

**AUDITORS' REPORT TO THE SHAREHOLDERS OF
VISION TECH INTERNATIONAL HOLDINGS LIMITED
(INCORPORATED IN BERMUDA WITH LIMITED LIABILITY)**

We have audited the financial statements on pages 21 to 54 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 solely to you, as a body, 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 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 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 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) The financial statements for the year ended 31 March 2001 were audited by another firm of accountants. We are required to satisfy ourselves as to the adequacy of the figures brought forward as at 1 April 2001 and the comparative figures included in the financial statements. The work we normally carry out to enable us to confirm the adequacy of these figures includes a review of prior year audit files. We were unable to review the audit files of the previous auditors for the year ended 31 March 2001 since no response has been received from them up to the issuance of this report. In addition, we have not been able to carry out alternative audit procedures covering the year ended 31 March 2001 to enable us to obtain details on the figures brought forward as at 1 April 2001 in these financial statements.

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(Continued)

BASIS OF OPINION (Continued)

(2) As explained by directors in note 2(a) to the financial statements, the directors have been unable to locate sufficient documentary information to satisfy themselves regarding the treatment of various balances of the Group and of the Company as at 31 March 2002 and for the year then ended as follows:

- i) As explained by directors in note 2a(i) to the financial statements, they were unable to locate the supporting documentation to substantiate the turnover including the sales of approximately HK\$70,364,000 and other revenue of approximately HK\$184,000. Accordingly, the directors have been unable to satisfy themselves as to whether these amounts are fairly stated in the financial statements.
- ii) As explained by directors in note 2a(ii) to the financial statements, they were unable to locate third party supporting documentation to substantiate loss from ordinary activities before taxation after charging the following amounts:
 - Cost of sales of approximately HK\$69,046,000;
 - Selling and distribution costs of approximately HK\$431,000;
 - Administrative expenses of approximately HK\$16,491,000;
 - Finance costs of approximately HK\$483,000;
 - Written-off of deposits of approximately HK\$8,269,000; and
 - Loss on disposal of subsidiaries of approximately HK\$225,000.

Accordingly, the directors have been unable to satisfy themselves as to whether these amounts are fairly stated in the financial statements.

- iii) As explained by directors in note 2a(iii) to the financial statements, there were no proper books and records kept by the subsidiaries namely Victor Century Limited and Yue Hong Enterprises Limited. They were unable to satisfy themselves as to whether the minority interest in respect of Victor Century Limited charged to income statement of approximately HK\$122,000 during the year was fairly stated.
- iv) As explained by directors in note 2a(iv) to the financial statements, there was no fixed assets register maintained by the Group as at 31 March 2002. The directors were unable to satisfy themselves as to the existence, ownership and classification of the fixed assets as at 31 March 2002. In addition, the directors were unable to verify the accuracy of depreciation charges of approximately HK\$1,499,000 for the year ended 31 March 2002. As there was no independent professional valuation of these assets, the directors were unable to quantify the effect of impairment loss in the carrying value of fixed assets on the financial statements as at 31 March 2002.

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(Continued)

BASIS OF OPINION (Continued)

(2) (Continued)

- v) As explained by directors in note 2a(v) to the financial statements, there was no supporting documentation to support the following balances at 31 March 2002:
- Amounts due from related companies of approximately HK\$5,276,000 of the Group and approximately HK\$4,625,000 of the Company;
 - Prepayments, deposits and other receivables of approximately HK\$15,759,000 of the Group;
 - Trade receivables of approximately HK\$71,418,000 of the Group and the aged analysis; and
 - Cash and bank balances of approximately HK\$2,033,000 of the Group and approximately HK\$1,636,000 of the Company.

Accordingly, the directors were unable to satisfy themselves as to whether these amounts are fairly stated in the financial statements.

- vi) As explained by directors in note 2a(vi) to the financial statements, provision of HK\$2,992,000 as at 31 March 2002 has been made to the Group's trade receivables of approximately HK\$74,410,000 as mentioned in note 17. No provision has been made in respect of the amounts due from related companies of approximately HK\$5,276,000 of the Group and approximately HK\$4,625,000 of the Company and prepayments, deposits and other receivables of approximately HK\$15,759,000 of the Group as at 31 March 2002. The directors were unable to satisfy themselves whether the provision was adequate. In addition, the directors were unable to provide the supporting documentation for the recoverability of these amounts. Therefore, the recoverability of these amounts was in doubt and any adjustments to the amounts would have a consequential effect on the loss for the year.
- vii) As explained by directors in note 2a(vii) to the financial statements, when preparing the confirmation of trade receivables, amounts due from related companies, prepayments, deposits and other receivables, short-term loan and obligations under hire purchase contract amounting to approximately HK\$74,410,000 of the Group (before provision for bad and doubtful debts), approximately HK\$5,276,000 of the Group and approximately HK\$4,625,000 of the Company, approximately HK\$15,759,000 of the Group, approximately HK\$10,000,000 of the Group and approximately HK\$313,000 of the Group respectively, the directors were unable to provide the particulars of the parties. Consequently, in the absence of acceptable alternative audit procedures, we are unable to satisfy ourselves whether the above mentioned balances included in the consolidated balance sheet as at 31 March 2002 were fairly stated.
- viii) As explained by the directors in note 2a(viii) to the financial statements, no stock taking procedure was carried out for the Group's inventories amounting to approximately HK\$3,801,000 at 31 March 2002. The directors were unable to verify the existence, ownership and valuation of the inventories as at 31 March 2002. Also in absence of supporting documentation, the directors were unable to satisfy themselves as to whether the classification of inventories at 31 March 2002 was appropriate.

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(Continued)

BASIS OF OPINION (Continued)

(2) (Continued)

ix) As explained by the directors in note 2a(ix) to the financial statements, the directors were unable to satisfy themselves as to the completeness of the following balances at 31 March 2002 :

- Obligations under hire purchase contract of approximately HK\$313,000 of the Group;
- Short-term loan of approximately HK\$10,000,000 of the Group; and
- Other payables and accruals of approximately HK\$4,487,000 of the Group and approximately HK\$2,018,000 of the Company.

In addition, in the absence of formal loan agreements in respect of the short-term loan, the directors were unable to verify the classification of these balances in the financial statements. Accordingly, we were unable to satisfy ourselves as to whether these amounts are fairly stated in the financial statements.

- x) As explained by the directors in note 2a(x) to the financial statements, the Company had several placing and allotments of shares during the year. However, the directors were unable to provide supporting documentation in respect of the arrangement fees of approximately HK\$522,000. Accordingly, the directors were unable to satisfy themselves as to whether the amount is fairly stated in the financial statements.
- xi) As explained by the directors in note 2a(xi) to the financial statements, one of the subsidiaries is involved in a High Court proceeding. However, the directors were unable to provide any information in respect of the proceeding and they were unable to determine the amount of liability that might arise therefrom.
- xii) As explained by directors in note 2a(xii) to the financial statement, the financial statements have been prepared based on the available books and records maintained by the Company and its subsidiaries. However, in view of the lack of evidence available, the directors were unable to represent that all transactions entered into by the Company and its subsidiaries for the year ended 31 March 2002 have been reflected in the books and records in the financial statements. In this context, the directors are unable to verify the completeness of the disclosure of related party disclosure in note 22.
- xiii) As explained by directors in note 2a(xiii) to the financial statements, the books and records of the Company and the Group have not been updated subsequent to the balance sheet date as a result of the resignations of key members of staff within the Group, especially those in the accounting department, during the year and after the year end. Accordingly, we were unable to carry out the audit procedures we considered necessary to complete our review of subsequent events of the balance sheet date as at 31 March 2002 up to the date of our report. Such review might reveal necessary adjustments to the amounts reported in these financial statements, in particular, in respect of provisions for impairment loss of assets and/or additional disclosures in respect of non-adjusting events.
- xiv) As explained by directors in note 2a(xiv) to the financial statements, the directors were unable to provide supporting documentation in respect of the segment information and maximum outstanding during the year in respect of amounts due from related companies as disclosed in notes 5 and 15 respectively and they were unable to confirm whether these amounts were fairly stated in the financial statements.

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(Continued)

BASIS OF OPINION (Continued)

- xv) As explained by directors in note 2a(xv) to the financial statements, the directors were unable to provide supporting documentation for verifying the ownership of investment in subsidiary. Also, they were unable to quantify the impairment loss in the investment in subsidiary and provision for amounts due from subsidiaries at 31 March 2002. Hence, the directors were unable to satisfy themselves the ownership and valuation of interests in subsidiaries at 31 March 2002.
- (3) According to public announcement made on 3 September 2001 and 24 December 2001, Excellent State Limited which was incorporated in Hong Kong and Global Mission Holdings Limited which was incorporated in British Virgin Islands are the subsidiaries of the Group. However, in the absence of supporting documentation to verify the existence and ownership, the results of these companies are not included in the consolidated financial statements.

There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the matters set out in paragraphs 2a(i) to 2a(xv) above. Any adjustments to the above figures would affect the net assets of the Group and the Company as at 31 March 2002 and the loss and cash flows of the Group 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.

QUALIFICATIONS ARISING FROM DISAGREEMENT ABOUT THE EXTENT OF DISCLOSURE

As explained in note 2c to the financial statements, the following required disclosures have not been made in the financial statements:

- details of deferred taxation disclosures as required by SSAP 12 "Accounting for Deferred Tax"; and
- details of operating leases disclosures as required by SSAP 14 (Revised) "Leases".

FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

In forming our opinion we have considered the adequacy of the disclosures made in note 2d to the financial statements in respect of the fundamental uncertainties relating to the subsequent records after balance sheet date.

The financial statements have been prepared on a going concern basis, the validity of which depends upon the recoverability of trade receivables, amounts due from related companies and prepayments, deposits and other receivables to support the working capital of the Group. The financial statements do not include any adjustments that would result from the failure of recoverability of trade receivables, amounts due from related companies and prepayments, deposits and other receivables. We consider that the inherent uncertainties surrounding the circumstances under which the Group might successfully continue to adopt the going concern basis are so extreme that we have disclaimed our opinion.

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(Continued)

DISCLAIMER OF OPINION

Because of the significant disagreement of the extent of disclosure, fundamental uncertainty relating to the appropriateness of the going concern basis and of the significance of the possible effect of the limitations in evidence available to us referred to 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 Company and the Group as at 31 March 2002 or 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 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; and
- We were unable to determine whether proper books of accounts have been kept.

Charles Chan, Ip & Fung CPA Ltd.
Certified Public Accountants
Hong Kong

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