

Auditors' Report

Certified Public Accountants
Hong Kong Member of
Grant Thornton International

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To the members of UDL Holdings Limited

(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 17 to 63 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 Statements of Auditing Standards issued by the Hong Kong Society of Accountants. 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 circumstances of the Company and the Group, 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. 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.

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Fundamental uncertainties relating to the going concern basis

In forming our opinion we have considered the adequacy of the disclosures in the financial statements concerning the basis of their preparation. As further explained in note 3, the financial statements, which report net current liabilities of HK\$22,390,000 and a deficiency of assets of HK\$3,946,000 for the Group at 31 July 2003, have been prepared on a going concern basis, the validity of which is dependent upon:

- (i) The continued financial support (the "Financial Support") of the related companies (the "Related Party Lenders") which have refinanced the secured borrowings of the Company's operating subsidiaries that were overdue, into secured long term loans totalling HK\$111,568,000 as at 31 July 2003;
- (ii) The ability of one of the Related Party Lenders which has refinanced approximately HK\$62,395,000 of a subsidiary's secured borrowings referred to above, to meet the payment schedule agreed with the original secured lender (the "Assignment Payments"); failing which the original secured lender has recourse to the subsidiary for immediate repayment of the full amount due; and
- (iii) The Group's ability to raise additional equity funding from the Company's existing and/ or new shareholders ("Additional Equity Funding") to overcome any short term financing difficulties and possible negative cash flows arising from the Group's business and the adverse effects on cash flow of any repayments due under the Shortfall Undertaking arising from the Scheme of Arrangement entered into by the Company in April 2000, further details of which are set out in note 2(b).

The financial statements do not include any adjustments that would result from the failure of the Group to obtain the Financial Support and the Additional Equity Funding and of the Related Party Lender to meet its Assignment Payments. We consider that appropriate disclosures relating to these fundamental uncertainties have been made in the financial statements, and our opinion is not qualified in this respect.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 July 2003 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Grant Thornton
Certified Public Accountants

Hong Kong
 27 November 2003