

## REPORT OF THE AUDITORS



**Horwath Hong Kong CPA Limited**  
2001 Central Plaza  
18 Harbour Road  
Wanchai, Hong Kong  
Telephone: (852) 2526 2191  
Facsimile : (852) 2810 0502  
horwath@horwath.com.hk  
www.horwath.com.hk

To the members

**YANION INTERNATIONAL HOLDINGS LIMITED**  
*(Incorporated in Bermuda with limited liability)*

We have audited the financial statements on pages 23 to 69 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 financial statements and to report our opinion solely to you, as a body, 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 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. 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)

### FUNDAMENTAL UNCERTAINTY

In forming our opinion, we have considered the adequacy of the disclosures made in note 3 to the financial statements which explains that the subsidiary company, Huayi Pharmaceutical Co., Ltd. ("Huayi") is faced with the forced relocation of the factory by the government and new government regulation on pharmaceutical manufacturers to have Good Manufacturing Practice ("GMP") standards manufacturing facilities by June 2004.

The financial statements have been prepared on a going concern basis, the validity of which depends upon (i) future funding being available for GMP upgrade; (ii) satisfactory compensation being obtained from the government for the compulsory relocation; and (iii) the relocation of manufacturing operation to a plant with GMP standards. The financial statements do not include any adjustments that would result from a failure to fulfill the above conditions. We consider that the fundamental uncertainty has been adequately disclosed in the financial statements and our opinion is not qualified in this respect.

### OPINION

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 2003 and of its loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirement of the Hong Kong Companies Ordinance.

#### **HORWATH HONG KONG CPA LIMITED**

*Certified Public Accountants*

Hong Kong

22 April 2004

**Chan Kam Wing, Clement**

Practising Certificate number P02038