

AUDITORS' REPORT

Moores Rowland Mazars 摩斯倫·馬賽會計師事務所

Chartered Accountants
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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 66 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

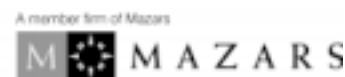
The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion solely to you, as a body, in accordance with section 141 of the Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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.



Moore Rowland Mazars

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 banker and a finance company for restructuring the repayment terms of certain of the Group's 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 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 Group's borrowings or the discussions with 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 2003 and the profit for the year then ended.

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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 2003 or of the profit 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 2003. In all other respects, in our opinion, the financial statements have been properly prepared in accordance with the Companies Ordinance.

Moore Rowland Mazars

Chartered Accountants

Certified Public Accountants

Hong Kong, 20 April 2004