

AUDITORS' REPORT

德勤·關黃陳方會計師行

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 Hong Kong

**Deloitte
 Touche
 Tohmatsu**

TO THE MEMBERS OF KESSEL INTERNATIONAL HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 23 to 65 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors 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. 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 the Group, consistently applied and adequately disclosed.

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. 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

TO THE MEMBERS OF KESSEL INTERNATIONAL HOLDINGS LIMITED *(continued)*
(incorporated in Bermuda with limited liability)

FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the financial statements which explains that, during the year and subsequent to the balance sheet date, the banking facilities utilised by the Group exceeded the limits offered by its principal bankers and that the Group has reached an informal standstill understanding with its principal bankers. Also, claims have been brought against the Group by certain creditors and the Group is in the process of negotiating with certain other creditors to postpone the repayment of the amounts due to them. Against this background, the Group is in discussion with its principal bankers to secure their ongoing support for the Group and with potential investors in order to obtain additional funds.

Provided that agreement can be reached with the Group's principal bankers to secure their continued support for the Group and that the Group can obtain sufficient additional funds from new investors the directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. The financial statements are prepared on a going concern basis, the validity of which depends upon future funding being available. The financial statements do not include any adjustments that would result from the failure to obtain such funding. We consider that the fundamental uncertainty has been adequately disclosed in the financial statements and our opinion is not qualified in this respect.

FUNDAMENTAL UNCERTAINTY RELATING TO THE OUTSTANDING LITIGATION

In forming our opinion we have considered the adequacy of the disclosures made in note 37 to the financial statements concerning the litigation against the Group for an alleged copyright infringement. The future outcome of the litigation might result in significant additional liabilities for the Group. However, it is not possible to quantify the effects, if any, of the litigation and, accordingly, no provision has been made in the financial statements. We consider that the fundamental uncertainty has been adequately disclosed in the financial statements and our opinion is not qualified in this respect.

FUNDAMENTAL UNCERTAINTY RELATING TO THE OUTSTANDING ARBITRATION

In forming our opinion we have considered the adequacy of the disclosures in note 41 to the financial statements concerning a claim brought by a contractor in connection with certain alleged variations and additional works rendered together with overdue interest thereon in the aggregate sum of approximately HK\$8,366,000. The claim is now the subject of arbitration. The future outcome of the arbitration might result in additional liabilities for the Group. However, it is not possible to quantify the effects, if any, of the resolution of this uncertainty. 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

TO THE MEMBERS OF KESSEL INTERNATIONAL HOLDINGS LIMITED *(continued)*
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OPINION

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 March 31, 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 disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong, August 17, 2001