

Auditors' Report

TO THE MEMBERS OF SHANGHAI LAND HOLDINGS LIMITED (RECEIVERS APPOINTED)

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 26 to 70 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Hong Kong Companies Ordinance requires the Directors to prepare financial statements that 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 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 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 of the Group, consistently applied and adequately disclosed.

We planned 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 set out below:

1. Disclaimers of liabilities by the Receivers and the Board

As explained in Note 2a to the financial statements, the Receivers and the Board of Directors (the "Board") were unable to give an unqualified representation that all transactions affecting the Group during the year have been included in the financial statements and also as to whether the financial statements present a true and fair view of the Group's operations and cash flows for the year ended 30 June 2003 and financial position as at 30 June 2003. The Receivers have disclaimed any liabilities in respect of the financial statements of the Group in relation to the affairs of the Group for the year ended 30 June 2003. Further, the Board at a meeting on 27 October 2003 has resolved to disclaim any liabilities in respect of the financial statements of the Group for the year ended 30 June 2003. As a consequence, we have been unable to carry out auditing procedures necessary to obtain adequate assurance regarding the completeness and accuracy of the assets, liabilities, income and expenses, the cash flows, as well as commitments and contingent liabilities, the related party transactions and the disclosures appearing in the financial statements.

Auditors' Report *(Continued)*

BASIS OF OPINION *(Continued)*

2. Accounting records and documents of subsidiaries

- a. As explained in Note 2b to the financial statements, the accounting records and relevant documents of Shanghai Hongxin Real Estate Development Company Limited (上海宏興房地產發展有限公司) (“Hongxin”) and certain original documents of Shanghai Yihe Longbai Hotel Limited (上海逸和龍柏飯店有限公司) (“Longbai”) are currently kept by Shanghai Nongkai Development Group Limited (上海農凱發展(集團)有限公司) (“Shanghai Nongkai”). The Receivers have only had limited access to these records and/or documents. As a consequence, they have been unable to ascertain whether the following balances relating to Hongxin and Longbai have been properly accounted for in the financial statements:
- Negative goodwill of HK\$3,171,000 recognised as income;
 - Hotel properties of HK\$361,000,000, as further explained in Note 17b to the financial statements;
 - Property under development of HK\$198,000,000, as further explained in Note 17c to the financial statements;
 - Negative goodwill of HK\$101,469,000;
 - Deposits, prepayments and other receivables of HK\$637,943,000, as further explained in Notes 21b to 21e to the financial statements;
 - Short term loan receivable of HK\$283,500,000, as further explained in Note 21g to the financial statements;
 - Cash and bank balances of HK\$78,820,000, as further explained in Note 22b to the financial statements;
 - Accrued expenses and other payables of HK\$10,367,000, as further explained in Note 23a to the financial statements; and
 - Purported loans of HK\$614,250,000, as further explained in Note 24 to the financial statements.
- b. As explained in Note 2b to the financial statements, Bowyer Profits Limited (“Bowyer”) appointed Shanghai Nongkai as manager to act on its behalf for all matters relating to the leasing of its investment properties and to act as trustee to receive income and to make payments of expenses related thereto. However, the Receivers have not yet been able to obtain sufficient information and documents from Shanghai Nongkai to ascertain whether the following balances relating to Bowyer have been properly accounted for in the financial statements:
- Turnover of HK\$1,816,000;
 - Cash and bank balances of HK\$3,446,000; and
 - Tax payable of HK\$1,296,000.

Auditors' Report *(Continued)*

BASIS OF OPINION *(Continued)*

2. Accounting records and documents of subsidiaries *(Continued)*

There were no other satisfactory auditing procedures that we could adopt to ascertain whether the balances referred to in paragraphs 2a and 2b above have been properly accounted for and are fairly stated in the financial statements. As a consequence, we have also been unable to ascertain whether cash and bank balances of HK\$82,266,000 have been properly classified as cash and cash equivalents in the consolidated cash flow statement.

3. Other payable

As explained in Notes 18c and 23b to the financial statements, King Success Holdings Limited ("King Success") has withheld a sum of HK\$10,000,000 as retention money for the profit guaranteed by the vendor of two subsidiaries acquired by King Success. However, in the absence of direct confirmation and other relevant financial information, we have been unable to ascertain whether this amount has been properly accounted for in the financial statements.

Any adjustments arising in relation to the matters referred to in paragraphs 1 to 3 above would have a consequential effect on the loss and cash flows of the Group for the year ended 30 June 2003 and the net assets of the Group and of the Company as at that date.

4. Amounts due from subsidiaries

The Receivers have only had limited access to the accounting records and supporting documents of the subsidiaries as referred to in paragraph 2 above and as a consequence, they have been unable to ascertain whether the amounts due to the Company by these subsidiaries of HK\$1,069,446,000 are fully recoverable. In addition, in view of the significant net liabilities of Profitex Investments Limited ("Profitex"), the Receivers have also been unable to ascertain whether the net amount due from Profitex of HK\$22,146,000 is fully recoverable. As a consequence, we have been unable to satisfy ourselves as to whether these amounts totalling HK\$1,091,592,000 are fairly stated in the financial statements. Any adjustments to these amounts would have a consequential effect on the profit of the Company for the year ended 30 June 2003 and the net assets of the Company as at that date.

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 INCLUSION OF INTERESTS IN SUBSIDIARIES TO THE GROUP

As explained in Note 2c to the financial statements, the Receivers have applied to the Shanghai Administrative Bureau for Industry and Commerce (上海市工商行政管理局) (the "Shanghai AIC") to replace the board of directors and legal representatives of Hongxin and Longbai. The Receivers are now awaiting the Shanghai AIC's approval of the proposed replacements. They have also lodged police reports against the existing legal representatives of Hongxin and Longbai for contract fraud and deception. The Receivers' PRC legal advisors are of the opinion that the Receivers, acting as the shareholders of Hongxin and Longbai, should soon be in a position to exercise the shareholders' rights to secure control of the management and operations of Hongxin and Longbai upon completion of the registration procedures required by the Shanghai AIC. Should the Receivers be unable to gain control of the management and operations of Hongxin and Longbai, the financial statements of these two subsidiaries might have to be excluded from the consolidated 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.

Auditors' Report *(Continued)*

FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN OF CERTAIN SUBSIDIARIES

In forming our opinion, we have considered the adequacy of disclosures made in Note 2c to the financial statements which explain the adoption of the going concern basis in consolidating Hongxin and Longbai. Hongxin's property under development and Longbai's hotel properties were allegedly secured against loans purportedly advanced to them. According to the information obtained by the Receivers, funds largely equivalent to the purported loans were then deposited and/or advanced to two PRC entities. However, should these receivables become irrecoverable and the proceeds from realisation of the above properties be insufficient to cover the purported loans and outstanding interest, Hongxin and Longbai might have a going concern problem.

It is considered appropriate to consolidate Hongxin and Longbai on a going concern basis. The financial statements do not include any adjustments that would result should the going concern basis for Hongxin and Longbai be inappropriate. However, should the going concern basis be inappropriate for Hongxin and Longbai, adjustments would have to be made to reclassify their non-current assets as current assets, non-current liabilities as current liabilities, to restate the assets to their recoverable amounts and to provide for any further liabilities that might arise. We consider that the fundamental uncertainty has been adequately disclosed in the financial statements and our opinion is not qualified in this respect.

QUALIFIED OPINION: DISCLAIMER ON VIEW GIVEN BY THE FINANCIAL STATEMENTS

Because of the significance of the possible effect of the limitations in evidence available to us on matters specified in the "Basis of opinion" section of this report, 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 Group and of the Company as at 30 June 2003 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.

In respect alone of the limitations on our work relating to matters specified in the "Basis of opinion" section:

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

Nexia Charles Mar Fan & Co.
Certified Public Accountants

Hong Kong, 27 October 2003