

Independent review report to the board of directors of Nam Fong International Holdings Limited

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 1 to 13.

Directors' responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants. The interim financial report is the responsibility of, and has been approved by, the directors.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants, except that the scope of our review was limited as explained below.

A review consists principally of making enquiries of Group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

The scope of our review was limited in respect of the following matters:

(a) Comparative figures

We were unable to perform a review of comparatives in accordance with SAS 700 for the following reasons:

- (i) the Group's interim financial report for the period ended 30 June 2000 was neither reviewed in accordance with SAS 700 nor audited; and

- (ii) the comparative amounts in this interim financial report for the state of the Group's affairs as at 31 December 2000 are derived from audited financial statements. However, we were not appointed auditors of the Group until 19 September 2001 and consequently did not report on those financial statements. Furthermore, the then auditors qualified their audit opinion due to a limitation in the scope of their audit relating to the carrying value of property under development as at 31 December 2000.

(b) Investment properties

The scope of our review was limited in respect of the Group's investment properties which are shown in the consolidated balance sheet at a valuation of HK\$595 million at 30 June 2001. As explained in note 9 to the interim financial report, as of the date of this report, the Group have not completed the procedures as they consider necessary to ensure the consistency of assumptions, method and data used in the valuations on the Group's investment properties at 30 June 2001 and 31 December 2000. Consequently, notwithstanding the full cooperation of the management, we were unable to carry out all the review procedures, or obtain all the information and explanations that we considered necessary in respect of the valuation of the Group's investment properties as at 30 June 2001 and the movement in the investment property revaluation reserve during the period then ended.

Fundamental uncertainties relating to the going concern basis

In arriving at our review conclusion, we have considered the adequacy of disclosures made in the interim financial report concerning the uncertainties facing the Group. As explained in note 1 to the interim financial report, there is fundamental uncertainty as to whether the Group will be able to agree settlement terms with the creditors on the debts overdue and whether the Group will have sufficient funds to settle its operating expenses. The Group's interim financial report has been prepared on a going concern basis, the validity of which depends upon the Group's success in negotiating the terms of repayments with the creditors and generating sufficient operational funds to meet its operating expenses. The interim financial report does not include adjustments that would result from the failure of the above events.

We consider that whilst appropriate disclosures have been made, the fundamental uncertainties are so extreme that we are unable to reach a review conclusion as to whether the going concern basis of presentation is appropriate or whether material modifications should be made.

Disagreement over compliance with accounting standards and inability to reach a review conclusion

As explained in note 1(c) to the interim financial report, as of the date of this report, the Group have not completed their review of goodwill eliminated against reserves to determine whether it is impaired in accordance with the new Statement of Standard Accounting Practice (“SSAP”) 30 “Business combinations” and SSAP 31 “Impairment of assets”, which are effective as from 1 January 2001. Based on information obtained in the course of our review, we are of the opinion that material modifications would be necessary in order for the interim financial report to comply with these new accounting standards. However, we are unable to quantify the amounts involved.

Because of the significance of the fundamental uncertainty regarding the going concern basis and the limitation of scope of our review described above, we are unable to reach a review conclusion as to whether any other material modifications should be made to the interim financial report for the six months ended 30 June 2001.

KPMG

Certified Public Accountants

Hong Kong, 27 September 2001