

Report of the Auditors

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 22 to 78 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.

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) Investments

As stated in Notes 16(b) and (c) to the financial statements, the Group's beneficial ownership of two entities incorporated in the People's Republic of China ("PRC"), namely 北京中農網 科技有限公司 and 河南大東信息產業有限公司, are held through trust arrangements. As at 31 December 2001, full provision had been made against the investments. Although the Group has obtained legal advice from PRC lawyers in respect of the trust arrangements at the time of the acquisition, we are unable to determine whether the trust arrangements, and thus the Group's beneficial ownership are legally enforceable in the PRC.

(2) Carrying value of an investment in a hotel

As stated in Notes 14 and 15(b)(II) to the financial statements, the Company and the Group have an investment in a hotel operation in Luoyang, PRC with a carrying value of HK\$110,000,000. We have not been able to obtain the latest financial information of this investment. As a result, we are unable to determine whether the carrying value of the investment 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 2001.

(3) Accrued interest

Included in other payables and accruals of the Group as stated in Note 21 to the financial statements is accrued interest of HK\$793,000 payable to a financial institution. As explained in Note 21(b), the amount accrued by the management is in accordance with a verbal understanding obtained from the financial institution. However, the amount confirmed by the financial institution as stated in the audit confirmation is HK\$4,054,000. As a result, we are unable to ascertain whether the balance of other payables and accruals is fairly stated. Any adjustment would have a consequential effect on the loss for the year and the net assets of the Group at 31 December 2001.

Disagreement of Accounting Treatment

- (1) As explained in Note 15(b)(II)(iii) to the financial statements, the Group's investment in the Luoyang Hotel project has been reclassified from Unconsolidated Subsidiaries to Investment Securities as, in the opinion of the directors, the Group was unable to exercise effective control and significant influence over the hotel operation. In accordance with paragraph 28 of SSAP 32 "Consolidated Financial Statements and Accounting for Investments in Subsidiaries", if a company is a subsidiary of another company incorporated in Hong Kong and it is excluded from the consolidated financial statements on the grounds of lack of effective control and significant influence, it should be accounted for as a jointly controlled entity in accordance with SSAP 21 "Accounting for Interests in Joint Ventures". As we have not been able to obtain the latest financial information of this investment, we are unable to quantify the effects of the departure from the abovementioned accounting standard.
- (2) As explained in Note 15(b)(II)(iii) to the financial statements, the Group's investment in the Guangxi Cement Plants with carrying value of HK\$1 has been reclassified from Unconsolidated Subsidiaries to Investment Securities as the directors decided to discontinue the investment in and any future financial support for this operation. Notwithstanding this, paragraph 13 of SSAP 32 requires the investment to be classified as investment in subsidiaries and the financial statements of the related subsidiaries to be consolidated. As we have not been able to obtain the audited financial statements of these subsidiaries prepared under the accounting principles generally accepted in Hong Kong, we are unable to quantify the effects of the departure from the abovementioned accounting standard.

Report of the Auditors

(3) As explained in Note 17 to the financial statements, the Group's investment in a gas project has been reclassified from Investment in Subsidiaries to Investment Securities as the directors decided to discontinue the investment in and any future financial support for this operation. Notwithstanding this, paragraph 13 of SSAP 32 requires the investment to be classified as investment in subsidiaries and the financial statements of the related subsidiaries to be consolidated.

Had SSAP 32 been complied with and based on the unaudited financial statements of the related subsidiaries, the net assets of the Group would decrease by approximately HK\$14,000 and the loss for the year would reduce by approximately HK\$161,000.

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 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 appropriate disclosures have been made, but in view of the significant net current liabilities of the Company and the Group at 31 December 2001 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 2001 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 Hong Kong Companies Ordinance because of the significance of:

- (i) the possible effects of the limitation in scope in respect of the carrying value of the investment in Luoyang hotel as referred to in the basis of opinion section of this report;
- (ii) the effects of the departure from SSAP 32; and
- (iii) the fundamental uncertainty relating to the going concern basis.

Report of the Auditors

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, 26 April 2002