

# Report of the Auditors

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## AUDITORS' REPORT TO THE SHAREHOLDERS OF TEM FAT HING FUNG (HOLDINGS) LIMITED

*(incorporated in Bermuda with limited liability)*

We have audited the accounts on pages 18 to 62 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 the preparation of 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.

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 included an 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 judgments made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, 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 accounts are free from material misstatement. However, the evidence available to us was limited because of the following:

#### Scope limitations

(a) Discontinued operations / Reclassification of subsidiaries

As further detailed in note 2(IIa) to the accounts, by a reorganisation taken place during the year, the Group divested its controlling interest in RNA Holdings Limited ("RNA"), a listed company and the principal activities of its subsidiaries consisted of the refining, moulding, wholesaling, and trading of gold bullion, the provision of loans and gold bullion financing; wholesaling and retailing of gold ornaments, diamond and jewellery products (collectively referred as the "Discontinued Operations"). The consolidated profit and loss account has consolidated the operations of RNA for the period from 1st May 2000 to 18th August 2000, the date of completion of the reorganisation (the "Period") based on the unaudited management accounts of RNA for the Period because the Group no longer has access to the books and records of these former subsidiaries for the purposes of our audit.

Since 18th August 2000, the date of completion of the reorganisation, RNA and its subsidiaries ("RNA Group") ceased to be subsidiaries of the Group. As further detailed in note 2(IIb) to the accounts, the directors have reclassified the Group's interests in RNA Group as short term listed investment with effect from 18th August 2000 and included this investment in the accounts as current assets.

# Report of the Auditors *(Continued)*

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## **Basis of opinion** *(Continued)*

### Scope limitations *(Continued)*

#### (a) Discontinued operations / Reclassification of subsidiaries *(Continued)*

- (i) As further detailed in note 8 to the accounts, the operations of RNA Group so consolidated recorded a turnover and profit after taxation attributable to the Group of HK\$1,680,450,000 and HK\$11,241,000 respectively for the Period based on the unaudited management accounts. We were unable to obtain sufficient information to satisfy ourselves that the accounts information of the Discontinued Operations so consolidated is fairly stated. Any adjustments to these amounts would affect the respective consolidated account balances, with a corresponding opposite effect to the gain on reclassification of the subsidiaries of HK\$51,877,000 (note 5 to the accounts) included in the consolidated profit and loss account for the year ended 30th April 2001. Similarly, we are unable to satisfy ourselves that the analysis of the operations in note 8 to the accounts with respect to the operations of RNA Group is fairly stated.
- (ii) For the same reason, we are unable to satisfy ourselves that certain disclosures incorporating the amounts in relation to RNA Group, as included in notes 4, 6, 7, and 32 to the accounts; and the corresponding cash flows arising from the operations of RNA Group prior to the reclassification, as included in the cash flow statement, are fairly stated.
- (iii) In respect of the reclassification, certain amounts of the Group reserves (as shown in note 27 to the accounts) were realised in the consolidated profit and loss account and included in the computation of the gain on reclassification of interests in RNA Group to short term listed investment. We were unable to obtain sufficient information and explanations to satisfy ourselves as to the appropriateness of recording the realisation of these reserves upon reclassification of interests in RNA Group to short term listed investment. Any adjustments found to be necessary would affect the gain on reclassification of the subsidiaries of HK\$51,877,000.

#### (b) Jointly controlled entities

As stated in note 17 to the accounts, there are interests in jointly controlled entities amounting to HK\$66,936,000 for the Group and amounts due from jointly controlled entities of HK\$67,270,000 for the Company at the balance sheet date. After the balance sheet date, on 19th June 2002, a receiver and manager were appointed by the financial creditors to take over the management of these jointly controlled entities. Due to the uncertainty surrounding this receivership at this stage, we have not been provided with adequate information from the directors concerning outcome of the receivership and therefore we are unable to comment on whether provision for diminution in value of interests in jointly controlled entities and doubtful debts due from such entities should be made in the accounts and to satisfy ourselves that the amounts as stated above are fairly stated at the balance sheet date.

The Company has provided corporate guarantees to certain overseas banks in respect of credit facilities granted to the above mentioned jointly controlled entities. The amount of these facilities drawn down was approximately HK\$160,155,000 as at 30th April 2001, which has been disclosed as part of the Group's and Company's contingent liabilities (note 29 to the accounts). Subsequent to the balance sheet date, as the jointly controlled entities have breached the covenants of the agreements for these guaranteed borrowings, the Company is therefore contingently liable for the repayment of these outstanding borrowings and has received several notices for demand payments of certain amount of these outstanding borrowings around the year end of 2001. However, it is not possible to quantify the Company's and Group's obligations at this stage which should be provided for in the preparation of the Company's and Group's accounts. Accordingly, we have not been able to determine whether provision for any liabilities should have been made in the accounts as at 30th April 2001.

# Report of the Auditors *(Continued)*

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## **Basis of opinion** *(Continued)*

### Scope limitations *(Continued)*

#### (c) Carrying value of investment securities

As fully explained in note 19 to the accounts, Tem Fat Hing Fung Capital (BVI) Limited, a wholly owned subsidiary of the Company, acquired 3.8% equity interest in Global Cyber Limited (“Global Cyber”) during the year for a consideration of HK\$38,000,000. We have not been provided with adequate financial information concerning its carrying value in the accounts as at 30th April 2001. Although full provision has been made in the accounts regarding the carrying value of the Group’s interest in Global Cyber, we are unable to determine whether the amount of provision made is adequate but not excessive and that the carrying value of this investment is fairly stated at the balance sheet date.

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 relating to the going concern basis

In forming our opinion we have considered the adequacy of the disclosures made in note 2(I) to the accounts concerning the adoption of the going concern basis on which the accounts have been prepared. As explained in note 2(I) to the accounts, the Group has experienced severe financial difficulty for the year and is currently negotiating with a potential investor for the purpose of restructuring the Group’s indebtedness and revitalising the Group’s financial position and business. The accounts have been prepared on a going concern basis, the validity of which depends upon the successful outcome of the measures to be implemented and in process by the Group to improve the financial position and the business of the Group. The accounts do not include any adjustments that would result from the failure of these measures. We consider that the appropriate disclosures have been made but, because of the significant uncertainties relating to the outcome of the debt restructuring are so extreme, we are not able to determine whether the going concern basis used in preparing these accounts is appropriate. Accordingly, we have disclaimed our opinion.

## **DISCLAIMER OF OPINION**

Because of the significance of each of (1) the fundamental uncertainty relating to the going concern basis; and (2) the possible effect of the limitations in evidence available to us as set out in the basis of opinion section of this report, 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 the Group as at 30th April 2001 and of the loss and cash flows of the Group for the year then ended and as to whether the accounts 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 as set out in the basis of opinion section of this report, we have not obtained all the information and explanations that we consider necessary in relation to the inclusion of unaudited results of Discontinued Operations as fully described in (a) above, jointly controlled entities and going concern basis for the purpose of our audit.

**TING HO KWAN & CHAN**

*Certified Public Accountants*

Hong Kong, 9th August 2002