



Report of the Auditors



To the members

Guangdong Tannery Limited

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 32 to 100 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 financial 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 Statements of Auditing Standards issued by the Hong Kong Society of Accountants. 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 and performed 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. 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.



Report of the Auditors *(Cont'd)*

Fundamental uncertainty — Contingent liabilities

In arriving at our audit opinion, we have considered the adequacy of the disclosures made in note 34(a) to the financial statements concerning the irregularities involving certain former executives of a former subsidiary of the Company in the previous year and the related provision of HK\$69,600,000 for the tax claim and tax penalty made by the Group as at 31 December 2003. As the actions taken by the PRC authorities have not yet been concluded, it is not possible to ascertain with any degree of reasonable certainty the amount of any tax penalty which may finally be imposed by the PRC authorities and the other consequential actions that may be taken by the PRC authorities for the apparent breaches of certain PRC laws and regulations, or the existence or otherwise of any other penalties and claims arising as a result of the aforesaid irregularities. As of the date of this report, no further provision other than that disclosed in notes 26(a) and 34(a) to the financial statements has been made in the financial statements for such contingencies. We consider that appropriate disclosures and estimates have been made in the financial statements and our audit opinion is therefore not qualified in this respect.

Opinion

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 2003 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong

14 April 2004