



**TO THE MEMBERS OF HUABAO INTERNATIONAL HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)*

We have audited the financial statements on pages 16 to 39 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 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. 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.

**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 31st March, 2005 and 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.

## AUDITORS' REPORT

Without qualifying our opinion we draw to your attention to note 2 to the financial statements. The directors were unable to ensure the completeness of the books and records of certain subsidiaries of the Company which were disposed of during the year ended 31st March, 2004, before their appointment on 29th March, 2004, as the financial information left by the former management was limited. As a result the directors were unable to satisfy themselves with respect to the classifications between the gain on disposal of subsidiaries of HK\$475,000 and other relevant income statement account balances, including the impairment loss on other investments of HK\$1,400,000 during the year ended 31st March, 2004. In addition, the directors were unable to satisfy themselves as to whether the net liabilities of the Group as at 31st March, 2003 were free from material misstatement, and accordingly to whether the loss and cash flows of the Group for the year ended 31st March, 2004 are free from material misstatement.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

8th July, 2005