ERNST & YOUNG
安永會計師事務所

To the members
King Pacific International Holdings Limited
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 24 to 80 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 statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants (the "HKSA"), except that the scope of our work was limited as explained below.

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. However, the evidence available to us was limited as follows:

1. **Scope limitation and disagreement over accounting treatment and disclosure – Interest in a jointly controlled entity**

   Included in the consolidated balance sheet at 31 March 2001 is a 40% interest in a jointly controlled entity, Hubei Chang Zhou Power Development Co., Ltd. ("HCZP") in the amount of HK$168.3 million as at 31 March 2001. The Group's interest in HCZP is stated in the consolidated balance sheet at a 31 March 1999 carrying value of HK$168.3 million derived from HCZP's management accounts which were unaudited and prepared under the accounting principles generally accepted in the People's Republic of China (the "PRC"). As more fully explained in note 16 to the financial statements, the Group has not accounted for any changes in its interest in HCZP since 31 March 1999 using the equity method and no supplementary disclosures have been made in respect of the Group's interest therein in accordance with the provisions and disclosure requirements as set out in Statement of Standard Accounting Practice 2.121 " Accounting for Interests in Joint Ventures" issued by the HKSA. We have not been able to quantify the effect on the consolidated balance sheet and consolidated profit and loss account of failing to properly account for the Group's share of the net assets of HCZP as at 31 March 2001 and its results for the year then ended. Furthermore, as explained in note 16 to the financial statements, due to the unavailability of the financial information of HCZP, we have also not been able to perform the procedures we consider necessary to satisfy ourselves as to whether any provision is required to be made against the carrying value of the Group's interest in HCZP as at 31 March 2001.

Our auditors' report, dated 30 January 2001, on the financial statements for the year ended 31 March 2000 was also qualified in respect of the same matters.

2. Scope limitation – Long term investment

Included in the consolidated balance sheet at 31 March 2001 is a long term unlisted investment in Wuhan Ocean Essence Water Factory Company Limited ("Wuhan Ocean Essence") in the amount of HK$148.5 million as at 31 March 2001. For the reasons which are more fully explained in note 17(a) to the financial statements, we were unable to obtain the necessary information and explanations as regards certain documents produced by two former directors of the Company which cast doubt on the validity of Ocean Essence Holdings Limited's ownership of its 90% interest in Wuhan Ocean Essence. Furthermore, as also further described in note 17(a) to the financial statements, as a result of the PRC joint venture partner's denial of the Group's access to the water supply factory and the books and records of Wuhan Ocean Essence, the Group has been unable to obtain any financial information and/or to commission an independent professional valuation of Wuhan Ocean Essence to assess the carrying value thereof. In addition, the revocation of the business licence of Wuhan Ocean Essence may have a potential impact on its operations and hence its profitability. Accordingly, the scope of our work was limited in respect of the carrying value of the Group's interest in Wuhan Ocean Essence. As a result of the above scope limitations, we have not been able to perform the procedures we consider necessary to satisfy ourselves as to the Group's ownership of its investment in Wuhan Ocean Essence and whether any provision is required to be made against the carrying value of the Group's interest in Wuhan Ocean Essence as at 31 March 2001.

Any adjustment to this amount would have a consequential effect on the net asset position of the Group as at 31 March 2001 and the net loss from ordinary activities attributable to shareholders for the year then ended.

Our auditors' report, dated 30 January 2001, on the financial statements for the year ended 31 March 2000 was also qualified in respect of the same matters.

3. Scope limitation – Deposit paid for proposed investment

Included in the consolidated balance sheet at 31 March 2001 is a deposit of HK$15 million (2000: HK$15 million) (the "Deposit") paid to The General Association of Xiamen (H.K.) Ltd. ("GAX") pursuant to the Group's proposed acquisition of a 15% equity interest in Xiamen Information Port Construction and Development Co., Ltd. ("XICPD") (the "Proposed Acquisition"). As more fully explained in note 18(a) to the financial statements, the Proposed Acquisition subsequently fell through and GAX agreed to refund the Deposit to the Company. A personal guarantee has been given by Mr. Cheung Kung Tai ("Mr. Cheung"), a former director of the Company, as security for the repayment of the Deposit by GAX to the Company. Subsequent to the balance sheet date, due to the non-repayment of the Deposit by GAX, Mr. Cheung and Mr. Cheng Chao Ming, Jenson ("Mr. Cheng"), another former director of the Company, agreed to undertake the repayment of the Deposit to the Company as to HK$13.5 million and HK$1.5 million, respectively. As further described in note 18(a) to the financial statements, an aggregate amount of HK$8.5 million has been repaid by Mr. Cheung by reference to an original repayment schedule and a subsequent revised repayment schedule up to the date of this report. However, we were unable to obtain sufficient information to assess the recoverability of the remaining deposit of HK$6.5 million from Mr. Cheung and Mr. Cheng and hence any provision is required against the carrying value thereof.

Any adjustment to the remaining deposit amount would have a consequential effect on the net asset position of the Group as at 31 March 2001 and the net loss from ordinary activities attributable to shareholders for the year then ended.

Our auditors' report, dated 30 January 2001, on the financial statements for the year ended 31 March 2000 was qualified because the audited financial statements of GAX for the year ended 31 March 2000 had neither reflected the Deposit, nor GAX's investment in XIPCD. We were unable to obtain from the directors satisfactory explanations with respect to such inconsistencies and, therefore, the transaction as a whole. In addition, our opinion was also qualified in respect of the recoverability of the Deposit.

4. **Scope limitation – Other receivable**

Included in the consolidated balance sheet at 31 March 2001 is an other receivable of HK$65.5 million from Beijing Trico Industry Company ("BTI") in relation to a proposed investment in a joint venture company in the PRC. As more fully explained in note 18(b) to the financial statements, the Group made aggregate payments of HK$65.5 million to BTI (HK$50.5 million in prior years; HK$15 million in the current year) which have been designated as a procurement fee for the transfer of technology, know-how and intellectual property rights, relating to the production of printing materials for identity related documents in the PRC, to the joint venture company. Of these payments, a total amount of HK$34.4 million was paid to BTI through certain companies beneficially owned by Mr. Cheng Chao Ming, Jenson, a former director of the Company, including an amount of HK$11.6 million which was paid in the current year. We were unable to obtain from the directors satisfactory explanations concerning the reasons for the payment through these companies and we were unable to ascertain the commercial substance of the transaction. Furthermore, in the absence of an independent professional valuation or other basis to support the amount of the procurement fee, we were unable to obtain sufficient evidence to assess as to whether any provision is required against the carrying value thereof.

Any adjustment to this amount would have a consequential effect on the net asset position of the Group as at 31 March 2001 and the net loss from ordinary activities attributable to shareholders for the year then ended.

Our auditors' report, dated 30 January 2001, on the financial statements for the year ended 31 March 2000 was also qualified in respect of the same matters.

5. **Scope limitation – Creditor confirmations and various claims against the Group**

As further explained in note 33(c) to the financial statements, due to numerous claims against Yiu Wing Construction Company Limited ("YWCCL"), a 99.9% indirect subsidiary of the Company, since the year ended 31 March 2000, we were not authorised by the directors of YWCCL to obtain direct confirmations from certain creditors of YWCCL as to the balances outstanding as at 31 March 2001. With respect to the circularised confirmations, we have not received a sufficient number of replies from the creditors of YWCCL up to the date of this report. There were no other satisfactory procedures that we could adopt to confirm that all liabilities as at the balance sheet date were properly recorded.

In the absence of satisfactory evidence relating to the foregoing, we have not been able to satisfy ourselves as to whether the accounts payable included in the consolidated balance sheet as at the balance sheet date and the consolidated profit and loss account for the year then ended are fairly stated. Our auditors' report, dated 30 January 2001, on the financial statement for the year ended 31 March 2000 was also qualified in respect of the same matters.

In addition, as also further described in note 33(c) to the financial statements, there were various claims against YWCCL aggregating approximately HK$100 million (2000: HK$56 million) where the amount of such claims is specified, and numerous claims with unspecified amounts at 31 March 2001. In respect of the claims with specified amounts, a provision of approximately HK$43 million (2000: HK$36 million) has been provided for in the financial statements. No provision has been made for numerous claims with unspecified amounts. As we have not received legal letters from the Group's legal advisors concerning the likelihood of the outcome of the claims with specified amounts aggregating HK$64 million and unspecified amounts, we were unable to assess whether the provision made by the Group is adequate, but not excessive and whether provision, if any, is required for numerous claims with unspecified amounts. Any adjustments found to be necessary in respect of these claims would have a consequential effect on the net asset position of the Group as at 31 March 2001 and the net loss from ordinary activities attributable to shareholders for the year then ended.

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 going concern of the Group

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the financial statements concerning the adoption of the going concern basis on which the financial statements have been prepared. As more fully explained in note 2 to the financial statements, the directors are currently undertaking various measures to relieve the Group from its current liquidity problems. The financial statements have been prepared on a going concern basis, the validity of which depends upon the successful outcome of the Group's funding plans, the successful negotiations with the Group's bankers and certain creditors to reschedule or restructure its outstanding indebtedness and the contemplated disposal of certain of the Group's assets and identified subsidiaries to meet its future working capital and financial requirements. The financial statements do not include any adjustments that would result from the failure of implementation of such measures. We consider that appropriate disclosures have been made, but the fundamental uncertainty relating to whether the going concern basis is appropriate is so extreme that we have disclaimed our opinion.

Fundamental uncertainty relating to the eventual outcome of a claim against the Group

In forming our opinion, we have considered the adequacy of the disclosures made in note 33(b) to the financial statements concerning the outcome of a claim against YWCCL in the amount of HK$292 million (2000: HK$230 million). As more fully explained in note 33(b) to the financial statements, the claim is currently under arbitration proceedings. The directors consider that, given the nature of the claim and damages in dispute as well as the preliminary status of the proceedings, it is not possible to estimate the eventual outcome of the claim with reasonable certainty at this stage. The directors consider that the Group has valid defences against the claim. Accordingly, they consider no provision therefor is required in the financial statements. We consider that appropriate disclosures have been made and our opinion is not qualified in this respect.

DISCLAIMER OF OPINION

Because of the significance of each of: (i) the possible effects of the scope limitations in evidence available to us as set out in the basis of opinion section of this report; and (ii) the fundamental uncertainty relating to the going concern basis, 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 March 2001 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 disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitations 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.

Ernst & Young
Certified Public Accountants

Hong Kong
7 December 2001