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TO THE MEMBERS OF SHANGHAI ALLIED CEMENT LIMITED

上海聯合水泥股份有限公司

(FORMERLY KNOWN AS INTERFORM CERAMICS TECHNOLOGIES LIMITED

圓方陶瓷科技有限公司)

*(Incorporated in Bermuda with limited liability)*

We have audited the financial statements on pages 24 to 85 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 judgments 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 as set out below.

## BASIS OF OPINION (Cont'd)

- (1) Our opinion on the financial statements of the Group for the year ended 31st March, 2001 was disclaimed in view of the pervasive nature of the limitations on the scope of our audit resulting from substantial missing third party supporting documentary evidence as explained by the current directors in notes 3(a)(v)-(x) to the financial statements and because we were unable to satisfy ourselves as to whether amounts due to the Group's bankers, finance lease creditors, holder of convertible loan note and a former director of approximately HK\$733,220,000, HK\$66,083,000, HK\$23,400,000 and HK\$3,400,000 respectively, included in the consolidated balance sheet as at 31st March, 2001 were fairly stated. Accordingly, we were unable to form an opinion as to whether the net liabilities of the Group as at 31st March, 2001, and the results and cash flows and the associated disclosures in the notes to the financial statements of the Group for the year then ended were fairly stated. Any adjustments to the opening net liabilities of the Group would affect the net profit and cash flows and the associated disclosures in the notes to the financial statements of the Group for the nine months ended 31st December, 2001. Also the comparative figures at 31st March, 2001 shown in the consolidated balance sheet on pages 25 and 26 and in the consolidated income statement for the year then ended on page 24 may not be comparable with the figures for the current period.
- (2) As explained in note 3(a)(i) to the consolidated financial statements, the current directors were unable to obtain sufficient documentary evidence to satisfy themselves as to whether the following amounts relating to the period from 1st April, 2001 to 15th May, 2001 and included in the consolidated income statement and the associated disclosures in the notes to the financial statements for the nine months ended 31st December, 2001 were fairly stated:
  - Turnover of approximately HK\$986,000
  - Cost of sales of approximately HK\$1,149,000
  - Administrative expenses of approximately HK\$412,000
- (3) As explained in note 3(a)(ii) to the consolidated financial statements, the current directors were unable to obtain sufficient documentary evidence to satisfy themselves as to whether trade and other payables amounting to approximately HK\$25,102,000 included in the consolidated balance sheet as at 31st December, 2001 were fairly stated.
- (4) As explained in note 3(a)(iii) to the consolidated financial statements, the current directors were unable to represent as to the completeness of recording of transactions entered into by the Group for the period from 1st April, 2001 to 15th May, 2001. Accordingly, the current directors are also unable to represent as to the completeness of identification and disclosure of related party transactions for the period from 1st April, 2001 to 15th May, 2001.

## **BASIS OF OPINION (Cont'd)**

(5) As explained in note 3(a)(iv) to the consolidated financial statements, the current directors were unable to obtain sufficient documentary evidence to satisfy themselves as to whether the following amounts included in the consolidated income statement and the associated disclosures in the notes to the financial statements for the nine months ended 31st December, 2001 were fairly stated:

- Gain on debts waived on financial restructuring of approximately HK\$957,583,000
- Loss on disposal of subsidiaries under financial restructuring of approximately HK\$98,000
- Gain on deconsolidation of subsidiaries of approximately HK\$61,121,000

Any adjustments to the figures in (2) to (5) above would as appropriate affect the net assets of the Group and the Company as at 31st December, 2001 and the profit and cash flows and the associated disclosures in the notes to the financial statements of the Group for the nine months then ended.

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 LIMITATIONS OF SCOPE**

Except for possible adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning the matters described in the basis of opinion section of this report, in our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st December, 2001 and of the profit and cash flows of the Group for the nine months then ended and have been properly 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 in the basis of opinion section of this report:

- 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 accounts have been kept.

**DELOITTE TOUCHE TOHMATSU**  
*Certified Public Accountants*

Hong Kong, 21st March, 2002