

Auditors' Report

**CCIF****CCIF CPA LIMITED**

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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 16 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 the 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, and for no other purpose. We do not assume responsibility 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 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.

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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. However, the evidence available to us was limited in respect of the followings:

1) **Scope limitation – insufficient evidence for land use right**

Land use right with net book value of approximately HK\$1,028,000 was reflected in the financial statements of a PRC subsidiary which was not audited by us. There was no sufficient evidence available for us to examine the balance and ownership of land use right and accordingly we are unable to confirm the carrying value and ownership of the land use right as at 31 July 2004 and whether the amount has been fairly stated.

2) **Scope limitation – other borrowings**

The Group had other borrowings from a related party lender of approximately HK\$27,978,000 included under other borrowings in the consolidated balance sheet as at 31 July 2004. There was no sufficient information available for us to verify the accuracy and completeness of this balance. As a result, we are unable to satisfy ourselves whether the balances of these borrowings have been fairly stated.

3) **Scope limitation – commitments**

Due to the uncertainty as mentioned in the preceding paragraph 1 of the scope limitation, we are not able to verify the completeness and accuracy of operating lease commitments. As a result, we are unable to determine whether all the commitments had been properly disclosed in the financial statements.

4) **Scope limitation – fundamental uncertainty relating to going concern of the company**

As further explained in note 3, the financial statements, which report net current liabilities of HK\$28,259,000 and a deficiency of assets of HK\$44,650,000 for the Group at 31 July 2004, 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\$94,201,000 as at 31 July 2004;

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- (ii) The ability of one of the Related Party Lenders which has refinanced approximately HK\$66,223,000 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;
- (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
- (iv) The Group's ability to overcome the financing difficulties in respect of the adverse effects on cash flow of any repayments under the Shortfall Undertaking arising from the Scheme of Arrangement entered into by the Company in April 2000 which become due in current year. Further details of which are set out in note 2(b) to the financial statements ("Shortfall Undertaking").

The financial statements do not include any adjustments that would result from the failure of (a) the Group to obtain the Financial Support and the Additional Equity Funding; (b) Related Party Lenders' ability to meet its Assignment Payments; and (c) the Group's ability to discharge the Shortfall Undertaking. We are unable to obtain adequate evidence or assurances we consider necessary to satisfy ourselves as to the appropriate disclosures for the adoption of the going concern basis in the preparation of the financial statements as set out above. Furthermore, due to the significant deficiency of assets at 31 July 2004 and the uncertainty as mentioned in the preceding paragraphs regarding the scope limitation, we are not able to determine whether the going concern basis used in preparing these financial statements is appropriate. Accordingly, we have disclaimed our opinion in respect of this issue.

QUALIFIED OPINION: DISCLAIMER ON VIEW GIVEN BY FINANCIAL STATEMENTS

Because of the significance of the possible effect of the limitation in evidence available to us and the fundamental uncertainties 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 of the Group as at 31 July 2004 or its loss and cash flows 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.

CCIF CPA Limited

Certified Public Accountants

Chan Wai Dune, Charles

Practising Certificate Number P00712

Hong Kong, 25 November 2004