

**GRAHAM H.Y. CHAN & CO.**

CERTIFIED PUBLIC ACCOUNTANTS

HONG KONG

**TO THE SHAREHOLDERS OF
401 HOLDINGS LIMITED***(incorporated in Bermuda with limited liability)*

We have audited the accounts set out on pages 26 to 79 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 accounts which give a true and fair view. In preparing accounts 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 accounts 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 accounts. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the accounts, 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 accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. 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 the accounts concerning the basis adopted in the preparation of the Group's accounts. The Group's loss attributable to the shareholders was HK\$101 million for the year ended 31 March 2002 and at that date its net liabilities were approximately HK\$50 million. The Group's liabilities, including accrued interest, at that date include convertible bonds of approximately HK\$20 million, secured borrowings of approximately HK\$15 million. As mentioned in note 1 to the accounts, in order to alleviate the Group's liquidity difficulties, the Group has entered into several financial arrangements, which included issue of convertible bonds. The accounts have been prepared on a going concern basis, the validity of which depends upon the additional capital injection into the Group, the successful implementation of certain proposed financial plans and the continuing financial support from convertible preference shareholders, convertible bonds holders and other loan creditors. The accounts do not include any adjustments that would result from failure to obtain the additional capital injection into the Group, the implementation of the proposed financial plans and the support from convertible preference shareholders, convertible bonds holders and other loan creditors. We consider that the fundamental uncertainty has been adequately accounted for and disclosed in the accounts and our opinion is not qualified in this respect.

OPINION

In our opinion the accounts 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.

Graham H.Y. Chan & Co.
Certified Public Accountants

Hong Kong, 26 July 2002