

REPORT OF THE AUDITORS



安永會計師事務所

To the members

KEL Holdings Limited

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 26 to 58 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 an 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 Company's and the Group's circumstances, 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.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2002 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.

Without qualifying our report above, we draw attention to the fact that our report dated 19 July 2001 on the Group's financial statements for the year ended 31 March 2001, which form the basis for the comparative amounts presented in the current year's financial statements, was qualified on account of:

- (i) a limitation of audit scope, as we were not able to ascertain whether the opening balances of certain trade payables, retention money payable, other payables and accruals, gross amounts due to contracts customers and accumulated losses as at 31 March 2000 were fairly stated. To the extent that these balances may have required adjustment the comparative amounts presented to the current year consolidated profit and loss account, consolidated statement of recognised gains and losses and consolidated cash flow statement would have been different and, accordingly the reliability of such comparative amounts may be impaired; and
- (ii) a disagreement about accounting treatment in respect of the recording as a general reserve movement for the year ended 31 March 2001 of the net liabilities of the Company and the Group discharged under the schemes of arrangement of the Company and certain of its subsidiaries (the "Schemes"). We considered that the gain arising in respect of the net liabilities discharged should have been accounted for in the profit and loss account for that year as required by statement 2.01 "Framework for the preparation and presentation of financial statements" and statement 2.102 "Net profit or loss for the period, fundamental errors and changes in accounting policies" issued by the Hong Kong Society of Accountants. If this accounting treatment had been followed, the accumulated losses and the general reserve as at 31 March 2001 of the Company and the Group would have been reduced by approximately HK\$490,659,000, being the amount accounted for by the directors directly to the general reserve, however the net amount of the Company and the Group's reserves as at 31 March 2001 would have remained unchanged.

Ernst & Young

Certified Public Accountants

Hong Kong
30 May 2002