



Report of the Auditors



To the members

Paliburg Holdings Limited

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 97 to 191 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 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 Society of Accountants. An audit includes an 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 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.

Fundamental uncertainty - Investments in two investee companies

In forming our opinion, we have considered the adequacy of the disclosures made in note 23 to the financial statements concerning the outcome of the negotiations with the relevant government authorities in the People's Republic of China in respect of the resumption in 2000 of a land site beneficially and collectively held by two investee companies (the "Investee Companies"). The carrying value of the Group's investments in the Investee Companies amounted to HK\$56.9 million (2002 - HK\$56.9 million) as at 31st December, 2003 which is included in long term investments under non-current assets. As



further explained in note 23 to the financial statements, the Directors are not able to determine with reasonable certainty the ultimate outcome of the negotiations with respect to the grant of the land use rights and the resolution of certain other outstanding issues with the other parties involved in the Investee Companies. Should the Investee Companies ultimately fail to secure the title to the land site or the Group's proposed disposal of its investments in the Investee Companies fail to materialise, appropriate adjustment against the carrying value of the Group's investments in the Investee Companies might be required. We consider that appropriate disclosures have been made 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 Company and of the Group as at 31st December, 2003 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.

Ernst & Young

Certified Public Accountants

Hong Kong
15th April, 2004