

## Auditors' Report

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### TO THE MEMBERS OF GOLD-FACE HOLDINGS LIMITED

*(incorporated in Bermuda with limited liability)*

We have audited the financial statements on pages 18 to 64 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 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 financial 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 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 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) Included in the financial statements are the following aggregate amounts in respect of four of the Company's subsidiaries, namely, Gold-Face Enterprises Limited, Gold-Face Finance Limited, Profit Nation Development Limited and True Gold Investments Limited, the books and records of which have been seized by Commercial Crime Bureau of the Hong Kong Police as explained in note 42(c) to the financial statements.
  - Turnover of HK\$241,549,299
  - Cost of sales of HK\$339,273,436
  - Other operating income of HK\$45,175,437
  - Operating expenses of HK\$40,896,826
  - Taxation charge of HK\$3,158,582
  - Properties under development of HK\$300,126,845
  - Loans receivable of HK\$114,629,785
  - Trade, other receivables and prepayments of HK\$2,055,908
  - Taxation recoverable of HK\$2,512,676
  - Trade and other payables of HK\$48,404,060

**Auditors' Report (continued)****BASIS OF OPINION (continued)**

As further explained in note 2(b) to the financial statements, the current directors have been unable to satisfy themselves that these amounts have been completely and accurately included in the financial statements and, accordingly, we were unable to satisfy ourselves that these amounts were free from material misstatement.

- (2) As detailed in note 11 to the financial statements, the provisions for profits tax and sales tax on the properties sold by Ever Prospect Limited were based on amounts agreed with the tax authorities in the PRC by the Group's Agent. We were unable to obtain any documentary evidence in respect of the amounts of the provisions for profits tax and sales tax amounting to HK\$1,462,000 and HK\$441,000 at 31st March, 2003 respectively. Accordingly, we were unable to satisfy ourselves that these amounts were free from material misstatements.
- (3) We are unable to obtain direct confirmations from four construction contractors of the Group to confirm either the validity of construction contracts or any amounts due to or due from those contractors as at 31st March, 2003. We received one confirmation in which the construction contractor advised us he did not enter into the construction contract for which a copy was attached to the confirmation sent. We were unable to obtain satisfactory explanation from the management in respect of this disagreement. Additionally, construction contracts with two of the five construction contractors were not available for our examination as explained in note 15 to the financial statements. Against this background, we were unable to satisfy ourselves that construction cost of HK\$147,841,000 included in properties under development HK\$132,011,000 within current assets and HK\$15,830,000 within non-current assets and, the commitments as disclosed in note 37 to the financial statements as at 31st March, 2003 were free from material misstatement.
- (4) We were unable to obtain direct confirmations from certain creditors to which an aggregate amount of HK\$16,986,000 was owed by the Group as at 31st March, 2003. Accordingly, we were unable to satisfy ourselves as to whether such amounts were free from material misstatement as at 31st March, 2003.
- (5) We were unable to obtain direct confirmations from certain stakeholders who had an aggregate balance of HK\$5,674,000, included in other receivables, owed to the Group as at 31st March, 2003. Accordingly, we were unable to satisfy ourselves as to whether these amounts were free from material misstatement as at 31st March, 2003.
- (6) We were unable to obtain direct confirmations in respect of aggregate balances of HK\$66,639,000, included in loans receivable as at 31st March, 2003. Accordingly, we were unable to satisfy ourselves as to whether these amounts were free from material misstatement as at 31st March, 2003.
- (7) Included in the operating expenses were advertising and promotion expenses and property sales commission of HK\$6,405,484 and HK\$3,756,735 respectively paid to a supplier. We were unable to obtain sufficient documentary evidence and explanation regarding the basis of these services to satisfy ourselves that these amounts were free from material misstatement.
- (8) We were not permitted by the directors to obtain a copy of an investigation report issued by an independent firm of certified public accountants in respect of the investigation into the affairs of True Gold Investments Limited and Profit Nation Development Limited, subsidiaries of the Company. This investigation was carried out at the request of the Company's Board of Directors. We consider that this information is necessary for the audit of the financial statements, and accordingly, we were unable to satisfy ourselves that the investigation did not reveal matters which would cause material adjustment to be made to the financial statements.

## Auditors' Report (Continued)

### BASIS OF OPINION (continued)

- (9) As detailed in note 17 to the financial statements, the Group's investment in 陽春市益華貿易有限公司 was held by two individuals who executed two declarations of trust, allegedly holding the investment in trust for the Group. However, the declarations of trust were not stamped or signed by any witnesses. As advised by the Company's legal advisor, the Group has only right to receive any dividends declared by this subsidiary but has no legal ownership in this investment under relevant laws in the PRC. Although, in the opinion of the directors, the Group is entitled to all rights of ownership in this investment, we were unable to obtain sufficient documentary evidence to satisfy ourselves as to the Group's legal ownership of investment in a subsidiary with carrying amount of HK\$467,000 at 31st March, 2003.
- (10) As detailed in note 19 to the financial statements, the Group's investment in 廣東南方電訊網絡有限公司 was held by an individual who executed two declarations of trust, allegedly holding the investment in trust for the Group. However, the declarations of trust were not stamped or signed by any witnesses. As advised by the Company's legal advisor, the Group has only right to receive any dividends declared by this associate but has no legal ownership in this investment under relevant laws in the PRC. Although, in the opinion of the directors, the Group is entitled to all rights of ownership in this investment, we were unable to obtain sufficient documentary evidence to satisfy ourselves as to the Group's legal ownership of investment in an associate with carrying amount of HK\$3,970,000 at 31st March, 2003.

There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the matters set out in paragraphs (1) to (10) above. Any adjustments to the above figures would affect, as appropriate, the net liabilities of the Group and the Company as at 31st March, 2003 and the loss of the Group for the year then ended.

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, subsequent to the balance sheet date, the Group has not had sufficient working capital to finance its normal operations and has been unable to meet in full its financial obligations as they fall due. Certain banks have appointed receivers and managers over certain subsidiaries' assets. Also, as explained in note 42(i) certain winding up petitions have been brought against the Company and subsidiary companies. In addition, as explained in note 42(j) to the financial statements, litigation has been brought against the Group by certain banks and other creditors claiming an aggregate amount of HK\$1,114,959,000. Against this background, the Group has been in the process of negotiating with certain banks and other creditors to restructure the amounts due to them. At the same time, the Group has been in discussion with potential investors in order to obtain additional equity funds.

Provided that the restructuring negotiation with the banks and other creditors can be successfully completed and that the Group can obtain sufficient additional equity funds, the directors are satisfied that the Group will have sufficient working capital to finance its normal operations and to meet its financial obligations as they fall due for the foreseeable future. The financial statements are 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 the 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.

## Auditors' Report (Continued)

### QUALIFICATIONS ARISING FROM DISAGREEMENT ABOUT ACCOUNTING TREATMENT

- (1) As explained in note 6 to the financial statements, included in the allowance for bad and doubtful debts of HK\$99,423,000 for the year ended 31st March, 2003 is a write off of the net balance of a personal loan advanced to an individual (the "Debtor") of HK\$51,209,000. This amount has been netted off against amounts payable to companies owned by the Debtor in other group companies through current accounts with these group companies. The directors are of the opinion that these amounts can be offset with each other and presented as a net balance on the balance sheet, which was fully provided for as bad debts at 31st March, 2003. In our opinion, in the absence of legally enforceable set off agreements between the Group and the relevant companies, the netting off described above does not comply with the conditions for offsetting as set out in the Statement of Standard Accounting Practice ("SSAP") No. 1 "Presentation of Financial Statements" issued by the HKICPA.
- (2) As explained in note 26 to the financial statements, a subsidiary of the Company entered into sale and purchase agreements with two directors and a spouse of a director of the Company and two employees of the Group (the "Related Parties") whereby the Related Parties purchased properties jointly from this subsidiary at a consideration of HK\$16,907,000. The Related Parties financed their purchases of the properties with bank loans, and in turn lent these bank loans to this subsidiary and the corresponding repayments had been made by this subsidiary directly to the bank. The Group recorded these bank borrowings raised by the Related Parties as its own bank borrowings, which amounted to HK\$9,346,000 at 31st March, 2003 and did not record the sales of properties to the Related Parties. In our opinion, the sales of the properties which are supported by valid legally enforceable contracts as advised by the Company's legal advisor, should be recorded in the financial statements and the bank loans mentioned above should be reclassified to loans from related parties and the related disclosure in accordance with the SSAP No. 20 "Related Party Disclosures" issued by the HKICPA should be presented.
- (3) Included in the properties under development of HK\$14.5 million at 31st March, 2003 are amounts relating to the purchases of electrical appliances and we were informed had been returned to the supplier in previous years. In our opinion, such amounts should be reclassified as other receivable. Also as the amount is long outstanding for a considerable period of time and the Group has no security for this debt, full provision should have been made for this long outstanding amount, increasing loss before taxation for the year and decreasing net assets at 31st March, 2003 by that amount.

### DISCLAIMER OF OPINION

Because of the significance of the possible effect of the limitations in evidence available to us as set out in the basis of opinion section of this report, 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 the Group as at 31st March, 2003 or 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 limitations on our work as set out in the basis of opinion section of this report:

- we had 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.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*

Hong Kong  
5th January, 2005