



CCIF

Charles Chan, Ip & Fung CPA Ltd.

37th Floor, Hennessy Centre
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Causeway Bay, Hong Kong

Report of the Auditors

To the shareholders

Swank International Manufacturing Company Limited

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 38 to 78 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 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, 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.

Report of the Auditors (cont'd)

BASIS OF OPINION (cont'd)

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 with respect to the beneficial title of the Group to certain land and buildings as at 31 December 2003, because the Group has not obtained land use right certificates or building ownership certificates for certain land and buildings located in the People's Republic of China, with a net book value of approximately HK\$51 million. Accordingly, we were unable to satisfy ourselves that the Group had beneficial title to such land and buildings as at 31 December 2003. The predecessor auditors' report dated 28 April 2003 in respect of the previous financial year ended 31 December 2002 was also qualified on the Group's beneficial title to such land and buildings as at 31 December 2002 on account of the same scope limitation.

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.

Fundamental uncertainty relating to the going concern basis

In forming our opinion, we have considered the adequacy of the disclosures made in note 1(b) to the financial statements concerning the basis of preparation in view of the net loss for the year and net liabilities of the Group as at 31 December 2003. The financial statements have been prepared on a going concern basis, the validity of which depends upon future profitable operations and the funds being available to the Group to carry on its business and to meet its debts as and when they fall due in the foreseeable future. The financial statements do not include any adjustments that would result should the Group fail to continue in business as a going concern. Details of the circumstances relating to this fundamental uncertainty are described in note 1(b). We consider that appropriate estimates and disclosures have been made and our opinion is not qualified in this respect.

QUALIFIED OPINION ARISING FROM LIMITATION OF AUDIT SCOPE

Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence relating to the beneficial title matters relating to the land and buildings discussed above, 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.

Report of the Auditors (cont'd)

QUALIFIED OPINION ARISING FROM LIMITATION OF AUDIT SCOPE (cont'd)

In respect alone of the limitation on our work as set out in the basis of opinion section of this report:

- i) We have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- ii) We are unable to determine whether proper books of account have been kept.

Charles Chan, Ip & Fung CPA Ltd.

Certified Public Accountants

Hong Kong

26 April 2004

Chan Wai Dune, Charles

Practising Certificate Number P00712