

Report of the Auditors



To the members

China Sci-Tech Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 21 to 64 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, except that the scope of our work was limited as explained below.

An audit includes an 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 Company's and the Group's circumstances, 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. However, the evidence available to us was limited as follows:

Fundamental uncertainty and scope limitation

In forming our opinion, we have considered the adequacy of disclosures made in the financial statements concerning an appeal filed by the Company against a court judgement which ordered the Company to pay a sum of HK\$23.6 million and accrued interest thereon to a third party who brought claims against the Company commencing in January 1999 (the "Judgement"). Further details of the claims and the progress thereof are described in note 29(a) to the financial statements. Although the directors of the Company, after consultation with their legal advisors, are of the view that the Company has proper and valid grounds for the appeal against the Judgement, the outcome of such appeal cannot be determined as at the date of this report.

Fundamental uncertainty and scope limitation (continued)

In preparing the financial statements, no provision for any loss in respect of the claims or the Judgement has been made. The directors of the Company have relied on a deed of undertaking and indemnity dated 26 July 1999 (the "Deed") executed by Mr. Chiu Tao ("Mr. Chiu"), the Chairman of the Company. Pursuant to the Deed, Mr. Chiu has undertaken to fully indemnify the Company against all losses, liabilities, damages, costs and expenses (except legal costs and expenses only) suffered or incurred by the Company as a result of, or in connection with the claims. However, we have been unable to be satisfied ourselves as to the likelihood of the Company recovering any amounts pursuant to the Deed should the outcome of the appeal not be in favour of the Company. Any provisions/adjustments that might have been necessary would have a consequential impact on the Company's and the Group's net assets as at 31 March 2002 and the Company's and the Group's losses for the year then ended.

Qualified opinion arising from limitation of audit scope

Except for any adjustments that might have been found to be necessary had we been able to satisfy ourselves as regards the amount recoverable by the Company pursuant to the Deed should the outcome of the appeal not be in favour to the Company, 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 March 2002 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.

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 considered necessary for the purposes of our audit.

Ernst & Young

Certified Public Accountants

Hong Kong
29 July 2002