

## REPORT OF THE AUDITORS



To the members

**Hon Po Group (Lobster King) Limited**

*(Incorporated in the Cayman Islands with limited liability)*

We have audited the financial statements on pages 20 to 67 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 financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### 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.

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.

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.

### SCOPE LIMITATION – RELATED PARTY TRANSACTIONS

The evidence available to us was limited in respect of the Group's transactions with Hon Po Holdings Limited, the ultimate holding company of the Company, and its non-listed subsidiaries (collectively known as the "Non-listed Group") for the year ended 31 December 2002. We have not been able to obtain sufficient supporting documentation and explanations relating to these transactions and therefore we have not been able to satisfy ourselves as to the measurement and related disclosures of these related party transactions as required by the Statement of Standard Accounting Practice No. 2.120 "Related party disclosures" (the "SSAP 20") issued by the Hong Kong Society of Accountants and Section 161B of the Hong Kong Companies Ordinance.

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### 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 financial statements concerning the adoption of the going concern basis on which the financial statements have been prepared. As explained in note 2 to the financial statements, the Group is currently undertaking a number of measures to relieve its current profitability and liquidity problems. The financial statements have been prepared on a going concern basis, the validity of which depends upon the successful outcome of the various measures taken by the Group to return its operations back into profitable concerns and to generate cash flows to maintain the Group as a going concern. The financial statements do not include any adjustments that may be necessary should the implementation of such measures become unsuccessful. We consider that appropriate estimates and disclosures have been made in the financial statements and our opinion is not qualified in this respect.

### QUALIFIED OPINION ARISING FROM LIMITATION OF AUDIT SCOPE

Except for any adjustments and disclosures that might have been found to be necessary had we been able to obtain sufficient evidence concerning the transactions with the Non-listed Group and the related disclosures as required by SSAP 20 and Section 161B of the Hong Kong Companies Ordinance referred to in the "Scope limitation - related party transactions" paragraph, 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 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 Hong Kong Companies Ordinance.

In respect alone of the limitation on our work relating to the matter described 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 accounts had been kept.

**Ernst & Young**  
*Certified Public Accountants*

Hong Kong  
6 November 2003