

# Report of the Auditors

## **TO THE MEMBERS OF VICTORY GROUP LIMITED**

*(Incorporated in Bermuda with limited liability)*

We have audited the financial statements on pages 28 to 73 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 Companies Act 1981 of Bermuda, 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 Institute of Certified Public Accountants. 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.

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.

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### FUNDAMENTAL UNCERTAINTY – CONTINGENT LIABILITIES

In forming our opinion, we have considered the adequacy of the disclosures made in note 27d to the financial statements concerning the possible outcome of dispute over the amount of other payable of HK\$1,949,000 (2004: HK\$ 1,922,000) due to an independent creditor. As explained in note 27d, this outstanding amount has been brought forward for many years and no interest was accrued by the management in accordance with an oral agreement reached between the creditor and the directors of Victory Motors Centre Limited. However, the amount confirmed by the creditor as stated in the latest audit confirmation available to us regarding the balance as at 31 December 2004 was HK\$3,200,000. That sum included an accumulated interest amount of HK\$1,278,000 which was without any contractual or legal basis and was without any written or supporting documents. Up to the date of this Auditors' Report, no reply for the audit confirmation regarding the balance of the outstanding loan as at 31 December 2005 has been received from the creditor. Therefore, the amount of contingent liabilities in respect of the accumulated interest as at 31 December 2005, if any, cannot be quantified. Details of the circumstances relating to this fundamental uncertainty are described in note 27d. We consider that fundamental uncertainty has been adequately accounted for and disclosed in the financial statements and our opinion is not qualified in this respect.

### 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, being the 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 the going concern basis, the validity of which depends upon the successful outcome of the Group's funding plans, the ongoing support from the Group's bankers, and the attainment of profitable and positive cash flow operations of the Group to meet its future working capital and financial requirements. The financial statements do not include any adjustments that may be necessary should the implementation of such measures be unsuccessful.

We consider that appropriate disclosures have been made, but the inherent uncertainties surrounding the circumstances under which the Group might successfully continue to adopt the going concern basis are so extreme that we have disclaimed our opinion.

### DISCLAIMER OF OPINION

We are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2005 and of its loss and cash flows of the Group for the year then ended and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance, on account of the fundamental uncertainty relating to the appropriateness of the going concern basis.

#### **Lak & Associates C.P.A. Limited**

*Certified Public Accountants*

Hong Kong, 7 April 2006

#### **Fung Lak**

Practising Certificate Number P01301