

FAN, MITCHELL & CO.

Certified Public Accountants

TO THE MEMBERS OF

eCyberChina Holdings Limited

光訊控股集團有限公司

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 18 to 70 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Hong Kong Companies Ordinance (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 to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants ("HKSA"), 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 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. However, the evidence available to us was limited as follows:

1. **Scope limitation – fundamental uncertainty – going concern basis of the Group**

We have considered the adequacy of the disclosures made in note 2 to the financial statements concerning the basis of preparation by the Directors. As explained in note 2 to the financial statements, the Group incurred a net loss attributable to shareholders of HK\$450,201,000 for the year ended 30th June, 2002. At the balance sheet date, the Group had consolidated net current liabilities of HK\$4,590,000 including short-term borrowings of HK\$91,973,000. The Group's financial statements have been prepared on a going concern basis, the validity of which is dependent upon the successful outcome of the measures currently being undertaken by the Directors to ensure that adequate cash resources are available to the Group to enable it to meet its future working capital and financial requirements. The financial statements do not include any adjustments that would result from the failure of such measures.

BASIS OF OPINION (cont'd)**1. Scope limitation – fundamental uncertainty – going concern basis of the Group (cont'd)**

We consider that appropriate disclosures have been made in the financial statements but the inherent uncertainties surrounding the circumstances under which the Group might successfully continue to adopt the going concern basis are so extreme that we have disclaimed our opinion.

2. Scope limitation – the PRC subsidiaries not audited by us

The Company has equity interests in two PRC subsidiaries. The unaudited financial information of the PRC subsidiaries was included in the financial statements of the Group. Due to the fact that certain books and records of these subsidiaries were either not properly updated or could not be located as explained in note 2 to the financial statements and audited financial statements of these subsidiaries prepared under Hong Kong generally accepted accounting principles are not available, we have not been able to satisfy ourselves that the results and state of affairs of the PRC subsidiaries are properly stated in the financial statements of the Group for the year ended 30th June, 2002.

3. Scope limitation – completeness of books and records

(a) As more fully explained in note 2 to the financial statements, due to the significant staff and management turnover within the Group during the year and subsequent to the balance sheet date, certain underlying books and records of the Group were either not properly updated or could not be located. Accordingly, we have not been provided with adequate evidence to satisfy ourselves as to the completeness and accuracy of the following amounts included in the financial statements recorded by (i) the Group and (ii) the Company and as to the reliability of the related disclosures in the financial statements.

*(i) The Group***Included in consolidated income statement**

- Turnover of HK\$6,889,000*
- Direct costs of HK\$1,254,000*
- Other revenue of HK\$2,962,000*
- Finance costs of HK\$8,810,000*
- Taxation with nil amount*
- Minority interest of HK\$783,000*
- Loss attributable to shareholders (excluding revaluation deficit, provision, impairment loss and amortisation of goodwill aggregating HK\$418,180,000) of HK\$32,021,000*

Included in consolidated balance sheet

- Fixed assets of HK\$2,963,000*
- Inventories of HK\$4,527,000*
- Trade and other receivables of HK\$9,083,000*
- Trade payable, other payables, tax payable and accruals of HK\$44,116,000*
- Minority interest of HK\$886,000*

* including financial information of the PRC subsidiaries

BASIS OF OPINION (cont'd)**3. Scope limitation – completeness of books and records (cont'd)**

(a) (cont'd)

(ii) *The Company*

- Loss for the current year (excluding impairment loss on interests in subsidiaries of HK\$549,055,000) of HK\$16,341,000

(b) As explained in note 2 to the financial statements, the books and records of the Group were either not properly updated or could not be located subsequent to the balance sheet date. Accordingly, we have not been able to carry out the necessary audit procedures to complete our review of subsequent events from the balance sheet date up to the date of this report. Such procedures might have resulted in the identification of adjustments to the amounts reported in and/or disclosed as notes to the financial statements.

4. Scope limitation and disagreement over accounting treatment and disclosure – interests in three associates

Included in the consolidated income statement for the year ended 30th June, 2002 are impairment losses recognised aggregating HK\$157,741,000 made against the Group's interests in three associates which were acquired by the Group during the years ended 30th June, 2001 and 2002. As explained in note 2 to the financial statements, due to the unavailability of the audited financial information, we have not been able to satisfy ourselves that the equity method has been properly adopted and disclosure has been made in respect of the Group's interests therein in accordance with the provisions and disclosure requirements as set out in Statement of Standard Accounting Practice ("SSAP") 10 "Accounting for investments in associates" issued by the HKSA.

Furthermore, as explained in notes 15 and 19 to the financial statements, the Group has recognised impairment losses aggregating HK\$157,741,000 and provision for amounts due from associates in the sum of HK\$15,911,000 against the Group's interests in these associates. We have been unable to obtain from the Directors sufficient information to form an opinion on whether any further commitment should be made by the Group and the provisions made are appropriate. Any adjustments to the provisions recorded would have a consequential impact on the Group's net assets as at 30th June, 2002 and the net loss attributable to shareholders for the year then ended.

5. Scope limitation – properties under development held for sale

Included in the consolidated balance sheet as at 30th June, 2002 are properties under development held for sale with carrying value of HK\$83,900,000 (net) in respect of which provision of HK\$10,000 has been made in the current year. We have been unable to obtain direct confirmation from the developer in the PRC to satisfy ourselves as to the Group's ownership on properties under development held for sale and as to the appropriateness or adequacy of the provision made.

BASIS OF OPINION (cont'd)**6. Scope limitation – fixed assets located in the PRC**

Included in the consolidated balance sheet as at 30th June, 2002 are certain fixed assets of the two PRC subsidiaries, in the amount of HK\$1,871,000 (net) which are located in the PRC. We have been unable to obtain sufficient information, or to carry out alternative audit procedures to satisfy ourselves as to the ownership, existence and accuracy of fixed assets located in the PRC and as to the appropriateness or adequacy of the provision or impairment loss made.

7. Scope limitation – inventories

We were appointed auditors on 3rd June, 2003 which was subsequent to the balance sheet date. As a result, we were unable to carry out audit procedures necessary to obtain adequate assurance regarding the quantities and condition of inventories included in the consolidated balance sheet at HK\$4,527,000. We have been unable to obtain sufficient information to assess whether any provision is required in respect of any inventories for which net realisable value is below cost and the existence of inventories. Any adjustments to the figure may have a consequential impact on the Group's net assets as at 30th June, 2002 and the net loss attributable to shareholders for the year then ended.

8. Scope limitation – trade and other receivables

As explained in note 2 to the financial statements, included in the consolidated balance sheet as at 30th June, 2002 are trade and other receivables at approximately HK\$9,083,000. We have been unable either to obtain sufficient financial information, or to carry out alternative audit procedures to satisfy ourselves as to the existence, completeness and accuracy of this amount. Accordingly, we were unable to determine whether a provision, if any, is required against the trade and other receivables.

9. Scope limitation – uncertainty about the extent of disclosures

As explained in note 2 to the financial statements, as certain books and records were either not properly updated or could not be located, we are uncertain as to the accuracy and completeness of disclosures required by the Companies Ordinance, SSAPs and the Listing Rules.

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.

DISCLAIMER OF OPINION

Because of the significance of the possible effects in view of the extent of the uncertainty relating to the going concern basis and of the limitations in evidence available to us referred to in the basis of opinion section of this report, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30th June, 2002 or of the loss and cash flows of the Group for the year then ended and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Companies Ordinance.

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

- 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 have been kept.

FAN, MITCHELL & CO.

Certified Public Accountants

Hong Kong, 27th June, 2003