REPORT OF THE AUDITORS

ERNST & YOUNG
安永會計師事務所

To the members
Shun Cheong Holdings Limited
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 30 to 88 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 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.

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 follows:

1. Included in other investments in the consolidated balance sheet as at 31 March 2002, is a 24.14% equity investment in a company, Dyxnet Holdings Limited ("Dyxnet") in the net amount of HK$5,757,000 as at 31 March 2002. This investment was previously recorded in the prior year as an interest in an associate and stated at approximately HK$9,305,000, representing its cost of approximately HK$33,031,000 net of goodwill arising at the time of its acquisition of approximately HK$23,726,000, which was eliminated against consolidated reserves as at 31 March 2001. At 31 March 2002, this investment has been reclassified from an interest in an associate to other investments and an impairment loss totalling HK$23,726,000 in respect of the original goodwill arising on acquisition was quantified and recognised retrospectively for the year ended 31 March 2001. No reliable financial information concerning this investment was available to the directors either at the date of acquisition or subsequent thereto or to ourselves and there were no practical alternative audit procedures that we could perform to satisfy ourselves either that this investment has been fairly stated at 31 March 2002, or as to the appropriateness of the impairment loss of goodwill of approximately HK$23,726,000 for the year ended 31 March 2001 and the share of loss of an associate of approximately HK$3,548,000 for the year ended 31 March 2002. The predecessor auditors' report dated 24 August 2001 in respect of the previous financial year was also qualified on account of the initial accounting for this investment including the calculation of the goodwill arising on acquisition and the carrying value of the investment at 31 March 2001 on account of the same scope limitation. Further details in respect of this investment are also set out in notes 17 and 18 to the financial statements.

REPORT OF THE AUDITORS *(Continued)*

2. Included in other investments in the consolidated balance sheet as at 31 March 2002 is a 8.91% equity investment in an unlisted company in the amount of HK$3,460,000 as at 31 March 2002. This investment was previously recorded as investment securities and stated at a carrying value of HK$3,987,000, representing an original cost of approximately HK$19,460,000 net of provision for impairment of HK$15,473,000, at 31 March 2001. During the year, this investment has been reclassified from investment securities to other investments. No reliable financial information concerning this investment has been made available to the directors or to ourselves and there were no practical alternative audit procedures that we could perform to satisfy ourselves that this investment has been fairly stated at 31 March 2002, or as to the appropriateness of the unrealised holding loss on this investment of HK$527,000 in the current year which has been included in the profit and loss account. The predecessor auditors' report dated 24 August 2001 in respect of the previous financial year was also qualified on account of the same scope limitation. Further details in respect of this investment are also set out in note 18 to the financial statements.

3. In respect of the audited financial statements of the Group for the year ended 31 March 2001, the predecessor auditors' report thereon, dated 24 August 2001, was qualified concerning certain payments aggregating approximately HK$8,800,000 with regard to their propriety and completeness. Prior to the release of those financial statements, the board of directors had agreed to commission an investigation on this matter under the direction of the audit committee. The investigation has not been completed and no report has been issued up to the date of this report. Pending the outcome of the investigation, there were no practical audit procedures that we could perform to obtain sufficient evidence regarding either the propriety, or the completeness of such payments and their potential impact, if any, on the financial statements of the Company and the Group for either the current or prior year.

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 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 31 March 2002 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 other investments 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.

Ernst & Young
Hong Kong
19 July 2002