

**To the shareholders****Hung Fung Group Holdings Limited***(Incorporated in Bermuda with limited liability)*

We have audited the financial statements on pages 36 to 80 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 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, 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.

致雄豐集團控股有限公司*(於百慕達註冊成立之有限公司)***全體股東**

本核數師經已審核載於第36至80頁之財務報告，該等財務報告乃根據香港公認之會計準則編製。

董事及核數師之有關責任

貴公司之董事須負責編製真實而公平之財務報告。在編製該等真實而公平之財務報告時，董事必須選擇及貫徹採用合適之會計政策。本核數師之責任，乃根據我們審核之結果，對該等財務報告提供獨立意見，並向各股東報告。

意見基礎

本核數師乃根據香港會計師公會頒佈之核數準則進行審核工作。惟審核範圍受下文所述之規限。

審核範圍包括以抽查方式，查核該財務報告內所載數額及所披露資料之證據，亦包括評估董事在編製該等財務報告時所作之重要估計和判斷，以及採用之會計政策是否適合貴公司和貴集團之狀況，及有否貫徹採用並足夠披露該等會計政策。

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 evidence available to us was limited as follows:

1. Scope limitation - fundamental uncertainty - going concern of the Group

In forming our opinion, we have considered the adequacy of the disclosures made in note 2(i) to the financial statements which explain the circumstances giving rise to fundamental uncertainties relating to the Group's ability to continue as a going concern. Such disclosures also include details of the proposed standstill arrangement and debt restructuring between the financial creditors of the Group and the Group, the Group's funding plans and various measures being undertaken or proposed to be undertaken by the directors to relieve the Group from its current profitability and liquidity problems. The financial statements have been prepared on a going concern basis, the validity of which depends upon the successful outcome of the proposed standstill arrangement, debt restructuring and the funding plans and the attainment of profitable and positive cash flow operations of the Group to meet its future working capital and financial requirements. The financial statements do not include any adjustments that would result from the failure of such measures. However, because of the condition of the Group's accounting records, the complexity of the Group's financial position and the inconclusive state of the Group's discussions and negotiations with its financial creditors, the directors have as yet been unable to provide us with a detailed plan or projection as to how the Group might remain a going concern thereby supporting the basis on which they have prepared the financial statements. Although we are aware that a significant amount of effort has been put into this aspect of the Group's affairs, we have been unable to determine that the directors assessment is correct. Accordingly, we disclaim our opinion on account of this scope limitation alone, notwithstanding the matters noted below.

本核數師在策劃和進行審核時，均以取得一切我們認為必需之資料及解釋為目標，使我們能獲得充分之憑證，就該等財務報告是否存有重大錯誤陳述，作合理之確定。惟提供予本核數師之憑證受以下限制：

1. 審核範圍之限制－基本不穩定因素－貴集團之持續經營

在達致意見時，本核數師曾考慮財務報告附註2(i)解釋引起有關貴集團持續經營基準之不穩定因素原因所作出披露是否足夠。該等披露亦包括貴集團之財務債權人與貴集團可能訂立之暫緩償還債務安排（「暫緩償還債務安排」）、貴集團之集資計劃及已採取之不同措施或建議由董事進行以舒緩貴集團目前盈利能力及流動資金之困難之詳情。財務報告已按持續經營之基準編製，其有效性取決於暫緩償還債務安排及集資計劃是否取得成果，以及貴集團之營運能否達致有利可圖及產生現金以應付其日後營運資金及財務需求。財務報告並不包括因暫緩償還債務安排及集資計劃及上述措施未能成功實行情況下所需作出之任何調整。然而，由於貴集團賬目記錄及財務狀況之複雜性，且貴集團與其財務債權人進行之商討及磋商均處於初步階段，董事仍未能向本核數師提供一份詳細計劃及未能預期貴集團如何維持持續進行基準以編製財務報告。儘管本核數師已注意到貴集團已就此範疇盡最大努力，惟本核數師無法決定董事之評估是否正確，故縱使有下列事項之提及，本核數師僅不就此範圍之限制發表意見。



2. Scope limitation - completeness of books and records and maintenance of internal controls

As further explained in note 2 (ii) to the financial statements, there was a significant breakdown in the Group's internal accounting controls. We have not been provided with adequate audit evidence to satisfy ourselves as to the nature, completeness, appropriateness, classification and disclosures in respect of the transactions undertaken by the Group during the year ended 31 March 2001 and the related balances as further detailed in note 2 (ii) to the financial statements, in particular, we have been unable to perform any satisfactory procedures to substantiate the sales transactions as set out in note 2(ii)(b)(ii).

Any adjustments found to be necessary in respect of the matters set out in the above would have a consequential impact on the Group's net loss attributable to shareholders for the year ended 31 March 2001, the Group's net liabilities position as at 31 March 2001 and the classification and related disclosures thereof in the financial statements.

3. Scope limitation - valuation of fixed assets

In view of the liquidity problems currently faced by the Group, the construction in progress with a carrying value of approximately HK\$32,288,000 was put on hold and a full provision has been made against the cost incurred as at 31 March 2001. We concur with this provision on the basis that the Group has no plans to complete the construction, nor does it have any business plans for such assets even if they were completed. However, in the current year, the Group has significantly scaled down its production operations in the People's Republic of China (the "PRC"). Having regard to the gross operating loss incurred by the Group for the year ended 31 March 2001, and the uncertainties involved in the Group having sufficient working capital to restore operations in the foreseeable future to a commercially viable level, as explained more fully in note 2 to the financial statements, there is also an uncertainty

2. 審核範圍之限制－賬目及記錄之完整性及維持內部監控

如財務報告附註2(ii)所述，由於貴集團在內部會計監控方面出現重大變動，故本核數師未能獲提供足夠審核證據，以確定有關貴集團於截至二零零一年三月三十一日止年度詳述於財務報告附註2(ii)之交易及有關結餘是否完整、合適、已正確分類及作出相關披露，尤為甚者，本核數師未能進行任何令人滿意之程序，以證實財務報告附註2(ii)(b)(ii)之銷售交易。

對上文有關事宜作出任何必要之調整，均會影響貴集團之財務報告內截至二零零一年三月三十一日止年度之股東應佔虧損淨額、貴集團於二零零一年三月三十一日負債淨額狀況及相關之披露。

3. 審核範圍之限制－固定資產之估值

有見及貴集團目前面對之資金流動困難，面值約達32,288,000港元之在建工程將予暫停，且已就於二零零一年三月三十一日之應計成本作出全面撥備。本核數師同意在貴集團未有計劃完成建築工程時，或即使在完工後仍未有就該等資產之任何業務計劃時作出此筆撥備。然而於本年度，貴集團已大幅削減其於中華人民共和國（「中國」）生產業務之規模，有鑑於貴集團於截至二零零一年三月三十一日止年度所應計之經營虧損總額，以及涉及貴集團有足夠營運資金於可見將來恢復運作致商業上可行之程度之不穩定因素（於財務報告附註2內有更詳盡之說明），本核數師不確定貴集團現有已完工之固定資產之面值，以及不確定是否需要作出虧蝕評估，

as to the carrying value of the Group's existing completed fixed assets and an impairment assessment needs to be performed to determine that recoverable amount either from utilisation in future profitable operations, or from their disposal. Apart from the leasehold land and buildings of approximately HK\$79,214,000, the valuation of which was performed by an independent firm of professional valuers as at 31 March 2001 as further detailed in note 12 to the financial statements, the net book value of the fixed assets held by the Group was stated at cost less accumulated depreciation and impairments which included leasehold improvements of approximately HK\$9,377,000, moulds, plant and machinery of approximately HK\$32,535,000, and furniture, fixtures, equipment and motor vehicles of approximately HK\$1,676,000. In the absence of any information from the directors as to their assessment of the carrying value of the fixed assets as a result of the scaling down in production operations and in the absence of any valuation on an open market value basis, we are unable to assess whether the provision for impairment in the value of the fixed assets as at 31 March 2001 currently provided by the Group as disclosed in note 12 to the financial statements is adequate but not excessive. Any adjustments that might have been found necessary would have a consequential impact on the net liabilities of the Group at 31 March 2001 and its net loss attributable to shareholders for the year then ended.

4. Scope limitation - potential claim

As further explained in note 27 to the financial statements, the Group received a claim for an amount of approximately HK\$18.7 million. Although the ultimate settlement is still in the process of negotiation, the directors have made a substantial provision for the claim. As we have not been provided with sufficient information or explanations to satisfy ourselves if the basis of provision is appropriate, we are unable to assess whether the provision made by the Group is adequate, but not excessive. Any adjustments found to be necessary in respect of the matter set out in the above would have a consequential impact on

以釐定來自應用日後可獲取盈利之營運或出售之可收回金額。除價值約達79,214,000港元之租賃土地及樓宇（此估值乃獨立專業估值師於二零零一年三月三十一日進行，詳情載於財務報告附註12）外，貴集團持有固定資產之賬面淨值乃按成本減累計折舊及虧絀，包括租賃物業裝修約9,377,000港元、模具、廠房及機器約32,535,000港元及傢俬、裝修、設備及汽車約1,676,000港元。由於欠缺由董事就評估在削減生產業務之規模後之固定資產之賬面值之資料及欠缺按公開市值基準進行之任何估值，因此，目前由貴集團就於二零零一年三月三十一日固定資產減值作出之撥備（於財務報告附註12中披露）是否足夠且沒有超額撥備，本核數師未能作出評估。任何可能必需作出之調整，均可能嚴重影響貴集團於二零零一年三月三十一日負債淨額及其於截至該日止年度之股東應佔虧損淨額。

4. 審核範圍之限制－潛在索償

如財務報告附註27所述，貴集團已接獲約18,700,000港元之索償。儘管最終之清付方式仍在商討過程中，董事已就索償作出重大撥備。由於本核數師未獲提供足夠資料或解釋，以確定撥備之基準是否適合，本核數師未能就貴集團作出之撥備是否足夠而非超額撥備作出評估。任何就上文所載事宜所必需作出之調整，均可能嚴重影響貴集團於截至



the Group's net loss attributable to shareholders for the year ended 31 March 2001 and the Group's net liabilities position as at 31 March 2001.

5. Fundamental uncertainty - legal proceedings against the Group

As further detailed in note 28 to the financial statements, there are legal proceedings against the Group including petitions for the liquidation of certain Group companies, principally initiated by various bankers and vendors, the future outcome of which could not be assessed with reasonable certainty at the date of these financial statements. Other than the amounts claimed as summarised in note 28, no reasonable estimate could be made with regard to any possible additional costs to the Group should the various defending companies be unsuccessful in defending the cases. Such additional costs might include interest, legal costs and consequential damages which the Group may sustain. Also, it is not possible to determine the outcome of the court proceedings to wind up certain Group companies. Although we consider the disclosures made in respect of these matters is adequate, we consider them to be so significant that we have disclaimed our opinion in this respect.

DISCLAIMER OF OPINION

Because of the significance of each of (i) the fundamental uncertainty relating to the going concern basis detailed in paragraph 5 above, and (ii) the possible effects of the limitations in evidence available to us as set out in each of paragraphs 1 to 4 in the basis of opinion section of this report, 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 Group and of the Company 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.

二零零一年三月三十一日止年度之股東應佔虧損淨額及貴集團於二零零一年三月三十一日之負債淨額。

5. 基本不明朗因素－向貴集團提出之法律訴訟程序

如財務報告附註28所述，向貴集團提出之法律訴訟包括主要由各往來銀行及賣方就若干貴集團公司清盤而提出之呈請，其將來結果於該等財務報告日期未能合理地作出評估。除於附註28所述之索償金額外，未能就倘若各答辯公司未成功為該等案件提出抗辯而可能帶來之任何費用作合理估計，例如貴集團可能須承擔之額外利息、法律費用及因而產生之損失。此外亦不可能決定向若干貴集團公司進行清盤之法庭程序之結果。儘管本核數師認為已就以上所述事項作出足夠之披露，惟由於該等披露乃事關重大，故本核數師未能就該方面發表意見。

未能就財務報告發表意見

由於(i)有關持續經營基準之基本不明朗因素詳列於第5段及(ii)載於本報告中意見基礎一節內第1至第4段各段提供予本核數師證據上限制之潛在影響事關重大，故此，對於財務報告能否真實公平地反映貴集團與貴公司在二零零一年三月三十一日之財務狀況、貴集團截至該日止年度之虧損及現金流量，以及財務報告是否根據香港公司條例之披露規定而妥善編製等方面，本核數師未能發表意見。

In respect alone of the limitations on our work as set out 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) proper books of accounts have not been kept.

Hong Kong
26 July 2001

單就本報告意見基礎一節所述之限制：

- (i) 本核數師並未取得我們認為進行審核所需之一切資料及解釋；及
- (ii) 會計賬冊未有妥善保存。

香港
二零零一年七月二十六日