

Report of the Auditors

TO THE SHAREHOLDERS OF GREAT WALL CYBERTECH LIMITED
(Provisional Liquidators Appointed)
(incorporated in Bermuda with limited liability)

We have audited the accounts on pages 15 to 38 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 Directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgement and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those accounts 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 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 (“HKICPA”) 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 accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, 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 accounts are free from material misstatement. However, the evidence available to us was limited because of the following:

1. Our report on the accounts of the Group for the year ended 31 December 2003 was disclaimed in view of the pervasive nature of the limitations on the scope of our audit resulting from the inability of the Directors to locate sufficient documentary information. It was explained by the Directors that due to liquidation of certain significant subsidiaries or their immediate holding companies and the seizure of the major assets and production facilities of certain significant subsidiaries under the court orders and most of the accounting personnel of the Group have left, the Directors have been unable to obtain sufficient documentary information for audit purposes. Accordingly, we were unable to form an opinion as to whether the net liabilities of the Company and the Group as at 31 December 2003 and the results of the Group for the year ended 31 December 2003 were fairly stated. Any adjustments to the opening balances as at 1 January 2004 would affect the net liabilities of the Company and the Group as at 31 December 2004 and the results of the Group for the year ended 31 December 2004. Also the comparative figures in respect of the net liabilities of the Company and the Group as at 31 December 2003 and the results of the Group for the year ended 31 December 2003 may not be comparable with the figures for the current year.

As shown in note 3(ii)(a) to the accounts, the Directors confirmed that they had not received any further information concerning the progress and possible outcome of the liquidation or seizure of the assets of the aforesaid subsidiaries or their immediate holding companies since the date of approval of the last year’s accounts. Any changes to the above status of liquidation or possible outcome from the seizure of assets of these subsidiaries or their immediate holding companies might have a consequential effect on the net liabilities of the Group and the Company as at 31 December 2004 and the results of the Group for the year ended 31 December 2004.

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2. As explained by the Directors in note 3(ii) & (iii) to the accounts that due to liquidation of certain significant subsidiaries or their immediate holding companies and the seizure of the major assets and production facilities of certain significant subsidiaries under the court orders and most of the accounting personnel of the Group have left, the Directors have been unable to obtain sufficient documentary information to satisfy themselves regarding the treatment of various balances of the Group and the Company as at 31 December 2004 and have formed the opinion as follows:
- (a) As further explained by the Directors in note 3(iii)(a) to the accounts, the Directors were unable to obtain sufficient documentary evidence to support other payables and accruals of approximately HK\$293,978,000 (2003: HK\$307,557,000) and HK\$293,978,000 (2003: HK\$291,827,000) included in the Group's and the Company's balance sheet respectively, including the liabilities under indemnities given to subsidiaries not consolidated of approximately HK\$291,130,000 (2003: HK\$291,130,000). Accordingly the Directors were unable to satisfy themselves as to whether these amounts are fairly stated in the accounts.
 - (b) As further explained by the Directors in note 3(iii)(b) to the accounts, the Directors were unable to satisfy themselves as to whether the amounts due to subsidiaries not consolidated of approximately HK\$5,983,000 (2003: HK\$219,752,000) included in the Group's balance sheet and the amounts due to subsidiaries of approximately HK\$5,983,000 (2003: HK\$5,983,000) included in the Company's balance sheet and in note 15 to the accounts are fairly stated.
 - (c) As further explained by the Directors in note 3(ii)(a) to the accounts, the subsidiaries, Great Wall France SA, which was put into liquidation during the year ended 31 December 2004, together with its immediate holding companies were deconsolidated from the consolidated accounts as of 1 January 2004, being the date the Directors considered that control to have been lost. In the absence of reliable financial information in respect of these subsidiaries, the Directors were unable to obtain sufficient documentary and other adequate evidence to satisfy themselves as to the correctness of the gain on deconsolidation of these subsidiaries amounting to HK\$205,229,000 approximately. Accordingly the Directors were also unable to satisfy themselves as to whether the gain on deconsolidation of these subsidiaries included in the consolidated profit and loss account and in note 6 to the accounts are fairly stated.
 - (d) As further explained by the Directors in note 3(iii)(c) to the accounts, the accounts have been prepared based on the books and records maintained by the Company and its subsidiaries. However, in view of the lack of evidence available, the Directors were unable to represent as to the completeness of recording of all transactions entered into by the Company and its subsidiaries for the years ended 31 December 2003 and 2004. In this context, the Directors are also unable to represent as to the completeness of identification and disclosures of directors' and employees' emoluments in note 9, taxation in note 10 and inventories in note 18 to the accounts.
 - (e) The Directors have formed the opinion that the amounts due from subsidiaries not consolidated to the Group of approximately HK\$1,285,690,000 (2003: HK\$1,584,758,000) and amounts due from subsidiaries to the Company of approximately HK\$1,285,670,000 (2003: HK\$1,285,670,000) included in the Group's and the Company's balance sheet respectively as at 31 December 2004 cannot be recovered. Accordingly, the Directors have made provisions against these amounts. However, we were unable to obtain sufficient information and explanations regarding the basis upon which the Directors have determined the amount of such provisions. Accordingly, we were unable to satisfy ourselves as to whether the provisions against these amounts as included in the consolidated profit and loss account in current and prior years were appropriate and the amounts due from these subsidiaries, after net of provisions, are fairly stated at the balance sheet date.

In addition, for the same reasons stated above, we have not been able to obtain all necessary information for us to complete our review of subsequent events from the balance sheet date up to the date of this report. Such procedures might have resulted in the identification of adjustments to the amounts reported in and/ or disclosed as notes to the accounts of the Group as at 31 December 2004.

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There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the matters set out in paragraph 2 above. Any adjustments to the above figures would as appropriate affect the net liabilities of the Company and the Group as at 31 December 2004 and the profit of the Group for the year ended 31 December 2004.

In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provide a reasonable basis for our opinion.

FUNDAMENTAL UNCERTAINTY RELATED TO THE GOING CONCERN BASIS

In forming our opinion, we have considered the adequacy of the disclosures in note 3(i) to the accounts concerning the adoption of the going concern basis on which the accounts have been prepared. As explained in note 3(i) to the accounts, the Company has experienced financial difficulties and is currently negotiating with a potential investor for the purpose of restructuring of the Company's indebtedness and revitalising the Group's financial position and business. The accounts have been prepared on a going concern basis, the validity of which depends upon the successful outcome of the measures to be implemented and in process by the Group to improve the financial position and business of the Group. The accounts do not include any adjustments that would result from the failure of these measures. We consider that the appropriate disclosures have been made but, because of the significant uncertainties relating to the outcome of the restructuring proposal are so extreme, we are not able to determine whether the going concern basis used in preparing these accounts is appropriate. Accordingly, we have disclaimed our opinion.

QUALIFICATION ARISING FROM DISAGREEMENT ABOUT ACCOUNTING TREATMENT

1. As detailed in note 16(a) to the accounts, the consolidated accounts do not include the results of certain subsidiaries, which either themselves or their immediate holding companies are in the course of liquidation or their major assets and production facilities located in the People's Republic of China were seized under court orders as security for unsettled claims, up to the respective dates of appointment of liquidators as ordered by the courts. This treatment is not in accordance with the requirements of Statement of Standard Accounting Practice ("SSAP") 32 "Consolidated Financial Statements and Accounting for Investments in Subsidiaries" issued by the HKICPA and the Hong Kong Companies Ordinance. In our opinion, there is insufficient information concerning these subsidiaries in the accounts to give a true and fair view of the state of affairs of the Group as at 31 December 2004 and of the results of the Group for the year ended 31 December 2004. It is not practicable to quantify the effect of the departure from this requirement.
2. As detailed in note 16(b) to the accounts, the accounts of the Group do not consolidate the accounts of certain subsidiaries. This treatment is not in accordance with the requirements of SSAP 32 and the Hong Kong Companies Ordinance. In our opinion, there is insufficient information concerning these subsidiaries in the accounts to give a true and fair view of the state of affairs of the Group as at 31 December 2004 and of the results of the Group for the year ended 31 December 2004. It is not practicable to quantify the effect of the departure from this requirement.
3. As explained in note 3(iii)(e) to the accounts, the accounts do not contain a cash flow statement. This is not in accordance with the requirements of SSAP 15 "Cash flow statements". In our opinion, information about the Group's cash flows is necessary for a proper understanding of the Group's state of affairs and profit for the year ended 31 December 2004. It is not practicable to quantify the effect of the departure from this requirement.

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QUALIFICATION ARISING FROM DISAGREEMENTS ABOUT THE EXTENT OF DISCLOSURES

As explained in note 3(iii)(d) to the accounts, due to limited books and records available to the Directors, the following disclosures have not been made in the accounts:

1. Disclosures in respect of subsidiaries excluded from consolidation as required by SSAP 32 “Consolidated Financial Statements and Accounting for Investments in Subsidiaries”;
2. Disclosures in respect of finance lease obligations as required by SSAP 14 (Revised) “Leases”;
3. Details of the share option scheme as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”);
4. Details of the retirement benefit scheme and the employee benefits as required by SSAP 34 “Employee benefits”;
5. Segment information disclosures as required by SSAP 26 (Revised) “Segment Reporting” and the Listing Rules;
6. Details of analysis of pledge of assets as required by the Hong Kong Companies Ordinance;
7. Details of deferred taxation as required by SSAP12 (Revised) “Income Taxes”;
8. Details of related party disclosures as required by SSAP 20 “Related Party Disclosures”;
9. Details of the Group’s credit risk and ageing of debtors and creditors as required by the Listing Rules; and
10. Details of contingent liabilities and commitments as required by the Hong Kong Companies Ordinance and relevant SSAPs.

DISCLAIMER OF OPINION

Because of the significance of each of (i) the possible effect of the limitations in evidence available to us as set out in the basis of opinion section of this report; (ii) the fundamental uncertainty relating to the going concern basis and (iii) the non-compliance of certain disclosure requirements as mentioned above, we are unable to form an opinion as to whether the accounts give a true and fair view of the state of affairs of the Company and of the Group at 31 December 2004 and of the profit of the Group for the year then ended and as to whether the accounts 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 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; and
- We were unable to determine whether proper books of accounts have been kept.

TING HO KWAN & CHAN
Certified Public Accountants

Hong Kong
20 July 2005