

# Report of the Auditors

## **TO THE SHAREHOLDERS OF THE SUN'S GROUP LIMITED**

*(Formerly known as Pearl Oriental Holdings Limited)  
(incorporated in Bermuda with limited liability)*

We have audited the financial statements on pages 23 to 71 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, in accordance with Section 90 of the Bermuda Companies Act 1981, 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 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.

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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 scope of our work was limited as the evidence available to us was limited in the following respects:

### 1. Access to prior year audit workpapers, accounting records and representations from the existing board of directors and management

As more fully explained in note 3 on the financial statements, there were several changes to the board of directors of the company during the year following the acquisition of a substantial stake in the group by China Sun's Group Limited (formerly known as China Wanan Group Limited) on 29th January, 2002. The present board of directors of the company is unable to warrant that all transactions entered into in the name of the company and its subsidiaries before 29th January, 2002 have been appropriately included in the financial statements. Likewise, due to the change of management during the year, we could not hold discussions with past management. Furthermore, prior year's books and records under past management are not all available and we are not able to access prior year's audit workpapers. We are, therefore, unable to ascertain the following:

#### a) *Opening balances and comparative figures*

We were appointed as auditors of the group on 19th August, 2003. Statement of Auditing Standards 450 "Opening Balances and Comparatives" issued by the Hong Kong Society of Accountants requires that the auditors obtain sufficient audit evidence that opening balances do not contain misstatements which materially affect the current period's financial statements. We are therefore required to satisfy ourselves as to the fairness of the figures brought forward as at 1st January, 2002 and the comparative figures included in the financial statements. However, due to the abovementioned reasons as stated in the preceding paragraph, we are therefore unable to satisfy ourselves that the figures brought forward as at 1st January, 2002 and the comparative figures in these financial statements do not contain misstatements which might materially affect the current year's financial statements.



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b) *Transactions from 1st January to 29th January, 2002*

We are unable to ascertain the completeness of transactions entered into in the name of the group during the period from 1st January to 29th January, 2002 as recorded in the books and records.

c) *Related party transactions*

We were unable to assess the completeness and fairness of related party disclosures in respect of the period from 1st January to 29th January, 2002 as disclosed in note 38 on the financial statements.

d) *Commitments and contingent liabilities*

We could not ascertain the completeness of commitments entered into in the name of the group during the period from 1st January to 29th January, 2002 and the existence of contingent liabilities that past management is aware of during the year. There are no alternative audit procedures that we could adopt to satisfy ourselves on the completeness and fairness of these items and amounts as disclosed in note 34 on the financial statements.

e) *Uneliminated inter-company balance written off*

We are unable to satisfy ourselves on the nature and fairness of the uneliminated inter-company balance written off of approximately HK\$8,629,000 included in the consolidated income statement.

f) *Unreconciled item*

Because of the limitation in scope as referred to in (1)(e) above and (2) below relating to the uneliminated inter-company balance written off and disposal of subsidiaries, we are unable to satisfy ourselves on the nature and fairness of the unreconciled item included in the consolidated cash flow statement of HK\$1,301,000.

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### 2. Gain on disposal of subsidiaries/turnover and result attributable to discontinuing operations/Segment information on discontinuing operations

As explained in note 5 and 38(b) on the financial statements, on 29th January, 2002, the group disposed of certain subsidiaries engaged mainly in the telecommunications and internet businesses and certain fixed assets to Mr. Wong Kwan (a director of the company up to 29th January, 2002 and an existing shareholder of the company) for a total cash consideration of HK\$30,000,000. Since any audited financial statements and accounting records of these subsidiaries disposed of are no longer with the group, and therefore, cannot be made available to us for examination, we were unable to obtain sufficient and satisfactory audit evidence in respect of the fairness of the information on results of the discontinuing operations referred to in note 5 on the financial statements and the following items included in the consolidated income statement:

Gain on disposal of subsidiaries	HK\$24,755,000
Turnover – Discontinuing operations	HK\$6,666,000
Loss from operations – Discontinuing operations	HK\$(6,782,000)
Profit attributable to shareholders – Discontinuing operations	HK\$14,961,000

Accordingly, we are unable to express our opinion on the segment information on Discontinuing operations (telecommunication, internet services and hotel operations) as referred to in note 33 on the financial statements.

### 3. Omission of disclosure under Statement of Standard Accounting Practice 15 (SSAP 15)

Because of the limitation in scope as referred to in (2) above relating to the disposal of subsidiaries, a summary of the effects of the disposal of subsidiaries has not been disclosed by the directors in the financial statements as required by SSAP15 "Cash Flow Statements".

Any adjustments that might have been found to be necessary in respect of the points mentioned in (1) to (3) above would have a consequential impact on the group's and company's shareholders' deficit, respectively, as at 31st December, 2002 and their loss for the year then ended, and the related disclosures thereof in the financial statements.

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.

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### FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS OF PREPARATION

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the adoption of the going concern basis for preparation of the financial statements. As explained in note 2 on the financial statements, the financial statements have been prepared on a going concern basis despite:

- i) the group has been in default on repayment of its short-term bank borrowings totalling approximately HK\$1,138 million which were loans borrowed prior to 29th January, 2002 under the past management;
- ii) receivers had been appointed to obtain possession of a substantial portion of the properties of the group which have been mortgaged to the banks as collaterals for short-term bank borrowings;
- iii) winding up petitions were made against the company and one of its subsidiaries as referred to in note 37(a)(i) on the financial statements; and
- iv) a winding up order had been granted by the court on 20th October, 2003 against one of the group's subsidiaries for failure to repay a judgement debt of approximately HK\$2,665,000.

The validity of the appropriateness of the adoption of the going concern basis of preparation of the financial statements is dependent on:

- i) the successful completion of a debt restructuring proposal whereby the outstanding indebtedness could be substantially eliminated and capital injection into the group is made by new investors;
- ii) the successful conclusion of various initiatives to secure new sources of funding to meet its financial obligations as they fall due;
- iii) the continued financial support from its major shareholders; and
- iv) the ability of the group to maintain future profitable operations.

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Had the going concern basis not been used, adjustments would have to be made in the financial statements to reclassify non-current assets as current assets and provide for any further liabilities which might arise. We consider that disclosures have been made but a concrete proposal has not been finalised as of the date of this report. Accordingly, we consider this fundamental uncertainty to be so extreme that we have disclaimed our opinion in respect of the appropriateness of the going concern basis of preparation of the financial statements.

### DISCLAIMER OPINION

Because of the significance of the possible effects of the limitations of scope in evidence available to us as referred to (1) to (3) above under 'Basis of opinion' section and the fundamental uncertainty relating to the going concern basis of preparation as stated above, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of the company's and the group's affairs as at 31st December, 2002 and of the loss and cash flows of the group for the year then ended and as to whether or not the financial statements have been prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitations on our work as set out under (1) to (2) above relating to the period from 1st January to 29th January, 2002 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 were unable to determine whether proper books and records had been kept.

**Li, Tang, Chen & Co.**

*Certified Public Accountants*

Hong Kong, 9th December, 2003