



AUDITORS' REPORT TO THE SHAREHOLDERS OF DYNAMIC GLOBAL HOLDINGS LIMITED

(Incorporated in Bermuda with Limited Liability)

We have audited the financial statements on pages 23 to 90 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 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 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 (the "HKSA"), 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 made available to us was limited due to the following:

Scope limitations arising from prior year's audit scope limitations affecting opening balances for current year

1. The previous auditors' issued a disclaimer opinion on the financial statements of the Group and the Company for the year ended 31 December 2001 for various reasons amongst which included the significance of the possible effects arising from certain limitations on the scope of the audit which consequently resulted in scope limitations on the opening balances in the financial statements of the Group and the Company for the year ended 31 December 2002. The reasons for the disclaimer were set out in the prior year auditors' report dated 30 April 2003.

Scope limitations arising from prior year's audit scope limitations affecting opening balances for current year (*Continued*)

In summary the scope limitations affecting the opening balances include the following:

- (i) Incomplete books and records of certain companies within the Group;
- (ii) Insufficient information to assess the adequacy of the provisions of HK\$3.4 million made against the Group's advances to a shareholder of an associate and for guarantee given in respect of loans granted by a financial institution to the shareholder of the associate;
- (iii) Insufficient information to confirm the carrying value of approximately HK\$56.7 million of un-amortised goodwill arising from acquisition of an associate;
- (iv) Insufficient information to assess the carrying value of certain fixed assets valued at approximately HK\$53.5 million;
- (v) Insufficient information to confirm if any provision is required to be made for the claim of approximately RMB11.6 million (HK\$10.9 million) from a former landlord; and
- (vi) The non equity accounting for the interests in two associates in accordance with Statement of Standard Accounting Practice 2.110 "Accounting for investments in associates" issued by the HKSA.

Any adjustment found to be necessary to the opening balances of the Group and the Company would have a consequential effect on the loss of the Group and the Company for the current year ended 31 December 2002.

Scope limitations arising from the current year's audit

2. Scope limitation – Completeness of books and records

As explained in further details in note 2(b) to the financial statements, due to the high turnover of management and staff within the Group during the year, certain underlying books and records of the Group were either lost, or could not be located, or have not been properly updated. Accordingly, we have not been provided with adequate evidence to satisfy ourselves as to the completeness, appropriateness of classifications and disclosures in respect of (i) certain transactions effected during the year 2002; and (ii) the related balances as further detailed in note 2(b) to the financial statements.

Scope limitations arising from the current year's audit (*Continued*)

3. Scope limitation and disagreement over accounting treatment and disclosure – Interest in three associates

During the year, the Group acquired additional 10% interest in an associate, namely Golden Yield Enterprises Limited (“Golden Yield”) for approximately HK\$13.4 million under the management of the former directors. As explained in note 19(a) to the financial statements, the existing directors were unable to obtain the financial statements of Golden Yield for the year ended 31 December 2002, the Group has not accounted for any changes in its interest in Golden Yield since 31 December 2001 using the equity method of accounting.

As further stated in note 19(b) to the financial statements, due to the lack of financial information of Lawsons Infotech (Holdings) Corporation and Well Known Technology Limited, the Group has not accounted for any changes in its interests in these two associates since their acquisition in 2001 using the equity method of accounting.

No disclosure has been made in respect of the Group's interests in these associates in accordance with the provisions and disclosure requirements as set out in Statement of Standard Accounting Practice 2.110 “Accounting for investments in associates” issued by the HKSA. We have not been able to quantify the effect on the consolidated income statement and consolidated balance sheet for failing to properly account for the Group's share of its results for the year then ended.

4. Scope limitation – Carrying value of interest in associates

Included in the consolidated balance sheet at 31 December 2002 was a 39% interest in an associate, Golden Yield, in the amount of approximately HK\$66.7 million. The carrying value of which included un-amortised goodwill arising on acquisition of approximately HK\$66.5 million. Neither a current independent professional valuation, nor other current financial information in respect of Golden Yield is available to the Group to assess the carrying value of the un-amortised goodwill. We have been unable to perform the procedures we consider necessary to satisfy ourselves as to whether any impairment loss is required to be made against the carrying value of the un-amortised goodwill of approximately HK\$66.5 million as at 31 December 2002. Any adjustment to this amount would have a consequential effect on the net asset position of the Group as at 31 December 2002 and the net loss from ordinary activities attributable to shareholders for the year then ended.

Included in the consolidated balance sheet as at 31 December 2002 was an amount of RMB3 million (approximately HK\$2.8 million) due from an associate, namely Beijing Zotn Digital Technologies, Inc.. We have been unable to obtain satisfactory explanations from the directors concerning the reasons for the advances made by the Group. We have been unable to carry out auditing procedures to confirm the existence and recoverability of the amount due from the associate. Any adjustment to the amount would have a consequential effect on the net asset position of the Group as at 31 December 2002 and the net loss from ordinary activities attributable to shareholders for the year then ended.

Scope limitations arising from the current year's audit (*Continued*)

5. Scope limitation – Fixed assets

Included in the consolidated balance sheet at 31 December 2002 were certain fixed assets (the "Ski Assets") of Fairyoung Heilongjiang Industry Co., Ltd. ("HLJ Industry"), a wholly-owned subsidiary of the Group, in the amount of approximately HK\$46.6 million, held for the operation of a skiing resort in Mainland China (the "Skiing Operations"). As explained in note 39(c) to the financial statements, the Group's investment in HLJ Industry has been frozen by a court in Mainland China and the Skiing Operations has also been suspended. On 4 September 2002, the Group entered into a conditional agreement with an independent third party purchaser for the disposal of the Skiing Operations for a consideration of approximately RMB56 million (approximately HK\$52.7 million) (the "Disposal"). However, the terms of conditions specified under the Disposal agreement have not been fulfilled by both parties thereto to date, amongst others, the payment of a fee amounting to RMB5 million (approximately HK\$4.7 million) shared equally by the Group and the purchaser in an attempt to apply to the court for the release of the frozen capital of HLJ Industry. To date, neither the Disposal has been completed, nor has any independent professional valuation or other financial information been made available to assess the carrying value of the Ski Assets. Having considered (i) the suspension of the Skiing Operations; (ii) the imposed restriction by the court on the transfer of the Ski Assets; and (iii) the uncertainty of whether the Disposal would be successful, the consideration for the Disposal may not be a reliable benchmark to assess the carrying value of the Ski Assets. We have been unable to perform the procedures we consider necessary to satisfy ourselves as to whether any impairment loss is required to be made against the carrying value of the Ski Assets. Any adjustment to this amount would have a consequential effect on the net asset position of the Group as at 31 December 2002 and the net loss from ordinary activities attributable to shareholders for the year then ended.

6. Scope limitation – Legal claim

As set out in note 39(c) to the financial statements, the Group received a judgement from a court in Mainland China pertaining to a claim of approximately RMB11.6 million (approximately HK\$10.9 million) from a former landlord against the Company and a subsidiary in respect of the alleged breach of a tenancy agreement signed by a former subsidiary disposed of by the Group in previous year. The directors consider that the Group has valid defences against the claim and are currently seeking legal opinion concerning the intended appeal against the judgement. Therefore, no provision for the amount claimed has been made in the financial statements. However, we have not been provided with sufficient information to assess the likely outcome of the intended appeal, we have been unable to assess as to whether any provision is required to be made by the Group. Any adjustment to the amount would have a consequential impact on the Group's net assets as at 31 December 2002 and the net loss from ordinary activities attributable to shareholders for the year then ended.

Scope limitations arising from the current year's audit (*Continued*)

7. Scope limitation – Provision against sundry deposits

As set out in note 2(b)(i) to the financial statements and included in the consolidated income statement for the year ended 31 December 2002 was a provision aggregating approximately HK\$9.5 million made against the Group's deposits advanced for acquisition of two investments. We have been unable to obtain satisfactory explanations from the directors concerning the reasons why the deposits made by the Group during the year were not recoverable. Any adjustment to the provision would have a consequential impact on the Group's net assets as at 31 December 2002 and the net loss from ordinary activities attributable to shareholders for the year then ended.

8. Scope limitation – Inventories

We were unable to carry out auditing procedures necessary to obtain adequate assurance regarding the quantities and condition of inventories of approximately HK\$3.3 million as stated in the consolidated balance sheet. There were no other satisfactory audit procedures that we could adopt to obtain sufficient evidence regarding the existence of the inventories. Any adjustment to the amount would have a consequential impact on the Group's net assets as at 31 December 2002 and the net loss from ordinary activities attributable to shareholders for the year then ended.

9. Scope limitation – Fundamental uncertainty – Going concern basis of the Group

In forming our opinion, we have considered the adequacy of the disclosures made in note 2(a) to the financial statements concerning the adoption of going concern basis on which the financial statements have been prepared. 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 undertaken and the ongoing financial support of a major shareholder 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.

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.

Report of the Auditors

DISCLAIMER OF OPINION

Because of the significance of each of (i) the fundamental uncertainty relating to the going concern basis, and (ii) the possible effects due to the limitations in evidence made available to us including, but not limited to, the scope limitations arising from prior year's disclaimer of audit opinion issued by previous auditors, as set out above under the heading of "Basis of Opinion", 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 of the Group as at 31 December 2002 and 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 Hong Kong Companies Ordinance.

In respect alone of the limitations 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 were unable to determine whether proper books of account had been kept.

Notwithstanding the preceding paragraphs, due to the fact that the audit opinion dated 30 April 2003 was disclaimed by the previous auditors for reasons summarised in paragraph 1 above, the comparative amounts shown in these financial statements may not be comparable with the amounts for the current year.

Charles Chan, Ip & Fung CPA Ltd.

Certified Public Accountants

Hong Kong

Chan Wai Dune, Charles

Practising Certificate Number P00712

Hong Kong, 11 July 2003