REPORT OF THE AUDITORS

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 30 to 79 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 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. However, the evidence available to us was limited as follows:

Scope Limitation – Impairment of Intangible Assets

Included in the intangible assets of HK$127,744,000 in the consolidated balance sheet of the Group as at 31 March 2004 are gene inventions rights (the "Gene Inventions Rights") with an aggregate carrying amount of HK$84,708,000. The Gene Inventions Rights represent rights held by two subsidiaries (the "Subsidiaries") of the Company to commercially exploit 19 gene inventions, which are closely associated with the treatment of various diseases including diabetes.

The business developments of the Subsidiaries are still at the early stage and have yet to generate any turnover. The directors are of the opinion, based on the business valuation prepared by them as at the balance sheet date, that the recoverable amount of the Gene Inventions Rights exceeds their aggregate carrying amount in the consolidated balance sheet and that no provision for impairment is necessary.

We are 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 and consequently as to whether the aggregate carrying amount of the Gene Inventions Rights is fairly stated at the balance sheet date.

Scope Limitation – Impairment of Intangible Assets (Cont'd)

Any adjustments to the carrying amount of the Gene Inventions Rights that might have been found to be necessary had we been able to satisfy ourselves as to the reasonableness of the bases and assumptions used by the directors in arriving at the business valuation mentioned in the preceding paragraphs, would have a consequential impact on the Group's net assets as at 31 March 2004 and the results of the Group for the year then ended, 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 a Deposit Paid for the Acquisition of a Subsidiary

In forming our opinion, we have considered the adequacy of the disclosures made in note 18 to the financial statements concerning the carrying amount of a deposit of HK$20 million (the "Deposit") paid for the acquisition (the "Acquisition") of Smart Ascent (as defined in note 18 to the financial statements) which was recorded under non-current assets in the consolidated balance sheet of the Group as at 31 March 2004.

As further explained in note 18 to the financial statements, the Deposit was paid to two individuals (the "Vendors") and the Acquisition remained conditional as at 31 March 2004 but was completed on 17 August 2004. Fosse Bio-Engineering Development Ltd., a company owned as to 51% by Smart Ascent, and Tsinghua University are currently developing an oral insulin product (the "Product"). The Product is subject to further clinical trials which are currently ongoing. The recoverability of the Deposit depends upon the outcome of the clinical trials and successful launching of the Product which are still pending up to the date of these financial statements. The directors of the Company are currently unable to determine with certainty the outcome of the clinical trials and the successful launching of the Product. Accordingly, it is not possible to determine at this stage whether any impairment provision against the Deposit is required.

Should the clinical trials and launching of the Product be unsuccessful, adjustments would have to be made against the Deposit. We consider that appropriate disclosures regarding the above fundamental uncertainty have been made in the financial statements and our opinion is not qualified in this respect.

Opinion

Except for any adjustments that might have been found necessary had we been able to satisfy ourselves regarding the matter as set out in the scope limitation under the basis of opinion section of this report, in our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitation on our work as set out 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.

Ernst & Young
Certified Public Accountants

Hong Kong
26 August 2004