

REPORT OF THE AUDITORS

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To the members

Shun Cheong Holdings Limited

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 18 to 60 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 financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, 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.

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 respect of the Group's three equity long term investments in unlisted companies in the consolidated balance sheet as at 31 March 2004. Such investments have nil carrying values in the consolidated balance sheet as at 31 March 2004 after fair value provisions of approximately HK\$8,036,000 (2003: HK\$5,435,000) were made by the directors in the current year. We were unable to satisfy ourselves as to the reliability of the financial information on which these provisions were based and there were no practical alternative

REPORT OF THE AUDITORS *(Continued)*

audit procedures that we could perform to satisfy ourselves that these investments have been fairly stated at 31 March 2004, or as to the appropriateness of the unrealised holding losses on these three investments of approximately HK\$8,036,000 included in the profit and loss account for the year ended 31 March 2004.

Our auditors' report in respect of the year ended 31 March 2003 was also qualified on account of a similar scope limitation in respect of the fair value of these three equity investments aggregating HK\$8,036,000 as at 31 March 2003 and the unrealised holding loss on these investments of approximately HK\$5,435,000 recognised in the profit and loss account for the year ended 31 March 2003. Further details in respect of these investments are also set out in note 17 to the financial statements.

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 that might have been found to be necessary had we been able to obtain sufficient evidence relating to the Group's three long term investments referred to 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 March 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitation on our work relating to the Group's three long term investments referred to above,

- 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

Certified Public Accountants

Hong Kong
15 July 2004