

Report of the Auditors



國 衛 會 計 師 事 務 所
Hodgson Impey Cheng

Chartered Accountants
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AUDITORS' REPORT TO THE SHAREHOLDERS OF EXTRAWELL PHARMACEUTICAL HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 35 to 99 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 Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants, except that the scope of our work was limited as explained below.

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 judgments 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.

The corresponding figures in the current year's financial statements are derived from the financial statements for the year ended 31 March 2005 which were audited by another auditors whose report dated 26 July 2005 contained a disclaimer audit opinion. We are unable to carry out audit procedures necessary to obtain adequate assurance on the preceding year's figures in respect of the limitation of audit works on whether the gain on disposal of subsidiaries, interest in an associate and interest in a jointly-controlled entity (the "Disposed Group") was fairly stated in the financial statements for the year ended 31 March 2005, we are unable to determine whether adjustments to the results of operations might be necessary for the year ended 31 March 2005. Accordingly, our auditors' report is hereby modified in respect of the results of operations for the year ended 31 March 2005 included as the corresponding figures in the current year's financial statements.

FUNDAMENTAL UNCERTAINTY – RECOVERABILITY OF INTANGIBLE ASSETS AND OTHER RECEIVABLES

In forming our opinion, we have considered the adequacy of the disclosures made in note 8 to the financial statements concerning the carrying amount 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 2006. The Know-how is held by Fosse Bio-Engineering Development Limited ("Fosse Bio"), a subsidiary acquired by the Group in the preceding 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 disclosure made in note 13 to the financial statements concerning the recoverability of the third and fourth installments receivable (the "Receivable") of the Know-how amounted to 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 8 and 13 to the financial statements, the Phase II clinical trial of the Product has completed and the result has been submitted to the State Food and Drug Administration of the People's Republic of China for approval, which are currently ongoing. The recoverability of the carrying amount of the Know-how and the Receivable with the pledged 49% equity interest in Smart Ascent depends upon the results and completion of the clinical trials, the issuance of the new product licence 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 implementation of such measures be unsuccessful. We consider that appropriate disclosures have been made in the financial statements and our opinion is not qualified in this respect.

QUALIFIED OPINION ARISING FROM LIMITATION OF AUDIT SCOPE FOR THE CORRESPONDING FIGURES

In our opinion, except for the effect on the corresponding figures for the year ended 31 March 2005 of the adjustments, if any, that might have been found to be necessary had we been able to obtain sufficient evidence concerning the gain on disposal of the Disposed Group as mentioned under the basis of opinion section, the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2006 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.

HLB Hodgson Impey Cheng

Chartered Accountants

Certified Public Accountants

Hong Kong, 19 July 2006