

Auditors' Report



國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

6/F Wheelock House
20 Pedder Street
Central
Hong Kong

TO THE SHAREHOLDERS OF SINO PROSPER HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 16 to 55 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, 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 Society of 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and the Company's circumstances, 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.

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FUNDAMENTAL UNCERTAINTY – INVESTMENT PROPERTIES

In forming our opinion, we have considered the adequacy of the disclosures made in note 15 to the financial statements concerning the Group's investment properties for which the property title (including land use rights) has not yet been obtained by the Group and which were pledged in favour of a bank to secure a bank loan granted to the Group's former subsidiary. The carrying value of the Group's investment properties amounted to approximately HK\$214,200,000 as at 31 March 2004.

As further explained in note 15 to the financial statements, pursuant to three transfer contracts dated 12 March 2004 (the "Property Transfer Contracts"), investment properties with an aggregate value of HK\$125,200,000 were transferred from Dalian Dong Gang Real Estate Development Co., Ltd. ("Dalian Dong Gang"), a subsidiary of the Company which was disposed of by the Group on 23 March 2004, to the Company's wholly-owned subsidiary, Konrich (Asia) Limited ("Konrich"), at an aggregate consideration of HK\$125,200,000. Such investment properties were revalued to approximately HK\$214,200,000 as at 31 March 2004. As of the date of approval of the financial statements, the transfer of the property title (including land use rights) was pending for the completion of relevant registration procedures with the relevant government authorities in the People's Republic of China ("PRC"). The directors believe that the procedures for the transfer will be completed within 6 months from the date of the relevant agreement.

Furthermore, as at 31 March 2004, the Group's investment properties with an aggregate revalued amount of approximately HK\$126,090,000 were pledged in favour of a bank in the PRC (the "Bank") to secure a loan of approximately RMB70,940,000 (equivalent to approximately HK\$66,723,000) granted by the Bank to the Company's former subsidiary, Dalian Dong Gang, pursuant to the bank loan agreement and pledge agreement (together, the "Pledge Agreements") signed between Dalian Dong Gang and the Bank. According to the bank confirmation received from the Bank, the loan balance amounted to RMB70,940,000 as at 31 March 2004. As of the date of approval of the financial statements, Dalian Dong Gang was still in the process of negotiating with the Bank for renewal of the bank loan and the Bank has not yet released the pledge over the relevant investment properties. The Company has obtained a confirmation dated 28 July 2004 from Dalian Dong Gang which confirms that, inter alia, Dalian Dong Gang has complied with the terms of the Pledge Agreements, including the repayment of loan principal and interest in accordance with the terms of the Pledge Agreements.

FUNDAMENTAL UNCERTAINTY – INVESTMENT PROPERTIES (*Continued*)

Taking into account (i) the directors' belief that the procedures for the transfer of the property title of the relevant investment properties will be completed within 6 months from the date of the relevant agreement; (ii) the legal opinion provided by the Company's PRC legal advisors on 23 July 2004 which confirms, inter alia, that Konrich is the beneficial owner of the investment properties in accordance with the Property Transfer Contracts; and (iii) the confirmation dated 28 July 2004 from Dalian Dong Gang which confirms that Dalian Dong Gang has complied with the terms of the Pledge Agreements, including the repayment of loan principal and interest in accordance with the terms of the Pledge Agreements, the directors of the Company are satisfied that (i) the beneficial ownership of the investment properties vested with the Group and that it is appropriate to recognise the investment properties in the financial statements of the Group as at 31 March 2004; and (ii) Dalian Dong Gang has complied with the terms of the Pledge Agreements and accordingly no provision has been made in the financial statements of the Group as at 31 March 2004 for any liabilities which may arise from the above security given by the Group.

Should the Group fail to obtain property titles to the relevant investment properties, or should the relevant investment properties be seized by the Bank as a result of non-compliance by Dalian Dong Gang of the terms of the Pledge Agreements, appropriate adjustments against the carrying value of the Group's investment properties might be required. We consider that the fundamental uncertainty has been adequately accounted for and disclosed in the financial statements and our opinion is not qualified in this respect.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Group and of the Company as at 31 March 2004 and of the profit 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.

HLB Hodgson Impey Cheng

Chartered Accountants

Certified Public Accountants

Hong Kong, 28 July 2004