



REPORT OF THE AUDITORS



CCIF

Charles Chan, Ip & Fung CPA Ltd.
37th Floor, Hennessy Centre
500 Hennessy Road
Causeway Bay, Hong Kong

AUDITORS' REPORT

TO THE SHAREHOLDERS OF CIL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 22 to 78 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 Company's directors are responsible for 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 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 by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, 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) As further explained in note 1 to the financial statements, the books and records of the Company and the Group have not been fully 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, after the year end. Accordingly, we were not able to carry out the audit procedures we considered necessary to complete our review of subsequent events of the balance sheet date as at 30 June 2000 up to the date of our report. Such review might result in adjustments to the amounts reported in these financial statements, in particular, in respect of provisions for impairment of assets and/or additional disclosures in respect of non-adjusting events.



REPORT OF THE AUDITORS

BASIS OF OPINION (continued)

- (2) We draw your attention to the fact that the financial statements for the year ended 30 June 1999 were audited by another firm of accountants. Their audit report stated they were unable to form an opinion on the financial statements due to the possible effect of the limitation in evidence available for audit purposes. Therefore, we are unable to express an opinion of the figures brought forward as at 1 July 1999 and the comparative figures included in these financial statements.
- (3) During the year, the Company had several placing and allotments of shares. However, the payments of arrangement fees of around HK\$25.5 million are not adequately supported by relevant documents for our inspection. As a result, we can not verify the validity of the respective payments.
- (4) During the year, the Group acquired 65% interest in a company, AVT Electronics Limited ("AVT"), as mentioned in note 27(b). In accordance with the Group's accounting policy, goodwill arising on consolidation has been eliminated against reserve in the year of acquisition. However, there was no completion accounts at the date of acquisition available for our verification. Consequently, we have been unable to carry out any audit procedures to ascertain the fair value of the identifiable assets and liabilities. As a result we are unable to determine whether the goodwill amounting to HK\$34,986,000 arising from the above mentioned acquisition is fairly stated. Any adjustment to the goodwill would have a consequential effect on the loss for the year and the movements on reserves.
- (5) The Company and its subsidiaries are involved in a series of High Court proceedings and winding up petitions and several of its subsidiaries have gone into compulsory winding up by the creditors subsequent to the year end. Since the legal opinion was not available for us to assess the possible outcome of various proceedings and petitions, we are unable to determine whether adequate provision for any liability which might arise therefrom has been made.
- (6) During the year, certain of the listed investments held by the Group were charged as collateral for certain loans provided by different creditors. However, due to the absence of confirmation from the creditor to us for verifying the ownership of those shares with market value amounting to HK\$8,812,000 at the year end and no alternative procedure could be carried out to verify the ownership and existence, we are unable to determine ownership of those shares.
- (7) The Group has investments in joint ventures and some operations in the PRC. However, substantial portion of relevant documents pertaining to operations in the PRC and financial statements of these joint venture investments are not available for the purpose of our audit, we are therefore unable to verify the validity, ownership and the valuation of the respective investments and income and expenses incurred for the operations in the PRC.



REPORT OF THE AUDITORS

BASIS OF OPINION (continued)

- (8) Since we were appointed as the auditors of the Group in May 2001, no stock taking procedure could be carried out for the inventories amounting to HK\$6,853,000 at the year end and no alternative procedure could be carried out to satisfy our audit purpose. Therefore, we could not verify the existence and valuation of the inventories as at the year end.
- (9) No provision has been made to the amounts of totally HK\$117,948,000 included in other receivable as mentioned in note 17. The recoverability of these amounts were in doubt and any adjustments to the amounts would have a consequential effect on the loss for the year.
- (10) Up to the date of this report, we have not received confirmations in respect of cash and bank deposits and bank overdrafts and bank loans of the Group in the amounts of HK\$1,380,000 and HK\$102,005,000 respectively. Consequently, in the absence of acceptable alternative audit procedures, we have not been able to satisfy ourselves whether the above mentioned balances included in the consolidated balance sheet as at 30 June 2000 are fairly stated, and any contingent liabilities adequately disclosed.

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 RELATING TO THE GOING CONCERN BASIS

In forming our opinion, we have also considered the adequacy of the disclosures made in note 1 to the financial statements in respect of the fundamental uncertainty relating to debt restructuring negotiations.

The financial statements have been prepared on a going concern basis, the validity of which depends on the outcome of the Group's future profitability of its operations and discussions with its financial creditors to restructure the Group's borrowings. The financial statements do not include any adjustments that would result from the failure of these debt restructuring negotiations. We consider that appropriate disclosures have been made but 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.



REPORT OF THE AUDITORS

QUALIFIED OPINION: DISCLAIMER ON VIEW GIVEN BY FINANCIAL STATEMENTS

Disagreement of accounting treatment

Pursuant to available information (details referred to note 27(b)), AVT should have become the subsidiary of the Group on 21 May 2000. In accordance with SSAP 2.132, Consolidated Financial Statements and Accounting for Investments in Subsidiaries, the Group should share the operating result of AVT from the date of acquisition to the year end. However, the Group started to consolidate the operating result of AVT after 30 June 2000. This treatment is not compliance with SSAP 2.132. Based on the available management accounts, AVT's unaudited net loss for the three months ended 30 June 2000 was HK\$126,000.

Because of the significance of the possible effect of the limitation in evidence available to us and non-compliance with SSAP 2.132, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of the affairs of the Company and of the Group as at 30 June 2000 or of the Group's loss and cash flows for the year then ended. In all other respects, in our opinion the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitation on our work relating to the matters 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) we were unable to determine whether proper books and records had been kept.

Charles Chan, Ip & Fung CPA Ltd.

Certified Public Accountants

Hong Kong, 20 July 2001

Chan Wai Dune, Charles

Practising Certificate Number P00712