

德勤·關黃陳方會計師行

Certified Public Accountants
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Hong Kong

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**Deloitte
Touche
Tohmatsu**

TO THE SHAREHOLDERS OF PALADIN LIMITED

(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 16 to 42 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 solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 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 the Group, 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.

Fundamental uncertainty relating to the going concern basis

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the financial statements which explains that the Group is dependent upon the financial support of its bankers and other lenders. In November 2003, the Group reached loan agreements with new bankers and other lender for refinancing the overdue HK\$ term loan (together with the accrued interest and other bank charges). In addition, the Group is now in the process of soliciting new bankers to refinance the overdue US\$ term loan and the directors are of the opinion that the Group can successfully solicit new bankers within a short period of time. With the new source of funds, the directors estimate that the properties under development will be complete and available for sale or pre-sale by May 2004. Against this background, the directors consider that, with the continuing support of the Group's bankers and other lenders, the Group will be able to complete the development and to meet in full its financial obligations as they fall due for the foreseeable future. The financial statements have been prepared on a going concern basis, the validity of which depends upon future funding being available. The financial statements do not include any adjustments that would result from failure to obtain such funding. We consider that the fundamental uncertainty has been adequately disclosed in the financial statements and our opinion is not qualified in this respect.

Opinion

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 30 June 2003 and of the loss and cash flows of the Group for the year then ended and have been property prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong, 30 December 2003