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Deloitte Touche Tohmatsu

TO THE PROVISIONAL LIQUIDATORS AND SHAREHOLDERS OF KESSEL INTERNATIONAL HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 21 to 59 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 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 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 set out below.

1. As explained by the Current Directors (as defined in note 1 to the financial statements) in note 18 (c) to the financial statements, the Current Directors have formed the opinion that the aggregate carrying value of the Group's subsidiaries not consolidated of approximately HK$85,676,000 as at 31 March 2001 has been impaired and, accordingly, such impairment loss has been recognised in the financial statements. However, we were unable to obtain sufficient information and explanations to satisfy ourselves as to the basis upon which the Current Directors have determined the amount of such impairment. Accordingly, we were unable to satisfy ourselves as to whether the carrying value of subsidiaries not consolidated are fairly stated in the financial statements.

Basis of opinion *(continued)*

2. As explained by the Current Directors in note 6 (b) to the financial statements, the Current Directors have been unable to locate sufficient documentary information to satisfy themselves regarding the treatment of various balances of the Group and of the Company as at 31 March 2002 and for the year then ended.

   (i) As explained by the Current Directors in note 6 (b) (i) to the financial statements, turnover includes recorded sales of approximately HK$12,740,000 in respect of which the Current Directors were unable to locate the supporting documentation. Accordingly, the Current Directors have been unable to satisfy themselves as to whether these sales are fairly stated in the financial statements.

   (ii) As explained by the Current Directors in note 6 (b) (ii) to the financial statements, loss before taxation has been arrived at after charging the following amounts in respect of which the Current Directors were unable to locate third party supporting documentation:

   - cost of sales of approximately HK$16,229,000; and

   - administrative expenses of approximately HK$18,034,000.

   Accordingly, the Current Directors have been unable to satisfy themselves as to whether these amounts are fairly stated in the financial statements.

   (iii) As explained by the Current Directors in note 6 (b) (iii) to the financial statements, in the absence of a reliable fixed assets register of the Group as at 31 March 2002, the Current Directors were unable to satisfy themselves as to the existence of leasehold improvements, equipment, furniture and fixtures, plant and machineries and motor vehicles, which amounted to approximately HK$96,409,000 as at 31 March 2002.

   (iv) The Current Directors have formed the opinion that the carrying value of the Company's subsidiaries of approximately HK$54,026,000 has been impaired and, accordingly, such impairment loss has been recognised in the financial statements. However, we were unable to obtain sufficient information and explanations regarding the basis upon which the Current Directors have determined the amount of such impairment. Accordingly, we were unable to satisfy ourselves as to whether the investments in subsidiaries are fairly stated in the financial statements.

   (v) The Current Directors have formed the opinion that the Group is unable to recover the amounts which the subsidiaries not consolidated owed to the Group and the Company of approximately HK$48,601,000 and approximately HK$82,256,000 respectively as at 31 March 2002 and, accordingly, the Current Directors have written off these amounts. However, we were unable to obtain sufficient information and explanations regarding the basis upon which the Current Directors have determined the amount of such write offs. Accordingly, we were unable to satisfy ourselves as to whether these write offs were appropriate.

Basis of opinion *(continued)*

(vi) As explained by the Current Directors in note 6 (b) (iv) to the financial statements, the Current Directors were unable to obtain documentation to support bank balances and cash, and trade and other receivables of the Group of approximately HK$1,466,000 and HK$296,000 respectively, and also the aged analysis of the trade receivables of the Group as at 31 March 2002. Accordingly, the Current Directors were unable to satisfy themselves as to whether these amounts are fairly stated in the financial statements.

(vii) As explained by the Current Directors in note 6 (b) (v) to the financial statements, the Current Directors were unable to satisfy themselves as to the completeness of the Group's and the Company's trade and other payables of approximately HK$250,515,000 and approximately HK$226,307,000 respectively as at 31 March 2002, including the completeness of liabilities under indemnities given to subsidiaries not consolidated of approximately HK$220,734,000 as at that date. Accordingly, the Current Directors were unable to satisfy themselves as to whether these amounts are fairly stated in the financial statements.

(viii) As explained by the Current Directors in note 6 (b) (vi) to the financial statements, the Current Directors were unable to satisfy themselves as to whether amounts owed to subsidiaries not consolidated of approximately HK$148,374,000 and approximately HK$884,000 included in the balance sheet of the Group and the Company respectively as at 31 March 2002 are fairly stated in the financial statements.

(ix) As explained by the Current Directors in note 6 (b) (vii) to the financial statements, the financial statements have been prepared based on the available books and records maintained by the Company and its subsidiaries. However, in view of the lack of evidence available, the Current Directors were unable to represent that all transactions entered into by the Company and its subsidiaries for the year ended 31 March 2002 have been reflected in the books and records and in the financial statements. In this context, the Current Directors are also unable to represent as to the completeness of the disclosure of commitments in note 36 and of related party disclosures in note 37.

There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the matters set out in paragraphs (i) to (ix) above. Any adjustments to the above figures would as appropriate affect the net liabilities of the Company and the Group as at 31 March 2002 and the loss 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.

Basis of preparation of financial statements

In preparing the financial statements, we have considered the adequacy of the disclosures in notes 2, 4 and 6 (a) to the financial statements which explain that as a result of severe working capital difficulties, the operations and businesses of the Group were suspended during the year. On 4 April 2002, the Company entered into a conditional restructuring agreement ("Restructuring Agreement") with a new investor (the "Investor"). The Investor is a wholly owned subsidiary of Yue Fung International Group Holdings Limited ("Yue Fung").

Under the terms set out in the Restructuring Agreement (i) the Investor will subscribe for new shares of the Company, representing approximately 97% of its enlarged issued capital, immediately upon completion of the Restructuring Agreement, for a consideration of HK$40,000,000; (ii) the creditors' indebtedness of the Company and its subsidiary, Keview Technology (BVI) Limited, will be discharged in full by way of cash payment on a basis disclosed in note 4 to the financial statements; and (iii) in accordance with the facilities letter entered into between Dongguan Kepo Electronics Limited (Dongguan Kepo) and the Investor on 4 April 2002, the Investor will provide and procure the provision of a loan up to HK$35,000,000 to Dongguan Kepo to enable Dongguan Kepo to discharge certain claims against it.

The directors have prepared the financial statements on the basis that the Restructuring Agreement will be successfully implemented and that the Group will have sufficient working capital to be able to resume its electronics manufacturing operations. The financial statements do not include any adjustments that would result from the failure to implement the Restructuring Agreement. We consider that appropriate disclosures have been made and our opinion is not qualified in this respect.

Qualification arising from disagreement about accounting treatment

1. As detailed in note 18 (a) to the financial statements, the consolidated financial statements do not include the results and cash flows of certain subsidiaries, which are in the course of liquidation or their immediate holding companies are in the course of liquidations, up to the respective dates of appointment of liquidators. This treatment is not in accordance with the requirements of Statement of Standard Accounting Practice ("SSAP") 32 "Consolidated Financial Statements and Accounting for Investments in Subsidiaries" issued by the Hong Kong Society of Accountants and the Companies Ordinance. In our opinion, there is insufficient information concerning these subsidiaries in the financial statements to give a true and fair view of the results and cash flows of the Group for the year ended 31 March 2002. It is not practicable to quantify the effects of the departure from this requirement.

2. As detailed in note 18 (b) to the financial statements, the financial statements of the Group do not consolidate the financial statements of certain subsidiaries. This treatment is not in accordance with the requirements of SSAP 32 "Consolidated Financial Statements and Accounting for Investments in Subsidiaries" and the Companies Ordinance. In our opinion, there is insufficient information concerning these subsidiaries in the financial statements to give a true and fair view of the state of affairs of the Group as at 31 March 2002 and of the results and cash flows of the Group for the year then ended. It is not practicable to quantify the effects of the departure from this requirement.

Qualifications arising from disagreements about the extent of disclosure

1. As explained in note 6 (b) (viii) to the financial statements, because certain accounting records have been mislaid, the following required disclosures have not been made in the financial statements:

   i. Deferred taxation disclosures as required by SSAP 12 "Accounting for Deferred Tax";

   ii. Segment information disclosures as required by SSAP 26 (Revised) "Segment Reporting" and Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules");

   iii. Disclosure in respect of subsidiaries excluded from consolidation as required by SSAP 32 "Consolidated Financial Statements and Accounting for Investments in Subsidiaries";

   iv. Operating leases disclosures as required by SSAP 14 (Revised) "Leases"; and

   v. Details of directors' and employees' emoluments as required by the Listing Rules and the Companies Ordinance.

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 of the Group at 31 March 2002 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,
21 June 2002