

## 德勤·關黃陳方會計師行

Certified Public Accountants  
26/F, Wing On Centre  
111 Connaught Road Central  
Hong Kong

香港中環干諾道中 111 號  
永安中心 26 樓

**Deloitte  
Touche  
Tohmatsu**

### TO THE MEMBERS OF INTERFORM CERAMICS TECHNOLOGIES LIMITED

*(Incorporated in Bermuda with limited liability)*

We have audited the financial statements on pages 25 to 63 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 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 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 set out below.

# AUDITORS' REPORT

## BASIS OF OPINION *(continued)*

1. As explained in note 3 (b)(i) to the financial statements, the current directors have been unable to satisfy themselves that the following amounts included in the financial statements have been completely and accurately recorded by the Group:
  - Turnover of HK\$46,202,682
  - Purchases and overheads of HK\$42,157,638 and HK\$8,758,883, respectively, included in cost of sales
  - Other revenue of HK\$1,770,939
  - Distribution costs of HK\$1,785,944
  - Administrative expenses of HK\$37,911,777
  - Finance costs of HK\$65,219,455
  - Trade and other receivables of HK\$547,531
  - Trade and other payables of HK\$275,709,314 (including other payables of HK\$11,876,318 in the balance sheet of the Company)

As a result, the current directors were also unable to satisfy themselves as to the appropriateness of the provision for bad and doubtful debts of HK\$20,227,522. Also, the current directors were unable to satisfy themselves as to the reliability of the disclosure of highest paid employees in note 7 to the financial statements.

2. As explained by the current directors in note 3 (b)(ii) to the financial statements, there was no physical count of inventories at 31st March, 2001. Also, the current directors have been unable to find sufficient documentary records of inventory movements to satisfy themselves that the amount of inventories included in the consolidated balance sheet as at 31st March, 2001 was fairly stated at that date. At the same time, the current directors were unable to satisfy themselves as to whether the write-off of inventories of HK\$8,289,398 and the write-back of provision for the inventories sold during the year of HK\$5,057,329 disclosed in note 5 to the financial statements were appropriate.
3. As explained by the current directors in note 3 (b)(iii) to the financial statements, the current directors have been unable to identify items of property, plant and equipment at the Group's production facilities in the People's Republic of China, other than Hong Kong (the "PRC"), previously included in the books of account with a net book value of HK\$17,415,847. Accordingly, the current directors were unable to satisfy themselves as to the appropriateness of the associated write-off in the same amount reflected in the consolidated income statement for the year ended 31st March, 2001.

## BASIS OF OPINION *(continued)*

4. As explained by the current directors in note 3 (b)(iv) to the financial statements, included in bank balances and cash of the Group was an amount of HK\$5,810,848 (including HK\$5,806,984 in respect of the Company) in respect of which the current directors were unable to reconcile such amount to the bank statements. Included in bank balances and cash of the Group was other amount of HK\$199,731 in respect of which the current directors were unable to obtain any bank statements. Accordingly, the current directors were unable to satisfy themselves that the bank balances and cash of HK\$6,010,579 and HK\$5,806,984 were fairly stated in the consolidated balance sheet of the Group and the balance sheet of the Company, respectively, as at 31st March, 2001.
5. As explained by the current directors in note 3 (b)(v) to the financial statements, the current directors are unable to represent as to the completeness of recording of transactions entered into by the Group for the period from 1st April, 2000 to 15th May, 2001 and of the completeness of disclosure of claims, commitments and contingent liabilities in the financial statements. The current directors are also unable to represent as to the completeness of identification and disclosure of related party transactions and balances.
6. As explained by the current directors in note 3 (c) to the financial statements, a non wholly-owned subsidiary, Shenzhen Matform Ceramics Industry Co., Ltd. ("Shenzhen Matform"), was deconsolidated from the consolidated income statement with effect from 1st February, 2001. Included in the financial statements for the year ended 31st March, 2001 in respect of Shenzhen Matform are:

— Turnover	HK\$19,827,789
— Cost of sales	HK\$23,569,661
— Other revenue	HK\$10,182
— Distribution costs	HK\$1,276,204
— Administrative expenses	HK\$6,653,812
— Finance costs	HK\$17,026,989
— Other payables	HK\$1,443,127

The above amounts were included in the financial statements based on unaudited management accounts of Shenzhen Matform for the eight months ended 30th November, 2000 which represented the latest financial information the current directors could obtain. The current directors have no information to enable them to determine whether the results of Shenzhen Matform for the two months to 31st January, 2001 were material to the financial statements of the Group.

Accordingly, the current directors were unable to satisfy themselves as to whether either the impairment loss in respect of Shenzhen Matform of HK\$320,843,600 or the gain on deconsolidation of HK\$189,834,959 disclosed in note 9 to the financial statements were fairly stated.

# AUDITORS' REPORT

## BASIS OF OPINION *(continued)*

7. We have been unable to obtain sufficient direct confirmations or other documentary evidence from the Group's bankers, finance lease creditors, holder of convertible note and a former director in respect of amounts due to them in the amount of HK\$733,220,112, HK\$66,082,519, HK\$23,400,000 and HK\$3,400,000, respectively, included in the consolidated balance sheet as at 31st March, 2001. The amount due to holder of convertible note is also included in the balance sheet of the Company as at the same date. Accordingly, we were unable to satisfy ourselves as to whether these amounts were fairly stated in the financial statements.

There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the matters set out in paragraphs 1 to 7 above. Any adjustments to the above figures would affect the net liabilities of the Group and the Company as at 31st March, 2001 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.

## DISCLAIMER OF OPINION

Because 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 31st March, 2001 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 alone 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.

## **DELOITTE TOUCHE TOHMATSU**

*Certified Public Accountants*

Hong Kong, 21st August, 2001