

# AUDITORS' REPORT

---

## RSM Nelson Wheeler

羅申美會計師行

Certified Public Accountants

TO THE MEMBERS OF

### **SANYUAN GROUP LIMITED**

*(Incorporated in Hong Kong with limited liability)*

We have audited the financial statements on pages 26 to 78 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### *Respective responsibilities of directors and auditors*

The Companies Ordinance requires the directors to prepare 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 solely to you, as a body, in accordance with Section 141 of the Companies Ordinance, 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 Hong Kong Standards on Auditing 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 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*

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the basis of preparation of financial statements adopted by the directors. As explained in note 2 to the financial statements, the Group had net current liabilities and capital deficiency of HK\$26,162,000 and HK\$25,562,000 respectively at 31 December 2005.

# AUDITORS' REPORT

.....

## *Fundamental Uncertainty* (Continued)

The financial statements have been prepared on a going concern basis, the validity of which depends upon the continuous financial support by the Group's ultimate holding company at a level sufficient to finance the Group's current activities. The Group's ultimate holding company has confirmed its willingness to finance the Group's current activities. Moreover, as stated in note 20 to the financial statements, the Group's ultimate holding company has extended the maturity date of the HK\$30,000,000 convertible note from 7 December 2006 to 7 December 2007. The circumstances relating to this fundamental uncertainty are described in note 2 to the financial statements. We consider that the fundamental uncertainty has been adequately 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 the Company's and the Group's affairs as at 31 December 2005 and of the Group's results and cash flows for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

**RSM Nelson Wheeler**

*Certified Public Accountants*

Hong Kong

21 April 2006