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 17 to 58 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 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) *Jointly controlled entities ("JCE")*

The Group's interests in JCE as stated in the consolidated balance sheet as at 30th April 2002 and share of the results of these JCE as shown in the consolidated profit and loss account for the year then ended were derived from unaudited management accounts of these JCE. We have not been able to perform audit procedures that we consider necessary to satisfy ourselves whether the Group's and the Company's interests in JCE of HK$60,916,000 as at 30th April 2002 and the Group's share of results of HK$8,373,000 for the year then ended were fairly stated. In particular, to the extent that the consolidated results might have required adjustments, there would be a corresponding effect on the Group's loss for the year. Accordingly, we are unable to comment on whether the information as stated in note 17 to the accounts was fairly stated.

BASIS OF OPINION *(Continued)*

Scope Limitations *(Continued)*

(a) Jointly controlled entities ("JCE") (Continued)

As stated in note 17 to the accounts, there are interests in JCE amounting to HK$60,916,000 for the Group and amounts due from JCE of HK$70,048,000 to 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 JCE. 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 impairment loss in JCE 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 these JCE. The amount of these facilities drawn down was approximately HK$160,155,000 as at 30th April 2002, which has been disclosed as part of the Group's and Company's contingent liabilities (note 27 to the accounts). During the year, as these JCE 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. 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 2002.

(b) Carrying value of investment security

As fully explained in note 18 to the accounts, Tem Fat Hing Fung Capital (BVI) Limited, a wholly owned subsidiary of the Company, owned 3.8% equity interest in Global Cyber Limited ("Global Cyber") at the year end date. The investment in Global Cyber was accounted for as a long term investment in security and was stated at cost of HK$38,000,000 less provision for impairment loss of HK$38,000,000 at the year end date. We have not been provided with adequate financial information concerning its carrying value in the accounts as at 30th April 2002. 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 to the accounts concerning the adoption of the going concern basis on which the accounts have been prepared. As explained in note 2 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 due to the significant uncertainties relating to the outcome of the debt restructuring are so extreme that we are not able to determine whether the going concern basis used in preparing these accounts is appropriate. Accordingly, we have disclaimed our opinion.

QUALIFIED OPINION ARISING FROM DISAGREEMENT ABOUT ACCOUNTING TREATMENT

As explained in note 14 to the accounts, the Group's investment property as at 30th April 2002 is stated in the balance sheet at professional valuation of HK$18,421,000 made in prior year. Under the provisions of Hong Kong Statement of Standard Accounting Practice 2.113 "Accounting for Investment Properties" ("SSAP 13") issued by the Hong Kong Society of Accountants, investment properties should be valued annually by persons holding a recognised qualification in valuing properties and having recent post-qualification experience in valuing properties in the location and in the category of the properties concerned. Accordingly, in our opinion the accounts are not in compliance with SSAP 13 and the Company's accounting policy as stated in note 3(g)(i) to the accounts. As no information was made available to us, the financial effect on the consolidated profit and loss account for the year and net liabilities as at 30th April 2002 could not be ascertained had the investment property been stated at valuation performed by the independent professional valuers at the balance sheet date.

DISCLAIMER OF OPINION

Because of the significance of each of (1) the fundamental uncertainty relating to the going concern basis; (2) the possible effect of the limitations in evidence available to us as set out in the basis of opinion section of this report; and (3) the effects of the departure from of SSAP 13, 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 2002 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 for the purpose of our audit.

EMPHASIS OF MATTER

Without further qualifying our opinion, we draw attention to certain comparative amounts presented in these accounts for the year ended 30th April 2001. During the year ended 30th April 2001, the Group discontinued its business operations of gold bullion trading and bullion financing carried out by a former subsidiary. The consolidated profit and loss account for the year ended 30th April 2001 consolidated the results of this subsidiary to the effective date of cessation to be the subsidiary of the Group based on its unaudited management accounts. As explained in our qualified audit opinion for the year ended 30th April 2001, dated 9th August 2002, we were unable to obtain sufficient information to satisfy ourselves that the amounts so consolidated were fairly stated and no further evidence in respect of such has become available during the audit of the current year. Any adjustments to these amounts would affect the classification in the consolidated profit and loss account. For the same reason, we were unable to satisfy ourselves that certain disclosures which had incorporated amounts in relation to the former subsidiary, including the net assets attributable to the former subsidiary reclassified as short term listed investment and the corresponding cash flows arising from the operations of this subsidiary prior to its reclassification, as included in the cash flow statements, were also fairly stated.

TING HO KWAN & CHAN
Certified Public Accountants
Hong Kong, 4th October 2002