



Lam, Kwok, Kwan & Cheng C.P.A.
Limited
Certified Public Accountants
林郭關鄭會計師事務所有限公司

Room 1502-3A, 15th Floor, Wing On House, 71 Des Voeux Road Central, Hong Kong.
香港中環德輔道中71號永安集團大廈15字樓1502-3A室

TO THE MEMBERS OF FU CHEONG INTERNATIONAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 18 to 40 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 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 the scope of our audit was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosure 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 Company'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 by the matters referred to below:

- (a) We were initially appointed as the Company's auditor on 11 September 2003 which was subsequent to the end of the Company's financial year. We were unable to attend the physical inventory taking carried out by the Directors at the balance sheet date. Due to the time constraint, the Company was not able to arrange a roll back inventory test. We were unable to carry out any other satisfactory audit procedures to obtain adequate assurance regarding the valuation of inventories in the amount of HK\$3,103,745 as stated in the balance sheet. Any adjustment to the figure may have a consequential significant effect on the loss and net liabilities as at 31 December 2002.

BASIS OF OPINION (Continued)

- (b) As described more specifically in note 23 to the financial statements, the Group had paid deposits of approximately HK\$30.5 million, of which approximately HK\$26 million were paid by cash during the period from 28 August 2002 to 19 December 2002, to three companies in Mainland China in respect of the construction of a plant and related air-conditioning, water and electrical connection infrastructure in Jiangyin, Jiangsu Province, the PRC. Aggregate contract sum of the works concerned was amounted to approximately HK\$41 million. The construction works were suspended due to shortage of financial resources and the whole project was sold to a third party at very heavy loss in the forthcoming year. For those cash payments, we are unable to obtain third parties evidence in supporting the delivery of cash except receipts and confirmations from the recipients.
- (c) Approximately HK\$19 million out of the total acquisition of machinery for the year of HK\$43 million was paid by cash, of which approximately HK\$6.5 million were sold to third parties subsequent to the balance sheet date. For those cash payments, we are unable to obtain adequate third parties evidence in supporting the delivery of cash except receipts and confirmations from the recipients.
- (d) Approximately HK\$30 million out of the total purchase of HK\$73 million (total purchase for the year is HK\$97 million) from the top 5 major suppliers were settled by cash. For those cash payments, we are unable to obtain third parties evidence in supporting the delivery of cash except receipts and confirmations from the recipients.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statement. We believe that our audit provides a reasonable basis for our opinion.

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 for the matters referred to in the above paragraphs, in our opinion the financial statements give a true and fair view, in all material respects, of the state of the Company's affairs as at 31 December 2002 and of its results and cash flow statement 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 relating to the matters referred to in the above paragraphs, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

LAM, KWOK, KWAN & CHENG C.P.A. LIMITED

Certified Public Accountants

Lam Sing Hung

Practising certificate number – P00961

Hong Kong, 6 November 2003

F235/JL/644/642