

Report of the Auditors



CCIF

CCIF CPA LIMITED

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**AUDITORS' REPORT TO THE SHAREHOLDERS OF
SWANK INTERNATIONAL MANUFACTURING COMPANY LIMITED**

(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 32 to 76 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 those statements and to report our opinion solely to you, as a body, in accordance with section 141 of the Companies Ordinance, 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 Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public 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.

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BASIS OF OPINION (cont'd)

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 with respect to the beneficial title of the Group to certain leasehold land and buildings as at 31 December 2005, because the Group has not obtained land use right certificates and building ownership certificates for certain land use rights and buildings located in the People's Republic of China, with net book values of approximately HK\$8 and HK\$36 million, respectively.

Accordingly, we were unable to satisfy ourselves that the Group had beneficial title to such leasehold land and buildings as at 31 December 2005. The auditors' report dated 26 April 2005 in respect of the previous financial year ended 31 December 2004 was also qualified on the Group's beneficial title to such land and buildings as at 31 December 2004 on account of the same scope limitation. Any adjustments arising from the title issues relating to the land use rights and buildings would have a consequential effect on the accumulated losses and property revaluation reserve both brought forward from prior years, results for the current year and the net assets of the Group as at 31 December 2005.

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.

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 relating to the beneficial title matters relating to the leasehold land and buildings discussed above, 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 2005 and of the profit and cash flows of the Group 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 as set out 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 are unable to determine whether proper books of account have been kept.

CCIF CPA Limited

Certified Public Accountants
Hong Kong, 24 April 2006

Choi Man On

Practising Certificate Number P02410