

Chairman's Statement



As the Chairman of Extrawell, I am pleased to report to you that we have put our short-term pain of business re-alignment behind and back on track of growth and profitability this year.

- Revenue growth by 5% to HK\$178.3 million;
- Both gross profit and gross profit margin have experienced significant improvements of 51.4% and 12.1% respectively; and
- We have managed to upturn from net loss of HK\$75.8 million last year to net profit attributable to equity holders of the Company of HK\$4.7 million this year.

We are operating in very challenging market conditions with competitive pricing pressures, government price controls, increasingly stringent regulatory requirements and overwhelming counterfeit products. Nevertheless, we are confident to outpace the competition through:

- Far and foresight of the management to initiate strategic moves;
- Perseverant, devoted, conscientious staff with experience and professional qualifications;
- Distinguished academic marketing strategies through continuous education of the medical professionals and academia and strong after sales support by our professional sales team; and
- Consistent investment in research and development enabling us to bring innovate and differentiated products that offer patients with clear therapeutic benefits

We have shown the ability to turn challenges into opportunities. We have achieved significant progress to transform Extrawell for the next generation by setting up a new platform for growth. Results are gradually realised, particularly in the recovery of our sales and profitability and progress of applications for launch of new medicines.

Moving a new medicine from concept to patient is a long and resource-intensive process. We are very excited about the progress of our clinical trials and applications to the State Food and Drug Administration of the People's Republic of China ("SFDA"). This year, the Phase II clinical trial of our

patented new product, oral insulin, was successfully completed at the end of year 2005 and results issued by the five SFDA authorised medical centers are encouraging on the efficacy of oral insulin, show much safer than insulin injections and there is no sign of side effects. The management satisfies with the progress of this pipe-line product and is making progress on the operational front to organise all essential resources for full scale manufacturing and marketing in the next stage.

Diabetes affects hundred-millions of people worldwide everyday. It is estimated that 4.5 million of Type I insulin dependent diabetic patients and 40.5 million of Type II non-insulin dependent diabetic patients in the Mainland China alone. Oral insulin offers diabetic patients with much more convenient and low costs alternative to traditional insulin in injection form. This will improve the quality of life for diabetic patients significantly.

In view of the anticipated huge demand for oral insulin, we are making plans to house large-scale production with GMP compliance and high quality standard. We target to bring together new partners who can bring in their resources and expertise in the area of pharmaceutical products distribution and management expertise of production facilities. We believe that these alliances would bring along their expertise to maximise the efficiency of the operations and better returns to our shareholders.

The road of this project has been challenging and unclear, however we are gradually achieving results. Although our transformation has not yet completed, we are certain that we have taken the right steps. In the coming years, we will develop a market of vast potential with oral insulin in the PRC and the World and allow our shareholders to realise that what we have paid today is worthwhile tomorrow.

We have made ambitious goals for ourselves and recognised that to achieve them requires exceptional vision and commitment of the management and the devotion and dedication of each individual employee. I would like to take this opportunity to extend my gratitude to each of our management and staff members. Last but not least, I would like to thank you, as shareholders of the Company, who have been perpetually supportive and trust in our ambition.

Dr. Mao Yu Min

Chairman

Hong Kong, 19 July 2006