

Auditors' Report



李湯陳會計師事務所
LI, TANG, CHEN & CO.
 Certified Public Accountants (Practising)

TO THE SHAREHOLDERS OF GOLD-FACE HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 18 to 63 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 1981, 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, 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 scope of our work was limited as the evidence available to us was limited in the following respects:

1. *Scope limitation – Prior year's audit scope limitations affecting opening balances and comparative figures*

We were appointed as auditors of the Group on 30th June, 2006. Statement of Auditing Standards 450 "Opening Balances and Comparatives" issued by the Hong Kong Institute of Certified Public Accountants requires that the auditors obtain sufficient audit evidence that opening balances do not contain misstatements which materially affect the current period's financial statements. We are therefore required to satisfy ourselves as to the fairness of the figures brought forward as at 1st April, 2003 and the comparative figures included in the financial statements. However, as shown in the previous auditors' report, the former auditors disclaimed their opinion on the financial statements for the year ended 31st March, 2003. Since the books and records of four major subsidiaries of the Group for the year ended 31st March, 2003 had been seized by the Commercial Crime Bureau of The Hong Kong Police as mentioned in last year's auditors' report and we are not able to access prior year's audit work papers, we are therefore unable to satisfy ourselves that the figures brought forward as at 1st April, 2003 and the comparative figures in these financial statements do not contain misstatements which might materially affect the current year's financial statements.

Auditors' Report (continued)**BASIS OF OPINION (continued)****2. Scope limitation-Bank and other borrowings**

As detailed in note 14 on the financial statements,

- i) Properties under development (The Aegean愛琴灣) of book value of HK\$81,319,019 owned by a wholly-owned subsidiary were seized by the creditor banks and under receivership of an appointed receiver and manager. The amount has been netted off from the related bank loans of HK\$129,259,595 with a net borrowing of HK\$47,940,576 as included in bank and other borrowings in the consolidated balance sheet at 31st March, 2004.
- ii) Properties under development (Villa Pinada茵翠豪庭) of book value of HK\$287,124,382 owned by another wholly-owned subsidiary were seized by the creditor banks and under receivership of an appointed receiver and manager. The amount has been netted off from the related bank loans of HK\$294,867,105 with a net borrowing of HK\$7,742,723 as included in bank and other borrowings in the consolidated balance sheet at 31st March, 2004.

The receiver and manager have indicated that they have not yet prepared the accounting records for the receivership since their takeover and in this regard we are therefore uncertain about the progress of the receivership as at 31st March, 2004 and therefore we are unable to ascertain the fairness of the net borrowings due to the creditor banks totalling HK\$55,683,299 as mentioned in (i) and (ii) above.

In addition, bank and other borrowings of HK\$35,404,631 as included in the consolidated balance sheet could not be substantiated to the relevant supporting documents and no direct confirmations have been received from the relevant banks up to the date of this report. There are no other alternative audit procedures that we could adopt to satisfy ourselves on the fairness of such amount as stated in the consolidated balance sheet at 31st March, 2004.

We are therefore unable to express an opinion on the total bank and other borrowings of HK\$476,256,000 as stated in the consolidated balance sheet at 31st March, 2004.

3. Scope limitation – Trade and other payables and other creditors

- i) Trade and other payables of HK\$147,876,070
- ii) Other creditors of HK\$36,263,000

The above balances as included in the consolidated balance sheet represent mainly balances brought forward from 1st April, 2003, and as mentioned under scope limitation (1) above, these amounts therefore could not be substantiated to the relevant supporting documents and no direct confirmations have been received from the relevant creditors up to the date of this report. In the absence of other alternative audit procedures that we could adopt, we are unable to express an opinion on trade and other payables of HK\$368,906,000 and other creditors of HK\$70,952,000 in the consolidated balance sheet at 31st March, 2004.

Auditors' Report (Continued)

BASIS OF OPINION (continued)

4. *Scope limitation* – i) *loss on disposal of investments in subsidiaries/turnover and result attributable to discontinuing operations/segment information on discontinuing operations*
- ii) *finance cost relating to bank and other borrowings*

- i) As explained in note 32 on the financial statements, the Group disposed of certain subsidiaries for a total cash consideration of HK\$1,116,000. Since any audited financial statements and accounting records of these subsidiaries disposed of are no longer with the Group and therefore, cannot be made available to us for examination, the loss on disposal of these subsidiaries was therefore based on results up to 31st March, 2003, we are therefore unable to obtain sufficient and satisfactory audit evidence in respect of the following items included in the consolidated income statement:

| | |
|---|----------------|
| Loss on disposal of investments in subsidiaries | HK\$39,289,000 |
| Turnover-Discontinuing operations | HK\$ 2,734,000 |
| Loss from operations-Discontinuing operations | HK\$ 1,817,000 |
| Net loss for the year-Discontinuing operations | HK\$ 1,817,000 |

Accordingly, we are unable to express our opinion on the segment information on discontinuing operations (property management and operation of a power plant) as referred to in note 5 on the financial statements.

- ii) Following from the scope limitation (2) above on bank and other borrowings, we are therefore unable to ascertain the fairness of the total finance cost of HK\$65,762,000 charged to the consolidated income statement for the year ended 31st March, 2004.

5. *Scope limitation/Departure from Statement of Standard Accounting Practice 10 – No equity accounting due to unavailability of financial information of an associate*

As detailed in note 18 on the financial statements, equity accounting has not been adopted in accordance with HKICPA Statement of Standard Accounting Practice 10 on the results of the associate due to the unavailability of financial information for the year ended 31st March, 2004. Interests in associate are therefore stated at the recoverable amount i.e. at the subsequent sales proceeds in the consolidated balance sheet at 31st March, 2004.

Any adjustments that might have been found to be necessary in respect of the points mentioned in (1) to (5) above would have a consequential impact on the Group's and Company's shareholders' deficit, respectively, as at 31st March, 2004 and their loss for the year then ended, and the related disclosures thereof in the financial statements.

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 OF PREPARATION

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the adoption of the going concern basis for the preparation of the financial statements. As explained in note 2 on the financial statements, the financial statements have been prepared on a going concern basis despite:

- i) the Group has been in default on repayment of its bank and other borrowings totalling approximately HK\$476,256,000;

Auditors' Report (Continued)

FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS OF PREPARATION (continued)

- ii) receivers and managers had been appointed to obtain possession of a substantial portion of the properties of the Group which have been mortgaged to the banks and other financial institutions as collaterals for bank and other borrowings;
- iii) a winding up petition was made against the Company as referred to in note 39(a)(i) on the financial statements.

The validity of the appropriateness of the adoption of the going concern basis of preparation of the financial statements is dependent on:

- i) the successful completion of a shares resumption proposal (which is to be approved by the Listing Committee of the Stock Exchange of Hong Kong Limited) and a S.166 Scheme of Arrangement (which is to be approved by the creditors and the court) whereby the indebtedness of the Group could be substantially reduced and capital injection is made by new investors;
- ii) the successful conclusion of various initiatives to secure new sources of funding to meet its financial obligations as they fall due;
- iii) the continued financial support from its major shareholders; and
- iv) the ability of the Group to maintain future profitable operations.

Had the going concern basis not been used, adjustments would have to be made in the financial statements to reclassify non-current assets as current assets and provide for any further liabilities which might arise. We consider that appropriate disclosures have been made in the financial statements and our opinion is not qualified in this respect.

DISCLAIMER OPINION

Because of the significance of the possible effects of the limitations of scope in evidence available to us as referred to (1) to (5) above under "Basis of opinion" section, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of the Company's and the Group's affairs as at 31st March, 2004 and of the loss and cash flows of the Group for the year then ended and as to whether or not the financial statements have been 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 under (1) to (5) above in the "Basis of opinion" section of this report:

- i) we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- ii) we were unable to determine whether proper books and records had been kept.

Li, Tang, Chen & Co.

Certified Public Accountants (Practising)

Hong Kong,
20th July, 2006