

Independent Auditor's Report 獨立核數師報告

RSM! Nelson Wheeler

羅申美會計師行

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF NAM FONG INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Nam Fong International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 35 to 95, which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except for the limitation in the scope of our work as described in the basis for qualified opinion paragraphs, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

獨立核數師報告

致南方國際控股有限公司

(於百慕達註冊成立之有限公司)

全體股東

本核數師已審核載於第35至95頁之南方國際控股有限公司(「貴公司」)及其附屬公司(統稱為「貴集團」)之綜合財務報表，此綜合財務報表包括於二零零六年十二月三十一日之綜合資產負債表，及截至該日止年度的綜合收益表、綜合權益變動表及綜合現金流量表，以及主要會計政策概要及其他附註解釋。

董事就財務報表承擔的責任

貴公司董事須遵照香港會計師公會頒佈的香港財務報告準則及香港公司條例披露規定，編製真實兼公平地列報該等財務報表，此責任包括設計、實施及維護與編製真實兼公平地列報的綜合財務報表有關的內部監控，以確保綜合財務報表不存在因欺詐或錯誤而導致之重大錯誤陳述；選擇並應用適當的會計政策；及按不同情況下作出合理之會計估算。

核數師的責任

本核數師之責任乃根據審核工作的結果，對該等綜合財務報表表達意見。並根據百慕達公司法1981第90條僅向全體股東報告，除此以外本報告概不可用作其他用途。本核數師概不就本報告的內容向任何其他人士承擔或負上任何責任。除保留意見部份所述之審核工作範圍之限制外，本核數師已根據香港會計師公會頒佈之香港核數準則進行審核工作。該等準則規定本核數師須遵守道德規定以計劃及進行審核，以合理確定此等財務報表是否不存有重大錯誤陳述。



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Auditor's responsibility (Continued)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for qualified opinion

- (a) As explained in note 26 to the financial statements, on 20 September 2006 (the "Disposal Date"), the Group disposed of a subsidiary, Guangzhou Suinan Property Development Company Limited ("GZ Suinan"). The directors have represented to us that they were unable to obtain certain books and records of GZ Suinan following its disposal. Due to lack of complete books and records of GZ Suinan, we are unable to assess as to whether the value of the following balances were free from material misstatements:
- (i) the net liabilities of approximately HK\$150,257,000 disposed of by the Group as at the Disposal Date and hence the gain on disposal of approximately HK\$123,323,000 arising thereon;

核數師的責任 (續)

審核涉及執程序以獲得與財務報表所載金額及披露事項有關的審核憑證。所選取的該等程序視乎核數師的判斷，包括評估由於欺詐或錯誤而導致綜合財務報表出現重大錯誤陳述的風險。在作出該等風險評估時，核數師考慮與該公司編製真實兼公平呈列綜合財務報表有關的內部監控，以設計適當之審核程序，但並非為對該公司的內部監控是否有效表達意見。審核亦包括評價董事所採用的會計政策是否恰當及所作的會計估算是否合理，以及評價綜合財務報表的整體呈列方式。

本核數師相信，我們已取得充分恰當的審核憑證，為我們的審核意見建立合理之基礎。

保留意見之基礎

- (a) 誠如財務報表附註26所述，於二零零六年九月二十日（「出售日期」），貴集團出售一附屬公司廣州穗南房產發展有限公司（「廣州穗南」）。董事已向吾等陳述，其不能取得廣州穗南於其出售後之若干簿冊及記錄。由於缺少廣州穗南之完整簿冊及記錄，吾等無法判斷下列結餘是否不存有重大錯誤陳述：
- (i) 貴集團於出售日期出售約150,257,000港元之淨負債，並由此產生之出售收益約123,323,000港元；



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Basis for qualified opinion (Continued)

- (ii) the net inflow of cash and cash equivalents of approximately HK\$9,449,000 in respect of the disposal and other amounts related to GZ Suinan included in the consolidated cash flow statement;
- (iii) the loss on disposal of investment properties held by GZ Suinan of approximately HK\$55,188,000; and
- (iv) turnover of approximately HK\$9,839,000 and loss for the year of approximately HK\$60,595,000 relating to GZ Suinan included in the consolidated income statement for the period up to the Disposal Date.

Any adjustments to these figures might have a consequential effect on the classification of the consolidated income statement and amounts recorded in the consolidated cash flow statement and the related amounts disclosed in the notes to the financial statements in respect of GZ Suinan for the year ended 31 December 2006.

- (b) As explained in note 17 to the financial statements, subsequent to the balance sheet date, the title of certain investment properties with total carrying value of approximately HK\$122,400,000 have been frozen by the court in respect of GZ Suinan's additional tax of approximately RMB10,361,000 together with interest and penalty levied by the Taxation Bureau of Guangzhou City and GZ Suinan's overdue payment of approximately RMB5,000,000 due to a creditor. GZ Suinan has raised an objection and disputed the amount charged by the Taxation Bureau of Guangzhou City. The management of GZ Suinan considered that they have settled all tax liabilities. Although the outcome of the disputes with the Taxation Bureau of Guangzhou City and the creditor cannot be determined at the

保留意見之基礎 (續)

- (ii) 有關出售事項之現金及現金等值項目流入淨額約9,449,000港元及其他計入綜合現金流量表有關廣州穗南之其他款項；
- (iii) 出售廣州穗南持有之投資物業虧損約55,188,000港元；及
- (iv) 於截至出售日期期間計入綜合收益表內有關廣州穗南之營業額約9,839,000港元及本年度虧損約60,595,000港元。

此等數據之任何調整均可能對綜合收益表之分類、綜合現金流量表記錄之數額、以及截至二零零六年十二月三十一日止年度有關廣州穗南之財務報表附註所披露之相關數額產生連帶影響。

- (b) 如財務報表附註17所述，於結算日後，總賬面值約122,400,000港元之若干投資物業之業權已被法院就廣州稅務局就廣州穗南徵收之約人民幣10,361,000元之額外稅項連同利息及罰款，以及廣州穗南應付予一債權人之逾期款項約人民幣5,000,000元予以查封。廣州穗南已就廣州稅務局徵收之款項提出反對及抗議。廣州穗南之管理層認為其已結清所有稅項負債。儘管與廣州稅務局及該債權人之爭端結果目前尚不能確定，董事仍有信心廣州穗南有能力解決與廣州稅務局及該債權人之財務爭端，故貴集團將可取得該等物業之法定業權。董事亦認為貴集團擁有該等投資物業之實益業權，可要求廣州穗南補償由此產



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Basis for qualified opinion (Continued)

moment, the directors remain confident that GZ Suinan should be able to resolve the financial disputes with the Taxation Bureau of Guangzhou City and the creditor and hence, the Group will be able to obtain legal title of these properties. The directors are also of the opinion that the Group possesses beneficial ownership of the aforesaid properties and can demand GZ Suinan to compensate their losses, if any, arising therefrom. However, we have not been provided with sufficient evidence regarding how the Group can recover the value of the abovementioned properties in full. Accordingly, we are unable to satisfy ourselves as to whether the abovementioned properties were fairly stated in the consolidated balance sheet as at 31 December 2006. Any adjustments to the above figure might have a significant consequential effect on the results for the year and net assets as at 31 December 2006.

- (c) Included in the consolidated balance sheet as at 31 December 2005 were net assets of approximately HK\$170,620,000 in respect of GZ Suinan, a subsidiary which was disposed of in 2006. The consolidated financial statements for the year ended 31 December 2005 were audited by another firm of accountants. We were not able to review the audit files of the previous auditor for the year ended 31 December 2005 and hence their work done in respect of the results and balances of GZ Suinan for the year ended 31 December 2005. In addition, due to the lack of complete books and records of GZ Suinan, we have not been able to carry out alternative audit procedures for the year ended 31 December 2005 to enable us to express an opinion on the net assets, turnover and profit for the year of GZ Suinan included in the consolidated financial statements as at and for the year ended 31 December 2005 of approximately HK\$170,620,000, HK\$45,551,000 and HK\$283,535,000, respectively.

保留意見之基礎 (續)

生之任何物業虧損。然而，吾等並無法獲得有關貴集團可全數收回上述物業價值之足夠證據。因此，吾等無法信納上述物業於二零零六年十二月三十一日之綜合資產負債表中是否公平呈列。上述數據之任何調整均可能對於二零零六年十二月三十一日之資產淨值及截至該日止年度之業績產生重大連帶影響。

- (c) 記入於二零零五年十二月三十一日之綜合資產負債表有關廣州穗南(於二零零六年出售之附屬公司)之淨資產為約170,620,000港元。貴公司截至二零零五年十二月三十一日止年度之綜合財務報表乃由另一會計師行審核。吾等不能審閱前核數師於截至二零零五年十二月三十一日止年度之核數文檔以及其就廣州穗南於截至二零零五年十二月三十一日止年度之業績及結餘所做之核數工作文檔。此外，由於缺少廣州穗南之完整簿冊及記錄，吾等無法就截至二零零五年十二月三十一日止年度進行另外的核數程序，以令吾等能夠就記入於二零零五年十二月三十一日及截至該日止年度綜合財務報表之廣州穗南淨資產約170,620,000港元、營業額約45,551,000港元及該年度溢利約283,535,000港元表達意見。

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Basis for qualified opinion (Continued)

In particular, we draw your attention to the fact that the previous auditor has expressed a disclaimer opinion in respect of the appropriateness of the write-back of over-provision for tax of approximately HK\$383,012,000 in the consolidated income statement for the year ended 31 December 2005 due to insufficient supporting documents available. The write-back of over-provision was recorded in the books of GZ Suinan which was disposed of in 2006. Any adjustments to the above might affect the opening net assets of the Group as at 1 January 2006, the opening accumulated losses of the Group as at 1 January 2006 and the classification of the consolidated income statement for the year ended 31 December 2006.

- (d) During the year ended 31 December 2005, certain subsidiaries including Nam Fong Guangzhou Central Plaza Limited were disposed of by the Group. A profit of approximately HK\$65,313,000 was realised upon disposal of subsidiaries and was transferred directly to the accumulated losses as shown in the consolidated statement of changes in equity. This is not in accordance with Hong Kong Accounting Standard 27 "Consolidated and Separate Financial Statements" issued by the HKICPA which requires recognition of the gain or loss on the disposal of subsidiaries in the consolidated income statement. In addition, the said amount of approximately HK\$65,313,000 cannot be reconciled to the gain on disposal of subsidiaries of approximately HK\$22,262,000 under note 30 to the consolidated financial statements for the year ended 31 December 2005. Accordingly, the related disclosure of disposal of subsidiaries under note 30 to the consolidated financial statements for the year ended 31 December 2005 may also contain material misstatements. Due to the unavailability of the financial information of these disposed subsidiaries, we are unable to properly restate the corresponding figures and revise the relevant disclosures of disposal of subsidiaries.

保留意見之基礎 (續)

其中，務請閣下留意，由於未能獲取充分文件支持，前核數師已就截至二零零五年十二月三十一日止年度之綜合收益表內約383,012,000港元之稅項撥備回撥作出免責意見。稅項撥備回撥乃記入廣州穗南（已於二零零六年出售）之簿冊。對上述數額之任何調整或會影響貴集團於二零零六年一月一日之年初淨資產、年初累計虧損及截至二零零六年十二月三十一日止年度綜合收益表之分類。

- (d) 於截至二零零五年十二月三十一日止年度，貴集團出售南方廣州越秀中廣場有限公司等若干附屬公司。出售該等附屬公司而產生之盈利約為65,313,000港元，並直接轉撥至綜合權益變動表內之累計虧損。此處理並未遵照香港會計師公會頒佈之香港會計準則第27號「綜合及獨立財務報表」有關於綜合收益表中確認出售附屬公司之損益之規定。此外，上述約65,313,000港元無法與截至二零零五年十二月三十一日止年度之綜合財務報表附註30項下之出售附屬公司之收益約22,262,000港元對賬。故此，截至二零零五年十二月三十一日止年度之綜合財務報表附註30項下之出售附屬公司之相關披露亦可能包含重大錯誤陳述。由於不能獲取該等被出售附屬公司之財務資料，故吾等無法適當重列相應數據，以及修訂出售附屬公司之相關披露。



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Qualified opinion arising from limitation of audit scope and disagreement about accounting treatment

In our opinion, except for any adjustments that might have been determined to be necessary had we been able to obtain sufficient evidence as described above, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2006 and of the Group's results and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Material uncertainty relating to the going concern basis

Without qualifying our opinion, we draw attention to note 2 to the financial statements which mentions that the Group had net current liabilities of approximately HK\$17,521,000. The condition indicates the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. As further explained in note 2 to the financial statements, the Group has obtained agreement from a bank for a revised repayment schedule in respect of its indebtedness. The financial statements have been prepared on a going concern basis, the validity of which depends upon the Group's ability to generate sufficient cash inflows from its operating activities and the recovery of the consideration receivable from disposal of its subsidiaries. The financial statements do not include any adjustments that would result from the failure of the above. We consider that the material uncertainty has been adequately disclosed in the financial statements.

RSM Nelson Wheeler

Certified Public Accountants
Hong Kong

30 May 2007

因審核範圍限制及會計處理意見不同而產生之保留意見

除吾等能夠取得以上所述之充分憑證而可能發現須作出任何調整外，吾等認為，該綜合財務報表真實及公平地反映貴集團於二零零六年十二月三十一日之財務狀況，及貴集團根據香港財務報告準則於截至該日止年度之業績及現金流量，並已按香港公司條例之披露要求妥為編製。

持續經營基準之重大不明朗因素

在並未提出保留意見下，務請閣下留意，根據財務報表附註2所述，貴集團之淨流動負債約為17,521,000港元。該等情況顯示存在重大不明朗情況，或會令人對貴集團能否按持續經營基準繼續經營業務存疑。誠如財務報表附註2之進一步詳述，貴集團已獲銀行同意重訂其債務償還計劃。財務報表乃根據持續經營基準而編製，其有效性乃取決於貴集團從經營活動中產生足夠現金流入之能力，以及出售附屬公司的應收代價之收回。財務報表並不包括任何因上述措施未能達致而作出之調整。吾等認為重大不明朗因素已於財務報表中獲足夠披露。

羅申美會計師行

執業會計師
香港

二零零七年五月三十日

