

Auditors' Report



鄭國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

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**TO THE MEMBERS OF
MANDARIN RESOURCES CORPORATION LIMITED**
(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 28 to 75 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors of the Company are responsible for the preparation of 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 statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants, 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 judgements 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 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.

Auditors' Report *(Continued)*

BASIS OF OPINION *(Continued)*

However, the evidence available to us was limited as follows:

1. As discussed in Note 17 to the financial statements, subsidiary not consolidated relates to the Group's 89% interest in Hebei Dezhi Industry Co., Ltd. ("Hebei"). The Group has been unable to exercise effective control since 1 July 1998 and the investment is stated in the consolidated balance sheet at the Group's attributable share of net assets amounting to HK\$17,172,219 as at that date. As explained in Note 18 to the financial statements, Hebei is included in the Company's balance sheet at cost as reduced by its decline in value that is other than temporary of HK\$17,220,000. However, in the absence of any financial information in respect of Hebei, the directors have been unable to determine the value of Hebei as at 30 June 2001.

In the absence of any financial information and reliable audit evidence, we have been unable to satisfy ourselves as to whether the investment in Hebei is properly stated and also whether the amount due to Hebei of HK\$26,275,476 as at 30 June 2001 is fairly stated.

2. As explained in Note 20 to the financial statements, investments in securities include investment in Maxview Enterprises Limited ("Maxview") in respect of which the Group has been unable to exercise any significant influence since 31 December 1998 and the investment is stated in the consolidated balance sheet at the Group's share of net assets amounting to HK\$5,998,534 as at that date and in the Company's balance sheet at cost less provision of HK\$5,878,500. However, in the absence of any financial information in respect of Maxview, the directors have been unable to determine whether there has been any diminution in value of Maxview since 31 December 1998 in respect of which further provision would be required in these financial statements.

In the absence of any financial information and reliable audit evidence, we have been unable to satisfy ourselves as to whether the investment in Maxview stated in the Balance Sheet at HK\$5,998,534 and the amount due to Maxview of HK\$4,015,875 as at 30 June 2001 is fairly stated.

Any adjustments found to be necessary to the figures in 1. and 2. above would have a consequential effect on the net assets of the Group and the Company as at 30 June 2001 and the loss of the Group for the year then ended.

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.

Auditors' Report *(Continued)*

QUALIFIED OPINION ARISING FROM LIMITATIONS IN AUDIT SCOPE

Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning the matters referred to above, in our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30 June 2001 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

In respect alone of the limitation on our work relating to the matters referred to above, we are unable to determine whether proper books of account had been kept.

HLB Hodgson Impey Cheng

Chartered Accountants

Certified Public Accountants

Hong Kong, 26 October 2001