

RSM Nelson Wheeler

羅申美會計師行

Certified Public Accountants

TO THE SHAREHOLDERS OF

KONG SUN HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 21 to 87 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 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, 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 judgements 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 because, as detailed in Note 2 to the financial statements, the Group has defaulted in respect of the repayments of certain bank and other borrowings. As a consequence, there are various lawsuits against the Group from a number of bankers for the repayment of the amounts due by the Group. Hence, bank and other borrowings of approximately HK\$39,611,000 are immediately due and payable. Nevertheless, the Group is currently undertaking a number of measures to improve its financial and current liquidity position. The financial statements have been prepared on a going concern basis, the validity of which depends upon the successful outcome of the recovering of the remaining balance of

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consideration receivable from disposal of a subsidiary; the continuous financial support of the Company's substantial shareholders, Kong Sun Enterprise Sdn. Bhd. and Kong Fa Holding Limited; the rescheduling of the repayment terms of certain of the Group's existing bank and other borrowings; the procurement of new equity or other financing; and the attainment of profitable and positive cash flow operations to meet the Group's future working capital and financial requirements. The financial statements do not include any adjustments that may be necessary should the implementation of such measures be unsuccessful. However, in the absence of sufficient documentary evidence, we have been unable to determine the reasonableness of the directors' assumptions that the Group might remain a going concern thereby supporting the basis on which they have prepared the financial statements. Although we are aware that a significant amount of effort has been put into this aspect of the Group's affairs, we have been unable to determine whether the directors' assessment is correct. Accordingly, we disclaim our opinion on account of this scope limitation.

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.

Disclaimer of opinion

Because of the significance of the possible effects of the limitation 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 31 December 2003 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 as set out in the basis of opinion section of this report, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

RSM Nelson Wheeler

Certified Public Accountants

Hong Kong

19 January 2005