

Auditors' Report

To the members of
China Bio-medical Group Limited
(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 21 to 65 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Companies Ordinance requires the directors to prepare 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 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.

Limitation of scope

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 regarding the Group's interest in an associate. At the balance sheet date, the Group held a 49% equity interest in an associate, Beijing Radiant Bio-Tech Limited, which is registered as a wholly foreign-owned enterprise in the People's Republic of China. The carrying amount of the Group's share of net assets of the associate was HK\$12,000,002. We have attempted to perform audit work on the management accounts of the associate in order to obtain sufficient evidence in relation to the Group's share of the net assets of the associate. However, as of the date of our report, we have not received a bank confirmation in respect of a bank balance of approximately HK\$10,000,000 (RMB10,600,000) and the direct confirmation in respect of a creditor's balance of the same amount and there were no practicable alternative procedures that we could adopt to confirm the amounts of these balances.

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Fundamental uncertainty

At the balance sheet date, both the Company and the Group had significant capital deficiencies. In forming our opinion, we have considered the adequacy of disclosures made in the financial statements concerning (i) the possible outcome of the discussions with the Group's bankers for restructuring the repayment terms of certain of the Group's bank borrowings and (ii) the result of the discussions with potential investors for the injection of capital into the Company. The financial statements have been prepared on a going concern basis, the validity of which depends upon the successful outcome of the restructuring of the Group's bank borrowings, the availability of funding from the potential investors and the success of the Group's future operations. The financial statements do not include all significant adjustments that would result should, the restructuring of the repayment terms of the bank borrowings or the discussions with the potential investors or the Group's future operations prove to be unsuccessful. Had the going concern basis not been used, adjustments would have to be made in the financial statements to reclassify non-current assets as current assets and provide for any further liabilities which might arise. Such adjustments may have a consequential significant effect on the net liabilities as at 31 December 2002 and the loss for the year then ended.

DISCLAIMER OPINION

Because of the significance of the possible effect of the limitation of scope and the fundamental uncertainty, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of the Company's and the Group's affairs as at 31 December 2002 or of the loss of the Group for the year then ended. In our opinion, the financial statements give a true and fair view of the cash flows for the year ended 31 December 2002.

In respect alone of the limitation on our work relating to a bank and a creditor's balances of an associate, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit. In all other respects, in our opinion, the financial statements have been properly prepared in accordance with the Companies Ordinance.

Moores Rowland

Chartered Accountants

Certified Public Accountants

Hong Kong, 23 April 2003