

RSM Nelson Wheeler

Certified Public Accountants

羅申美會計師行

To the shareholders of

SINGAPORE HONG KONG PROPERTIES INVESTMENT LIMITED

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 25 to 77 which have been prepared in accordance with accounting principles generally accepted in Hong Kong except as further detailed below.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Hong Kong 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 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.

BASIS OF OPINION (continued)

We planned and performed 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 follows:

(1) Comparative figures

We draw your attention to the fact that the financial statements for the year ended 31 December 1999 were audited by another firm of accountants whose audit report stated they were unable to form an opinion on the financial statements due to the possible effect of the limitation in evidence available for audit purposes. Therefore, we are unable to express an opinion of the figures brought forward as at 1 January 2000 and the comparative figures included in these financial statements.

(2) Goodwill arising from acquisition of subsidiaries and associates

During the year the Group acquired certain subsidiaries and associates. These acquisitions generated goodwill on consolidation of HK\$358,427,000 based on unaudited management accounts (note 26). In accordance with the Group's accounting policy, goodwill arising on consolidation has been eliminated against reserves. Although some of the acquisitions were based on independent valuation reports, there were no financial due diligence procedures or audited financial statements at the dates of acquisition. We have been unable to carry out any audit procedures to ascertain the fair value of the identifiable assets and liabilities of the subsidiaries and associates. As a result we are unable to determine whether the goodwill figures arising from the above mentioned acquisitions are fairly stated. Any adjustment to the goodwill figures would have a consequential effect on the loss for the year and the movements on reserves.

Report of the Auditors'

BASIS OF OPINION (continued)

(3) Carrying Value of unconsolidated subsidiaries

Included in notes 14 and 17 to the financial statements is an investment in a hotel operation in Luoyang, People's Republic of China ("PRC") with a carrying value of HK\$110,000,000. Although the acquisition was based on an independent valuation report dated 14 June 2000 and supported by unaudited management accounts as at 6 September 2000, the date of acquisition, there were no audited financial statements either at the date of acquisition or at 31 December 2000. As stated in note 17(b)(III)(i) to the financial statements, audited financial statements of the related subsidiaries under the accounting principles generally accepted in Hong Kong are not yet available, although management accounts and a valuation report as at that date were made available to us. We are unable to determine whether the carrying value of the investments is fairly stated. Any adjustment to the carrying value would have a consequential effect on the loss for the year and the net assets of the Company and the Group at 31 December 2000.

(4) Investments in associates

As stated in notes 15(c) and (d) to the financial statements, the Group's beneficial ownership of two PRC associates, namely 北京中農網科技有限公司, 河南大東信息產業有限公司, are held through trust arrangements. Although the Group has obtained legal advice from PRC lawyers in respect of the trust arrangements, we are unable to determine whether the trust arrangements, and thus the Group's beneficial ownership are legally enforceable in the PRC.

(5) Costs incurred for acquisition and disposal of subsidiaries and associates

During the year the Group incurred costs relating to procurement of utility projects in the PRC and acquisition/disposal of certain subsidiaries/associates of HK\$12,100,000 and HK\$16,540,000 respectively. We have not been able to determine the reasonableness of these costs. Any adjustments to these figures would have a consequential effect on the loss for the year, movement of goodwill on consolidation and the net assets of the Company and the Group at 31 December 2000.

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.

DISAGREEMENT CONCERNING ACCOUNTING TREATMENT

As explained in note 17 to the financial statements, the consolidated financial statements exclude certain subsidiaries in relation to two investments in the PRC on the basis that audited financial statements of these subsidiaries prepared under the accounting principles generally accepted in Hong Kong are not yet available and that to complete the audits would delay the issue of the Company's annual report. These companies should be regarded as subsidiaries in accordance with the Statement of Standard Accounting Practice No. 7 ("SSAP 7") issued by the Hong Kong Society of Accountants which requires the financial statements of these subsidiaries to be consolidated. We are unable to quantify the effects of this departure from SSAP 7 on the financial statements. In addition, the information required under paragraph 18(4) of the Tenth Schedule to the Companies Ordinance in respect of the subsidiaries also have not been disclosed.

FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

In forming our opinion we have considered the adequacy of the disclosures made in note 1 to the financial statements which explains that in preparing the financial statements the directors have given consideration to the future operations and financing of the Group. The financial statements have been prepared on a going concern basis, the validity of which is subject to the successful outcome of the measures to be implemented by the Group. The financial statements do not include any adjustments that would result from the failure of these measures. We consider that the appropriate disclosures have been made, but in view of the net current liabilities of the Group at 31 December 2000 and the uncertainty surrounding the measures to be implemented to improve the Group's financial position we are unable to determine whether the going concern basis is appropriate.

DISCLAIMER OF OPINION

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 at 31 December 2000 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 disclosure requirements of the Hong Kong Companies Ordinance because of the significance of:

- (i) the possible effects of the limitation in scope in respect of the evidence available to us on matters set out in the basis of opinion section of this report;
- (ii) the effects of the departure from SSAP 7; and
- (iii) the fundamental uncertainty relating to the going concern basis.

Report of the Auditors'

DISCLAIMER OF OPINION (continued)

In respect alone of the limitation on our work as set out in the basis of opinion section of this report:

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

RSM Nelson Wheeler

Certified Public Accountants

Hong Kong, 25 April 2001.

A large, light green, stylized logo consisting of the letters 'S', 'H', and 'K' in a bold, sans-serif font. The 'S' is on the left, the 'H' is in the middle, and the 'K' is on the right. The letters are interconnected and have a modern, geometric feel.