

Report of the Auditors



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 24 to 76 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 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. However, included in finance costs in the consolidated profit and loss account, there was premium on redemption of preference shares of approximately HK\$11,342,000 which represents the difference between the total redemption money and the capital value of the preference shares. We have not been provided with sufficient evidence to satisfy ourselves as to the fairness of the amount of the premium and, therefore, unable to satisfy ourselves whether the amount was fairly stated. Any adjustment to the amount of premium would affect the loss attributable to shareholders for the year ended 31 March 2003 by the same amount.

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.

Report of the Auditors

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\$57,448,000 for the year ended 31 March 2003 and at that date its net current liabilities and net liabilities were approximately HK\$79 million and HK\$93 million respectively. As mentioned in note 1, the Group has taken various measures to alleviate the Group's liquidity difficulties. The accounts have been prepared on a going concern basis, the validity of which depends upon the successful implementation of these measures. The accounts do not include any adjustments that would result from failure to implement the measures. We consider that appropriate disclosures have been made in the accounts concerning this situation, but the fundamental uncertainty relating to whether the going concern basis is appropriate is so extreme that we disclaimed our opinion.

Disclaimer of Opinion

Because of the significance of the effect on the accounts should the preparation of accounts on a going concern basis become not appropriate and the limitation of evidence available in respect of the amount of the premium of redemption of preference shares, we are unable to form an opinion as to whether the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2003 and of the Group's loss for the year then ended and as to whether the accounts have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance. In our opinion, the accounts give a true and fair view of the Group's cash flows for the year ended 31 March 2003.

In respect alone of the limitation on our work on the premium of redemption of preference shares, we have not obtained all the information and explanations that we considered necessary for the purposes of our audit.

Graham H.Y. Chan & Co.

Certified Public Accountants

Hong Kong, 22 December 2003