



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 20 to 67 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 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 Institute of Certified Public 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 judgments 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 available to us was limited as follows:

1. The corresponding amounts in the current year's financial statements are derived from the financial statements for the year ended 30 June 2003 which contained a disclaimer audit opinion.

We were unable to carry out audit procedures necessary to obtain adequate assurance on the preceding year's figures. Accordingly, we are unable to express an opinion on the comparative figures appearing in the current year's financial statements.

We have not been able to ascertain whether the corresponding amounts will have any effect on the current year's balance sheet and profit and loss account items and in particular the opening inventories would have an effect on current year's cost of sales. Any adjustment to the opening inventories would have a consequential effect on the current year's profit.

2. The Company disposed of its 51% equity interests in Welback International Investments Limited and its subsidiaries ("WILL group") on 12 November 2003. We were unable to obtain sufficient evidence to satisfy ourselves as to whether the gain on disposal of WILL group of HK\$68,580,000 was fairly stated in the financial statements.
3. During the year, the Company through Ruian Technology Company Limited, an indirect wholly owned subsidiary of the Company, disposed of the entire paid-up registered capital of Ruian Weiye Technology (Shenzhen) Limited ("Ruian Weiye"), a company established in the People's Republic of China. We have not been able to perform sufficient additional audit procedures to verify the net assets value of Ruian Weiye as at the date of disposal as to ascertain whether the gain on disposal of approximately HK\$10,435,000.

There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the matters set out above. 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 profit of the Group for the year ended 30 June 2004.

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 3 to the financial statements concerning the adoption of the going concern basis on which the financial statements have been prepared. As explained in note 3 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 22 December 2004 and short term loan due on 1 October 2004, 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. We consider that the fundamental uncertainty has been adequately disclosed in the financial statements and our opinion is not qualified in this respect.

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 under paragraphs 1 to 3, 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 2004 or of the result 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:

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

HLB Hodgson Impey Cheng

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Hong Kong, 27 October 2004