

Auditors' Report

TO THE MEMBERS OF MANSION HOUSE GROUP LIMITED

萬勝集團有限公司

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 18 to 59 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Companies Ordinance requires the directors to prepare 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 financial statements and to report our opinion solely to you, as a body, in accordance with section 141 of the Companies Ordinance, 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 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 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 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.

As explained in note 1 to the financial statements, on 25th February, 2003, the Company disposed of its subsidiaries Mansion House Real Estate Limited and Guangdong Wanhua Real Estate Development Co., Ltd. (the "Disposed Subsidiaries"). The loss on disposal included in the consolidated income statement is HK\$1,328,925 being the difference between the sale proceeds of HK\$44,339,623 and the aggregate net assets of HK\$45,668,548 as at 31st December, 2002; the directors of the Company consider that the aggregate results of these subsidiaries for the period from 1st January, 2003 to 25th February, 2003 would not be material to the Group. However, we were unable to obtain satisfactory audit evidence to satisfy ourselves as to whether

the aggregate net assets of these subsidiaries as at 31st December, 2002, and, accordingly, also the loss on disposal of HK\$1,328,925 are free from material misstatement. Any adjustments found to be necessary to the above figures would affect the opening reserve of the Group as at 1st January, 2003 and the loss of the Group for the year ended 31st December, 2003.

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 disclosure made in note 2 to the financial statements which explains that the directors are taking active steps to improve the liquidity position of the Group. In particular, the Company is in process of exploring with a potential investor the injection into the Group of an income generating property in the People's Republic of China. Provided that the income generating property is injected into the Group, the directors of the Company are satisfied that the Group will be able 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 a 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.

QUALIFIED OPINION ARISING FROM LIMITATION OF AUDIT SCOPE

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 31st December, 2003. Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning the Disposed Subsidiaries, in our opinion the financial statements give a true and fair view of the loss and cash flows of the Group for the year ended 31st December, 2003 and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

In respect alone of the limitation on our work relating to the Disposed Subsidiaries:

- 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 have been kept.

27th April, 2004