



Auditors' Report

RSM Nelson Wheeler

Certified Public Accountants

羅申美會計師行

TO THE SHAREHOLDERS OF
LUEN CHEONG TAI INTERNATIONAL HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the accounts on pages 26 to 85 which have been prepared in accordance with accounting principles generally accepted in Hong Kong, other than as set out below.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those accounts 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Group's and the Company's circumstances, consistently applied and adequately disclosed.



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 accounts are free from material misstatement. However, the evidence available to us was limited as follows:

1. Carrying amount of timber concession rights

Included in the consolidated balance sheet are timber concession rights in the Republic of Suriname, South America, with a carrying value of approximately HK\$105,256,000, held by Finestyle Investments (Suriname) N.V. ("Finestyle Suriname"), a wholly owned subsidiary, which was acquired on 1 September 2000, as set out in note 15 to the accounts. The concession rights are stated at cost of acquisition less amortisation.

We have not been able to obtain sufficient evidence concerning the economic value of these concession rights to satisfy ourselves that the carrying values of the concession rights are fairly stated.

2. Interests in subsidiaries

(a) The consolidated accounts include the audited accounts of Finestyle Suriname for the period from the effective date of its acquisition to 31 May 2001. The auditors of Finestyle Suriname have issued a qualified opinion that they are unable to express an opinion on whether the accounts give a true and fair view. An extraction of the auditors' qualified opinion is set out in note 14 to the accounts. The net assets as at 31 May 2001 and loss attributable to the Group from the date of acquisition to 31 May 2001 of this subsidiary derived from the audited accounts amounted to approximately HK\$92,485,000 and HK\$11,559,000 respectively. Accordingly we have also not been able to satisfy ourselves that the accounts give a true and fair view of the state of affairs of Finestyle Suriname as at 31 May 2001 and of its results and cash flows from the date of acquisition to 31 May 2001.

(b) Included in the Company's balance sheet are interests in subsidiaries of HK\$231,153,000. We have not been able to obtain sufficient evidence to satisfy ourselves that no further provision for diminution in value or doubtful debts is required.

3. Provision for taxation

Included in the "Taxation" shown in the consolidated balance sheet of the Group as at 31 May 2001 is overseas tax payable totalling HK\$5,622,000 which was brought forward from the previous year. We have not been able to obtain sufficient evidence to satisfy ourselves as to the accuracy of this provision for overseas taxation.



BASIS OF OPINION *(Cont'd)*

4. Construction contracts

Included in "Trade and other receivables" and "Trade and other payables" shown in the consolidated balance sheet of the Group as at 31 May 2001 are the gross amounts due from customers for contract work of HK\$2,271,000 and the gross amounts due to customers for contract work of HK\$902,000 respectively. We have not been provided with sufficient documentation to determine whether the attributable profits or provision for losses included in contract work have been properly computed. Accordingly we are unable to ascertain whether the gross amounts due from/to customers for contract work are fairly stated.

5. Going concern basis

We have considered the adequacy of the disclosure made in note 1(b) to the accounts concerning the basis of their preparation by the directors. The accounts have been prepared on a going concern basis, the validity of which depends upon the successful outcome of the negotiation with the Group's bankers and other financial institutions to extend the Group's credit facilities or to reschedule the Group's indebtedness. The accounts do not include any adjustments that would result from a failure to obtain the support from the bankers and other financial institutions. We consider that appropriate disclosures have been made. However, we have not been able to determine whether the adoption of the going concern basis for the preparation of these accounts is appropriate.

Any adjustments on the above matters would have a consequential effect on the net assets of the Group and the Company as at 31 May 2001 and the results of the Group and the Company for the year then ended.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.



DISAGREEMENT OF ACCOUNTING TREATMENT

Recoverability of loan receivable

Included in the "Trade and other receivables" shown in the consolidated balance sheet of the Group as at 31 May 2001 is a loan receivable totalling HK\$78,397,000. This amount comprises a principal amount of HK\$72,300,000 and related accrued interest of HK\$6,097,000. As described in note 19(a) the directors expect that the loan can be settled through the supply of timber. In our opinion there is sufficient doubt as to the recoverability of the loan and accrued interest that a provision should have been made as at 31 May 2001 and 31 May 2000. However, we are unable to quantify the amount of the provision required.

QUALIFIED OPINION: DISCLAIMER OF OPINION

Because of the significance of the possible effect of the limitation in evidence available to us as set out in the basis of opinion section of this report and the failure to make provision for the loan receivable, we are unable to form an opinion as to whether the accounts give a true and fair view of the state of affairs of the Group and of the Company as at 31 May 2001 or of the loss and cash flows of the Group for the year then ended and as to whether the accounts have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

RSM Nelson Wheeler

Certified Public Accountants

Hong Kong

12 June 2002