

REPORT OF THE AUDITORS

TO THE SHAREHOLDERS OF PLUS HOLDINGS LIMITED

(FORMERLY KNOWN AS TELECOM PLUS HOLDINGS LIMITED)

(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 27 to 75 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 statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with the Statement 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 financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, 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 as regards the following items. Included in the bank and other borrowings and other investments of the Group as at 31 March 2003 are an other borrowing from a third party of HK\$7,268,000 and an other investment of HK\$1,400,000 which was pledged to secure such other borrowing. We were unable to obtain either any confirmation from the lender or other supporting evidence to satisfy ourselves as to whether the recorded balances and the pledge were fairly stated as at 31 March 2003. Any adjustments found to be necessary would affect the net liabilities of the Group as at 31 March 2003 and the loss of the Group for the year then ended.

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

FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the financial statements concerning the adoption of the going concern basis for the preparation of the financial statements. As explained in note 2 to the financial statements, the Group incurred a consolidated loss attributable to shareholders of HK\$86,515,000 for the year ended 31 March 2003 and had net current liabilities and deficiency of shareholders' fund of HK\$42,250,000 and HK\$16,077,000 respectively at 31 March 2003. Besides, the Group had overdue short term borrowings together with related interest expenses totaling HK\$48,150,000. Moreover, certain creditors of the Group have taken legal actions against the Group to recover overdue balances amounting to approximately HK\$13 million.

Against this background, the directors adopted the following measures to strengthen the capital base of the Group and to improve its financial position, liquidity and cash flows.

(i) Equity and trade financing

On 6 March 2003, the Company entered into a conditional subscription rights agreement with BAPEF Investments II Limited ("BARING"), a shareholder of the Company, pursuant to which Telecom Plus Technology Holdings Limited ("TPTHL"), a wholly-owned subsidiary of the Company, has agreed to grant the subscription rights to BARING to subscribe a maximum of 3,000 million shares of preferred stock of TPTHL at HK\$0.01 per share.

During the year, a subsidiary of the Group has secured banking facilities of HK\$12 million from one of its principal bankers against a corporate guarantee provided by the Company and a personal guarantee provided by an executive director, Mr. Zou Yishang. The facilities have not been utilized up to the date of this report.

On 27 May 2003, the Company announced the placing of 100 million new shares of the Company of HK\$0.10 each at a price of HK\$0.10 per share. The placing was completed on 10 October 2003.

(ii) Restructuring of the Group's indebtedness and arranging for new facilities for trade financing

The Group is negotiating with its bankers for the rescheduling or extension of existing loan facilities and for the granting of new facilities to support its future working capital and other financing requirements. The Group is also negotiating with certain of its creditors for the rescheduling of repayments.

As stated in note 24 to the financial statements, on 23 September 2003, the maturity date of the outstanding convertible bonds of the Company has been extended to 31 December 2004.

REPORT OF THE AUDITORS

FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

(Cont'd)

(ii) Restructuring of the Group's indebtedness and arranging for new facilities for trade financing *(Cont'd)*

Provided that the negotiations with the bankers and creditors for debt rescheduling can be successfully concluded and sufficient fund can be raised from equity financing exercises and new facilities granted by banks for trade financing, the directors consider that the Group will be able to meet in full its financial obligations as they fall due in the foreseeable future. The financial statements have been prepared on a going concern basis, the validity of which depends upon sufficient future funding being available. The financial statements do not include any adjustments that may result from the failure of the Group to obtain such funding. We consider that appropriate disclosures have been made. However, in view of the extent of uncertainty relating to the future funding of the Group, we disclaim our opinion in respect of the fundamental uncertainty relating to the going concern basis.

DISCLAIMER OF OPINION

Because of the significance of the possible effect of the limitation in evidence available to us and because of the fundamental uncertainty relating to the going concern basis, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of the affairs of the Company and the Group as at 31 March 2003 and of the loss and cash flows of the Group for the year then ended. In all other respects, in our opinion, the financial statements 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 other borrowings and other investments, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

Lee Ka Leung, Daniel

Practising Certificate Number P01220

Hong Kong, 14 October 2003