ERNST & YOUNG
安 永 會 計 師 事 務 所

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

We have audited the financial statements on pages 26 to 72 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The 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. 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. An audit includes an 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 Company's and the Group's circumstances, 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 with respect to the beneficial title of the Group to certain fixed assets as at 31 December 2002 and 2001 because the Group has not obtained land use right certificates or building ownership certificates for certain land and buildings located in the People's Republic of China with a net book value of approximately HK$54.1 million and HK$56 million, respectively. Accordingly, we were unable to satisfy ourselves that the Group had beneficial title to such fixed assets as at 31 December 2002 and 2001. The predecessor auditors' report dated 19 April 2002 in respect of the previous financial year was also qualified on the Group's beneficial title to such fixed assets as at 31 December 2001 on account of the same scope limitation.

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.

FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

In forming our opinion, we have considered the adequacy of the disclosures made in note 1 to the financial statements, which explain the circumstances giving rise to the fundamental uncertainty relating to the outcome of the proposals currently being developed by the Group for the disposal of certain interests in the subsidiaries (the "Asset Disposal") and a rescheduling of the Group's indebtedness (the "Debt Rescheduling"). The directors are optimistic that the Asset Disposal and the Debt Rescheduling will be successful.

The financial statements have been prepared on a going concern basis, the validity of which depends upon the successful outcome of the Asset Disposal and the Debt Rescheduling. The financial statements do not include any adjustments that would result should the Asset Disposal and the Debt Rescheduling be unsuccessful. We consider that appropriate estimates and disclosures have been made and our opinion is not qualified in this respect.

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 relating to the beneficial title matters relating to the fixed assets discussed above, in our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2002 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

In respect alone of the limitation on our work as set out in the basis of opinion section of this report:

(i) We have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and

(ii) We are unable to determine whether proper books of account have been kept.

Ernst & Young

Hong Kong
28 April 2003