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 2010

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 the "Group") for the year ended 31 March 2010 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 March 2010

	NOTE	2010 HK$'000	2009 HK$'000
TURNOVER	3	**196,291**	184,434
COST OF SALES		**(142,447)**	(126,547)
GROSS PROFIT		**53,844**	57,887
OTHER REVENUES		**13,518**	6,676
SELLING AND DISTRIBUTION EXPENSES		**(20,645)**	(23,188)
ADMINISTRATIVE EXPENSES		**(28,421)**	(30,596)
IMPAIRMENT ON TRADE RECEIVABLES		**(5,508)**	(2,788)
PROFIT FROM OPERATIONS		**12,788**	7,991
FINANCE COSTS		**—**	(2)
PROFIT BEFORE TAXATION	4	**12,788**	7,989
TAXATION	5	**2,784**	9,418

	NOTE	2010 HK$'000	2009 HK$'000
PROFIT FOR THE YEAR		**15,572**	17,407
OTHER COMPREHENSIVE INCOME			
EXCHANGE REALIGNMENT		**—**	9,700
TOTAL COMPREHENSIVE INCOME		**15,572**	27,107
PROFIT FOR THE YEAR ATTRIBUTABLE TO:			
EQUITY HOLDERS OF THE COMPANY		**14,624**	15,551
MINORITY INTERESTS		**948**	1,856
		15,572	17,407
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
EQUITY HOLDERS OF THE COMPANY		**14,624**	25,252
MINORITY INTERESTS		**948**	1,855
		15,572	27,107
		HK cents	*HK cents*
EARNINGS PER SHARE			
BASIC	*6*	**0.64**	0.68
DILUTED	*6*	**N/A**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2010

	NOTE	2010 HK$'000	2009 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**50,045**	53,252
Prepaid land lease payments		**13,634**	14,428
Intangible assets		**287,186**	285,676
Amounts due from minority shareholders		**9,598**	9,054
		360,463	362,410
CURRENT ASSETS			
Inventories		**23,121**	28,291
Trade receivables	7	**84,756**	89,675
Deposits, prepayments and other receivables		**60,304**	64,455
Amount due from a minority shareholder		**3**	3
Pledged bank deposits		**20,579**	20,498
Cash and cash equivalents		**104,987**	80,718
		293,750	283,640
CURRENT LIABILITIES			
Trade and bills payables	8	**8,479**	10,401
Accruals and other payables		**46,312**	44,563
Amounts due to minority shareholders		**32,570**	32,847
Dividend payable to minority shareholders		**—**	1,298
Tax payables		**2,171**	6,163
		89,532	95,272
NET CURRENT ASSETS		**204,218**	188,368
TOTAL ASSETS LESS CURRENT LIABILITIES		**564,681**	550,778
NON-CURRENT LIABILITIES			
Amounts due to minority shareholders		**14,493**	13,672
Deferred tax liabilities		**102**	102
		14,595	13,774
NET ASSETS		**550,086**	537,004
CAPITAL AND RESERVES			
Share capital		**22,900**	22,900
Reserves		**313,896**	299,272
Equity attributable to equity holders of the Company		**336,796**	322,172
Minority interests		**213,290**	214,832
TOTAL EQUITY		**550,086**	537,004

Notes:

1. BASIS OF PREPARATION

The consolidated financial statements of Extrawell Pharmaceutical Holdings Limited have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which include all applicable individual HKFRSs' 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 of Hong Kong Limited (the "Stock Exchange") and by the Hong Kong Companies Ordinance.

These consolidated financial statements are presented in Hong Kong dollars, and all values are rounded to the nearest thousand dollar except when otherwise indicated.

These consolidated financial statements have been prepared under the historical cost convention.

The preparation of consolidated 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.

2.1 AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS EFFECTIVE AS OF 1 JANUARY 2009 AND RELEVANT TO THE GROUP

The HKICPA has issued one new HKFRSs, a number of amendments to HKFRSs and new Interpretations that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's consolidated financial statements:

HKFRS 7 (Amendment)	Improving Disclosure about Financial Instruments
HKAS 1 (Revised)	Presentation of Financial Statements
HKFRS 8	Operating Segments
HKFRSs (Amendments)	Improvement to HKFRSs issued in 2008

HKFRS 7 "Financial Instruments — Disclosures" (Amendment) — effective 1 January 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The change in accounting policy only results in additional disclosures.

HKAS 1 (Revised). "Presentation of Financial Statements" — effective 1 January 2009. The revised standard prohibits the presentation of items of income and expenses (that is, "non-owner changes in equity") in the statement of changes in equity, "non-owner changes in equity" is required to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the Group presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. Comparative information has been re-presented so that it is also in conformity with the revised standard. The change in accounting policy only impacts presentation aspects.

HKFRS 8, "Operating Segments" — effective 1 January 2009. The standard requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. During the year ended 31 March 2010, the Group adopted HKFRS 8 which has no effect on the disclosures of the consolidated financial statements as the presentation of segment information in prior years, which was based on a disaggregation of the Group's financial statements into segments, has been prepared in a manner that was consistent with internal reporting provided to the Group's most senior executive management.

The "Improvements to HKFRSs (2008)" — effective 1 January 2009 comprises a number of minor and non-urgent amendments to a range of HKFRSs which the HKICPA has issued as an omnibus batch of amendments. The impact of these amendments is not considered to be material to the Group and have not resulted in changes to the Group's accounting policies.

2.2 STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS THAT ARE NOT YET EFFECTIVE

The following new standards, amendments and interpretations to existing standards (collectively, the "Amendments") have been published that are mandatory for accounting periods beginning on or after 1 January 2010. Some of the Amendments are relevant and applicable to the Group. However, they have not been early adopted in these consolidated financial statements. The Group has commenced, but not yet completed, an assessment of the impact of the applicable Amendments on its results of operations and financial positions. The directors are of the view that the impact on the consolidated financial statements would not be significant other than certain additional disclosures.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 24 (Revised)	Related Party Disclosures[3]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments[5]
HK (IFRIC)-Int 17	Distribution of Non-cash Assets to Owners[1]
HK (IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments[4]

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

[2] *Amendments that are effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate*

[3] *Effective for annual periods beginning on or after 1 January 2011*

[4] *Effective for annual periods beginning on or after 1 July 2010*

[5] *Effective for annual periods beginning on or after 1 January 2013*

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 for the years ended 31 March 2010 and 31 March 2009.

	Manufacturing		Trading		Gene development		Oral insulin		Consolidated	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
	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	**45,722**	46,444	**150,569**	137,990	**—**	—	**—**	—	**196,291**	184,434
Segment results	**4,219**	3,107	**14,734**	10,782	**(67)**	(74)	**(1,160)**	(482)	**17,726**	13,333
Interest income									**637**	1,424
Net unallocated expenses									**(5,575)**	(6,766)
Profit from operations									**12,788**	7,991
Finance costs									**—**	(2)
Profit before taxation									**12,788**	7,989
Taxation									**2,784**	9,418
Profit for the year									**15,572**	17,407
Segment assets	**148,549**	149,027	**138,370**	133,275	**5**	5	**305,925**	295,815	**592,849**	578,122
Unallocated assets									**61,364**	67,928
Total assets									**654,213**	646,050
Segment liabilities	**12,663**	11,369	**41,041**	48,024	**50**	50	**17,125**	1,591	**70,879**	61,034
Unallocated liabilities									**33,248**	48,012
Total liabilities									**104,127**	109,046
Other segment information:										
Capital expenditure	**—**	2,508	**—**	110	**—**	—	**—**	—	**—**	2,618
Unallocated capital expenditure									**—**	704
									—	3,322
Depreciation and amortisation	**4,897**	5,331	**569**	572	**—**	—	**—**	—	**5,466**	5,903
Unallocated depreciation and amortisation									**251**	254
									5,717	6,157
Other non-cash expenses, other than depreciation and amortisation:										
Impairment on trade receivables	**4,952**	1,505	**556**	1,283	**—**	—	**—**	—	**5,508**	2,788
Impairment on other receivables	**94**	—	**—**	—	**—**	—	**—**	—	**94**	—
Increase/(decrease) in allowance for obsolete inventories	**264**	(1,851)	**—**	—	**—**	—	**—**	—	**264**	(1,851)
Loss/(gain) on disposal of property, plant and equipment	**—**	(213)	**3**	1	**—**	—	**—**	—	**3**	(212)
Unallocated loss on disposal of property, plant and equipment									**1**	142
									4	(70)

4. PROFIT BEFORE TAXATION

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

	2010	2009
	HK$'000	*HK$'000*
Amortisation of prepaid land lease payments	**794**	520
Amortisation of intangible assets (included in Cost of Sales)	**297**	543
Auditors' remuneration		
— Current year	**650**	676
— Over-provision in prior years	**—**	(40)
	650	636
Cost of Sales	**142,447**	126,547
Depreciation of property, plant and equipment	**4,626**	5,094
Exchange loss	**558**	—
Increase/(decrease) in allowance for obsolete inventories	**264**	(1,851)
Impairment on other receivables	**94**	—
Impairment on trade receivables	**5,508**	2,788
Loss on disposal of property, plant and equipment	**4**	—
Operating lease charges in respect of land and buildings	**2,222**	2,149
Research and development costs	**809**	1,222
Staff cost (including directors' emoluments)		
— Salaries, bonus and allowances	**36,529**	36,666
— Retirement benefits scheme contributions	**1,906**	1,667
	38,435	38,333

Note: Cost of Sales includes staff cost and depreciation of approximately HK$8,454,000 (2009: HK$8,290,000) which are separately disclosed as above.

5. TAXATION

Taxation in consolidated statement of comprehensive income represents:

	2010	2009
	HK$'000	*HK$'000*
Current tax — Hong Kong Profits Tax		
Provision for the year	**80**	110
(Over)-provision in prior years	**(110)**	(19)
	(30)	91
Current tax — Overseas		
Provision for the year	**1,246**	4,947
(Over)-provision in prior years	**(4,000)**	(14,456)
	(2,754)	(9,509)
	(2,784)	(9,418)

Hong Kong Profits Tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits for the year. 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.

Under the Enterprise Income Tax Law (the "**EIT Law**"), the PRC corporate income tax has been standardised at the rate of 25%. However, certain subsidiaries of the Company have been granted preferential tax treatments 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 22% for 2010. The rate would gradually increase to 24% for 2011 and 25% for 2012 according to the grandfathering rules stipulated in the Implementation Rules and related circular.

When the EIT Law was introduced in the beginning of 2008, the Group made a provision amounting to HK$15,000,000 in the consolidated financial statements for the year ended 31 March 2008 for the exposure that the Group may face due to the implementation of the EIT Law. However, subsequent advices sought from PRC tax professionals confirmed that the EIT Law does not contain provisions for retrospective application. Accordingly, a write back of the provision in the amount of HK$14,200,000 was made to the consolidated financial statements for the year ended 31 March 2009. During the current year, the Group has further taken steps to mitigate its exposure to EIT Law and the tax provision made in the prior years in the amount of HK$4,000,000 was also written back in the current year's consolidated financial statements.

5. **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, was as follows:

	2010	2009
	HK$'000	*HK$'000*
Profit before taxation	**12,788**	7,989
Tax at the statutory tax rates applicable to the respective tax jurisdictions	**450**	2,636
Tax effect on expenses not deductible	**1,870**	1,851
Tax effect on income not taxable	**(18)**	(4)
Tax effect of temporary differences not recognised	**4**	5
(Over)-provision in prior years	**(4,110)**	(14,364)
Others	**(980)**	458
Income tax (credit)	**(2,784)**	(9,418)

6. **EARNINGS PER SHARE**

The calculation of the basic earnings per share is based on the profit attributable to the Company's equity holders of approximately HK$14,624,000 (2009: profit attributable to the Company's equity holders of approximately HK$15,551,000) and on the weighted average of 2,290,000,000 (2009: 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 2010 and 31 March 2009 and accordingly, no diluted earnings per share have been presented.

7. **TRADE RECEIVABLES**

	2010	2009
	HK$'000	*HK$'000*
Trade receivables	**103,415**	109,858
Less : Impairment on trade receivables	**(18,659)**	(20,183)
Trade receivables, net of provision	**84,756**	89,675

The carrying amounts of trade receivables approximate their fair values as at 31 March 2010 and 31 March 2009. The Group does not hold any collateral or other credit enhancements over these balances.

7. TRADE RECEIVABLES (continued)

The aging analysis of the trade receivables, based on the delivery dates of goods, was as follows:

	2010	2009
	HK$'000	*HK$'000*
Within 90 days	**37,391**	54,218
Between 91 to 180 days	**25,576**	20,690
Between 181 to 365 days	**21,789**	15,665
Between 1 to 2 years	**5,508**	14,443
Over 2 years	**13,151**	4,842
	103,415	109,858

The aging analysis of the trade receivables, net of impairment loss, based on the delivery dates of goods, was as follows:

	2010	2009
	HK$'000	*HK$'000*
Within 90 days	**37,391**	54,218
Between 91 to 180 days	**25,576**	20,690
Between 181 to 365 days	**21,789**	14,559
Between 1 to 2 years	**—**	181
Over 2 years	**—**	27
	84,756	89,675

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.

The movements for impairment on trade receivables were as follows:

	2010	2009
	HK$'000	*HK$'000*
At beginning of year	**20,183**	17,431
Exchange alignments	**—**	990
Write-off of trade receivables	**(571)**	—
Impairment on trade receivables	**5,508**	2,788
Reversal of impairment on trade receivables	**(6,461)**	(1,026)
At end of year	**18,659**	20,183

7. TRADE RECEIVABLES (continued)

The reversal and subsequent provision for impaired receivables have been included in the consolidated statement of comprehensive income.

All the carrying amounts of the Group's trade receivables were denominated in Renminbi.

8. TRADE AND BILLS PAYABLES

The aging analysis of the trade and bills payables, based on the dates of receipt of goods, was as follows:

	2010	2009
	HK$'000	*HK$'000*
Within 90 days	**5,877**	6,551
Between 91 to 180 days	**1,665**	3,174
Between 181 to 365 days	**623**	413
Between 1 to 2 years	**309**	263
Over 2 years	**5**	—
	8,479	10,401

The carrying amounts of the Group's trade and bills payables approximate their fair values as at 31 March 2010 and 31 March 2009 and were denominated in the following foreign currencies:

	2010	2009
	HK$'000	*HK$'000*
Renminbi	**3,273**	1,683
United States dollars	**2,751**	4,127
Euro	**2,455**	4,591
	8,479	10,401

9. DIVIDENDS

The directors do not recommend the payment of any dividend in respect of the year ended 31 March 2010 (2009: Nil).

EXTRACTED FROM INDEPENDENT AUDITORS' REPORT

The consolidated financial statements for the year ended 31 March 2010 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 2010 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 Company and the Group as at 31 March 2010 and of the Group's profit and consolidated 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 the 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 2010 is the technological know-how with the carrying value of approximately HK$284,260,000 (2009: 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 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 not 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 outcome 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.

(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 (2009: 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 this 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 consolidated financial statements, we consider the uncertainty as to the risks associated with the assets as mentioned in the above two paragraphs have been adequately disclosed in the consolidated 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 receivables.

MANAGEMENT DISCUSSION AND ANALYSIS

A. Business Review

Overall Performance

Year 2009 is the cornerstone of the China's healthcare reform following the central government's announcement in January 2009 by investing RMB850 billion for the reform in three years. Aiming at achieving a long-term goal of providing universal healthcare services to the country's population, a series of medical related policies has been launched which has further spurred the growth of the pharmaceutical industry in China.

The deepening of the China's healthcare reform has enlarged the market demands, and at the same time increased the competition intensity. For the year ended 31 March 2010, the Group recorded a turnover of about HK$196.3 million, representing an increase of 6.4% as compared with that of last financial year. Although the Group's overall gross profit margins decreased by about 4% to 27.4% to cope with the changing market conditions and challenges, its selling and distribution expenses concurrently reduced as a result of the Group's reshuffling its marketing strategies coupled with better budget control. Further, there was a moderate decrease in administrative expenses by about HK$2.2 million to HK$28.4 million, which was primarily due to decrease in legal and professional fees.

During the year under review, profit before taxation increased from about HK$8.0 million to about HK$12.8 million, representing an increase of about HK$4.8 million or 60.0%. However, the Group's profit for the year attributable to equity holders slightly reduced to about HK$14.6 million from HK$15.6 million in 2009, representing a decrease of about HK$0.9 million or 6.0% as a result of decrease in write-back of over provision in income tax liabilities.

Turnover and Operating Results

Imported Pharmaceutical Sector

Turnover for the imported pharmaceutical sector increased by about 9.1% from about HK$138.0 million last year to about HK$150.6 million this year.

During the year, in response to the gradually increased intensity in market competition brought about by the healthcare reform, there was subsequent decline in overall gross margins accompanied by more strategic marketing and promotion activities to secure market share as well as strengthening growth momentum for the coming year, segment revenue was supported to increase by about HK$12.6 million as a result of double-digit growth in sales of quality product Skin-Cap (indicated for psoriasis, seborrheic dermatitis and relief of itching associated with dermatosis) whilst GM-1, a specialized prescription drug for re-establishment of functional recovery of central nervous system and Parkinson's disease maintained its significant sales contribution. Segment operating profit for the year finally increased by HK$4.0 million or 36.7% from HK$10.8 million to about HK$14.7 million.

Given every indication that the market would be growing robustly and that competition would be exacerbated, management would drive for continued growth by leveraging on its well-built distribution network and strong customer relationship.

Manufactured Pharmaceutical Sector

Sales of manufactured pharmaceutical products declined slightly by 1.6% from HK$46.4 million to HK$45.7 million resulting from price adjustments in line with more severe price-based competition despite there was double-digit growth in sales volume of our core product Transfer Factor oral solution, an immune regulator.

In gaining a continual market share, management had made stringent measures in monitoring the selling and distribution expenses whilst at the same time reducing the overheads, and coupled with the increase in other revenues derived from provision of consultancy services to other factories, segment operating profit for the year under review improved by about HK$1.1 million to about HK$4.2 million.

In addition to on-going cost control measures, management has been streamlining its business operations to improve its operating margins, and has on one hand undertaken steps to widen its distribution channels and on the other developed new products with aim to improving operating results.

We will continue to leverage on the competitive advantage of our product quality, established brand name and steady business model, and to strive for better performance in future.

Oral Insulin Sector

Further clinical trial is still in progress. No revenue was generated in the sector during this year. Increase in loss was mainly attributable to deployment of administrative and human resources associated with the clinical trial.

Gene Development Sector

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

Selling and Distribution Expenses

Selling and distribution expenses of the Group decreased from about HK$23.2 million in 2009 to about HK$20.6 million in 2010, representing a decrease of about 11.0%. The decrease was mainly attributed to the on-going cost control measures to rationalize spending and more effective utilization of marketing resources.

Administrative Expenses

Administrative expenses of the Group decreased approximately by 7.1% from about HK$30.6 million to about HK$28.4 million which was largely due to reduction in legal and professional expenses.

Other Revenues and Impairment on Trade Receivables

Other revenues mainly comprised reversal of impairment on trade receivables, sundry income and interest income. Other revenues increased by about HK$6.8 million from about HK$6.7 million to about HK$13.5 million this year. This was the result of increase in reversal of impairment on trade receivables of about HK$5.4 million, increase in sundry income of about HK$2.9 million in respect of consultancy services rendered to other factories as well as decrease in interest income and exchange gain by about HK$0.8 million and HK$0.6 million respectively.

Taxation

In 2009, the Group had engaged two seasoned PRC tax professionals to evaluate the Group's exposure in relation to the new PRC income tax law, and based on their reports, there was a significant write back of over provision made in the year 2008.

During the year, the Group has undertaken further steps to rationalize its operating structure in order to mitigate its tax exposure pursuant to the reports by the PRC tax professionals, and as such the tax provision of HK$4,000,000 made during the hiatus period was no longer required and was therefore written back.

B. Outlook and Product Development

Progress of development of Oral Insulin

With a view to facilitating a smooth progress of the clinical trial and having sought consultation and advice from experts and officials of the State Food and Drug Administration ("SFDA") during the year, the Group had worked out its best implementation plan for the clinical trial with the engagement of a professional institute in the PRC rendering services in clinical trial management and related clinical studies. The Group submitted its best implementation plan which was acknowledged by the SFDA in March 2010. The Group believes that the cautiously prepared implementation plan shall critically sustain a solid foundation for its success and has been organizing further preparatory work in progressing the clinical trial.

Despite there is certain delay in the project due to the forefront but essentially reinforcing work, the Group is now able to progress at high speed with the solid advancement and engagement of the clinical trial expertise. The Group will continue cautiously managing the progress and would be committing more resources in expediting the process as necessary and appropriate.

Further still, the Group remains positive and optimistic towards its success and future development.

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 2010, the Group had total cash and bank balances (including pledged bank deposits) of about HK$125.6 million (2009: HK$101.2 million), representing an increase by approximately 24.1%.

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 (2009: HK$20.5 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 2010 was 0.05 (2009: 0.05) calculated based on the Group's total debts of about HK$32.6 million (2009: HK$32.8 million), comprising amount due to a minority shareholder of about HK$32.4 million (2009: HK$32.4 million).

Currency Structure

The Group's business transactions, assets and liabilities are principally denominated 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. Despite the aforesaid, the Group monitors constantly of its exposure to foreign currency movement.

D. Employment and Remuneration Policy

As at 31 March 2010, the Group had 416 employees (2009: 460). Staff cost (including directors' emoluments) for the year ended 31 March 2010 amounted to approximately HK$38.4 million (2009: approximately HK$38.3 million). The slight increase was mainly due to salary adjustment. 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 2010, 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 considered 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.

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

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.

PURCHASES, SALES OR REDEMPTION 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.

AUDIT COMMITTEE

The Company has established an Audit Committee (the "Committee"), with written terms of reference, in compliance with rule 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 2010 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
Xie Yi
Director

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, 16 July 2010

* *For identification purpose only*