

**Charles Chan, Ip & Fung CPA Ltd.**

37th Floor, Hennessy Centre
500 Hennessy Road
Causeway Bay, Hong Kong

**AUDITORS' REPORT TO THE SHAREHOLDERS OF
GRAND FIELD GROUP HOLDINGS LIMITED**

(Incorporated in Bermuda with Limited Liability)

We have audited the financial statements on pages 17 to 55 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 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 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: during the year the Group acquired a subsidiary and the acquisition generated goodwill on consolidation of approximately HK\$63,006,000 based on the subsidiary's unaudited management accounts as detailed in note 29 to the financial statements. Although the acquisition was based on independent valuation report, there were no financial due diligence procedures or audited financial statements at the date of acquisition. We have been unable to carry out any audit procedures to ascertain the fair value of the identifiable assets and liabilities of the subsidiary. As a result we are unable to determine whether the goodwill arising from the above mentioned acquisition is fairly stated. Any adjustment to the goodwill would have a consequential effect on the loss for the year and the value of goodwill being capitalised.

AUDITORS' REPORT

BASIS OF OPINION *(Continued)*

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.

QUALIFIED OPINION ARISING FROM LIMITATION OF AUDIT SCOPE

Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning the acquisition of the subsidiary, 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 31 December 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.

In respect alone of the limitation on our work relating to the goodwill arising on acquisition of a subsidiary:

- 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.

Charles Chan, Ip & Fung CPA Ltd.

Certified Public Accountants

Chan Wai Dune, Charles

Practising Certificate Number P00712

Hong Kong

28 April 2003