

**LEGAL PROCEEDINGS AGAINST THE VENDOR OF EVER SURE INDUSTRIES LIMITED**

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On 14 December 2006, the Board of Directors of Pan Hong Property Group Limited ("**Pan Hong**" or the "**Company**") announced that Loerie Investments Limited ("**Loerie**"), a wholly owned subsidiary of the Company, had entered into a sale and purchase agreement (the "**Agreement**") with one Mr Liu Hong Shu (the "**Vendor**") in connection with the acquisition of a 90.0% interest in the entire issued and paid-up capital of Ever Sure Industries Limited ("**Ever Sure**") (the "**Acquisition**"). Pursuant to the Agreement, the legal completion date of this Acquisition is 31 August 2007.

In connection with the above, the Vendor has failed to fulfill his obligation to complete the Acquisition on 31 August 2007, the agreed completion date of the Acquisition. After seeking legal counsel in Hong Kong, Pan Hong is of the view that it has a strong legal case against the Vendor. Accordingly, the Company will be commencing legal proceedings in Hong Kong against the Vendor for breach of contract.

**Background on the Acquisition**

On 14 December 2006, Loerie entered into the Agreement with the Vendor for the Acquisition at a purchase consideration of about HK\$101.5 million (the "**Purchase Consideration**"), which was arrived at on a "willing-buyer, willing-seller" basis. The Agreement was sealed with the professional assistance of an international solicitor firm, Mallesons Stephen Jaques ("Mallesons").

Ever Sure is an investment company incorporated in Hong Kong. Its sole investment is a 100% interest in a PRC company, Beihai Southern Paradise Land Industries Development Co., Ltd (北海南国天堂房地产开发有限公司), which in turn owns four parcels of land in Beihai City, Guangxi Province in China (collectively the "**Property**"). Pan Hong plans to develop the Property, which has an aggregate land area of approximately 358,296 square metres and a planned gross floor area of approximately 381,000 square metres, into residential and commercial properties.

Upon signing of the Agreement, the Company paid the sum of HK\$30.0 million to the Vendor on 15 December 2006 as deposit and part payment of the Purchase Consideration.

Pan Hong was subsequently offered two seats, out of a total of three seats, on the Board of Directors of Ever Sure and its PRC subsidiary (collectively the "**Ever Sure Group**"). As the Company has accepted the appointments which resulted in the Company having the power to govern the financial and operating policies of Ever Sure Group so as to obtain benefits from their activities. Therefore, Ever Sure Group was considered by the directors of the Company as subsidiaries because Ever Sure Group is controlled by the Company since 31 March 2007. Accordingly, the financial statements of Ever Sure Group were included in Pan Hong's consolidated financial statements from 31 March 2007.

The Group recognized a substantial gain of approximately RMB 77.8 million in the first financial quarter ended 31 March 2007, arising from the difference between the Purchase Consideration of RMB 101.5 million and the net fair value of the assets acquired of RMB 179.3 million.

Indeed, since the Agreement was signed in December 2006, real estate values in Beihai have continued to appreciate fairly quickly over the first six months of 2007. According to a survey conducted by the National Development and Reform Commission and the National Bureau of Statistics, Beihai was found to be the leading city in property price increases, among China's 70 large and medium-sized cities, with a growth rate of 18.6% in July 2007.

Following its due diligence of Ever Sure, the Company has also sent a bank draft for the balance of the Purchase Consideration of approximately HK\$71.5 million to Mallesons on 28 August 2007.

### **Legal case against the Vendor**

Pan Hong has discharged all its obligations in accordance with the terms of the Agreement, which stipulated that the Acquisition was to be completed on 31 August 2007.

However, on 31 August 2007, the Vendor failed to fulfill his obligations under the Agreement, which required the transfer of legal ownership of 90.0% of the entire issued and paid-up capital of Ever Sure to Loerie.

Pan Hong's legal counsel in Hong Kong has advised that the Vendor does not have grounds to walk away from the transaction and has accordingly committed a material breach of the Agreement. Accordingly, the Company is of the view that it has a strong legal case against the Vendor to seek enforcement of specific performance of the Agreement and intends to commence legal proceedings against the Vendor in due course.

### **Financial effects**

Subject to the completion of statutory external auditing for the financial year ending 31 December 2007 ("FY2007"), there may be an impact on the Company's and Group's financial performance and net asset value for FY2007 if for any reason our claim against the Vendor is not successful or if specific performance of the Agreement is not granted to us by the courts in Hong Kong and damages awarded are not commensurate with the gain in value of the shares in Ever Sure or if it is subsequently determined (based on the International Financial Reporting Standards) that the Ever Sure Group should not be included for the purposes of the Company's and Group's financial reporting in view of the legal proceeding instituted.

The Company will issue updates on any material developments in respect of the above proceedings as and when appropriate

By Order of the Board  
Wong Lam Ping  
Executive Chairman

3 September 2007

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***For Media and Investor Relations enquiries, please contact:***

### **Octant Consulting**

Mr Herman Phua  
[herman@octant.com.sg](mailto:herman@octant.com.sg)  
Mobile 96647582  
Office 62202842

or  
Ms Lisa Heng  
[lisa@octant.com.sg](mailto:lisa@octant.com.sg)  
90909887