

## AUDITORS' REPORT

To the shareholders of  
**Swank International Manufacturing Company Limited**  
*(Incorporated in Hong Kong with limited liability)*

We have audited the accounts on pages 17 to 58 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### **Respective responsibilities of directors and auditors**

The Hong Kong Companies Ordinance requires the directors to prepare accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those accounts 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 examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, 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 accounts are free from material misstatement. However the evidence available to us was limited as follows:

1. Included in "Fixed assets" shown on the consolidated balance sheets as at 31 December 1999 and 2000 are land and buildings located in the People's Republic of China (the "PRC") with a net book value of approximately \$78 million and \$75 million respectively, for which no land use right certificates or building ownership certificates have been obtained by the Group. We were unable to satisfy ourselves that the Group had beneficial title to such fixed assets as at 31 December 1999 and 2000.

- Included in “Interest in associates” shown on the consolidated and Company balance sheets as at 31 December 1999 and 2000 is an amount of approximately \$18 million and \$18 million respectively, representing a 49 per cent interest in Po Tai Commercial & Industrial Limited (“Po Tai”). The principal asset of Po Tai is a plot of land situated in the PRC with an open market value of approximately \$37 million as at 31 December 1998 for which no land use right certificates have been obtained by this associate. We were unable to satisfy ourselves that Po Tai had beneficial title to the asset and the directors have not obtained a valuation since December 1998 and accordingly, we were unable to satisfy ourselves that the investment is fairly stated as at 31 December 1999 and 2000.

Any adjustments found to be necessary in respect of these fixed assets and investment might have had a consequential effect on the net liabilities as at 31 December 1999 and/or 2000 and either or both of the results for the years then ended.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. 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 disclosure made in note 2(b) on the accounts concerning the continued support of the Group’s bankers and the ability of the Group to obtain sufficient external funding. The accounts have been prepared on a going concern basis, the validity of which depends upon the ongoing support of the Group’s bankers and future funding being available. The accounts do not include any adjustments that would result from a failure to obtain such support and funding. We consider that appropriate disclosures have been made. However, we consider that this fundamental uncertainty is so extreme that we disclaim our opinion in respect of the appropriateness of the going concern basis of preparation of accounts.

#### **Disclaimer of opinion on view given by the accounts**

Because of the significance of the possible effect of the limitation in evidence available to us and because of the fundamental uncertainty relating to the going concern basis, we are unable to form an opinion as to whether the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2000 and of the Group’s loss for the year then ended.

In our opinion, the accounts give a true and fair view of the Group’s cash flows for the year ended 31 December 2000 and in all other respects have been properly prepared in accordance with the Hong Kong Companies Ordinance.

In respect alone of the limitations on the scope of our work relating to land and buildings in the PRC and investment in an associate:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- we are unable to determine whether proper books of account have been kept.

**KPMG**

*Certified Public Accountants*

Hong Kong, 23 April 2001