

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 20 to 71 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. 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.

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.

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 the possible outcome of (i) the discussions with the Group's bankers for restructuring the repayment terms of certain of the Group's bank borrowings, (ii) the issuance of convertible notes, and (iii) 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 success of the Group's future operations and the successful outcome of the restructuring of the Group's bank borrowings, the availability of funding from the convertible notes or from the potential investors. The financial statements do not include any adjustments that would result should the Group's future operations, the restructuring of the repayment terms of the bank borrowings, the issuance of the convertible notes or the discussions with the potential investors prove to be unsuccessful.

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DISCLAIMER OPINION

Because of the significance of the possible effect of 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 2001 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 2001. In all other respects, in our opinion, the financial statements have been properly prepared in accordance with the requirements of the Companies Ordinance.

Moores Rowland

Chartered Accountants

Certified Public Accountants

Hong Kong, 24 April 2002