

To the Members of

**Wah Nam Group Limited**  
**(In compulsory liquidation)**

*(Incorporated in Hong Kong with limited liability)*

We have audited the financial statements on pages 8 to 63 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 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. As more fully explained in Note 1 to the financial statements, the Company is currently in liquidation, and the directors are not in a position to fulfill the responsibilities set out in the Companies Ordinance.

It is our responsibility to form an independent opinion, based on our audit, on the financial 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 ("HKSA"), except that the scope of our work was limited as explained below.

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 judgments made 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 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 set out in detail in the following paragraphs.

As more fully explained in Note 1 to the financial statements, a winding-up order was made against the Company on 26 July 2000. The listing of the Company's shares on The Stock Exchange of Hong Kong Limited ("Stock Exchange") has been suspended since 20 July 2000. John Robert Lees and Desmond Chung Seng Chiong were appointed as joint and several liquidators ("the Liquidators") of the Company on 27 January 2001.

**BASIS OF OPINION (cont'd)**

We were appointed auditors on 21 May 2002 which was subsequent to the end of the Company's financial year. In addition, the Company had a winding-up order made against it on 26 July 2000 and the present Liquidators were appointed on 27 January 2001. The directors were therefore not able to fulfill their commitments in relation to the audits for the respective years ended 31 December 1999, 2000 and 2001. In consequence, we were unable to carry out auditing procedures necessary to obtain adequate assurance regarding the assets, liabilities, income and expenses appearing in the financial statements. There were no satisfactory audit procedures that we could adopt to obtain sufficient evidence regarding the accuracy and completeness of assets, liabilities, income and expenses.

As more fully explained in Note 1 to the financial statements, the financial statements do not contain a statement of cash flows. This is not in accordance with the requirements of Statement of Standard Accounting Practice ("SSAP") 15 "Cash flow statements".

We were unable to assess the existence of the inventories as set out in Note 21 to the financial statements, and whether they were stated at the lower of cost and net realisable value as required by SSAP 22 "Inventories" issued by HKSA.

We were unable to assess the completeness and accuracy of related party disclosures as set out in Notes 22, 25, 26 and 38 to the financial statements as required by SSAP 20 "Related Party Disclosures", issued by HKSA, and S161B of the Companies Ordinance.

We were unable to assess the existence and fair value of short term investments as set out in Note 23 to the financial statements, as required by SSAP 24 "Accounting for Investments in Securities", issued by HKSA.

The financial statements do not contain the Group's financial information by segment. This is not in accordance with the requirements of SSAP 26 "Segment reporting".

We were unable to carry out auditing procedures necessary to obtain adequate assurance regarding directors' emoluments of HK\$1,969,000 and the disclosure of the five individuals with highest emoluments, as set out in Notes 8 and 9 to the financial statements. This is not in accordance with the requirements of Section 161A of the Companies Ordinance.

The financial statements do not contain information pertaining to the Group's credit risk and ageing of debtors and creditors. This is not in accordance with the requirements of the Rules Governing the Listing of Securities issued by the Stock Exchange.

### **BASIS OF OPINION (cont'd)**

As more fully disclosed in Note 15 to the financial statements, the Group consolidation includes subsidiaries, on the basis of unaudited information, other than for Hangzhou Huanan Engineering Development Co. Ltd. Accordingly, we have been unable to establish whether the amounts consolidated fairly reflect the position at 31 December 1999, 2000 and 2001 or the results for the three years then ended.

The financial statements of Hangzhou Huanan Engineering Development Co. Ltd ("HHED") were audited by another firm of accountants. We were not able to review the auditors' work, nor could we reperform the audit and accordingly, we have been unable to obtain adequate assurance regarding the results and state of affairs of HHED in respect of the years ended 31 December 1999, 2000 and 2001.

The Rules Governing the Listing of Securities issued by the Stock Exchange require, inter alia, that companies whose shares are listed on the Stock Exchange submit audited financial statements to shareholders within 4 months of the balance sheet date (5 months prior to 1 July 2000). The Company has not issued any audited financial statements since 31 December 1998. The requirements of the Companies Ordinance have similarly not been observed in respect of the financial years ended 31 December 1999 and 2000.

No audited financial statements have been prepared by the Company since the financial year ended 31 December 1998. As disclosed in Note 2 to the financial statements, in the opinion of the Liquidators, presentation of the financial statements for the respective years ended 31 December 1999, 31 December 2000 and 31 December 2001 in the format included in the Report allows the shareholders to better understand the results of the Group's operations and the Company's and the Group's state of affairs for those three years, and to compare the results and respective state of affairs at each balance sheet date with the last audited financial statements which were for the year ended 31 December 1998. The Liquidators consider that this presentation will provide the most useful information for shareholders.

#### *Fundamental uncertainties relating to basis of preparation of financial statements*

The Liquidators are agents of the Company. They do not act in any personal capacity and are not directors of the Company. Their principal function is to collect and realise the assets of the Company and distribute such realisations for the benefit of all creditors ("the Creditors").

On 18 January 2002, a restructuring agreement was signed between inter alia, the Company (acting through the Liquidators), the Liquidators and Leading Highway Limited, a company incorporated in the British Virgin Islands with limited liability and wholly and beneficially owned by Mr. Cheng Yung Pun ("the Investor"). The Restructuring Agreement sets out the framework for implementation of the Restructuring Proposal. The Stock Exchange has given approval in principle to the Restructuring Proposal and has granted the Company an extension of the third stage of the de-listing procedure until 31 August 2002 to enable the implementation of the Restructuring Proposal. If the Restructuring Proposal is fully implemented and approved by the relevant authorities and the shareholders of the Company (and the Creditors if so directed), the Company's shares will be exchanged for shares of Wah Nam International Holdings Limited ("WNIH"), a company incorporated in Bermuda with limited liability whose shares are proposed to be listed on the Stock Exchange, at the rate of 1 ordinary share in WNIH for every 50 shares in the Company.

**BASIS OF OPINION (cont'd)***Fundamental uncertainties relating to basis of preparation of financial statements (cont'd)*

The consolidated financial statements show a deficiency of shareholders' funds of HK\$93,345,000 at 31 December 2001, of HK\$90,655,000 at 31 December 2000 and of HK\$73,193,000 at 31 December 1999. As disclosed in Note 1 to the financial statements, the consolidated financial statements on pages 8 to 63 have not been prepared on a full going concern basis. As further stated in Note 1, assets and liabilities have been included in the respective balance sheets at the Liquidators' current best estimates of their respective net realisable values or net amounts due.

Note 1 also states that certain creditors have obtained a Mareva Injunction against the Company, prohibiting it from disposing of any of the Company's and the Group's assets. The Liquidators are required to seek a variation to the Injunction as and when assets are realised by them.

If the Restructuring Proposal is not approved and implemented by the relevant authorities and the shareholders, (and the Creditors if so directed), adjustments might have to be made further to reduce the value of assets to their recoverable amount, to provide for any further liabilities which might arise and to reclassify fixed assets and other long-term assets as current assets. This may also be affected by the Mareva Injunction referred to in the preceding paragraph.

We consider that appropriate disclosures have been made in the financial statements concerning this situation, but we also consider that the uncertainties surrounding the circumstances under which the financial statements have been prepared are such that they form part of our overall disclaimer on the view given by the financial statements for the years ended 31 December 1999, 2000 and 2001.

**QUALIFIED OPINION: DISCLAIMER ON VIEW GIVEN BY FINANCIAL STATEMENTS**

Because of the significance of the possible effects of the various limitations in evidence available to us, set out in the Basis of Opinion section of our report above, we are unable to form an opinion as to whether the financial statements, prepared on the bases set out in Notes 1 and 2 to the financial statements, give a true and fair view of the state of the Company's and the Group's affairs at 31 December 1999, 2000 and 2001 and of its losses for each of the three years then ended.

As explained above, the directors were unable to fulfill their commitments in relation to our audits and as a result, we have not obtained all the information and explanations that we considered necessary for the purpose of our audits and in our opinion, proper books of account have not been kept.

**Moore Stephens**

*Certified Public Accountants*

Hong Kong  
28 June 2002