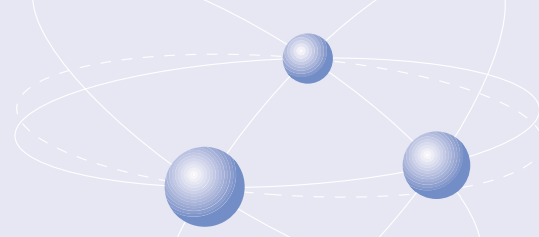


REPORT OF THE AUDITORS



ANDERSEN

Arthur Andersen & Co

21st Floor Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

**AUDITORS' REPORT TO THE SHAREHOLDERS OF
SHUN CHEONG HOLDINGS LIMITED**

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 26 to 66 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

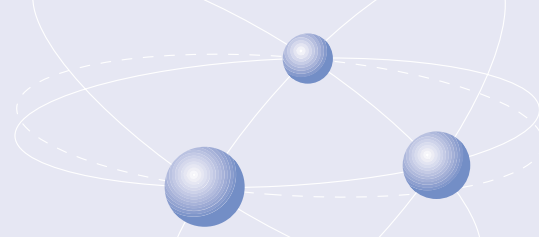
The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

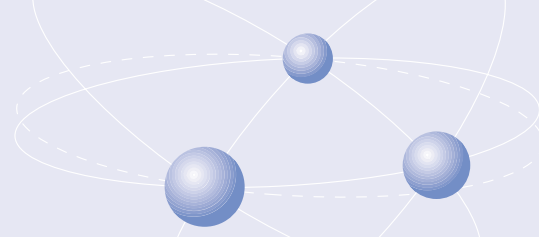
We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants except that the scope of our work was limited as explained below.

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 circumstances of the Company and the Group, consistently applied and adequately disclosed.



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 in connection with:

1. As explained in Note 13 to the financial statements, the Group had a significant investment in Dyxnet Holdings Limited ("Dyxnet"), an associated company, with an original investment cost of approximately HK\$33,031,000, including goodwill of approximately HK\$23,726,000 which was eliminated against reserves during the year. As at 31st March, 2001, the carrying value of the investment in this associated company was approximately HK\$9,305,000. We were not provided with adequate financial and non-financial information on Dyxnet, and there were no other satisfactory audit procedures that we could adopt to assess the amount of goodwill at the date of the acquisition, the Group's share of the attributable results of Dyxnet for the year ended 31st March, 2001 and the carrying value of the investment in Dyxnet as at 31st March, 2001.
2. As explained in Note 14 to the financial statements, the Group held an 8.91% equity interest in an unlisted company, with an original investment cost of HK\$19,460,000. During the year ended 31st March, 2001, the Group made a provision for impairment in the carrying value of this investment of approximately HK\$15,473,000. As at 31st March, 2001, the carrying value of this investment was approximately HK\$3,987,000. We were not provided with adequate information on this investment and there were no other satisfactory audit procedures that we could adopt to assess the carrying value and the provision for impairment in value of this investment.
3. During the course of our audit, we were advised of the existence of certain payments amounting to approximately HK\$8,800,000 during the year ended 31st March, 2001. We were unable to verify the underlying propriety or the completeness of such payments and have suggested that the Group conduct a comprehensive investigation relating to this matter. The Company has agreed to commence the investigation under the direction of its Board of Directors and its Audit Committee. However, pending the outcome of the investigation, there were no other satisfactory audit procedures that we could adopt to obtain sufficient evidence regarding the propriety and the completeness of such payments and their potential impact, if any, on the financial statements of the Company and the Group.



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 or disclosures that might have been found to be necessary had we been able to obtain sufficient evidence relating to the matters discussed in the preceding paragraphs, 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 31st March, 2001 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 Companies Ordinance.

In respect alone of the limitation on our work relating to the investment in an associated company, the investment in an unlisted company and certain payments,

- 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.

ARTHUR ANDERSEN & CO

Certified Public Accountants

Hong Kong, 24th August, 2001.