

Report of the Auditors



To the members

YANION INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 23 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 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 in respect of the opening balances and comparative figures. We draw your attention to the fact that the financial statements for the year ended 31 December 2001 were audited by another firm of accountants who have expressed a disclaimer opinion on whether the financial statements gave a true and fair view of the state of affairs and the results of the Group. We are required to satisfy ourselves as to the accuracy of the figures brought forward as at 1 January 2002 and the comparative figures included in the financial statements. The work we normally carry out to enable us to confirm the accuracy of these figures includes a review of prior year audit files of the previous auditors. However, we were not able to review the audit files for the year ended 31 December 2001. In addition, we have not been able to carry out alternative audit procedures covering the year ended 31 December 2001 to enable us to express an opinion on the figures brought forward as at 1 January 2002 and the comparative figures in these financial statements.

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.

Report of the Auditors (continued)

QUALIFIED OPINION ARISING FROM LIMITATION OF AUDIT SCOPE

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2002 and, except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence to ascertain whether or not opening balances as at 1 January 2002 are free from errors or misstatement, of its loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

HORWATH HONG KONG CPA LIMITED

Certified Public Accountants

Chan Kam Wing, Clement

Practising Certificate number P02038

2001 Central Plaza

18 Harbour Road

Wanchai

Hong Kong

Hong Kong

23 April 2003