EXTRAWELL PHARMACEUTICAL HOLDINGS LIMITED

精 優 藥 業 控 股 有 限 公 司*

(Incorporated in Bermuda with limited liability)

(Stock code: 00858)

ANNUAL RESULTS
FOR THE YEAR ENDED 31 MARCH 2009

The board of directors (the "Board") of Extrawell Pharmaceutical Holdings Limited (the "Company") hereby announces the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2009 as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31 March 2009

	NOTE	2009 HK$'000	2008 HK$'000
TURNOVER	3	**184,434**	165,079
COST OF SALES		**(126,547)**	(113,004)
GROSS PROFIT		**57,887**	52,075
OTHER REVENUES		**6,676**	9,111
SELLING AND DISTRIBUTION EXPENSES		**(23,188)**	(16,324)
ADMINISTRATIVE EXPENSES		**(30,596)**	(35,295)
IMPAIRMENT ON INTANGIBLE ASSETS		**—**	(1,600)
IMPAIRMENT ON TRADE RECEIVABLES		**(2,788)**	(5,410)
PROFIT FROM OPERATIONS		**7,991**	2,557
FINANCE COSTS		**(2)**	(164)
PROFIT BEFORE TAXATION	5	**7,989**	2,393
TAXATION	4	**9,418**	(15,728)
PROFIT/(LOSS) FOR THE YEAR		**17,407**	(13,335)
ATTRIBUTABLE TO:			
EQUITY HOLDERS OF THE COMPANY		**15,551**	(11,735)
MINORITY INTERESTS		**1,856**	(1,600)
		17,407	(13,335)
DIVIDENDS	6	**—**	—
		HK cents	*HK cents*
EARNINGS/(LOSS) PER SHARE			
BASIC	7	**0.68**	(0.51)
DILUTED	7	**N/A**	N/A

CONSOLIDATED BALANCE SHEET
As at 31 March 2009

	NOTE	**2009** HK$'000	2008 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**53,252**	53,854
Prepaid land lease payments		**14,428**	14,251
Intangible assets		**285,676**	285,782
Amounts due from minority shareholders		**9,054**	—
		362,410	353,887
CURRENT ASSETS			
Inventories		**28,291**	18,639
Trade receivables	*8*	**89,675**	97,948
Deposits, prepayments and other receivables		**64,455**	58,697
Amounts due from minority shareholders		**3**	8
Pledged bank deposits		**20,498**	18,160
Bank and cash balances		**80,718**	72,234
		283,640	265,686
CURRENT LIABILITIES			
Trade and bills payables	*9*	**10,401**	13,023
Accruals and other payables		**44,563**	44,513
Amounts due to minority shareholders		**32,847**	32,404
Dividend payable to minority shareholders		**1,298**	—
Current tax liabilities		**6,163**	16,654
		95,272	106,594
NET CURRENT ASSETS		**188,368**	159,092
TOTAL ASSETS LESS CURRENT LIABILITIES		**550,778**	512,979
NON-CURRENT LIABILITIES			
Amounts due to minority shareholders		**13,672**	—
Deferred tax liabilities		**102**	102
		13,774	102
NET ASSETS		**537,004**	512,877

CONSOLIDATED BALANCE SHEET

As at 31 March 2009

	2009	2008
	HK$'000	*HK$'000*
CAPITAL AND RESERVES		
Share capital	**22,900**	22,900
Reserves	**299,272**	274,020
Equity attributable to equity holders of the Company	**322,172**	296,920
Minority interests	**214,832**	215,957
TOTAL EQUITY	**537,004**	512,877

Notes:

1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which also include Hong Kong Accounting Standards ("HKAS") and Interpretations ("Int") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange and by the Hong Kong Companies Ordinance.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of investments and derivatives which are carried at their fair values.

These financial statements are presented in Hong Kong dollars which is the same as the functional currency of the Group and the Company, and all values are rounded to the nearest thousand dollar except where otherwise indicated.

2.1 IMPACT OF THE ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The HKICPA has issued certain new and revised HKFRSs that are first effective for the current accounting period of the Group. The directors are of the view that these new and revised HKFRSs do not have any impact on the Group's financial statements since they are not relevant or applicable to the Group.

2.2 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not early adopted the following new and revised HKFRSs that have been issued but are not yet effective, in these financial statements:

HKFRSs (Amendments)	Improvements to HKFRSs[3]
HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]

[1] *Effective for annual periods beginning on or after 1 January 2009.*

[2] *Effective for annual periods beginning on or after 1 July 2009.*

[3] *Improvements to HKFRSs contain amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.*

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 8 and HKAS 1 (Revised) may result in new or amended disclosures and the adoption of HKFRS 3 (Revised) and HKAS 27 (Revised) may result in changes in accounting policies, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position. The Group will apply HKAS 27 (revised) and HKFRS 3 (Revised) prospectively to transactions with non-controlling interest and all business combinations from 1 April 2010 respectively.

3. SEGMENT INFORMATION

Detailed segment information is presented by way of the Group's primary segment reporting basis, which is by business segment. No further geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in the People's Republic of China (the "PRC"), and over 90% of the Group's assets and capital expenditures are located in the PRC.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products they provide. Each of the Group's business segments represents a strategic business unit that offers products which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the manufacturing segment engages in the development, manufacture and sales of pharmaceutical products;

(b) the trading segment engages in the marketing and distribution of imported pharmaceutical products;

(c) the gene development segment engages in the commercial exploitation and development of genome-related technology; and

(d) the oral insulin segment engages in the development and commercialisation of oral insulin products.

3. SEGMENT INFORMATION (continued)

Business segments

The following table provides an analysis of the Group's revenue, results and certain assets, liabilities and expenditures information by business nature.

	Manufacturing		Trading		Gene development		Oral insulin		Consolidated	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue										
Sales to external customers	46,444	42,049	137,990	123,030	—	—	—	—	184,434	165,079
Segment results	3,107	(5,600)	10,782	15,773	(74)	(186)	(482)	(1,621)	13,333	8,366
Interest income									1,424	2,841
Net unallocated expenses									(6,766)	(8,650)
Profit from operations									7,991	2,557
Finance costs									(2)	(164)
Profit before taxation									7,989	2,393
Taxation									9,418	(15,728)
Profit/(loss) for the year									17,407	(13,335)
Segment assets	149,027	145,063	133,275	122,977	5	5	295,815	285,985	578,122	554,030
Unallocated assets									67,928	65,543
Total assets									646,050	619,573
Segment liabilities	11,369	13,243	48,024	54,906	50	106	1,591	1,185	61,034	69,440
Unallocated liabilities									48,012	37,256
Total liabilities									109,046	106,696
Other segment information:										
Capital expenditure	2,508	177	110	76	—	—	—	—	2,618	253
Unallocated capital expenditure									704	45
									3,322	298
Depreciation and amortisation	5,331	5,015	572	486	—	—	—	—	5,903	5,501
Unallocated depreciation and amortisation									254	224
									6,157	5,725
Other non-cash expenses, other than depreciation and amortisation:										
Impairment on intangible assets	—	1,600	—	—	—	—	—	—	—	1,600
Impairment on trade receivables	1,505	5,250	1,283	160	—	—	—	—	2,788	5,410
(Decrease)/increase in allowance for obsolete inventories	(1,851)	510	—	—	—	—	—	—	(1,851)	510
Write off of property, plant and equipment	—	273	—	67	—	—	—	—	—	340
(Gain)/loss on disposal of property, plant and equipment	(213)	—	1	—	—	—	—	—	(212)	—
Unallocated loss on disposal of property, plant and equipment									142	—
									(70)	340

4. TAXATION

	2009	2008
	HK$'000	*HK$'000*
Current tax — Hong Kong profits tax		
Provision for the year	**110**	120
(Over)/under-provision in prior years	**(19)**	83
Current tax — Tax other than Hong Kong profits tax		
Provision for the year	**4,947**	15,525
(Over)-provision in prior years	**(14,456)**	—
	(9,418)	15,728

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 17.5%) on the estimated assessable profits for the year ended 31 March 2009. Tax charges on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The National People's Congress of the PRC promulgated the Enterprise Income Tax Law (the "EIT Law") in 2007 which is to take effect as of 1 January 2008. The PRC State Council released the Enterprise Income Tax Implementing Rules (the "Implementing Rules") which contained implementation details and grandfathering arrangements of the EIT Law in December 2007.

Under the EIT Law, the PRC corporate income tax has been standardized at the rate of 25%. However, certain subsidiaries of the Company have been granted preferential tax treatment prior to the introduction of the EIT Law. They continue to enjoy the preferential tax treatment and are now subject to the corporate income tax at the rate of 20% for 2009. The rate would gradually increase to 22% for 2010, 24% for 2011 and 25% for 2012 according to the grandfathering rules stipulated in the Implementation Rules and related circular.

In the year ended 31 March 2008, at the time when the Group prepared its financial statements for that year, the directors were advised that due to the implementation of the EIT Law, the Group might be subject to tax exposure in the PRC and that tax provision should be made to cover the exposure prudently. A tax provision in respect of the Group's profits arising from its operations in the PRC, amounting to HK$15,000,000 was made in the financial statements for the year ended 31 March 2008. On 16 June 2009, the Group obtained a tax opinion from a certified tax agent of the PRC who came to the opinion that the provisions of corporate income tax do not have retroactive application. On the basis of this tax opinion, the directors form the view that the said operations prior to 1 January 2008 would not be exposed to PRC tax under the EIT Law and that the basis used in determining the tax exposure in 2008 was inappropriate, and as such, of the tax provision made in the prior year, HK$14,200,000 would not be payable. As the tax liability of the Group at 1 April 2008 becomes excessive, the Group has written back the amount of HK$14,200,000 as a reversal of the excessive liability.

4. TAXATION (continued)

A reconciliation of the tax expenses applicable to profit before taxation using the statutory rates for the regions in which the Company and its subsidiaries are domiciled, and the tax expenses at the effective tax rates, is as follows:

	2009	2008
	HK$'000	*HK$'000*
Profit before taxation	**7,989**	2,393
Tax at the statutory tax rates applicable to the respective tax jurisdictions	**2,636**	2,050
Preferential statutory rate offered	**—**	58
Tax effect on expenses not deductible	**1,851**	13,797
Tax effect on income not taxable	**(4)**	(272)
Tax effect of temporary differences not recognised	**5**	5
(Over)/under-provision in prior years	**(14,364)**	83
Others	**458**	7
Taxation	**(9,418)**	15,728

5. PROFIT BEFORE TAXATION

The Group's profit before taxation has been arrived at after charging/(crediting):

	2009	2008
	HK$'000	*HK$'000*
Amortisation of prepaid land lease payments	**520**	490
Amortisation of intangible assets (included in administrative expenses)	**543**	554
Auditors' remuneration		
— Current year	**676**	2,022
— (Over)-provision in prior year	**(40)**	—
	636	2,022
Cost of inventories sold	**126,547**	113,004
Depreciation of property, plant and equipment	**5,094**	4,681
(Decrease)/increase in allowance for obsolete inventories (included in cost of inventories sold)	**(1,851)**	510
Exchange loss	**—**	448
Impairment on trade receivables	**2,788**	5,410
Impairment on intangible assets	**—**	1,600
Operating lease charges in respect of land and buildings	**2,149**	2,178
Research and development costs	**1,222**	130
Staff cost (including directors' emoluments)		
— Salaries, bonus and allowances	**36,666**	28,522
— Retirement benefits scheme contributions	**1,667**	1,939
	38,333	30,461
Write off of property, plant and equipment	**—**	340

Note: Cost of inventories sold includes staff costs, depreciation and operating lease charges of approximately HK$8,290,000 (2008: HK$6,544,000) which are included in the amounts disclosed separately above.

6. DIVIDENDS

The directors do not recommend the payment of any dividend in respect of the year ended 31 March 2009 (2008: HK$Nil).

7. EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings/(loss) per share is based on the profit attributable to the Company's equity holders of approximately HK$15,551,000 (2008: loss attributable to the Company's equity holders of approximately HK$11,735,000) and on the weighted average of 2,290,000,000 (2008: 2,290,000,000) shares in issue during the year.

As there were no potential dilutive ordinary shares in existence for each of the years ended 31 March 2009 and 2008 and accordingly, no diluted earnings/(loss) per share have been presented.

8. TRADE RECEIVABLES

The Group:

The ageing analysis of trade receivables, based on the delivery dates of goods, is as follows:

	2009	2008
	HK$'000	*HK$'000*
Within 90 days	**54,218**	62,938
Between 91 to 180 days	**20,690**	21,904
Between 181 to 365 days	**14,559**	12,387
Between 1 to 2 years	**181**	179
Over 2 years	**27**	540
	89,675	97,948

Notes:

(a) The Group's trading terms with its customers are mainly based on credit, except for new customers, where payment in advance is normally required. The credit period is generally 120 days, extending up to one year for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

(b) The movements for impairment on trade receivables are as follows:

	2009	2008
	HK$'000	*HK$'000*
At beginning of year	**17,431**	16,697
Exchange alignments	**990**	1,085
Impairment on trade receivables	**2,788**	5,410
Reversal of impairment on trade receivables	**(1,026)**	(5,761)
At end of year	**20,183**	17,431

8. TRADE RECEIVABLES (continued)

Notes: (continued)

(c) As of 31 March 2009, trade receivables of approximately HK$6,055,000 (2008: HK$5,570,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis, based on number of overdue days of these trade receivables, is as follows:

	2009	2008
	HK$'000	*HK$'000*
Within 90 days	**4,521**	4,747
Between 91 to 180 days	**403**	50
Between 181 to 365 days	**1,131**	233
Over 1 year	**—**	540
	6,055	5,570

(d) All the trade receivables are denominated in Renminbi.

9. TRADE AND BILLS PAYABLES

At 31 March 2009, the ageing analysis of the trade and bills payables, based on the dates of receipt of goods, is as follows:

The Group:

	2009	2008
	HK$'000	*HK$'000*
Within 90 days	**6,551**	6,788
Between 91 to 180 days	**3,174**	6,228
Between 181 to 365 days	**413**	—
Between 1 to 2 years	**263**	2
Over 2 years	**—**	5
	10,401	13,023

Trade and bills payables are denominated in the following foreign currencies:

	2009	2008
	HK$'000	*HK$'000*
Renminbi	**1,683**	1,803
United States dollars	**4,105**	11,220
Euro	**4,613**	—
	10,401	13,023

EXTRACTED FROM INDEPENDENT AUDITORS' REPORT

The consolidated financial statements for the year ended 31 March 2009 have been audited by the Group's independent auditors. The independent auditors' report of the Group's financial statements for the year ended 31 March 2009 was modified. The independent auditors' report is extracted as follows:

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group and of the Company as at 31 March 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of Hong Kong Companies Ordinance.

EMPHASIS OF SIGNIFICANT MATTERS

There are two significant matters that need to be highlighted in this Report.

(a) Included in Intangible Assets as at 31 March 2009 is the technological know-how with the carrying value of approximately HK$284,260,000 (2008: HK$284,260,000) (the "Know-how") in relation to an oral insulin product (the "Product") and the exclusive right for the commercialization of the Product owned by the Group. The Know-how is held by an indirect subsidiary of the Group, Fosse Bio-Engineering Development Limited ("Fosse Bio"), a company in which also an indirect subsidiary of the Group, Smart Ascent Limited ("Smart Ascent'') had acquired a 51% interest in November 2003, and through the Group's acquisition of a 51% interest in Smart Ascent in March 2004. In an appraisal conducted by an independent professional valuer, the Know-how is valued at an amount that is no less than HK$284,260,000. Notwithstanding this valuation, the recoverability of the carrying value of the Know-how is still uncertain as it depends upon the result of the clinical trial and the successful launching of the product. Should the outcomes of the clinical trial and the launching of the product be unsuccessful, material adjustments may have adverse effect on the business and results of the Group.

EMPHASIS OF SIGNIFICANT MATTERS (continued)

(b) In connection with the acquisition of the shares of Fosse Bio as referred to in the above paragraph, Smart Ascent owed the vendors of the sales of the 51% interest of Fosse Bio (the "Fosse Bio Vendors'') the amount of HK$31,780,000 (2008: HK$31,780,000), being the third and fourth installments of the consideration for the 51% interest of Fosse Bio. The repayment of these two installments is to be made upon the issuance of certain certificates of the clinical trial as well as the Product by the State Food and Drug Administration of the PRC. At the time when the Group acquired the 51% interest in Smart Ascent, this liability continues to exist but the vendors of the sales of the 51% interest of Smart Ascent (the "Smart Ascent Vendors") undertook to pay the full HK$31,780,000 as and when the amount becomes due and payable. As security for this undertaking, Mr. Ong Cheng Heang ("Mr. Ong"), a minority shareholder of Smart Ascent, pledged to the Group his shares of Smart Ascent representing the balance of the 49% interest in Smart Ascent. There is no assurance that the Smart Ascent Vendors are capable of repaying the full HK$31,780,000. While this risk of recoverability is mitigated by the shares representing the 49% interest in Smart Ascent, the risk continues to exist in the event that the Group fails to realize the profitability from the Product as mentioned in the above paragraph, it would suffer a further loss in respect of this amount of HK$31,780,000. In addition, the Group has entered into an agreement to acquire from Mr. Ong the pledged of his 49% interest. Similar to the matter mentioned in Paragraph (a) above, the risks in relation to the Product will affect the Group's ability to recover the payment for the liability of HK$31,780,000.

Having considered the availability of the appraisal report by the independent professional valuer of the value of the Know-how and the disclosure in the notes to the financial statements, we consider the uncertainty as to the risks associated with the assets as mentioned in the above two paragraphs to be adequately disclosed in the financial statements and do not find it necessary to make further qualifications in this report in respect of the value of the Know-how or the receivable.

MANAGEMENT DISCUSSION AND ANALYSIS

A. Business Review

Overall Performance

Although there were tremendous changes in the global economy, the pharmaceutical market in the People's Republic of China (the "PRC") continued maintaining the momentum of fast growth, which was mainly attributed to the industry reforms supported by the PRC government. During the year ended 31 March 2009, the Group was able to achieve a turnover of about HK$184.4 million, representing an increase of 11.7% as compared with that of last financial year.

The reforms had led to a more regulated and disciplined market, which resulted in a more intense price competition. However, with well-received market recognition of the Group's quality products and the established long and stable relationship with its customers, the Group was able to secure its market share whilst at the same time maintain its gross margin. During the year, gross profit increased by 11.2% to about HK$57.9 million as compared to about HK$52.1 million in 2008.

Even though the market competition had driven up the selling and distribution expenses, the reduction in administrative expenses had balanced it off. Profit before taxation increased from about HK$2.4 million to about HK$8.0 million, however, taking into account the unparalleled increase in administrative expenses in 2008, the profit before taxation was managed at comparable level.

The Group's profit for the year attributable to shareholders was about HK$15.6 million, representing an increase of about HK$27.3 million as compared to loss of about HK$11.7 million in 2008. This was mainly due to a write-back of over provision in income tax in 2008.

Turnover and Operating Results

Imported Pharmaceutical Sector

Turnover for the imported pharmaceutical sector recorded a moderate growth of about 12.2% from about HK$123.0 million last year to about HK$138.0 million this year.

The continuous economic growth in the PRC, improved people's awareness of health care and the process of aging population are the main factors attributable to the increase in revenues of this sector; especially the demand of our leading product GM-1 which is a specialized prescription drug for re-establishment of functional recovery of central nervous system with major pharmaceutical indication for vascular or traumatic lesions of central nervous system and Parkinson's disease.

However, increase in marketing expenses to secure market share had offset the effect of increase in revenues. Segment operating profit for the year ended 31 March 2009 dropped by about HK$5.0 million from about HK$15.8 million to about HK$10.8 million.

Manufactured Pharmaceutical Sector

Sales of manufactured pharmaceutical products grew mildly by 10.5% from about HK$42.0 million to about HK$46.4 million in 2009, which was mainly attributable to the increase in demand of our major immune regulatory product that could effectively boost up the human immune system.

Leveraging on measures to closely monitor the overhead costs and strengthening marketing and promotional activities to increase in revenues, this sector managed to turn around from operating loss of about HK$5.6 million to operating profit of about HK$3.1 million.

As an ethical manufacturer, we believe that tapping with the competitive advantage of our established brand name products we are back on the right track and are confident to maintain this momentum in future.

Oral Insulin Sector

As further clinical trial is still underway, no revenue was generated in the sector during this year.

Gene Development Sector

During this year, our gene development remained inactive and no revenue was recorded.

Selling and Distribution Expenses

Selling and distribution expenses of the Group increased from about HK$16.3 million in 2008 to about HK$23.2 million in 2009, representing a rise of about 42.1%. The increase in selling and distribution expenses was mainly attributed to the increase in symposium, medical meetings and promotion expenses which were incurred for the introduction and reinforcement of the Group's products to customers in order to maintain our market share.

Administrative Expenses

Administrative expenses of the Group decreased by 13.3% from about HK$35.3 million to about HK$30.6 million which was largely due to reduction in professional expenses.

Other Revenues and Impairment on Trade Receivables

Other revenues mainly comprised reversal of impairment losses, interest income and sundry income. Other revenues decreased by about HK$2.4 million from about HK$9.1 million to about HK$6.7 million this year. This was the result of decrease in reversal of impairment losses by about HK$4.7 million, decrease in interest income by about HK$1.4 million and an increase of consultancy services income from factories by about HK$3.0 million.

At the same time, impairment loss relating to trade receivables also decreased by about HK$2.6 million from about HK$5.4 million to about HK$2.8 million. The decrease was due to tight control over the trade receivables.

Taxation

Taxation was provided based on the assessable profits of the Group using the existing tax rates. In 2008, the Group had prudently made provisions in relation to the new PRC income tax law. In view of significant exposure by the Group, tax advice had been sought from seasoned PRC tax professionals in order to re-evaluate the quantum of such exposure, and based on their reports, a write back of over provision had been made in the year.

B. Outlook and Product Development

Progress of development of Oral Insulin

This year, the oral insulin project has seen encouraging progress as the SFDA granted the approval document on 30 April 2008 for conducting further clinical trial. As a result, the Company has been committed to allocating the internal resources of the Group to facilitate the progress of this trial as oriented.

At the same time, the timetable for construction of manufacturing plant in relation to the oral insulin has been mutually agreed between the parties with aim to ensure its construction progress to be in line with the approval process of the medicine.

Looking ahead, we are optimistic as to the progress and development of the oral insulin project and consider that with the successful launching of oral insulin, the Group's sales and profitability will be significantly improved.

C. Financial Review

Liquidity and Financial Resources

It is the Group's strategy to manage its financial resources conservatively by maintaining a healthy level of cash flows to meet all its financial commitments when they fall due. The Group generally finances its operations with internally generated cash flow and banking facilities.

As at 31 March 2009, the Group had total bank and cash balances (including pledged bank deposits) of about HK$101.2 million (2008: HK$90.4 million), representing a moderate increase by approximately 12.0%.

The Group did not have bank borrowings during the year but with banking facilities on trade finance, which were supported by the pledge of the Group's fixed deposits of about HK$20.5 million (2008: HK$18.2 million) and corporate guarantees from the Company and certain subsidiaries of the Company. In general, there is no significant seasonality fluctuation on trade finance requirement of the Group.

The Group's total borrowing over total assets ratio as at 31 March 2009 was 0.05 (2008: 0.05) calculated based on the Group's total debts of about HK$32.8 million (2008: HK$32.4 million), comprising amount due to a minority shareholder of about HK$32.4 million (2008: HK$32.4 million).

Currency Structure

The Group's business transactions, assets and liabilities are principally dominated in Hong Kong dollars, United States dollars and Renminbi. The Group had limited exposure to foreign exchange rate fluctuation as most of its transactions were mainly conducted in Hong Kong dollars, Renminbi or United States dollars and the exchange rates of these currencies were relatively stable throughout the period. No hedge on foreign currencies was made during the period.

D. Employment and Remuneration Policy

As at 31 March 2009, the Group had 460 employees (2008: 387). Staff costs (including directors' emoluments) for the year ended 31 March 2009 amounted to approximately HK$38.0 million (2008: approximately HK$30.5 million). The increase was mainly due to increase of headcount. The Group has not experienced any significant problems with its employees or disruptions to the operations due to labour disputes nor has it experienced difficulties in the recruitment and retention of experienced staff.

The Group remunerates its employees based on industry practices. Its staff benefits, welfare and statutory contributions, if any, are made in accordance with prevailing labour laws of its operating entities. The employees (including directors) are remunerated according to their performance, work experience and the prevailing market price. Other employee benefits include mandatory provident fund, insurance and medical coverage, training and share option scheme. In August 2002, shareholders of the Company have approved the adoption of a share option scheme (the "Scheme"). The Scheme will enable the Group to reward the employees, the directors and other selected participants for their contribution to the Group and will also assist the Group in its recruitment and retention of high caliber professionals, executives and employees who are instrumental to the growth of the Group.

No share option has been granted under the Scheme.

CORPORATE GOVERNANCE REPORT

Corporate Governance Practices

The Group recognizes the importance of achieving and monitoring the high standard of corporate governance consistent with the need and requirements of its business and the best interest of all of its shareholders. The Group is fully committed to doing so.

During the year ended 31 March 2009, the Company has adopted and applied the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") save as disclosed below. It is with the objectives in mind that the Group has applied such principles and will comply with the individual code provisions.

(a) Code provisions A1.3 and A6.1 stipulate that 14-days notice should be given for each regular board meeting and that in respect of regular meetings, and so far as practicable in all other cases, an agenda and accompanying board papers should be sent in full to all directors in a timely manner and at least 3 days before the intended date of a board or board committee meeting (or such other period as agreed). The Company agrees that sufficient time should be given to the directors in order to make a proper decision. In these respects, the Company adopts a more flexible approach (and yet sufficient time has been given) in convening board meetings to ensure efficient and prompt management decisions could be made.

(b) Code provision A4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. The Company deviates from the above code provision as the independent non-executive directors (“INEDs”) are not appointed for specific terms. According to the bye-laws of the Company, however, the INEDs are subject to retirement and re-election. The reason for the deviation is that the Company believes that the directors ought to be committed to representing the long term interest of the Company’s shareholders.

(c) Code provision A4.2 stipulates that every director should be subject to retirement by rotation at least once every three years. According to the bye-laws of the Company, one-third of the directors shall retire from office by rotation provided that the Chairman, Deputy Chairman or Managing Director shall not be subject to retirement by rotation. The Company’s bye-laws deviate from the code provision. The Company considers that the continuity of the Chairman/Deputy Chairman/Managing Director and their leadership is essential for the stability of the business and key management. The rotation methodology ensures a reasonable continuity of directorship which is to the best interest of the Company’s shareholders.

(d) Code provision A4.2 also stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. According to the bye-laws of the Company, any director so appointed shall hold office only until the next following annual general meeting. The Company’s bye-laws deviate from the code provision. However, the Company believes that it is in the best interest of the Company’s shareholders to transact this ordinary course of business in the annual general meeting.

(e) Code provision E1.2 stipulates that the Chairman of the Board should attend the annual general meeting of the Company. Due to business meeting commitments overseas, Dr. Mao Yu Min was unable to attend the annual general meeting of the Company held on 30 September 2008. Dr. Xie Yi, executive director of the Company, was appointed to chair the annual general meeting in accordance with the provisions of the Company’s bye-laws.

The Company will continue to review and monitor the situation as stated above, and to improve the practices as and when the circumstances demand.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company’s listed securities during the year.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the Company’s code of conduct for dealings in securities of the Company by the directors. Based on specific enquiry of the Company’s directors, the directors have complied with the required standards set out in the Model Code, throughout the accounting period covered by the annual report.

AUDIT COMMITTEE

The Company has established an Audit Committee (the "Committee"), with written terms of reference, in compliance with Rules 3.21 of the Listing Rules, for the purpose of reviewing and providing supervision over the financial reporting process and internal controls of the Group. The Committee comprises three independent non-executive directors. The Group's financial statements for the year ended 31 March 2009 have been reviewed by the Committee. The Committee is of the opinion that such financial statements comply with the applicable accounting standards, and Stock Exchange's and legal requirements, and that adequate disclosures have been made.

By order of the Board
Extrawell Pharmaceutical Holdings Limited
Mao Yu Min
Chairman

List of Directors as at the date of this announcement:

Executive Directors:
Dr. MAO Yu Min
Dr. XIE Yi
Dr. LOU Yi
Ms. WONG Sau Kuen

Independent Non-executive Directors and Audit Committee:
Mr. FANG Lin Hu
Mr. XUE Jing Lun
Ms. JIN Song

Hong Kong, 27 July 2009

* *For identification purpose only*