ERNST & YOUNG
安永會計師事務所

To the members
Extrawell Pharmaceutical Holdings Limited
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 26 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, in accordance with Section 90 of the Bermuda Companies Act 1981, 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 Institute of Certified Public 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. However, the evidence available to us was limited as follows:

(1) Scope limitation – Prior year's audit scope limitation affecting opening balances

As detailed in our report dated 26 August 2004 on the Group's financial statements for the year ended 31 March 2004, we were unable to obtain sufficient reliable evidence to satisfy ourselves as to the reasonableness of the bases and assumptions used by the directors in arriving at the business valuation of 19 gene invention rights (the "Gene Invention Rights"), which were carried at HK$84,708,000 and included in the intangible assets of HK$127,744,000 in the consolidated balance sheet of the Group at 31 March 2004. Consequently, we were unable to determine whether the carrying amount of the Gene Invention Rights were fairly stated as at 31 March 2004. Any adjustments found to be necessary in respect thereof had we obtained sufficient reliable evidence would have had a consequential effect on the net assets of the Group at 31 March 2004, and of its net loss for the current year and the prior year and the related disclosures thereof in the financial statements.

(2) Scope limitation – Impairment of intangible assets

The Gene Invention Rights are held by two subsidiaries (the "Subsidiaries") of the Company. As further detailed in note 13 to the financial statements, the directors considered that there was a slow down in the global gene sector during the year and there was no sign of significant improvement up to the date of approval of these financial statements. Accordingly, the directors considered that a full provision on impairment of the carrying amount of the Gene Invention Rights was required and thus the net carrying amount of the Gene Invention Rights of HK$79,958,000 (HK$84,708,000 at 31 March 2004 less amortisation of HK$4,750,000 for the year) has been fully charged to the profit and loss account for the year. Our audit scope was limited due to the absence of reliable information to enable us to assess the value of the Gene Invention Rights. We are therefore unable to satisfy ourselves as to whether the recognition of the impairment loss of HK$79,958,000 is appropriate. There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the appropriateness of the impairment loss recognised on the intangible assets of the Group. Any adjustments found to be necessary had we obtained such evidence may have a significant consequential effect on the Group's loss for the year and its net assets as at 31 March 2005 and the related disclosures thereof in the financial statements.

(3) Scope limitation – Disposal of subsidiaries, interest in an associate and interest in a jointly-controlled entity

As further explained in note 31(b) to the financial statements, on 3 August 2004 (the "Disposal Date"), the Group disposed of certain subsidiaries, interest in an associate and interest in a jointly-controlled entity (together referred to as the "Disposed Companies"). The directors have represented to us that they are unable to obtain any books and records of the Disposed Companies following their disposal. Due to lack of available books and records, we are unable to obtain sufficient evidence and audit comfort regarding the value of the net assets disposed of by the Group as at the Disposal Date and hence the gain on disposal of HK$72,000 arising thereon; the net inflow of cash and cash equivalents of approximately HK$24,105,000 in respect of the disposal and the other amounts related to the Disposed Companies included in the consolidated cash flow statement; and the turnover of HK$993,000, share of result of an associate of HK$nil and loss after tax of HK$2,010,000 relating to the Disposed Companies included in the consolidated profit and loss account for the period up to the Disposal Date. Any adjustments found to be necessary to the above amounts would affect the amounts recorded in the consolidated profit and loss account in respect of the Disposed Companies up until the Disposal Date, with a corresponding effect on the gain on disposal, amounts recorded in the consolidated cash flow statement and the related disclosures thereof in the 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.

FUNDAMENTAL UNCERTAINTY – RECOVERABILITY OF INTANGIBLE ASSET AND OTHER RECEIVABLE

In forming our opinion, we have considered the adequacy of the disclosures made in note 13 to the financial statements concerning the carrying value of technical know-how (the "Know-how") in relation to an oral insulin product (the "Product") and the exclusive right for the commercialisation of the Product owned by the Group of HK$284 million as at 31 March 2005. The Know-how is held by Fosse Bio-Engineering Development Limited ("Fosse Bio"), a subsidiary acquired by the Group during the year through the acquisition of Smart Ascent Limited ("Smart Ascent"), which owns 51% equity interest in Fosse Bio, from two vendors (the "Vendors"). We have also considered the adequacy of the disclosures made in note 21 to the financial statements concerning the recoverability of a receivable (the "Receivable") in the amount of HK$31,780,000 owed by one of the Vendors to the Group. The Receivable is secured on the remaining 49% equity interest in Smart Ascent.

As further explained in notes 13 and 21 to the financial statements, the Product is subject to clinical trials which are currently ongoing. The recoverability of the carrying values of the Know-how and the Receivable depends upon the result of the clinical trials and the successful launching of the Product, the outcome of which is currently uncertain.

The financial statements do not include any adjustments that may be necessary should the clinical trials or the launching of the Product be unsuccessful. We consider that appropriate disclosures have been made, but since the fundamental uncertainty is so extreme we have disclaimed our opinion in respect of the carrying value of the Know-how and the Receivable.

DISCLAIMER OPINION

Because of the significance of (i) the possible effects of the limitations of scope in evidence available to us as referred to points (1) and (2) above under the basis of opinion section; and (ii) the fundamental uncertainty relating to the carrying values of the Know-how and the Receivable, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2005 and of the loss and cash flows of the Group for the year then ended and as to whether or not the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Had we not disclaimed our opinion in respect of the matters described above, we would otherwise have qualified our opinion in respect of the limitation in evidence relating to the disposal of subsidiaries, interest in an associate and interest in a jointly-controlled entity as set out in point (3) above in the basis of opinion section of this report.

In respect alone of the limitations on our work as set out under points (1) to (3) in the "Basis of opinion" section of this report, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

In respect alone of the limitation on our work as set out under point (3) in the "Basis of opinion" section of this report, we were unable to determine whether proper books and records had been kept.

Ernst & Young

Hong Kong
26 July 2005