ERNST & YOUNG
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To the members
YANION INTERNATIONAL HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 27 to 73 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 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 (the "HKSA"). 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 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. **Scope limitation and disagreement over accounting treatment and disclosure – interest in an associate**
   Included in the consolidated balance sheet as at 31 December 2001 is a 27% equity interest in an associate, Global Cyber Limited ("Global Cyber"), with a carrying amount of HK$250 million. Global Cyber became an associate during the year following the Group's further acquisitions of an additional 17% equity interest therein from two parties for an aggregate cash consideration of HK$170 million, further details of which are set out in note 16 to the financial statements. The Group originally acquired an initial stake representing a 10% equity interest in June 2000 for a cash consideration of HK$80 million.

   The principal asset of Global Cyber is its holding of a 80% equity interest in Shanghai Dazheng Worldvest Technology Company Limited ("Shanghai Dazheng"). Shanghai Dazheng is a Sino-foreign equity joint venture incorporated in the People's Republic of China (the "PRC") which is principally engaged in the research, development and implementation of a video-on-demand system in the PRC.

BASIS OF OPINION (continued)

1. **Scope limitation and disagreement over accounting treatment and disclosure – interest in an associate** (continued)

   As more fully explained in note 16 to the financial statements, the Group's interest in Global Cyber is stated at its total cost of acquisition in the consolidated balance sheet as at 31 December 2001. The Group has not accounted for its interest in Global Cyber using the equity method and no supplementary disclosures have been made in respect of the Group's interest therein as required by the provisions and disclosure requirements as set out in Statement of Standard Accounting Practice 2.110 "Accounting for investments in associates" issued by the HKSA. Global Cyber is currently in dispute with the minority 20% equity joint venture party over a number of issues. This dispute may impact on the carrying amount of the Group's investment in Global Cyber.

   Due to the unavailability of the financial information of Shanghai Dazheng, we have not been able to quantify the effect on the consolidated balance sheet and consolidated profit and loss account of the failure to properly equity account for the Group's share of the net assets of Global Cyber as at 31 December 2001 and its results for the year then ended, including any goodwill arising from the acquisition of Global Cyber. Furthermore, due to the unavailability of any reliable financial information of Shanghai Dazheng and the uncertain state of the dispute between Global Cyber and the minority joint venture party, we have also not been able to perform the procedures we consider necessary to satisfy ourselves as to whether any impairment provision is required to be made against the carrying amount of the Group's interest in Global Cyber and any goodwill so arising from its acquisition as at 31 December 2001.

2. **Scope limitation – Korning Investments Limited ("Korning") advance to and subsequent acquisition of Korning**

   Note 18 to the financial statements explains how an amount of HK$90,000,000, paid under a loan advance agreement between the Group and Korning (the "Korning Loan Agreement"), was remitted to a third party, Majestic Star, in September 2001. Majestic Star is a company involved in the Global Cyber acquisition, details of which are set out in point 1 above in this report and whose relationship with the Group is explained in note 16 to the financial statements. Such remittance was made pursuant to instructions given by Korning. The directors have advised us that the intended purpose of the amounts advanced under the loan agreement was to secure a bio-tech/pharmaceutical venture(s) (the "Pharmaceutical JV") in the PRC. Details of the Pharmaceutical JV are included in note 33(a) to the financial statements. The remittance of HK$90,000,000 has been accounted for as a non-current asset deposit at the balance sheet date.

   As a result of the acquisition of Korning after the balance sheet date, as further explained in note 33(a) to the financial statements, a consideration of HK$99,840,000 became payable to the Korning Vendor (the "Korning Purchase Consideration"). In settling the Korning Purchase Consideration, the HK$90,000,000 advance was used to partially offset the Korning Purchase Consideration. In accounting for the investment in the Pharmaceutical JV the directors intend that the entire Korning Purchase Consideration, of HK$99,840,000, will be accounted for as part of the cost of the Group's interest in the new Pharmaceutical JV, which will result in the entire amount being accounted for as goodwill.

BASIS OF OPINION (continued)

2. **Scope limitation – Korning Investments Limited ("Korning") advance to and subsequent acquisition of Korning** (continued)

   Due to the lack of documentary evidence surrounding the advance we have not been able to satisfy ourselves as to the use thereof and, therefore, its eventual proper inclusion as part of the cost of the Pharmaceutical JV. Any adjustments that might have been found to be necessary would have a consequential impact on the net assets of the Group and Company as at 31 December 2001 and the losses reported by each for the year ended 31 December 2001 as set out in these financial statements.

3. **Scope limitation – balance due from a subsidiary**

   Included in the balance sheet of the Company as at 31 December 2001 is an amount due from Yacata Limited ("Yacata"), a wholly-owned subsidiary of the Company, of HK$340 million which was advanced by the Company during the year to Yacata, for the purposes of financing the acquisition of Global Cyber and the remittance of the Korning deposit discussed in paragraphs 1 and 2 above. As a result of the scope limitations detailed in paragraphs 1 and 2 above, we have been unable to obtain sufficient information to assess the recoverability of this amount due from Yacata and, consequently, to quantify the amount, if any, which might ultimately prove to be unrecoverable. Any adjustments that might have been found to be necessary would have a consequential impact on the Company's net assets as at 31 December 2001 and its loss for the year then ended as dealt with in these financial statements.

DISCLAIMER OF OPINION

Because of the significance of each of the possible effects of the scope limitations in evidence available to us as set out in the basis of opinion section of this report, 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 the Company as at 31 December 2001 and of the loss of the Group and the Company and the 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 as set out in the basis of opinion section of this report:

(i) we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and

(ii) we are unable to determine whether proper books of accounts have been kept.

Ernst & Young
Certified Public Accountants

Hong Kong
12 August 2002