

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

We have audited the financial statements on pages 25 to 67 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 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, 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 financial 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group and the Company, 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 financial statements are free from material misstatement. However, the evidence available to us was limited because included in "Fixed assets" shown on the consolidated balance sheets as at 31 December 2000 and 2001 are certain land and buildings located in the People's Republic of China (the "PRC") with a net book value of approximately \$62 million and \$56 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 2000 and 2001.

Any adjustments found to be necessary in respect of these fixed assets might have had a consequential effect on the net liabilities as at 31 December 2000 and/or 2001 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 financial statements. We believe that our audit provides a reasonable basis for our opinion.

## *Qualified opinion arising from limitation of audit scope*

Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning land and buildings in the PRC, in our opinion the financial statements give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2001 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

In respect alone of the limitation on the scope of our work relating to land and buildings in the PRC:

- 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, 19 April 2002