

REPORT OF THE AUDITORS



To the members

Shun Cheong Holdings Limited

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 24 to 74 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's 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 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.

REPORT OF THE AUDITORS *(Continued)*

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 follows:

1. Included in the long term investments in the consolidated balance sheet as at 31 March 2003 are three equity investments in unlisted companies in the carrying amount of approximately HK\$8,036,000 as at 31 March 2003. Such investments are stated after fair value provisions of approximately HK\$5,435,000 (2002: HK\$527,000) were made by the directors in the current year. We were unable to satisfy ourselves as to the reliability of the financial information on which these provisions were based and there were no practical alternative audit procedures that we could perform to satisfy ourselves that these investments have been fairly stated at 31 March 2003, or as to the appropriateness of the unrealised holding losses on these investments of approximately HK\$5,435,000 included in the profit and loss account for the year ended 31 March 2003.

Our auditors' report in respect of the year ended 31 March 2002 was also qualified on account of a similar scope limitation in respect of the fair value of two of these equity investments aggregating HK\$9,218,000 as at 31 March 2002 and the unrealised holding loss on one of these investments of approximately HK\$527,000 included in the profit and loss account for the year ended 31 March 2002. Further details in respect of these investments are also set out in note 17 to the financial statements.

2. In respect of the audited financial statements of the Group for the year ended 31 March 2001, the predecessor auditors' report thereon, dated 24 August 2001, was qualified concerning certain payments aggregating approximately HK\$8,800,000 with regard to their propriety and completeness. Our auditors' report in respect of the year ended 31 March 2002 was also qualified on account of this matter. Prior to the release of those financial statements of the Group for the year ended 31 March 2001, the board of directors had agreed to commission an investigation into this matter under the direction of the audit committee. The investigation has not been completed and no report has been issued up to the date of this report. Pending the final outcome of the investigation, there were no practical audit procedures that we could perform to obtain sufficient evidence regarding either the propriety, or the completeness of such payments and their potential impact, if any, on the financial statements of the Company and the Group for either the current or prior years.

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.

REPORT OF THE AUDITORS *(Continued)*

QUALIFIED OPINION ARISING FROM LIMITATIONS OF AUDIT SCOPE

Except for any adjustments or disclosures that might have been found to be necessary had we been able to obtain sufficient evidence relating to the matters discussed in the preceding paragraphs, 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 March 2003 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Companies Ordinance.

In respect alone of the limitation on our work relating to long term investments and the payments noted above,

- 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 account had been kept.

Ernst & Young

Certified Public Accountants

Hong Kong

18 July 2003