



Chartered Accountants
Certified Public Accountants

6/F, Wheelock House
20 Pedder Street
Central
Hong Kong

**TO THE MEMBERS OF
RUILI HOLDINGS LIMITED**

(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 23 to 80 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 financial statements 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 responsibilities towards or accept liability to any other person for the contents of this report.

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 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 Group and the Company, consistently applied and adequately disclosed.

BASIS OF OPINION (Continued)

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 follows:

1. as explained in Note 2(a)(i) to the financial statements, key management and personnel responsible for the accounting and finance function of Welback International Investments Limited and its subsidiaries ("WILL group"), being the major operating subsidiaries of the Group, commenced to leave WILL group in May 2003, the books of account and records of WILL group have not been properly prepared and maintained. In the absence of properly prepared accounting records and supporting documents of WILL group, the directors of the Company have prepared the consolidated financial statements of WILL group based on unaudited individual management accounts of the companies comprising WILL group. Against this background, the directors of the Company are unable to represent as to the validity, completeness, existence, valuation, recording and presentation of assets, liabilities, income, expenditure and cash flows of WILL group. Accordingly, the directors of the Company are unable to represent that the financial statements of the Group are free from material misstatement.

The financial statements of WILL group for the year ended 30 June 2003 were not audited by us. We have not been able to perform sufficient additional audit procedures on such financial statements to satisfy ourselves as to the nature, completeness, appropriateness, classification and disclosures in respect of the transactions of WILL group for the year ended 30 June 2003 and the related balances of assets and liabilities of WILL group as at 30 June 2003, as included in the consolidated financial statements of the Group as at and for the year ended 30 June 2003. Further details of the financial information of WILL group are set out in Note 18 to the financial statements.

Any adjustments to the amounts so consolidated in respect of the transactions of WILL group for the year ended 30 June 2003 and the related balances of assets and liabilities of WILL group as at 30 June 2003 would have a corresponding effect on the consolidated financial statements of the Group as at and for the year ended 30 June 2003.

2. as explained in Note 2(a)(iii) to the financial statements, in the absence of properly prepared accounting records and supporting documents of WILL group, the directors of the Company are unable to represent as to the completeness of the following disclosure notes:
 - (i) contingent liabilities of WILL group in respect of various legal proceedings, claims and writs of approximately HK\$48,941,000. In addition, the directors of the Company are unable to quantify the amount of banking facilities utilised by WILL group as at 30 June 2003, for which the Company has provided corporate guarantees to the extent of approximately HK\$31,700,000 as shown in the latest available banking facilities letters dated 25 July 2002 and 22 November 2002. We are unable to verify whether the amounts as disclosed in Note 36 to the financial statements are complete;
 - (ii) pledge of assets in aggregate amount of approximately HK\$19,044,000;

BASIS OF OPINION (Continued)

- (iii) operating lease commitments of approximately HK\$5,201,000; and
 - (iv) post balance sheet events as set out in Note 37 to the financial statements.
3. we were unable to obtain direct confirmations for trade and other receivables, trade and other payables, amount due to a related company, finance lease obligations and other secured borrowings, or to otherwise carry out alternative audit procedures to satisfy ourselves as to the existence, completeness and valuation of these amounts which are included in the consolidated financial statements of the Group. As a result, we were unable to satisfy ourselves that such balances were properly recorded in the consolidated balance sheet of the Group as at 30 June 2003 or as to the accuracy of the related disclosures.
 4. in the absence of any information from the directors of the Company as to the current value of property, plant and equipment of WIII group of approximately HK\$35,395,000 and in the absence of any valuation on an open market value basis, we are unable to satisfy ourselves as to whether any impairment loss should be recognised in respect of the carrying value of the property, plant and equipment which are included in the consolidated balance sheet of the Group as at 30 June 2003.
 5. on 30 June 2003, the Company through Ruian Technology Company Limited, an indirect wholly owned subsidiary of the Company, acquired from Welback Enterprises Limited, a 51% owned subsidiary of the Company, the entire paid-up registered capital of Ruian Weiye Technology (Shenzhen) Limited ("Ruian Weiye"), a company established in the People's Republic of China. As a result, Ruian Weiye changed from a 51% indirectly owned subsidiary to a wholly owned subsidiary of the Company. The results of Ruian Weiye for the year ended 30 June 2003 were included in the financial statements of WIII group as mentioned in point 1 above, whereas the consolidated balance sheet of the Group as at 30 June 2003 has consolidated the assets and liabilities as shown in the management accounts of Ruian Weiye as at 30 June 2003. We are not the auditors of Ruian Weiye nor have we audited the management accounts of Ruian Weiye as at 30 June 2003, and accordingly, we have not obtained the audit evidence necessary to satisfy ourselves as to the nature, completeness, appropriateness, classification and disclosures in respect of the assets and liabilities of Ruian Weiye as at 30 June 2003, as included in the consolidated balance sheet of the Group as at 30 June 2003. Further details of the financial information of Ruian Weiye are set out in Note 18 to the financial statements.

Any adjustments to the amounts so consolidated in respect of the assets and liabilities of Ruian Weiye as at 30 June 2003 would have a corresponding effect on the consolidated balance sheet of the Group as at 30 June 2003. In addition, the books and records of Ruian Weiye have not been fully updated subsequent to 30 June 2003 and accordingly, we have not been able to carry out audit procedures that we consider necessary to complete our review of subsequent events from the balance sheet date up to the date of this report.

BASIS OF OPINION (Continued)

6. During the year ended 30 June 2003, the Group has made provisions and impairment charges against certain investments of the Group, including impairment loss in respect of investments in securities of approximately HK\$15,180,000, impairment loss in respect of interest in an associate of approximately HK\$1,000,000, impairment loss in respect of operating rights of approximately HK\$6,347,000, which amounts have been included in the consolidated income statement of the Group for the year ended 30 June 2003. There was no sufficient evidence for us to verify the balances of the underlying investments that were the subject of the aforesaid provisions and impairment charges. As a result, we are unable to verify the valuation of the aforesaid investments and as to whether the provisions and impairment charges made against these investments were fairly stated. We are unable to verify the existence of Widax Corporation, which is classified as Investments in securities in the consolidated balance sheet, with a carrying value of approximately HK\$7,407,000 before full provision of the impairment loss of this investment has been made. In addition, we are unable to determine whether the classification of the Group's investment in Everbest Water Treatment Development Company Limited, which is also classified as Investments in securities in the consolidated balance sheet, with a carrying value of approximately HK\$5,700,000 (before full provision of this investment has been made) is properly stated and whether any further provision for future commitment of this investment should be made by the Group.

Any adjustments that might have been found to be necessary in respect of the matters set out above would have a consequential impact on the net loss and cash flows of the Group for the year ended 30 June 2003, the net liabilities position of the Group as at 30 June 2003, and on the classification of such items and their related disclosures in the financial statements as at and for the year ended 30 June 2003.

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.

FUNDAMENTAL UNCERTAINTIES RELATING TO THE GOING CONCERN BASIS OF THE GROUP

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 on which the financial statements have been prepared. As explained in Note 2 to the financial statements, the directors are currently undertaking a number of measures to relieve the Group's current lack of profitability and to solve its liquidity problem.

The financial statements have been prepared on a going concern basis, the validity of which depends upon future funding being available, the satisfactory resolution of the settlement of convertible bonds due on 29 May 2003, the satisfactory resolution of a number of lawsuits against the Group, the successful attainment of profitable and positive cash flow operations and the successful outcome of the implementation of the measures noted above. The financial statements do not include any adjustments that would result from a failure of implementation of the measures noted above. If these measures were not to be successful or insufficient, or if the going concern basis were not to be appropriate, adjustments would have to be made to the financial statements to reduce the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

FUNDAMENTAL UNCERTAINTIES RELATING TO THE GOING CONCERN BASIS OF THE GROUP (Continued)

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.

QUALIFIED OPINION ARISING FROM DISAGREEMENT ABOUT ACCOUNTING TREATMENTS

As explained in Note 2(a)(ii) to the financial statements, in the absence of properly prepared accounting records and supporting documents, the following disclosures have not been made in the financial statements as required by the relevant Statements of Standard Accounting Practice ("SSAPs"):

- (i) details of deferred taxation disclosures as required by SSAP 12 "Accounting for deferred tax"; and
- (ii) details of related party transactions as required by SSAP 20 "Related party disclosures".

QUALIFIED OPINION: DISCLAIMER ON VIEW GIVEN BY THE FINANCIAL STATEMENTS

Because of the significance of the possible effects of the limitation of scope in respect of the evidence made available to us as referred to in the basis of opinion section above and on account of the fundamental uncertainties relating to the appropriateness of 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 affairs of the Group and of the Company as at 30 June 2003 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 Hong Kong Companies Ordinance.

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

- (i) we have not obtained all the information and explanations that we consider necessary for the purpose of our audit; and
- (ii) we are unable to determine whether proper books of accounts have been kept.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong, 28 October 2003