

Report of the Auditors



CCIF

CCIF CPA LIMITED

20/F Sunning Plaza
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Causeway Bay Hong Kong

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
SWANK INTERNATIONAL MANUFACTURING COMPANY LIMITED**
(INCORPORATED IN HONG KONG WITH LIMITED LIABILITY)

REPORT ON THE FINANCIAL STATEMENTS

We have audited the consolidated financial statements of Swank International Manufacturing Company Limited (the "Company") and its subsidiaries (collectively referred to the "Group") set out on pages 33 to 84, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of the report.

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Except as described in the basis for qualified opinion paragraph, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

BASIS FOR QUALIFIED OPINION

The evidence available to us was limited with respect to the beneficial title of the Group to certain land use rights of which the buildings situated on the land as at 31 December 2006, because the Group has not obtained use right certificates for certain land located in the People's Republic of China, however, buildings situated on the land was recorded in the consolidated balance sheet, with a net book value of approximately HK\$17,587,000.

Accordingly, we were unable to satisfy ourselves that the Group had beneficial title to such land for the buildings situated thereon as at 31 December 2006. Any adjustments arising from the title issues relating to the land use rights for the buildings situated thereon would have a consequential effect on the both accumulated losses and non-current assets brought forward from prior years, the results for the current year and the net assets of the Group as at 31 December 2006.

QUALIFIED OPINION ARISING FROM LIMITATION OF AUDIT SCOPE

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the beneficial title to such land for the buildings situated thereon, 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 2006 and of Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

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Without qualifying our opinion in other aspect except for the above, we draw attention to note 2(a) to the consolidated financial statements which indicates that as at 31 December 2006, the Group's total liabilities exceeded its total assets by approximately HK\$8,624,000. These conditions, along with other matters as set forth in note 2(a), indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

REPORT ON MATTERS UNDER SECTIONS 141 (4) AND 141 (6) OF THE HONG KONG COMPANIES ORDINANCE

In respect alone of the limitation on our work relating to the beneficial title to land use rights for and buildings situated on the land:

- 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 account had been kept.

CCIF CPA Limited

Certified Public Accountants
Hong Kong, 26 April 2007

Choi Man On

Practising Certificate Number P02410