and
- (x) the Circular.

We have discussed with the Receivers with respect to the terms of and reasons for the Settlement Proposal and consider that we have reviewed sufficient information to reach an informed view and have no reason to doubt the completeness, truth or accuracy of the information and facts provided and representations made to us (save for those related to Capital Sky and its subsidiaries). We also have not conducted an independent investigation into the business and affairs of the Group.

LETTER OF ADVICE FROM TAI FOOK

Our views contained in this letter are solely for the purpose of assisting Independent Shareholders and Independent Board Committee in making their decision of whether to support or reject the Settlement Proposal and the withdrawal of listing of the Shares on the Stock Exchange. As such, our views contained in this letter should not be relied on by parties other than the Independent Shareholders and the Independent Board Committee.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendations in respect of the Settlement Proposal and the withdrawal of listing of the Shares on the Stock Exchange, we have considered the following principal factors and reasons:

I. BACKGROUND

Trading in the Shares on the Stock Exchange has been suspended since 2 June 2003. Following the suspension of trading in the Shares on the Stock Exchange, the Receivers were appointed, on joint and several bases, as the receivers of the Company on 7 June 2003. It is stated in the “Letter from the Receivers” of the Circular that:

“[the Receivers] have initiated and defended legal actions in Hong Kong and the PRC with a view to preserving and maximising the value of the assets of the Company. Significant efforts have also been made to maintain the Group’s major business operations and assets in Shanghai, the PRC.”

It is further stated in the “Letter from the Receivers” of the Circular that:

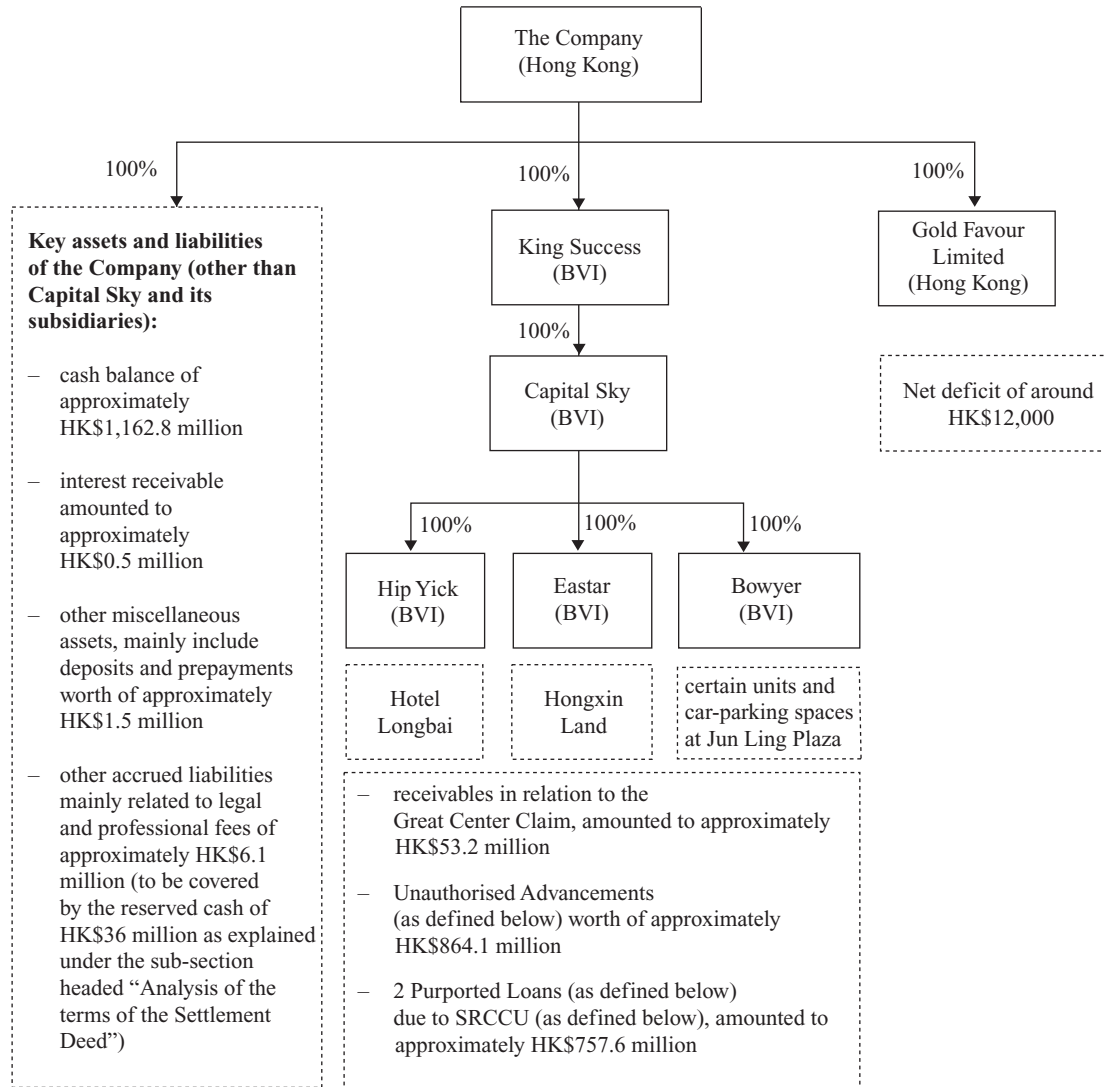
“[the Receivers] have examined the various developments, the time and costs and uncertainties involved in the pursuit of litigation by the Group against various parties, the difficulties involved in maintaining the continued listing status of the Company and restoring the trading of the Shares, [the Receivers] consider the return of the Company’s capital to the Shareholders through a members’ voluntary winding-up of the Company and bringing the receivership to an end to be a practicable option.”

It has been eventually agreed by various parties including (i) the Receivers; (ii) the Company; and (iii) Mr Chau and BOCHK, being the beneficial holder and registered holder (via their respective vehicles/nominees) respectively of the controlling equity interest of the Company, to enter into the Settlement Deed.

According to the information provided by the Receivers, Mr Chau is beneficially interested in the entire issued share capital of New Nongkai which is the beneficial owner of approximately 75% of the issued share capital of the Company. Such shares in New Nongkai and the Company have been respectively charged by Mr Chau and New Nongkai in favour of BOCHK as security for the Facility. BOC (HK) Nominees is the registered holder of approximately 75% of the issued share capital of the Company.

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The prevailing Group's structure and the key assets and liabilities of the Company and Capital Sky (through Capital Sky's interests in the BVI Subsidiaries, namely Eastar, Hip Yick and Bowyer) based on the unaudited financial information of the Group as at 30 June 2005 as provided by the Receivers are set out as follows:



Note: Financial information used in this chart is extracted from the unaudited consolidated balance sheets of the Group as at 30 June 2005 as provided by the Receivers.

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Set out below is the abridged version of the unaudited consolidated balance sheet of the Group as at 30 June 2005 as provided by the Receivers:

	As at 30 June 2005		
	The Company	Capital Sky	Consolidated
	<i>(Note 1)</i>	<i>(Note 2)</i>	
	<i>HK\$ (in million)</i>	<i>HK\$ (in million)</i>	<i>HK\$ (in million)</i>
Fixed assets			
– Key Properties (as defined below)	–	464.9	464.9
– Other fixed assets	–	2.5	2.5
	–	467.4	467.4
Current assets			
– Unauthorised Advancements (as defined below)	–	864.1	864.1
– the Great Center Claim	–	53.2	53.2
– Cash	1,162.8	39.3	1,202.1
– Interest receivable	0.5	–	0.5
– Other assets	1.5	153.8	155.3
	1,164.8	1,110.4	2,275.2
Current liabilities			
– Two Purported Loans (as defined below)	–	(757.6)	(757.6)
– Miscellaneous liabilities	(6.1)	(46.5)	(52.6)
	(6.1)	(804.1)	(810.2)
Long term liabilities	–	(69.3)	(69.3)
Inter-company balance between the Company and Capital Sky	1,096.6	(1,096.6)	–
Total assets less liabilities (include inter-company balance between the Company and Capital Sky)	<u>2,255.3</u>	<u>(392.2)</u>	<u>1,863.1</u>
Represented by:			
– Share capital	1,525.7	–	1,525.7
– Reserves	1,849.6	–	1,849.6
– Accumulated losses	(1,120.0)	(392.2)	(1,512.2)
	<u>2,255.3</u>	<u>(392.2)</u>	<u>1,863.1</u>

Notes:

1. For illustration purpose, figures in this column include the assets and liabilities of a directly wholly-owned subsidiary of the Company, namely Gold Favour Limited, which is not included in the Capital Sky group.
2. Capital Sky owns the entire interests in the BVI Subsidiaries and a number of other subsidiaries.

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II. THE SETTLEMENT PROPOSAL

In a nutshell, the Settlement Proposal involves, among other things, the winding-up of the Company by way of a members' voluntary liquidation, a distribution of the Company's assets to the Shareholders (the "Distribution") and a settlement of claims. According to the Settlement Proposal, the Company (which, together with its subsidiaries, had an unaudited consolidated net asset value of approximately HK\$1,863.1 million as at 30 June 2005) was valued at HK\$1,956 million as at 5 July 2005 and as more fully explained below, the Distribution involves a pro-rata distribution of the Company's assets to the Shareholders and such assets are valued at HK\$1,920 million comprising a cash distribution of HK\$1,124 million (subject to adjustment) (the "Cash Distribution") and a Non-Cash Distribution of a notional amount of HK\$796 million (not subject to adjustment). The remaining cash balance of HK\$36 million held by the Company will be set aside for the payment of the costs and expenses of the Company including receivership and winding-up expenses as more fully explained below.

Out of the Cash Distribution of HK\$1,124 million, HK\$480 million will be distributed to Minority Shareholders whereas HK\$644 million will be distributed to BOC (HK) Nominees. However, Independent Shareholders should note that the Cash Distribution would be subject to adjustment.

According to the Settlement Proposal and as more fully explained under the sub-section headed "Settlement of claims" below, subject to the receipt in cleared funds by BOCHK/BOC (HK) Nominees of HK\$784 million, and payment of all of the Company's creditors, the distributions upon the winding-up of the Company and the costs and expenses of the Company including receivership and winding-up expenses, each of the Chau Claim and the Property Transactions Claims shall be released. Notwithstanding the above, Minority Shareholders and BOC (HK) Nominees can receive the Cash Distribution (subject to adjustment) irrespective of whether BOCHK/BOC (HK) Nominees has received the cleared funds of HK\$784 million subject to completion of the Settlement Deed.

If BOCHK/BOC (HK) Nominees has not received the cleared funds of HK\$784 million, the Company and the Receivers are entitled to continue the Chau Claim and/or the Property Transactions Claims. However, the Great Center Claim is included in the Non-Cash Distribution and the benefits derived, if any, from the Great Center Claim will be forgone upon completion of the Settlement Deed irrespective of whether BOCHK/BOC (HK) Nominees has received the cleared funds of HK\$784 million.

The Non-Cash Distribution will be entitled by BOC (HK) Nominees and could be interpreted as the value ascribed to (i) the various litigations and claims between the Group on the one hand and various other parties, including Mr Chau and his related companies/parties on the other; and (ii) the entire issued share capital of Capital Sky. The major assets of Capital Sky are its beneficial interest of the entire issued share capital of King Success which in turn beneficially owns, among other things, the entire issued shares in and the respective shareholders' loans to the BVI Subsidiaries, namely Bowyer, Eastar and Hip Yick. Bowyer owns certain units and car-parking spaces at Jun Ling Plaza, Eastar owns the entire interest in a parcel of land situated at Wu Zhong Road in Shanghai and Hip Yick owns the entire interest in Hotel Longbai in Shanghai. Since Minority Shareholders will not be entitled to the Non-Cash Distribution, they may concern on whether the ascribed value of the Non-Cash Distribution is fairly stated or not. Our analysis on the valuation of the Non-Cash Distribution of HK\$796 million is set out in section 2 of part II of our letter.

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In sum, the Distribution can be summarised as follows:

	Amount <i>HK\$ (in million)</i>	Amount per Share <i>HK\$</i>
Minority Shareholders (in cash only and subject to adjustment) <i>(Note)</i>	480	0.629
BOC (HK) Nominees		
Amount in cash (subject to adjustment)	644	0.281
Non-Cash Distribution	796	0.348
Sub-total	1,440	0.629
The Distribution	1,920	0.629
Amount set aside for payment of the Company's costs and expenses including receivership and winding-up expenses	36	
Total	1,956	

Note: Based on the Cash Distribution of HK\$1,124 million as at 5 July 2005.

We consider that there are three overwhelming issues over the entire arrangement of the Settlement Proposal, namely:

1. The certainty of making the cash distribution of HK\$480 million to Minority Shareholders.
2. The basis in deriving the Non-Cash Distribution amount of HK\$796 million. Would the value of the Company's assets attributable to Minority Shareholders be higher if the Company and the Receivers opt to continue to proceed with all the claims against the respective parties and/or to realise the assets of Capital Sky and its subsidiaries?
3. Whether the Settlement Proposal is indeed the best available alternative from Independent Shareholders' point of view and the Cash Distribution of HK\$480 million to Minority Shareholders is fair and reasonable?

To address the above issues, our analysis is divided into three main parts, namely (i) terms of the Settlement Deed; (ii) analysis of the Non-Cash Distribution; and (iii) other alternatives.

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1. TERMS OF THE SETTLEMENT DEED

Parties to the Settlement Deed

The parties to the Settlement Deed are the Company, New Nongkai, BOCHK, BOC (HK) Nominees, the Receivers, the NNGI Receivers, Mr Chau and Ms Mo.

Salient terms of the Settlement Proposal

The Distribution

Pursuant to the Settlement Deed, subject to the provision for or payment or discharge of all debts and liabilities of the Company, after setting aside HK\$36 million for payment of the Costs and Expenses (as defined below) of the Company (as discussed below), the Parties agree to the following distributions:

- (i) HK\$480 million shall be declared and paid in cash to Minority Shareholders in proportion to the number of Shares held by them (equivalent to approximately HK\$0.629 per Share in cash) (subject to adjustment as discussed below) (the “Minority Cash Distribution”);
- (ii) HK\$644 million shall be declared in favour of BOC (HK) Nominees and be paid in cash to BOC (HK) Nominees or to such other party as BOC (HK) Nominees may so direct (equivalent to approximately HK\$0.281 per Share in cash) (subject to adjustment as discussed below) (the “BOC Cash Distribution”); and
- (iii) the Non-Cash Distribution, at a notional value of HK\$796 million (not subject to adjustment) agreed and irrevocably accepted by the Primary Parties for the purposes of the Settlement Deed (equivalent to a notional value of approximately HK\$0.348 per Share in non-cash form), shall be declared in specie in favour of BOC (HK) Nominees and be made, pursuant to the consent and direction of BOC (HK) Nominees, to New Nongkai provided that the instrument of effecting the Non-Cash Distribution shall only be delivered after the cash distributions mentioned in (i) and (ii) above have been effected and delivered.

The Minority Cash Distribution of HK\$480 million is equivalent to 25% of the valuation of the Company as at the date of the Settlement Deed (less the reserved amount of HK\$36 million for the Costs and Expenses (as defined below) of the Company) of HK\$1,920 million and is proportional to Minority Shareholders’ interest in the issued share capital of the Company as at the date of the Settlement Deed. As such, we consider that the basis in arriving at the Minority Cash Distribution of HK\$480 million is fair and reasonable.

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Set out below are the other key terms relating to the Settlement Proposal:

Costs and Expenses of the Company (including receivership and winding-up expenses)

The Primary Parties agreed that a capped cash reserve of HK\$36 million be set aside out of the Company's distributable assets for the payment of the costs and expenses of the Company including receivership and winding-up expenses (the "Costs and Expenses").

In the event that the Costs and Expenses required to be paid out of the above reserve are less than HK\$36 million, any surplus shall be distributed only among Minority Shareholders in proportion to the Shares held by them, because BOC (HK) Nominees and New Nongkai have agreed to waive their entitlements to the pari passu distribution over any such surplus. We consider that the waiver of any such surplus by BOC (HK) Nominees and New Nongkai is in the interest of Minority Shareholders as such surplus will only be distributed among Minority Shareholders in proportion to the Shares held by them as at the Record Date.

We will further discuss the implications to Independent Shareholders regarding the capped Costs and Expenses amount under the sub-section headed "Analysis of the terms of the Settlement Deed" below.

Other assets and liabilities of the Company

Assets of the Company other than those specified in the Settlement Deed i.e. the Cash Distribution of HK\$1,124 million to Minority Shareholders and BOC (HK) Nominees plus the Non-Cash Distribution of HK\$796 million as described above will be distributed to the Shareholders on a pari passu basis and in proportion to their respective shareholdings in the Company, and to the extent those assets are not capable of being realised or distributed, they will be written off as part of the winding-up of the Company.

Based on the latest available management accounts of the Company as at 30 June 2005 as provided by the Receivers and as illustrated by the abridged version of the unaudited consolidated balance sheet of the Group as at 30 June 2005 as set out in part I of our letter, apart from the cash balances together with the interest receivable amounts of approximately HK\$0.5 million which are reserved for the Cash Distribution and the Company's equity interests in Capital Sky and its subsidiaries which are included in the Non-Cash Distribution, the remaining assets of the Company amounted to approximately HK\$1.5 million. In addition, miscellaneous liabilities of approximately HK\$6.1 million recorded as at 30 June 2005 mainly included the accruals of the Company's operating costs and legal and professional fees. Such liabilities will be covered by the aforementioned reserves of HK\$36 million for the Costs and Expenses of the Company. For these reasons, we do not expect any significant value of distribution to Minority Shareholders will be derived from the remaining assets of the Company.

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Adjustments relating to the Cash Distribution

In the event that the Company's cash and cash equivalents (after setting aside HK\$36 million for the payment of the Costs and Expenses of the Company) are, or have an actual value that is, greater or less than the value of HK\$1,124 million at the date immediately prior to the making of any distributions, the cash distributions shall be adjusted and made to the Shareholders on a pari passu basis and in proportion to their respective shareholdings in the Company.

In the event that the Company's distributable assets are or have an actual value that is greater or less than HK\$1,956 million at the date immediately prior to the making of any distributions, the capped reserves of HK\$36 million for the Costs and Expenses of the Company and the amount of the Non-Cash Distribution will not be subject to any adjustment.

Implications on Minority Shareholders regarding the effect of the aforesaid adjustment mechanism relating to the Cash Distribution will be discussed under the sub-section headed "Analysis of the terms of the Settlement Deed" below.

Settlement of claims

It is stated in the "Letter from the Receivers" of the Circular that:

"Without any admission whatsoever on the part of any of the Parties as to liability or as to the validity or quantum of the claims made by or against each other, the Parties have agreed to settle all existing or potential claims between them, including, without limitation, the BOCHK Claim, the Chau Claim and the Properties Transactions Claims, on the terms set out in the Settlement Deed."

Details in respect of the arrangements of the settlement of the aforesaid claims are set out below.

Settlement of claims against New Nongkai and Mr Chau by BOCHK

It is stated in the "Letter from the Receivers" of the Circular that:

"Pursuant to the Settlement Deed, Mr Chau agreed to procure the payment of HK\$140 million to BOCHK. Mr Chau already procured the payment of HK\$50 million to BOCHK on 6 July 2005 upon the execution of the Settlement Deed on 5 July 2005. Mr Chau has agreed to pay, or procure the payment of, the balance of HK\$90 million to an escrow account (to be established with BOCHK and to be held in the name of the NNGI Receivers as the escrow agent) on or before the business day immediately prior to the date of the EGM. Within two business days of the receipt by the NNGI Receivers of documents evidencing the Board approval, the Shareholders' approval and the Court sanction of the Settlement Proposal, the NNGI Receivers shall release the said HK\$90 million to BOCHK."

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It is further stated in the “Letter from the Receivers” of the Circular that:

“Upon receipt by BOCHK in cleared funds of HK\$140 million to be paid by or on behalf of Mr Chau and the receipt by BOC (HK) Nominees of the BOC Cash Distribution of HK\$644 million (i.e., the receipt by BOCHK and BOC (HK) Nominees of a total cash sum of HK\$784 million), BOCHK shall release New Nongkai and Mr Chau in respect of the BOCHK Claim.”

The effect of the above arrangement provides BOCHK with an option to pursue the BOCHK Claim should BOCHK and/or BOC (HK) Nominees have not received the originally agreed aggregate settlement sum of HK\$784 million. Given that the above arrangement only involves the settlement between BOCHK and Mr Chau, we consider that the arrangement in respect of settlement of claims against New Nongkai and Mr Chau by BOCHK shall not concern the position of Independent Shareholders.

Release of the Chau Claim

Chau Claim refers to the claim by the Company against Mr Chau and Ms Mo for the recovery of certain misappropriated funds. The Company, in August 2003, obtained a judgment in default against Mr Chau in the amount (including interest and costs) of US\$34.2 million (or equivalent to approximately HK\$267 million), which default judgment was set aside in November 2004. Details of the Chau Claim and its latest developments are set out in the section headed “Litigations” of Appendix V to the Circular.

It is stated in the “Letter from the Receivers” of the Circular that:

“Under the Settlement Proposal, following the payment of HK\$50 million to BOCHK procured by Mr Chau, the Company and/or the Receivers, Mr Chau and Ms Mo have undertaken not to take any further steps in the Chau Claim (including any variation or discharge of the undertakings of Mr Chau and Ms Mo to the Court pursuant to the Court order made on 3 March 2005 as described above). Upon receipt in cleared funds by BOCHK and/or BOC (HK) Nominees of HK\$784 million, and payment of all of the Company’s creditors, the distributions upon the winding-up of the Company and the Costs and Expenses of the Company, the Company and/or the Receivers, Mr Chau and Ms Mo shall fully and absolutely discharge and release all claim whatsoever against each other arising under or in connection with the Chau Claim. The Company and the Receivers reserve their rights to take any action against Mr Chau and Ms Mo (including but not limited to the Chau Claim) in the event that the Settlement Deed is rendered invalid in whatsoever manner.”

Independent Shareholders should however note that the proceeds from the Chau Claim or any right to receive the same (if assignable) are included in the Non-Cash Distribution. That is to say, if the actual Cash Distribution amount effected upon winding-up of the Company is less than the agreed value of HK\$1,124 million and BOCHK and/or BOC (HK) Nominees have not received the originally agreed settlement sum of HK\$784 million, the Company and the Receivers can opt to

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continue the Chau Claim at the expense of BOCHK and/or BOC (HK) Nominees. However, the proceeds from the continuation of the Chau Claim shall be entitled by BOC (HK) Nominees through the Non-Cash Distribution.

Implications on Minority Shareholders regarding the release of the Chau Claim will be discussed under the sub-section headed “Analysis of the terms of the Settlement Deed” below.

Release of the Property Transactions Claims

Property Transactions Claims refer to the claims made by the Company against Mr Chau, Ms Mo, New Nongkai, Ms Yu Kwo, Mr Siu Yim Wah, Mr Yu Ling, Mr Lee Deng Charng (a former Director) and Ms Gong Bei Ying Angela (a former Director) in relation to the Property Transactions. The aggregate claim amount (including interest and costs) is approximately HK\$735.1 million. Details of the Property Transactions Claims and their latest developments are set out in the section headed “Litigations” of Appendix V to the Circular.

It is stated in the “Letter from the Receivers” that:

“Upon successful implementation of the Settlement Proposal, inter alia, receipt in cleared funds by BOCHK/BOC (HK) Nominees of HK\$784 million, being HK\$644 million from the cash distribution upon the winding-up of the Company and HK\$140 million from Mr Chau or his designates, and payment of all of the Company’s creditors, completion of the distributions upon the winding-up of the Company and payment of the Costs and Expenses of the Company, the Company and the Receivers shall take all reasonable steps to discontinue High Court Action No. 879 of 2005 and shall discharge and release any and all of the Property Transactions Claims that the Company may have against BOCHK, Mr Chau, Ms Mo, New Nongkai and all other defendants who are not a party to the Settlement Proposal. The Company and the Receivers reserve their rights to take any action in respect of the Property Transactions Claims in the event that the Settlement Deed is rendered invalid in whatsoever manner.”

Unlike the Chau Claim where proceeds from such claim or any right to receive the same (if assignable) are included in the Non-Cash Distribution, the benefits (if any) to be derived from the Property Transactions Claims shall be entitled by the Company and, on the assumption that the Company will ultimately be wound up, by the Shareholders on pro-rata basis. Independent Shareholders are also reminded that the Company and the Receivers could opt to continue the Property Transactions Claims, in the event that BOCHK/BOC (HK) Nominees have not received the originally agreed settlement sum of HK\$784 million, and any proceeds or benefits to be derived from such claims are entitled by the Company. In other words, Minority Shareholders may end up receiving more than the Minority Cash Distribution of HK\$480 million if the Property Transactions Claims are continued following completion of the distribution of the Minority Cash Distribution of HK\$480 million.

Implications on Minority Shareholders regarding the release of the Property Transactions Claims will be discussed under the sub-section headed “Analysis of the terms of the Settlement Deed” below.

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Great Center Claim

Great Center Claim refers to the claims made by the Company against Great Center Limited (In liquidation) (the “Great Center”), for money received by Great Center which belonged to the Group. The Company, in August 2003, obtained a judgment in default in the amount (including interest and costs) of approximately HK\$53.2 million. Details of the Great Center Claim and its latest developments are set out in the “Letter from the Receivers” of the Circular.

Unlike the Chau Claim or the Property Transactions Claims where such claims will be released upon receipt in cleared funds by BOCHK/BOC (HK) Nominees of HK\$784 million, and payment of all of the Company’s creditors, the distributions upon the winding-up of the Company and the Costs and Expenses of the Company, the Great Center Claim will not be released in any event and is included in the Non-Cash Distribution. In other words, the benefits associated with the Great Center Claim will be transferred straight from the Company to BOC (HK) Nominees upon completion of the Distribution irrespective of whether BOCHK and/or BOC (HK) Nominees have or have not received the originally agreed settlement sum of HK\$784 million.

Analysis of the terms of the Settlement Deed

As stated in the “Letter from the Receivers” of the Circular, the term “Costs and Expenses” refers to those outstanding and estimated further costs and expenses of the Company including receivership and winding-up expenses.

The independent assurance report (the “Independent Assurance Report”) of the Company as at 30 June 2005 as set out in Appendix II to the Circular (which is prepared for the purpose of assisting the Directors in preparing the Certificate of Solvency of the Company and is based on, among other things, the latest bank statements of the Company’s bank accounts up to 30 June 2005 (which are under the control of the Receivers) and has been reviewed and confirmed by the auditors of the Company) revealed that the cash amount held by the Company amounted to around HK\$1,160 million (before deducting the reserved amount of HK\$36 million). In addition, as referred to in the Independent Assurance Report, the aggregate net realisable value of the net assets of the Company as at 30 June 2005 amounted to approximately HK\$1,157.2 million.

The audited consolidated cash and bank balance of the Group as at 30 June 2004 amounted to approximately HK\$1,263.3 million, and the cash and bank balance of the Company as at 30 June 2005 amounted to approximately HK\$1,162.8 million as revealed from the Independent Assurance Report. Although all Costs and Expenses will be contained within the reserved amount of HK\$36 million, Independent Shareholders are reminded that the Minority Cash Distribution amount of HK\$480 million can be adjusted downward if there are some unanticipated or unforeseen claims against the Company occurred before the effective date of the Cash Distribution. As advised by the Receivers, there is no cap for such downward adjustment to the Minority Cash Distribution. In this regard, Mr Chau has represented and warranted in the Settlement Deed that save as reflected in the audited accounts contained in the annual reports of the Company for the years ended 30 June 2003 and 30 June 2004, he is not aware of any other liabilities (including any contingent liabilities) of the Company incurred prior to 7 June 2003.

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Although the Settlement Deed apparently provides Minority Shareholders a reasonable protection that all Costs and Expenses will be contained within the HK\$36 million pool without affecting the reserved Cash Distribution amount of HK\$1,124 million, Independent Shareholders should note that the Minority Cash Distribution amount of HK\$480 million could indeed be subject to downward adjustment due to unforeseen circumstances. If that is the case, the BOC Cash Distribution amount of HK\$644 million would also be reduced on pro-rata basis and BOCHK and BOC (HK) Nominees may not receive the originally agreed settlement sum of HK\$784 million and the Company and the Receivers will have the rights to further pursue the Chau Claim and the Property Transactions Claims (but not the Great Center Claim) pursuant to the Settlement Deed. However, Independent Shareholders are reminded that if Mr Chau is willing to “top-up” the shortfall of the BOC Cash Distribution through his direct settlement with BOCHK (which is originally stated at HK\$140 million), the Company and the Receivers will lose their rights to further pursue the Chau Claim and the Property Transactions Claims. Such arrangement implicitly takes away the option/right of the Company and the Receivers if the originally agreed Cash Distribution amount of HK\$480 million is adjusted downward. In the event Mr Chau opts to “top-up” the shortfall, the interest of Minority Shareholders may be prejudiced.

Nonetheless, we consider that given the receivership of the Company by the Receivers already last for over two years since June 2003, it is unlikely that the reserved Cash Distribution amount of HK\$1,124 million will be depleted significantly because of some other claims or contingent liabilities which are not aware of by the Company and the Receivers during the course of receivership. Independent Shareholders should also be aware that, the Company, following completion of the Cash Distribution, would no longer have sufficient financial resources to further pursue the Chau Claim or the Property Transactions Claims since the Cash Distribution amount of HK\$1,124 million accounted for almost the entire cash holding of the Group (other than Capital Sky and its subsidiaries) of approximately HK\$1,162.8 million as at 30 June 2005. In addition, the proceeds or benefits (if any) from the continuation of the Chau Claim shall be entitled by BOC (HK) Nominees but not by Minority Shareholders.

To conclude, the existing arrangements provide BOCHK and BOC (HK) Nominees an option to recoup any deficiency of the originally agreed BOC Cash Distribution amount of HK\$644 million i.e. either by way of topping-up of such deficiency by Mr Chau or by way of further pursuit of the Chau Claim, through the Company and the Receivers, at their own expenses. On the contrary, Independent Shareholders’ option/right to further pursue the Property Transactions Claims, through the Company and the Receivers, hinges on the outcome of whether BOCHK and/or BOC (HK) Nominees have received the originally agreed settlement sum of HK\$784 million. In other words, if there is a shortfall in the originally agreed Minority Cash Distribution amount of HK\$480 million, Minority Shareholders may not be able to recoup such shortfall by further pursuing the Property Transactions Claims, through the Company and the Receivers, unless BOCHK and/or BOC (HK) Nominees have not received the originally agreed settlement sum of HK\$784 million.

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Based on the aforesaid, we consider that the overall terms of the Settlement Deed are fair and reasonable. However, Independent Shareholders are reminded that if there is a shortfall in the originally agreed Minority Cash Distribution amount of HK\$480 million, they may lose their option/right to further pursue the Property Transactions Claims if BOCHK and/or BOC (HK) Nominees have received the originally agreed settlement sum of HK\$784 million on their part.

2. ANALYSIS OF THE NON-CASH DISTRIBUTION

Composition of the Non-Cash Distribution

As explained above, Independent Shareholders may concern on whether the ascribed value of the Non-Cash Distribution of HK\$796 million is fairly stated or not since they will not be entitled to the Non-Cash Distribution

As defined under the Settlement Deed:

“the Non-Cash Distribution means (i) the proceeds of the Chau Claim (if any) or any right to receive the same (if assignable); (ii) the Great Center Claim; and (iii) the entire issued share capital of Capital Sky Limited, at an ascribed notional value of HK\$796 million, such value being irrevocably accepted by the Primary Parties for the purpose of the Settlement Deed.”

As mentioned before, the major assets of Capital Sky are its ownership of the entire issued share capital of King Success which in turn owns, among other things, the entire issued shares in and the respective shareholders' loans to the BVI Subsidiaries, namely Bowyer, Eastar and Hip Yick.

Although the Property Transactions Claims are not included in the Non-Cash Distribution, the Company and the Receivers' rights to further pursue the Property Transactions Claims will be forgone upon completion of the Settlement Deed and receipt in cleared funds by BOCHK/BOC (HK) Nominees of HK\$784 million, and payment of all of the Company's creditors, the distributions upon the winding-up of the Company and the Costs and Expenses of the Company. As such, the value or benefit ascribed to the Property Transactions Claims should be taken into account for the purpose of analysing the merits in entering into of the Settlement Deed.

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The Chau Claim and the Great Center Claim

Details of the Chau Claim and the Great Center Claim are set out in the “Letter from the Receivers” of the Circular.

The Property Transactions Claims and the major assets of Capital Sky i.e. the BVI Subsidiaries

As stated in the “Letter from the Receivers” of the Circular, the Property Transactions Claims relate to:

1. *Claim relates to the Hip Yick Transaction (as defined below) and key assets and liabilities of Hip Yick*

A repayment of sum of HK\$371 million and the acquisition of the entire issued share capital of Hip Yick by the Group in January 2003 (the “Hip Yick Transaction”) be set aside or rescinded on such terms, if any, as the Court in the circumstances thinks just.

Hip Yick’s key assets are (i) Hotel Longbai; and (ii) RMB347 million (or equivalent to approximately HK\$327.9 million) receivables due from Fuyou Securities Brokerage Co., Limited (富友證券經紀有限責任公司) (“Fuyou”) (the “Hip Yick Advancement”). In addition, an outstanding loan amount of RMB350 million (or equivalent to approximately HK\$330.8 million) purportedly made by Shanghai Pudong New District Liuli Rural Credit Cooperative Union (上海市浦東新區六裏農村信用合作社) (“SRCCU”) to Longbai pursuant to a loan agreement dated 11 April 2003 and the accompanying security agreement dated 11 April 2003 plus accrued interest up to 30 June 2005 of approximately HK\$61.2 million (together the “Longbai Purported Loan”) were recorded in the consolidated balance sheet of Hip Yick as at 30 June 2005.

As disclosed in the Interim Report and previous announcements made by the Company, Hotel Longbai was purportedly pledged as security in respect of the Longbai Purported Loan. SRCCU has filed enforcement application with the Shanghai No. 1 Intermediate Court (上海市第一中級人民法院) (the “Intermediate Court”) against Longbai regarding the Longbai Purported Loan. Enforcement notices have been served on Longbai stating, among other things, that the Intermediate Court had ruled that Longbai should pay SRCCU the outstanding amount of the Longbai Purported Loan with interest (including accrued penalty interest) and enforcement fees. The Company may therefore lose ownership of Hotel Longbai as a result of the aforesaid enforcement notice.

2. *Claim relates to the Eastar Transaction (as defined below) and key assets and liabilities of Eastar*

A repayment of sum of HK\$330,761,760 and the acquisition of the entire issued share capital of Eastar by the Group in February 2003 (the “Eastar Transaction”) be set aside or rescinded on such terms, if any, as the Court thinks just in the circumstances.

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Eastar's key assets are (i) Hongxin Land; (ii) RMB300 million (or equivalent to approximately HK\$283.5 million) receivables due from Shanghai Huatip Trading Limited (上海華疊貿易有限公司) ("Huatip"); (iii) RMB222.9 million (or equivalent to approximately HK\$210.6 million) receivables due from Shanghai Mechanic International Trading Limited (上海機械國際貿易有限公司) ("Shanghai Mechanic"); (iv) RMB44.5 million (or equivalent to approximately HK\$42.1 million) deposits with Fuyou (items (ii) to (iv) above are collectively defined as the "Eastar Advancements"); and (v) approximately HK\$53.2 million receivables due from Great Center in relation to the Great Center Claim. In addition, an outstanding loan amount of RMB300 million (or equivalent to approximately HK\$283.5 million) purportedly made by Shijidadao Branch of Shanghai Pudong New District Rural Credit Cooperative Union (上海市浦東新區農村信用合作社聯合社世紀大道分社) ("SSRCC") to Hongxin pursuant to a loan agreement dated 27 March 2003 and the accompanying security agreement dated 27 March 2003 plus accrued interest up to 30 June 2005 of approximately HK\$82.1 million (together the "Hongxin Purported Loan") were recorded in the consolidated balance sheet of Eastar as at 30 June 2005.

As disclosed in the Interim Report and previous announcements made by the Company, Hongxin Land was purportedly pledged as security in respect of the Hongxin Purported Loan. SSRCC has filed enforcement application with the Intermediate Court against Hongxin regarding the Hongxin Purported Loan. Enforcement notices have been served on Hongxin stating in June 2004, among other things, that the Intermediate Court had ruled that Hongxin should pay SSRCC the outstanding amount of the Hongxin Purported Loan with interest (including accrued penalty interest) and enforcement fees. The Company may therefore lose ownership of Hongxin Land as a result of the aforesaid enforcement notice.

3. *Claim relates to the Bowyer Transaction (as defined below) and key assets of Bowyer*

A repayment of sum of HK\$33,333,333 and the acquisition of the entire issued share capital of Bowyer by the Group from Mr Yu Ling in November 2002 (the "Bowyer Transaction") be set aside or rescinded on such terms, if any, as the Court in the circumstances thinks just.

Bowyer's key assets are certain units and car-parking spaces at Jun Ling Plaza.

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Set out below is the summary of the total assets and total liabilities of the BVI Subsidiaries based on the unaudited management accounts of the BVI Subsidiaries as at 30 June 2005 as provided by the Receivers:

	As at 30 June 2005			
	Hip Yick	Eastar	Bowyer	Total
	<i>HK\$</i> <i>(in million)</i>	<i>HK\$</i> <i>(in million)</i>	<i>HK\$</i> <i>(in million)</i>	<i>HK\$</i> <i>(in million)</i>
Total assets	443.5	695.7	21.6	1,160.8
Total liabilities	397.8	739.9	9.9	1,147.6
Net assets/(deficit)	45.7	(44.2)	11.7	13.2

Set out below is the key balance sheet items of the BVI Subsidiaries based on the unaudited management accounts of the BVI Subsidiaries as at 30 June 2005 as provided by the Receivers:

	As at 30 June 2005			
	Hip Yick	Eastar	Bowyer	Total
	<i>HK\$</i> <i>(in million)</i>	<i>HK\$</i> <i>(in million)</i>	<i>HK\$</i> <i>(in million)</i>	<i>HK\$</i> <i>(in million)</i>
KEY ASSETS				
Key Properties (as defined below)				
– Hotel Longbai	160.7	–	–	160.7
– Hongxin Land	–	269.3	–	269.3
– certain units and car-parking spaces at Jun Ling Plaza	–	–	34.9	34.9
	<u>160.7</u>	<u>269.3</u>	<u>34.9</u>	<u>464.9</u>
Hip Yick Advancement and Eastar Advancements (together the “Unauthorised Advancements”)				
– due from Fuyou	327.9	42.1	–	370.0
– due from Huatip	–	283.5	–	283.5
– due from Shanghai Mechanic	–	210.6	–	210.6
	<u>327.9</u>	<u>536.2</u>	<u>–</u>	<u>864.1</u>
The Great Center Claim	<u>–</u>	<u>53.2</u>	<u>–</u>	<u>53.2</u>
KEY LIABILITIES				
Longbai Purported Loan and Hongxin Purported Loan (together the “Two Purported Loans”)				
– accrued interests	61.2	82.1	–	143.3
– loan principal	330.8	283.5	–	614.3
	<u>392.0</u>	<u>365.6</u>	<u>–</u>	<u>757.6</u>

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Save for the BVI Subsidiaries, Capital Sky does not have other major assets or liabilities as at 30 June 2005 though it has a number of subsidiaries other than the BVI Subsidiaries.

Independent Shareholders should note that in the event the judgment of the Property Transactions Claims is in favour of the Company and the Receivers, each of the Hip Yick Transaction, Eastar Transaction and the Bowyer Transaction will be rescinded i.e. the Company would have to give up its ownership over the BVI Subsidiaries. In other words, the Company will either successfully make a claim of approximately HK\$735.1 million under the Property Transactions Claims or retaining the Company's interests in the BVI Subsidiaries, but not both. Given the only major assets of Capital Sky are its interests in the BVI Subsidiaries, the remaining value of Capital Sky to the Group will become negligible should the judgment of the Property Transactions Claims are in favour of the Company and the Receivers.

Analysis of the ascribed value of HK\$796 million in respect of the Non-Cash Distribution

We can summarise the maximum recoverable values of the Claims as follows:

	Claim amount <i>HK\$ (in million)</i>
Chau Claim (<i>Note 1</i>)	266.8 <u>(US\$34.2)</u>
Great Center Claim	53.2
Property Transactions Claims and the entire interest in Capital Sky (<i>Notes 1 and 2</i>)	<u>735.1</u>
Total	<u><u>1,055.1</u></u>

Notes:

- Prior to obtaining of the relevant judgements, each of the Chau Claim and the Property Transactions Claims will only be released by the Company upon (i) completion of the Settlement Deed; and (ii) receipt in cleared funds by BOCHK and/or BOC (HK) Nominees of HK\$784 million, and payment of all of the Company's creditors, the distributions upon the winding-up of the Company and the Costs and Expenses of the Company.*
- On the assumption that the judgment of the Property Transactions Claims is in favour of the Company and the Receivers.*

In assessing the ascribed value of HK\$796 million attributed to the Non-Cash Distribution, we can consider the ultimate cash amount that might be distributed to Minority Shareholders (on pro-rata basis) if the Company and the Receivers opted to continue each of the Chau Claim, the Great Center Claim and the Property Transactions Claims (together the "Claims"). Although we are not in a position to speculate any legal

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outcome in respect of the Claims and the impacts of the Claims on the Group and the Independent Shareholders remain uncertain, it is obvious that the Company will incur further legal and professional fees in pursuing such claims. Moreover, Independent Shareholders should note that a significant degree of uncertainty might cast over the recoverability of the Claims, even if the judgment was in favour of the Company and the Receivers.

Notwithstanding a judgment in default against Mr Chau in the amount (including interest and costs) of US\$34.2 million (or equivalent to approximately HK\$266.8 million) was obtained in August 2003, it is stated in the “Letter from the Receivers” of the Circular that the Receivers anticipate significant difficulties in the enforcement of any judgment and have serious reservations on the extent of any possible recovery from Mr Chau and Ms Mo. It is further stated in the “Letter from the Receivers” of the Circular that the Receivers’ reservations were derived from their investigations of Mr Chau’s assets back in August 2003 which revealed only two real properties of significant values held by a company beneficially owned by Mr Chau and Ms Mo and after taking into account the outstanding mortgages attached to such properties, the aggregate net current value of these properties is estimated to be approximately HK\$50 million. As such, the Receivers considered that the estimated potential recovery of the Chau Claim amounted to approximately HK\$50 million.

Similarly, the Company obtained in August 2003 a judgment in default in the amount (including interest and costs) of approximately HK\$53.2 million in relation to the Great Center Claim. However, Shanghai Merchants, which was previously controlled by Mr Chau, has also brought proceedings against Great Center. As stated in the “Letter from the Receivers” of the Circular and as disclosed previously in the Interim Report, the only significant asset of Great Center consists of a bank deposit of approximately US\$4.5 million (equivalent to approximately HK\$35.1 million). The Company has disputed the proprietary claims made by Shanghai Merchants to the aforesaid bank deposit. No legal proceedings have been taken out by the Company in connection therewith. The Receivers considered that, with available information, an assessment of the Company’s recoverability under the Great Center Claim is estimated to be about HK\$14 million.

We are not in a position to speculate the outcome of the aforesaid claims in particularly their respective recoverability, however, having regard to the Receivers’ assessments in relation to the recoverability of the Chau Claim and the Great Center Claim as explained above, we consider that the likelihood of a full recovery of each the Chau Claim and the Great Center Claim is not high. On such basis, we set out below a table illustrating the value of the Company on the assumption that:

- (i) judgment for all the Claims are in favour of the Company and the Receivers;
- (ii) recoverable amounts of the Claims materialised as estimated by the Receivers;
and
- (iii) additional legal and professional fees (including the receivership costs) incurred in relation to the further pursuit of the Claims.

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	Claim amount <i>HK\$</i> <i>(in million)</i>	Estimated recovery <i>HK\$</i> <i>(in million)</i>
Cash available		1,160.0
The Claims		
– Chau Claim (as estimated by the Receivers)	266.8 <i>(US\$34.2)</i>	50.0
– Great Center Claim (as estimated by the Receivers)	53.2	14.0
– Property Transactions Claims and the entire interest in Capital Sky	735.1	735.1
Projected costs and expenses		
– Projected legal and professional fees (including the receivership costs) up to completion of the winding-up of the Company <i>(Note)</i>		<u>(50.0)</u>
Estimated recovery from the Claims (net of the projected Costs and Expenses of the Company)		<u>749.1</u>
Estimated value of the Company		<u><u>1,909.1</u></u>
Pro-rata cash distribution available to Minority Shareholders upon winding-up of the Company (25% of the issued share capital of the Company are held by Minority Shareholders)		<u><u>477.3</u></u>

Note: The projected legal and professional fees (including the receivership costs) to be incurred up to completion of the winding-up of the Company is based on the legal and professional fees for each of the two years ended 31 March 2005 of approximately HK\$49.4 million and HK\$50.0 million respectively as referred to in the unaudited management accounts of the Company as provided by the Receivers and on the assumption that the winding-up process will last for around one year. Such amount has also included the HK\$36 million reserves being set aside for the Costs and Expenses of the Company.

Independent Shareholders should however note that the above scenario is indeed an optimistic one as we are estimating the value of the Company based on an assumption that all judgments in respect of the Claims are in favour of the Company and the Receivers. Even on such basis and without mentioning the risks and uncertainties associated with the continuance of the Claims, the pro-rata cash distribution available to Independent Shareholders upon winding-up of the Company would amount to approximately HK\$477.3 million, which would be less than the Minority Cash Distribution of HK\$480 million.

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Realisable value of Capital Sky and its subsidiaries

Independent Shareholders should be reminded that our analysis in this sub-section are based on the latest unaudited financial information of Capital Sky and its subsidiaries provided by the Receivers and as revealed from the Annual Report and the Interim Report. Certain financial information of the Group, in particular the financial information of the subsidiaries of Capital Sky in the PRC, are highly qualified. We have also noted that the Receivers have explicitly stated in each of the Annual Report and the Interim Report that they have difficulties in obtaining certain books and records of certain subsidiaries of the Company (including major subsidiaries such as Longbai, Hongxin and Bowyer). As such, the Receivers and the auditors of the Company are unable to give an unqualified representation that (i) all the transactions affecting the Group during the year ended 30 June 2004 and the six months ended 31 December 2004 have been included in the Annual Report and the Interim Report; and (ii) whether the Annual Report or the Interim Report presents a true and fair view of the Group's operations and cash flows for the respective reporting periods and the Group's financial positions as at 30 June 2004 and 31 December 2004 respectively. As such, some of our financial information quoted in this sub-section may not necessarily reflect the true or actual financial situation of Capital Sky and its subsidiaries and hence our analysis contained in this sub-section may not be fairly stated.

Regarding the amount of the Non-Cash Distribution, one might argue that the Company and the Receivers may opt not to pursue the Property Transactions Claims but attempt to resolve the disputes in relation to the Two Purported Loans and to recover the Unauthorised Advancements. If the realisable value of Capital Sky in particular its interests in each of Hotel Longbai, Hongxin Land and certain units and car-parking spaces at Jun Ling Plaza (together the "Key Properties") held through the BVI Subsidiaries are higher than the amount claimed under the Property Transactions Claims of approximately HK\$735.1 million, Minority Shareholders may be benefited more from the realisation of the assets of Capital Sky. In this regard, we have assessed the value of Capital Sky based on the independent valuations of each of the Key Properties made by A. G. Wilkinson & Associates ("AGW") and DTZ Debenham Tie Leung Limited ("DTZ") as at 31 July 2005.

Set out below is the respective valuation of each of the Key Properties:

	AGW		DTZ
	Open		Open
	market value		market value
	<i>(Note)</i>		
	<i>RMB</i>	<i>HK\$</i>	<i>HK\$</i>
	<i>(in million)</i>	<i>(in million)</i>	<i>(in million)</i>
Hotel Longbai	200.0	189.0	287.4
Hongxin Land	362.0	342.0	461.7
Certain units and car-parking spaces at Jun Ling Plaza	34.9	33.0	41.6
Total	596.9	564.0	790.7

Note: The valuations of the Key Properties made by AGW were denominated in RMB, and were translated into HK\$ based on the exchange rate adopted by the Receivers.

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Set out below are the pro-forma unaudited consolidated net deficit of Capital Sky as at 30 June 2005 as adjusted by the above valuations and on the assumption that (i) each of Longbai and Hongxin has to honour its obligations under the loan agreements in relation to the Two Purported Loans given they have respectively secured their ownerships of Hotel Longbai and Hongxin Land; and (ii) the Unauthorised Advancements could be recovered in full. For the purpose of comparing the adjusted consolidated net deficit of Capital Sky (being the pro-forma unaudited consolidated net deficit of Capital Sky as at 30 June 2005 after taking into account of the abovementioned adjustments) against the Property Transactions Claims amount of approximately HK\$735.1 million, we have excluded the receivable amount of approximately HK\$53.2 million as at 30 June 2005 in respect of the Great Center Claim in determining the adjusted consolidated net deficit of Capital Sky.

	As at 30 June 2005		
	Pro-forma adjusted net deficit (ex-Great Center Claim of approximately HK\$53.2 million) (A) HK\$ (in million)	Shareholders' loan due to the Company (B) HK\$ (in million)	Pro-forma value attributable to the Company (A)+(B) HK\$ (in million)
Before valuation	(445.4) <i>(Note 2)</i>	1,096.6	651.2
Adjusted by valuation			
– AGW	(391.6) <i>(Note 3)</i>	1,096.6	705.0
– DTZ	(270.3) <i>(Note 4)</i>	1,096.6	826.3

Notes:

1. *Information contained in the above table and the following notes are provided by the Receivers.*
2. *Based on the unaudited consolidated net deficit of Capital Sky of approximately HK\$392.2 million as at 30 June 2005, less the Great Center Claim of approximately HK\$53.2 million.*
3. *Based on the unaudited adjusted consolidated net deficit of Capital Sky (ex-Great Center Claim) of approximately HK\$445.4 million as at 30 June 2005, and adjusted by (i) adding the effect of the property valuation by AGW of approximately HK\$99.2 million; and (ii) deducting the deferred taxation of approximately HK\$45.4 million.*
4. *Based on the unaudited adjusted consolidated net deficit of Capital Sky (ex-Great Center Claim) of approximately HK\$445.4 million as at 30 June 2005, and adjusted by (i) adding the effect of the property valuation by DTZ of approximately HK\$325.8 million; and (ii) deducting the deferred taxation of approximately HK\$150.7 million.*

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Having considered the valuation methodologies adopted by AGW and DTZ respectively in arriving at their independent valuations of the Key Properties (details of which are set out in Appendix V to the Circular) after our discussion with each of AGW and DTZ, we consider that the valuation methods adopted by AGW and DTZ respectively to arrive at the open market value of the Key Properties are appropriate and in line with the commonly adopted valuation bases for properties comparable to the Key Properties.

Based on the above table, if we are taking the most “optimistic” scenario i.e. based on DTZ valuation, the value of Capital Sky attributable to the Company accounted for approximately HK\$826.3 million, which is approximately HK\$91.2 million higher than the Property Transactions Claims amount of approximately HK\$735.1 million. On the assumption that the Key Properties could be realised at a value equivalent to DTZ valuation of HK\$790.7 million and other factors remain the same, the pro-rata value of Capital Sky attributable to Independent Shareholders will increase by approximately HK\$22.8 million i.e. 25% of approximately HK\$91.2 million, being the difference between the value of Capital Sky attributable to the Company of approximately HK\$826.3 million and the Property Transactions Claims of approximately HK\$735.1 million.

However, we have serious doubt as to whether the Company and the Receivers could successfully realise the value of Capital Sky because of the following reasons:

1. *Each of Hotel Longbai and Hongxin Land is under enforcement notices issued by the Intermediate Court*

As mentioned before, enforcement notices have been served on Longbai and Hongxin stating, among other things, that the Intermediate Court had ruled that Longbai and Hongxin should pay SRCCU and SSRCC the outstanding amount of the Two Purported Loans with interest (including accrued penalty interest) and enforcement fees. As stated in the “Letter from the Receivers” of the Circular, there is an imminent risk that the Company may lose ownership of Hotel Longbai and Hongxin Land as a result of the aforesaid enforcement notices. As stated in the Interim Report, there is no information indicating that the Company has provided any guarantee for the Two Purported Loans or that each of SRCCU and SSRCC has any recourse against the Company in respect of the Two Purported Loans. As such, if the aforesaid enforcement actions are completed, the Company may lose its ownerships of Hotel Longbai and Hongxin Land and, at the same time, may be relieved from the obligations to honour the repayments in respect of the Two Purported Loans.

2. *Recoverability of the Unauthorised Advancements*

As stated in the Interim Report, the High People’s Court, in July 2004, advised that the application to commence legal proceedings of the recovery of the Unauthorised Advancements against each of Fuyou, Huatip and Shanghai Mechanic should be made to the Intermediate Court by the Company on behalf of Longbai and Hongxin (as the case may be).

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We noted that the shareholder's deficit of Gold Favour Limited, a wholly-owned subsidiary of the Company which is outside the Capital Sky group, was around HK\$12,000 as at 30 June 2005 based on the unaudited management accounts of the Group. As such, we consider that Gold Favour Limited has no realisable value.

If the Company lose its ownerships of Hotel Longbai and Hongxin Land and was unable to recover the Unauthorised Advancements, the estimated net realisable value of Capital Sky (the "Estimated Net Realisable Value") would be substantially lowered. Set out below is the unaudited net asset value of Capital Sky as adjusted by the loss of (i) ownerships of Hotel Longbai and Hongxin Land; and (ii) the Unauthorised Advancements:

As at 30 June 2005	
<i>HK\$ (in million)</i>	
Consolidated net deficit of Capital Sky (ex-Great Center Claim of approximately HK\$53.2 million) (<i>Note</i>)	(445.4)
Shareholders' loan due to the Company	1,096.6
	<hr/>
	651.2
<i>Less:</i>	
Aggregate book values of Longbai Hotel and Hongxin Land	(464.9)
Aggregate balances of Unauthorised Advancements	(864.1)
<i>Add back:</i>	
Aggregate balances of the Two Purported Loans	757.6
Estimated Net Realisable Value	<u>79.8</u>

Note: The amount of the Great Center Claim of approximately HK\$53.2 million is excluded as it is part of the Non-Cash Distribution.

Clearly, each of (i) the Estimated Net Realisable Value of approximately HK\$79.8 million; and (ii) the net realisable value of all the non-current assets of the Company of nil as at 30 June 2005 as referred to in the Independent Assurance Report will be substantially lower than the Property Transactions Claims amount of approximately HK\$735.1 million if the aforesaid factors are taken into account. As such, Minority Shareholders may not be benefited from the realisation of the assets of Capital Sky.

Based on the above, we consider that the ascribed value of HK\$796 million of the Non-Cash Distribution is fair and reasonable and the interest of Minority Shareholders will not be prejudiced under the Settlement Proposal in view of the following principal reasons:

- (i) the ascribed value of HK\$796 million of the Non-Cash Distribution is higher than the expected recovery of the Claims (after deduction of the projected costs and expenses) of approximately HK\$749.1 million as discussed in section 2 of part II of our letter;

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- (ii) the Estimated Net Realisable Value of approximately HK\$79.8 million is substantially lower than the Property Transactions Claims amount of approximately HK\$735.1 million; and
- (iii) the certainty of the Settlement Proposal (save for the adjustment in relation to the Cash Distribution as discussed above) against the other alternatives available to the Company as discussed in section 3 of part II of our letter.

3. OTHER ALTERNATIVES

Notwithstanding the above, we have also reviewed and discussed with the Receivers the terms and conditions of all five rescue or takeover proposals submitted by certain parties during the period from June 2003 to October 2004 (together the “Proposals”) to the Receivers. Set out below is a summary the offer terms and key conditions of these proposals:

Proposal	Offer terms	Key conditions
A	HK\$0.3277 per Share	Resumption of trading in the Shares, due diligence to the satisfaction of the buyer
B	HK\$0.3933 per Share	Resumption of trading in the Shares, due diligence to the satisfaction of the buyer, completion of assets injection
C	HK\$0.3365 per Share	Resumption of trading in the Shares, due diligence to the satisfaction of the buyer, aggregate liabilities of the Group since the appointment of the Receivers having not exceeded HK\$30 million
D	HK\$0.3988 per Share	Resumption of trading in the Shares, cash position of the Company not less than HK\$1,200 million
E	No specific terms	Conditional approval by the Stock Exchange for resumption of trading in the Shares, completion of assets injection

Structure of the Proposals

Valuation and the general offer to Independent Shareholders

All five proposals were made on a conservative assumption that the only valuable asset of the Group is its widely reported cash balance of around HK\$1,000 million to HK\$1,200 million. Based on the entire issued share capital of approximately 3,000 million Shares, the valuation per Share therefore ranged from approximately HK\$0.33 to HK\$0.40 per Share.

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Under the prevailing circumstances, we consider that the only logical way for a genuine buyer to secure control of the Company is to acquire the statutory control of the Company i.e. over 50% of the issued share capital of the Company and launch an unconditional general offer to Independent Shareholders. However, as evidenced by the offer terms of the Proposals, the highest offer price made by those potential buyers i.e. around HK\$0.32 to HK\$0.40 per Share is far less than the Minority Cash Distribution of approximately HK\$0.629 per Share (subject to adjustment).

Regulatory hurdles in relation to the implementation of the Proposals

All five Proposals request for the resumption of trading in the Shares on the Stock Exchange. The obligatory nature of such condition precedent is understandable from the buyer's point of view. However, we consider that the Company will not be able to satisfy the requirement of "sufficiency of operations" as stipulated under Rule 13.24 of the Listing Rules if the Group loses its ownerships of Hotel Longbai and Hongxin Land under the enforcement actions in the PRC.

In normal circumstances, the Stock Exchange would not allow a resumption of trading in the shares of an issuer if it cannot fulfil the requirement of "sufficiency of operations". Potential buyers could however inject certain assets into the Group in order to comply with the Rule 13.24 requirement but we consider that there is a high completion risk associated with such injection and the timeframe for such injection is long. The reasons are twofold.

Firstly, as revealed from the Interim Report and the latest management accounts of the Group, there are no significant operations of the Group and the annual revenue of the Group accounted for less than HK\$20 million. As such, we consider that any meaningful injection of business into the Group that could satisfy the Rule 13.24 requirement will trigger a "very substantial acquisition" and the Company might be deemed as a "new listing" applicant. Such business injection has to comply with all new listing requirements and the whole process of due diligence, preparation of relevant documents, vetting and approval process would take at least six to nine months to complete.

Secondly, we believe a genuine buyer may not be willing to inject its investments into the Group before first ascertaining the unknown or hidden liabilities of the Group. It is not uncommon in the market that a potential buyer would go through a "re-domicile" process in order to "clear up" the liabilities of the old company. The whole process including the sanction by the relevant court may take five to eight months to complete. Although certain parts of the new listing and re-domicile timetables may run concurrently, we consider that the minimum timeframe for such restructuring project could easily last for over a year. Moreover, there is a high completion risk associated with such restructuring work, both regulatory and legal, as such restructuring work normally requires the fulfilment of certain conditions precedent, including but without limitation to:

- (i) completion of due diligence of the Group up to the satisfaction of the potential buyer;
- (ii) the approval of the relevant scheme of arrangement (the "Scheme") by a majority of the Shareholders at the court meeting;

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- (iii) the sanctioning of the Scheme by the court in Hong Kong; and
- (iv) the Listing Committee of the Stock Exchange granting the approval for the listing of, by way of introduction, and permission to deal in, the new shares of the new company to be issued pursuant to the Scheme.

In light of the high completion risk and long timeframe associated with the Proposals, we consider that Independent Shareholders should support the Settlement Proposal.

We wish to draw the attention of the Independent Shareholders that, upon completion of the Settlement Proposal, the listing of the Shares on the Stock Exchange will be withdrawn. We consider that the withdrawal of the listing of the Shares of the Stock Exchange would not jeopardize the interest of the Independent Shareholders, given that following the completion of the Distribution:

- (i) as discussed earlier, the remaining assets of the Group, though immaterial, would be realised by the Receivers upon winding-up of the Company and the proceeds to be derived from such realisations (if any) would be distributed to the Shareholders on a pro rata basis in accordance with their shareholding interest in the Company according to the Settlement Proposal; and
- (ii) there are no more business to be left in the Group (as confirmed by the Receivers and as revealed from the published announcements, the Annual Report and the Interim Report) and it would not be justifiable or permissible under the Listing Rules to maintain the listing status of the Company on the Stock Exchange.

Based on the above, we consider that Independent Shareholders should support the Settlement Proposal given that:

- (i) the Minority Cash Distribution of approximately HK\$0.629 per Share (subject to adjustment) surpasses the other prices as set out in the Proposals; and
- (ii) there is a high completion risk and long timeframe associated with the Proposals.

III. RECOMMENDATION

In summary, the Settlement Proposal provides Minority Shareholders an exit of their investments in a long-suspended company at a fair and reasonable price of approximately HK\$0.629 per Share (subject to adjustment).

Taking into account our analysis in respect of the valuation of the Non-Cash Distribution amount of HK\$796 million and the fact that the majority of the available cash balances of the Company will be distributed to the Shareholders upon completion of the Distribution (with HK\$36 million reserved to cover the Costs and Expenses of the Company), the valuation of the Company of HK\$1,956 million as at the date of the Settlement Deed is considered to be fair and reasonable.

LETTER OF ADVICE FROM TAI FOOK

Although the aggregate value of the Claims exceeds the Non-Cash Distribution amount of HK\$796 million, we consider that, having taking into account the Receivers' views on the recoverability of the Claims, a full recovery of the Claims is unlikely. In addition, the risks and uncertainties associated with the continuance of the Claims are also high. Given each of Hotel Longbai and Hongxin Land is under enforcement notices in the PRC, we also consider that it is unlikely to recover the value of Capital Sky by attempting to resolve the disputes in relation to the Two Purported Loans and to recover the Unauthorised Advancements to an amount equivalent to or higher than the Property Transaction Claims amount of HK\$735.1 million.

Compared to the Proposals, the Minority Cash Distribution of approximately HK\$0.629 per Share (subject to adjustment) is also substantially higher than the offer terms under those Proposals.

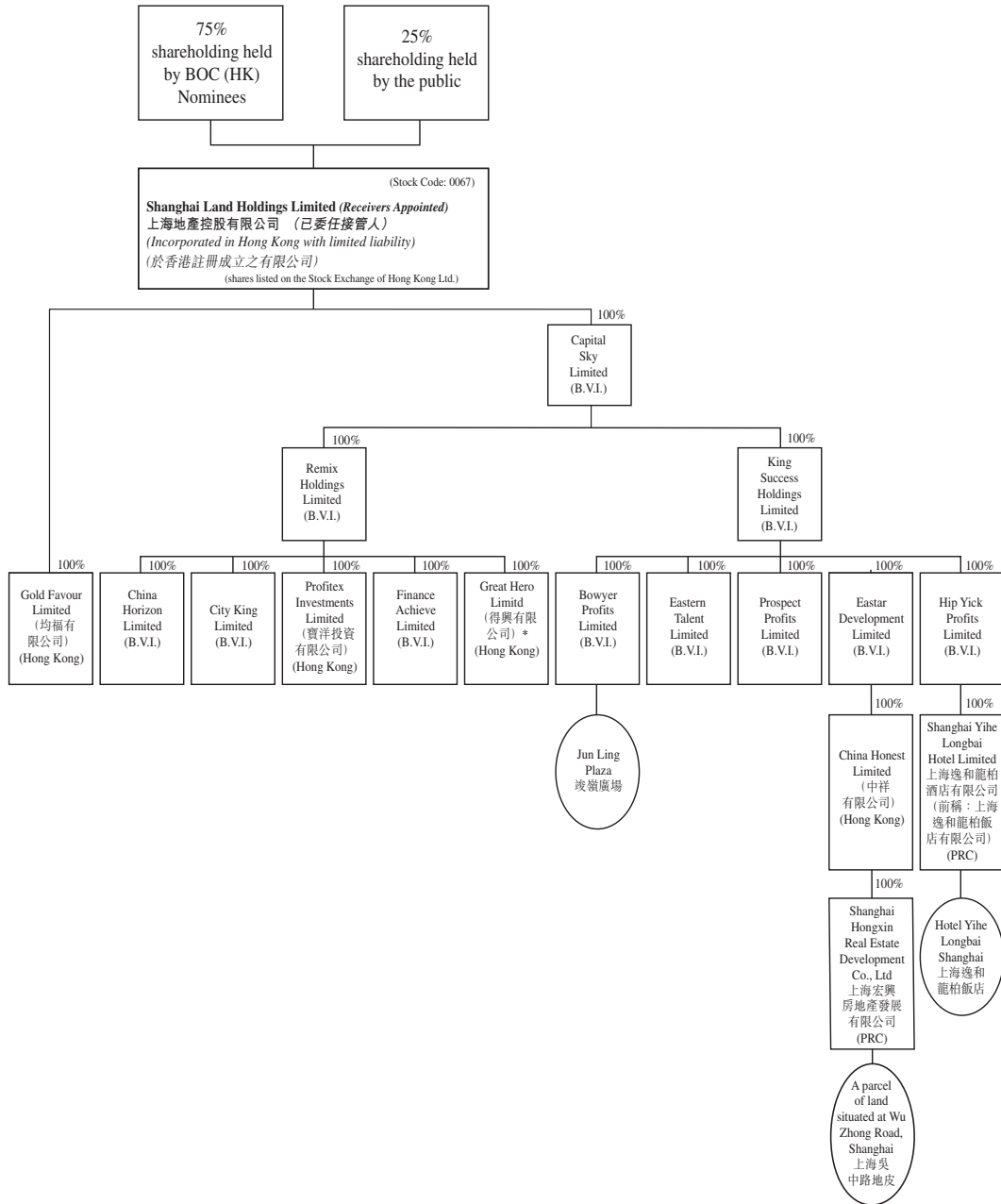
As such, our views on the Settlement Proposal is positive in general and consider that the terms of the Settlement Deed and the transactions contemplated thereunder are fair and reasonable and are in the interest of Independent Shareholders although there exists certain risk factors of the Settlement Proposal, including but without limitation to:

- (i) the risk in association with any downward adjustment (without cap) to the Minority Cash Distribution of HK\$480 million as explained under the sub-section headed "Analysis of the terms of the Settlement Deed" in section 1 of part II of our letter; and
- (ii) the risk in association with the heavily qualified financial information of Capital Sky and its subsidiaries, which may not present the true or actual financial situation of Capital Sky and its subsidiaries, and hence resulting in incorrect or inaccurate analysis of the valuation of the Non-Cash Distribution as explained under the sub-section headed "Realisable value of Capital Sky and its subsidiaries" in section 2 of part II of our letter.

All in all, we advise Independent Shareholders to vote in favour of the resolutions approving (i) the Settlement Deed and the transactions contemplated thereunder at the EGM; and (ii) the withdrawal of listing of the Shares on the Stock Exchange.

Yours faithfully,
For and on behalf of
Tai Fook Capital Limited
Derek C. O. Chan **Marcus Ho**
Managing Director *Director*

Organization Chart of Shanghai Land Holdings Limited (Receivers Appointed)
As at 30 June 2005



* Money Lenders Licence ceased to have effect on 8 November 2003.



Nexia Charles Mar Fan & Co.
11th Floor, Fortis Bank Tower
77-79 Gloucester Road
Wanchai, Hong Kong

27 August 2005

The Joint and Several Receivers
Shanghai Land Holdings Limited (Receivers Appointed)

Dear Sirs,

Independent Assurance Report on the Net Assets of the Company as at 30 June 2005

We set out below our report on certain financial information relating to Shanghai Land Holdings Limited (Receivers Appointed) (the “Company”) as at 30 June 2005 for the inclusion in the circular of the Company dated 27 August 2005 (the “Circular”). The Circular is in connection with the settlement proposal involving winding-up of the Company pursuant to a conditional settlement deed entered into on 5 July 2005 among the Company, New Nongkai Global Investments Limited (Receivers and Managers Appointed) (“New Nongkai”), Bank of China (Hong Kong) Limited, Bank of China (Hong Kong) Nominees Limited, the joint and several receivers of the Company (the “Receivers”), the receivers of New Nongkai, Mr Chau Ching Ngai (“Mr Chau”) and Ms Mo Yuk Ping (the “Settlement Deed”).

We have been engaged to perform an assurance engagement on the unaudited management accounts of the Company as at 30 June 2005 (the “Accounts”) prepared by the Receivers set out on pages 68 to 74 of the Circular and to obtain a reasonable assurance on the net realisable value of the net assets (other than the interests in subsidiaries) of the Company as at 30 June 2005.

Measurement criteria for the net assets of the Company

The assets of the Company are determined with reference to their estimated net realisable values. Known liabilities including known contingent liabilities resulting from past transactions or past events related to the year ended 30 June 2005, where appropriate, are recognised.

Respective responsibilities of the Receivers and the Independent Accountants

The Receivers are responsible for the preparation of the Accounts and making appropriate adjustments to reflect the net realisable value of the net assets of the Company as at 30 June 2005.

It is our responsibility to form an independent conclusion, based on the result of the procedures performed by us, and to report our conclusion thereto. These procedures do not constitute an audit and accordingly they cannot be relied upon to provide the same level of assurance as an audit.

Basis of conclusion

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” issued by the Hong Kong Institute of Certified Public Accountants. This Standard requires that we plan and perform such procedures as we considered necessary to obtain a reasonable assurance for the purpose of reporting on the net assets (other than the interests in subsidiaries) of the Company as at 30 June 2005. A reasonable assurance engagement includes obtaining an understanding of the subject matter, assessing the risks of material misstatement, developing overall responses to assessed risks, performing further procedures linked to the identified risks, using a combination of inspection, observation, confirmation, re-calculation, re-performance, analytical procedures and inquiry, and evaluating the sufficiency and appropriateness of evidence for the purpose of expressing a conclusion.

Inherent limitations

On 7 June 2003, due to the uncertainties caused by the reported arrest of Mr Chau, the Board of Directors of the Company (the “Board”) obtained an order from the High Court of Hong Kong appointing Messrs Stephen Liu Yiu Keung and Yeo Boon Ann of Ernst & Young Transactions Limited as the Receivers.

The Receivers and the Board were unable to give unqualified representations as to whether the financial statements included in the Annual Reports of the Company for the years 2003 and 2004 and the Interim Reports for 2004 and 2005 presented a true and fair view. In consequence, there are inherent limitations that there might be liabilities and transactions not accounted for in the Accounts.

The Receivers have been monitoring the affairs including financial matters of the Company since 7 June 2003 and are not aware of any known liabilities (including known contingent liabilities) not disclosed in the Annual Report 2004 and the Interim Reports for 2004 and 2005. Pursuant to Clause 11.6 of the Settlement Deed, Mr Chau represented and warranted that save as those reflected in the audited financial statements contained in the Annual Reports of the Company for the years 2003 and 2004, he was not aware of any other liabilities (including contingent liabilities) of the Company incurred prior to 7 June 2003.

The Company has ongoing litigations, the outcome of which have not been finalised.

Conclusion

This conclusion has been formed on the basis of, and is subject to the inherent limitations outlined in the preceding paragraphs.

In our opinion, except for the effects of any adjustments that might result from the inherent limitations referred to in the preceding paragraphs, the net realisable value of the net assets (other than the interests in subsidiaries) of the Company as at 30 June 2005 was HK\$1,157,213,000.

Yours faithfully,

Nexia Charles Mar Fan & Co.

Certified Public Accountants

Hong Kong

Shanghai Land Holdings Limited (Receivers Appointed)
Balance Sheet as at 30 June 2005

	Book value	Adjustment	<i>Note</i>	Net realisable value
	<i>HK\$ '000</i>	<i>HK\$ '000</i>		<i>HK\$ '000</i>
Non-current assets				
Interests in subsidiaries	1,095,767	(1,095,767)	II	–
Club debenture	2,000	(2,000)	III	–
	<u>1,097,767</u>			–
Current assets				
Cash and bank balances	1,162,753			1,162,753
Interest receivables	532			532
Deposits and prepayments	274	(274)	IV	–
	<u>1,163,559</u>			1,163,285
Current liabilities				
Provisions for expenses	(1,491)			(1,491)
Accrued expenses	(4,576)			(4,576)
Unclaimed dividend	(5)			(5)
	<u>(6,072)</u>			<u>(6,072)</u>
Net assets	<u><u>2,255,254</u></u>			<u><u>1,157,213</u></u>
Capital and reserves				
Share capital	1,525,720			1,525,720
Share premium	1,830,548			1,830,548
Other reserves	18,842			18,842
Accumulated losses	(1,070,466)			(1,070,466)
Loss for the year	(49,390)	(1,098,041)	V	(1,147,431)
	<u>2,255,254</u>			<u>1,157,213</u>

Approved on 25 July 2005

Stephen Liu Yiu Keung
Joint and Several Receiver

Yeo Boon Ann
Joint and Several Receiver

Shanghai Land Holdings Limited (Receivers Appointed)
Notes to the Accounts

I. BASIS OF PREPARATION

The assets of the Company are determined with reference to their estimated net realisable values. Known liabilities including known contingent liabilities resulting from past transactions or past events related to the year ended 30 June 2005, where appropriate, are recognised.

II. INTERESTS IN SUBSIDIARIES

	As at 30 June 2005	
	<i>HK\$</i>	<i>HK\$'000</i>
Unlisted shares, at cost	10	
Less: Impairment	<u>(10)</u>	
		–
Amounts due from subsidiaries	<i>(Note)</i>	1,095,767
Less: Provision for doubtful debts		<u>(1,095,767)</u>
		–
		<u>–</u>

Particulars of the subsidiaries are as follows:

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
		Directly	Indirectly		
Gold Favour Limited	Hong Kong/ Hong Kong	100	–	Ordinary HK\$2	Provision of nominee and secretarial services
Capital Sky	BVI/ Hong Kong	100	–	Ordinary US\$1	Investment holding
Remix Holdings Limited	BVI/ Hong Kong	–	100	Ordinary US\$1	Investment holding
China Horizon Limited	BVI/ Hong Kong	–	100	Ordinary US\$1	Dormant

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
		Directly	Indirectly		
City King Limited	BVI/ Hong Kong	–	100	Ordinary US\$1	Dormant
Profitex Investments Limited	Hong Kong/ Hong Kong	–	100	Ordinary HK\$2	Provision of management services
Finance Achieve Limited	BVI	–	100	Ordinary US\$1	Not yet commenced business
Great Hero Limited	Hong Kong/ Hong Kong	–	100	Ordinary HK\$2	Dormant
King Success	BVI/ Hong Kong	–	100	Ordinary US\$1	Investment holding
Bowyer	BVI/PRC	–	100	Ordinary US\$1	Property investment
Eastern Talent Limited	BVI	–	100	Ordinary US\$1	Not yet commenced business
Prospect Profits Limited	BVI	–	100	Ordinary US\$1	Not yet commenced business
Eastar	BVI/ Hong Kong	–	100	Ordinary US\$1	Investment holding
China Honest Limited	Hong Kong/ Hong Kong	–	100	Ordinary HK\$10,000,000	Investment holding
Hongxin	PRC/PRC (外商獨資企業)	–	100	Registered capital US\$30,000,000	Property development
Hip Yick	BVI/ Hong Kong	–	100	Ordinary US\$1	Investment holding
Longbai	PRC/PRC (外商獨資企業)	–	100	Registered capital JPY2,255,000,000	Hotel investment

(Note)

The amounts due from King Success of HK\$722 million and Eastar of HK\$336 million are unlikely to be recoverable.

King Success is the holding company of Bowyer and Eastar. Eastar indirectly holds Hongxin which owns the Hongxin Land. The amounts due to the Company represent the finance by the Company to purchase the subsidiaries which in turn hold directly or indirectly the PRC properties, namely, Hotel Longbai, Hongxin Land and certain units and car parks in Jun Ling Plaza.

Bowyer derives rental income from its properties consisting of certain units and car parks at Jun Ling Plaza. The rental proceeds for the twelve months ended 30 June 2005 amounted to approximately RMB1.8 million of which approximately RMB1.0 million was collectable and collected. The properties are unencumbered with a market value of RMB38.6 million and RMB43.3 million as at 30 April 2005 valued by AG Wilkinson and DTZ Debenham respectively. According to information on hand, the purchase of the properties was financed by a related party of Mr Chau in the PRC and did not originate from funds of Bowyer prior to the acquisition of Bowyer by the Group. This has given rise to the inherent limitations for Bowyer to remit the rental income and sale proceeds relating to the properties out of PRC.

A prudent approach is adopted in assessing the net realisable value of Bowyer. The lower of the two forced sale values of the properties was selected to form the basis of assessing the net realisable value at 30 April 2005 being AG Wilkinson's valuation of RMB28.9 million (equivalent to approximately HK\$27.3 million). Further consideration has been given to the inherent limitations and the collectability of the rental proceeds set out in the preceding paragraph. In view of the uncertainties of the actual amount of cash that could be received by the Company on the disposal of the properties in Bowyer for the distribution to the Shareholders on the winding-up of the Company, the net realisable value of Bowyer is considered to be zero.

Hongxin Land has been purportedly pledged to SRCCU who filed enforcement applications regarding the Purported Loan. As at 30 June 2005, principal plus interest under the Purported Loan amounted to RMB387.6 million. Hongxin may lose the ownership of the land as a result of the enforcement action. Furthermore, Hongxin has unpaid share capital amounting to US\$13.3 million. Failure to pay up the capital could lead to its business license being revoked and Hongxin would not be able to continue its business operations.

Hotel Longbai has been purportedly pledged to SRCCU who filed enforcement applications regarding the Purported Loan. As at 30 June 2005, principal plus interest under the Purported Loan amounted to RMB415.4 million. Longbai may lose the ownership of Hotel Longbai as a result of the enforcement action.

Receivables from other subsidiaries amounting to HK\$38 million are also unlikely to be recoverable without protracted litigations and even when judgments are obtained.

In view of the foregoing, the Receivers consider that there is a significant degree of uncertainty over the recoverability of the amounts due from subsidiaries and therefore these receivables may not have any real net realisable value.

An analysis of the ascribed value in respect of the Non-Cash Distribution under the Settlement Deed including the valuation of the net realisable value of the Company's interests in subsidiaries is set out in the Letter of Advice from Tai Fook to the Independent Board Committee and the Independent Shareholders.

III. CLUB DEBENTURE

This is a corporate debenture with The Hong Kong Country Club which is not freely transferrable. Hence no value is placed on the debenture.

IV. DEPOSITS AND PREPAYMENTS

All prepayments are not refundable hence there is no realisable value.

V. ADJUSTMENTS TO NET REALISABLE VALUE

	<i>HK\$ '000</i>
Adjustments in respect of:	
Interests in subsidiaries	1,095,767
Club debenture	2,000
Deposits and prepayments	274
	<hr/>
	<u>1,098,041</u>

SHANGHAI LAND HOLDINGS LIMITED (Receivers Appointed)
UNAUDITED CONSOLIDATED BALANCE SHEET

As at 30 June 2005

	Shanghai Land HK\$	Capital Sky HK\$	Gold Favour HK\$	Consolidated Total HK\$
NON-CURRENT ASSETS				
Fixed assets				
Investment properties	0	34,965,000	0	34,965,000
Property under development	0	269,325,000	0	269,325,000
Hotel properties	0	160,650,000	0	160,650,000
Other fixed assets	0	2,513,075	0	2,513,075
Club debenture	2,000,000	0	0	2,000,000
Interests in subsidiaries				
Unlisted shares at cost	10	0	0	0
Amount due from group companies	1,096,577,094	0	0	0
Amount due to group companies	0	(1,096,566,765)	(12,072)	0
Less: Provisions	(809,830)	0	0	0
Sub-total:	1,097,767,274	(629,113,690)	(12,072)	469,453,075
CURRENT ASSETS				
Accounts receivable & prepayments				
Trade debtors – Longbai	0	2,942,950	0	2,942,950
Deposits & prepayments	274,001	297,950	0	571,951
Amount due from other party	0	494,149,950	0	494,149,950
Amount due from Fuyou	0	369,967,500	0	369,967,500
Amount due from Great Center	0	53,157,294	0	53,157,294
Temporary payments	0	41,685,268	0	41,685,268
Deferred expenses	0	101,296,238	0	101,296,238
Interest receivable	532,195	0	0	532,195
Rental receivable	0	650,257	0	650,257
Sundry debtors	0	466,011	0	466,011
Account receivable – Nongkai	0	4,410,679	0	4,410,679
Other receivable – Longbai	0	927,120	0	927,120
Inventories	0	1,145,693	0	1,145,693
	806,196	1,071,096,909	0	1,071,903,105
Cash, bank balances & deposits				
Time deposits	1,158,201,724	0	0	1,158,201,724
Cash at banks	4,551,303	39,339,411	0	43,890,714
Cash on hand	213	0	0	213
	1,162,753,240	39,339,411	0	1,202,092,651
Sub-total:	1,163,559,436	1,110,436,319	0	2,273,995,755

SHANGHAI LAND HOLDINGS LIMITED (Receivers Appointed)
UNAUDITED CONSOLIDATED BALANCE SHEET (Cont'd)

As at 30 June 2005

	Shanghai Land HK\$	Capital Sky HK\$	Gold Favour HK\$	Consolidated Total HK\$
CURRENT LIABILITIES				
Rental deposits	0	(254,234)	0	(254,234)
Rental in advance	0	(1,173)	0	(1,173)
Provision for employee benefits	(72,318)	0	0	(72,318)
Accrued expenses	(5,994,925)	(1,282,192)	0	(7,277,117)
Other payables	0	(11,349,452)	0	(11,349,452)
Interest payable	0	(145,691,842)	0	(145,691,842)
Trade payables – Longbai	0	(1,179,821)	0	(1,179,821)
Other payables – Longbai	0	(4,650,415)	0	(4,650,415)
Tax payable	0	(1,828,885)	0	(1,828,885)
Bank loan	0	(637,875,000)	0	(637,875,000)
Unclaimed dividend	(5,628)	0	0	(5,628)
Sub-total:	(6,072,871)	(804,113,014)	0	(810,185,885)
NET CURRENT ASSETS/(LIABILITIES)	1,157,486,565	306,323,305	0	1,463,809,870
LONG TERM LIABILITIES				
Bank loan	0	0	0	0
Deferred taxation	0	(69,261,291)	0	(69,261,291)
	0	(69,261,291)	0	(69,261,291)
NET ASSETS/(LIABILITIES)	<u>2,255,253,837</u>	<u>(392,051,675)</u>	<u>(12,072)</u>	<u>1,864,001,653</u>
CAPITAL AND RESERVES				
Share capital	1,525,719,383	8	2	1,525,719,383
Reserves				
Share premium	1,830,548,454	0	0	1,830,548,454
Capital contribution reserves	11,800,263	0	0	11,800,263
Exchange reserves	0	0	0	1,743
Revaluation reserves	1,500,000	0	0	1,500,000
General reserves	5,541,946	0	0	5,541,946
Accumulated losses	(1,070,466,159)	(360,621,959)	(9,264)	(1,430,287,552)
Profit/(loss) for the year	(49,390,050)	(31,429,724)	(2,810)	(80,822,584)
	729,534,454	(392,051,683)	(12,074)	338,282,270
	<u>2,255,253,837</u>	<u>(392,051,675)</u>	<u>(12,072)</u>	<u>1,864,001,653</u>

SHANGHAI LAND HOLDINGS LIMITED (Receivers Appointed)
UNAUDITED CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2005

	Shanghai Land HK\$	Capital Sky HK\$	Gold Favour HK\$	Consolidated Total HK\$
TURNOVER				
Rental income	0	61,520,776	0	61,520,776
Less: Cost of sales	0	(16,259,235)	0	(16,259,235)
Business tax	0	(776,074)	0	(776,074)
Composite tax	0	(311,798)	0	(311,798)
Carpark management fee	0	(147,366)	0	(147,366)
Property management fee	0	(116,905)	0	(116,905)
	0	43,909,398	0	43,909,398
OTHER REVENUE				
Rental, management fee & air condition rate and government rent	0	4,325,526	0	4,325,526
Interest income – Bank Deposits	26,412,336	177,624	0	26,589,960
Sundry income	23,000	174,759	0	197,759
	26,435,336	4,677,908	0	31,113,244
OTHER NET INCOME/(EXPENSES)				
Unrealised exchange gain/(loss)	(4,216,778)	0	0	(4,216,778)
Realised exchange gain/(loss)	41,613	(99,746)	0	(58,133)
	(4,175,165)	(99,746)	0	(4,274,911)
EXPENSES				
Staff expenses				
Directors fees	(1,303,996)	0	0	(1,303,996)
Directors remuneration	(1,324,144)	0	0	(1,324,144)
Staff salaries & bonus	0	(4,019,162)	0	(4,019,162)
Consultancy fee	(97,857)	0	0	(97,857)
MPF contribution	(12,000)	(110,853)	0	(122,853)
Employee benefits	(69,984)	(7,467)	0	(77,451)
Staff insurance	0	(26,555)	0	(26,555)
Conference & seminars	0	(119,588)	0	(119,588)
Club & association membership	(20,400)	0	0	(20,400)
Other staff expenses	0	(3,175)	0	(3,175)
X'mas & annual dinner	0	(10,917)	0	(10,917)
Payroll & related expenses – Longbai	0	(6,538,804)	0	(6,538,804)
	(2,828,381)	(10,836,521)	0	(13,664,902)

SHANGHAI LAND HOLDINGS LIMITED (Receivers Appointed)
UNAUDITED CONSOLIDATED INCOME STATEMENT (Cont'd)

For the year ended 30 June 2005

	Shanghai Land HK\$	Capital Sky HK\$	Gold Favour HK\$	Consolidated Total HK\$
Office expenses				
Rental and rates	(162,000)	(7,487,690)	0	(7,649,690)
Information services & internet charges	0	(39,256)	0	(39,256)
Telephone & communications	(14,832)	(48,929)	0	(63,761)
Stationery, printing & postage charges	(32,724)	(41,765)	0	(74,489)
Repair & maintenance	0	(34,211)	0	(34,211)
Office reinstatement expenses	0	(2,464,500)	0	(2,464,500)
Security services charges	(204,747)	0	0	(204,747)
Other office expenses	0	(153,256)	0	(153,256)
	<u>(414,303)</u>	<u>(10,269,607)</u>	<u>0</u>	<u>(10,683,910)</u>
Business relations & traveling				
Business relations	0	0	0	0
Overseas & local travelling	0	(38,476)	0	(38,476)
	<u>0</u>	<u>(38,476)</u>	<u>0</u>	<u>(38,476)</u>
Corporate and others				
Administrative expenses	0	(10,269,225)	0	(10,269,225)
Selling expenses	0	(260,972)	0	(260,972)
Legal & professional fee	(67,391,431)	(378,908)	0	(67,770,339)
Audit fee	0	0	0	0
Bad debts	0	(584,622)	0	(584,622)
Annual/interim reports & announcements	(422,344)	0	0	(422,344)
Listing fees	(541,000)	0	0	(541,000)
Commission fee	0	(116,229)	0	(116,229)
Depreciation	0	(2,018,806)	0	(2,018,806)
Bank charges	(5,555)	(1,750)	0	(7,305)
Other expenses	(47,209)	(66,367)	(2,810)	(116,386)
Litigation expenses & court fees	0	(1,663,115)	0	(1,663,115)
	<u>(68,407,538)</u>	<u>(15,359,994)</u>	<u>(2,810)</u>	<u>(83,770,342)</u>
	<u>(71,650,222)</u>	<u>(36,504,598)</u>	<u>(2,810)</u>	<u>(108,157,630)</u>
Profit/(Loss) before taxation	(49,390,050)	11,982,962	(2,810)	(37,409,899)
Loss on disposal of fixed assets		(644,089)		(644,089)
Finance expenses	0	(41,127,548)	0	(41,127,548)
Taxation				
Deferred tax	0	(1,223,141)	0	(1,223,141)
Current taxation	0	(417,908)	0	(417,908)
Loss for the year	<u>(49,390,050)</u>	<u>(31,429,724)</u>	<u>(2,810)</u>	<u>(80,822,584)</u>

SHANGHAI LAND HOLDINGS LIMITED (Receivers Appointed)
PROFORMA BALANCE SHEET

	Consolidated Balance Sheet (Audited)	Consolidated Balance Sheet (Unaudited)	Consolidated Balance Sheet (Unaudited)	Consolidated Balance Sheet (Unaudited)		Balance Sheet (Unaudited)
	The Group As at 30 June 2004	The Group As at 30 June 2005	Capital Sky Group As at 30 June 2005	Gold Favour As at 30 June 2005		The Company As at 30 June 2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	Adjustments to NRV*	At NRV HK\$'000
Non-current assets						
Interests in subsidiaries	–	–	–	–	(1,095,767)	–
Fixed assets	469,569	467,453	467,453	–	–	–
Club debenture	2,000	2,000	–	–	(2,000)	–
Due from/(to) group companies	–	–	(1,096,567)	(12)	–	–
	<u>471,569</u>	<u>469,453</u>	<u>(629,114)</u>	<u>(12)</u>		<u>–</u>
Current assets						
Inventories	1,194	1,146	1,146	–	–	–
Debtors, deposits and prepayments	985,797	1,070,757	1,069,951	–	(274)	532
Cash, bank balances and deposits	1,263,319	1,202,093	39,339	–	–	1,162,753
	<u>2,250,310</u>	<u>2,273,996</u>	<u>1,110,436</u>	<u>–</u>		<u>1,163,285</u>
Current liabilities						
Creditors and accruals	93,357	170,482	164,409	–	–	6,073
Purported loans	614,250	637,875	637,875	–	–	–
Tax payable	1,411	1,829	1,829	–	–	–
	<u>709,018</u>	<u>810,186</u>	<u>804,113</u>	<u>–</u>		<u>6,073</u>
Net current assets	<u>1,541,292</u>	<u>1,463,810</u>	<u>306,323</u>	<u>(12)</u>		<u>1,157,212</u>
Total assets less current liabilities	<u>2,012,861</u>	<u>1,933,263</u>	<u>(322,791)</u>	<u>(12)</u>		<u>1,157,212</u>
Non-current liabilities						
Purported loans	–	–	–	–	–	–
Deferred tax liabilities	68,038	69,261	69,261	–	–	–
	<u>68,038</u>	<u>69,261</u>	<u>69,261</u>	<u>–</u>		<u>–</u>
Net assets	<u>1,944,823</u>	<u>1,864,001</u>	<u>(392,053)</u>	<u>(12)</u>		<u>1,157,213</u>
Capital and reserves						
Share capital	1,525,720	1,525,720	–	–	–	1,525,720
Reserves	419,103	338,282	(392,052)	(12)	(1,098,041)	(368,507)
	<u>1,944,823</u>	<u>1,864,001</u>	<u>(392,053)</u>	<u>(12)</u>		<u>1,157,213</u>

* Details of adjustments to NRV are set out in Appendix II note V.

SHANGHAI LAND HOLDINGS LIMITED (Receivers Appointed)
PROFORMA INCOME STATEMENT

	Consolidated Income Statement (Audited) The Group Year ended 30 June 2004 HK\$'000	Consolidated Income Statement (Unaudited) The Group Year ended 30 June 2005 HK\$'000	Consolidated Income Statement (Unaudited) Capital Sky Group Year ended 30 June 2005 HK\$'000	Income Statement (Unaudited) Gold Favour Year ended 30 June 2005 HK\$'000	Income Statement (Unaudited) The Company Year ended 30 June 2005 HK\$'000	
TURNOVER (Note 1)	53,268	61,521	61,521	-	-	Company is being wound-up.
DIRECT EXPENSES	(16,201)	(17,611)	(17,611)	-	-	There is no revenue, profit or loss.
	37,067	43,909	43,910	-	-	
OTHER REVENUE (Note 2)	13,639	26,788	4,678	-	26,435	
Net foreign exchange gain/(loss)	(836)	(4,275)	(100)	-	(4,175)	
Administrative expenses	(92,403)	(103,832)	(36,505)	(3)	(71,650)	
Loss from operations	(42,533)	(37,410)	11,983	(3)	(49,390)	
Finance costs	(29,861)	(41,128)	(41,128)	-	-	
Surplus on revaluation of investment properties	1,965	-	-	-	-	
Deficit on revaluation of hotel properties	(200,350)	-	-	-	-	
Impairment loss on property under development written back	71,325	-	-	-	-	
Impairment loss on goodwill written back	10,000	-	-	-	-	
Loss on disposal of fixed assets	-	(644)	(644)	-	-	
Loss from ordinary activities before taxation	(189,454)	(79,182)	(29,789)	(3)	(49,390)	
Taxation	31,161	(1,641)	(1,641)	-	-	
Loss for the year	(158,293)	(80,822)	(31,429)	(3)	(49,390)	

Notes:

1. Turnover represents income from operations from the hotel investment and rental income from investment properties earned.
2. Other Revenue includes interest income and sundry income.

Auditors' Report

TO THE MEMBERS OF SHANGHAI LAND HOLDINGS LIMITED (RECEIVERS APPOINTED)

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 34 to 88 which have been prepared in accordance with accounting principles generally accepted in Hong Kong, other than as set out below.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Companies Ordinance requires the Directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 141 of the Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited as set out below:

1. Disclaimer on view given on the financial statements in the previous year

Our opinion on the financial statements of the Company and of the Group for the year ended 30 June 2003 was disclaimed in view of the significance of the possible effect of the limitations in evidence available to us, details of which were set out in our audit report dated 27 October 2003.

2. Disclaimers of liabilities by the Receivers and the Board

As explained in Note 2a to the financial statements, the Receivers, despite having taken all reasonable steps, have not been able to obtain all information and documents for preparing the financial statements. Accordingly, they were 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 also as to 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 have therefore disclaimed 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.

Auditors' Report *(Continued)*

BASIS OF OPINION *(Continued)*

2. Disclaimers of liabilities by the Receivers and the Board *(Continued)*

The Audit Committee had reviewed and discussed the financial statements with the Receivers and the Board of Directors ("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 from the Court was obtained on 20 December 2004 conferring upon the Receivers powers, inter alia, to approve and sign the financial statements of the Company and of the Group for the year ended 30 June 2004.

In consequence, we have been unable to carry out auditing procedures necessary to obtain adequate assurance regarding the completeness and accuracy of the assets, liabilities, income and expenses, cash flows, as well as commitments and contingent liabilities, the related party transactions and the disclosures appearing in the financial statements.

3. Accounting records and documents of subsidiaries

a. As explained in Note 2a to the financial statements, the Receivers and their staff, notwithstanding their appointment as the legal representatives and the directors of Shanghai Yihe Longbai Hotel Limited ("Longbai") and Shanghai Hongxin Real Estate Development Company Limited ("Hongxin") on 16 December 2003 and 15 January 2004 respectively, have only had limited access to the books and records of Longbai and Hongxin as their former legal representatives and directors have been uncooperative and failed to surrender the books and records and/or certain original documents of Longbai and Hongxin. As a consequence, the Receivers have been unable to satisfy themselves as to whether the following balances relating to Longbai and Hongxin have been properly accounted for in the financial statements:

- Finance costs of HK\$29,861,000 on the purported loan, as further explained in Note 9 to the financial statements;
- Hotel properties of HK\$160,650,000 allegedly pledged for the loan advanced, as further explained in Note 16b to the financial statements;
- Property under development of HK\$269,325,000 allegedly pledged for the loan advanced, as further explained in Note 16c to the financial statements;
- Deposits, prepayments and other receivables of HK\$666,042,000, as further explained in Notes 20b to 20e to the financial statements;
- Short term loan receivable of HK\$283,500,000, as further explained in Note 20h to the financial statements;
- Pledged deposits of HK\$28,080,000, as further explained in Note 21b to the financial statements;
- Cash and bank balances of HK\$11,899,000, as further explained in Notes 21c and 21d to the financial statements;

Auditors' Report *(Continued)*

BASIS OF OPINION *(Continued)*

3. Accounting records and documents of subsidiaries *(Continued)*

a. *(Continued)*

- Interest payable of HK\$39,764,000, as further explained in Notes 22a and 22b to the financial statements;
- Accrued expenses and other payables of HK\$33,978,000, as further explained in Note 22c to the financial statements;
- Purported loans of HK\$614,250,000, as further explained in Note 23 to the financial statements; and
- Deferred tax liabilities of HK\$60,585,000, deferred tax credit of HK\$32,559,000 and HK\$103,163,000 for the current and prior years respectively, as further explained in Note 24 to the financial statements.

The Receivers have taken out various actions, as detailed in Notes 33d and 33f to the financial statements, to recover the amounts advanced by Longbai and Hongxin totaling HK\$917,275,000. The Receivers are unable to ascertain whether these amounts will be recoverable in full.

- #### b.
- As explained in Note 2a to the financial statements, Bowyer Profits Limited ("Bowyer") appointed Shanghai Nongkai Development Group Limited ("Shanghai Nongkai") as manager to act on its behalf for all matters relating to the leasing of its investment properties including but not limited to receiving income and making payments of expenses related thereto upto 29 April 2004. The Receivers have not received any financial reports since May 2004 and certain relevant records and information of Bowyer from Shanghai Nongkai. As a consequence, the Receivers have been unable to ascertain whether the following balances relating to Bowyer have been properly accounted for in the financial statements:

- Turnover of HK\$1,383,000;
- Tax payable of HK\$1,411,000;
- Deposits, prepayments and other receivables of HK\$3,950,000, as further explained in Note 20f to the financial statements; and
- Deferred tax liabilities of HK\$7,453,000, deferred tax charge of HK\$1,106,000 for the current year and deferred tax credit of HK\$7,064,000 for the prior year, as further explained in Note 24 to the financial statements.

The Receivers have taken out various actions, as detailed in Note 33i to the financial statements, to recover the amount taken out from Bowyer of HK\$3,950,000. The Receivers are unable to ascertain whether this amount will be recoverable in full.

There were no other satisfactory auditing procedures that we could adopt to ascertain whether the balances referred to in paragraphs 3a and 3b above have been properly accounted for in the financial statements and whether the amounts totaling HK\$921,225,000 are fully recoverable. In addition, we have also been unable to ascertain whether the increase in pledged deposits of HK\$28,080,000 has been properly disclosed as financing activities and cash and bank balances of HK\$11,899,000 have been properly classified as cash and cash equivalents in the consolidated cash flow statement.

Auditors' Report *(Continued)*

BASIS OF OPINION *(Continued)*

4. Amount due from Shun Loong Holdings Limited ("Shun Loong")

As explained in Note 33e to the financial statements, Shun Loong had filed an Originating Summons seeking declaratory reliefs against Profitex Investments Limited ("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. Profitex had 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.

In view of the foregoing, we 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 is fully recoverable.

Any adjustments arising in relation to the matters referred to in paragraphs 1 to 4 above would have a consequential effect on the loss and cash flows of the Group for the year ended 30 June 2004 and the net assets of the Company and of the Group as at that date.

5. Amounts due from subsidiaries

The Receivers have only had limited access to the accounting records and documents of the subsidiaries referred to in paragraph 3 above and as a consequence, they have been unable to ascertain whether the amounts due to the Company by these subsidiaries of HK\$1,024,947,000 are fully recoverable. In addition, in view of the significant net liabilities of Profitex, the Receivers have also been unable to ascertain whether the net amount due from Profitex of HK\$32,761,000 is fully recoverable. As a consequence, we have been unable to ascertain whether these amounts totaling HK\$1,057,708,000 are fully recoverable and have been properly accounted for in the financial statements. Any adjustments to these amounts would have a consequential effect on the loss of the Company for the year ended 30 June 2004 and the net assets of the Company as at that date.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN OF CERTAIN SUBSIDIARIES

a. Longbai

As explained in Note 2b to the financial statements, Longbai's hotel properties, with a carrying value of RMB170,000,000 (equivalent to HK\$160,650,000), were allegedly secured against a loan of RMB350,000,000 (equivalent to HK\$330,750,000) purportedly granted by Shanghai Pudong New District Liuli Rural Credit Cooperative Union ("Liuli SRCC"). As a result of the decrease in the carrying value of the hotel properties, Longbai had net liabilities as at 30 June 2004. Thus, Longbai might have a going concern problem.

In addition, as detailed in Note 33g to the financial statements, Longbai might lose its ownership of Longbai's hotel properties should Liuli SRCC resume its enforcement action against Longbai and Longbai fails to fulfill the alleged payment obligations.

The Receivers are also currently unable to determine whether there are any other contingent liabilities should Liuli SRCC resume its enforcement action against Longbai.

Auditors' Report *(Continued)*

FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN OF CERTAIN SUBSIDIARIES *(Continued)*

b. Hongxin

As explained in Note 2c to the financial statements, Hongxin's property under development, with a carrying value of RMB285,000,000 (equivalent to HK\$269,325,000), was allegedly secured against a loan of RMB300,000,000 (equivalent to HK\$283,500,000) purportedly granted by the Shijidadao Branch of Shanghai Pudong New District Rural Credit Cooperative Union ("Shijidadao SRCC"). The Receivers have been unable to determine whether Hongxin is able to meet all its liabilities as the Receivers have only had limited access to Hongxin's books and records. Further, according to the information obtained by the Receivers, fund equivalent to the purported loan was deposited and/or advanced to a PRC entity. Should this receivable become irrecoverable and the proceeds from the realisation of the property under development be insufficient to cover the purported loan and other liabilities, Hongxin might have a going concern problem.

Further, as explained in Note 2c to the financial statements, the registered capital of Hongxin according to the business licence of Hongxin issued on 15 January 2004 is listed at US\$30,000,000, of which only US\$16,700,000 has been paid up. The investment amount which was originally listed at US\$50,000,000, is subsequently listed at US\$90,000,000 pursuant to Hongxin's Certificate of Approval. Hongxin has requested the Foreign Economic Commission of Huangpu District Shanghai ("FEC") to extend the deadline for paying up the additional registered 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. Should the business licence of Hongxin be revoked, Hongxin might also have a going concern problem.

In addition, as detailed in Note 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.

The Receivers are also currently unable to determine whether there are any other contingent liabilities should Shijidadao SRCC resume its enforcement action against Hongxin.

The Receivers have indicated that they will unlikely be providing the necessary funding to maintain Longbai and Hongxin as a going concern. The financial statements include appropriate adjustments to state Longbai's hotel properties and Hongxin's property under development at valuation on a forced sale basis and to reclassify the purported loans under current liabilities. No adjustments have been made to restate the other assets to their recoverable amounts and to provide for any further liabilities that might arise as the amounts are not quantifiable. We consider that the fundamental uncertainty has been adequately disclosed in the financial statements and our opinion is not qualified in this respect.

Auditors' Report *(Continued)*

QUALIFIED OPINION: DISCLAIMER ON VIEW GIVEN BY THE FINANCIAL STATEMENTS AND DISAGREEMENT ABOUT ACCOUNTING TREATMENT

Interest expenses of HK\$19,665,000 have been accrued on the purported loan allegedly borrowed by Hongxin and were recorded as prepayments, as detailed in Note 20e(iii) to the financial statements. In our opinion, the interest accrued should be accounted for as an expense as required by Statement of Standard Accounting Practice 19 "Borrowing costs" ("SSAP 19") issued by HKICPA. If the Group had accounted for the borrowing costs in accordance with SSAP 19, the Group's loss attributable to shareholders for the year ended 30 June 2004 would have been increased by HK\$19,665,000 and the debtors, deposits and prepayments of the Group as at 30 June 2004 would have been decreased by HK\$19,665,000.

Because of the significance of the possible effect of the limitations in evidence available to us, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2004 and of the loss and cash flows of the Group for the year then ended and as to whether the financial statements have been properly prepared in accordance with the Companies Ordinance.

In respect alone of the limitation on our work relating to the limitations on the scope of our audit as referred to above:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- we were unable to determine whether proper books of account had been kept.

Nexia Charles Mar Fan & Co.
Certified Public Accountants

Hong Kong, 23 December 2004

Consolidated Income Statement*For the year ended 30 June 2004*

	<i>Notes</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i> (Restated)	2004 <i>HK\$'000</i>
Turnover	5	11,954	15,106	53,268
Direct expenses		(603)	(5,452)	(16,201)
		11,351	9,654	37,067
Other revenue	6	50,823	27,971	13,639
Net foreign exchange gain/(loss)		(1,660)	687	(836)
Other operating expenses		(309)	–	–
Administrative expenses		(39,330)	(39,127)	(92,403)
(Loss)/Profit from operations	7	(20,875)	(815)	(42,533)
Loss on disposal of subsidiaries		(40,297)	–	–
Finance costs	9	–	(2,716)	(29,861)
Impairment losses on non-trading securities		(26,266)	–	–
Surplus/(deficit) on revaluation of investment properties	16	–	(12,360)	1,965
Deficit on revaluation of hotel properties	16	–	(111,500)	(200,350)
Impairment loss on property under development written back/(provided)	16	–	(136,925)	71,325
Amortisation of goodwill	18	–	(12,615)	–
Impairment loss on goodwill written back/(provided)	18	–	(79,487)	10,000
Loss from ordinary activities before taxation		(45,688)	(356,418)	(189,454)
Taxation	12	(564)	109,750	31,161
Loss attributable to shareholders	13	<u>(46,252)</u>	<u>(246,668)</u>	<u>(158,293)</u>
Basic loss per share	14	<u>(1.52)cents</u>	<u>(8.08) cents</u>	<u>(5.19) cents</u>
Dividend		<u>–</u>	<u>–</u>	<u>–</u>

The notes on pages 40 to 88 form part of these financial statements.

Consolidated Balance Sheet*As at 30 June 2004*

	<i>Notes</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i> (Restated)	2004 <i>HK\$'000</i>
Non-current assets				
Non-trading securities	15	103,684	2,000	2,000
Fixed assets	16	731	596,758	469,569
Goodwill	18	–	–	–
		<u>104,415</u>	<u>598,758</u>	<u>471,569</u>
Current assets				
Inventories	19	–	1,356	1,194
Debtors, deposits and prepayments	20	6,887	930,834	985,797
Cash, bank balances and deposits	21	2,242,554	1,321,191	1,263,319
		<u>2,249,441</u>	<u>2,253,381</u>	<u>2,250,310</u>
Current liabilities				
Creditors and accruals	22	4,072	33,912	93,357
Purported loans	23	–	283,500	614,250
Tax payable		–	1,370	1,411
		<u>4,072</u>	<u>318,782</u>	<u>709,018</u>
Net current assets		<u>2,245,369</u>	<u>1,934,599</u>	<u>1,541,292</u>
Total assets less current liabilities		<u>2,349,784</u>	<u>2,533,357</u>	<u>2,012,861</u>
Non-current liabilities				
Purported loans	23	–	330,750	–
Deferred tax liabilities	24	–	99,491	68,038
		–	<u>430,241</u>	<u>68,038</u>
Net assets		<u><u>2,349,784</u></u>	<u><u>2,103,116</u></u>	<u><u>1,944,823</u></u>
Capital and reserves				
Share capital	25	1,525,720	1,525,720	1,525,720
Reserves	27	824,064	577,396	419,103
Shareholders' funds		<u><u>2,349,784</u></u>	<u><u>2,103,116</u></u>	<u><u>1,944,823</u></u>

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

Stephen Liu Yiu Keung
Joint & Several Receiver

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

Yeo Boon Ann
Joint & Several Receiver

The notes on pages 40 to 88 form part of these financial statements.

Consolidated Cash Flow Statement*For the year ended 30 June 2004*

		2002	2003	2004
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i> (Restated)	<i>HK\$'000</i>
Cash flows from operating activities				
Loss from ordinary activities before taxation		(45,688)	(356,418)	(189,454)
Adjustments for:				
Depreciation	7	1,195	1,485	2,031
(Gain)/loss on disposal of other fixed assets	7	436	(17)	147
(Surplus)/deficit on revaluation of investment properties	16	–	12,360	(1,965)
Deficit on revaluation of hotel properties	16	–	111,500	200,350
Impairment loss on property under development (written back)/provided	16	–	136,925	(71,325)
Impairment losses on other fixed assets		763	–	–
Amortisation of goodwill	18	–	12,615	–
Impairment loss on goodwill (written back)/provided	18	–	79,487	(10,000)
Loss on disposal of subsidiaries		40,297	–	–
Impairment losses on non-trading securities		26,266	–	–
Interest income	6	(50,486)	(26,737)	(12,821)
Interest expenses	9	–	2,716	29,861
Net exchange loss		1,660	–	–
		<u> </u>	<u> </u>	<u> </u>
Operating loss before working capital changes		(25,557)	(26,084)	(53,176)
Decrease in inventories		–	65	162
Increase in debtors, deposits and prepayments		37,242	(585,026)	(54,977)
Increase in creditors and accruals	28d	(1,227)	860	49,346
		<u> </u>	<u> </u>	<u> </u>
Cash used in operations		10,458	(610,185)	(58,645)
Hong Kong profit tax paid		(2,434)	–	–
PRC income tax paid		–	(463)	(251)
		<u> </u>	<u> </u>	<u> </u>
Net cash outflow from operating activities		<u>8,024</u>	<u>(610,648)</u>	<u>(58,896)</u>
Cash flows from investing activities				
Interest received		87,920	28,901	12,835
Purchases of other fixed assets	16	(131)	(8,328)	(2,289)
Proceeds from disposal of other fixed assets		670	369	240
Acquisition of subsidiaries	28b	–	(761,375)	–
Disposal of subsidiaries	28c	565,927	101,684	–
Purchases of unlisted equity securities		(71,873)	–	–
Purchases of unlisted debt securities		(7,799)	–	–
Redemption of held-to-maturity debt securities		156,078	–	–
Decrease in bank deposits with original maturity period over three months when placed		1,267,390	–	–
Short term loan advanced		–	(283,500)	–
		<u> </u>	<u> </u>	<u> </u>

APPENDIX III**FINANCIAL INFORMATION**

		2002	2003	2004
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i> (Restated)	<i>HK\$'000</i>
Net cash inflow/(outflow) from investing activities		<u>1,998,182</u>	<u>(922,249)</u>	<u>10,786</u>
Cash flows from financing activities				
Interest paid		–	(2,716)	(9,762)
Increase in pledged deposit	21b	–	–	(28,080)
Drawdowns of purported loans	23	–	614,250	–
Net cash (outflow)/inflow from financing activities		<u>–</u>	<u>611,534</u>	<u>(37,842)</u>
Net decrease in cash and cash equivalents		<u>2,006,206</u>	<u>(921,363)</u>	<u>(85,952)</u>
Cash and cash equivalents at beginning of year		<u>238,008</u>	<u>2,242,554</u>	<u>1,321,191</u>
Effect of foreign exchange rate changes, net		<u>(1,660)</u>	<u>–</u>	<u>–</u>
Cash and cash equivalents at end of year		<u><u>2,242,554</u></u>	<u><u>1,321,191</u></u>	<u><u>1,235,239</u></u>
Analysis of balances of cash and cash equivalents				
Cash and bank balances		2,636	125,646	57,088
Deposits with original maturity period within three months when placed		<u>2,239,918</u>	<u>1,195,545</u>	<u>1,178,151</u>
		<u><u>2,242,554</u></u>	<u><u>1,321,191</u></u>	<u><u>1,235,239</u></u>

The notes on pages 40 to 88 form part of these financial statements.

Consolidated Statement of Changes in Equity*For the year ended 30 June 2004*

	Note	Reserves							Total HK\$'000 (Restated)
		Share capital HK\$'000	Share premium account HK\$'000	Capital contribution reserve HK\$'000	General reserve HK\$'000	Investment revaluation reserve HK\$'000	Accumu- lated losses HK\$'000 (Restated)	Total reserves HK\$'000 (Restated)	
At 1 July 2002		1,525,720	1,830,548	11,800	5,542	1,500	(1,025,326)	824,064	2,349,784
Loss attributable to shareholders (restated)	24	–	–	–	–	–	(246,668)	(246,668)	(246,668)
At 30 June 2003		<u>1,525,720</u>	<u>1,830,548</u>	<u>11,800</u>	<u>5,542</u>	<u>1,500</u>	<u>(1,271,994)</u>	<u>577,396</u>	<u>2,103,116</u>
At 1 July 2003:									
As previously reported		1,525,720	1,830,548	11,800	5,542	1,500	(1,286,639)	562,751	2,088,471
Prior year adjustment: Effect of adopting SSAP 12 (Revised)	24	–	–	–	–	–	14,645	14,645	14,645
As restated		<u>1,525,720</u>	<u>1,830,548</u>	<u>11,800</u>	<u>5,542</u>	<u>1,500</u>	<u>(1,271,994)</u>	<u>577,396</u>	<u>2,103,116</u>
Loss attributable to shareholders		–	–	–	–	–	(158,293)	(158,293)	(158,293)
At 30 June 2004		<u>1,525,720</u>	<u>1,830,548</u>	<u>11,800</u>	<u>5,542</u>	<u>1,500</u>	<u>(1,430,287)</u>	<u>419,103</u>	<u>1,944,823</u>

The notes on pages 40 to 88 form part of these financial statements.

Notes to the Financial Statements

30 JUNE 2004

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.

Notes to the Financial Statements *(Continued)*

30 JUNE 2004

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 FPD Savills (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.

Notes to the Financial Statements *(Continued)*

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.

Notes to the Financial Statements *(Continued)*

30 JUNE 2004

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

Notes to the Financial Statements *(Continued)*

30 JUNE 2004

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.

Notes to the Financial Statements *(Continued)*

30 JUNE 2004

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.

Notes to the Financial Statements *(Continued)*

30 JUNE 2004

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.

Notes to the Financial Statements *(Continued)*

30 JUNE 2004

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.

Notes to the Financial Statements *(Continued)*

30 JUNE 2004

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.

Notes to the Financial Statements *(Continued)*

30 JUNE 2004

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.

Notes to the Financial Statements *(Continued)*

30 JUNE 2004

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.

Notes to the Financial Statements *(Continued)*

30 JUNE 2004

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 HK\$'000	2003 HK\$'000 (Restated)	2004 HK\$'000	2003 HK\$'000 (Restated)	2004 HK\$'000	2003 HK\$'000 (Restated)	2004 HK\$'000	2003 HK\$'000 (Restated)
Turnover	<u>51,885</u>	<u>13,290</u>	<u>1,383</u>	<u>1,816</u>	<u>-</u>	<u>-</u>	<u>53,268</u>	<u>15,106</u>
Segment results	<u>19,397</u>	<u>3,058</u>	<u>884</u>	<u>1,445</u>	<u>-</u>	<u>-</u>	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							<u>(158,293)</u>	<u>(246,668)</u>

Notes to the Financial Statements *(Continued)*

30 JUNE 2004

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	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Restated)		(Restated)		(Restated)		(Restated)		(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

Notes to the Financial Statements *(Continued)*

30 JUNE 2004

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
		<u>(219)</u>	<u>4,813</u>
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		<u>147</u>	<u>(17)</u>

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

Notes to the Financial Statements *(Continued)*

30 JUNE 2004

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 <i>HK\$'000</i>
Turnover	-
Direct expenses	-
	<hr/>
	-
Other revenue	-
Administrative expenses	(181)
	<hr/>
Loss attributable to shareholders	(181)
	<hr/> <hr/>
Net cash outflow from operating activities	(181)
	<hr/> <hr/>

Notes to the Financial Statements *(Continued)*

30 JUNE 2004

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
	<u>29,861</u>	<u>2,716</u>

* 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
	<u>1,992</u>	<u>4,059</u>

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	–	–
	<u>200</u>	<u>195</u>

Notes to the Financial Statements *(Continued)*

30 JUNE 2004

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
	<u>10</u>	<u>19</u>

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 HK\$'000	2003 HK\$'000
Salaries, allowances and benefits in kind	1,532	1,569
Bonuses	152	61
Retirement scheme contributions	32	34
	<u>1,716</u>	<u>1,664</u>

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	<u>3</u>	<u>3</u>

Notes to the Financial Statements *(Continued)*

30 JUNE 2004

12. TAXATION

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

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

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:

	Hong Kong		The Group 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	<u>(63,188)</u>	<u>(5,744)</u>	<u>(126,266)</u>	<u>(350,674)</u>	<u>(189,454)</u>	<u>(356,418)</u>
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	<u>–</u>	<u>–</u>	<u>(31,161)</u>	<u>(109,750)</u>	<u>(31,161)</u>	<u>(109,750)</u>
Effective rates	<u>–</u>	<u>–</u>	<u>24.7%</u>	<u>31.3%</u>	<u>16.4%</u>	<u>30.8%</u>

Notes to the Financial Statements *(Continued)*

30 JUNE 2004

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	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>

Notes to the Financial Statements *(Continued)*

30 JUNE 2004

16. FIXED ASSETS

The Group

	Investment properties <i>HK\$'000</i>	Hotel properties <i>HK\$'000</i>	Property under development <i>HK\$'000</i>	Other fixed assets <i>HK\$'000</i>	Total <i>HK\$'000</i>
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	<u>34,965</u>	<u>160,650</u>	<u>334,925</u>	<u>17,187</u>	<u>547,727</u>
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	<u>–</u>	<u>–</u>	<u>65,600</u>	<u>12,558</u>	<u>78,158</u>
Net book value:					
At 30 June 2004	<u><u>34,965</u></u>	<u><u>160,650</u></u>	<u><u>269,325</u></u>	<u><u>4,629</u></u>	<u><u>469,569</u></u>
At 30 June 2003	<u><u>33,000</u></u>	<u><u>361,000</u></u>	<u><u>198,000</u></u>	<u><u>4,758</u></u>	<u><u>596,758</u></u>
Analysis of cost or valuation:					
At cost	–	–	334,925	17,187	352,112
At valuation	<u>34,965</u>	<u>160,650</u>	<u>–</u>	<u>–</u>	<u>195,615</u>
	<u><u>34,965</u></u>	<u><u>160,650</u></u>	<u><u>334,925</u></u>	<u><u>17,187</u></u>	<u><u>547,727</u></u>

Notes to the Financial Statements *(Continued)*

30 JUNE 2004

16. FIXED ASSETS *(Continued)*

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

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
At cost or valuation:		
Long term lease	334,925	334,925
Medium term leases	195,615	394,000
	<u>530,540</u>	<u>728,925</u>

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 <i>(sq.m.)</i>	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%

Notes to the Financial Statements *(Continued)*

30 JUNE 2004

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.

Notes to the Financial Statements *(Continued)*

30 JUNE 2004

17. INTERESTS IN SUBSIDIARIES

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

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		Nominal value of issued ordinary/ registered share capital	Principal activities
		2004	Company 2003		
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

Notes to the Financial Statements *(Continued)*

30 JUNE 2004

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.

Notes to the Financial Statements *(Continued)*

30 JUNE 2004

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:

	<i>Notes</i>	Goodwill <i>HK\$'000</i>	Negative goodwill <i>HK\$'000</i>
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		–	–

Notes to the Financial Statements *(Continued)*

30 JUNE 2004

19. INVENTORIES

	The Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Food and beverages	279	295
Hotel consumables	915	1,061
	<u>1,194</u>	<u>1,356</u>

Inventories were carried at cost.

20. DEBTORS, DEPOSITS AND PREPAYMENTS

	Notes	The Group		The Company	
		2004	2003	2004	2003
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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	–	–
		<u>3,765</u>	<u>1,424</u>	–	–
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	–	–
		<u>985,797</u>	<u>930,834</u>	<u>391</u>	<u>349</u>

Notes to the Financial Statements *(Continued)*

30 JUNE 2004

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 (上海市高级人民法院) (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 FPD Savills (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.

Notes to the Financial Statements *(Continued)*

30 JUNE 2004

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

	Notes	The Group		The Company	
		2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 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
		<u>57,088</u>	<u>125,646</u>	<u>43,902</u>	<u>9,564</u>
Deposits with original maturity period within three months when placed					
		<u>1,178,151</u>	<u>1,195,545</u>	<u>1,178,151</u>	<u>1,195,545</u>
Hongxin's pledged deposit					
	b	<u>28,080</u>	<u>-</u>	<u>-</u>	<u>-</u>
		<u><u>1,263,319</u></u>	<u><u>1,321,191</u></u>	<u><u>1,222,053</u></u>	<u><u>1,205,109</u></u>

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.

Notes to the Financial Statements *(Continued)*

30 JUNE 2004

22. CREDITORS AND ACCRUALS

	Notes	The Group		The Company	
		2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 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	–	–
		<u>1,577</u>	<u>2,102</u>	<u>–</u>	<u>1,017</u>
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		<u>228</u>	<u>378</u>	<u>–</u>	<u>–</u>
		<u>93,357</u>	<u>33,912</u>	<u>11,246</u>	<u>4,716</u>

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.

Notes to the Financial Statements *(Continued)*

30 JUNE 2004

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
	<u>614,250</u>	<u>614,250</u>
Less: Amount included under current liabilities	(614,250)	(283,500)
	<u>—</u>	<u>330,750</u>

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.

Notes to the Financial Statements *(Continued)*

30 JUNE 2004

24. DEFERRED TAX LIABILITIES

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

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

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

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Tax losses:				
Hong Kong	4,627	3,541	597	597
PRC	72,599	44,463	-	-
	<u>77,226</u>	<u>48,004</u>	<u>597</u>	<u>597</u>

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.

Notes to the Financial Statements *(Continued)*

30 JUNE 2004

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):

	<i>Notes</i>	<i>HK\$'000</i>
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
		<u>14,645</u>
Loss attributable to shareholders, as restated		<u><u>(246,668)</u></u>

25. SHARE CAPITAL

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

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.

Notes to the Financial Statements *(Continued)*

30 JUNE 2004

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

Notes to the Financial Statements *(Continued)*

30 JUNE 2004

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.

Notes to the Financial Statements *(Continued)*

30 JUNE 2004

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

b. Acquisition of subsidiaries

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i> (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)
		<u>–</u>	<u>652,993</u>
Goodwill on acquisition	18	–	92,102
		<u>–</u>	<u>745,095</u>
Satisfied by:			
Cash		–	735,095
Other payables	22d	–	10,000
		<u>–</u>	<u>745,095</u>

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

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

Notes to the Financial Statements *(Continued)*

30 JUNE 2004

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

c. Disposal of subsidiaries

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

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.

Notes to the Financial Statements *(Continued)*

30 JUNE 2004

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	–	–
	<u>661,500</u>	<u>662,133</u>	<u>–</u>	<u>–</u>

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.

Notes to the Financial Statements *(Continued)*

30 JUNE 2004

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
	<u>426*</u>	<u>1,798</u>	<u>3,251</u>	<u>7,840</u>	<u>5,246</u>	<u>–</u>	<u>8,923</u>	<u>9,638</u>

* 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
	<u>5,586</u>	<u>13,519</u>	<u>33</u>	<u>56</u>

Notes to the Financial Statements *(Continued)*

30 JUNE 2004

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
	<u> </u>	<u> </u>

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.

Notes to the Financial Statements *(Continued)*

30 JUNE 2004

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.

Notes to the Financial Statements *(Continued)*

30 JUNE 2004

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.

Notes to the Financial Statements *(Continued)*

30 JUNE 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.

Notes to the Financial Statements *(Continued)*

30 JUNE 2004

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.

Notes to the Financial Statements *(Continued)*

30 JUNE 2004

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.

Notes to the Financial Statements *(Continued)*

30 JUNE 2004

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.

Notes to the Financial Statements *(Continued)*

30 JUNE 2004

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.

Notes to the Financial Statements *(Continued)*

30 JUNE 2004

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.

Notes to the Financial Statements *(Continued)*

30 JUNE 2004

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.

Notes to the Financial Statements *(Continued)*

30 JUNE 2004

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.

ANGLO CHINESE
CORPORATE FINANCE, LIMITED

財務顧問有限公司
美高

Private and confidential

21st July, 2005

by hand

The Directors
Shanghai Land Holdings Limited (Receivers Appointed)
c/o Ernst & Young Transactions Ltd.
18th Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong

Dear Sir,

**Settlement Deed dated 5th July, 2005 between the Company,
New Nongkai, Bank of China, Bank of China (Hong Kong)
Nominees Limited, the Receivers of the Company,
the Receivers of New Nongkai, Mr. Chau and Mo Yuk Ping**

We refer to our report to you dated 13th May, 2005 in which we gave our advice on Proposals which, if implemented, will result in the Company being placed in members' voluntary liquidation; the settlement of all outstanding and threatened litigation; and the Company's public shareholders receiving a disproportionate distribution of the cash in the Company. Unless the context requires otherwise, the definitions used in the report are also used in this letter.

The Proposals are now set out in the Deed of Settlement entered into on 5th July, 2005 by the parties named above. The terms of the settlement are substantially the same as those of the Proposals on which we gave our opinion in the report, except that the risk of Mr. Chau or parties acting on his behalf failing to perform is now to be borne by Bank of China rather than the Company. As you will recall this was an aspect of the Proposals which gave us concern and we would regard the change in the mechanics for completion has materially improved the Proposals and has increased the prospects of their successful implementation.

In summary, the settlement will involve the following:

- the placing of the Company in members' voluntary liquidation at which time it is expected to have unencumbered cash available for distribution of some HK\$1,160 million;
- a cash distribution of HK\$480 million being made to the shareholders of the Company, other than Bank of China (Hong Kong) Nominees Limited ("BOC Nominees");

Page 2

21st July, 2005

To: The Directors

Shanghai Land Holdings Limited (Receivers Appointed)

ANGLO CHINESE



- a cash distribution of HK\$644 million being made to BOC Nominees in respect of its registered shareholding in the Company;
- a non-cash distribution being made to BOC Nominees with a nominal value of HK\$796 million, which will comprise the assignment of litigation involving the Company and its claims against Mr. Chau and the entire issued share capital of Capital Sky Limited which is the intermediate holding company which holds the Shanghai Land Group's property interests in Shanghai;
- a sum of HK\$36 million being retained by the Company to cover the costs and expenses of the Company and the Receivers of the Company and the cost of liquidation from the date of the Settlement Deed. To the extent that this amount is not expended it will be distributed to the shareholders of the Company, other than BOC Nominees;
- any other distribution will be made to shareholders of the Company pro rata to their shareholdings;
- the Company will agree not to pursue any claims against Bank of China, Mr. Chau and others; and
- Mr. Chau will pay Bank of China in settlement of the outstanding amount due to it from New Nongkai in amount of HK\$140 million, which together with the cash distribution by the Company to BOC Nominees will settle in full the amounts owing by New Nongkai to Bank of China and result in New Nongkai owing the Shanghai properties held indirectly by Capital Sky Limited. The Receivership of New Nongkai will then be terminated.

The settlement is conditional upon, amongst other things:

- the approval of Directors of the Company;
- the requisite approval of shareholders;
- the consent, to the extent required, of the Hong Kong Stock Exchange; and
- the sanction of the Court.

We note that in the event that the distributable cash is greater or less than HK\$1,160 million at the time cash distributions are made, the shortfall or excess will be pro rated between the shareholders, other than BOC Nominees, and BOC Nominees. It is, therefore, possible that shareholders, other than BOC Nominees, may receive in aggregate less than HK\$480 million from the first distribution made to them. However, we do not believe that, given the minimal activities of the Shanghai Land Group and the extent to which expenditures can be anticipated comparatively accurately, that any shortfall should be significant and that this aspect of the settlement does not detract from the settlement terms taken as a whole.

Page 3

21st July, 2005

To: The Directors

Shanghai Land Holdings Limited (Receivers Appointed)

ANGLO CHINESE

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We also note that an amount of HK\$36 million will be retained by the Company to fund its ongoing expenditures and the liquidation itself. We have consistently advised that in any arrangement which resulted in a substantial portion of the Company's cash resources being distributed to shareholders that the Company remain sensibly endowed so that it can pursue claims to maximise its value to shareholders or to realise assets to the Company's best advantage. However, given the comprehensive nature of the settlement and the minimal assets or claims that are likely to remain after the distributions have been made, we would advise that the liquidation be conducted as speedily and economically as possible, so that as much of this retained amount can be distributed to the Company's public shareholders, being those shareholders other than BOC Nominees.

A recurrent theme in our previous reports has been our concerns over the independence of Mr. Chau of a portion of the share register of the Company which is ostensibly held by the public. In this regard, we understand efforts are being made to identify shareholders which may have a connection with Mr. Chau so that these shareholdings do not vote on any resolution to approve the settlement. We do not believe genuinely independent shareholders could sensibly vote against the terms of the settlement and every effort should be made that the interests of these shareholders are safeguarded.

As we state in our previous report, we regard the Proposals as representing by far the best outcome for public shareholders of any proposal put forward to date. Our concerns then about the performance of Mr. Chau under any settlement arrangement have been addressed as these risks are now to be assumed by Bank of China. Accordingly, we have no hesitation in recommending that the Directors of the Company pass a resolution approving the terms of the settlement which, notwithstanding the time it has taken to devise, represents a better outcome than public shareholders could have expected when Receivers were appointed in June, 2003 and substantially better than any proposal that has been made by an outside party.

Should the Directors have any queries on this letter or require any aspect of it to be explained to them in greater detail, we would be happy to attend the meeting of Directors convened to approve the terms of the settlement.

Your faithfully,

For and on behalf of

Anglo Chinese Corporate Finance, Limited



Stephen Clark

Managing Director

SEC/cw



Formerly C Y Leung & Company
原梁振英測量師行

22 August 2005

Shanghai Land Holdings Limited (Receivers Appointed)
c/o Ernst & Young Transactions Ltd.
18/F Two International Finance Centre
8 Finance Street
Central
Hong Kong

Dear Sirs,

We refer to your instructions for us to value the interests in the properties held by Shanghai Land Holdings Limited (Receivers Appointed) (referred to as the “Company”) and its wholly-owned subsidiaries (together referred to the “Group”) in the People’s Republic of China (the “PRC”). We confirm that we have carried out site inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the property interests as at 31 July 2005 (the “Date of Valuation”).

Our valuation is our opinion of the market value which we would define as intended to mean the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Unless otherwise stated, our valuation have been made on the assumption that the owner sells the property interests on the market without the benefit of deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements which could serve to affect the value of the property interest. In addition, no forced sale situation in any manner is assumed in our valuations.

In the course of our valuation of the property interests in the PRC, we have assumed that transferable land use rights in respect of the property interests for the specific term at nominal annual land use fees have been granted and that any premium payable has already been fully paid. We have relied on the advice given by the Group and its PRC legal adviser, Hengtong & Co., regarding the title to the property interests and the interests of the Group in the properties. In valuing the property interests, we have assumed that the Group has an enforceable title to the property interests and has free and uninterrupted rights to use, occupy or assign the property interests for the whole of the respective unexpired terms as granted.

In respect of the property interests situated in the PRC, the status of titles and grant of major approvals and licences, in accordance with the information provided by the Group and the PRC legal opinion are set out in the notes in the valuation certificates.

In valuing the property interest of Property 1 in Group I, which is held by the Group for investment purpose in the PRC, we have valued the property interest as fully operational entity having regard to the trading accounts for 3 financial years ended 2002 to 2004 provided to us by the Group and the estimated net income for the remaining operation period from the date of valuation to 27 August 2035 to be achieved, we have valued it by Investment Method which is a method done by capitalization of the net income derived from the business operation.

In valuing the property interest of Property 2 in Group I, which is held by the Group for investment purposes in the PRC, we have valued the vacant portions of the Property 2 by Direct Comparison Method. The value of the property is estimated by making reference to comparable sales evidences as available in the relevant market. Regarding the portions which are subject to tenancy agreements, we have valued it by Investment Method by capitalizing the net rental income derived from the existing tenancies with due allowance for the reversionary potential of the property.

In valuing the property interest of Property 3 in Group II, which is held for future development by the Group in the PRC, we have valued the property interest by the Direct Comparison Approach assuming sale of the property interest in existing state with the benefit immediate vacant possession and by making reference to comparable sales evidence as available in the relevant market.

In valuing the property interests, we have complied with the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Valuation Standards (First Edition 2005) on Properties published by The Hong Kong Institute of Surveyors.

In respect of the property interest in the PRC, we have been provided with extracts of documents in relation to the title to the property interest. However, we have not inspected the original documents to ascertain any amendments which may not appear on the copies handed to us.

In the course of our valuation, we have relied to a very considerable extent on the information given by the Group and on the PRC legal opinion and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, identification of property, particulars of occupancy, development schemes, site and floor plans, site and floor areas, and all other relevant matters.

Dimensions, measurements and areas included in the valuation certificate are based on information provided to us by the Group and are therefore only approximations. We have verified the existing state of the properties by site inspection. We have based on the copies of

documents which are supported by the PRC legal opinion of Hengtong & Co. to verify the floor areas, site areas and ownerships of the properties. We were also advised by the Group that no material facts have been omitted from the information provided.

We have inspected the exterior and, wherever possible, the interior of the property interest owned by the Group. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or other structural defects. Moreover, we have not carried out investigations on site to determine the suitability of the soil conditions and the services etc. for any development. Our valuations are prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period. Unless otherwise stated, we have not been able to carry out detailed on-site measurements to verify the site and floor areas of the property and we have assumed that the areas shown on the documents handed to us are correct.

No allowance has been made in our valuations of the property interest for any charges, mortgages or amounts owing on the property interests nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of any onerous nature which could affect their value.

Unless otherwise stated, all sums stated in our valuation certificate are in Hong Kong dollars. Regarding our valuations as at 30 April 2005 and 31 July 2005, it is our opinion that the value of the 3 properties is remaining the same in terms of Renminbi(RMB). The valuations shown in Hong Kong dollars were arrived at by converting with the relevant exchange rates and rounding. The differences in our valuations stated in Hong Kong dollars between the said two valuation dates were due to the exchange rates adopted. The exchange rates adopted in our valuations as at 30 April 2005 was RMB1.06=HK\$1, and as at the date of 31 July 2005 was RMB1.04=HK\$1, the RMB rate against the HK\$ was shifted up by 2% during the said period. Thus, our valuation in terms of Hong Kong dollars has changed in 31 July 2005 accordingly due to the change of exchange rate.

Our valuation is summarized below and the valuation certificate is attached.

Yours faithfully,
for and on behalf of
DTZ Debenham Tie Leung Limited
Andrew K.F. Chan
Registered Professional Surveyor (GP)
Registered China Real Estate Appraiser
MSc., M.H.K.I.S., M.R.I.C.S.
Director

Note: Mr. Andrew K. F. Chan is a Registered Professional Surveyor who has over 18 years experience in the valuation of properties in Hong Kong and the PRC.

SUMMARY OF VALUATIONS

Property	Capital value in existing state as at 30 April 2005 HK\$	Capital value in existing state as at 31 July 2005 HK\$
Group I – Property interests held by the Group for investment purposes in the PRC		
1. Hotel Yihe Longbai Shanghai, No. 2451 Hongqiao Road, Hongqiao, Changning District, Shanghai, the People's Republic of China 中華人民共和國上海市長寧區 虹橋路2451號 上海逸和龍柏飯店	282,000,000	287,400,000
2. Units 202, 501, 503, 504-506, 705, 907, 908 and whole of Level 30 and basement car parks on Basement Levels 1 & 2, Lucky Target Square, No. 500 Chengdu North Road, Huangpu District, Shanghai, the People's Republic of China 中華人民共和國上海市黃浦區 成都北路500號峻岭廣場 202, 501, 503, 504-506, 705, 907, 908單元 及第30層全層和地庫停車位	40,800,000	41,600,000
Sub-total:	<u>322,800,000</u>	<u>329,000,000</u>
Group II – Property interest held by the Group for future development in the PRC		
3. Lot No. 26, Hongqiao Town, Minhang District, Shanghai, the People's Republic of China 中華人民共和國上海市閔行區 虹橋鎮26號地塊	453,000,000	461,700,000
Grand total:	<u>775,800,000</u>	<u>790,700,000</u>

VALUATION CERTIFICATE

Group I – Property interests held by the Group for investment purposes in the PRC

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2005 HK\$
1. Hotel Yihe Longbai Shanghai, No. 2451 Hongqiao Road, Hongqiao, Changning District, Shanghai	<p>The property comprises a 4-star hotel with 388 guest rooms erected upon a site with the site area of 21,992 sq.m. (236,722 sq.ft.) completed in 1980's.</p> <p>The property comprises 6 buildings with a total gross floor area of approximately 31,365 sq.m. (337,613 sq.ft.).</p> <p>The land use rights of the property have been granted to Shanghai Yihe Longbai Hotel Limited (上海逸和龍柏飯店有限公司) from 27 July 2001 to 27 August 2035 for tourism use.</p>	The property is owned and managed by Shanghai Yihe Longbai Hotel Limited (上海逸和龍柏酒店有限公司) as a hotel and in operation currently.	<p>HK\$287,400,000</p> <p>(DTZ Debenham Tie Leung Limited had also prepared a valuation of the property as at 30 April 2005 at HK\$282,000,000)</p>

Notes:

- According to Real Estate Title Certificate No. (2001) 010128 issued by Shanghai Housing and Land Administrative Bureau (上海市房屋土地管理局) on 18 December 2001, the land use rights, comprising a site with a total site area of 21,992 sq.m, have been granted to Shanghai Yihe Longbai Hotel Limited (上海逸和龍柏飯店有限公司) (see Note 4 below) for a term from 27 July 2001 to 27 August 2035 for tourism use.
- According to the aforesaid Certificate, the building ownership of the Property, comprising a 11-storey main hotel building and 5 single-storey ancillary buildings with a total gross floor area of 31,365 sq.m, is vested in Shanghai Yihe Longbai Hotel Limited (上海逸和龍柏飯店有限公司) (see Note 4 below) for hotel use. The details are as follow:

No.	Use	No. of Storey	Gross Floor Area	
			(sq.m.)	(sq.ft.)
1	Hotel	1	9	97
2	Hotel	1	22	237
3	Hotel	11	31,214	335,987
4	Hotel	1	97	1,044
5	Hotel	1	2	22
6	Hotel	1	21	226
Total:			31,365	337,613

- (3) According to Business Licence No. 704153 issued on 16 February 2004, Shanghai Yihe Longbai Hotel Limited (上海逸和龍柏酒店有限公司) was established with a registered capital of Japanese Yen 2,255,000,000 for a valid operation period of 50 years from 27 August 1985 to 26 August 2035.
- (4) According to “Approval of Amendment of Foreign Invested Enterprise Contract and Articles of Association” No. (2004) 063 dated 25 March 2004, Shanghai Yihe Longbai Hotel Limited has been approved to change name from 上海逸和龍柏飯店有限公司 to 上海逸和龍柏酒店有限公司.
- (5) According to the PRC legal opinion:
- (i) Shanghai Yihe Longbai Hotel Limited is a wholly foreign-owned enterprise and has been duly incorporated and validly existing under the laws of PRC for a period from 27 August 1985 to 27 August 2035.
- (ii) Shanghai Yihe Longbai Hotel Limited has obtained the Shanghai Real Estate Title Certificate No. 2001010128 of the property. Upon the Shanghai Real Estate Title Certificate No.2001010128, the land use rights of the land and title of the buildings erected thereon have been duly vested in Shanghai Yihe Longbai Hotel Limited.
- (iii) Pursuant to the Contract for Grant of State-owned Land Use Rights and the Shanghai Real Estate Title Certificate, the land is granted for a term from the date on which the Shanghai State-owned Land Use Certificate was issued to 27 August 2035 for tourism purpose.
- (iv) The property can be developed into hotel building with a total gross floor area of 31,365 sq.m..
- (v) A charge dated 11 April 2003 over a property of a loan facility of RMB 350,000,000 for a period of 5 years from 18 April 2003 (the “charge”). An enforcement order was given by the Shanghai No. 1 Intermediate People’s Court (the “Court”) on 28 June 2004 when the Shanghai Yihe Longbai Hotel Limited defaulted in repaying the loan and the interest (the “Longbai Enforcement Order”). On 5 July 2004, the Shanghai Yihe Longbai Hotel Company Limited sought a declaration order from the Court that the loan and the Charge be void. The Longbai Enforcement Order was suspended by the Court on 23 December 2004 except that attachment to the property and other assets of the Shanghai Yihe Longbai Hotel Limited is still valid. However, the suspension of the Longbai Enforcement Order ceased to be effective and enforcement was resumed on 7 March 2005.

Under the PRC laws, Shanghai Yihe Longbai Hotel Limited will be unable to transfer, assign, sell, let, charge or dispose of the property without consent of Shanghai Pudong New District Liuli Rural Credit Cooperative Union (上海市浦東新區六里農村信用合作社) (the “Lender”).

Up to the date of land search, the property is subject to a court proceeding between the Lender and the Shanghai Yihe Longbai Hotel Limited.

- (vi) On 16 February 2004, Shanghai Yihe Longbai Hotel Limited’s name was changed from 上海逸和龍柏飯店有限公司 to 上海逸和龍柏酒店有限公司 with approval.
- (vii) Subject to the encumbrances and charging order, Shanghai Yihe Longbai Hotel Company Limited is entitled to sell, transfer, assign or lease the property without paying any additional land premium.
- (6) In accordance with the information provided by the Company and the PRC legal opinion, the status of the title and grant of major approvals and licences are as follow:

Real Estate Title Certificate	Yes
Contract for Grant of Land Use Rights	Yes
Business Licence	Yes

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2005 HK\$
2. Units 202, 501, 503, 504-506, 705, 907, 908, Level 30 and basement carpark on Basement Levels 1 & 2, Jun Ling Plaza (also known as Lucky Target Square), No. 500 Chengdu North Road, Huangpu District, Shanghai	<p>Jun Ling Plaza (also known as Lucky Target Square) is a 34-storey office block with 2 levels of basement carparks completed in 1996.</p> <p>The property comprises 9 units and a whole of the office space on level 30 and the basement carparks on basement level 1 & 2 with a total gross floor area of approximately 2,455.93 sq.m. (26,436 sq.ft.) and 2,009.28 sq.m. (21,628 sq.ft.) respectively.</p> <p>The legal title of the property is vested in Bowyer Profits Limited (博亞投資有限公司) for a term due to expire on 23 February 2044 for office use.</p>	<p>As at 31 July 2005, 9 office units of the property with a total gross floor area of approximately 1,422 sq.m. (15,306 sq.ft.) was leased out with a total monthly rent of approximately RMB107,400 exclusive of management fees and public utility charges, which be subject to various tenancy agreements with the latest expiry date on 31 December 2008.</p> <p>The remaining 5 office units with total gross floor area of approximately 1,034 sq.m (11,130 sq.ft.) were vacant.</p> <p>41 carparks were currently leased out.</p>	<p>HK\$41,600,000</p> <p>(DTZ Debenham Tie Leung Limited had also prepared a valuation of the property as at 30 April 2005 at HK\$40,800,000)</p>

Notes:

- (1) According to various Real Estate Title Certificates (房地產權證) issued by Shanghai Housing and Land Administrative Bureau (上海市房屋土地管理局), the details of the Property are as follow:-

Unit No.	Real Estate Title Certificate No.	Gross Floor Area (sq.m.)
202	(2001) 004743	137.09
501, 503, 504-506	(2001) 004742	874.25
705	(2001) 004744	137.09
907	(2001) 004745	137.71
908	(2001) 004746	154.10
Whole Level 30	(2001) 005673	1,015.69
	Sub-total	2,455.93
Basement carparks	(2001) 005673	2,009.28

The legal title of the property is vested in Bowyer Profits Limited (博亞投資有限公司) for a term due to expire on 23 February 2044 for office use.

- (2) We are of the opinion that there is no material difference between the above existing monthly rental and the monthly market rental.
- (3) According to the PRC legal opinion:
- (i) Bowyer Profits Limited was duly incorporated and validly existing in accordance with the laws of the jurisdiction where it was duly incorporated.
 - (ii) Bowyer Profits Limited has obtained the Shanghai Real Estate Title Certificates. The land use rights of the land and title of the properties have been duly vested in Bowyer Profits Limited.
 - (iii) The properties are held by Bowyer Profits Limited for a term due to expire on 23 February 2044. Bowyer Profits Limited is entitled to apply for extension prior to the expiry date of the term subject to land premium.
 - (iv) Units 202, 501, 503, 504, 505, 506, 705, 907, 908 and all units on 30th Floor of the properties comprises with a total gross floor area of 2,455.93 sq.m. can be used for office purpose while basement carparks with a total gross floor area of 2,009.28 sq.m. on Basement Levels 1 and 2 of the Property can be used for car park purpose.
 - (v) Upon land search on 14 July 2005, Shanghai No. 2 Intermediate People's Court (the "Court") has issued an order on 13 August 2004 in respect of Units 202, 705 and 908 of the property valid for a term of 2 years. Before the aforesaid order ceases to be effective, Units 202, 705 and 908 will be unable to transfer, assign, sell, let, charge or otherwise dispose of. Up to the date of land search, there are orders issued by the Court pending the legal proceeding taken against Bowyer Profits Limited in respect of Units 202,705 and 908.
 - (vi) Units 202A, 202B, 501, 504, 505, 506, 3002, 3003 and 41 carparks of the property are subject to tenancy agreements.
 - (vii) Subject to the encumbrances and court order, Bowyer Profits Limited is entitled to sell, transfer, assign or lease the property without paying any additional land premium to Shanghai Housing Land and Resources Bureau.
- (4) In accordance with the information provided by the Company and the PRC legal opinion, the status of the title and grant of major approval and licence is as follows:

Real Estate Title Certificate

Yes

VALUATION CERTIFICATE

Group II – Property interest held by the Group for future development in the PRC

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2005 HK\$
3. Lot No. 26, Hongqiao Town, Minhang District, Shanghai	<p>The property comprises a site with a site area of 96,317 sq.m. (1,036,756 sq.ft.).</p> <p>The property is planned as a residential development with plot ratio of 1.1. Thus, the total gross floor area planned for development is 105,948.70 sq.m. (1,140,432 sq.ft.).</p> <p>The land use rights of the property have been granted to Shanghai Hongxin Real Estate Development Co., Ltd. (上海宏興房地產發展有限公司) for a term of 70 years from 8 March 1996 to 7 March 2066 for residential use.</p>	<p>According to the inspection, the property is currently a site pending for development.</p> <p>As advised, two occupiers yet to vacate.</p> <p>In the course of our valuation, we have assumed vacant possession basis.</p>	<p>HK\$461,700,000</p> <p>(DTZ Debenham Tie Leung Limited had also prepared a valuation of the property as at 30 April 2005 at HK\$453,000,000)</p>

Notes:

- (1) According to Real Estate Title Certificate (1996) 100239 issued by Shanghai Housing and Land Administrative Bureau (上海市房屋土地管理局) dated 18 December 1996, the land use rights of the property, comprising a site area of 96,317 sq.m, have been granted to Shanghai Hongxin Real Estate Development Co., Ltd. (上海宏興房地產發展有限公司) for a term of 70 years from 8 March 1996 to 7 March 2066 for residential use.
- (2) According to Contract for Grant of State-owned Land Use Rights No. (1992) 204 entered into between Shanghai Land Administrative Bureau (上海市土地管理局) (“Party A”) and Shanghai County Real Estate Head Company (上海縣房地產總公司), Yang & Tan Company Limited (香港楊潭有限公司) and Great Charm Investment Limited (香港宏昌投資有限公司) (“Party B”) on 30 December 1992, Party A agreed to grant the land use rights of the property comprising a site area of 114,585 sq.m., to Party B on the following terms and conditions:
 - (i) Party B shall obtain the land use rights for a term of 70 years by payment of land grant fee in the sum of US\$10,083,480.
 - (ii) Party B shall also be responsible to the costs of resettlement and provision of ancillary facilities.
 - (iii) The land is for residential use.
 - (iv) Plot ratio is 1.1.
 - (v) Party B shall complete 60% of the above ground construction (in terms of gross floor area) by 31 December 1997 (Please see Note 3 below).

- (3) The following documents are quoted from the Verification Report prepared by the Shanghai verification team of Eastar Development Limited, the then potential purchaser of the property, dated 11 December 2002 as provided:

According to the said Verification Report, it states that Supplementary Document No. (1996)525 has been issued by Shanghai Real Estate Administration Bureau, the terms and conditions are as follows:

- (i) The site area has changed from 114,585 sq.m. to 96,317 sq.m.
- (ii) The land grant fee has been adjusted to US\$8,475,896 (According to the Verification Report, the land grant fee has been fully settled).

It also states that Official Reply No. (1997) 61 has been issued by Minhang Land Administration Bureau, as the site area has been changed from 114,585 sq.m. to 96,317 sq.m., the costs of resettlement has been revised from US\$15,125,220 to US\$12,713,844 (According to the Verification Report, the costs of resettlement has been paid US\$9,976,386.96 as at 13 November 2002. No further information in respect of the payment status afterwards has been provided to us).

It also states that according to Supplementary Document No. (2002) 499 issued by the Shanghai Housing Land and Resources Administrative Bureau on 5 September 2002, the building covenant period has been extended to 31 December 2005. We note the building covenant is due to expire at the end of 2005.

In the course of our valuation, we have assumed that the costs of resettlement have been fully paid and further extension of the building covenant period of the Property will be approved.

- (4) According to Business Licence (營業執照) No. 004435, Shanghai Hongxin Real Estate Development Co., Ltd. (上海宏興房地產發展有限公司) was established with a registered capital of US\$16,700,000 for a valid operation period of 70 years from 14 June 1993 to 13 June 2063.
- (5) According to the information provided to us:
 - (i) the property is subject to a loan of RMB300,000,000 in favour of Shijidadao Branch of Shanghai Pudong New District, Rural Credit Cooperative Union 上海市浦東新區農村信用合作社聯合社世紀大道分社 for a term from 27 March 2003 to 26 March 2004.
 - (ii) the property is subject to two sealed charging orders in favour of Shanghai No.1 Intermediate People's Court 上海市第一中級人民法院 (the "Court") dated 7 July 2004 and 22 February 2005.
- (6) According to the PRC legal opinion:
 - (i) Shanghai Hongxin Real Estate Development Company Limited (上海宏興房地產發展有限公司) is a wholly foreign-owned enterprise and has been duly incorporated and validly existing under the laws of PRC for a period from 14 June 1993 to 13 June 2063.
 - (ii) Shanghai Hongxin Real Estate Development Company Limited (上海宏興房地產發展有限公司) has obtained the Contract for Grant of State-owned Land Use Rights [1992] 204 and the Shanghai Real Estate Title Certificate [1996] 100239 of the property. The title of the property was duly vested in Shanghai Hongxin Real Estate Development Company Limited (上海宏興房地產發展有限公司) on 8 March 1996.
 - (iii) The land use rights of the property, with a total site area of 96,317 sq.m., has been granted for a term of 70 years from 8 March 1996 for residential purpose.
 - (iv) Shanghai Hongxin Real Estate Development Company Limited (上海宏興房地產發展有限公司) is only entitled to sell, transfer, assign or lease the property or any part of it when it has duly completed the construction work as specified under the Contract for Grant and Use of Land.

- (v) The property is approved to be developed for residential use with a plot ratio of 1.1 represents a total gross floor area not exceeding 105,948.7 sq.m.
- (vi) The building covenant has been extended to 31 December 2005.
- (vii) The property is subject to a loan of RMB300,000,000 in favour of Shijidadao Branch of Shanghai Pudong New District, Rural Credit Cooperative Union 上海市浦東新區農村信用合作社聯合社世紀大道分社 for a term on 27 March 2003.
- (viii) A charge was registered on 9 May 2003 over the property of a loan facility of RMB 300,000,000 on 27 March 2003 (the “Charge”). An enforcement order was given by the Court on 28 June 2004 when Shanghai Hongxin Real Estate Development Company Limited defaulted in repaying the loan and the interest (the “Hongxin Enforcement Order”). On 12 July 2004, Shanghai Hongxin Real Estate Development Company Limited sought a declaration order from the Court that the loan and Charge be void. The Hongxin Enforcement Order was suspended by the Court on 23 December 2004 except that attachment to the property and other assets of the Shanghai Hongxin Real Estate Development Company Limited is still valid. However, the suspension of the Hongxin Enforcement Order ceased to be effective and enforcement was resumed on 7 March 2005.
- In accordance with the PRC laws, the Shanghai Hongxin Real Estate Development Company Limited (上海宏興房地產發展有限公司) will be unable to transfer, assign, sell, let, charge or otherwise dispose of the property before the Hongxin Enforcement Order ceases to be effective.
- (ix) In 2005, Shanghai Pudong New District, Rural Credit Cooperative Union 上海市浦東新區農村信用合作社 filed a statement of claim with the Court against the Shanghai Hongxin Real Estate Development Company Limited (上海宏興房地產發展有限公司) for recovery of the loan of RMB 25,000,000 plus interest of RMB 1,708,729.86. Upon land search, an attachment order over the property was issued by the Court and for a separate action on 2 February 2005.
- (x) An amount of USD15,125,220 being the compensation for land resumption and removal fee of the property is payable to Shanghai County Land Administrative Bureau upon the completion of their removal work. Shanghai Hongxin Real Estate Development Company Limited (上海宏興房地產發展有限公司) has not fully paid the said amount. However, the balance of the compensation is not required because of reduction of the site area of the land.
- (7) In accordance with the information provided by the Company and the PRC legal opinion, the status of the title and grant of major approvals and licences are as follow:

Real Estate Title Certificate	Yes
Contract for Grant of Land Use Rights	Yes
Planning Permit for Construction Works	No
Permit for Commencement of Construction Works	No
Business Licence	Yes



August 24, 2005

Shanghai Land Holdings Limited (Receivers Appointed)
c/o Ernst & Young Transactions Limited
18th Floor, Two International Finance Centre
8 Finance Street
Central
Hong Kong

Dear Sirs,

In accordance with your instructions for us to value the property interests of Shanghai Land Holdings Limited (Receivers Appointed) (referred to as the “Company”) and its subsidiaries (hereinafter together referred to as the “Group”) located in the People’s Republic of China (the “PRC”), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for providing you with our opinion of the respective market values of the property interests as at July 31, 2005 (referred to as the “Valuation Date”).

Our valuations of the property interests are our opinion of the market value of each of the concerned properties as defined in the HKIS Valuation Standards On Properties as “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

Our valuations have been made on the assumption that the owners sell the property interests on the open market without the benefit of deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to affect the values of the property interests.

In the course of our valuations of the properties, we have assumed that transferable land use rights in respect of the properties for respective terms at nominal annual land use fees will continue to be granted and that, unless otherwise stated, any premium payable has already been fully paid. We are unable to ascertain the titles of the properties but have relied on the advice given by the Group’s appointed PRC lawyer (i.e. Hengtong & Co) regarding the Group’s interests in the properties.

We have classified the subject properties into 2 groups, namely Group I and II. Group I is represented by Property No. 1 and 2, which are held by the Group for investment purpose in the PRC. Group II is represented by Property No.3, which is held by the Group for future development in the PRC.

In valuing the vacant units of Property No. 1 in Group I, we have adopted the Comparison Method of Valuation. The Comparison Method of Valuation seeks to derive the market value of property interest by making reference to the recent transaction prices and asking price if relevant of similar properties at similar locations. Appropriate adjustments have been made between the comparables and the subject property for all the relevant factors.

For the leased units of Property No. 1 in Group I, we have adopted the Investment Method of Valuation and is done on the basis of capitalization of net rental incomes derived from the existing tenancies with due allowance for reversionary income potential of the property interests.

For Property No. 2, our valuation is primarily based on the Residual Method of valuation. Residual Method of valuation seeks to derive the site value by first determining the optimal development of which Gross Development Value is ascertained. The Gross Development Value is firstly established by the comparison method of valuation and deductions are made to cover construction costs, professional fees, marketing cost, interest expense and developer's profit, etc. which are based on a set of realistic assumptions. The resultant residue figure is then adjusted back to the valuation date to arrive at the site value. In arriving at our opinion of value, we have taken into consideration the construction costs estimated and prepared by the independent professional quantity surveyors (i.e. Levett & Bailey).

For Property No. 3, we have adopted Profit Method of Valuation and valued it on "As-Is" basis with the benefits of its existing fixtures, fittings, furniture and operation equipment. We have also analysed the trends of accounts, room rates, occupancy rates and discount rates prevailing in the market and have valued the property in its existing use as a fully operational entity as at the valuation date.

We have been provided by the Group with some documents in relation to the titles of the properties but have not carried out search to verify the ownerships of the properties. We have relied to a very considerable extent on the information given by the Group or other related parties and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, identification of property, age of building, particulars of occupancy, agreements, site and floor areas and all other relevant matters. Dimensions, measurements and areas included in the valuation certificate attached are based on information contained in the documents provided to us and are therefore only approximations. We have verified the information independently to the extent that we have performed our due diligence within our professional capacity. We were also advised by the Group that no material facts have been omitted from the information supplied.

In accordance with the information provided by the Group and the legal opinion of the Group's appointed PRC lawyer, the status of title and grant of major approvals and licences in respect of the various properties are summarized below:

	Property		
	No. 1	No. 2	No. 3
Real Estate Title Certificate	Yes	Yes	Yes
Certificate for the Use of State-owned Land	N/A	N/A	N/A
Grant Contract of Land Use Rights	N/A	Yes	Yes
Red-line Drawing	N/A	N/A	N/A
Permit for Construction Land	N/A	N/A	N/A
Planning Permit for Construction Works	N/A	N/A	N/A
Permit for Overseas Sales	N/A	N/A	N/A
Business Licence	No	Yes	Yes

We have inspected the exterior and, where possible, the interior of the properties. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not able to report that the properties are free from rot, infestation or any other structural defects, nor were any tests carried out on any of the services. For Property No. 2, we have not carried out investigations on the site to determine the suitability of the ground conditions and the services etc. for any future development. Our valuations are prepared on the assumption that these aspects are satisfactory and that no unexpected costs or delays will be incurred during construction period. Also, we have not been able to carry out detailed site areas in respect of the properties but have assumed that the site areas shown on the documents and official site plans handed to us are correct. All documents and contracts have been used as reference and we have assumed that the site and floor areas shown on the copies of documents handed to us are correct.

No allowance has been made in our report for any charges, mortgages or amounts owing on any property nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

Our valuations have been prepared in accordance with the HKIS Valuation Standards On Properties (1st Edition 2005), the relevant provisions in the Companies Ordinance and the Rules Governing The Listing Of Securities On The Stock Exchange Of Hong Kong Limited (Main Board).

We attach herein our Summary of Valuation and our Valuation Certificate.

Yours faithfully,
For and on behalf of
A.G. WILKINSON & ASSOCIATES
(SURVEYORS) LIMITED
Lam Chun Chiu Ringo
Registered Professional Surveyor (GP)
BSc(Hons) MCIREAA, MHKIS, MRICS
Associate Director
Valuation Department

Note: Mr. Lam Chun Chiu Ringo is a Registered Professional Surveyor in the Hong Kong Special Administration Region. He is a professional member of three professional bodies, namely the China Institute of Real Estate Appraisers and Agents, Hong Kong Institute of Surveyors and Royal Institution of Chartered Surveyors. Mr. Lam joined A.G. WILKINSON & ASSOCIATES since 1995 and he has about 14 years of post-qualification experience in valuing properties in Hong Kong and 8 years of post-qualification experience in valuing properties in the PRC.

SUMMARY OF VALUATION

Property	Market Value as at July 31, 2005
Group I -Property interests held by the Group for investment purpose in the PRC	
1. Unit 202 on 2nd Floor Units 501, 503, 504, 505 and 506 on 5th Floor Unit 705 on 7th Floor Units 907 and 908 on 9th Floor and the whole floor of 30th Floor (also known as Units 3001, 3002 and 3003 on 30th Floor) together with Basement Carparks on Levels 1 & 2 Jun Ling Plaza (also known as Lucky Target Square) No. 500 Chengdu North Road Huang Pu District Shanghai The People's Republic of China	RMB35,700,000
2. Hotel Yihe Longbai Shanghai No. 2451 Hongqiao Road Changning District Shanghai The People's Republic of China	RMB200,000,000
Sub-total:	<u>RMB235,700,000</u>
Group II-Property interest held by the Group for future development in the PRC	
3. Lot No. 26 in Hongqiao Town Minhang District Shanghai The People's Republic of China	RMB362,000,000
Grand total:	<u>RMB597,700,000</u>

Note: The three (3) properties were valued at a grand total sum of RMB597,700,000 (RENMINBI FIVE HUNDRED NINETY-SEVEN MILLION AND SEVEN HUNDRED THOUSAND) by External Valuer, A.G. Wilkinson & Associates (Surveyors) Limited, as at July 31, 2005, on the basis of market value, in accordance with the HKIS Valuation Standards On Properties (1st Edition 2005), the relevant provisions in the Companies Ordinance and the Rules Governing The Listing Of Securities On The Stock Exchange Of Hong Kong Limited (Main Board).

Group I -Property interests held by the Group for investment purpose in the PRC

Property	Description and Tenure	Particulars of Occupancy	Market Value as at July 31, 2005																																							
1. Unit 202 on 2nd Floor Units 501, 503, 504, 505 and 506 on 5th Floor Unit 705 on 7th Floor Units 907 and 908 on 9th Floor and The whole floor of 30th Floor (also known as Units 3001, 3002 and 3003 on 30th Floor) together with Basement Carparks on Levels 1 & 2 Jun Ling Plaza (also known as Lucky Target Square) No. 500 Chengdu North Road Huang Pu District Shanghai The People's Republic of China	<p>The property comprises twelve office units on 2nd, 5th, 7th, 9th and 30th floors and basement carpark of 34-storey commercial building, which was completed in 1996.</p> <p>The gross floor areas of the property are listed as follows:</p> <table border="1"> <thead> <tr> <th>Unit/ Floor</th> <th>Gross Floor Area (sq.m.)</th> <th>Gross Floor Area (sq.ft.)</th> </tr> </thead> <tbody> <tr> <td>202</td> <td>137.09</td> <td>1,475.63</td> </tr> <tr> <td>501</td> <td>153.41</td> <td>1,651.30</td> </tr> <tr> <td>503</td> <td>215.17</td> <td>2,316.08</td> </tr> <tr> <td>504</td> <td>215.17</td> <td>2,316.08</td> </tr> <tr> <td>505</td> <td>137.09</td> <td>1,475.63</td> </tr> <tr> <td>506</td> <td>153.41</td> <td>1,651.30</td> </tr> <tr> <td>705</td> <td>137.09</td> <td>1,475.63</td> </tr> <tr> <td>907</td> <td>137.71</td> <td>1,482.31</td> </tr> <tr> <td>908</td> <td>154.10</td> <td>1,658.73</td> </tr> <tr> <td>3001-3003</td> <td>1,015.69</td> <td>10,932.88</td> </tr> <tr> <td>Total:</td> <td><u>2,455.93</u></td> <td><u>26,435.57</u></td> </tr> <tr> <td>Basement (CP)</td> <td>2,009.28</td> <td>21,627.88</td> </tr> </tbody> </table>	Unit/ Floor	Gross Floor Area (sq.m.)	Gross Floor Area (sq.ft.)	202	137.09	1,475.63	501	153.41	1,651.30	503	215.17	2,316.08	504	215.17	2,316.08	505	137.09	1,475.63	506	153.41	1,651.30	705	137.09	1,475.63	907	137.71	1,482.31	908	154.10	1,658.73	3001-3003	1,015.69	10,932.88	Total:	<u>2,455.93</u>	<u>26,435.57</u>	Basement (CP)	2,009.28	21,627.88	<p>The office units are currently let to a third party under various tenancy agreements with the aggregate monthly rental of RMB107,321.07. Most of car parking spaces are leased to third party with the aggregate monthly rental of RMB44,244.50.</p> <p>The grand total of the monthly rental for all office units and carparking spaces is RMB151,565.57 approximately.</p> <p>The rents are generally on exclusive basis of disbursements such as water, electricity, gas, communication charges, management fee, cleaning charges.</p>	RMB35,700,000
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Basement (CP)	2,009.28	21,627.88																																								

– or thereabouts –

The property is held for a term from March 26, 2001 to February 23, 2044 and except office units on 30th Floor and basement which are from April 7, 2001 to February 23, 2044.

Notes:

- Pursuant to 6 Shanghai Real Estate Title Certificates 滬房地市字(2001) Nos. 004743, 004742, 004744, 004745 and 004746 dated July 11, 2001 and No. 005673 dated August 10, 2001 issued by the Shanghai Housing and Land Administrative Bureau, the registered owner is Bowyer Profits Limited (博亞投資有限公司).
- Bowyer Profits Limited is a wholly owned subsidiary of the Company.
- The office units Nos. 202, 705 and 908 are subject to sealed charging order in favour of the Shanghai No. 2 Intermediate People's Court (上海市第二中級人民法院) (the "No. 2 Court") dated August 13, 2004 for an attachment period of 2 years from August 13, 2004 to August 12, 2006.

4. We have been provided with a legal opinion regarding the property interest by the Company's PRC lawyer, including but not limited to the following:
- (i) The property comprises units Nos. 202, 501, 503, 504, 505, 506, 705, 907, 908 and all units on 30th Floor with a total gross floor area of 2,455.93 and 52 carparks on Basement Levels 1 and 2 with a gross floor area of 2,009.28 square meters.
 - (ii) Pursuant to the Shanghai Real Estate Title Certificates, the property is held by Bowyer Profits Limited for a term due to expire on February 23, 2044. The title of the property and the land use rights have been duly vested in Bowyer Profits Limited.
 - (iii) The tenancy agreements are valid and legally binding on the Bowyer Profits Limited and the tenants of Unit 202A, 202B, 501, 504-506, 3002, 3003 and 52 carparks respectively.
 - (iv) Subject to the encumbrances and attachment order as described below, Bowyer Profits Limited is only entitled to sell, transfer, assign or lease the property or any part of it to domestic or overseas companies or individuals without paying any additional land premium to the Shanghai Housing and Land Administrative Bureau.
 - (v) The No. 2 Court issued an order to the effect that Unit Nos. 202, 705 and 908 of the property be attached for a term of 2 years on August 13, 2004 (the "Attachment Order"). In accordance with the PRC Laws, Bowyer Profits Limited will be unable to transfer, assign, sell, let, charge or otherwise dispose of Units No. 202, 705 and 908 of the property before the Attachment Order ceases to be effective. Up to the date of the last land search (i.e. July 14, 2005), the units Nos. 202, 705 and 908 of the property have been attaching by the No. 2 Court pending the proceeding taken against Bowyer Profits Limited.
5. We have based on the legal opinion and prepared our valuation on the following assumptions:
- (i) Bowyer Profits Limited possesses a proper legal title of the property and is entitled to transfer the property with the residue term of its land use rights with no extra land premium or other payment of substantial amount payable to the Government.
 - (ii) All land premium and costs of ancillary utilities services have been settled in full.
 - (iii) The design and construction of the development are in compliance with the local planning regulations and have been approved by the relevant Government authorities.
 - (iv) The property is subject to the Attachment Order mentioned in Note 3 above. In the course of our valuation, we have assumed that the property is free from the Attachment Order and can be freely transferred, sold or disposed of in the market.
 - (v) The conversion of US Dollars (US\$) into Renminbi (RMB) is based on the factor of RMB8.10 to US\$1 with reference to the prevailing exchange rate on the date of valuation.
6. The status of title and grant of major approvals and licences in accordance with the information provided by the Group and the opinion of PRC lawyer are as follows:–
- | | |
|---|-----|
| Real Estate Title Certificate | Yes |
| Certificate for the Use of State-owned land | N/A |
| Grant Contract of Land Use Rights | N/A |
| Red-line Drawing | N/A |
| Permit for Construction Land | N/A |
| Planning Permit for Construction Works | N/A |
| Permit for Oversea Sales | N/A |
| Business Licence | No |
7. For examining the factors affecting the market value of the subject property as at July 31, 2005, the material factors includes rising trend of interest rate, rising exchange rate of RMB to USD, central government's introduction of macro-policies since May, 2005 on controlling property prices, taxation on short term capital gain/profit, falling property market trend, etc.
8. For examining the level of market rent as at July 31, 2005, although current market rent is generally higher than the existing rents, there are no material difference for most of the tenanted units between existing monthly rental and the estimated current monthly market rental.

Property	Description and Tenure	Particulars of Occupancy	Market Value as at July 31, 2005
2. Hotel Yihe Longbai Shanghai No. 2451 Hongqiao Road Changning District Shanghai The People's Republic of China	The property totally comprises six component buildings (including one main building and five ancillary buildings) erected on a site with area of 21,992 square meters (236,721.88 square feet), with ancillary vehicle servicing area, loading/unloading area, car parking space on Ground Floor	The subject property is currently operating.	RMB200,000,000

The "Hotel Building" is 11-storey in height having shop unit on G/F, ancillary facilities on G/F to 1/F. The hotel is equipped with 388 guest rooms ranging from single room, twin-bedroom, double room, suite room and apartment. The ancillary facilities include western restaurants, Chinese restaurant, banquet hall, conference hall, sauna, swimming pool, tennis courts, golf range, beauty salon and so on. The building was completed in 1987.

The total gross floor area of the subject property is listed as follows:

Block	No. of Storey	Gross Floor Area (sq.m.)	Gross Floor Area (sq.ft.)
1	1	9	96.87
2	1	22	236.81
3	11	31,214	335,987.50
4	1	97	1,044.11
5	1	2	21.53
6	1	21	226.04
Total:	16	31,365	337,612.86

– or thereabouts –

The property is held for a term of 50 years from August 27, 1985.

Notes:

1. Pursuant to a Shanghai Real Estate Title Certificate 滬房地市字(2001) No. 010128 dated December 18, 2001 issued by the Shanghai Housing Land and Resources Administrative Bureau, the registered owner is Shanghai Yihe Longbai Hotel Limited (上海逸和龍柏飯店有限公司).
2. Shanghai Yihe Longbai Hotel Limited is a wholly-owned subsidiary of the Company.
3. Pursuant to a Shanghai Real Estate Title Certificate, the property is granted the land use rights terms of 34 years for tourism from July 27, 2001 to August 27, 2035, with a site area of approximately 21,992 square meters (236,721.88 square feet) and total building floor area of approximately 31,365 square meters (337,612.86 square feet).
4. The property is subject to a loan in favour of Shanghai Pudong New District Liuli Rural Credit Cooperative Union (上海市浦東新區六里農村信用合作社) (the “Liuli Lender”) at the consideration of RMB350,000,000 for a term from April 18, 2003 to April 17, 2008 (the “Loan”).
5. The property is subject to two sealed charging orders in favour of Shanghai No. 1 Intermediate Court (上海市第一中級人民法院) (the “No. 1 Court”) dated July 6, 2004 and February 21, 2005 respectively.
6. We have been provided with a legal opinion regarding the property interest by the Company’s PRC lawyer, including but not limited to the following:
 - (i) The property comprises a piece of land with a site area of 21, 992 square meters, an 11-storey main hotel building and 5 single-storey ancillary buildings with a gross floor area of 31,365 square meters.
 - (ii) The Contract for Grant of State-owned Land Use Rights is unconditional, valid, enforceable and legally binding on the related parties.
 - (iii) Shanghai Yihe Longbai Hotel Limited obtained a Shanghai Real Estate Title Certificate (Shi No. 2001010128). The land use rights of the property and title of the buildings erected thereon have been duly vested in Shanghai Yihe Longbai Hotel Limited on December 18, 2001.
 - (iv) In accordance with the PRC Laws, the term of land granted for the purpose of tourism shall not exceed 40 years. Thus, the term of land use rights of the property is only valid to the extent that it does not exceed 40 years and the Shanghai Yihe Longbai Hotel Limited may not use the property for a period of more than 40 years from the date on which the Shanghai State-owned Land Use Certificate was issued (in January 1991) without paying an additional land premium.
 - (v) Subject to the encumbrances and charging order as described below, Shanghai Yihe Longbai Hotel Limited is only entitled to sell, transfer, assign or lease the property or any part of it to domestic or overseas companies or persons without paying any additional land premium to the Shanghai Housing Land and Resources Administrative Bureau.

- (vi) A Charge was registered on April 16, 2003 over the property by Shanghai Yihe Longbai Hotel Limited as the chargor and borrower in favour of the Liuli Lender (the “Charge”). The Liuli Lender applied to the No. 1 Court for enforcement of the Loan when Shanghai Yihe Longbai Hotel Limited defaulted in repaying the Loan and the interest in arrear. The No. 1 Court gave an enforcement notice (the “Enforcement Notice”) in favour of the Liuli Lender on June 28, 2004. Pursuant to the Enforcement Notice, Shanghai Yihe Longbai Hotel Limited was obliged to repay the Loan and the interest in arrear by July 6, 2004; but again Shanghai Yihe Longbai Hotel Limited failed to fulfill the obligations under the Enforcement Notice. Therefore, the No. 1 Court issued an Order (the “Order”) on July 6, 2004 to the effect that the assets be attached, sold or disposed of by auction. In accordance with the PRC Laws, Shanghai Yihe Longbai Hotel Limited will be unable to transfer, assign, sell, let, charge or otherwise disposed of the property before the Order ceases to be effective. However, Shanghai Yihe Longbai Hotel Limited sought a declaration order from the No. 1 Court on July 5, 2004 that the Loan and the Charge be void. The Enforcement Notice was subsequently suspended by the No. 1 Court on December 23, 2004 except that attachment to the property and other assets of the Shanghai Yihe Longbai Hotel Limited is still valid. However, the No. 1 Court handed down a judgment against the Shanghai Yihe Longbai Hotel Limited and the company has not lodged an appeal against the said judgment within the time limit. Therefore, the suspension of the Order ceased to be effective on March 7, 2005 and enforcement of the Order was then resumed. Up to the date of the last land search (i.e. July 14, 2005), the property has been attached by the No. 1 Court pending the proceedings taken by the Liuli Lender and Shanghai Yihe Longbai Hotel Limited.
- (vii) Under the PRC Laws, Shanghai Yihe Longbai Hotel Limited will be unable to transfer, assign, sell, let, charge or dispose of the property without consent of the Liuli Lender before deregistration of the said charge.
7. We have based on the legal opinion and prepared our valuation on the following assumptions:-
- (i) The Company possesses a proper legal title of the property and is entitled to transfer the property with the residue term of its land use rights with no extra land premium or other payment of substantial amount payable to the Government.
- (ii) All land premium and costs of ancillary utilities services have been settled in full.
- (iii) The design and construction of the development are in compliance with the local planning regulations and have been approved by the relevant Government authorities.
- (iv) The property is subject to the Charging Court Notices mentioned in Note 5 above. In the course of our valuation, we have assumed that the property is free from these Notices and can be freely transferred, sold or disposed of in the market.
- (v) As the term of land granted for the purpose of tourism shall not exceed 40 years according to the PRC Law, we have taken the PRC Lawyer’s legal opinion and assumed that the term of land use right commenced from January 1991 and it will expire on December 2030.

8. The status of title and grant of major approvals and licences in accordance with the information provided by the Group and the opinion of PRC lawyer are as follows:

Real Estate Title Certificate	Yes
Certificate for the Use of State-owned land	N/A
Grant Contract of Land Use Rights	Yes
Red-line Drawing	N/A
Permit for Construction Land	N/A
Planning Permit for Construction Works	N/A
Permit for Oversea Sales	N/A
Business Licence	Yes

9. For examining the material factor affecting the market value of the subject property as at July 31, 2005, the PRC lawyer had brought up the issue of the 40 year rule for land granted for tourism so that the term of land use right will be expired on December 2030. The owner of the hotel has only 25 more years to run before premium will have to be paid to the government. The premium is expected to be quite substantial.

Group II – Property interest held by the Group for future development in the PRC

Property	Description and Tenure	Particulars of Occupancy	Market Value as at July 31, 2005
3. Lot No. 26 in Hongqiao Town Minhang District Shanghai The People's Republic of China	<p>The property comprises a parcel of land with a total site area of approximately 96,317 square meters (1,036,756.18 square feet) which is permitted for residential use and with the total gross floor area of approximately 105,948.70 square meters (1,140,431.80 square feet) for future development.</p> <p>The property is granted for a term of 70 years from March 8, 1996 to March 7, 2066.</p>	The property is currently vacant	RMB362,000,000

Notes:

- Pursuant to Shanghai Real Estate Title Certificate (上海市房地產權証), 滬房地市字(1996) No. 100239 dated December 18, 1996 issued by the Shanghai Housing Land and Resources Administrative Bureau, the land use right of the property, having a site area of approximately 96,317 sq.m. was vested with Shanghai Hongxin Real Estate Development Co., Ltd. (上海宏興房地產發展有限公司).
- As confirmed by the Group, Shanghai Hongxin Real Estate Development Co., Ltd. is a wholly-owned subsidiary of the Company.
- Pursuant to a Contract for Grant of State-owned Land Use Rights 滬土(1992) No. 204 ("Grant Contract") and a supplementary document 滬房地資用(2002) No. 499 ("Supplementary Document") respectively dated December 30, 1992 and September 5, 2002 and issued by the Shanghai Housing Land and Resources Administrative Bureau, Shanghai Hongxin Real Estate Development Co., Ltd (上海宏興房地產發展有限公司) was granted a land use rights term of 70 years for residential land located at Lot No. 26 in Hongqiao Town, Minhang District, with a site area of approximately 114,585 square meters (1,233,392.94 square feet). The development conditions stipulated in the Grant Contract and the Supplementary Document include, inter alia, the followings:

Planning Use:	Residential
Plot Ratio:	1.1
Set Back:	No buildings could be erected within 5 meters of the site boundary
Car Parking Space:	Providing sufficient car parking spaces
Building Covenant:	Completion on or before December 31, 2005

4. A survey was conducted in the vicinity of the site for obtaining sales transactions at the Minhang District. Prices were transacted at a range of around RMB8,500 to 10,000 per square meter, particularly for the “Shang Fu Garden” which is located at the opposite side of the subject site at Wu Chung Road. We have adjusted our subject site upwards to reflect the better quality of our proposed gross development value at a range of RMB8,800 to 10,077 per square meter from low to high floor spread.

The estimated gross development value of the proposed development when completed is in the sum of RMB1,161,300,000 (including residential units of about RMB998,540,000 and car parks about RMB162,760,000). Based on the report of the independent quantity surveyor (i.e. Levett and Bailey), the total construction cost of the proposed development is for the amount of RMB349,640,000, professional fee is estimated RMB22,730,000, agency and legal fees is estimated RMB23,230,000, interest charges is estimated RMB66,980,000, contingency allowed RMB5,580,000 and developer's profit RMB191,600,000. The development period is estimated to be 4 years.

5. The property is subject to a mortgage/loan in favour of Suijidadao Branch of Shanghai Pudong New District Rural Credit Cooperative Union (上海市浦東新區農村信用合作社聯合社世紀大道分社) (the “Shijidadao Lender”) at the consideration of RMB300,000,000 for a term from March 27, 2003 to March 26, 2004 (the “Loan”).
6. The property is subject to two sealed charging orders in favour of Shanghai No. 1 Intermediate Court (上海市第一中級人民法院) (the “No. 1 Court”) dated July 7, 2004 and February 22, 2005 respectively.
7. We have been provided with a legal opinion regarding the property interest by the Company's PRC lawyer, including but not limited to the following:
 - (i) The property is a piece of land with a site area of 96,317 square meters and is approved to be developed for residential use with a plot ratio of 1.1. The permissible gross floor area of the property should not exceed 105,948.70 square meters.
 - (ii) The Contract for Grant of State-owned Land Use Rights is unconditional, valid, enforceable and legally binding on the related parties.
 - (iii) Shanghai Hongxin Real Estate Development Co. Ltd. obtained a Shanghai Real Estate Title Certificate (Hu Fang Di Shi Zi [1996] No. 100239). The title of the Property was duly vested in Shanghai Hongxin Real Estate Development Co., Ltd. on March 8, 1996.
 - (iv) Upon the notice issued by the Shanghai Housing Land and Resources Administrative Bureau to Shanghai Hongxin Real Estate Development Co., Ltd. on September 5, 2002, the time limit for Shanghai Hongxin Real Estate Development Co., Ltd. to complete the construction work of the property has been extended to December 31, 2005. Before commencement of construction work of the property, Shanghai Hongxin Real Estate Development Co., Ltd. is required to obtain a Construction Land Planning Permit (建設用地規劃許可証) and Construction Work Planning Permit (建設工程規劃許可証) and the main contractor engaged by Shanghai Hongxin Real Estate Development Co., Ltd. must obtain a Construction Licence (建設工程施工許可証). As Shanghai Hongxin Real Estate Development Co., Ltd. has not yet commenced the construction work of the property, the said permits has not been obtained.
 - (v) Under the PRC Laws, the Shanghai Housing Land and Resources Administrative Bureau is not allowed to forfeit the Land use rights prior to expiry of the term of 70 years provided that the title of the Land has been duly vested in Shanghai Hongxin Real Estate Development Co., Ltd., except on ground of public interest. If this happens, the power to requisition the land use rights granted to Shanghai Hongxin Real Estate Development Co., Ltd. will be exercised and compensations be provided.

- (vi) A Charge was registered on May 9, 2003 over the property by Shanghai Hongxin Real Estate Development Co., Ltd as the chargor and borrower in favour of the Lender (the “Charge”). The Shijidadao Lender applied to the No. 1 Court for enforcement of the Loan when Shanghai Hongxin Real Estate Development Co., Ltd. defaulted in repaying the Loan and the interest in arrear. The No. 1 Court gave an enforcement order (the “Enforcement Notice”) in favour of the Shijidadao Lender on June 28, 2004. Pursuant to the Enforcement Notice, Shanghai Hongxin Real Estate Development Co., Ltd. was obliged to repay the Loan and the interest in arrear by July 6, 2004; but again Shanghai Hongxin Real Estate Development Co., Ltd. failed to fulfill the obligations under the Enforcement Notice. Therefore, the No. 1 Court issued an Order (the “Order”) on July 7, 2004 to the effect that the property be attached, sold or disposed of by auction. In accordance with the PRC Laws, Shanghai Hongxin Real Estate Development Co., Ltd. will be unable to transfer, assign, sell, let, charge or otherwise disposed of the property before the Order ceases to be effective. However, Shanghai Hongxin Real Estate Development Co., Ltd. sought a declaration order from the No.1 Court on July 12, 2004 that the Loan and the Charge be void. The Enforcement Notice was subsequently suspended by the No. 1 Court on December 23, 2004 except that attachment to the property and other assets of the Shanghai Hongxin Real Estate Development Co. Ltd. is still valid. However, the No. 1 Court handed down a judgment against the Shanghai Hongxin Real Estate Development Co. Ltd. and the company has not lodged an appeal against the said judgment within the time limit. Therefore, the suspension of the Order ceased to be effective on March 7, 2005 and the enforcement of the Order was resumed.
- (vii) Under the PRC Laws, Shanghai Hongxin Real Estate Development Co. Ltd. will be unable to transfer, assign, sell, let, charge or dispose of the property, without consent of the Shijidadao Lender before deregistration of the said Charge.
8. We have based on the legal opinion prepared our valuation on the following assumptions:
- (i) The residential use of the Land would be continued for the unexpired term as permitted in the Grant Contract and there is no further need to pay any additional premium/penalty fee. The Shanghai Housing Land and Resources Administrative Bureau will not exercise its right of re-entry or power to requisition the land use rights in this regard.
- (ii) The Group possesses a vested legal title of the property and is entitled to transfer the property with the residue term of its land use rights with no extra land premium or other payment of substantial amount payable to the Government.
- (iii) All land premium and cost of ancillary utilities services have been settled in full.
- (iv) The property is subject to the Charging Court Orders mentioned in Note 6 above. In the course of our valuation, we have assumed that the property is free from these Orders and can be freely transferred, sold or disposed of in the market.
9. The status of title and grant of major approvals and licences in accordance with the information provided by the Group and the opinion of PRC Lawyer are as follows:–
- | | |
|---|-----|
| Real Estate Title Certificate | Yes |
| Certificate for the Use of State-owned land | N/A |
| Grant Contract of Land Use Rights | Yes |
| Red-line Drawing | N/A |
| Permit for Construction Land | N/A |
| Planning Permit for Construction Works | N/A |
| Permit for Oversea Sales | N/A |
| Business Licence | Yes |

10. As the valuation has been prepared by residual method of valuation, the following warning statement should be noted :

“The valuation arrived at has not been determined by reference to comparable market transactions which is the most reliable method for valuing property assets and the most common method used for valuing properties in Hong Kong. In contrast, because of the lack of comparable market transactions in the locality in which the subject property is situated this valuation has used the residual method which is generally acknowledged as being a less reliable valuation method. The residual method is essentially a means of valuing land by reference to its development potential by deducting costs and developer’s profit from its estimated completed development value. It relies upon a series of assumptions made by the valuer which produce an arithmetical calculation of the expected current sale value as at a particular date of a property being developed or held for development or redevelopment. Where the property is located in a relatively under-developed market such as PRC those assumptions are often based on imperfect market evidence. A range of values may be attributable to the property depending upon the assumptions made. While the valuer has exercised its professional judgment in arriving at the value, investors are urged to consider carefully the nature of such assumptions which are disclosed in the valuation report and should exercised caution in interpreting the valuation report.”

11. For examining the factors affecting the market value of the subject property as at July 31, 2005, material factors includes increased interest rates, central government’s introduction of macro-policies since May, 2005 on controlling property prices, taxation on short term capital gain/profit, falling property market trend, increasing risk involved in the development project which is reflected in rising expectations on developer’s profit and falling land accommodation values.

**SHANGHAI WUZHONG ROAD MINHANG DISTRICT
RESIDENTIAL DEVELOPMENT PROJECT**

CONSTRUCTION ESTIMATED BUDGET

July 2005
No. PP066a-5

Estimated Budget Segment Overview

(Price in July 2005)

Site Area = 96,317 m²Total Covering Floor Area 116,544 m²

Project	Estimated Budget Amount (million RMB)	Cost per sq. meter (Total Covering Floor Area)
A. Geographic Survey	0.58	5
B. Foundation and Underground Construction	58.27	500
C. Underground Car Park (Assumed to be one floor)	44.29	380
D. Residential Building	186.47	1,600
E. Club House	13.99	120
F. Exterior Construction & Greening	18.65	160
G. Basic Required Expenses	17.48	150
H. Unforseeable Expenses	9.91	85
Total (A to H)	<u>349.64</u>	<u>3,000</u>

Scale of Estimated Budget

1. This estimated budget includes general construction contracts with the following construction works:
 - (a) Geographic Survey
 - (b) Foundation and Underground Construction
 - (c) Structural Framework and General
 - (d) Water Supply, Drainage Gas Systems and Installation work
 - (e) Fire System
 - (f) Electronic Lighting System
 - (g) Security System
 - (h) Electricity Support System
 - (i) Ventilation and Air-Conditioning System
 - (j) Elevator System
 - (k) Swimming Pool Circulation and Heating System
 - (l) Mechanical Car Parking System
 - (m) Kitchen Facilitation and Installation
 - (n) Furniture and Facility in Club House
 - (o) Outdoor Construction and Greening
 - (p) Basic Required Expenses
2. This estimated budget does not include the following:
 - (a) Site Leveling Recovery Migration Expenses (if any)
 - (b) Removal of Existing Building, Clearance of Site
 - (c) Residential Furniture and Electronic Appliances
 - (d) Sample Room, Sales and Marketing and Advertising Expenses
 - (e) Artistic Finishing and Paintings

- (f) Civil air defence Facilities
 - (g) the alternations of the existing facilities and pipes (if necessary)
 - (h) construction cost on works beyond red-line and the connections of municipal ancillary facilities and add-on expenses
 - (i) change of exchange rates
 - (j) pre-operating expenses
 - (k) financial and legal costs
 - (l) design and all expertise companies and on-site staff expenses
 - (m) import tax on imported materials
 - (n) land price (site expenses)
 - (o) fees and taxes charged by relevant local units
 - (p) water treatment system
3. This estimated budget has been prepared based on the prices as in July 2005. Staff and material prices and change in foreign exchange rates is excluded from this estimated budget from the date hereof to official tender date. This budget assumes that the said project is undertaken by local contractors and attempts to use construction materials produced or purchased from local market, except otherwise as those stated.
 4. This budget has been prepared based on the information provided by A. G. Wilkinson & Associates on 19 July 2005.
 5. This budget assumes that the municipal ancillary facilities beyond red-line are undertaken by the relevant unit. There are sufficient power supply, gas, telephone lines, water pipelines, drainage and drainage for rain for this development.
 6. The structures and outdoor works and greening are estimates of Levette which could be used as a indicator for preliminary budget. Upon the completion of the design of the unit, a more detailed budget will be formulated for verification.
 7. Electrical and mechanical projects are also estimates of Levette which are subject to verification by the electrical and mechanical design unit.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company.

The information contained in this circular is supplied by the Company. The Receivers jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, their opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date is as follows.

<i>Authorised share capital</i>	<i>HK\$</i>
40,000,000,000 ordinary shares of HK\$0.50 each	<u>20,000,000,000.00</u>
<i>Issued and fully paid shares</i>	
3,051,438,765 ordinary shares of HK\$0.50 each	<u>1,525,719,382.50</u>

3. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) notifiable to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which are required, pursuant to the Model Code for

Securities Transactions by Directors of Listed Companies (“Model Code”), to be notified to the Company and the Stock Exchange were as follows:

Long positions in the shares of the Company and its associated corporations

Name of Directors	The Company/ Name of associated corporations	Nature of interest	Capacity	Number of Shares held	Approximate percentage of the issued share capital of the Company/ associated corporations
Mr Chau (Note 1)	The Company	Corporate interest	Beneficial owner	2,288,521,317	75%
Tan Lim Heng	The Company	Personal interest	Beneficial owner	14,840,000	0.49%
Mr Chau	New Nongkai (Note 2)	Personal interest	Beneficial owner	1	100%

Notes:

- (1) Mr Chau was deemed by virtue of his beneficial holding of the entire issued share capital of New Nongkai to be beneficially interested in the total of 2,288,521,317 Shares which were charged by New Nongkai in favour of BOCHK and were largely held for the account of BOC (HK) Nominees as the nominee of BOCHK. These interests were detailed and duplicated with the interests as shown in the paragraph “Substantial shareholders’ and other persons’ interests in securities of the Company”.
- (2) New Nongkai was the ultimate holding company of the Company as at the Latest Practicable Date.

Save as disclosed in this circular, as at the Latest Practicable Date:

- (a) none of the Directors or chief executive of the Company had any interest or short position in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) notifiable to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which are required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange;
- (b) none of the Directors, Tai Fook, AG Wilkinson or DTZ Debenham had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group since 30 June 2004, being the date of the Company’s latest published audited accounts, or proposed to be so acquired, disposed of or leased;
- (c) there is no contract or arrangement subsisting at the date of this circular in which any

of the Directors is materially interested and which is significant in relation to the business of the Group; and

- (d) Tai Fook, AG Wilkinson or DTZ Debenham does not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

4. SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SECURITIES OF THE COMPANY

As at the Latest Practicable Date, so far as is known to, or can be ascertained after reasonable enquiry by the Receivers, the following persons, had, or were deemed or taken to have interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Long positions in the Shares

Name of the person/ Company Name	Notes	Nature of interest	Capacity	Number of Shares held	Approximate percentage of the issued share capital of the Company
New Nongkai	1	Corporate interest	Beneficial owner	2,288,521,317	75%
Mr Chau	1 & 2	Corporate interest	Beneficial owner	2,288,521,317	75%
BOC (HK) Nominees	1	Corporate interest	BOCHK's nominee	2,288,521,317	75%
BOCHK	1	Corporate interest	Security interest	2,288,521,317	75%
BOC Hong Kong (Holdings) Limited ("BOC Holdings")	1	Corporate interest	Interest of controlled corporations	2,288,521,317	75%
BOC Hong Kong (BVI) Limited ("BOC BVI")	1	Corporate interest	Interest of controlled corporations	2,288,521,317	75%
BOC Hong Kong (Group) Limited ("BOC Group")	1	Corporate interest	Interest of controlled corporations	2,288,521,317	75%
Bank of China ("BOC")	1	Corporate Interest	Interest of controlled corporations	2,288,521,317	75%

Notes:

- (1) The above references to 2,288,521,317 Shares relate to the same block of Shares. The total of 2,288,521,317 Shares were charged by New Nongkai in favour of BOCHK and were largely held for the account of BOC (HK) Nominees as the nominee of BOCHK. On 2 December 2003, the Company received three notices pursuant to Section 324 of Part XV of the SFO from BOCHK, BOC Holdings and BOC respectively. According to such notices, BOC (HK) Nominees was wholly-owned by BOCHK, which in turn was wholly-owned by BOC Holdings. BOC Holdings was owned as to 75.98% (as at 10 November 2003) by BOC BVI, which was a wholly-owned subsidiary of BOC Group which in turn was wholly-owned by BOC. Accordingly, BOCHK, BOC Holdings, BOC BVI, BOC Group and BOC were deemed to be interested in 2,288,521,317 Shares held by BOC (HK) Nominees under Part XV of the SFO.
- (2) Mr Chau was deemed to be beneficially interested in the total of 2,288,521,317 Shares held by New Nongkai by virtue of his beneficial holding of the entire issued share capital of New Nongkai.

Save as disclosed in this circular, as at the Latest Practicable Date, the Receivers are not aware of any other persons (other than the Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

4. INTERESTS IN ASSETS

As at the Latest Practicable Date, none of the Directors has any direct or indirect interests in the assets of the Company since 7 June 2003 when the Company came under receivership.

5. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors had any interests which compete or likely to compete with the contemplated transactions under the Settlement Proposal.

6. NO MATERIAL ADVERSE CHANGE

Save as disclosed in this circular, the Receivers are not aware of any material adverse change in the financial or trading position or contingent liabilities of the Company since the issuance of the Interim Report for the six months ended to 31 December 2004.

7. MATERIAL CONTRACTS

The Company has been under receivership since 7 June 2003 and there were no material contracts entered into by any member of the Group since that date.

8. LITIGATION

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

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

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

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

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

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

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

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

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

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

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

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

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 was to be heard in January 2005.

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

At the hearing on 18 October 2004, the Court gave further directions and adjourned the hearing to 10 November 2004. At the four-day hearing commenced on 10 November 2004, the Court ordered, among other things, that the Default Judgment be set aside and the Receivers' appointment as joint and several receivers of Chau's Assets be discharged but the discharge should not take effect until the adjourned hearing scheduled for 21 February 2005 (the "February 2005 Hearing") and that no steps were to be taken on Chau's Assets until further order.

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

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

- (i) no order be made in respect of the application on 22 September 2004 for a Mareva Injunction order against Mr Chau and the appointment as receivers in aid of the Mareva Injunction;

- (ii) the discharge of the Receivers' appointment as joint and several receivers of Chau's Assets pursuant to the 28 August 2003 Order shall take immediate effect;
- (iii) the costs of the Summons filed on 15 July 2004 by the Solicitors for setting aside the Default Judgment and the 28 August 2003 Order be adjourned to a date to be fixed; and
- (iv) certain conditions being stipulated regarding High Court Action No. 200 of 2004. (*The Company is not a party to High Court Action No. 200 of 2004.*)

On 7 April 2005, the amended Statement of Claim was served on Mr Chau. On the same date, Ms Mo was ordered to be added to as the 2nd Defendant in the action. On 8 April 2005, the amended Writ of Summons and the amended Statement of Claim were served on Ms Mo. Acknowledgment of Service of the amended Writ of Summons was filed by Ms Mo's solicitors on 21 April 2005.

Extensions of time for Mr Chau and Ms Mo to file their respective Defence were agreed. The time for filing their respective Defence expired on 12 July 2005.

(b) Actions to recover HK\$53,157,294 from Great Center

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

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 approximately 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 circular.

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.

(c) Legal actions relating to Longbai

On 28 June 2004, a Summons was served on Longbai by the Intermediate Court requiring Longbai or its respective attorney to appear at the hearing held on 6 July 2004. The hearing was in relation to an enforcement application by Shanghai Pudong New District Liuli Rural Credit Cooperative Union (上海市浦東新區六裏農村信用合作社) (“Liuli SRCC”) against Longbai regarding the loan of RMB350,000,000 purportedly made by Liuli SRCC to Longbai (the “Longbai Purported Loan”) pursuant to a loan agreement dated 11 April 2003 and the accompanying security agreement dated 11 April 2003 entered into between Liuli SRCC and Longbai (the “Longbai Purported Loan Agreements”).

On 19 November 2004, a judgment was issued by the Intermediate Court ruling that, among other things, the Longbai Purported Loan Agreements were legally binding, the Intermediate Court did not support Longbai’s application for the invalidation of the Longbai Purported Loan Agreements and the 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, which had already been paid, of approximately RMB1,760,000.

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

Longbai continues to own Hotel Longbai and might lose its ownership should Liuli SRCC resume its enforcement action against Longbai pursuant to the Longbai Purported Loan Agreements.

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.

(d) Legal actions relating to Hongxin

On 28 June 2004, a Summons was served on Hongxin by the Intermediate Court requiring Hongxin or its respective attorney to appear at the hearing held on 6 July 2004. The hearing was in relation to an enforcement application by Shijidadao Branch of Shanghai Pudong New District Rural Credit Cooperative Union (上海市浦東新區農村信用合作社聯合社世紀大道分社) (“Shijidadao SRCC”) against Hongxin regarding the loan of RMB300,000,000 purportedly made by Shijidadao SRCC to Hongxin (the “Hongxin Purported Loan”) pursuant to a loan agreement dated 27 March 2003 and the accompanying security agreement dated 27 March 2003 entered into between Shijidadao SRCC and Hongxin (the “Hongxin Purported Loan Agreements”).

On 17 November 2004, a judgment was issued by the Intermediate Court ruling that, among other things, the Hongxin Purported Loan Agreements were legally binding, the Intermediate Court did not support Hongxin's application for the invalidation of the Hongxin Purported Loan Agreements and the 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, which had already been paid, of approximately RMB1,510,000.

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

Hongxin continues to own the Hongxin Land and might lose its land use right in respect of the Hongxin Land should Shijidadao SRCC resume its enforcement action against Hongxin pursuant to the Hongxin Purported Loan Agreements.

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.

(e) 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 Holdings Limited to maximise the recovery of the debt under the Default Judgment. In response to the announcement, Sun Hung Kai & Co. Limited ("SHK"), Sun Tai Cheung Credits Limited ("STCC") and SHKIS instituted a libel action against the Receivers, the Company and two newspaper publishers on 7 February 2004. Together with the Company, the Receivers filed a Defence on 2 April 2004 and SHK, STCC and SHKIS filed a Reply on 30 April 2004. No further steps have been taken by SHK, STCC and SHKIS in that action since then.

(f) Action to recover HK\$735,000,000 from Mr Chau and other parties under High Court Action No. 879 of 2005

On 12 May 2005, the Company and its wholly-owned subsidiaries, King Success and China Horizon Limited, commenced legal proceedings against Mr Chau, Ms Mo, New Nongkai, Ms Yu Kwo, Mr Siu Yim Wah, Mr Yu Ling, Mr Lee Deng Charng and Ms Gong Bei Ying, Angela. The Company's and its subsidiaries' claims are related to the acquisitions of the respective entire issued share capital in and the respective shareholders' loans to Eastar, Hip Yick and Bowyer, which directly or indirectly own three properties in Shanghai, the PRC and the subsequent borrowing and advancement of the Longbai Purported Loan and the Hongxin Purported Loan.

The Writ of Summons has been served on Ms Mo, New Nongkai, Ms Yu Kwo, Mr Siu Yim Wah, Mr Yu Ling, Mr Lee Deng Charng and Ms Gong Bei Ying, Angela. Acknowledgments of Service of the Writ of Summons have been filed by the respective solicitors acting for Ms Mo, Mr Siu Yim Wah, Mr Lee Deng Charng and Ms Gong Bei Ying, Angela.

9 SUFFICIENCY OF WORKING CAPITAL

No audit has been prepared for the Group for the year ended 30 June 2005. The Settlement Deed was entered into on 5 July 2005 which involves, among other things, a members' voluntary winding-up of the Company, the settlement of liabilities and claims and the return of the Company's assets to the Shareholders.

It is considered that for the purpose of preparing this circular for the implementation of the Settlement Proposal, it would be more appropriate for the Shareholders to assess the assets of the Company, ensuring that the Company is solvent for the purpose of the winding-up and there are sufficient assets for the distribution as stipulated in the Settlement Deed.

An Independent Assurance Report was prepared by the Company's auditors, Nexia Charles Mar Fan & Co. to obtain a reasonable assurance on the net realisable value of the Company other than the interests in subsidiaries. A copy of the Independent Report is set out in Appendix II.

The Company is solvent as at 30 June 2005 with net assets amounting to not less than HK\$1,157 million comprising of cash and cash equivalents.

There is no requirement for working capital as the Company would be wound up and the assets, after settling liabilities and claims, returned to the Shareholders by way of distributions.

10. QUALIFICATIONS OF EXPERTS

The following are the qualifications of the professional advisers whose opinions or advice are contained or referred to in this circular.

Name	Qualification
Anglo Chinese	A corporation deemed licensed to carry on Types 1, 4, 6 and 9 regulated activities under the SFO
Tai Fook	A licensed corporation to carry on Type 6 regulated activity (advising on corporate finance) under the SFO
Nexia Charles Mar Fan & Co.	Certified Public Accountants
AG Wilkinson	Qualified property valuer
DTZ Debenham	Qualified property valuer
Hengtong & Co./Mr Wayne P.L. Lai	Qualified lawyer in the PRC

As at the Latest Practicable Date, none of the experts named above has any direct or indirect interest in any assets of the Company, or compete with the contemplated transactions of the Settlement Proposal.

11. CONSENTS

Each of the above experts has given and has not withdrawn its respective written consent to the issue of this circular with the inclusion of its letters and references to its names, as the case may be, in the form and context in which they appear.

12. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any service contract with the Company or any of its subsidiaries other than contracts expiring or determinable by the employer exceeding one year without the payment of compensation other than statutory compensation.

13. PROCEDURES FOR DEMANDING A POLL

Articles 75 to 79 of the Articles of Association of the Company set out the procedures under which a poll may be demanded.

At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:

- (a) by the Chairman of the meeting; or
- (b) by at least three shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorized representative) or by proxy for the time being entitled to vote at the meeting; or
- (c) by any Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorized representative) or by proxy and representing not less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the meeting; or
- (d) by a Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorized representative) or by proxy and holding Shares in the Company conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the Shares conferring that right.

14. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the registered office address of the Company at 18th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong up to and including 20 September 2005:

- (a) the Settlement Deed;
- (b) the letter from Tai Fook, the text of which is set out on pages 38 to 66 of this circular;

- (c) the Independent Assurance Report, the text of which is set out in Appendix II to this circular;
- (d) the letter from Anglo Chinese, the text of which is set out in Appendix IV to this circular;
- (e) the valuation reports, the text of which is set out in Appendix V to this circular; and
- (f) the written consent of the experts as referred to paragraph 11 above.

15. MISCELLANEOUS

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

NOTICE OF EXTRAORDINARY GENERAL MEETING



Shanghai Land Holdings Limited 上海地產控股有限公司

(Receivers Appointed)

(Incorporated in Hong Kong with limited liability)

(Stock Code: 67)

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting of the Shareholders of Shanghai Land Holdings Limited (Receivers Appointed) (the “Company”) will be held at Grand Hyatt Hong Kong, 1 Harbour Road, Hong Kong on 20 September 2005 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following as special resolutions:

SPECIAL RESOLUTIONS BY INDEPENDENT SHAREHOLDERS VOTING BY WAY OF POLL

- (1) “**THAT** the terms of, and the Company’s execution and entry into the Settlement Deed be confirmed and/or ratified.”
- (2) “**THAT** the listing of the Shares of the Company on The Stock Exchange of Hong Kong Limited be withdrawn.”

SPECIAL RESOLUTIONS BY SHAREHOLDERS

- (3) “**THAT** the Company be wound up by way of a members’ voluntary winding-up pursuant to section 228(1)(b) of the Companies Ordinance (Cap.32).”
- (4) “**THAT** the Receivers of the Company be appointed as the Liquidators for the purposes of the winding-up of the Company.”
- (5) “**THAT** the Liquidators be authorised to exercise the powers contained in section 251 of the Companies Ordinance (Cap.32), including without limitation:
 - (a) to pay any classes of creditors in full;
 - (b) to make any compromise or arrangement with creditors or persons claiming to be creditors, or having or alleging themselves to have any claim, present or future, certain or contingent, ascertained or sounding only in damages against the Company, or whereby the Company may be rendered liable;
 - (c) to compromise all calls and liabilities to calls, debts, and liabilities capable of resulting in debts, and all claims, present or future, certain or contingent, ascertained or sounding only in damages, subsisting or supposed to subsist between the Company and a contributory, or alleged contributory, or other debtor or person apprehending liability to the Company, and all questions in any way relating to or affecting the assets or the winding up of the Company, on such terms as may be agreed, and take any security for the discharge of any such call, debt, liability or claim, and give a complete discharge in respect thereof; and
 - (d) convene general meetings of the Company for the purpose of obtaining the sanction of the Company by special resolution or for any other purpose they may think fit.”

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (6) “**THAT** the remuneration of the Liquidators be approved pursuant to section 235(1) of the Companies Ordinance (Cap.32), and that a capped reserve of HK\$36 million be set aside by the Liquidators out of the Company’s Distributable Assets for the payment of the costs and expenses of the Company including receivership and winding-up expenses.”
- (7) “**THAT** in the event that the costs and expenses of the Company including receivership and winding-up expenses are less than HK\$36 million, BOC (HK) Nominees and NNGI agree to waive their entitlement to the pari passu distribution over any surplus which shall then be distributed only among the Minority Shareholders in proportion to their respective shareholdings in the Company.”
- (8) “**THAT** the requirement to audit the Liquidators’ statement of receipts and payments be dispensed with pursuant to section 255A of the Companies Ordinance (Cap.32).”
- (9) “**THAT** the Liquidators be authorised to divide amongst the members in specie or in kind the whole or any part of the assets of the Company (whether they consist of property of the same kind or not) in accordance with the terms of the Settlement Deed and these resolutions.”
- (10) “**THAT** subject to the provision for or payment or discharge of all debts and liabilities of the Company (save for payment of the costs and expenses of the Company including receivership and winding-up expenses), the Liquidators be authorised to distribute the Company’s Distributable Assets (where appropriate) as follows:
 - (a) the BOC (HK) Nominees Cash Distribution be declared in favour of BOC (HK) Nominees, and be paid to BOC (HK) Nominees;
 - (b) the Minority Shareholders Cash Distribution be declared and paid to the Minority Shareholders in proportion to the number of shares held by each Minority Shareholder;
 - (c) the BOC (HK) Nominees Non-Cash Distribution be declared in favour of BOC (HK) Nominees and be made, pursuant to the consent and direction of BOC (HK) Nominees, to NNGI PROVIDED ALWAYS THAT the instruments for effecting the BOC (HK) Nominees Non-Cash Distribution shall only be delivered to NNGI or the NNGI Receivers (as the case may be under clause 5.5 of the Settlement Agreement) after the Minority Shareholders Cash Distribution and the BOC (HK) Nominees Cash Distribution have been effected and delivered;
 - (d) to the extent that the BOC (HK) Nominees Non-Cash Distribution consists of claims or rights of action not capable of assignment, transfer, disposition or distribution, the Company and/or the Liquidators shall continue with proceedings in those claims or rights of actions, and that any proceeds from the realisation of those claims or rights of action shall form part of the BOC (HK) Nominees Non-Cash Distribution, and shall be declared and paid to BOC (HK) Nominees as and when they become available for distribution, PROVIDED THAT BOCHK and/or BOC (HK) Nominees undertake to pay and provide sufficient security for and indemnify the Company and the Liquidators against all further costs and expenses of and incidental to, and arising under such claims;

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (e) in the event that the Company's Cash Assets, after deduction of the capped reserve of HK\$36 million for the costs and expenses of the Company including receivership and winding-up expenses, are, or have an actual value that is, greater or less than HK\$1,124 million at the date immediately prior to the making of any distributions, the Minority Shareholders Cash Distribution and the BOC (HK) Nominees Cash Distribution shall be adjusted and made to the shareholders of the Company on a pari passu basis and in proportion to their respective shareholdings in the Company;
 - (f) in the event that the Company's Distributable Assets are or have an actual value that is greater or less than HK\$1,956 million (being the aggregate sum of the Company's Cash Assets and the BOC (HK) Nominees Non-Cash Distribution: HK\$1,160 million plus HK\$796 million) at the date immediately prior to the making of any distributions, the capped reserve of HK\$36 million as costs and expenses of the Company including receivership and winding-up expenses, and the value of the BOC (HK) Nominees Non-Cash Distribution (to which a notional value has been ascribed for the purposes of the Settlement Deed only) will not be subject to any adjustment as provided for in clause 4.4.6 of the Settlement Deed;
 - (g) in the event that the Liquidators are able to recover or realise assets that are neither part of the BOC (HK) Nominees Cash Distributions, the Minority Shareholders Cash Distribution, nor the BOC (HK) Nominees Non-Cash Distribution, such assets (or the proceeds from the realisation thereof) shall be distributed to the shareholders of the Company on a pari passu basis and in proportion to their respective shareholdings in the Company, and to the extent those assets are not capable of realisation or distribution, they shall be written off as part of the winding-up of the Company; and
 - (h) in the event that the Company and/or the Liquidators are unable to lawfully effect the BOC (HK) Nominees Cash Distribution or the Minority Shareholders Cash Distribution by 31 December 2005, the Parties shall be relieved of all further obligations under the Settlement Deed."
- (11) "THAT the Liquidators otherwise perform and discharge their and the Company's duties and obligations under the Settlement Deed."

Yours faithfully,
For and on behalf of
Shanghai Land Holdings Limited
(Receivers Appointed)
Stephen Liu Yiu Keung
Yeo Boon Ann
Joint and Several Receivers

Hong Kong, 27 August 2005

Registered office:
18/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong

NOTICE OF EXTRAORDINARY GENERAL MEETING

For the purpose of the above resolutions, the following terms shall have the following meanings:

“BOCHK”	Bank of China (Hong Kong) Limited, the provider of the Facility to New Nongkai, the principal business of which is the provision of banking and related financial services, who is also a connected person of the Company by virtue of it being a Substantial Shareholder of the Company (according to the notice dated 2 December 2003 filed by BOCHK with the Company pursuant to section 324 of Part XV of the Securities and Futures Ordinance)
“BOC (HK) Nominees”	Bank of China (Hong Kong) Nominees Limited, a wholly-owned subsidiary of BOCHK and the registered holder of approximately 75% of the issued share capital of the Company, the principal business of which is nominee services, who is a connected person by virtue of it being a substantial shareholder of the Company (according to the notice dated 2 December 2003 filed by BOCHK with the Company pursuant to section 324 of Part XV of the Securities and Futures Ordinance)
“BOC (HK) Nominees Cash Distribution”	HK\$644 million (Hong Kong Dollars six hundred and forty-four million), which shall be paid to BOC (HK) Nominees from the winding-up of the Company, or to such other party as BOC (HK) Nominees may so direct subject to adjustment if necessary
“BOC (HK) Nominees Non-Cash Distribution”	the proceeds of the Chau Claim (if any) or any right to receive the same (if assignable), the Great Center Claim and the entire issued share capital of Capital Sky Limited, which wholly owns King Success Holdings Limited which in turn, wholly-owns, inter alia, the entire issued shares in and the respective shareholders loans to the BVI Subsidiaries at an ascribed notional value of HK\$796 million, of which HK\$735 million represents the acquisition costs of the three PRC properties and the balance represents the ascribed value to various claims, such value being irrevocably accepted by the Primary Parties for the purposes of the Settlement Deed
“Bowyer”	Bowyer Profits Limited, a company incorporated in the British Virgin Islands and an indirectly wholly-owned subsidiary of the Company, which owns certain units and car-parking spaces in Jun Ling Plaza
“BVI Subsidiaries”	Bowyer, Hip Yick and Eastar
“Chau Claim”	a claim in the amount of US\$34.2 million (equivalent to approximately HK\$267 million) (plus interest and costs) against Mr Chau and Ms Mo made by the Company for the recovery of certain misappropriated funds

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“Company”	Shanghai Land Holdings Limited (Receivers Appointed), a company incorporated in Hong Kong and the shares of which are listed on the Main Board of the Stock Exchange
“Company’s Cash Assets”	all cash and cash equivalents belonging to the Company in the estimated sum of HK\$1,160 million as at 5 July 2005 which is inclusive of a HK\$36 million capped reserve for the costs and expenses of the Company including receivership and winding-up expenses
“Company’s Distributable Assets”	the Company’s Cash Assets and the BOC (HK) Nominees Non-Cash Distribution, being the assets of the Company agreed by the Parties to be distributed by the Liquidators upon its winding-up in accordance with the terms of the Settlement Deed
“Eastar”	Eastar Development Limited, a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of the Company, which, through China Honest Limited, owns 100% of Hongxin which in turn owns the Hongxin Land
“EGM”	the extraordinary general meeting to be convened and held to seek approval from the Shareholders for the Settlement Proposal, the winding-up of the Company and the withdrawal of listing of the Company from the Hong Kong Stock Exchange
“Great Center Claim”	a claim made by the Company in the amount of approximately HK\$53.2 million (plus interest and costs) against Great Center Limited (In liquidation) being money received by Great Center which belonged to the Company
“Hip Yick”	Hip Yick Profits Limited, a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of the Company, which owns 100% of Longbai which in turn owns Hotel Longbai
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Hongxin”	上海宏興房地產發展有限公司 (Shanghai Hongxin Real Estate Development Company Limited), a company established in the PRC and an indirect wholly-owned subsidiary of the Company, which owns Hongxin Land
“Hongxin Land”	a parcel of land situated at Lot Number 26, Wu Zhong Road, Hong Qiao Town, Minhang District, Shanghai, the PRC, which is held by Hongxin for development purposes

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“Hotel Longbai”	上海逸和龍柏飯店 (Hotel Yihe Longbai Shanghai), situated at 2451 Hong Qiao Road, Hong Qiao Region, Changning District, Shanghai, the PRC, which is being operated by Longbai
“Independent Shareholders”	Shareholders other than New Nongkai, BOC (HK) Nominees, BOCHK, Mr Chau, Ms Mo and their respective associates
“Liquidators”	the liquidators of the Company in a voluntary winding-up pursuant to section 228(1)(b) of the Companies Ordinance (Cap.32), in which case the Primary Parties shall use their best endeavours to procure that the Receivers be appointed as such liquidators
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Longbai”	上海逸和龍柏酒店有限公司 (Shanghai Yihe Longbai Hotel Limited), a company established in the PRC and an indirect wholly-owned subsidiary of the Company, which owns Hotel Longbai
“Minority Shareholders”	Shareholders other than New Nongkai and/or BOC (HK) Nominees
“Minority Shareholders Cash Distribution”	HK\$480 million (Hong Kong Dollar four hundred and eighty million) which shall be paid to the Minority Shareholders from the winding-up of the Company and which shall be adjusted if necessary
“Mr Chau”	Mr Chau Ching Ngai, the Chairman of the Company, who is a connected person of the Company
“Ms Mo”	Ms Mo Yuk Ping, the former general manager of the Company and understood to be the wife of Mr Chau, who is a connected person of the Company by virtue of her being an associate of Mr Chau
“New Nongkai”	New Nongkai Global Investments Limited (Receivers and Managers Appointed), a company wholly owned by Mr Chau, which is beneficially interested in approximately 75% of the issued share capital of the Company, the principal business of which is investment holding, who is a connected person by virtue of it being a substantial shareholder of the Company
“NNGI Receivers”	Mr Kennic Lai Hang Lui and Ms Ruby Mun Yee Leung, the joint and several receivers and managers of New Nongkai, who, to the best of the knowledge of the Receivers, are the connected persons (as defined in the Listing Rules) of the Company by virtue of being parties to the Settlement Proposal

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“Parties”	parties to the Settlement Deed, namely the Company, New Nongkai, BOCHK, BOC (HK) Nominees, the Receivers, the NNGI Receivers, Mr Chau and Ms Mo
“PRC”	The People’s Republic of China
“Primary Parties”	the Company, New Nongkai, BOCHK, BOC (HK) Nominees, the Receivers, the NNGI Receivers and Mr Chau
“Receivers”	Messrs Stephen Liu Yiu Keung and Yeo Boon Ann, the joint and several receivers of the Company, who are the connected persons (as defined in the Listing Rules) of the Company (save for their capacity as the Receivers) by virtue of being parties to the Settlement Proposal
“Settlement Deed”	a conditional settlement deed entered into on 5 July 2005 amongst the Company, New Nongkai, BOCHK, BOC (HK) Nominees, the Receivers, the NNGI Receivers, Mr Chau and Ms Mo in respect of the Settlement Proposal
“Settlement Proposal”	a settlement proposal which involves, among other things, the winding-up of the Company by way of a members’ voluntary liquidation, a distribution of the Company’s assets to its Shareholders and a settlement of claims
“Share(s)”	ordinary share(s) of HK\$0.50 each in the capital of the Company
“Shareholders”	the holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

Notes:

1. For the purpose of determining the entitlements to attend and vote at the Extraordinary General Meeting, the register of members of the Company will be closed from Wednesday, 14 September 2005 to Tuesday, 20 September 2005, both days inclusive, during which period no transfer of shares will be registered.
2. All transfers of shares, accompanied by the relevant share certificates and appropriate transfer forms, must be lodged with the Company’s Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong for registration not later than 4:00 p.m. on Tuesday, 13 September 2005. Only those shareholders whose names appear on the register of members on 20 September 2005 will be entitled to vote at the Extraordinary General Meeting.
3. A shareholder entitled to attend and vote at the Extraordinary General Meeting may appoint one or more proxies to attend and to vote on his behalf. A proxy need not be a shareholder of the Company.
4. In order to be valid, the form of proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of that power of attorney or authority must be deposited at the Company’s Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong not less than 48 hours before the time fixed for holding the Extraordinary General Meeting or any adjournment thereof.

As at the date of this circular, the Board comprises seven Directors. The executive Directors are Mr Chau Ching Ngai, Mr Jiang Dong Liang and Mr Mao Wei Ping. The non-executive Director is Mr Tan Lim Heng. The independent non-executive Directors are Mr Mok Chiu Kuen, Mr Ho Yau Hoo, Ronald and Mr Choi Man On.