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 34 to 88 which have been prepared in accordance with accounting principles generally accepted in Hong Kong, other than as set out below.

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 Institute of Certified Public Accountants ("HKICPA"), 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 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. Disclaimer on view given on the financial statements in the previous year

Our opinion on the financial statements of the Company and of the Group for the year ended 30 June 2003 was disclaimed in view of the significance of the possible effect of the limitations in evidence available to us, details of which were set out in our audit report dated 27 October 2003.

2. Disclaimers of liabilities by the Receivers and the Board

As explained in Note 2a to the financial statements, the Receivers, despite having taken all reasonable steps, have not been able to obtain all information and documents for preparing the financial statements. Accordingly, they were unable to give an unqualified representation that all the transactions affecting the Group during the year ended 30 June 2004 have been included in the financial statements and also as to whether the financial statements present a true and fair view of the operations and cash flows of the Group for the year ended 30 June 2004 and the financial position of the Company and of the Group as at 30 June 2004. The Receivers have therefore disclaimed any liabilities in respect of the financial statements of the Company and of the Group in relation to the affairs of the Company and of the Group for the year ended 30 June 2004.

BASIS OF OPINION *(Continued)*

2. Disclaimers of liabilities by the Receivers and the Board *(Continued)*

The Audit Committee had reviewed and discussed the financial statements with the Receivers and the Board of Directors ("the Board"). Based on the results of the inquiries and the inspection of the books and records of the Company and its subsidiaries available in Hong Kong and the PRC, the members of the Audit Committee were unable to satisfy themselves as to whether the financial statements present a true and fair view and, under such circumstances, the Audit Committee was unable to make recommendation to the Board in accepting and/or adopting the financial statements of the Company and of the Group for the year ended 30 June 2004.

The Board at a meeting held on 7 December 2004 had resolved not to approve the financial statements for the year ended 30 June 2004 as the Company has not been under the management of the Board for the relevant accounting period for which the financial statements were prepared.

In light of the above circumstances and in view of the fact that the Receivers will continue to manage the Company in the near future until further order of the Court, the Receivers consider it appropriate, notwithstanding the limitations referred to above, to take up the responsibility from the Board to prepare and approve the financial statements. An order from the Court was obtained on 20 December 2004 conferring upon the Receivers powers, inter alia, to approve and sign the financial statements of the Company and of the Group for the year ended 30 June 2004.

In 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, cash flows, as well as commitments and contingent liabilities, the related party transactions and the disclosures appearing in the financial statements.

3. Accounting records and documents of subsidiaries

a. As explained in Note 2a to the financial statements, the Receivers and their staff, notwithstanding their appointment as the legal representatives and the directors of Shanghai Yihe Longbai Hotel Limited ("Longbai") and Shanghai Hongxin Real Estate Development Company Limited ("Hongxin") on 16 December 2003 and 15 January 2004 respectively, have only had limited access to the books and records of Longbai and Hongxin as their former legal representatives and directors have been uncooperative and failed to surrender the books and records and/or certain original documents of Longbai and Hongxin. As a consequence, the Receivers have been unable to satisfy themselves as to whether the following balances relating to Longbai and Hongxin have been properly accounted for in the financial statements:

- Finance costs of HK$29,861,000 on the purported loan, as further explained in Note 9 to the financial statements;
- Hotel properties of HK$160,650,000 allegedly pledged for the loan advanced, as further explained in Note 16b to the financial statements;
- Property under development of HK$269,325,000 allegedly pledged for the loan advanced, as further explained in Note 16c to the financial statements;
- Deposits, prepayments and other receivables of HK$666,042,000, as further explained in Notes 20b to 20e to the financial statements;
- Short term loan receivable of HK$283,500,000, as further explained in Note 20h to the financial statements;
- Pledged deposits of HK$28,080,000, as further explained in Note 21b to the financial statements;
- Cash and bank balances of HK$11,899,000, as further explained in Notes 21c and 21d to the financial statements;

BASIS OF OPINION *(Continued)*

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

a. *(Continued)*

- Interest payable of HK$39,764,000, as further explained in Notes 22a and 22b to the financial statements;
- Accrued expenses and other payables of HK$33,978,000, as further explained in Note 22c to the financial statements;
- Purported loans of HK$614,250,000, as further explained in Note 23 to the financial statements; and
- Deferred tax liabilities of HK$60,585,000, deferred tax credit of HK$32,559,000 and HK$103,163,000 for the current and prior years respectively, as further explained in Note 24 to the financial statements.

The Receivers have taken out various actions, as detailed in Notes 33d and 33f to the financial statements, to recover the amounts advanced by Longbai and Hongxin totaling HK$917,275,000. The Receivers are unable to ascertain whether these amounts will be recoverable in full.

b. As explained in Note 2a to the financial statements, Bowyer Profits Limited ("Bowyer") appointed Shanghai Nongkai Development Group Limited ("Shanghai Nongkai") as manager to act on its behalf for all matters relating to the leasing of its investment properties including but not limited to receiving income and making payments of expenses related thereto upto 29 April 2004. The Receivers have not received any financial reports since May 2004 and certain relevant records and information of Bowyer from Shanghai Nongkai. As a consequence, the Receivers have been unable to ascertain whether the following balances relating to Bowyer have been properly accounted for in the financial statements:

- Turnover of HK$1,383,000;
- Tax payable of HK$1,411,000;
- Deposits, prepayments and other receivables of HK$3,950,000, as further explained in Note 20f to the financial statements; and
- Deferred tax liabilities of HK$7,453,000, deferred tax charge of HK$1,106,000 for the current year and deferred tax credit of HK$7,064,000 for the prior year, as further explained in Note 24 to the financial statements.

The Receivers have taken out various actions, as detailed in Note 33i to the financial statements, to recover the amount taken out from Bowyer of HK$3,950,000. The Receivers are unable to ascertain whether this amount will be recoverable in full.

There were no other satisfactory auditing procedures that we could adopt to ascertain whether the balances referred to in paragraphs 3a and 3b above have been properly accounted for in the financial statements and whether the amounts totaling HK$921,225,000 are fully recoverable. In addition, we have also been unable to ascertain whether the increase in pledged deposits of HK$28,080,000 has been properly disclosed as financing activities and cash and bank balances of HK$11,899,000 have been properly classified as cash and cash equivalents in the consolidated cash flow statement.

BASIS OF OPINION *(Continued)*

4. Amount due from Shun Loong Holdings Limited ("Shun Loong")

As explained in Note 33e to the financial statements, Shun Loong had filed an Originating Summons seeking declaratory reliefs against Profitex Investments Limited ("Profitex") to the effect that the sub-tenancy agreement entered into between Shun Loong and Profitex dated 23 May 2003 effectively came to an end on 19 October 2003 by virtue of Shun Loong's own repudiation of it. Profitex had filed an affirmation in opposition to the Originating Summons. The date for the hearing of the Originating Summons was scheduled to be held on 11 January 2005.

In view of the foregoing, we are unable to ascertain if the amount due from Shun Loong as at 30 June 2004 of HK$3,885,000 included in deposits, prepayments and other receivables is fully recoverable.

Any adjustments arising in relation to the matters referred to in paragraphs 1 to 4 above would have a consequential effect on the loss and cash flows of the Group for the year ended 30 June 2004 and the net assets of the Company and of the Group as at that date.

5. Amounts due from subsidiaries

The Receivers have only had limited access to the accounting records and documents of the subsidiaries referred to in paragraph 3 above and as a consequence, they have been unable to ascertain whether the amounts due to the Company by these subsidiaries of HK$1,024,947,000 are fully recoverable. In addition, in view of the significant net liabilities of Profitex, the Receivers have also been unable to ascertain whether the net amount due from Profitex of HK$32,761,000 is fully recoverable. As a consequence, we have been unable to ascertain whether these amounts totaling HK$1,057,708,000 are fully recoverable and have been properly accounted for in the financial statements. Any adjustments to these amounts would have a consequential effect on the loss of the Company for the year ended 30 June 2004 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 GOING CONCERN OF CERTAIN SUBSIDIARIES

a. Longbai

As explained in Note 2b to the financial statements, Longbai's hotel properties, with a carrying value of RMB170,000,000 (equivalent to HK$160,650,000), were allegedly secured against a loan of RMB350,000,000 (equivalent to HK$330,750,000) purportedly granted by Shanghai Pudong New District Liuli Rural Credit Cooperative Union ("Liuli SRCC"). As a result of the decrease in the carrying value of the hotel properties, Longbai had net liabilities as at 30 June 2004. Thus, Longbai might have a going concern problem.

In addition, as detailed in Note 33g to the financial statements, Longbai might lose its ownership of Longbai's hotel properties should Liuli SRCC resume its enforcement action against Longbai and Longbai fails to fulfill the alleged payment obligations.

The Receivers are also currently unable to determine whether there are any other contingent liabilities should Liuli SRCC resume its enforcement action against Longbai.

FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN OF CERTAIN SUBSIDIARIES *(Continued)*

b. Hongxin

As explained in Note 2c to the financial statements, Hongxin's property under development, with a carrying value of RMB285,000,000 (equivalent to HK$269,325,000), was allegedly secured against a loan of RMB300,000,000 (equivalent to HK$283,500,000) purportedly granted by the Shijidadao Branch of Shanghai Pudong New District Rural Credit Cooperative Union ("Shijidadao SRCC"). The Receivers have been unable to determine whether Hongxin is able to meet all its liabilities as the Receivers have only had limited access to Hongxin's books and records. Further, according to the information obtained by the Receivers, fund equivalent to the purported loan was deposited and/or advanced to a PRC entity. Should this receivable become irrecoverable and the proceeds from the realisation of the property under development be insufficient to cover the purported loan and other liabilities, Hongxin might have a going concern problem.

Further, as explained in Note 2c to the financial statements, the registered capital of Hongxin according to the business licence of Hongxin issued on 15 January 2004 is listed at US$30,000,000, of which only US$16,700,000 has been paid up. The investment amount which was originally listed at US$50,000,000, is subsequently listed at US$90,000,000 pursuant to Hongxin's Certificate of Approval. Hongxin has requested the Foreign Economic Commission of Huangpu District Shanghai ("FEC") to extend the deadline for paying up the additional registered capital to 24 November 2005. In light of the judgment on Hongxin dated 17 November 2004, FEC has verbally rejected Hongxin's application to extend the payment of the additional registered capital to 24 November 2005. Should the business licence of Hongxin be revoked, Hongxin might also have a going concern problem.

In addition, as detailed in Note 33h to the financial statements, Hongxin might lose its ownership of the property under development should Shijidadao SRCC resume its enforcement action against Hongxin and Hongxin fails to fulfill the alleged payment obligations.

The Receivers are also currently unable to determine whether there are any other contingent liabilities should Shijidadao SRCC resume its enforcement action against Hongxin.

The Receivers have indicated that they will unlikely be providing the necessary funding to maintain Longbai and Hongxin as a going concern. The financial statements include appropriate adjustments to state Longbai's hotel properties and Hongxin's property under development at valuation on a forced sale basis and to reclassify the purported loans under current liabilities. No adjustments have been made to restate the other assets to their recoverable amounts and to provide for any further liabilities that might arise as the amounts are not quantifiable. 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 AND DISAGREEMENT ABOUT ACCOUNTING TREATMENT

Interest expenses of HK$19,665,000 have been accrued on the purported loan allegedly borrowed by Hongxin and were recorded as prepayments, as detailed in Note 20e(iii) to the financial statements. In our opinion, the interest accrued should be accounted for as an expense as required by Statement of Standard Accounting Practice 19 "Borrowing costs" ("SSAP 19") issued by HKICPA. If the Group had accounted for the borrowing costs in accordance with SSAP 19, the Group's loss attributable to shareholders for the year ended 30 June 2004 would have been increased by HK$19,665,000 and the debtors, deposits and prepayments of the Group as at 30 June 2004 would have been decreased by HK$19,665,000.

Because of the significance of the possible effect of the limitations in evidence available to us, 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 Company and of the Group as at 30 June 2004 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 Companies Ordinance.

In respect alone of the limitation on our work relating to the limitations on the scope of our audit as referred to above:

– 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, 23 December 2004