THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Extrawell Pharmaceutical Holdings Limited**, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

EXTRAWELL PHARMACEUTICAL HOLDINGS LIMITED

精 優 藥 業 控 股 有 限 公 司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00858)

VERY SUBSTANTIAL ACQUISITION

A letter from the Board is set out from pages 4 to 15 of this circular.

A notice convening the SGM to be held at Suites 4701-4, 47th Floor, Tower One, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong on 3 January 2007 at 3:00 p.m. is set out on pages 129 to 131 of this circular. Whether or not you are able to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's Hong Kong branch share registrar, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting at the SGM or any adjournment thereof if you so wish.

* *For identification purpose only*

18 December 2006

CONTENTS

In this circular, unless the context otherwise requires, the following words and phrases have the following meanings:

"Acquisition"	the proposed acquisition by Welly Surplus from Sea Ascent of the Sale Share and the Shareholder's Loan
"Associates"	has the same meaning ascribed thereto under the Listing Rules
"Board"	the board of Directors
"Company"	Extrawell Pharmaceutical Holdings Limited, a company incorporated in Bermuda with limited liability and whose shares having a par value of HK$0.01 each are listed on the main board of the Stock Exchange
"Completion"	completion of the SP Agreement in accordance with its terms and conditions
"Cooperation"	the proposed cooperation between Welly Surplus and Sea Ascent in connection with, among other matters, the establishment of Jiangsu Prevalence and the construction of the Plant in the manner as set out in the section headed "The Cooperation Agreement" in the letter from the Board in this circular
"Cooperation Agreement"	a conditional cooperation agreement entered into between Welly Surplus, Sea Ascent and Fosse Bio on 19 October 2006 in connection with the Cooperation
"Director(s)"	the director(s) of the Company
"Enlarged Group"	the Group, Joy Kingdom and, upon establishment, Jiangsu Prevalence
"Fosse Bio"	Fosse Bio-Engineering Development Limited, a company incorporated in Hong Kong with limited liability, the entire issued share capital of which is owned as to 51% by Smart Ascent Limited, a 51%-owned indirect subsidiary of the Company
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	The Hong Kong Special Administrative Region of the PRC

"Independent Third Party"	a third party who is independent of the Company and connected persons (has the same meaning ascribed thereto under the Listing Rules) of the Company
"Initial Operating Period"	a period of six years from the date on which the Medicine is launched for sales in open market
"Jiangsu Prevalence"	江蘇派樂施藥業有限公司 (Jiangsu Prevalence Pharmaceutical Limited), a wholly foreign owned enterprise to be established and wholly owned by Joy Kingdom in the PRC pursuant to the Cooperation Agreement, with the registered capital of US$1 million
"Joy Kingdom"	Joy Kingdom Industrial Limited, a company incorporated in the British Virgin Islands with limited liability, the entire issued share capital of which is owned by Sea Ascent as at the Latest Practicable Date
"Land"	a piece of industrial land situated at Pi Zhou City, Jiangsu, the PRC to be acquired by Jiangsu Prevalence pursuant to the terms of the Cooperation Agreement, details of which are set out in the section headed "The Cooperation Agreement" in the letter from the Board in this circular
"Latest Practicable Date"	13 December 2006, being the latest practicable date prior to the printing of this circular for inclusion of certain information in this circular
"Listing Rules"	Rules Governing the Listing of Securities on the Stock Exchange
"Medicine"	Oral Insulin Enteric-Coated Soft Capsules (口服胰島素腸溶軟膠丸), one of the oral insulin products developed by the Group through one of the Company's non-wholly owned subsidiaries, Fosse Bio, in collaboration with Tsinghua University, Beijing
"Plant"	the pharmaceutical manufacturing plant to be constructed on the Land for the production of the Medicine pursuant to the terms of the Cooperation Agreement, details of which are set out in the section headed "The Cooperation Agreement" in the letter from the Board in this circular
"PRC"	the People's Republic of China and, for the purpose of this circular only, excluding Hong Kong and Macau Special Administrative Region and Taiwan

"RMB"	Renminbi, the lawful currency of the PRC
"Sale Share"	the one share of US$1.00 in the issued share capital of Joy Kingdom
"Sea Ascent"	Sea Ascent Investment Limited, a company incorporated in Hong Kong with limited liability
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	the special general meeting of the Company to be held at Suites 4701-4, 47th Floor, Tower One, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong on 3 January 2007 at 3:00 p.m. for the purpose of considering and, if thought fit, approving the Cooperation and the Acquisition and any transactions contemplated under the Cooperation Agreement and the SP Agreement, and any adjournment thereof
"Shares"	ordinary shares of HK$0.01 each in the capital of the Company
"Shareholder's Loan"	the unsecured, non-interest bearing loan for the aggregate principal sum of RMB40 million to be advanced by Sea Ascent to Joy Kingdom pursuant to the terms of the Cooperation Agreement
"Shareholders"	holders of Shares
"SP Agreement"	a conditional sale and purchase agreement entered into between Welly Surplus and Sea Ascent on 19 October 2006 in connection with the Acquisition
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"US$"	United States dollars, the lawful currency of the United States of America
"Welly Surplus"	Welly Surplus Development Limited, a company incorporated in Hong Kong with limited liability, a 51%-owned subsidiary of Smart Ascent Limited which is, in turn, a 51%-owned indirect subsidiary of the Company
"%"	per cent.

EXTRAWELL PHARMACEUTICAL HOLDINGS LIMITED
精 優 藥 業 控 股 有 限 公 司*

(Incorporated in Bermuda with limited liability)
(Stock Code: 00858)

Executive Directors:
Dr. MAO Yu Min
Mr. HO Chin Hou
Mr. HO Yu Ling
Mr. LI Qiang
Dr. XIE Yi

Independent non-executive Directors:
Mr. FANG Lin Hu
Mr. XUE Jing Lun
Ms. JIN Song

Registered office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Head office and principal place of business in Hong Kong:
Suites 4701-4, 47th Floor
Tower One, Times Square
1 Matheson Street
Causeway Bay, Hong Kong

18 December 2006

To the Shareholders

Dear Sir or Madam

COOPERATION REGARDING THE ESTABLISHMENT OF AN ORAL INSULIN MANUFACTURING PLANT IN THE PRC AND VERY SUBSTANTIAL ACQUISITION

INTRODUCTION

The Group, through one of the Company's non-wholly owned subsidiaries, Fosse Bio, has been principally engaged in the joint research and development of the technologies for the manufacturing of oral insulin products with Tsinghua University, Beijing. The Group is entitled to commercialise the technologies so developed and to manufacture and sell the oral insulin products derived therefrom on an exclusive basis. One of the oral insulin products developed thereby is the Medicine.

* *For identification purpose only*

On 25 October 2006, the Board announced that on 19 October 2006, pending obtaining all necessary approvals for the production of the Medicine, including the approval of the New Medicine Certificate (新藥證書) and the approval number (生產文號) in respect of the Medicine, Welly Surplus, which is a non-wholly owned subsidiary of the Company, entered into the Cooperation Agreement and the SP Agreement with Sea Ascent for the establishment of Jiangsu Prevalence and the construction of the Plant by Sea Ascent for the production of the Medicine in the PRC and the acquisition thereof by the Group thereafter.

The purpose of this circular is to provide you with, among other information, (i) further details of the Cooperation and the Acquisition; (ii) certain financial information of the Group, Joy Kingdom and the Enlarged Group; (iii) the valuation report in respect of the land and buildings of the Enlarged Group; and (iv) a notice of the SGM.

THE COOPERATION AGREEMENT

Date of the Cooperation Agreement

19 October 2006

Parties to the Cooperation Agreement

(i) Welly Surplus, a non-wholly owned subsidiary of the Company which is owned as to 51% by Smart Ascent Limited, which is in turn indirectly owned as to 51% by the Company (attributable interest of approximately 26% in Welly Surplus is held by the Company);

(ii) Sea Ascent, a company incorporated in Hong Kong with limited liability which is wholly owned by Mr. Wang Wei, who is an Independent Third Party. Mr. Wang Wei was first introduced to the Group by some of the minority shareholders and directors of Fosse Bio. Sea Ascent is an investment holding company and, to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, Sea Ascent and the ultimate beneficial owner thereof are third parties independent of the Company and are not connected persons of the Company. Save for the Cooperation and the Acquisition, the Group had not entered into any other transaction with Sea Ascent and/or Mr. Wang Wei on or prior to the Latest Practicable Date; and

(iii) Fosse Bio, an indirect non-wholly owned subsidiary of the Company and the guarantor to guarantee the performance of Welly Surplus under the Cooperation Agreement.

Principal obligations of Sea Ascent under the Cooperation Agreement

Under the Cooperation Agreement, Sea Ascent has undertaken to Welly Surplus that it will procure the following:

(i) Establishment of Jiangsu Prevalence

Joy Kingdom is a company incorporated in the British Virgin Islands with limited liability and, as at the Latest Practicable Date, is wholly owned by Sea Ascent. Under the Cooperation Agreement, Sea Ascent shall procure Joy Kingdom to establish a wholly foreign owned enterprise in the PRC under the name of 江蘇派樂施藥業有限公司 (Jiangsu Prevalence Pharmaceutical Limited), with the registered capital of US$1 million.

(ii) Provision of the Shareholder's Loan

Sea Ascent shall advance a sum equivalent to RMB40 million to Joy Kingdom by way of an unsecured, non-interest bearing Shareholder's Loan, which shall be used for the following purposes:

(a) to pay up the registered capital of Jiangsu Prevalence;

(b) to finance Jiangsu Prevalence for the acquisition of the land use rights of a piece of land for industrial use at Pi Zhou City, Jiangsu, the PRC within 10 days after the date on which the Cooperation Agreement becoming effective in accordance with its terms (that is, on the date on which approval of the Cooperation Agreement by the Shareholders at general meeting of the Company being obtained). The Land shall have a site area of not less than 140 mu, and the land use rights shall last for 50 years; and

(c) to finance the construction of the Plant.

(iii) Acquisition of the Land and construction of the Plant

Sea Ascent shall procure Jiangsu Prevalence to acquire the Land and construct the Plant and shall not, save for the Acquisition as contemplated under the SP Agreement and the Cooperation Agreement, dispose of or otherwise create any encumbrance over any equity and loan interest, the Land, the Plant and/or any machineries or facilities therein.

The construction of the Plant must be completed within nine months after the date on which the Cooperation Agreement becoming effective in accordance with its terms. The Plant should comply with, among others, the following scale and conditions:

(a) the Plant must have an annual production capacity of at least 1.5 billion capsules of the Medicine;

(b) the gross floor area of the Plant must be sufficient for installing additional machineries and production lines so as to improve the Plant's annual production capacity to at least 3 billion capsules of the Medicine; and

(c) the Plant must satisfy the standards as required for obtaining the compliance certificate under the Guidelines on Good Manufacturing Practices for Pharmaceuticals (藥品生產質量管理規範) for the production of the Medicine.

As at the Latest Practicable Date, Sea Ascent had advanced a sum of US$1 million to Joy Kingdom for the purpose of establishment of Jiangsu Prevalence. Save as aforesaid, none of the above obligations under the Cooperation Agreement had been fulfilled by Sea Ascent as at the Latest Practicable Date.

Principal obligations of the Group under the Cooperation Agreement

Under the Cooperation Agreement, Welly Surplus has undertaken to Sea Ascent that it will procure the following:

(i) subject to the performance by Sea Ascent of its obligations as mentioned in the paragraph "Principal obligations of Sea Ascent under the Cooperation Agreement" in the section headed "The Cooperation Agreement" above and the completion of the Acquisition pursuant to the terms and conditions of the SP Agreement, Welly Surplus shall procure Joy Kingdom or, if so agreed between the parties, Jiangsu Prevalence to pay to Sea Ascent, during the Initial Operating Period, a fee calculated at RMB6 cents for each capsule of Medicine produced (which complies with the production specifications and requirements), provided that:

(a) the aggregate fees payable to Sea Ascent for each year shall not exceed RMB180 million (which was determined on the basis of the maximum possible annual production capacity of 3 billion capsules of Medicine for the Plant and was subject to such deduction as mentioned below);

(b) the fees payable to Sea Ascent under sub-paragraph (a) above shall be subject to deduction therefrom of a sum representing the product of such fees multiplied by the then prevailing corporate income tax rate applicable to Jiangsu Prevalence under the applicable PRC laws and regulations;

(c) if Jiangsu Prevalence is entitled to tax exemption in respect of its corporate income tax, no deduction from the fees under sub-paragraph (b) above is required or, if such tax exemption is offered to Jiangsu Prevalence by way of tax refund, Joy Kingdom or, if so agreed between the parties, Jiangsu Prevalence shall, within seven days after receipt thereby of such tax refund, pay the fees so deducted under sub-paragraph (b) above to Sea Ascent; and

(d) if Jiangsu Prevalence is entitled to any tax deduction in respect of its corporate income tax, the sum to be deducted from the fees as referred to in sub-paragraph (b) above shall be calculated by reference to such tax deduction or, if the tax deduction is offered to Jiangsu Prevalence by way of tax refund, Joy Kingdom or, if so agreed between the parties, Jiangsu Prevalence shall, within seven days after receipt thereby of such tax refund, pay the excessive amount of fees so deducted under sub-paragraph (b) above to Sea Ascent.

The above fees payable to Sea Ascent shall be settled within seven days after the end of each calendar month during the Initial Operating Period and by reference to such Medicine sold and the selling price thereof received by the Group during such relevant calendar month, provided that:

(aa) in respect of any Medicine sold and delivered, the selling price of which has not been paid by the relevant customer within six months after delivery thereof to such customer, the fees payable to Sea Ascent in respect of such Medicine shall be settled within seven days after the expiry of such six-month period; and (bb) notwithstanding sub-paragraph (aa) above, the fees payable to Sea Ascent in respect of any unsold Medicine and any sold but unpaid Medicine as at the expiry of the Initial Operating Period shall be settled within one month after the expiry of the Initial Operating Period.

(ii) subject to the performance by Sea Ascent of its obligations as mentioned in the paragraph "Principal obligations of Sea Ascent under the Cooperation Agreement" in the section headed "The Cooperation Agreement" above and the satisfaction of other conditions of the SP Agreement as mentioned in the paragraph headed "Conditions of the SP Agreement" under the section headed "The SP Agreement" below, Welly Surplus shall complete the acquisition of the Sale Share and the Shareholder's Loan in accordance with the terms and conditions of the SP Agreement;

(iii) after Completion and the commencement of the production of Jiangsu Prevalence and during the term of the Cooperation Agreement, if the consolidated current assets value of Joy Kingdom as at the end of any financial year is less than RMB40 million, Welly Surplus shall procure Joy Kingdom not to distribute any dividend in respect of the profit of that financial year; and

(iv) unless the New Medicine Certificate in respect of the Medicine has not been granted by the relevant PRC authorities, Welly Surplus shall procure Fosse Bio to allow the manufacturing of the Medicine by Jiangsu Prevalence and to assist Jiangsu Prevalence to obtain the relevant Pharmaceutical Manufacturing Permit (藥品生產許可證) for the manufacture of the Medicine during the Initial Operating Period.

The fee payable by Joy Kingdom or, if so agreed between the parties, Jiangsu Prevalence to Sea Ascent as referred to in sub-paragraph (i) above was determined after arm's length negotiations between Sea Ascent and the Group, taking into account the risk assumed by Sea Ascent in respect of its investment in Joy Kingdom, Jiangsu Prevalence and the Plant prior to the commercial production of the Medicine and the launch thereof to the market and its commitment to perform its obligations as set out in the Cooperation Agreement, the estimated production cost of the Medicine if the Medicine were to be produced by independent sub-contractors rather than by the Group itself and the estimated selling price of the Medicine, the estimated sales of the Medicine and the growth rate thereof during the Initial Operating Period and the estimated fees payable to Sea Ascent on that basis under the Cooperation Agreement. Such fee shall be financed by the then internal resources of the Group. The Directors, including the independent non-executive Directors, consider that the above fees payable to Sea Ascent are fair and reasonable.

Under the Cooperation Agreement, Fosse Bio has agreed to guarantee the due performance by Welly Surplus of its obligations and liabilities ("**Secured Liabilities**") as mentioned under sub-paragraphs (i), (ii) and (iv) above, provided that the maximum liability of Fosse Bio under such guarantee shall not exceed 51% of the Secured Liabilities.

As at the Latest Practicable Date, none of the above obligations under the Cooperation Agreement had been fulfilled by the Group.

Further expansion of the Plant

Under the Cooperation Agreement, Welly Surplus has also agreed to grant to Sea Ascent the right of first refusal for cooperation with Welly Surplus in respect of the expansion of the Plant's annual production capacity from 1.5 billion to 3 billion capsules of the Medicine. Such further cooperation is subject to (a) signing of formal agreement between Welly Surplus and Sea Ascent in respect thereof; and (b) compliance by the Company of the applicable requirements under the Listing Rules and other applicable laws and regulations in respect thereof.

Term of the Cooperation Agreement

The Cooperation Agreement is conditional and shall become effective on the date on which approval of the Cooperation Agreement by the Shareholders at general meeting of the Company being obtained, and shall terminate upon expiry of the Initial Operating Period.

THE SP AGREEMENT

Date of the SP Agreement

19 October 2006

Parties to the SP Agreement

(i) Welly Surplus, as the purchaser; and

(ii) Sea Ascent, as the vendor.

Assets to be acquired:

Under the SP Agreement, Welly Surplus has agreed to acquire from Sea Ascent, and Sea Ascent has agreed to sell the Sale Share and the Shareholder's Loan to Welly Surplus. The Sale Share represents the entire issued share capital of Joy Kingdom. As represented by Sea Ascent, Joy Kingdom was newly incorporated and has not engaged in any business activity since its incorporation. Pursuant to the Cooperation Agreement, immediately prior to Completion, Joy Kingdom will be an investment holding company holding 100% interest in the registered capital of Jiangsu Prevalence. Jiangsu Prevalence will principally engage in the operation of the Plant, which will comply with the requirements as prescribed under the Cooperation Agreement, for the production of the Medicine.

The principal amount of the Shareholder's Loan shall be RMB40 million, which shall represent the principal amount of the unsecured, non-interest bearing loan to be advanced by Sea Ascent to Joy Kingdom under the Cooperation Agreement. The Shareholder's Loan shall be due and repayable by Joy Kingdom, in whole or in part, by such repayment date as may be from time to time resolved by the board of directors of Joy Kingdom after taking into account the then working capital requirements of Joy Kingdom.

Based on the audited financial information of Joy Kingdom as set out in its accountants' report (which has been set out in appendix II to this circular), the audited net loss of Joy Kingdom for the period from 15 May 2006, being its date of incorporation, to 30 September 2006 amounted to HK$7,200 and it had audited net liabilities of HK$7,192 as at 30 September 2006.

The Consideration

The consideration payable by Welly Surplus for the Sale Share shall be RMB40,000,000 and the consideration payable by Welly Surplus for the Shareholder's Loan amounted to HK$1. The consideration shall be payable in the following manner:

(i) upon Completion, Welly Surplus shall pay to Sea Ascent an aggregate of RMB10,000 and HK$1 in cash, HK$1 of which being the consideration payable for the acquisition of the Shareholder's Loan and the balance thereof being part payment of the consideration for the acquisition of the Sale Share; and

(ii) the balance of the consideration for the acquisition of the Sale Share, being RMB39,990,000, shall be payable by Welly Surplus in cash within one month after the expiry of the Initial Operating Period.

If the conditions as referred to in sub-paragraphs (iii) or (iv) under the paragraph headed "Conditions of the SP Agreement" below cannot be fulfilled due to the failure on the part of Sea Ascent, or the Completion does not take place due to the default of Sea Ascent, then without prejudice to the rights of Welly Surplus under the SP Agreement, Sea Ascent may choose to proceed with Completion provided that, in such event, Welly Surplus shall be entitled to acquire the Sale Share and the advance then owed to Sea Ascent by Joy Kingdom at the respective nominal consideration of HK$1.

The above consideration was determined after arm's length negotiations between Sea Ascent and the Group, taking into account the audited net liabilities of Joy Kingdom (which amounted to HK$7,192 as at 30 September 2006) and the amount of the advance committed to be made by Sea Ascent to Joy Kingdom and Jiangsu Prevalence (which amounts to RMB40 million). The amount of the advance committed was determined by the parties based on the estimated investment cost for the establishment of the Plant and the consideration payable for the acquisition of the Land to be acquired by Jiangsu Prevalence. Such consideration shall be financed by the then internal resources of the Group. The Directors, including the independent non-executive Directors, consider that the above consideration payable by Welly Surplus is fair and reasonable.

Conditions of the SP Agreement

Completion is conditional upon, among other conditions, the following conditions being fulfilled:

(i) the approval by the Shareholders of the SP Agreement and the transactions contemplated hereby in accordance with the Listing Rules and the bye-laws of the Company;

(ii) a legal opinion to be issued by a firm of qualified PRC lawyers, which should cover, among other matters, the legal and valid incorporation and subsistence of Jiangsu Prevalence, the ownership of Joy Kingdom in the equity interest in Jiangsu Prevalence, the ownership and title of the Land and the Plant, having been obtained;

(iii) the Cooperation Agreement becoming effective in accordance with its terms, and Sea Ascent having provided Welly Surplus with evidence confirming the due performance of its obligations under the Cooperation Agreement as mentioned in paragraph "Principal obligations of Sea Ascent under the Cooperation Agreement" under the section headed "The Cooperation Agreement" above; and

(iv) the construction of the Plant having been completed in accordance with the terms of the Cooperation Agreement and the Plant complies with the requirements as set out in sub-paragraph (iii) of the paragraph "Principal obligations of Sea Ascent under the Cooperation Agreement" under the section headed "The Cooperation Agreement" above.

None of these conditions had been fulfilled as at the Latest Practicable Date. In the event that any of these conditions has not been fulfilled on or before 12:00 noon on 30 November 2007 or such later date and time as the parties may mutually agree, the SP Agreement shall forthwith terminate (save in respect of the confidentiality provisions thereof). Save in respect of claims arising out of any antecedent breach of the terms of the SP Agreement, none of the parties thereof shall have any obligations and liabilities under the SP Agreement.

Completion shall take place at 10:00 a.m. on the third business day after the date on which all of the above conditions have been satisfied, or such other date and time as the parties may agree. To monitor the performance of Sea Ascent under the SP Agreement and the Cooperation Agreement, Sea Ascent has agreed under the SP Agreement that it will procure Joy Kingdom to appoint a person nominated by Welly Surplus as a director of Joy Kingdom pending Completion.

REASONS FOR AND BENEFITS OF THE COOPERATION AND THE ACQUISITION

The Group is principally engaged in the marketing and distribution of pharmaceutical products; development, manufacture and sales of pharmaceutical products; commercial exploitation and development of genome-related technology; and development and commercialisation of oral insulin products in the PRC.

Sea Ascent is an investment holding company. Its sole shareholder, Mr. Wang Wei, principally engages in the investments of real properties and healthcare products in Jiangsu, the PRC. He has extensive experience in investments at Pi Zhou City, Jiangsu, the PRC, where the Plant is proposed to be constructed.

The investment cost for constructing a pharmaceutical manufacturing plant for the production of the Medicine can be significant. The recoverability of such investment cost is also not assured as it is possible that the Group may be unable to obtain all necessary approvals for the production and sales of the Medicine within the anticipated time frame, or the pharmaceutical manufacturing plant to be constructed does not comply with the requirements under the Guidelines on Good Manufacturing Practices for

Pharmaceuticals and other applicable standards and requirements under the PRC laws. These standards and requirements may be changed from time to time and it can be costly to comply with any subsequent modification of, additions to or new restrictions to, these compliance standards or requirements.

The Directors consider that, by entering into the Cooperation Agreement and the SP Agreement, the Group can shift the risk of non-recoverability of such investment cost to Sea Ascent on one hand, and can ensure that the Medicine can be launched to the market in a timely and efficiently manner. Accordingly, the Directors (including independent non-executive Directors) consider that the terms of the Cooperation Agreement and the SP Agreement (including the amount of consideration payable to Sea Ascent under the Cooperation Agreement and the SP Agreement, comprising RMB40 million and HK$1 for the acquisition of the Sale Share and the Shareholder's Loan, and the fees calculated at RMB6 cents for each capsule of Medicine produced during the Initial Operating Period (subject to deduction as mentioned above and an annual cap of RMB180 million)) are on normal commercial terms and are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

FINANCIAL IMPACT OF THE COOPERATION AND THE ACQUISITION

Upon Completion, Joy Kingdom and Jiangsu Prevalence will become wholly owned subsidiaries of Welly Surplus, which is owned as to 51% by Smart Ascent which is, in turn, indirectly owned as to 51% by the Company. Each of Joy Kingdom and Jiangsu Prevalence will be accounted for as subsidiaries of the Company and their financial results (including earnings, assets and liabilities) will be consolidated into and reflected in the financial statements of the Group after Completion.

The Directors expect that the Cooperation and the Acquisition will have the following financial impacts on the Group:

Earnings

Set out in appendix IV to this circular is a summary of the unaudited pro forma consolidated results of the Enlarged Group. On the basis of the net loss attributable to the equity holder of Joy Kingdom of approximately HK$7,000 based on the audited net loss attributable to the equity holder of Joy Kingdom for the period from 15 May 2006 (date of incorporation) to 30 September 2006 and assuming Completion had taken place on 1 April 2005, the pro forma earnings of the Enlarged Group is approximately HK$15,299,000.

Under the Cooperation Agreement, subject to the performance by Sea Ascent of its obligations as mentioned in the paragraph "Principal obligations of Sea Ascent under the Cooperation Agreement" under the section headed "The Cooperation Agreement" above and the Completion, the Group shall be obliged to pay Sea Ascent a fee calculated at RMB6 cents for each capsule (subject to restriction and deductions as set out in the paragraph "Principal obligations of the Group under the Cooperation Agreement" under the section headed " The Cooperation Agreement" above) of Medicine produced during the Initial Operating Period. The amount so obligate to be paid will become an expense of the Enlarged Group, and will thereby affect the earnings of the Enlarged Group. Nevertheless, since such fee shall only become payable after the commencement of production and sale of the Medicine by the Enlarged Group, the Directors believe that such fee shall be covered and compensated by the selling price of the Medicine, which will contribute to the income of the Enlarged Group in the future.

Assets and liabilities

Set out in appendix IV to this circular is a summary of the unaudited pro forma consolidated net assets of the Enlarged Group. On the basis and assumptions set out in that appendix, the unaudited pro forma consolidated total assets and total liabilities of the Enlarged Group would have been approximately HK$611,317,000 and HK$99,437,000 respectively. As compared with the consolidated total assets and total liabilities of the Group as at 31 March 2006 of approximately HK$571,327,000 and HK$70,559,000, respectively, there would have been an increase of approximately HK$39,990,000 in the unaudited pro forma consolidated total assets and increase of approximately HK$28,878,000 in the unaudited pro forma consolidated total liabilities. The increase was mainly due to an increase in assets acquired by Jiangsu Prevelance using the Shareholder's Loan under the Cooperation Agreement and Consideration payable by Welly Surplus upon Completion.

The unaudited pro forma consolidated net assets of the Enlarged Group would have been approximately HK$511,880,000. As compared to the net asset value of the Group as at 31 March 2006 of approximately HK$500,761,000, the Acquisition would have resulted an increase in the unaudited pro forma consolidated net asset by approximately HK$11,119,000 of the Enlarged Group.

IMPLICATIONS UNDER THE LISTING RULES

As the applicable consideration ratio (as calculated in accordance with Rule 14.07 of the Listing Rules) for the Cooperation and the Acquisition (which is calculated by reference to the aggregate consideration payable to Sea Ascent under the SP Agreement of approximately RMB40 million and the aggregate maximum possible fees payable to Sea Ascent during the Initial Operating Period of RMB1,080 million under the Cooperation Agreement) is more than 100%, the Cooperation and the Acquisition constitute a very substantial acquisition of the Company under the Listing Rules. Therefore, the Cooperation and the Acquisition are subject to the disclosure requirements and the approval of the Shareholders at a general meeting of the Company under Chapter 14 of the Listing Rules.

Under the Listing Rules, any Shareholder with a material interest in the transactions contemplated under the Cooperation Agreement and/or the SP Agreement and his Associates will be required to abstain from voting on resolutions proposed to be passed for approving the Cooperation, the Acquisition and any matters relating thereto at the general meeting to be convened for such purposes. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, no Shareholder has a material interest in the transactions contemplated under the Cooperation Agreement and/or the SP Agreement and therefore no Shareholders or their respective Associates are required to abstain from voting on the resolutions proposed to be passed for approving the Cooperation, the Acquisition and any matters relating thereto at the SGM.

SGM

The SGM will be held at Suites 4701-4, 47th Floor, Tower One, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong on 3 January 2007 at 3:00 p.m., to consider and, if thought fit, approve, among other matters, the Cooperation and the Acquisition and the transactions contemplated under the Cooperation Agreement and the SP Agreement.

A notice convening the SGM is set out on pages 129 to 131 of this circular. Whether or not you are able to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the SGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting at the SGM or any adjournment thereof if you so wish.

PROCEDURES TO DEMAND A POLL AT GENERAL MEETING

Pursuant to bye-law 73 of the bye-laws of the Company, a resolution put to the vote at any general meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

(a) by the Chairman of such meeting; or

(b) by at least three Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or

(c) by a Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or

(d) by a Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and holding Shares in the Company conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the Shares conferring that right.

RECOMMENDATIONS

The Directors consider that the terms of each of the Cooperation Agreement and the SP Agreement are fair and reasonable and the Cooperation and Acquisition to be in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the Cooperation, the Acquisition and the transactions contemplated under the Cooperation Agreement and the SP Agreement.

ADDITIONAL INFORMATION

Your attention is drawn to certain financial information relating to the Group, Joy Kingdom and the Enlarged Group, the valuation report in respect of the land and buildings of the Enlarged Group and other information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board
Extrawell Pharmaceutical Holdings Limited
Mao Yu Min
Chairman

1. AUDITED CONSOLIDATED RESULTS OF THE GROUP FOR THE THREE YEARS ENDED 31 MARCH 2006

The following is a summary of the audited consolidated results and of the assets, liabilities and results of the Group for each of the three financial years ended 31 March 2004, 2005 and 2006 (as restated according to the Hong Kong Financial Reporting Standards which are adopted for the first time during the year ended 31 March 2006), and the reports of the auditors as extracted from the relevant annual reports of the Company for each of the three financial years ended 31 March 2004, 2005 and 2006.

(i) Results

	For the year ended 31 March		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	178,265	169,766	215,631
Profit/(loss) before taxation	6,697	(87,835)	(35,835)
Taxation	(2,510)	1,793	(1,103)
Profit/(loss) for the year	4,187	(86,042)	(36,938)
Attributable to:			
Equity holders of the Company	4,669	(75,823)	14,641
Minority interests	(482)	(10,219)	(51,579)
	4,187	(86,042)	(36,938)
Dividend	–	–	–

(ii) Assets and liabilities

	At at 31 March		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
		(Restated)	(Restated)
Total assets	571,327	591,290	530,332
Total liabilities	(70,559)	(97,812)	(107,074)
Total equity	500,768	493,478	423,258
Minority interests	(220,107)	(220,609)	(74,566)
	280,661	272,869	348,692

(iii) Report of the auditors for the year ended 31 March 2004 and extracted from the annual report of the Company for the year ended 31 March 2004

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.

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 Limited, 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

(iv) Report of the auditors for the year ended 31 March 2005 and extracted from the annual report of the Company for the year ended 31 March 2005

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 26 to 69 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 Institute of Certified Public 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:

(1) Scope limitation – Prior year's audit scope limitation affecting opening balances

As detailed in our report dated 26 August 2004 on the Group's financial statements for the year ended 31 March 2004, we were 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 of 19 gene invention rights (the "Gene Invention Rights"), which were carried at HK$84,708,000 and included in the intangible assets of HK$127,744,000 in the consolidated balance sheet of the Group at 31 March 2004. Consequently, we were unable to determine whether the carrying amount of the Gene Invention Rights were fairly stated as at 31 March 2004. Any adjustments found to be necessary in respect thereof had we obtained sufficient reliable evidence would have had a consequential effect on the net assets of the Group at 31 March 2004, and of its net loss for the current year and the prior year and the related disclosures thereof in the financial statements.

(2) Scope limitation – Impairment of intangible assets

The Gene Invention Rights are held by two subsidiaries (the "Subsidiaries") of the Company. As further detailed in note 13 to the financial statements, the directors considered that there was a slow down in the global gene sector during the year and there was no sign of significant improvement up to the date of approval of these financial statements. Accordingly, the directors considered that a full provision on impairment of the carrying amount of the Gene Invention Rights was required and thus the net carrying amount of the Gene Invention Rights of HK$79,958,000 (HK$84,708,000 at 31 March 2004 less amortisation of HK$4,750,000 for the year) has been fully charged to the profit and loss account for the year. Our audit scope was limited due to the absence of reliable information to enable us to assess the value of the Gene Invention Rights. We are therefore unable to satisfy ourselves as to whether the recognition of the impairment loss of HK$79,958,000 is appropriate. There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the appropriateness of the impairment loss recognised on the intangible assets of the Group. Any adjustments found to be necessary had we obtained such evidence may have a significant consequential effect on the Group's loss for the year and its net assets as at 31 March 2005 and the related disclosures thereof in the financial statements.

(3) Scope limitation – Disposal of subsidiaries, interest in an associate and interest in a jointly-controlled entity

As further explained in note 31(b) to the financial statements, on 3 August 2004 (the "Disposal Date"), the Group disposed of certain subsidiaries, interest in an associate and interest in a jointly-controlled entity (together referred to as the "Disposed Companies"). The directors have represented to us that they are unable to obtain any books and records of the Disposed Companies following their disposal. Due to lack of available books and records, we are unable to obtain sufficient evidence and audit comfort regarding the value of the net assets disposed of by the Group as at the Disposal Date and hence the gain on disposal of HK$72,000 arising thereon; the net inflow of cash and cash equivalents of approximately HK$24,105,000 in respect of the disposal and the other amounts related to the Disposed Companies included in the consolidated cash flow statement; and the turnover of HK$993,000, share of result of an associate of HK$nil and loss after tax of HK$2,010,000 relating to the Disposed Companies included in the consolidated profit and loss account for the period up to the Disposal Date. Any adjustments found to be necessary to the above amounts would affect the amounts recorded in the consolidated profit and loss account in respect of the Disposed Companies up until the Disposal Date, with a corresponding effect on the gain on disposal, amounts recorded in the consolidated cash flow statement 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 INTANGIBLE ASSET AND OTHER RECEIVABLE

In forming our opinion, we have considered the adequacy of the disclosures made in note 13 to the financial statements concerning the carrying value 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 2005. The Know-how is held by Fosse Bio-Engineering Development Limited ("Fosse Bio"), a subsidiary acquired by the Group during the 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 disclosures made in note 21 to the financial statements concerning the recoverability of a receivable (the "Receivable") in the amount of 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 13 and 21 to the financial statements, the Product is subject to clinical trials which are currently ongoing. The recoverability of the carrying values of the Know-how and the Receivable depends upon the result of the clinical trials 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 clinical trials or the launching of the Product be unsuccessful. We consider that appropriate disclosures have been made, but since the fundamental uncertainty is so extreme we have disclaimed our opinion in respect of the carrying value of the Know-how and the Receivable.

DISCLAIMER OPINION

Because of the significance of (i) the possible effects of the limitations of scope in evidence available to us as referred to points (1) and (2) above under the basis of opinion section; and (ii) the fundamental uncertainty relating to the carrying values of the Know-how and the Receivable, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2005 and of the loss and cash flows of the Group for the year then ended and as to whether or not the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Had we not disclaimed our opinion in respect of the matters described above, we would otherwise have qualified our opinion in respect of the limitation in evidence relating to the disposal of subsidiaries, interest in an associate and interest in a jointly-controlled entity as set out in point (3) above in the basis of opinion section of this report.

In respect alone of the limitations on our work as set out under points (1) to (3) 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.

In respect alone of the limitation on our work as set out under point (3) in the "Basis of opinion" section of this report, we were unable to determine whether proper books and records had been kept.

Ernst & Young
Hong Kong
26 July 2005

(v) Report of the auditors for the year ended 31 March 2006 and extracted from the annual report of the Company for the year ended 31 March 2006

HLB 國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

31/F Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

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

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 MARCH 2006

The audited consolidated financial statements together with the relevant notes to the financial statements of the Group as extracted from the annual report of the Company for the year ended 31 March 2006 are set out below:

Consolidated Balance Sheet
At 31 March 2006

	Note	2006 HK$'000	2005 HK$'000 (Restated)
Non-current assets			
Property, plant and equipment	6	56,812	65,610
Land use rights	7	13,850	18,470
Intangible assets	8	287,898	288,454
Goodwill	9	–	5,151
Deferred tax assets	18	–	1,246
		358,560	378,931
Current assets			
Inventories	11	14,767	15,691
Trade receivables	12	86,177	73,804
Prepayments, deposits and other receivables	13	56,851	51,383
Amounts due from minority shareholders	14	8	8
Taxation recoverable		–	932
Pledged bank deposits		7,262	12,204
Cash and cash equivalents	15	47,702	58,337
		212,767	212,359
Total assets		571,327	591,290
Equity			
Share capital	16	22,900	22,900
Reserves	17	257,761	249,969
		280,661	272,869
Minority interests		220,107	220,609
		500,768	493,478
Non-current liabilities			
Deferred tax liabilities	18	102	102
Current liabilities			
Trade and bills payables	19	8,323	7,319
Accruals and other payables	20	23,459	20,153
Bank interest-bearing borrowings – secured	21	4,630	37,466
Tax payables		1,641	368
Amount due to a minority shareholder	22	32,404	32,404
		70,457	97,710
Total equity and liabilities		571,327	591,290
Net current assets		142,310	114,649
Total assets less current liabilities		500,870	493,580

Consolidated Income Statement
For the year ended 31 March 2006

	Note	2006 HK$'000	2005 HK$'000 (Restated)
Turnover	23	178,265	169,766
Cost of sales		(108,450)	(123,676)
Gross profit		69,815	46,090
Other revenue		1,537	1,095
Other income		3,113	9,929
Selling and distribution expenses		(14,890)	(18,478)
Administrative expenses		(36,076)	(37,710)
Impairment loss on intangible assets		–	(79,958)
Impairment loss on goodwill		(5,171)	(6,600)
Impairment loss on property, plant, equipment and land use rights		(10,723)	–
Profit/(loss) from operations	24	7,605	(85,632)
Finance costs	27	(908)	(2,203)
Profit/(loss) before taxation		6,697	(87,835)
Taxation	28	(2,510)	1,793
Profit/(loss) for the year		4,187	(86,042)
Attributable to:			
Equity holders of the Company		4,669	(75,823)
Minority interests		(482)	(10,219)
		4,187	(86,042)
Dividend	30	–	–
Earnings/(loss) per share for profit/(loss) attributable to the equity holders of the Company during the year	31		
Basic		HK$0.002	(HK$0.033)
Diluted		N/A	N/A

All of the Group's activities are classified as continuing.

The accompanying notes form an integral part of these financial statements.

Notes to the Financial Statements

31 March 2006

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The head office and principal place of business of the Company in Hong Kong is Suites 4701-4, 47/F., RBS Tower, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong.

The principal activities of the Group included the followings:

– marketing and distribution of pharmaceutical products;

– development, manufacture and sales of pharmaceutical products;

– commercial exploitation and development of genome-related technology; and

– development and commercialisation of oral insulin products.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The consolidated financial statements of Extrawell Pharmaceutical Holdings Limited have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which are the collective terms that include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs"), and Interpretations ("Int") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and applicable disclosure provisions of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The consolidated financial statements have been prepared under historical cost convention. 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 Company's accounting policies.

In 2006, the Group adopted the new and revised standards and interpretations of HKFRSs below, which are relevant to its operations. The 2005 comparatives have been amended as required in accordance with the relevant requirements. A summary of the new and revised HKFRSs is set out as below:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events After the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transitional and Initial Recognition of Financial Assets and Financial Liabilities
HKAS – Int 15	Operating Leases – Incentives
HKFRS 3	Business Combinations

The adoption of new and revised HKASs 1, 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 23, 24, 27, 28, 33, 37 and HKAS – Int 15 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interests, share of net after-tax results of associates and other disclosures. In the consolidated balance sheet, minority interests are now shown within total equity. In the consolidated income statement, minority interests are presented as an allocation of the total profit or loss for the year.

– HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 23, 27, 28, 33, 37 and HKAS – Int 15 had no material effect on the Group's policies.

– HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of land use rights from property, plant and equipment to operating leases. The up-front prepayments made for land use rights are expensed in the income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the income statement. A lease of land and building is split into a lease of land and a lease of building in proportion to the relative fair values of the leasehold interests in land element and the building element of the lease at the inception of the lease. The lease of land is stated at cost and amortised over the period of the lease whereas the building is stated at cost less accumulated depreciation. In prior years, land use rights were classified under property, plant and equipment at cost less impairment.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy for recognition, measurement, derecognition and disclosure of financial instruments.

HKAS 32 requires retrospective application and the adoption of HKAS 32 has had no material effect on how the results for the current or prior accounting years are prepared. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current and prior accounting years. The principal effects resulting from the implementation of HKAS 39 are summarised as follows:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

From 1 April 2005 onwards, the Group has classified and measured its financial assets and financial liabilities in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition. The Group had applied the relevant transitional provisions in HKAS 39. However, there has been no material impact on how the results for the current accounting period are presented.

Under HKAS 39, long-term receivables are recognised initially at cost and subsequently measured at amortised cost using the effective interest method, less provision for impairment with changes in carrying value to be recognised in the income statement. All non-hedging derivative financial instruments entered are stated at fair value with changes recognised in the income statement. In prior years, equity investments for long-term purpose were disclosed as long-term investments and stated at cost less impairment through profit or loss. Listed equity securities held for trading purpose were disclosed as investments in securities and were stated at market value with changes to such value accounted through profit or loss. Short-term receivables were stated at cost less impairment which, if any, was accounted through profit or loss. Derivative financial instruments entered were recognised on a cash basis. Prospective application is required for adoption of HKAS 39 by way of adjustments to the opening balance of retained earnings as at 1 April 2005. Comparative amounts have not been restated.

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for positive goodwill and negative goodwill and prospective application is required. Until 31 March 2005:

– positive goodwill was capitalised and amortised on a straight-line basis over its useful economic life of 10 years and was subject to impairment testing when there were indications of impairment; and

– negative goodwill was amortised over the weighted average useful life of 10 years of the non-monetary assets acquired, except to the extent it related to identified expected future losses as at the date of acquisition. In such cases it was recognised in the income statement as those expected losses were incurred.

In accordance with the provisions of HKFRS 3:

– the Group ceased amortisation of goodwill from 1 April 2005;

– accumulated amortisation as at 31 March 2005 has been eliminated with a corresponding decrease in the cost of goodwill;

– from the year ended 31 March 2006 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment; and

– in accordance with the transitional provision in HKFRS 3, all negative goodwill was derecognised as 1 April 2005 with a corresponding increase in retained earnings.

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

– HKAS 16 – the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;

– HKAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations;

– HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous Statement of Standard Accounting Practice ("SSAP") 24 "Accounting for investments in securities" to investments in securities and also to hedge relationships for the 2005 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1 April 2005;

– HKFRS 3 – prospectively after 1 April 2005.

The effect on the adoption of the new accounting policies in consolidated balance sheet and consolidated income statement was summarised as follows:

Consolidated Balance Sheet
As at 31 March 2006

	HKAS 17	**HKAS 38**	**HKAS 39**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Property, plant and equipment	(13,850)	–	–	(13,850)
Land use rights	13,850	–	–	13,850
Goodwill	–	(5,171)	–	(5,171)
Trade receivables	–	–	(635)	(635)
Prepayments, deposits and other receivables	–	–	(1,011)	(1,011)
	–	(5,171)	(1,646)	(6,817)
Reserve	–	(5,171)	(1,646)	(6,817)

Consolidated Income Statement
For the year ended 31 March 2006

Decrease in depreciation	(561)	–	–	(561)
Increase in amortisation of land use rights	561	–	–	561
Increase in impairment loss on goodwill	–	5,171	–	5,171
Increase in change in fair value of financial assets through profit or loss	–	–	1,646	1,646
	–	5,171	1,646	6,817
Decrease in earnings per share	–	HK$0.002	HK$0.001	HK$0.003

Consolidated Balance Sheet
As at 31 March 2005

	HKAS 17	**HKAS 38**	**HKAS 39**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Property, plant and equipment	(18,470)	–	–	(18,470)
Land use rights	18,470	–	–	18,470
	–	–	–	–
Reserve	–	–	–	–

Consolidated Income Statement
For the year ended 31 March 2005

Decrease in depreciation	(566)	–	–	(566)
Increase in amortisation of land use rights	566	–	–	566
	–	–	–	–

There was no impact on earnings per share from the adoption of HKAS 17 for the year ended 31 March 2005.

No early adoption of the following new Standards or Interpretations that have been issued but are not yet effective. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 (Amendment)	Capital Disclosures
HKAS 19 (Amendment)	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKFRS 4 (Amendments)	Financial Guarantee Contracts
HKFRSs 1 & 6 (Amendments)	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 4	Determining whether an Arrangement contain a Lease
HK(IFRIC) – Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC) – Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives

The HKAS 1 (Amendment) shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosure about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKAS 39 (Amendment) Cash Flow Hedge Accounting of Forecast Intragroup Transactions allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated accounts, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit and loss. This amendment is not relevant to the Group's operations, as the Group does not have any intragroup transactions that would qualify as a hedged item in the consolidated accounts as at 31 March 2005 and 2006.

HKAS 39 (Amendment) The Fair Value Option changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Group believes that this amendment should not have a significant impact on the classification of financial instruments, as the Group should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit or loss. The Group will comply this amendment from accounting periods beginning on 1 April 2006.

HKAS 39 and HKFRS 4 (Amendment) Financial Guarantee requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. The Company regards its financial guarantees provided to its subsidiaries as insurance contracts.

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual period beginning on or after 1 January 2007.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application. A summary of significant accounting policies followed by the Group and the Company in the preparation of the financial statements is set out below:

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March each year.

(i) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operation policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

All significant inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received or receivables.

(ii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any impairment losses) identified in acquisition.

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates plus the premium paid on acquisition in so far as it has not already been amortised to the income statement, less any identified impairment loss. When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

The results of associates are accounted for by the Company on the basis of dividends received or receivable during the year. In the Company's balance sheet, investments in associates are stated at cost, as reduced by any identified impairment loss.

(iii) Joint venture

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from joint venture company's operations and any distributions of surplus assets are shared by the joint venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

The joint venture company is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group interest in jointly-controlled entity is accounted for by proportionate consolidation. The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. The Group recognises the portion of gains and losses on the sale of assets by the Group to the joint venture that it is attributable to the other venturers. The Group does not recognise its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities are included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's investments in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets, less any provision for impairment losses.

(b) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of subsidiaries, associates and jointly controlled entities at the date of acquisition. In the case of jointly-controlled entity and associates, goodwill is included in the carrying amount rather than as a separate identifiable asset on the consolidated balance sheet.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset. Prior to the adoption of the new HKFRS, goodwill is amortised on a straight-line basis over its estimated useful life of a period up to a maximum of 20 years. Following the adoption of HKFRS 3, goodwill ceased to be amortised from 1 April 2005 in which it will be tested annually for impairment. The goodwill is therefore carried at cost less accumulated impairment losses and any accumulated amortisation brought forward has been eliminated against the cost of goodwill.

On disposal of subsidiaries, jointly-controlled entities and associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the date of acquisition is written back and included in the calculation of the gain and loss on disposal.

(c) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

Depreciation is provided to write off the cost of property, plant and equipment, using the straight line method, over their estimated useful lives. The principal annual rates are as follows:

Buildings	Over the lease terms
Plant and machineries	10% – 20%
Furniture, fixtures and office equipment	10% – 30%
Motor vehicles	20%

The gain or loss arising from disposal of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

(d) Land use rights

Land use rights are stated at cost less subsequent accumulated amortisation, accumulated depreciation and any accumulated impairment losses. The cost of land use rights are amortised on a straight-line basis over the unexpired land use period of 50 years.

(e) Intangible assets

Intangible assets, which comprise trade mark and licences, rights to technical know-how and gene invention rights, are stated at cost less accumulated amortisation and any impairment losses. The categories of the intangible assets are summarised as follows:

Trade mark and licences

Trade mark and licences are stated as historical cost. Trademarks and licences have a definite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives.

General pharmaceutical products

The cost of acquiring the rights to technical know-how for the development and production of new pharmaceutical products is amortised on the straight-line basis over the estimated economic lives of the know-how of a maximum of five years commencing in the year when the rights are available for use.

Genome related technology

The cost of acquiring the rights to technical know-how for the development and production of genome related products is amortised on the straight-line basis over the estimated economic lives of the know-how of a period up to a maximum of 20 years.

Gene invention rights

The cost of gene invention rights is amortised over the lives of the rights granted for the gene inventions of a period up to a maximum of 20 years.

Oral insulin products

The cost of acquiring the rights for development and commercialisation of oral insulin products is amortised on the straight-line basis over the estimated economic lives of the products commencing in the year when the rights are available for use.

(f) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Work in progress and finished goods comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

(g) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(h) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(i) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to determine whether there is any indication of impairment of assets, or whether there is any indication that an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the year in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant policy for that revalued asset.

i. Calculation of recoverable amount

The recoverable amount of an asset is the higher of its net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of any asset and from its disposal at the end of its useful life. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of asset that generates cash inflows independently (i.e. a cash-generating unit).

ii. *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been change in the estimates used to determine the recoverable amount. An impairment loss of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates the reversal effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(j) Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (ie. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit and loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individual significant, and individually or collectively for financial assets that are not individual significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial assets, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after impairment was recognised, the previous recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date.

Assets carried at cost

If there is objective that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

(k) Provisions

A provision is recognised when the Group has a present legal or constructive obligation, as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value money is material, the amount of a provision is the present value at the balance sheet date of the expenditures expected to be required to settle the obligation.

(l) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

(m) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured realiably, on the following bases:

– from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

– from the assignment of technical know-how, when the technology is transferred to the buyer; and

– interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

(n) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit is the profit for the year, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary difference can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investment in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(o) Foreign currencies

Transactions in foreign currencies are initially recorded at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any are classified as equity and transferred to the Group's exchange reserve. Such translation differences are recognised as income or as expenses in the year in which the operation is disposed of.

(p) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under operating leases are charged to the income statement on a straight-line basis over the relevant lease term.

(q) Employee benefits

(i) Retirement benefit obligations

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme'') under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution scheme, the assets of which are held in separate trustee-administered funds.

Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, with the employees' contributions subject to a cap of monthly relevant income of HK$20,000. The Group's contributions to the scheme are expensed as incurred are vested in accordance with the scheme's vesting scales. Where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group.

(ii) Share-based compensation

The fair value of the employee services received in exchange for the grant of the share options and restricted share awards is recognised as an expense in the income statement.

The total amount to be expensed over the vesting period is determined with reference to the fair value of the share options and restricted share awards granted. At each balance sheet date, the Company revises its estimates of the number of share options that are expected to become exercisable and the number of restricted share awards that become vested. It recognises the impact of the revision of original estimates, if any, in the profit and loss account, and a corresponding adjustment to equity in the balance sheet will be made over the remaining vesting periods.

The proceeds received, net of any directly attributable transaction costs, are credited to share capital and share premium accounts when the share options are exercised and when the restricted share awards are vested.

(r) Research and development

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercially value. Product development expenditure which does not meet these criteria is expensed when incurred.

(s) Related parties

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or entities and include entities which are controlled or under the significant influence or related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

3. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (foreign exchange risk), credit risk, liquidity risk and cash flow and fair value interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group's treasury function operates as a centralised service for managing financial risks and for providing cost efficient funding to the Group.

(i) Market risk – Foreign exchange risk

The Group operates mainly in both the People's Republic of China ("the PRC") and Hong Kong and majority of transactions are dominated in Hong Kong dollars and Renminbi. Therefore, the Group is exposed to foreign exchange risk arising from these currency exposures. Hong Kong dollars and Renminbi are pegged to United States dollars and the foreign exchange exposure between them are considered limited.

(ii) Credit risk

The Group's credit risk is primarily attributable to trade or other receivables. The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history. The exposures to these credit risks are monitored on an ongoing basis.

(iii) Liquidity risk

The Group manages its liquidity risk by regularly monitoring current and expected liquidity requirements and ensuring sufficient liquid cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet the Group's liquidity requirements in the short and long term.

(iv) Cash flow and fair value interest rate risk

Borrowings at variable interest rates expose the Group to cash flow interest rate risk and those at fixed rates expose the Group to fair value interest rate risk.

The Group monitors the interest rate risk exposure on a continuous basis and adjust the portfolio of borrowings where necessary.

(b) Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated impairment of intangible assets and goodwill

The Group performs annual tests on whether there has been impairment of intangible assets in accordance with the accounting policy stated in note 2(i). The recoverable amounts of cash-generating units are determined based on value-in-use calculations. These calculations require the use of estimates and assumptions made by management on the future operation of the business, pre-tax discount rates, and other assumptions underlying the value-in-use calculations.

(b) Provision for impairment of receivables

The aged debt profile of trade debtors is reviewed on a regular basis to ensure that the trade debtor balances are collectible and follow up actions are promptly carried out if the agreed credit periods have been exceeded. However, from time to time, the Group may experience delays in collection. Where recoverability of trade debtor balances are called into doubts, specific provisions for bad and doubtful debts are made based on credit status of the customers, the aged analysis of the trade receivable balances and write-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivable to the income statement. Changes in the collectibility of trade receivables for which provisions are not made could affect our results of operations.

(c) Useful lives of property, plant and equipment

In accordance with HKAS 16, the Group estimates the useful lives of property, plant and equipment that to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, and technical obsolescence arising from changes in the market demands or service output of the assets. The Group also performs annual reviews on whether the assumptions made on useful lives continue to be valid.

(d) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience and selling goods of similar nature. It could change significantly as a result of change in market condition. Management will reassess the estimations at the balance sheet date.

5. 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 PRC and over 90% of the Group's assets 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.

Business segments

The following table provides an analysis of the Group's revenues, results and certain assets, liabilities and expenditure information by business nature:

	Manufacturing		Trading		Gene development		Oral insulin		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (Restated)
Segment revenue										
Sales to external customers	51,714	39,033	126,551	129,740	–	993	–	–	178,265	169,766
Segment results	(7,012)	(14,352)	33,257	26,582	(341)	(88,581)	(257)	(279)	25,647	(76,630)
Interest income									1,001	925
Net unallocated expenses									(19,043)	(9,927)
Profit/(loss) from operations									7,605	(85,632)
Finance costs									(908)	(2,203)
Profit/(loss) before taxation									6,697	(87,835)
Taxation									(2,510)	1,793
Profit/(loss) for the year									4,187	(86,042)
Attributable to:										
Equity holders of the Company									4,669	(75,823)
Minority interests									(482)	(10,219)
									4,187	(86,042)

	Manufacturing		Trading		Gene development		Oral insulin		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment assets	133,232	151,527	107,887	82,871	7	7	284,269	284,289	525,395	518,694
Bank overdrafts included in segment assets	–	–	–	9	–	–	–	–	–	9
Unallocated assets									45,932	72,587
Total assets									571,327	591,290
Segment liabilities	9,300	38,710	25,520	23,532	64	364	238	214	35,122	62,820
Bank overdrafts included in segment liabilities	–	–	–	9	–	–	–	–	–	9
Unallocated liabilities									35,437	34,983
Total liabilities									70,559	97,812
Other segment information:										
Capital expenditures	448	811	685	492	–	–	–	73,351	1,133	74,654
Unallocated capital expenditures									25	34
									1,158	74,688
Depreciation and amortisation	4,939	8,392	391	329	–	7,999	–	–	5,330	16,720
Unallocated depreciation and amortisation									493	519
									5,823	17,239
Impairment losses recognised in the income statement	5,151	6,600	10,723	–	–	79,958	20	–	15,894	86,558
Other non-cash expenses	9,621	77	143	431	–	–	–	–	9,764	508
Unallocated other non-cash expenses									17	2
									9,781	510

6. **PROPERTY, PLANT AND EQUIPMENT**

The Group

	Buildings	Plant and machineries	Furniture, fixtures and office equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Restated)				(Restated)
Cost					
At 1 April 2004, as previously reported	75,917	56,488	7,471	4,111	143,987
Effect on adoption of HKAS 17	(21,119)	–	–	–	(21,119)
At 1 April 2004, as restated	54,798	56,488	7,471	4,111	122,868
Additions	–	596	113	628	1,337
Disposal of subsidiaries	–	(31,072)	(1,069)	(1,106)	(33,247)
Disposals	–	(2,426)	(96)	(347)	(2,869)
At 31 March 2005 and at 1 April 2005	54,798	23,586	6,419	3,286	88,089
Additions	–	371	148	639	1,158
Disposals	–	–	(137)	–	(137)
Exchange alignments	846	454	69	51	1,420
At 31 March 2006	55,644	24,411	6,499	3,976	90,530
Accumulated depreciation					
At 1 April 2004, as previously reported	7,633	17,966	3,523	1,657	30,779
Effect on adoption of HKAS 17	(2,083)	–	–	–	(2,083)
At 1 April 2004, as restated	5,550	17,966	3,523	1,657	28,696
Charge for the year	1,448	3,365	518	499	5,830
Eliminated on disposal of subsidiaries	–	(10,188)	(324)	(341)	(10,853)
Eliminated on disposals	–	(998)	(39)	(157)	(1,194)
At 31 March 2005 and at 1 April 2005	6,998	10,145	3,678	1,658	22,479
Charge for the year	1,451	2,130	465	484	4,530
Reversal upon disposals	–	–	(92)	–	(92)
Exchange alignments	116	199	29	23	367
At 31 March 2006	8,565	12,474	4,080	2,165	27,284
Impairment					
At 1 April 2004 and 31 March 2005	–	–	–	–	–
Charge for the year	6,434	–	–	–	6,434
At 31 March 2006	6,434	–	–	–	6,434
Net book value					
At 31 March 2006	40,645	11,937	2,419	1,811	56,812
At 31 March 2005	47,800	13,441	2,741	1,628	65,610

Depreciation expenses of HK$3,275,000 (2005: HK$3,680,000) have been expensed in cost of goods sold, HK$1,255,000 (2005: HK$2,150,000) in administrative expenses.

There was no pledged property, plant and equipment as at 31 March 2006. As at 31 March 2005, the Group's buildings with carrying amount of HK$47,483,000 were pledged as securities for bank borrowing of the Group.

7. LAND USE RIGHTS

The Group

	2006	**2005**
	HK$'000	*HK$'000*
		(Restated)
Cost		
At 1 April, as previously reported	21,119	–
Effect on adoption of HKAS 17	–	21,119
At 1 April 2004, as restated	21,119	21,119
Exchange alignments	267	–
At 31 March	21,386	21,119
Accumulated amortisation		
At 1 April, as previously reported	2,649	–
Effect on adoption of HKAS 17	–	2,083
At 1 April 2004, as restated	2,649	2,083
Charge for the year	561	566
Exchange alignments	37	–
At 31 March	3,247	2,649
Impairment		
At 1 April	–	–
Charge for the year	4,289	–
At 31 March	4,289	–
Net Book Value		
At 31 March	13,850	18,470

The Group's interests in land use rights represent prepaid operating lease payments and their net book value are analysed as follows:

	2006	**2005**
	HK$'000	*HK$'000*
		(Restated)
Land outside Hong Kong, held on:		
Long-term leases	13,850	18,470

Land use rights comprise cost of acquiring rights to use certain land which are all located in the PRC over fixed periods. Cost of prepaid lease for land use rights is amortised on a straight-line basis over the unexpired period of rights.

There was no pledged land use rights as at 31 March 2006. As at 31 March 2005, the Group's land use rights with carrying amount of HK$2,062,000 were pledged as securities for bank borrowing of the Group.

8. INTANGIBLE ASSETS

The Group

	Technical know-how HK$'000 (Note i)	Gene invention rights HK$'000 (Note ii)	Total HK$'000
Cost			
At 1 April 2004	113,471	95,000	208,471
Acquisition of subsidiaries	284,260	–	284,260
Disposal of subsidiaries	(105,503)	–	(105,503)
At 31 March 2005 and 1 April 2005	292,228	95,000	387,228
Additions	29	–	29
Exchange alignments	150	–	150
At 31 March 2006	292,407	95,000	387,407
Accumulated amortisation			
At 1 April 2004	10,454	10,292	20,746
Charge for the year	2,567	4,750	7,317
Disposal of subsidiaries	(9,247)	–	(9,247)
At 31 March 2005 and 1 April 2005	3,774	15,042	18,816
Charge for the year	732	–	732
Exchange alignments	3	–	3
At 31 March 2006	4,509	15,042	19,551
Impairment			
At 1 April 2004	59,981	–	59,981
Charge for the year	–	79,958	79,958
Disposal of subsidiaries	(59,981)	–	(59,981)
At 31 March 2005 and 31 March 2006	–	79,958	79,958
Carrying amount			
At 31 March 2006	287,898	–	287,898
At 31 March 2005	288,454	–	288,454

Notes:

i. The carrying amount of technical know-how (the "Know-how") includes a development cost in relation to an oral insulin product (the "Product") and the exclusive right for the commercialisation of the Product owned by the Group. The Product was co-developed by Fosse Bio-Engineering Development Limited ("Fosse Bio"), a subsidiary acquired by the Group in 2005, and Tsinghua University, Beijing ("THU"). Fosse Bio and THU jointly applied the patent ("the Patent") in respect of the Know-how on 20 April 2001. The Patent were granted by State Intellectual Property Office of the PRC and United States Patent and Trademark office of the United States on 4 August 2004 and 28 March 2006 respectively.

The Product has completed the phase II clinical trial and the result has been submitted to the State Food and Drug Administration of the People's Republic of China ("SFDA") for approval and the approval process is still in progress up to the date of approval of these financial statements. The directors of the Company therefore considered no impairment provision against the carrying amount for the Know-how is necessary. Should the approval of the new product licence fail, the clinical trials being terminated or the launching of the Product be unsuccessful, adjustments would have to be made against the carrying amount of the Know-how.

ii. The gene invention rights (the "Gene Invention Rights") represent the rights held by Right & Rise Limited ("R&R") and Grand Success Management Limited ("Grand Success") to commercially exploit 19 gene inventions, which are closely associated with diabetes. The Group is in the process of applying for patents in respect of the Gene Invention Rights. Biowindow Gene Development (Hong Kong) Limited ("HK Biowindow") and Fudan Biotech (Hong Kong) Limited ("Fudan Biotech") have warranted that in the event that the Gene Invention Rights are prohibited from being registered in the PRC by other persons at any time for a period of three years commencing from the completion of the acquisition of the entire issued capital of R&R by the Group on 6 February 2002, they will compensate the Group with an amount of HK$5 million less any net income derived from each of those gene inventions so prohibited. Both HK Biowindow and Fudan Biotech are related companies of the Group in which Dr. Mao Yu Min ("Dr. Mao") and Dr. Xie Yi ("Dr Xie"), two directors and shareholders of the Company, have beneficial interests.

As the development of global gene sector has slowed down and there was no indication of significant improvement in the foreseeing future, the directors considered that a full provision on impairment of the carrying amount of Gene Invention Rights of HK$79,958,000 has been provided and fully charged to the income statement for the year ended 31 March 2005.

9. GOODWILL

The Group

	HK$'000
Cost	
At 1 April 2004	27,387
Disposal of subsidiaries	(9,760)
At 31 March 2005 and 1 April 2005	17,627
Effect on adoption of HKFRS 3	(6,730)
Additions	20
At 31 March 2006	10,917
Accumulated amortisation	
At 1 April 2004	3,204
Charge for the year	3,526
At 31 March 2005 and 1 April 2005	6,730
Effect on adoption of HKFRS 3	(6,730)
At 31 March 2006	–
Impairment	
At 1 April 2004	8,906
Impairment loss recognised	6,600
Disposal of subsidiaries	(9,760)
At 31 March 2005 and 1 April 2005	5,746
Impairment loss recognised	5,171
At 31 March 2006	10,917
Carrying amount	
At 31 March 2006	–
At 31 March 2005	5,151

In prior years, the amortisation period adopted for goodwill is up to maximum of 20 years. Following the adoption of HKFRS 3, amortisation of goodwill has ceased since 1 April 2005. The accumulated amortisation of goodwill would be offset against the cost. Annual impairment review was performed.

Goodwill is allocated to the Group's cash generating unit ("CGU") identified according to country of operation in a business segment as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Production and distribution of pharmaceutical products	–	5,151

The recoverable amount of goodwill in a CGU is determined based on the value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the management covering a five-years period. Cash flow beyond five-years period is extrapolated using the estimated rate stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

Key assumptions used for value-in-use calculation:

	2006	**2005**
Gross profit margin	47%	40%
Discount rate	8%	12%

Management determined the budget gross profit margin based on past performance and its expectations for the market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

The impairment of goodwill were recognised in the income statement for both years 2005 and 2006 as the Group's distribution of pharmaceutical product business under Jilin Extrawell Changbaishan Pharmaceutical Co., Ltd. continues to be in a loss position.

10. INTERESTS IN SUBSIDIARIES

Name	Place of incorporation/ registration and operation	Nominal value of issued/ registered capital	Percentage of equity attributable to the Company 2006	2005	Principal activities
Directly held					
Extrawell (BVI) Limited	British Virgin Islands ("BVI")	US$10,000 Ordinary	100	100	Investment holding
Jilin Extrawell Changbaishan Pharmaceutical Co., Ltd. ("JECP") *(Note i)*	The PRC	RMB33,000,000	100	100	Development, manufacture, and sales of pharmaceutical products
Indirectly held					
Extrawell Pharmaceutical (HK) Limited	Hong Kong	HK$2 Ordinary	100	100	Provision of agency services
South Asia Pharmaceutical (China) Limited	BVI/Malaysia	US$50,000 Ordinary	100	100	Marketing and distribution of pharmaceutical products
Smart Phoenix Holdings Limited	BVI	USD100 Ordinary	100	100	Investment holding
Changchun Extrawell Pharmaceutical Co., Ltd. ("CEP") *(Note ii)*	The PRC	RMB50,000,000	68	68	Development, manufacture and sales of pharmaceutical products
Best-Bio Developments Limited ("Best-Bio")	BVI	US$1 Ordinary	100	100	Investment holding
Right & Rise Limited	BVI	US$50,000 Ordinary	100	100	Holding of gene invention rights
Grand Success Management Limited	BVI	US$50,000 Ordinary	75	75	Holding of gene invention rights
Smart Ascent Limited ("Smart Ascent")	Hong Kong	HK$10,000 Ordinary	51	51	Investment holding
Fosse Bio-Engineering Development Limited ("Fosse Bio") *(Note iii)*	Hong Kong	HK$100,000 Ordinary	51	51	Development and commercialisation of oral insulin products
Welly Surplus Development Limited ("Welly Surplus")	Hong Kong	HK$100 Ordinary	51	–	Inactive

Notes:

i JECP is a wholly foreign-owned enterprise established in the PRC with an operating period of 15 years commencing from 22 April 1999 which the Company directly held 60% and indirectly held 40%.

ii CEP is a joint stock limited company established in the PRC for an operating period of 15 years commencing from 8 August 1992.

iii Fosse Bio was acquired by the Group through the acquisition of Smart Ascent from two individuals (the "Vendors"), who are independent third parties to the Group for the year ended 31 March 2005. Pursuant to the deed of transfer (the "Deed") entered into between Smart Ascent and a shareholder of Fosse Bio (the "Fosse Vendor"), Smart Ascent acquired a 51% equity interest of Fosse Bio from Fosse Vendor at a consideration (the "Consideration") which is payable in four installments. The first and second installments were already settled. The third installment of HK$12,000,000 shall be paid within 14 days from the issuance of certificate of phase III clinical trial of the Product issued by the SFDA. The fourth installment of HK$19,780,000 shall be paid within 14 days from the issuance of the new product licence for the Product by SFDA. The third and fourth installments are recorded as an amount due to a minority shareholder as at the balance sheet date and are still outstanding as at the date of this report. Upon the Group acquiring Smart Ascent, the Vendors jointly and severally agreed to undertake in full the outstanding Consideration if and when the respective sum became due and payable. As a result, a corresponding amount of HK$31,780,000 (note 13) was recorded as an other receivables by the Group as at the balance sheet date.

The above table listed the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

11. INVENTORIES

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
Raw materials	2,173	1,752
Work in progress	746	355
Finished goods	13,110	15,419
	16,029	17,526
Less: Provision of obsolete inventories	(1,262)	(1,835)
	14,767	15,691

Notes:

i. At the balance sheet date, finished goods of HK$373,000 (2005: HK$227,000) were carried at net realisable value. All other inventories were carried at cost.

ii. The movements of provision of obsolete inventories were as follows:

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
At 1 April	1,835	1,835
Reversal on provision of obsolete inventories	(573)	–
At 31 March	1,262	1,835

12. TRADE RECEIVABLES

The aging analysis of trade receivables is as follows:

	The Group 2006 HK$'000	2005 HK$'000
Within 90 days	55,273	48,512
Between 91 to 180 days	18,237	15,346
Between 181 to 365 days	12,610	8,999
Between 1 to 2 years	8,782	7,037
Over 2 years	6,034	3,041
	100,936	82,935
Less: Impairment loss on trade receivables	(14,124)	(9,131)
Change in fair value of financial assets through profit or loss	(635)	–
	86,177	73,804

Notes:

i. 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 for a period of 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.

ii. The movements in impairment loss on trade receivables were as follows:

	The Group 2006 HK$'000	2005 HK$'000
At 1 April	9,131	18,989
Impairment loss on trade receivables	8,090	–
Reversal of impairment loss on trade receivables	(3,097)	(9,858)
At 31 March	14,124	9,131

13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
Prepayments	484	466
Deposits	1,040	722
Other receivables *(Note i)*	56,338	50,195
	57,862	51,383
Less: Change in fair value of financial assets through profit or loss	(1,011)	–
	56,851	51,383

Note:

i. Included in the Group's other receivables as at 31 March 2006 and 2005 is the third and fourth installments of the Consideration receivables from two individual shareholders of Smart Ascent for the acquisition of 51% equity interest of Fosse Bio. Further details of the acquisition of 51% equity interest of Fosse Bio is set out in note 10 to the financial statements. The amount is still outstanding as at the report date. Shares representing 49% equity interest of Smart Ascent have been pledged by one of the above mentioned individual shareholders to the Group for securing the settlement of the Consideration receivables. Since the Know-how is the only major asset of Fosse Bio, which in turn is the only investment of Smart Ascent, the value of the pledge 49% equity interest of Smart Ascent depends on the result of the clinical trial and the successful launching of the Product. As explained in note 8 to the financial statements, the phase II clinical trial has been completed and the result has been submitted to the SFDA for approval. The directors of the Company therefore considered that no provision against the Consideration receivables was necessary. Should the approval of the new product licence fail, the clinical trials being terminated or the launching of the Product is unsuccessful, adjustments would have to be made against the carrying amount of the Consideration receivables.

14. AMOUNTS DUE FROM MINORITY SHAREHOLDERS

	Maximum	The Group	
	debit balance	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Zhong Hou Seng	5	5	5
Hou Sai Chang	3	3	3
		8	8

Notes:

i. Zhong Hou Seng and Hou Sai Chang are the shareholders of the Company's subsidiary, namely Fosse Bio.

ii. The amounts due are interest free, unsecured and recoverable on demand.

15. CASH AND CASH EQUIVALENTS

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
Cash and cash equivalents	47,702	58,337

Cash at bank overdrafts include the following for the purposes of the cash flow statement:

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
Cash and cash equivalents	47,702	58,337
Bank overdrafts	–	(9)
	47,702	58,328

Cash at bank earned interests at floating rates based on daily bank deposit rates. Short-term deposits during the year ended 31 March 2006 are made for varying period of between seven days and three months, depending on the immediate cash requirements of the Group, and earned interests at the respective short-term deposit rates. The carrying amounts of the cash and cash equivalents approximate to their fair values.

16. SHARE CAPITAL

	2006	**2005**
	HK$'000	*HK$'000*
Authorised: 20,000,000,000 ordinary shares of HK$0.01 each	200,000	200,000
Issued and fully paid: 2,290,000,000 ordinary shares of HK$0.01 each	22,900	22,900

17. RESERVES

The Group

	Share premium	**Capital reserve**	**Contributed surplus**	**Exchange reserve**	**Retained earnings/ (accumulated losses)**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2004	133,717	6,116	4,839	–	181,120	325,792
Release on disposal of subsidiaries	–	(1,640)	–	–	1,640	–
Net loss for the year	–	–	–	–	(75,823)	(75,823)
At 31 March 2005 and at 1 April 2005	133,717	4,476	4,839	–	106,937	249,969
Exchange differences	–	–	–	3,123	–	3,123
Net profit for the year	–	–	–	–	4,669	4,669
At 31 March 2006	133,717	4,476	4,839	3,123	111,606	257,761

Capital reserve

In accordance with the relevant PRC regulations, all of the Group's subsidiaries registered in the PRC are required to transfer part of their profit after tax to the capital reserve. Subject to certain restrictions set out in the relevant PRC regulations and the articles of association of these PRC subsidiaries, the capital reserve may be used to offset losses or for capitalisation as paid-up capital.

Contributed surplus

The contributed surplus of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group reorganisation in 1999 (the "Group Reorganisation"), over the nominal value of the share capital of the Company issued in exchange thereof.

The contributed surplus of the Company represents the excess of the then combined net asset value of the subsidiaries acquired pursuant to the Group Reorganisation over the nominal value of the Company's shares issued in exchange therefore. Under the Bermuda Companies Act 1981, the Company may make distributions to its members out of the contributed surplus under certain circumstances.

18. DEFERRED TAXATION

The movements of deferred tax liabilities arising from accelerated tax depreciation are as follows:

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
At 1 April	102	–
Deferred tax charged for the year	–	102
At 31 March	102	102

The movements of deferred tax assets are set out as follows:

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
At 1 April	1,246	2,493
Deferred tax charged for the year	(1,246)	(1,247)
At 31 March	–	1,246
Net deferred tax (liabilities)/assets at 31 March	(102)	1,144

The Group did not recognise tax losses arising in Hong Kong of HK$10,234,000 (2005: HK$5,540,000) that can be carried forward against future taxable profits of the companies in which the losses arose.

At 31 March 2006, there was no significant unrecognised deferred tax liability (2005: Nil) for taxes that would have been payable on the unremitted earnings of certain of the Group's subsidiaries as the Group had no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

19. TRADE AND BILLS PAYABLES

The aging analysis of trade and bills payables is as follows:

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
Within 90 days	6,136	4,721
Between 91 to 180 days	2,023	2,598
Between 1 to 2 years	164	–
	8,323	7,319

The carrying amount of trade and bills payables approximate to their fair value.

20. ACCRUALS AND OTHER PAYABLES

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
Accruals	16,641	14,022
Other payables	6,818	6,131
	23,459	20,153

The carrying amount of accruals and other payables approximate to their fair value.

21. BANK INTEREST-BEARING BORROWINGS – SECURED

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
Bank overdrafts – secured	–	9
Trust receipt loans		
– secured	4,630	2,693
– unsecured	–	2,860
Bank loans – secured	–	31,904
	4,630	37,466

The bank interest-bearing borrowings as at 31 March 2006 and 2005 were short term which due within one year.

At 31 March 2006, the Group's banking facilities were supported by the followings:

– the pledge of the Group's fixed deposits of HK$7,262,000 (2005: HK$12,204,000); and

– corporate guarantees from the Company and certain subsidiaries of the Company.

The Group has variable rates of borrowings which may carry interest with reference to the prevailing interest rate adopted both in Hong Kong and the PRC.

The carrying amount of the short term bank interest-bearing borrowings was approximately their fair value.

All of the Group's borrowings are denominated in Renminbi or Hong Kong dollars.

22. AMOUNT DUE TO A MINORITY SHAREHOLDER

The amount due to a minority shareholder is unsecured, interest free and repayable on demand.

23. TURNOVER

The Group's turnover comprised of the followings:

	2006	2005
	HK$'000	*HK$'000*
Manufacturing of pharmaceutical products	51,714	39,033
Trading of pharmaceutical products	126,551	129,740
Gene development	–	993
	178,265	169,766

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts. All significant transactions among the companies comprising the Group have been eliminated on consolidation.

24. PROFIT/(LOSS) FROM OPERATIONS

The Group's profit/(loss) from operations is arrived at after charging/(crediting):

	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Cost of goods sold	108,450	123,676
Employee benefit expenses *(Note 25)*	20,012	21,341
Depreciation	4,530	5,830
Amortisation of intangible assets	732	7,317
Amortisation of goodwill	–	3,526
Amortisation of land use rights	561	566
Auditors' remuneration	620	1,500
Impairment loss on trade receivables	8,090	–
Changes in fair value of financial assets through profit or loss	1,646	–
Minimum lease payments under operating leases for land and buildings	1,661	1,973
Research and development costs	466	1,432
Loss on exchange differences	–	280
Loss on disposal of property, plant and equipment	45	131
Bank interest income	(1,001)	(925)
Reversal of impairment loss on trade receivables	(3,097)	(9,858)

25. EMPLOYEE BENEFIT EXPENSES

	The Group	
	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Employee benefit expenses are analysed as follows:		
Wages, salaries and allowances	19,894	21,182
Pension scheme contributions	118	159
	20,012	21,341

26. DIRECTORS' EMOLUMENTS AND THE FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

The Group

Name of directors	Fee 2006 HK$'000	Fee 2005 HK$'000	Salaries, bonus and other benefits 2006 HK$'000	Salaries, bonus and other benefits 2005 HK$'000	Pension scheme contributions 2006 HK$'000	Pension scheme contributions 2005 HK$'000	Total 2006 HK$'000	Total 2005 HK$'000
Mao Yu Min	20	20	975	1,000	–	–	995	1,020
Ho Chin Hou	20	20	975	975	–	–	995	995
Ho Yu Ling	20	20	975	975	12	12	1,007	1,007
Li Qiang	20	20	621	613	–	–	641	633
Xie Yi	20	20	479	256	–	–	499	276
Fang Lin Hu	20	20	–	–	–	–	20	20
Xue Jing Lun	20	20	–	–	–	–	20	20
Jin Song	20	10	–	–	–	–	20	10
	160	150	4,025	3,819	12	12	4,197	3,981

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include five (2005: five) directors. Details of their emoluments were set out in note 26(a) to the financial statements above.

27. FINANCE COSTS

	The Group 2006 HK$'000	The Group 2005 HK$'000
Interest of bank overdraft wholly repayable within five years	–	1
Interest of trust receipt loans wholly repayable within five years	159	215
Interest of bank loans repayable within five years	749	1,987
	908	2,203

28. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes 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 Group 2006 HK$'000	The Group 2005 HK$'000
Current – Hong Kong		
(Credit)/charge for the year	(116)	207
Over-provision in prior years	–	(4,413)
Current – Elsewhere		
Charge for the year	1,380	806
Under-provision in prior year	–	258
Deferred tax	1,246	1,349
Total tax charge/(credit) for the year	2,510	(1,793)

A reconciliation of the tax expense applicable to profit/(loss) before taxation using the statutory rates for the countries in which the Company and majority of its subsidiaries are domiciled to the tax expense/(income) at the effective tax rates is as follows:

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
Profit/(loss) before taxation	6,697	(87,835)
Tax at the statutory tax rate	(3,075)	(18,621)
Preferential statutory rate offered	(496)	1,326
Under-provision for prior years	–	(4,155)
Adjustment in respect to deferred tax	1,246	1,349
Expenses not deductible for tax	5,991	20,020
Tax effect on income not taxable	(1,156)	(1,712)
Tax charge/(credit) for the year	2,510	(1,793)

Under the PRC income tax law, enterprises are subject to corporate income tax ("CIT") at a rate of 33%. However, since two of the Group's subsidiaries in the PRC are operating in specific development zones of the PRC, and the relevant tax authorities have granted those subsidiaries a preferential CIT rate of 18% (2005: 18%).

In accordance with the relevant tax legislation in Malaysia, enterprises are subject to profits tax rate of a lower of a flat rate of MYR20,000 per annum or a rate of 3% of their net profits for the year. Certain of the Group's subsidiaries, which operate in Malaysia, elected to pay the profits tax at a flat rate of MYR20,000 per annum for each of the two years ended 31 March 2006 and 2005.

29. LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 March 2006 dealt with in the financial statements of the Company amounted to HK$5,115,000 (2005: HK$11,487,000).

30. DIVIDEND

The directors do not recommend the payment of any dividend in respect for the year ended 31 March 2006 (2005: Nil).

31. EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings/(loss) per share is based on the profit/(loss) attributable to the Company's equity holders of HK$4,669,000 (2005: net loss of HK$75,823,000) and on 2,290,000,000 (2005: 2,290,000,000) shares in issue during the year.

There were no potential shares in existence for each of the years ended 31 March 2005 and 2006 and accordingly, no diluted earnings/(loss) per share has been presented.

32. BUSINESS COMBINATION

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
Net assets acquired:		
Intangible assets	–	284,260
Prepayments, deposits and other receivables	–	31,813
Amounts due from minority shareholders	–	8
Cash and cash equivalents	–	342
Accruals and other payables	(40)	(2,021)
Amount due to a minority shareholder	–	(32,406)
	(40)	281,996
Minority interests	20	(208,645)
	(20)	73,351
Purchase consideration settled in cash	–	73,351

Analysis of the net cash inflow/(outflow) in respect of the acquisition of a subsidiary is set out below:

	2006	**2005**
	HK$'000	*HK$'000*
Cash consideration	–	(73,351)
Deposit paid	–	20,000
Cash and bank balances acquired	–	342
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	–	(53,009)

For the year ended 31 March 2006

In February 2006, the Group acquired 51 shares of HK$1.00 each in the issued share capital of Welly Surplus. Welly Surplus is inactive during the year. Since its acquisition, Welly Surplus had not generated turnover and profits for the year ended 31 March 2006.

For the year ended 31 March 2005

In August 2004, the Group acquired 5,100 shares of HK$1.00 each in the issued share capital of Smart Ascent from the Vendors. Smart Ascent is the investment holding company, which holds 51% interest in the issued share capital of Fosse Bio. Fosse Bio is principally engaged in the development and commercialisation of the technologies in relation to the Product.

Since its acquisition, Smart Ascent and Fosse Bio had no turnover and contributed HK$246,000 to loss after tax and minority interests of the Group for both years ended 31 March 2005 and 2006 respectively.

33. DISPOSAL OF SUBSIDIARIES

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Net assets disposed of:		
Property, plant and equipment	–	22,394
Intangible assets	–	36,275
Interest in an associate	–	7,247
Inventories	–	4,720
Account receivables	–	124
Prepayments, deposits and other receivables	–	25,886
Amounts due from related companies	–	9,928
Pledged bank deposits	–	2,062
Cash and cash equivalents	–	3,895
Account payables	–	(39)
Accruals and other payables	–	(13,313)
Amount due to a minority shareholder	–	(18,868)
Minority interests	–	(52,383)
	–	27,928
Gain on disposal of subsidiaries	–	72
Consideration	–	28,000
Satisfied by cash	–	28,000

There was no disposal of subsidiaries for the year ended 31 March 2006.

On 3 August 2004, Best-Bio, wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party for the disposal (the "Disposal") of 27,500 shares (the "Sale Shares") of GGL for a cash consideration of HK$28 million.

The Sale Shares represent 55% of the issued capital of GGL, being the Group's entire interest in GGL. GGL ceased to be accounted for as a subsidiary of the Company immediately upon the completion of the Disposal which was unconditional and took place on 3 August 2004. The GGL Group contributed turnover of HK$993,000 and loss after tax of HK$2,010,000 for the period up to the date of the Disposal.

34. EMPLOYEE BENEFITS

With effective from 1 December 2000, the Group has joined a mandatory provident fund scheme (the "MPF Scheme") for all qualifying employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contributions payable in future years.

The retirement benefits cost of the MPF Scheme charged to the income statement represents contributions payable to the fund by the Group at rates specified in the rules of the scheme.

The employees of the Company's subsidiaries in the PRC are members of the state-sponsored retirement benefit scheme organised by the relevant local government authority in the PRC. The subsidiaries are required to contribute, based on a certain percentage of the basis salary of its employees, to the retirement benefit scheme and have no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The state-sponsored retirement benefit scheme represents for the entire pension obligations payable to retired employees.

35. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, and any minority shareholder in the Company's subsidiaries. The Scheme became effective on 15 August 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue as at the date of approval of the Scheme. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted in writing within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted shall be determined by the directors at their absolute discretion, but in any event shall not be more than 10 years from the date of the offer of the share options. The directors may at their absolute discretion impose any vesting period at the of grant.

The exercise price of the share options is determinable by the directors, but may not less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of grant; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares on the date of grant.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

No share options have been granted, exercised, cancelled or lapsed during the year. As at 31 March 2006, no share options have been granted under the Scheme.

36. CONTINGENT LIABILITIES

(a) As at 31 March 2006, the Company had provided corporate guarantees to certain banks for banking facilities provided to certain of its subsidiaries to the extent of approximately HK$38,000,000. These banking facilities had been utilised to the extent of approximately HK$10,600,000 (2005: HK$43,000,000) as at the balance sheet.

(b) As at 31 March 2006, the Company provided corporate guarantee in favour of a subsidiary (the "Subsidiary") to a landlord that the Subsidiary will duly observe the terms and pay the monies, being the total rental expenses, management fee and utility charges of HK$5,078,000 for the entire lease period starting from May 2005, contained in the tenancy agreement signed between the landlord and the Subsidiary during the year ended 31 March 2005.

(c) As at 31 March 2006, the Group had bills discounted with recourse of approximately HK$11,175,000 (2005: HK$25,033,000).

37. COMMITMENT

(a) Operating lease commitment

The Group leases certain of its properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

As at 31 March 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
Within one year	1,390	1,292
In the second to fifth years, inclusive	1,402	2,649
	2,792	3,941

(b) Other commitment

As at 31 March 2006 and 2005, the Group had a commitment to advance to Fosse Bio, Fosse Vendor and/or other shareholders of Fosse Bio for expenses relating to clinical trial of the Product. The loans so advanced can be offset against the fourth installment of the Consideration (note 10) payable in accordance with the Deed.

38. RELATED PARTY TRANSACTIONS

Compensation for key management personnel represented amounts paid to the Company's directors as disclosed in note 26 as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Salaries and other benefits	4,185	3,969
Pension scheme contributions	12	12
	4,197	3,981

39. COMPARATIVE FIGURES

Following the adoption of new HKASs and HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified or restated to conform with the current year's presentation and accounting treatments.

40. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 19 July 2006.

3. MANAGEMENT DISCUSSION AND ANALYSIS ON THE GROUP

The following is the management discussion and analysis of the Group's business, financial results and position for each of the three years ended 31 March 2004, 2005 and 2006.

For the year ended 31 March 2004

(A) Business Review

Overall performance for the financial year ended 31 March 2004

The financial year ended 31 March 2003 saw the Group undergoing a process of consolidation into a more focus, broadbased pharmaceutical company.

Despite the challenges of Severe Acute Respiratory Syndrome ("SARS"), the Group's financial performance in the financial year ended 31 March 2003 was a two-folded picture. The significant growth in operating results of own-manufacturing sector compensated for the slightly lower operating results in imported trading sector for the pharmaceuticals. However, both the Group's own-manufactured pharmaceuticals and imported pharmaceuticals sectors continued contributing to strong sales growth.

On the other hand, genetic products and gene chip sales sectors had slowed down significantly. During the year ended 31 March 2004, the lower market demand and the impact of SARS led to the Group's development team in Shanghai slow down the research and development pace of genomic products and bio-pharmaceutical research.

Turnover of the Group

The mixed results of a double-digit growth in sales of manufactured pharmaceutical sector, mild single-digit growth in sales of imported pharmaceutical sector and the significant drop in revenue from the genomic sector had resulted a same level of consolidated turnover for the Group as compared to the financial year ended 31 March 2003. The consolidated turnover of the Group for the financial year ended 31 March 2004 was HK$215.6 million, representing a marginal increase of 0.05% of the consolidated turnover as compared to that of the financial year ended 31 March 2003.

Strong Growth Momentum in Manufactured Pharmaceutical Sector

Turnover from own-manufactured pharmaceutical sector recorded approximately HK$83.6 million for financial year ended 31 March 2004, representing a substantial increase by approximately 25% comparing to the financial year ended 31 March 2003. As the Group had indicated in its interim report for the six months ended 30 September 2003, in April to June 2003, the Group saw substantial rise in sales caused by the outbreak of the SARS virus in the PRC. The Group's product, P-Transfer Factor, an immune system promoter, was widely used notably in the Northern China region as a cost-effective means of defense protecting against the SARS infections.

P-Transfer Factor, was manufactured by Changchun Extrawell Pharmaceutical Co., Ltd. ("Changchun Extrawell"), a Good Manufacturing Practices ("GMP") compliant factory in Changchun, Jilin Province, Northern China. Its efficacy was well recognised amongst the PRC medical research scientists and medical practitioners for promotion of T-cells in the human body, which was an important media for building up stronger immune system functions.

During the SARS virus outbreak, many orders were received from hospitals and government medical bodies in the PRC as P-Transfer Factor was promoted as a chosen drug for distribution to medical staff for their protection against risky exposures to the SARS virus.

Subsequent to the SARS virus outbreak, the Group immediately took the opportunity to pass the success stories of the cost effective P-Transfer Factor drug to the medical fraternity through organised seminars, introducing the efficacy and cost effectiveness of the drug in improving the human body's natural immune system's defenced against the SARS virus. The strong sales of P-Transfer Factor continued, but with a slower pace in the second half of the year ended 31 March 2004. Nevertheless, SARS had caught the attention of the Chinese population on the importance of immunology healthcare and the Group believed the level of product recognition and acceptance amongst the final drug users had expanded.

Continuing Growth Momentum Imported pharmaceuticals Sector

Despite the significant drop in sales of imported pharmaceutical products during the SARS period in April to June 2003, strong growth in sales in the second half of the financial year ended 31 March 2004 had allowed the Group to match the yearly sales figures reported in the financial year ended 31 March 2003.

Sales of imported pharmaceutical products climbed 2.6%, from approximately HK$125.3 million for the financial year ended 31 March 2003 to approximately HK$128.6 million for the financial year ended 31 March 2004.

During the outbreak of SARS virus in April to June 2003, the Group saw a substantial drop in sales for the Group's imported pharmaceutical products as hospitals were quarantined and all other nonemergency cases were given low priority during the period.

Subsequent to the SARS period, the Group's committed sales team quickly responded to the demand shortages in the recovering market with proactive and intensified marketing activities which resulted in increased marketing expenditures that eroded the operating results slightly for its range of imported central nervous system and hypertension pharmaceuticals.

Slow Down in Gene Development Sector

Sales contribution from the gene development sector in the financial year ended 31 March 2004 was approximately HK$3.5 million. The sales in gene development sector of last financial year ended 31 March 2003 of approximately HK$23.4 million mainly represented proceeds from assignment of technical know-how and sales of gene chips in the PRC. The significant drop in sales in the gene development sector was mainly attributable to the drop in assignment of technical know-how. On the other hand, the gene development sector recognised dilution gain of approximately HK$21 million on disposal of 10% equity interests in a subsidiary, Grand Success Management Limited, which held 5 gene inventions rights.

In view of slower market demand and the difficult business conditions caused by SARS outbreak, the Group's development team in Shanghai slowed down the pace on the research and development of genomic products and bio-pharmaceutical research. As a result, the gene development section was unable to deliver results according to the original discounted future cash flows.

Surge in Gross Profit

The consolidated gross profit for the Group had decreased from approximately HK$97.2 million in the financial year ended 31 March 2003 to approximately HK$80.6 million in the financial year ended 31 March 2004.

The lower gross profit and gross profit margin were due to product sales mix and higher factory costs incurred the financial year ended 31 March 2004 from the Group's manufactured pharmaceutical sector coupled with higher promotional and handling fees propelling higher cost of sales and eroding gross profits and gross profit margins for the other sectors.

Two-folded Operating Results

The Group's manufactured pharmaceutical sector reported a 117% increase in its operating profit of approximately HK$13.0 million for the year ended 31 March 2004. The increase in operating profit is in line with the significant growth in turnover for this sector.

Operating profit for the imported pharmaceutical sector dropped by 5% from approximately HK$32.6 million in the financial year ended 31 March 2003 to approximately HK$31.0 million in the financial year ended 31 March 2004 mainly due to higher promotional expenses on brand reminders to help regenerate interests and recoup for months of low sales due to SARS.

The substantial decreases in operating results for the gene development sector was due to a significant impairment of intangible assets. The other revenue recorded in financial year ended 31 March 2004 was mainly attributable to a dilution gain upon disposal of 10% equity interests in Grand Success Management Limited, which held 5 gene invention rights.

Decrease in Net Profit

During the year ended 31 March 2004, the Group had made an one-off charge against the carrying value of certain intangible assets held under Gene Generation Limited ("GGL") of approximately HK$60.0 million. The profit before tax for the Group, excluding the approximately HK$60.0 million impairment of intangible assets, was approximately HK$24.2 million. The reduction in net profit mainly attributed to the gene development sector's significant negative contribution to the Group at a loss of HK$69.3 million (2003: profit of HK$24.7 million).

(B) Outlook and New Development

Market Momentums

The PRC's pharmaceutical industry was still a state of dynamic transformation with ongoing mergers, wind offs, consolidations and new foreign direct investments. New regulations continued to be issued by the SFDA, affecting domestic and joint-venture manufacturers as well as foreign companies applying for import drug licences.

GMP compliant standards for pharmaceutical manufacturing factories had compulsory driven some 1,870 pharmaceutical plants, which failed to comply with the regulatory requirements out of the industry. The SFDA streamlined applications for both PRC manufactured and import licences via electronic filing with an intention to speed up cumbersome form filing processes requiring authentication at various statutory departments. This had harmonised the registration process for many chinese registered manufacturing pharmaceutical companies and likewise for imported pharmaceutical products companies.

In the past few years, the market had become more competitive especially in the area of generic pharmaceuticals. The end of 2003 saw price ceilings set for all drugs on the Essential Medical Insurance Drug List. Strong downward pressures to pricing was felt within the generic pharmaceutical sector.

For the Group's own-manufactured pharmaceuticals, the Group's target sales market covered prescriptions in hospitals and clinics as well as over-the-counter ("OTC") sales in local pharmacies. The Group saw that a trend of increasing proportion of OTC sales driving the strong growth for its manufactured pharmaceuticals for the years subsequent to 31 March 2004.

For the imported pharmaceuticals, the Group's product pricing had not been affected by any downward pricing pressures. The Group had a niche market for imported drugs in the central nervous system therapeutic area. With greater affluence amongst Chinese users, there would still be continued increasing demand for quality pharmaceuticals by improving the level of product awareness amongst new users.

New Products In the Pipeline

The Group's long-term success depended on its ability to continue to discover and develop innovative pharmaceutical products either through acquiring or collaborating with other biotechnology or pharmaceutical companies. In recognition of the Group's strong marketing and distribution network in the PRC, the Group have recently signed a distributorship agreement with Chemigroup France, S.A. to distribute skin-cap in the PRC market. Skin-cap Spray was internationally famous. It was the most effective and rapid treatment known today for cases of psoriasis, dandruff, dermatitis, atopic dermatitis, eczema and tinea. It relieved itching, eliminates the flaking of the skin and scalp and improved the appearance of the skin. The slogan "Skin-cap Spray - The Ultimate Solution" was popular around the world in the field of dermatologists.

During the year ended 31 March 2004, the Group decided to strategically move into the research, development and commercialization of oral insulin with significant market demands. In January 2004, the Group signed a memorandum of understanding to acquire 51% equity interest in Smart Ascent, a company which in turn held 51% equity interest in Fosse Bio. Fosse Bio had collaboration arrangements with Tsinghua University in Beijing for the research and development of oral insulin. Fosse Bio owned the right to commercialize the relevant technology and to manufacture and sell oral insulin on an exclusive basis. The Group expected the acquisition to create synergies that would accelerate its ability to discover and optimise bio therapeutic drugs in the diabetics areas.

The oral insulin project was recently put on a fast track as the SFDA had granted permission to perform phase I and phase II clinical trials simultaneously. Phase I clinical trial was proven successful and the Group expected Phase II clinical trial to be completed in the financial year ended 31 March 2004. Upon satisfactory completion of the clinical trials, the products could be sold under the supervision of medical doctors with certain limitations. The Group believed this early move to acquire an in-process technology/patent of a potential blockbuster pharmaceutical product for the Group was beneficial to the Group at today's discounted purchase price. The Group expected that this product, being a pioneer in the world, would generate significate profits to the Group. Administering oral insulin in the management of diabetics in the PRC and progressively to the rest of the world would be a major strategic development for the Group.

With the narrowing of the technical gap between PRC and overseas manufacturers, the Group had equipped itself with GMP compliant factory in Changbaishan, which the Group had acquired the entire equity interests in the financial year ended 31 March 2003 for possible manufacturing of oral insulin.

Looking ahead, the Group would continue its focus on our key specialised areas of central nervous system drug and would strengthen its business focus on the research and development in the diabetic area.

Moving on from its disposal of the group of companies (the "GGL Group") in GGL, the Group hoped to carry a more focused business portfolio with research and development efforts in areas with faster return on investment potential, such as oral insulin. The Group had confidence that the growth potential and returns on its recent investments undertaken would realise in the coming years.

(C) Financial Review

Liquidity and Financial Resources

The Group generally financed its operations with internally generated cash flows and banking facilities. As at 31 March 2004, the Group had bank borrowings of approximately HK$45.3 million (2003: HK$62.8 million), representing a 27.9% decrease from that at 31 March 2003. All these bank borrowings were repayable within one year or on demand. The Group's banking facilities were supported by the pledge of the Group's fixed deposits of approximately HK$13.3 million (2003: HK$23.6 million); corporate guarantees from the Company and certain subsidiaries of the Company; and legal charges over certain leasehold land and buildings of certain subsidiaries of the Company.

During the year ended 31 March 2004, the Group had repaid the promissory notes of HK$15.0 million which was outstanding as at 31 March 2003.

The Group had total cash and bank balances of approximately HK$83.9 million as at 31 March 2004 (2003: HK$79.7 million).

The Group's gearing ratio as at 31 March 2004 was 0.09 (2003: 0.10 (as restated)), calculated based on the Group's total debts of HK$45.3 million (2003: HK$62.8 million) over the Group's total assets of approximately HK$530.3 million (2003: HK$601.1 million (as restated)).

Currency Structure

The Group had limited exposure to foreign exchange rate fluctuation as most of its transactions, including borrowings, were mainly conducted in Hong Kong dollar, Renminbi or US dollars and the exchange rates of these currencies were relatively stable throughout the year ended 31 March 2004.

Contingent Liabilities

(a) As at 31 March 2004, the Company had provided corporate guarantees to certain banks for banking facilities provided to certain of its subsidiaries. These banking facilities had been utilised to the extent of approximately HK$57,079,000 (2003: HK$38,678,000) as at 31 March 2004.

(b) As at 31 March 2004, the Group had bills discounted with recourse of approximately HK$30,543,000 (2003: nil).

(c) During the year ended 31 March 2004, there was a judgement made by 上海仲裁委員會(Shanghai Arbitration Commission) (the "Arbitration Commission") against Shanghai Biostar Genechip, Inc. ("Shanghai Biostar"), a 27.2% owned subsidiary of the Company, in relation to a claim of approximately RMB21,155,000 (approximately HK$19,958,000) made by the Group's jointly-controlled entity, Bioword Genechips Inc. ("Bioward"), in respect of an alleged breach of an agreement in respect of assignment of a technical knowhow (the "Technical Knowhow Agreement") to Bioword in 2001. Bioword claimed that Shanghai Biostar had not properly transferred the technical knowhow according to the terms of the Technical Knowhow Agreement and requested Shanghai Biostar to refund the consideration and pay the penalty and arbitration charges in aggregate of RMB21,155,000.

The Directors considered that Shanghai Biostar had valid ground to defend against the claim. Accordingly, Shanghai Biostar filed an application to 上海市第一中級人民法院 (Shanghai No. 1 Intermediate People's Court) (the "First Court") in March 2004 to revoke the original judgement made by the Arbitration Commission. However, the First Court rebutted the application in May 2004.

In April 2004, Shanghai Biostar received a judgement from 上海市盧灣區人民法院 (Shanghai Luwan District People's Court) that the chairman of Bioword would be appointed by Shanghai Biostar in accordance with the memorandum of Bioword. Thus, the Directors considered that the management dead-lock on Bioword would be resolved and the legal claim filed by Bioword against Shanghai Biostar would be revoked finally.

In May 2004, Shanghai Biostar filed an application to 上海市第二中級人民法院(Shanghai No. 2 Intermediate People's Court) (the "Second Court") to revoke the original judgement. The legal proceeding was still in progress up to the date of the GGL Group was disposed of by the Group.

Having considered legal counsel's advice, the directors were of the opinion that Shanghai Biostar was very likely to be supported by the Second Court. Thus, the Directors considered that a provision for the claim was not necessary and therefore had not been made in these financial statements. In addition, Shanghai Biostar was disposed of via the disposal of the GGL Group by the Group subsequent to 31 March 2004.

The Group did not have any material contingent liabilities at 31 March 2003.

(D) EMPLOYMENT AND REMUNERATION POLICY

As at 31 March 2004, the Group had 369 (2003: 452) employees from its various offices located in Malaysia, Hong Kong and the PRC. Staff costs excluding directors' remuneration for the year ended 31 March 2004 amounted to approximately HK$18.9 million (2003: HK$17.1 million).

The Group had not experienced any significant problems with its employees or disruptions to the operations due to labour disputes nor had it experienced difficulties in the recruitment and retention of experienced staff.

The Group remunerated its employees based on their performance, work experience and the prevailing market price. Performance related bonuses were granted on a discretionary basis. Other employee benefits included mandatory provident fund, insurance and medical coverage, training and share option scheme.

Ordinary resolutions were passed on the annual general meeting of the Company on 8 August 2002, approving the adoption of a share option scheme (the "Scheme") by the Company. The Scheme, with its broadened basis of participation, and absence of performance target to be achieved would enable the Group to reward the employees, the directors and other selected participants for their contribution to the Group and would also assist the Group in its recruitment and retention of high calibre professionals, executives and employees who were instrumental to the growth of the Group.

No share option was granted under the Scheme.

For the year ended 31 March 2005

(A) Business Review

Overall performance this year

In the financial year ended 31 March 2004, the Group had been facing challenges brought by the changing market conditions. In response to such challenges, the management had made speedy response and decisive moves to preserve the financial resources of the Group and to regain the market share of its immunological products, P-Transfer Factor manufactured in Changchun Extrawell.

Total turnover for the year ended 31 March 2005 was about HK$170.0 million, representing a decrease of the 21.3% from the turnover of about HK$215.6 million for the year ended 31 March 2004. The overall decrease of turnover of the Group was attributable to the mixed results from different sectors. The sales contribution from gene development sector had been down by HK$2.5 million and the sales of self-manufactured products had been down by HK$44.6 million while the Group's imported pharmaceutical sector had recorded growth of HK$1.2 million, representing 0.9% growth as compared to the financial year ended 31 March 2004.

Imported Pharmaceuticals Sector

Turnover for the imported pharmaceutical sector increased for about 0.9% from about HK$128.6 million for the year ended 31 March 2004 to HK$129.7 million for the financial year ended 31 March 2005. Segment operating profit was HK$26.6 million, representing a decline of operating profit by 14.2% comparing to the segment results for the financial year ended 31 March 2004. In 2005, GM-1, the Group's major product in the Central Nervous System (CNS) – areas, continued to recover from the SARS period and post SARS period pharmaceutical market turbulence in the PRC market. During the year, the Group's products faced intense competition and market disturbance brought by counterfeit products and low-costs, but low quality replica in the market. To confront the challenge, the management had staged swift proactive and intensified marketing activities stressing on the Group's product quality and reliability. Sales had been recovered with mild increment while margins had been slightly hampered by the effect of increased marketing and promotional expenditures.

Over the years, GM-1 had shown signs of steady growth as more PRC pharma-medical professionals and academia had gradually got to know and recognize its significant efficacy over patients who suffered from central nervous system damages.

Manufactured Pharmaceutical Sector

Turnover of manufactured pharmaceutical sector dropped significantly from about HK$83.6 million for the year ended 31 March 2004 to about HK$39.0 million for the year ended 31 March 2005, representing a decrease of 53.3%. The Group had recorded a segment loss of HK$14.4 million in segment results for the financial year ended 31 March 2005.

The substantial decrease was due to the lower sales volume and price cut of P-Transfer Factors during the last four months in 2004. Subsequent to the SARS trauma, the PRC pharmaceutical market was flooded with large amount of immunity drugs and health care products and low price replica of similar functions, resulted from the sharp fall in demand from the high point during SARS period and over expansion of our competitors during the SARS periods. Sales had been declined and margins been squeezed during that period.

Nevertheless, the Group managed to regain its grounds in 2005. The Group addressed its product and market risk through persistent effort of quality assurance and reliance on its strong marketing networks and dedicated and responsive sales team. Intensified marketing effort were coupled with significant discounts offered to the Group's customers to retain their loyalty. Despite significant improvement achieved in the recovery of sales in 2005, margins had been eroded, which resulted in a segment operating loss in this sector.

As the PRC pharmaceutical market was getting more mature and more systematically regulated, the Group believed that products with inferior quality and low level of customer loyalty would gradually fade out in the long race to become the market leaders.

Gene Development Sector

Due to the slow down of the gene market and the disposal of a group of loss making subsidiaries in the gene development sector in early 2005, turnover of the sector dropped from about HK$3.5 million for the financial year ended 31 March 2004 to about HK$1.0 million for the financial year ended 31 March 2005, representing a decline of 71.5% in sales. Segment results reported significant loss of HK$88.6 million, which was mainly due to a HK$80.0 million on one time non cash charge of impairment of intangibles.

In view of slow down of this sector so far and the unfavourable market environment, the Group had decided to stop further investment in the gene development sector. This was to divert its financial resources to strengthen and elevate its growth-intensive research and development activities and its core business. The management had taken a conservative evaluation of the future prospects of this sector and decided to make full provision for the intangible assets in this sector. The Group made decisions based on facts, but decisive judgment and visionary insights were necessary as these future-orientated research and development activities were very often associated with financial as well as technological risks and uncertainties.

Operating Results

The gross profit margin of the Group decreased from 37% for the year ended 31 March 2004 to 27% for the year ended 31 March 2005, representing a drop of 10%, which was mainly due to the decrease in gross profit margin of both self-manufacturing sector and the imported pharmaceutical sector.

Apart from the one-off impairment provision of the Group's intangible assets of about HK$80.0 million (2004: impairment provision of intangible assets of HK$60.0 million), the Group recorded an net profit of about HK$4.2 million for the year ended 31 March 2005. The decrease in net profit of HK$90.5 million represented a decline of about 618.1% as comparing to the year ended 31 March 2004.

For the first time in the history of the Group, it recorded a net loss of HK$75.8 million. Nevertheless, with the year of cut-throat competition and difficult decisions behind it, the Group had made a turn for the better. Strong signs of recovery in sales and profit margins were reported in the first quarter of 2005.

(B) Outlook and New Development

Progress of the Group's Research and Development on Oral Insulin

Oral Insulin was jointly developed by the Department of Bio-engineering of Tsinghua University and Fosse Bio. After close examination, the SFDA had granted permission to perform Phase I and Phase II clinical trials on oral insulin in July 2003.

Phase I clinical trial:

Phase I clinical trial was undertaken at the State Drug Administration Base for Drug Clinical Trial of Beijing Xiehe Hospital (hereinafter referred to as "Xiehe Hospital") under the Chinese Academy of Medical Science between October 2003 and February 2004. The clinical trial was undertaken at a random and alternate basis and a comparison of the test results would be made. Healthy volunteers were required to receive 20 treatments on oral insulin and subcutaneous insulin infusions alternatively (i.e. a total of 40 doses), and the results would be verified by glucose clamp technique (葡萄糖鉗夾技術), the most authoritative and objective method. The results showed that, notwithstanding the oral insulin had first reached liver, the target organ, before delivered to the peripheral blood, the relative bioavailability of oral insulin at peripheral blood still reached a level of 7.42±3.25%. The relative bioavailability as shown in the clinical trial remained to be 24.78±8.10%

The results of Phase I clinical trial showed that the oral insulin was effective in lowering the glucose level after it had entered into the blood system through the digestive system and the oral insulin was safe in application. With the positive results shown in the Phase I clinical trial, the oral insulin would proceed to Phase II clinical trial.

Phase II clinical trial:

With the diabetics patients being the target, the Phase II clinical trial aimed at verifying the medical effects of the oral insulin in bringing down the glucose level of diabetics and the safety in application and such trial involved a variety of testing and comparison made on random basis. From October 2004, the clinical trial had been undertaken in five medical centers, namely Beijing Xiehe Hospital, Beijing Tongren Hospital, the First Clinical Hospital, China Medical University, Shenyang, Shanghai Changzheng Hospital and Qilu Hospital of Shandong Medical University, Jinan, under the leadership of Beijing Xiehe Hospital. Each center would admit 48 to 60 patients and would make comparison on the treatment of the oral insulin and subcutaneous insulin infusions.

All patients in Phase II trial suffered from type II diabetes that could not be cured through regulating diets and taking oral hypoglycemic drugs. Patients who took part in the test would be subjected to the treatment of the oral insulin or subcutaneous insulin infusions for 12 weeks under the continual application of existing medical treatment. The test would examine the change in the level of fasting glucose, postprandial glucose and HbA1c on the patients, as well as the effect on heart, liver, kidney, blood and bio-chemistry to define the safety level of the drugs being tested.

According to the above indications generated from the patients participated in the test, the oral insulin produced a satisfactory effect on lowering the level of glucose and HbA1c (for patients completed the entire test process). It was shown that patients had similar improvement in terms of the above indications as compared with patients who were subjected to subcutaneous insulin infusions treatment.

The selection of patients participated in the test was completed in May of the year 2005. Each patient was subjected to an observation period of 12 weeks until the end of August of 2005. There were a total of 300 patients selected for the test, and the final test results would be based on the number of patients who had completed the entire test process. By now, around 70% of the patients had already completed the entire test process.

Subsequent work of Phase II clinical trial included the input and compilation of test data, statistical analysis, and preparation of different reports. And the final stage work would be the submission for SFDA's approval. The management expected that this unprecedented products would bring along munificent profit into the Group in the near future.

Outlook

The Group expected the PRC pharmaceutical market would continue on a rapid expansionary course, albeit at a slower pace for the time being due to the market disorder and over expansion of production capacity. However, the Group would continue to focus on its core competency and invest in high growth potential research and development and products.

The significant progress of the oral insulin was encouraging. The Group had strong expectation in the growth potential and future profitability of this product. The Group anticipated completing the clinical trials and commencing the commercialization of the oral insulin next year. It was confident that with the launch of this product, both the sales and profitability of the Group would be significantly improved.

(C) Financial Review

Liquidity and Financial Resources

The Group generally financed its operations with internally generated cash flows and banking facilities. As at 31 March 2005, the Group had total cash and bank balances of about HK$70.5 million (2004: HK$83.9 million).

As at 31 March 2005, the Group had bank borrowings of about HK$37.5 million (2004: HK$45.3 million), representing a 17% decrease from that at 31 March 2004. All these bank borrowings were repayable within one year or on demand. The Group's banking facilities were supported by the pledge of the Group's fixed deposits of about HK$12.2 million (2004: HK$13.3 million), corporate guarantees from the Company and certain subsidiaries of the Company, and legal charges over leasehold land and buildings of certain subsidiaries of the Company.

Included in the amount due to minority shareholder of about HK$32.4 million was an amount of about HK$31.8 million which was a payable acquired during the Group's acquisition of a subsidiary, Smart Ascent. This payable was representing the outstanding consideration payable by Smart Ascent during its acquisition for its subsidiary, Fosse Bio. Since the vendors of Smart Ascent by contract had agreed to assume these liabilities when they fell due, a receivable of the equivalent amount was included in "Prepayment, deposits and other receivable" under current assets. Accordingly, the said amount due to a minority shareholder did not have any impact to the net current asset position nor the future cash flow of the Group and the amount was excluded in calculating the Groups' gearing ratio.

The Group's gearing ratio as at 31 March 2005 was 0.06 (2004: 0.09), calculated based on the Group's total debts of HK$38.1 million (2004: HK$45.3 million), comprising bank borrowings of about HK$37.5 million (2004: HK$45.3 million) and due to a minority shareholder of about HK$0.6 million (2004: nil), over the Group's total assets of about HK$591.3 million (2004: HK$530.3 million).

Currency Structure

The Group had limited exposure to foreign exchange rate fluctuation as most of its transactions, including borrowings, were mainly conducted in Hong Kong dollar, Renminbi or US dollars and the exchange rates of these currencies were relatively stable throughout the year ended 31 March 2005.

Contingent Liabilities

(a) As at 31 March 2005, the Company had provided corporate guarantees to certain banks for banking facilities provided to certain of its subsidiaries. These banking facilities had been utilised to the extent of about HK$43,018,000 (2004: HK$57,079,000) as at 31 March 2005.

(b) As at 31 March 2005, the Group had bills discounted with recourse of about HK$25,033,000 (2004: HK$30,543,000).

(c) As at 31 March 2005, the Company had provided corporate guarantees in favour of a subsidiary (the "Subsidiary") to a landlord that the Subsidiary would duly observe the terms and pay the monies, being the total rental expenses management fee and utility charge of HK$5,078,000 for the entire lease period starting from May 2005, contained in the tenancy agreement signed between the landlord and the subsidiary during the year of 2005.

At 31 March 2005, the Group's banking facilities were supported by the following:

(a) the pledge of the Group's fixed deposits of HK$12,204,000 (2004: HK$13,305,000);

(b) corporate guarantees from the Company and certain subsidiaries of the Company; and

(c) legal charges over the leasehold land and buildings of certain subsidiaries of the Company.

(D) Employment and Remuneration Policy

As at 31 March 2005, the Group had 350 employees (2004: 369). Staff costs excluding directors remuneration for the year ended 31 March 2005 amounted to approximately HK$17.4 million (2004: HK$18.9 million).

The Group had not experienced any significant problems with its employees or disruptions to the operations due to labour disputes nor had it experienced difficulties in the recruitment and retention of experienced staff.

The Group remunerated its employees based on industry practices. Its staff benefits, welfare and statutory contributions, if any, were made in accordance with prevailing labour laws of its operating entities.

The Group remunerated its employees including directors according to their performance, work experience and the prevailing market price. Performance related bonuses were granted on a discretionary basis. Other employee benefits included mandatory provident fund, insurance, and medical coverage, training and share option scheme.

Ordinary resolutions were passed on the annual general meeting of the Company on 8 August 2002, approving the adoption of the Scheme by the Company. The Scheme, with its broadened basis of participation, and absence of performance target to be achieved would enable the Group to reward the employees, the directors and other selected participants for their contribution to the Group and would also assist the Group in its recruitment and retention of high calibre professionals, executives and employees who were instrumental to the growth of the Group.

No share option was granted under the Scheme.

For the year ended 31 March 2006

(A) Business Review

Overall Performance

In the financial year ended 31 March 2006, the Group had recovered from the bitter experience of business re-alignment during the year ended 31 March 2005 and had returned on the right track of growth and profitability.

The Group's sales surged by 5% from about HK$170.0 million in 2005 to about HK$178.3 million in 2006. Revenue growth was mainly attributable to sales of the Group's own manufactured pharmaceuticals. Sales of manufactured pharmaceutical products had recorded a 32.6% growth, from about HK$39.0 million in 2005 to about HK$51.7 million in 2006. This growth was slightly offset by the cut-back of sales of imported pharmaceutical products by 2.4%, from about HK$129.7 million in 2005 to about HK$126.6 million in 2006. The Group's gene development sector was relatively inactive this year and no revenue was recorded.

Despite a relatively mild growth in sales, both gross profit and gross profit margin had experienced significant improvements of 51.4% and 12.1% respectively. Gross profit margin had increased from 27.1% in 2005 to 39.2% in 2006, which effectively contributed to such significant growth in gross profit of the Group. As a result, gross profit increased from about HK$46.1 million in 2005 to about HK$69.8 million in 2006. As the pharmaceutical market in the PRC was developing towards a more regulated and disciplined environment, the Group's sales of manufactured products gradually recovered from the exceptionally low gross profit from sales discounts and price competition as a result of overwhelming counterfeit products and inferior goods during the year ended 31 March 2005. Gross profit and gross profit margin for imported products were relatively consistent compared with the year ended 31 March 2005.

The Group had managed to upturn from net loss for the year of about HK$86.0 million for the year ended 31 March 2005 to net profit for the year of about HK$4.2 million for the year ended 31 March 2006. In the year ended 31 March 2005, the substantial net loss recorded was mainly due to an one-off non-cash impairment loss of intangible assets and goodwill approximately HK$86.6 million. Without accounting for non-cash impairment losses of about HK$86.6 million in the year ended 31 March 2005 and about HK$15.9 million in the year ended 31 March 2006, profit for the years of 2005 and 2006 were about HK$0.6 million and about HK$20.1 million respectively.

Manufactured Pharmaceutical Sector

Sales of manufactured pharmaceutical products surged by 32.6%, from about HK$39.0 million to about HK$51.7 million in 2006. The market for immunity drugs in the PRC had gradually recovered from post-SARS (Severe acute respiratory syndrome) over-supply and flooding of counterfeit products and inferior goods. As the pharmaceutical market in the PRC becoming more regulated in recent years, the amount of counterfeit products were lowered and the promotional activities were conducted in more disciplinary manners. As an ethical manufacturer, the Group gradually enjoyed the protection from a more discipline market and competitive advantage of its established brand name.

In 2006, sales, gross profit and gross profit margin had improved significantly. The gap of segment loss had been significantly narrowed from a loss of about HK$14.4 million (representing an operating loss margin of 36.8%) for the year ended 31 March 2005 to a loss of about HK$7.0 million (representing an operating loss margin of 13.6%) for the year ended 31 March 2006. The Company believed that the Group were back on the right track and was confident that its manufactured products segment would turn around in the near future.

Imported Pharmaceutical Sector

Revenue from sales of imported pharmaceutical products was about HK$126.6 million for 2006, which was marginally lower by 2.4% than the HK$129.7 million sales in 2005. The Group's major imported pharmaceutical, GM-1, was a specialised prescription drug for central nervous system. The distinguished quality and efficacy of this product had allowed it to enjoy relatively stable sales despite fierce competition in other sectors of the pharmaceutical market.

Gross profit and gross profit margin for imported products segment were relatively stable. The Group had experienced some costs savings from lower selling and distribution expenses, as it enjoyed some brought forward effect the major marketing and promotional activities such as television special programs and medical seminars for the year ended 31 March 2005. The operating profit generated from this segment had increased by 25.2% from about HK$26.6 million in 2005 to about HK$33.3 million in 2006.

Gene Development Sector

During the year of 2006, due to the strategic allocation of low resource to this sector, the Group's gene development business was relatively inactive and no revenue was recorded.

Selling and Distribution Expenses

Selling and distribution expenses of the Group decreased from about HK$18.5 million in 2005 to about HK$14.9 million in 2006, representing a drop of about 19.5%. This reflected the Group's successful effort in cost containment in marketing and promotional activities. However, the Group did not simply cut costs for the sake of lowering budget. Its professional marketing and sales support team was equipped with indepth pharmaceutical knowledge and experienced marketing ability. By staging effective academic promotional seminars and other promotional activities directly to the medical doctors and medical academia, and providing detailed and responsive after sales support on product application, dosage, efficacy and side effects, the Group had improved the efficiency of its marketing and promotional activities.

Administrative Expenses

Administrative expenses of the Group dropped slightly during the year of 2006 from about HK$37.7 million in 2005 to about HK$36.1 million in 2006.

The lower administrative expenses were the combined effect of amortisation of goodwill about HK$3.5 million for the year ended 31 March 2005, amortisation of intangible assets dropped by about HK$6.7 million and audit fee dropped by about HK$0.9 million, while increase in fair value adjustment for trade and other receivables of about HK$1.6 million for the year ended 31 March 2006 and doubtful debt provisions of about HK$8.1 million. The change in amortisation of goodwill of about HK$3.5 million and fair value adjustment for trade and other receivables of about HK$1.6 million were effects of adoption of new financial reporting standards issued by the Hong Kong Institute of Certified Public Accountants which become effective and adopted during the year ended 31 March 2006. The lower costs of amortisation of intangible assets by about

HK$6.7 million was due to the lower value of intangible assets after the write-off of carrying value of gene patent rights and disposal of gene development subsidiaries for the year ended 31 March 2005. The provision for doubtful debts of about HK$8.1 million was provided according to the aging profile of trade debtors as at 31 March 2006 and in accordance to the accounting policies of the Group.

Other Income

Other income decreased by HK$6.8 million mainly due to the decrease in write-back of over-provision on doubtful debts. The decrease was due to the low provision as at 31 March 2005 as compared with 2004 following the substantial decrease in turnover in that year.

Profit Before Taxation

After re-alignment of the Group's business, the Group had rallied its forces and regained positive results in the year of 2006. The Group had achieved a profit before taxation of about HK$6.7 million, representing an increase of profit of about HK$94.5 million from a loss before taxation of about HK$87.8 million for the year ended 31 March 2005.

In 2005, the substantial net loss recorded was mainly due to an one-off non-cash impairment loss on intangible assets and goodwill approximately HK$86.6 million. In the year ended 31 March 2006, the Group had made impairment loss on goodwill of about HK$5.2 million and impairment of fair value of property, plant, equipment and land use rights of about HK$10.7 million due to changes in accounting standards in the current year. The Group's profit before taxation for 2005 and 2006 were in a loss of about HK$1.2 million and a profit about HK$22.6 million respectively should the Group exclude the effect of non-cash impairment provisions and fair value adjustments of HK$86.6 million in the year ended 31 March 2005 and HK$15.9 million in the year ended 31 March 2006.

(B) Outlook and New Development

Progress of Oral Insulin

Oral insulin was jointly developed by Department of Bio-engineering of Tsinghua University and Fosse Bio-Engineering Development Limited, a non-wholly owned subsidiary of the Company. After close examination, the State Food and Drug Administration of the PRC ("SFDA") had granted permission to perform Phase I and Phase II clinical trials on oral insulin in July 2003.

Phase I clinical trial was undertaken at the Beijing Union Hospital, one of the State Drug Administration Bases for Drug Clinical Trial, between October 2003 and February 2004. The results of Phase I clinical trial indicated that oral insulin was effective in lowering the glucose level after it had entered into the blood system through the digestive system and the oral insulin was safe for application. The successful result of the Phase I clinical trial grounded a solid foundation to the Phase II clinical trial.

Phase II clinical trial aimed at further verifying the medical effects of the oral insulin in bringing down the glucose level and its safety in application to diabetic patients. From October 2004, the clinical trial had been undertaken in five medical centers, namely Beijing Union Hospital, Beijing Tongren Hospital, the First Clinical Hospital, China Medical University, Shenyang, Shanghai Changzheng Hospital and Qilu Hospital of Shandong University, Jinan, under the leadership of Beijing Union Hospital. At the end of year 2005, the phase II clinical trial had been completed with encouraging results issued by the above five SFDA authorised medical centers. The result had been submitted to the SFDA for approval.

Insulin, itself, in fact was not a new drug. It could be taken in other forms, such as injection and more recently, in the form of inhalation in the USA. However, the Group's product allowed diabetic patients to receive insulin treatment to effectively lower their blood glucose level in a much more convenient and safer form as capsules. Oral insulin was absorbed by human digestive system into the blood stream which was the same as our natural insulin produced by our own bodies. The Group was confident that with its patented technological advantage and its costs advantage by manufacturing in the PRC, the Group's product would have great demand once available in the market.

While the Group was progressing steadily in its application process for all approvals necessary for the production of oral insulin, another important priority was to plan necessary and sufficient manufacturing capacity for the production of oral insulin and its implementation.

In order to meet the huge future demand, the Group was, on one hand, in the process to re-organise and upgrade its GMP factory in Jilin; and on the other hand, searching for suitable new production premises.

In the coming year, the Group would actively look for new business partners who could extend their expertise for pharmaceutical distribution and management in production facilities to the benefit to the Group.

New Products in the Pipeline

The key to the Group's long-term success depended on its ability to devise and commercialise innovative pharmaceutical products.

The Group had introduced to the PRC market in the prior years an internationally renowned product, Skin-cap Spray, which was considered the most effective and rapid treatment for cases of psoriasis, dandruff, dermatitis, atopic dermatitis, eczema and some tinea. It relieved itching, eliminated the flaking of the skin and scalp and improved the appearance of the skin. The product had been well-received in the market. The Group would further promote this product through its widely spreaded marketing and distribution network in the coming year.

During the year of 2006, the Group had launched six more new products by its Changchun factory:

1. Asarone Injection – use for pneumonia, bronchial asthma, chronic obstacle pulmonary disease, expectoration, gasp etc;

2. Muscular Amino Acids and Peptides and Nucleosides Injection – cerebrovascular disease, lowering of brain function due to insufficient blood supply to brain, auxiliary treatment for the diseases on peripheral nerves;

3. Heparolysate Injection – auxiliary treatment on chronic hepatitis and liver cirrhosis etc;

4. Esmolol Hydrochloride Injection – Use for atrial flutter, control ventricle rate when atrial flutter, hypertension during operation, sinus tachycardia;

5. Feining Pian – relieve fever, expectorant, relieve cough, cough associate with chronic bronchitis;

6. Saponins – Extracts from Ginseng, use in the production of pharmaceuticals, health care products, cosmetics etc.

In addition, the Group had two more products in the pipeline pending for SFDA approvals:

1. Lu Ling Huang Capsule – protective action for patients who were in danger with chemical liver damage, enhance patients with low immunity;

2. Trimetazidine Dihydrochloride Tablets – preventive treatment for angina pectoris, auxiliary treatment for dizziness and tinnitus.

Looking ahead, while the Group would continue to focus on its specialised areas, Central Nervous System and immunology-related drugs, it would strengthen its business focus on the research and development in the diabetic area. With its solid and strong foundation, the Group was positive that it could build a platform for continuous and sustainable growth.

(C) Financial Review

Liquidity and Financial Resources

The Group generally financed its operations with internally generated cash flows and banking facilities. As at 31 March 2006, the Group had total cash and bank balances of about HK$55.0 million (2005: HK$70.5 million).

As at 31 March 2006, the Group had bank borrowings of about HK$4.6 million (2005: HK$37.5 million), representing a 87.7% decrease from that at 31 March 2005. All these bank borrowings were repayable within one year or on demand. The Group's banking facilities were supported by the pledge of the Group's fixed deposits of about HK$7.3 million (2005: HK$12.2 million) and corporate guarantees from the Company and certain subsidiaries of the Company.

Included in the amount due to minority shareholder of about HK$32.4 million (2005: HK$32.4 million) was an amount of about HK$31.8 million (2005: HK$31.8 million) which was a payable acquired during its acquisition of a subsidiary, Smart Ascent. This payable was representing the outstanding consideration payable by Smart Ascent during its acquisition for its subsidiary, Fosse Bio. Since the vendors of Smart Ascent had agreed to assume these liabilities when they fell due, a receivable of the equivalent amount was included in "Prepayments, deposits and other receivables" under current assets. Accordingly, the said amount due to a minority shareholder did not have any impact to the net current assets position nor the future cash flow of the Group and the amount was excluded in calculating the Group's gearing ratio.

The Group's gearing ratio as at 31 March 2006 was 0.01 (2005: 0.06), calculated based on the Group's total debts of HK$5.2 million (2005: HK$38.1 million), comprising bank borrowings of about HK$4.6 million (2005: HK$37.5 million) and net amount of due to a minority shareholder of about HK$0.6 million (2005: HK$0.6 million), over the Group's total assets of about HK$571.3 million (2005: HK$591.3 million).

Currency Structure

The Group had limited exposure to foreign exchange rate fluctuation as most of its transactions, including borrowings, were mainly conducted in Hong Kong dollars, Renminbi or US dollars and the exchange rates of these currencies were relatively stable throughout the year ended 31 March 2006.

Contingent Liabilities

(a) As at 31 March 2006, the Company had provided corporate guarantees to certain banks for banking facilities provided to certain of its subsidiaries to the extent of about HK$38.0 million. These banking facilities had been utilised to the extent of about HK$10.6 million (2005: HK$43.0 million) as at the balance sheet date.

(b) As at 31 March 2006, the Group had bills discounted with recourse of about HK$11.2 million (2005: HK$25.0 million).

(c) As at 31 March 2006, the Company had provided corporate guarantees in favour of a subsidiary (the "Subsidiary") to a landlord that the Subsidiary would duly observe the terms and pay the monies, being the total rental expenses management fee and utility charge of HK$5,078,000 for the entire lease period starting from May 2005, contained in the tenancy agreement signed between the landlord and the subsidiary during the year ended 31 March 2005.

(D) Employment and Remuneration Policy

As at 31 March 2006, the Group had 376 employees (2005: 350). Staff costs excluding directors' remuneration for the year ended 31 March 2006 amounted to approximately HK$15.8 million (2005: approximately HK$17.4 million).

The Group had not experienced any significant problems with its employees or disruptions to the operations due to labour disputes nor had it experienced difficulties in the recruitment and retention of experienced staff.

The Group remunerated its employees based on industry practices. Its staff benefits, welfare and statutory contributions, if any, were made in accordance with prevailing labour laws of its operating entities. The employees (including directors) were remunerated according to their performance, work experience and the prevailing market price.

Other employee benefits included mandatory provident fund, insurance and medical coverage, training and share option scheme.

In August 2002, shareholders of the Company had approved the adoption of a share option scheme (the "Scheme"). The Scheme would enable the Group to reward the employees, the directors and other selected participants for their contribution to the Group and would also assist the Group in its recruitment and retention of high calibre professionals, executives and employees who would instrumental to the growth of the Group. No share option was granted under the Scheme.

4. BUSINESS PROSPECTS

Trend of business of the Group

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

– far and foresight of the management to initiate strategic moves;

– perseverant, devoted and 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 the Group's professional sales team; and

– consistent investment in research and development enabling the Group to bring innovate and differentiated products that offer patients with clear therapeutic benefits

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

Trading and financial prospect of the Group

Moving a new medicine from concept to patient is a long and resource-intensive process. The Group is very excited about the progress of its clinical trials and applications to the SFDA. The Phase II clinical trial of its patented new product, the Medicine, 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 the Medicine, 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 organize all essential resources for full scale manufacturing and marketing in the next stage.

Diabetes affects hundred-millions of people worldwide everyday. The Medicine 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 the Medicine, the Group is making plans to house large-scale production with compliance of the Guidelines on Good Manufacturing Practices for Pharmaceuticals and high quality standard. By virtue of the Cooperation, the Group can bring in its resources and expertise in the area of pharmaceutical products distribution and management expertise of production facilities. The Directors consider that the Cooperation will enhance the efficiency of the Group's operations and bring in better returns to the Shareholders.

The Directors believe that the Group has taken the right steps in transforming its business, and the Directors believe that, in the coming years, the Group will develop a market of vast potential with the Medicine in the PRC and the world.

5. PROPERTY

Particulars of the property interests of the Enlarged Group are set out in appendix V to this Circular. Castores Magi (Hong Kong) Limited has valued the property interests of the Group as at 31 October 2006. A summary of values and valuation certificates issued by Castores Magi (Hong Kong) Limited are included in appendix V to this Circular.

The table below sets out (i) reconciliation of the net book value of the Enlarged Group's property interests as at 31 March 2006 with such interests as at 31 October 2006 and (ii) the reconciliation of the net book value of the Group's property interests and the valuation of such property interests as at 31 October 2006:

	HK$'000
Net book value of property interests of the Group as at 31 March 2006:	
– Land use rights	13,850
– Buildings	40,645
	54,495
Movements for the seven months ended 31 October 2006:	
– Amortisation of land use rights	268
– Depreciation of buildings	764
	1,032
Net book value as at 31 October 2006	53,463
Valuation surplus as at 31 October 2006	4,340
Valuation as at 31 October 2006	57,803

6. MATERIAL ADVERSE CHANGES

The Directors confirmed that they are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2006 (being the date to which the latest published audited financial statements of the Company were made up), up to the Latest Practicable Date.

ACCOUNTANTS' REPORT OF JOY KINGDOM

The following is the text of an accountants' report on Joy Kingdom Industrial Limited, received from HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong, the reporting accountants, for inclusion in this circular.

HLB 國衛會計師事務所
Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

31/F., Gloucester Tower
The Landmark
11 Pedder Street, Central
Hong Kong

The Directors
Extrawell Pharmaceutical Holdings Limited
Suites 4701-4, 47/F.
Tower One, Times Square
1 Matheson Street
Causeway Bay, Hong Kong

18 December 2006

Dear Sirs,

We set out below our report on the financial information regarding Joy Kingdom Industrial Limited ("Joy Kingdom") for the period from 15 May 2006 (date of incorporation) to 30 September 2006 (hereinafter referred to as the "Relevant Period"), for inclusion in the circular of Extrawell Pharmaceutical Holdings Limited (the "Company") dated 18 December 2006 (the "Circular") in connection with the acquisition of the entire issued share capital of Joy Kingdom by Welly Surplus Development Limited ("Welly Surplus"), an indirect non-wholly owned subsidiary of the Company.

Joy Kingdom is a company incorporated in the British Virgin Islands ("BVI") with limited liability on 15 May 2006. Joy Kingdom is dormant since its incorporation.

No audited financial statement of Joy Kingdom was prepared since its incorporation date as Joy Kingdom was incorporated in BVI where there is no statutory requirements to do so.

For the purpose of this report, the sole director of Joy Kingdom has prepared the management accounts for the Relevant Period in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (collectively referred to as the "HKFRS Financial Statements"). The sole director of Joy Kingdom is responsible for preparing the HKFRS Financial Statements.

The financial information as set out in Sections A to B below (the "Financial Information") has been prepared from the HKFRS Financial Statements, on the basis set out in note 2 of Section A below. The sole director of Joy Kingdom who approved the issuance of the Financial Information is responsible for the preparation of the Financial Information which give a true and fair view. In preparing the

Financial Information, it is fundamental that appropriate accounting policies are selected and applied consistently. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion solely to you. In forming our opinion, we also evaluated the overall adequacy of the presentation of the Financial Information. We believe that our work provides a reasonable basis for our opinion. We have performed independent audit procedures on the Financial Information for the Relevant Period, in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and Reporting Accountant" issued by the HKICPA.

In forming our opinion, we have considered the adequacy of the disclosures made in the Financial Information concerning the adoption of the going concern basis on which the Financial Information has been prepared. As disclosed in note 2 to the Financial Information, Joy Kingdom incurred accumulated losses of HK$7,200 and net current liabilities of HK$7,192 as at 30 September 2006. Further details of the circumstance relating to this fundamental uncertainty are described in note 2 to the Financial Information. We consider that the appropriate disclosures have been made and our opinion is not qualified in this respect.

In our opinion, the Financial Information together with the notes thereon, for the purpose of this report, gives a true and fair view of the state of affairs of Joy Kingdom as at 30 September 2006 and of the result and cash flows of Joy Kingdom for the period then ended.

A. FINANCIAL INFORMATION OF JOY KINGDOM FOR THE PERIOD FROM 15 MAY 2006 (DATE OF INCORPORATION) TO 30 SEPTEMBER 2006

BALANCE SHEET

	Notes	As at 30 September 2006 HK$
ASSETS		
Total assets		–
EQUITY		
Capital and reserves attributable to the equity holder of Joy Kingdom		
Share capital	6	8
Accumulated losses		(7,200)
		(7,192)
LIABILITIES		
Current liabilities		
Amount due to a director of Joy Kingdom	7	7,192
		7,192
Total equity and liabilities		–
Net current liabilities		(7,192)
Total assets less current liabilities		(7,192)

The accompanying notes form an integral part of these Financial Information.

INCOME STATEMENT

	Notes	For the period from 15 May 2006 (date of incorporation) to 30 September 2006 HK$
Turnover	8	–
Administrative expenses		(7,200)
Loss from operations		(7,200)
Finance costs		–
Loss before taxation		(7,200)
Taxation	10	–
Loss for the period		(7,200)
Attributable to:		
Equity holder of Joy Kingdom		(7,200)
Dividend	11	–
Loss per share attributable to the equity holder of Joy Kingdom		
– Basic	12	(7,200)
– Diluted	12	N/A

The accompanying notes form an integral part of these Financial Information.

STATEMENT OF CHANGES IN EQUITY

	For the period from 15 May 2006 (date of incorporation) to 30 September 2006
	HK$
Issuance of share upon incorporation	8
Loss for the period	(7,200)
Total equity at the end of the period	(7,192)

CASH FLOW STATEMENT

	For the period from 15 May 2006 (date of incorporation) to 30 September 2006
	HK$
Cash flows from operating activities	
Loss before taxation	(7,200)
Increase in amount due to a director of Joy Kingdom	7,192
Net cash used in operating activities	(8)
Cash flows from financing activities	
Issuance of share	8
Net cash generated from financing activities	8
Cash and cash equivalents at the end of the period	–
Analysis of the balances of cash and cash equivalents	
Cash balances at 30 September 2006	–

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

Joy Kingdom was incorporated in BVI on 15 May 2006 and its registered office is located at Portcullis TrustNet Chambers, P.O. Box 3444, Road Town, Tortola, BVI.

The director of Joy Kingdom considers the ultimate holding company of Joy Kingdom to be Sea Ascent Investment Limited ("Sea Ascent"), a company incorporated in Hong Kong.

Joy Kingdom is dormant since its incorporation.

2. BASIS OF PREPARATION OF FINANCIAL INFORMATION

The principal accounting policies applied in the preparation of the Financial Information are set out in note 3 to the Financial Information below. These accounting policies have been consistently applied for the Relevant Period.

The Financial Information have been prepared in accordance with HKFRSs issued by the HKICPA, and accounting principles generally accepted in Hong Kong. The Financial Information have been prepared under the historical cost basis.

In preparing the Financial Information under going concern basis, the director of Joy Kingdom has given careful consideration regarding the prospect and future liquidity of Joy Kingdom. The validity of which is dependent upon future funding being available and its ability to generate adequate cash flows in order to meet its obligations as and when they fall due. The director of Joy Kingdom is positive that Joy Kingdom will be able to obtain future funding in order to meets its obligations as when they fall due over the next twelve months. Accordingly, the director of Joy Kingdom is satisfied that it is appropriate to prepare the Financial Information on a going concern basis.

The preparation of the Financial Information in conformity with HKFRSs requires managements to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other various factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the Financial Information and estimates are discussed in note 5 to the Financial Information.

The Financial Information are presented in Hong Kong dollars, which is the same as the functional currency of Joy Kingdom.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs which are effective for accounting periods commencing on or after 1 January 2005. Joy Kingdom adopted all of the new and revised HKFRSs that are relevant to its operations throughout the Relevant Period.

However, Joy Kingdom has not early applied the following new/revised standard and interpretations that have been issued but are not yet effective.

HKAS 1 (Amendment)	Capital Disclosures
HKAS 19 (Amendment)	Actuarial Gains and losses, Group plans and disclosure
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transaction
HKAS 39 (Amendment)	Fair Value Options
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS 7	Financial Instruments: Disclosures
HKFRS Int-4	Determining whether an Arrangement contains Lease

The HKAS 1 (Amendment) shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosure about qualitative information about the Joy Kingdom's objective, policies and processes for managing capital; quantitative data about what company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

HKAS 39 (Amendment) Cash Flow Hedge Accounting of Forecast Intragroup Transactions allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated accounts, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit and loss. This amendment is not relevant to Joy Kingdom's operation, as Joy Kingdom does not have any intragroup transactions that would qualify as a hedged item in the consolidated accounts as at the balance sheet date.

HKAS 39 (Amendment) The Fair Value Option changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. Joy Kingdom believes that this amendment should not have a significant impact on the classification of financial instruments, as Joy Kingdom should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit or loss. Joy Kingdom will comply this amendment from accounting periods beginning on 1 January 2006.

HKAS 39 and HKFRS 4 (Amendment) Financial Guarantee require issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. Joy Kingdom regards its financial guarantees provided to its subsidiaries as insurance contacts.

HKFRS 7 will replace HKAS 32 and has modified the disclosure required HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual period beginning on or after 1 January 2007.

The accounting policies set out below have been applied consistently to all periods presented in this Financial Information.

(a) Impairment of assets

Assets that have an indefinite life are not subject to amortisation, which are at least tested for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

(b) Income taxes

Income tax comprises current and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax assets and unused tax losses can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantially enacted at the balance sheet date.

(c) Provisions

Provisions are recognised when Joy Kingdom has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

(d) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of Joy Kingdom. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the Financial Information. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

(e) Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions, or vice versa. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and or their close family members) or entities and include entities which are controlled or under the significant influence or related parties of the Company where those parties are individuals and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

(f) Foreign currencies

(i) Functional and presentation currency

Items included in the Financial Information of Joy Kingdom are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The Financial Information are presented in Hong Kong dollars ("HK$"), which is Joy Kingdom's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Transaction difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

4. FINANCIAL RISK MANAGEMENT

Financial risk factors

Although Joy Kingdom is dormant since its incorporation, Joy Kingdom may expose to a variety of financial risks: market risk (foreign exchange risk), credit risk, liquidity risk and cash flow and fair value interest rate risk. Joy Kingdom's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on Joy Kingdom's financial performance.

(a) *Market risk – foreign exchange risk*

Joy Kindom operates mainly in Hong Kong and transactions are dominated in Hong Kong dollars. Therefore, the foreign exchange risk of Joy Kingdom is minimal.

(b) *Credit risk*

Joy Kingdom is not exposed to significant credit risk.

(c) *Liquidity risk*

Notwithstanding Joy Kingdom has net current liabilities of HK$7,192 as at 30 September 2006, Joy Kingdom manages its liquidity risk by regularly monitoring current and expected liquidity requirements and ensuring sufficient liquid cash and adequate committed lines of funding from its ultimate holding company to meet the liquidity requirements of Joy Kingdom in the short and long term.

(d) *Cash flow and fair value interest rate risk*

Joy Kingdom has no long term borrowings at variable interest rates and at fixed rates that expose Joy Kingdom to cash flow interest rate risk and fair value interest rate risk respectively.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT

Joy Kindom makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equate the related actual results. Estimates and assumptions that may have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Fair values of other financial assets and liabilities

The fair values of loans and receivables and financial liabilities are accounted for or disclosed in the Financial Information. The calculation of fair values requires Joy Kingdom to estimate the future cash flows expected to arise from those assets and liabilities and suitable discount rates. Variations in the estimated future cash flows and the discount rates used may result in adjustments to the carrying amounts of these assets and liabilities and the amounts disclosed in the Financial Information.

6. SHARE CAPITAL

	US$	*HK$*
Authorised:		
50,000 ordinary shares of US$1 each	50,000	390,000
Issued and fully paid:		
1 ordinary share of US$1 each	1	8

Joy Kingdom was incorporated in the BVI with initial authorised share capital of US$50,000 divided into 50,000 ordinary shares of US$1 each. On 29 May 2006, 1 ordinary share was subscribed and issued.

7. AMOUNT DUE TO A DIRECTOR OF JOY KINGDOM

The amount due to a director of Joy Kingdom is unsecured, interest free and repayable on demand.

8. TURNOVER AND SEGMENT INFORMATION

Joy Kingdom did not generate any turnover during the Relevant Period.

No business analysis and segment reporting information such as segment revenue, results, assets, liabilities and other information are disclosed as Joy Kingdom does not have any principal activity during the Relevant Period. In addition, Joy Kingdom's assets and liabilities were all located in Hong Kong during the Relevant Period presented. As such, no geographical segment reporting information has been disclosed.

9. DIRECTOR'S EMOLUMENT AND EMPLOYEE BENEFIT EXPENSE

No director's emolument and employee benefit expense has been paid by Joy Kingdom during the Relevant Period. In summary:

(a) Director's emolument

	Fee	Salaries, allowance and bonus	Retirement scheme contribution	Other fringe benefit	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Period from 15 May 2006 (date of incorporation) to 30 September 2006					
Wang Wei	–	–	–	–	–

(b) Five highest paid individuals

No analysis of five highest paid individuals is disclosed as Joy Kingdom does not have any employee benefit expense paid during the Relevant Period.

During the Relevant Period, no emolument was paid by Joy Kingdom to the above director or five highest paid individuals as an inducement to join or upon joining Joy Kingdom as compensation for loss of office.

10. TAXATION

No provision for Hong Kong profits tax has been made as Joy Kingdom did not have any assessable profits arising in Hong Kong for the Relevant Period.

There are no unprovided deferred tax in respect of the Relevant Period and as at the balance sheet date.

11. DIVIDEND

The director of Joy Kingdom does not recommend the payment of any dividend during the Relevant Period.

12. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss attributable to the equity holder of Joy Kingdom for the Relevant Period of HK$7,200 and on 1 share in issued during the Relevant Period.

No diluted loss per share is presented for any of the Relevant Period as no diluted events occurred during the Relevant Period.

13. RELATED PARTY TRANSACTIONS

Save as the amount due to a director of Joy Kingdom as disclosed in note 7 to the Financial Information and the preliminary expenses incurred by Joy Kingdom which were paid by the director of Joy Kingdom, there were no related party transactions during the Relevant Period.

14. CONTINGENT LIABILITIES

As at 30 September 2006, Joy Kingdom does not have any contingent liabilities.

15. SUBSEQUENT EVENTS

(a) On 19 October 2006, a cooperation agreement (the "Cooperation Agreement") and a sale and purchase Agreement (the "SP Agreement") were signed between Welly Surplus and Sea Ascent in respect of the following:

(1) Under the Cooperation Agreement, Sea Ascent shall procure Joy Kingdom to establish a wholly owned enterprise in the PRC under the proposed name of 江蘇派樂施藥業有限公司 (Jiangsu Prevalence Pharmaceutical Limited) ("Jiangsu Prevalence"), with the proposed registered capital of US$1 million and Sea Ascent shall advance a sum of RMB40 million to Joy Kingdom for the purpose (i) to pay the registered capital of Jiangsu Prevalence; (ii) to finance Jiangsu Prevalence for the acquisition of the land and land use rights of a piece of land at Pi Zhou City, Jiangsu, the PRC within 10 days after the date on which the Cooperation Agreement become effective in accordance with its terms and (iii) to finance the construction of the plant.

Under the Cooperation Agreement, Welly Surplus has undertaken to Sea Ascent that it will procure the following:

(i) subject to the performance by Sea Ascent of its obligations as mentioned above and the completion of the Acquisition pursuant to the terms and conditions of the SP Agreement, Welly Surplus shall procure Joy Kingdom or, if so agreed between the parties, Jiangsu Prevalence to pay to Sea Ascent, during a period of six years from the date on which the Medicine is launched for sales in open market (the "Initial Operating Period"), a fee calculated at RMB6 cents for each capsule of Medicine produced (which complies with the production specifications and requirements), provided that:

(a) the aggregate fees payable to Sea Ascent for each year shall not exceed RMB180 million (which was determined on the basis of the maximum possible annual production capacity of 3 billion capsules of Medicine for the Plant and subject to such deduction as mentioned below);

(b) the fees payable to Sea Ascent under sub-paragraph (a) above shall be subject to deduction therefrom of a sum representing the product of such fees multiplied by the then prevailing corporate income tax rate applicable to Jiangsu Prevalence under the applicable PRC laws and regulations;

(c) if Jiangsu Prevalence is entitled to tax exemption in respect of its corporate income tax, no deduction from the fees under sub-paragraph (b) above is required or, if such tax exemption is offered to Jiangsu Prevalence by way of tax refund, Joy Kingdom or, if so agreed between the parties, Jiangsu Prevalence shall, within seven days after receipt thereby of such tax refund, pay the fees so deducted under sub-paragraph (b) above to Sea Ascent;

(d) if Jiangsu Prevalence is entitled to any tax deduction in respect of its corporate income tax, the sum to be deducted from the fees as referred to in sub-paragraph (b) above shall be calculated by reference to such tax deduction or, if the tax deduction is offered to Jiangsu Prevalence by way of tax refund, Joy Kingdom or, if so agreed between the parties, Jiangsu Prevalence shall, within seven days after receipt thereby of such tax refund, pay the excessive amount of fees so deducted under sub-paragraph (b) above to Sea Ascent;

The above fees payable to Sea Ascent shall be settled within seven days after the end of each calendar month during the Initial Operating Period and by reference to such Medicine sold and the selling price thereof received by the Group during such relevant calendar month, provided that:

(aa) in respect of any Medicine sold and delivered, the selling price of which has not been paid by the relevant customer within six months after delivery thereof to such customer, the fees payable to Sea Ascent in respect of such Medicine shall be settled within seven days after the expiry of such six-month period; and

(bb) notwithstanding sub-paragraph (aa) above, the fees payable to Sea Ascent in respect of any unsold Medicine and any sold but unpaid Medicine as at the expiry of the Initial Operating Period shall be settled within one month after the expiry of the Initial Operating Period.

(ii) subject to the performance by Sea Ascent of its obligations and the satisfaction of other conditions of the SP Agreement, Welly Surplus shall complete the acquisition of the Sale Share and the Shareholder's Loan in accordance with the terms and conditions of the SP Agreement;

(iii) after Completion and the commencement of the production of Jiangsu Prevalence and during the term of the Cooperation Agreement, if the consolidated current assets value of Joy Kingdom as at the end of any financial year is less than RMB40 million, Welly Surplus shall procure Joy Kingdom not to distribute any dividend in respect of the profit of that financial year; and

(iv) unless the New Medicine Certificate in respect of the Medicine has not been granted by the relevant PRC authorities, Welly Surplus shall procure Fosse Bio-Engineering Development Limited, an indirect non wholly owned subsidiary of the Company, to allow the manufacturing of the Medicine by Jiangsu Prevalence and to assist Jiangsu Prevalence to obtain the relevant Pharmaceutical Manufacturing Permit (藥品生產許可證) for the manufacture of the Medicine during the Initial Operating Period.

(2) Under the SP Agreement, Welly Surplus has agreed to acquire from Sea Ascent, and Sea Ascent has agreed to sell the entire issued share capital of Joy Kingdom and the Shareholder's Loan to Welly Surplus.

Conditions of the SP Agreement

The sale and purchase transaction should be conditionally completed upon, among other conditions, the following conditions being fulfilled:

(i) the approval by the Shareholders of the SP Agreement and the transactions contemplated hereby in accordance with the Listing Rules and the bye-laws of the Company;

(ii) a legal opinion to be issued by a firm of qualified PRC lawyers, which should cover, among other matters, the legal and valid incorporation and subsistence of Jiangsu Prevalence, the ownership of Joy Kingdom in the equity interest in Jiangsu Prevalence, the ownership and title of the Land and the Plant, having been obtained;

(iii) the Cooperation Agreement becoming effective in accordance with its terms, and Sea Ascent having provided Welly Surplus with evidence confirming the due performance of its obligations under the Cooperation Agreement; and

(iv) the construction of the Plant having been completed in accordance with the terms of the Cooperation Agreement and the Plant complies with the relevant requirements.

(b) On 28 November 2006, Sea Ascent advanced US$1 million to Joy Kingdom which has been transferred to Jiangsu Prevalence for the purpose of establishment of Jiangsu Prevalence in the PRC.

B. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for Joy Kingdom in respect to any period subsequent to 30 September 2006.

Yours faithfully,
HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
Hong Kong

MANAGEMENT DISCUSSION AND ANALYSIS ON JOY KINGDOM

The following is the management discussion and analysis of Joy Kingdom's business, financial results and position for the period commencing from 15 May 2006 (date of incorporation) to 30 September 2006.

Joy Kingdom was incorporated on 15 May 2006.

Joy Kingdom is dormant since incorporation. According to the Cooperation Agreement between Sea Ascent and Welly Surplus, Sea Ascent, the existing sole shareholder of Joy Kingdom, shall procure Joy Kingdom to establish a wholly foreign owned enterprise in the PRC under the proposed name of Jiangsu Prevalence. According to the same agreement, Sea Ascent shall advance a sum equivalent to RMB 40 million to Joy Kingdom by way of an unsecured, non-interest bearing shareholder's loan for the purpose of paying up the registered capital of Jiangsu Prevalence, financing Jiangsu Prevalence for the acquisition of the land use rights of a piece of land for industrial use in Pi Zhou City, and financing the construction of the Plant.

As at 30 September 2006, the Cooperation Agreement had not been entered into by the relevant parties, and therefore Jiangsu Prevalence had not yet been established and Sea Ascent had not paid the shareholder's loan as required thereunder as at that date. During the period from 15 May 2006 (date of incorporation) to 30 September 2006, Joy Kingdom did not have any income and the expense of HK$7,200 represented cost of incorporation of Joy Kingdom. Save as the amount due to a director of Joy Kingdom of HK$7,192 for financing the expenses of Joy Kingdom during the period, Joy Kingdom did not have any loan or gearing as at 30 September 2006. The aforementioned amount due to the director of Joy Kingdom is unsecured, interest-free and repayable on demand.

During the period ended 30 September 2006, Joy Kingdom did not have any exposure to foreign exchange rate fluctuation as its transactions are mainly conducted in Hong Kong dollars and US dollars and the exchange rates of these currencies were relatively stable throughout the period.

As at 30 September 2006, Joy Kingdom did not have any material contingent liabilities and Joy Kingdom did not have any staff during the period ended 30 September 2006.

The following is the text of a letter, prepared for the sole purpose of inclusion in this circular, received from HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants.

HLB 國衛會計師事務所
Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

31/F., Gloucester Tower
The Landmark
11 Pedder Street, Central
Hong Kong

The Directors
Extrawell Pharmaceutical Holdings Limited
Suites 4701-4, 47/F
Tower One, Times Square
1 Matheson Street
Causeway Bay, Hong Kong

18 December 2006

Dear Sirs,

We report on the unaudited pro forma financial information of Extrawell Pharmaceutical Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") and Joy Kingdom Industrial Limited ("Joy Kingdom") (together with the Group hereinafter referred to as the "Enlarged Group") set out on pages 101 to 110 under the paragraph headed of "Unaudited Pro Forma Financial Information of the Enlarged Group" (the "Unaudited Pro Forma Financial Information") in appendix IV to the Company's circular dated 18 December 2006 in connection with the proposed acquisition of the entire issued share capital of Joy Kingdom by Welly Surplus Development Limited ("Welly Surplus", an indirect non-wholly owned subsidiary of the Company) (the "Acquisition"). The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Acquisition, which will result in the formation of an Enlarged Group, might have affected the relevant financial information presented for inclusion in appendix IV to the Circular.

Respective Responsibilities of Directors of the Company and Reporting Accountants

It is the responsibility solely of the Directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements (HKSIR) 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the director of the Company. This engagement did not involve independent examination of any of the underlinig financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the Company's directors, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

– the financial position of the Enlarged Group as at 31 March 2006 or any future date, or

– the results and cash flows of the Enlarged Group for the year ended 31 March 2006 or any future period.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
Hong Kong

1. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Introduction

The following is the unaudited pro forma financial information of the Enlarged Group as if the Acquisition had taken place on 31 March 2006 which is prepared based on the financial information of the Group as set out in appendix I and the financial information of Joy Kingdom as set out in appendix II after making pro forma adjustments described in the accompanying notes. The accompanying pro forma financial information of the Enlarged Group has been prepared to illustrate the effect of the proposed acquisition of the entire issued share capital of Joy Kingdom by Welly Surplus with cash consideration of RMB40 million.

The accompanying unaudited pro forma financial information of the Enlarged Group has been prepared based on certain assumptions, estimates, uncertainties and other currently available financial information, and is provided for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group that would have been attained had the Acquisition been completed on 31 March 2006, or the results and cash flows of the Enlarged Group that would have been attained had the Acquisition been completed on 15 May 2006, being the date of incorporation of Joy Kingdom. Further, the accompanying unaudited pro forma financial information of the Enlarged Group does not purport to predict the Enlarged Group's future financial position, results or cash flows.

The unaudited pro forma financial information of the Enlarged Group should be read in conjunction with the financial information of Joy Kingdom as set out in appendix II, the historical financial information of the Group as set out in appendix I and other financial information included elsewhere in this circular.

a. Unaudited pro forma consolidated balance sheet of the Enlarged Group

The following is the unaudited pro forma consolidated balance sheet of the Enlarged Group, assuming the Acquisition has been completed on 31 March 2006. The unaudited pro forma consolidated balance sheet is based on the audited consolidated balance sheet of the Group as at 31 March 2006 as set out in appendix I and the audited balance sheet of Joy Kingdom as at 30 September 2006 as set out in appendix II to this Circular. Such information is adjusted to reflect the effect of the Acquisition.

As the unaudited pro forma consolidated balance sheet of the Enlarged Group has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group as at the date to which it is made up to or at any future date.

	The Group as at 31 March 2006	Joy Kingdom as at 30 September 2006	Sub-total	Pro Forma Adjustments #1 (Note 1)	#2 (Note 2)	#3 (Note 3)	#4 (Note 4)	The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets								
Property, plant, equipment and land use rights	70,662	–	70,662	40,000				110,662
Intangible assets	287,898	–	287,898					287,898
	358,560	–	358,560					398,560
Current assets								
Inventories	14,767	–	14,767					14,767
Trade receivables	86,177	–	86,177					86,177
Prepayment, deposit and other receivables	56,851	–	56,851					56,851
Amount due to minority shareholders	8	–	8					8
Pledged bank deposits	7,262	–	7,262					7,262
Cash and cash equivalents	47,702	–	47,702		(10)			47,692
	212,767	–	212,767					212,757
Total assets	571,327	–	571,327					611,317

a. Unaudited pro forma consolidated balance sheet of the Enlarged Group (continued)

	The Group as at 31 March 2006	Joy Kingdom as at 30 September 2006	Sub-total	Pro Forma Adjustments #1 (Note 1)	#2 (Note 2)	#3 (Note 3)	#4 (Note 4)	The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Capital and reserves attributable to the Company's equity holders								
Share capital	22,900	–	22,900					22,900
Reserves	257,761	(7)	257,754		3,474	(5)	(578)	260,645
	280,661	(7)	280,654					283,545
Minotity interests	220,107	–	220,107		9,869	5	(1,646)	228,335
	500,768	(7)	500,761					511,880
Non-current liabilities								
Deferred tax liabilities	102	–	102					102
Amount due to Sea Ascent	–	–	–		26,647		2,224	28,871
	102	–	102					28,973
Current liabilities								
Trade and bills payables	8,323	–	8,323					8,323
Accruals and other payables	23,459	–	23,459					23,459
Interest-bearing bank borrowing secured	4,630	–	4,630					4,630
Tax payables	1,641	–	1,641					1,641
Amount due to a director of Joy Kingdom	–	7	7					7
Amount due to Sea Ascent	–	–	–	40,000	(40,000)			–
Amount due to a minority shareholder	32,404	–	32,404					32,404
	70,457	7	70,464					70,464
Total equity and liabilities	571,327	–	571,327					611,317
Net current assets/(liabilities)	142,310	(7)	142,303					142,293
Total assets less current liabilities	500,870	(7)	500,863					540,853

b. Unaudited pro forma consolidated income statement of the Enlarged Group

The following is the unaudited pro forma consolidated income statement of the Enlarged Group, assuming the Acquisition has been completed on 1 April 2005. The unaudited pro forma consolidated income statement is based on the audited consolidated income statement of the Group for the year ended 31 March 2006 as set out in appendix I and the audited income statement of Joy Kingdom for the period from 15 May 2006 (date of incorporation) to 30 September 2006 as set out in appendix II to this Circular. Such information is adjusted to reflect the effect of the Acquisition.

As the unaudited pro forma consolidated income statement of the Enlarged Group has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the results of the Enlarged Group for the year ended to which it is made up to or for any future period.

	The Group for the year ended 31 March 2006	**Joy Kingdom for the period from 15 May 2006 (date of incorporation) to 30 September 2006**	**Sub-total**	**Pro Forma Adjustments**				**The Enlarged Group**
				#1 *(Note 1)*	**#2** *(Note 2)*	**#3** *(Note 3)*	**#4** *(Note 4)*	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	178,265	–	178,265					178,265
Cost of sales	(108,450)	–	(108,450)					(108,450)
Gross profit	69,815	–	69,815					69,815
Other revenue	1,537	–	1,537					1,537
Other income	3,113	–	3,113					3,113
Discount on acquisition	–	–	–		13,343			13,343
Selling and distribution expenses	(14,890)	–	(14,890)					(14,890)
Administrative expenses	(36,076)	(7)	(36,083)					(36,083)
Impairment loss on goodwill	(5,171)	–	(5,171)					(5,171)
Impairment loss on property, plant, equipment and land use rights	(10,723)	–	(10,723)					(10,723)
Profit/(Loss) from operations	7,605	(7)	7,598					20,941
Finance costs	(908)	–	(908)				(2,224)	(3,132)
Profit/(Loss) before taxation	6,697	(7)	6,690					17,809
Taxation	(2,510)	–	(2,510)					(2,510)
Profit/(Loss) for the year	4,187	(7)	4,180					15,299
Attributable to:								
Equity holders of the company	4,669	(7)	4,662		3,469	5	(578)	7,558
Minority interests	(482)	–	(482)		9,874	(5)	(1,646)	7,741
	4,187	(7)	4,180					15,299

c. Unaudited pro forma consolidated cash flow statement of the Enlarged Group

The following is the unaudited pro forma consolidated cash flow statement of the Enlarged Group, assuming that the Acquisition has been completed on 1 April 2005. The unaudited pro forma consolidated cash flow statement is based on the audited consolidated cash flow statements of the Group for the year ended 31 March 2006 as set out in appendix I and the audited cash flow statement of Joy Kingdom for the period from 15 May 2006 (date of incorporation) to 30 September 2006 as set out in appendix II to this Circular. Such information is adjusted to reflect the effect of the Acquisition.

As the unaudited pro forma consolidated cash flow statement of the Enlarged Group has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the results of the Enlarged Group for the year ended to which it is made up to or for any future period.

	The Group for the year ended 31 March 2006	**Joy Kingdom for the period from 15 May 2006 (date of incorporation) to 30 September 2006**	**Sub-total**	**Pro Forma Adjustments #1**	**#2**	**#3**	**#4**	**The Enlarged Group**
				(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Profit/(loss) before taxation	6,697	(7)	6,690		13,343		(2,224)	17,809
Adjustments for								
Depreciation	4,530	–	4,530					4,530
Amortisation of intangible assets	732	–	732					732
Impairment loss on goodwill	5,171	–	5,171					5,171
Amortisation of land use rights	561	–	561					561
Impairment loss on property, plant, equipment and land use rights	10,723	–	10,723					10,723
Impairment loss on trade receivables	8,090	–	8,090					8,090
Reversal on impairment of trade receivables	(3,097)	–	(3,097)					(3,097)
Written back of provision of inventories	(573)	–	(573)					(573)
Loss on disposal pf property, plant and equipment	45	–	45					45
Change in fair value of financial asset through profit or loss	1,646	–	1,646					1,646
Interest income	(1,001)	–	(1,001)					(1,001)
Finance cost	908	–	908					908
Operating cash flows before movements in working capital	34,432	(7)	34,425					45,544
Decrease in inventories	1,497	–	1,497					1,497
Increase in trade receivables	(18,001)	–	(18,001)					(18,001)
Increase in prepayment, deposits and other receivables	(6,479)	–	(6,479)					(6,479)
Increase in trade and bills payables	1,004	–	1,004					1,004
Increase in accruals and other payable	3,266	–	3,266					3,266
Increase in amount due to a director of Joy Kingdom	–	7	7					7
Increase in amount due to Sea Ascent	–	–	–	40,000	(13,353)		2,224	28,871

c. Unaudited pro forma consolidated cash flow statement of the Enlarged Group (continued)

	The Group for the year ended 31 March 2006	Joy Kingdom for the period from 15 May 2006 (date of incorporation) to 30 September 2006	Sub-total	Pro Forma Adjustments #1 (Note 1)	#2 (Note 2)	#3 (Note 3)	#4 (Note 4)	The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cash generated from operations	15,719	–	15,719					55,709
Interest received	1,001	–	1,001					1,001
Interest expense	(908)	–	(908)					(908)
Oversea taxes refunded	941	–	941					941
Cash generated from operating activities	16,753	–	16,753					56,743
Cash flow from investing activities								
Purchases of property, plant, equipment and land use rights	(1,158)	–	(1,158)	(40,000)				(41,158)
Purchase of intangible assets	(29)	–	(29)					(29)
Decrease in pledged bank deposits	4,942	–	4,942					4,942
Net cash generated from/(used in) investing activities	3,755	–	3,755					(36,245)
Cash flow from financing activities								
Decrease in trust receipt loans	(923)	–	(923)					(923)
Repayment of bank loans	(31,904)	–	(31,904)					(31,904)
Net cash used in financing activities	(32,827)	–	(32,827)					(32,827)
Net (decrease)/increase in cash and cash equivalents	(12,319)	–	(12,319)		(10)			(12,329)
Effect on foreign exchange rate	1,693	–	1,693					1,693
Cash and cash equivalent at the beginning of the year	58,328	–	58,328					58,328
Cash and cash equivalent at the end of the year	47,702	–	47,702		(10)			47,692
Analysis of the balances of cash and cash equivalent								
Bank balances and cash	47,702	–	47,702		(10)			47,692

Notes to the unaudited pro forma financial information on the Enlarged Group

1. A cooperation agreement ("Cooperation Agreement") was signed between Welly Surplus Development Limited ("Welly Surplus"), an indirect subsidiary of the Company as the purchaser, and Sea Ascent Investment Limited ("Sea Ascent"), as the vendor, that Sea Ascent shall procure Joy Kingdom to establish a wholly foreign owned enterprise in the People's Republic of China ("the PRC") under the proposed name of 江蘇派樂施藥業有限公司 (Jiangsu Prevalence Pharmaceutical Limited) ("Jiangsu Prevalence") and Sea Ascent shall advance a sum approximately to RMB 40,000,000 to Joy Kingdom by way of shareholder's loan (the "Shareholder's Loan") in order to finance Jiangsu Prevalence for, inter alia, the acquisition of the land use rights for industrial use at Pi Zhou City, Jiangsu, the PRC for the construction of the plant.

   This pro forma adjustment is based on the assumption that the Shareholder's Loan of RMB40,000,000 (HKD1 : RMB1) has been fully utilised for the acquisition of the land use rights, the construction of the Plant and other equipment of the Plant.

2. (i) Pursuant to the Sale and Purchase Agreement signed between Welly Surplus and Sea Ascent (the "SP Agreement") on 19 October 2006, the Group, through Welly Surplus will acquire the entire issued share capital of Joy Kingdom at a consideration of RMB40,000,000 (HKD1 : RMB1) (the "Consideration") of which RMB10,000 (HKD1 : RMB1) would be paid upon the completion of the transaction and the remaining balance of RMB39,990,000 (HKD1 : RMB1) to be paid in cash within one month after a period of six years from the date of the Medicine has been launched in the market and certain conditions of the SP Agreement have been fulfilled.

   (ii) In addition to the SP Agreement, a consideration of HK$ 1 will also be paid by Welly Surplus for the acquisition of the Shareholder's Loan as described in the pro forma adjustment #1 above.

   (iii) In accordance with HKFRS 3 "Business Combinations", the Group will apply the purchase method to account for the acquisition of Joy Kingdom. In applying the purchase method, (1) the identifiable assets, liabilities and contingent liabilities of Joy Kingdom will be recorded on the consolidated balance sheet of the Group at their fair values at the date of completion. (2) Consideration paid by Welly Surplus shall be measured at its fair value at the date of completion. Any goodwill or discount arising on the acquisition will be determined as the excess or deficit of the purchase price to be incurred by the Group over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of Joy Kingdom at the date of completion. Negative goodwill resulting from the business combinations should be recognised immediately in the unaudited pro forma consolidated income statement.

   (iv) According to HKFRS 3 as described above, the Consideration of RMB40,000,000 (HKD1: RMB1) should be stated at its fair value by using the market rate. The fair value of the Consideration payable is approximately RMB26,647,000 (HKD1: RMB1), which represented the fair value of the balance payable to Sea Ascent as at the acquisition date.

   (v) The acquisition of Joy Kingdom generated a negative goodwill of approximately HK$13,343,000 which represents the difference between the fair value of the Consideration of RMB26,657,000 (HKD1: RMB1) and the fair value of the net assets acquired which is assumed to be approximately RMB40,000,000 (HKD1: RMB1).

   (vi) The negative goodwill of HK$13,343,000 resulting from the business combinations as described above was immediately recognised in the consolidated income statement in accordance with HKFRS 3.

3. The pro forma adjustment represents an additional minority interest arising from the acquisition of Joy Kingdom. An attributable interest of approximately 26% in Welly Surplus is held by the Company.

4. As the amount due to Sea Ascent was interest-free, in accordance to HKAS 39 "Financial Instruments: Recognition and Measurement", an imputed interest of HK$2,224,000 should therefore be recognised in income statement every year until the end of the term of six years to reflect the true financial liabilities if the amount payable was charged interest at market rate.

INDEBTEDNESS OF THE ENLARGED GROUP

Borrowings

At the close of business on 31 October 2006, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group had outstanding trust receipt loans of approximately HK$1,798,000, which is secured by pledging the Group's fixed deposit of HK$7,384,000 and corporate guarantee from the Group.

Contingent liabilities

As at 31 October 2006, the Enlarged Group had no contingent liabilities.

Disclaimer

Save as disclosed in the paragraph headed "Indebtedness of the Enlarged Group" in this appendix, and apart from intra-group liabilities, the Enlarged Group did not have, at the close of business on 31 October 2006, any debt securities issued and outstanding or authorised or otherwise created but unissued, term loans, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

WORKING CAPITAL

The Directors, after due and careful consideration, are of the opinion that the Enlarged Group will, following the Completion and taking into account the available banking and other facilities, and the present internal financial resources available to the Enlarged Group, have sufficient working capital for its present requirements and for the period ending twelve months from the date of this circular.

The following is the text of a letter and valuation certificate for the purpose of incorporation in this circular received from Castores Magi (Hong Kong) Limited, an independent property valuer, in connection with their valuation of the property interests held by the Enlarged Group as at 31 October 2006.

嘉漫(香港)有限公司
CASTORES MAGI (HONG KONG) LIMITED
REGISTERED PROFESSIONAL SURVEYORS
REAL ESTATE, MINERALS, MACHINERY & EQUIPMENT AND BUSINESS VALUERS

CASTORES MAGI

Suites 402-403
Unicorn Trade Centre
131 Des Voeux Road Central
Hong Kong

18 December 2006

The Directors
Extrawell Pharmaceutical Holdings Limited
Suites 4701-4, 47th Floor
Tower One
Times Square
1 Matheson Street
Causeway Bay
Hong Kong

Dear Sirs,

In accordance with your instruction to value the properties in which Extrawell Pharmaceutical Holdings Limited (the "Company"), its subsidiaries (together the "Group") and Joy Kingdom Industrial Limited (collectively referred to as the "Enlarged Group") have interests, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the values of the relevant properties of the Enlarged group as at 31 October 2006 ("date of valuation").

Our valuations of Property 1 and the land use rights of Properties 2, 3, and 4 in Group I and the property in Group II were on the basis of Market Value which we would define as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion". Market Value is understood as the value of an asset estimated without regard to costs of sale or purchase and without offset for any associated taxes.

Our valuations of Property 1 and the land use rights of Properties 2, 3, and 4 in Group I and the property in Group II have been made on the assumption that the owner sells the properties on the market in their existing state without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any other similar arrangement which would serve to increase the value of the properties.

The property interest of Property 1 in Group I has been valued on a market basis by reference to comparable market transactions. This approach rests on the wide acceptance of market price as the best indicator of value and pre-supposes that evidence of recent transactions in the market place can be extrapolated to similar properties, subject to allowances for variable factors.

In accordance with International Valuation Guidance Note No. 8 published by The International Valuation Standards Committee, the buildings and structures of Properties 2, 3 and 4 in Group I belong to the category of specialized properties, which are rarely if ever sold on the open market, except by way of sale of the business or entity of which they are a part, due to their uniqueness, which arises from the specialized nature and design of the buildings, their configuration, size, location or otherwise. Consequently, reliable sale comparables cannot generally be identified for specialized properties.

Our valuations of the buildings and structures of Properties 2, 3 and 4 in Group I are on the basis of Depreciated Replacement Cost which is used for the valuation of specialized properties. Depreciated Replacement Cost is defined as "the current cost of replacement (reproduction) of a property less deductions for physical deterioration and all relevant forms of obsolescence and optimization". It is a method used in financial reporting to arrive at a surrogate for the market value of specialized and limited market properties, for which market evidence is unavailable. Depreciated Replacement Cost is based on an estimate of the current gross replacement (reproduction) costs of the buildings and structures, less allowance for physical deterioration and all relevant forms of obsolescence and optimization.

In valuing the capital value of Properties 2, 3 and 4 in Group I, we have made the summation of the market value of the land use rights and the depreciated replacement cost of the buildings and structures as at the date of valuation.

We have not attributed any commercial value to the rented property in Group II mainly due to the prohibition against assignment or sub-letting or lack of substantial profit rent.

In valuing the property interests, we have adopted the basis of valuation and have made the valuation assumptions in accordance with the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors.

In valuing the properties of the Enlarged group, we have complied with all the requirements contained in Chapter 5 and the Practice Note No. 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The current status of the properties regarding major approvals, consents and licences required in the People's Republic of China (the "PRC") is as follows:

	Property in Group I			
Document/Approval	**1**	**2**	**3**	**4**
State-owned Land Use Rights Certificate	N.A.	Yes	Yes	Yes
Realty Title Certificate	Yes	N.A.	N.A.	N.A.
Building Ownership Certificate	N.A.	Yes	Yes	Yes

N.A. – Not Applicable

We have relied to a considerable extent on the information provided by the Group and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, occupation, lettings, rental, site and floor areas and all other relevant matters.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the relevant properties but have assumed that the site areas shown on the documents and official site plans handed to us are correct. Based on our valuation experience of similar properties in the PRC, we consider the assumptions so made to be reasonable. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurements have been taken.

We have inspected the exterior and, where possible, the interior of the properties, in respect of which we have been provided with such information as we have required for the purpose of our valuations. However, no structural survey, investigation or examination has been made, but in the course of our inspections, we did not note any serious defects. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. No tests were carried out to any of the services.

No allowance has been made in our report for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions, and outgoings of an onerous nature which could affect their values.

We have been shown copies of various documents relating to the properties. However, we have not searched the original documents to verify any amendments which may not appear on the copies handed to us. Due to defects of the land registration system in the PRC, we are unable to search the original documents to verify the existing title of the properties or any material encumbrances that might be attached to the properties. We are not in a position to advise on the Group's title to the properties. However, we have made reference to the opinion given by the Company's legal advisers on PRC laws in respect of the Group's title to the properties.

The scope of valuation has been determined with reference to the property list provided by the Group. All properties on the list have been included in this valuation certificate.

We have had no reason to doubt the authenticity and accuracy of the information provided to us by the Group. We have also sought and received confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary amounts stated are in Hong Kong Dollars. The adopted exchange rate for the valuation of properties is the prevailing rate as at the date of valuation, being HK$1 to RMB1.01 and no significant fluctuation in exchange rate has been found between that date and the date of this letter.

The conclusion of values is based on generally accepted valuation procedures and practices that rely extensively on assumptions and considerations, not all of which can be easily quantified or ascertained exactly. While we have exercised our professional judgment in arriving at the valuation, you are urged to consider carefully the nature of such assumptions which are disclosed in this report and should exercise caution when interpreting this report.

We hereby certify that we have neither present nor prospective interest in the Company or the value reported.

Our valuations are summarized below and the valuation certificate is attached.

Yours faithfully,
For and on behalf of
Castores Magi (Hong Kong) Limited
Ernest Cheung Wah Fu
Member of China Institute of Real Estate Appraisers
China Registered Real Estate Appraiser
B.Sc. MRICS MHKIS RPS MCIArb
Director

Note: Ernest Cheung Wah Fu is a Registered Professional Surveyor who has over 13 years of experience in valuing properties in Hong Kong and the PRC. His name is included in the List of Property Valuers for Undertaking Valuations for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers set forth by the Hong Kong Institute of Surveyors.

SUMMARY OF VALUES

Group I – Property interests owned and occupied by the Group in the PRC

	Property	Capital value in existing state as at 31 October, 2006 *HK$*	Percentage of interest attributable to the Group	Capital value in existing state attributable to the Group as at 31 October, 2006 *HK$*
1.	Units 3001, 3002, 3003, 3004, 3005 and 3006 on Level 30 of Block 3, Dongjun Plaza, No. 836 Dongfeng East Road, Dongshan District, Guangzhou, Guangdong Province, The PRC.	4,900,000	100%	4,900,000
2.	Various buildings and structures erected on a parcel of land located at No. 5 Zhanjiang Road (currently known as No. 1299 Zhanjiang Road), Changchun Economic and Technological Development Zone, Changchun, Jilin Province, The PRC.	27,590,000	68%	18,761,200
3	Various buildings and structures erected on a parcel of land located at No. 940 Shenzhen Street, Changchun Economic and Technological Development Zone, Changchun, Jilin Province, The PRC.	25,210,000	100%	25,210,000
4	Various portions of buildings erected on a parcel of land located at No. 98 Changshen Highway, Chaoyang District, Changchun, Jilin Province, The PRC.	103,000	68%	70,040
	Sub-Total:	**57,803,000**		**48,941,240**

Group II – Property rented by the Group in Hong Kong

	Property	Capital value in existing state as at 31 October, 2006 *HK$*
1.	Suites 4701-4, 47th Floor, Tower One, Times Square, No. 1 Matheson Street, Causeway Bay, Hong Kong	No commercial value
	Sub-Total:	**Nil**
	Total attributable to the Group:	**48,941,240**

VALUATION CERTIFICATE

Group I – Property interests owned and occupied by the Group in the People's Republic of China

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 October 2006 *HK$*
1.	Units 3001, 3002, 3003, 3004, 3005 and 3006 on Level 30 of Block 3, Dongjun Plaza, No. 836 Dongfeng East Road, Dongshan District, Guangzhou, Guangdong Province, The PRC.	The property comprises 6 adjoining office units on Level 30 of a 36-storey commercial building (plus 2 basement levels for car parks). The building was completed in about 1996. The property has a total gross floor area of 675.12 sq. m. The property is subject to a land use rights for a term of 50 years commencing from 1 July 1992.	The property is currently occupied by the Group for office purpose.	4,900,000 (100% interest) 4,900,000 (100% interest attributable to the Group)

Notes:

1. According to 6 Realty Title Certificates – Sui Fang Di Zheng Zi Nos. 0830775, 0830776, 0830777, 0830778, 0830779 and 0830780 (房地產証－穗房地証字第0830775, 0830776, 0830777, 0830778, 0830779及0830780號) all dated 20 April 2001 issued by Guangzhou Shi State Land Bureau and Building Management Bureau (廣州市國土局房管局), the ownership of the property is vested in 精優企業有限公司 (Extrawell Enterprises Limited), a wholly-owned subsidiary of the Group.

2. According to the opinion provided by the Company's PRC legal advisers, the followings, inter alia, were noted:

   i. 精優企業有限公司 (Extrawell Enterprises Limited) ("Extrawell Enterprises") is the unique legal owner of the property;

   ii. Extrawell Enterprises can transfer, let and mortgage the property without any consent from any government bodies and without payment of any land premium;

   iii. Extrawell Enterprises confirmed that the actual use of the property is in accordance with the designated use stated in the Realty Title Certificate (房地產証);

   iv. Extrawell Enterprises confirmed that up to the date of the legal opinion (i.e. 18 December, 2006), the property is not subject to any lease, mortgage or any third party interests, or any legal disputes, investigations, resumption or other legal proceedings.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 October 2006 *HK$*
2.	Various buildings and structures erected on a parcel of land located at No. 5 Zhanjiang Road (currently known as No. 1299 Zhanjiang Road), Changchun Economic and Technological Development Zone, Changchun, Jilin Province, The PRC.	The property comprises 7 buildings and structures erected on a parcel of land having a site area of 18,982 sq. m. The buildings and structures were completed in about 2002. The buildings have a total gross floor area of 10,136.13 sq. m. The property is subject to a land use rights for a term expiring on 16th September, 2050.	The property is currently occupied by the Group for production, warehouse and office purposes.	27,590,000 (100% interest) 18,761,200 (68% interest attributable to the Group)

Notes:

1. According to a State-owned Land Use Rights Certificate – Chang Jing Kai Guo Yong (2004) No. 0000147 (國有土地使用証－長經開國用(2004)第0000147號) dated 22nd July, 2004 which was issued by Changchun Shi People's Government (長春市人民政府), the land use rights holder of the parcel of land is 長春精優藥業股份有限公司 (Changchun Extrawell Pharmaceutical Co., Ltd.), of which 68% interest is attributable to the Group. Pursuant to this certificate, the parcel of land has a site area of 18,982 sq. m. and is designated for industrial purpose.

2. Pursuant to three Building Ownership Certificates – Fang Quan Zheng Chang Fang Quan Zi Nos. 41000040, 41000041 and 41000042 (房屋所有權証－房權証長房權字第41000040, 41000041 及 41000042號) all dated 24th October, 2004 and issued by Changchun Shi Real Estate Management Bureau (長春市房地產管理局), the owner of the buildings is 長春精優藥業股份有限公司 (Changchun Extrawell Pharmaceutical Co., Ltd.), of which 68% interest is attributable to the Group.

3. According to the information provided by the Company, the land use rights was acquired on 23rd July, 2002 at a consideration of RMB3,461,528.37.

4. According to the opinion provided by the Company's PRC legal advisers, the followings, inter alia, were noted:

   i. 長春精優藥業股份有限公司 (Changchun Extrawell Pharmaceutical Co., Ltd.) ("Changchun Extrawell") is the unique legal holder of the land use rights and owner of the buildings;

   ii. Changchun Extrawell can transfer, let and mortgage the property without any consent from any government bodies and without payment of any land premium.

   iii. Changchun Extrawell confirmed that the actual use of the property is in accordance with the designated use stated in the title documents;

   iv. Changchun Extrawell confirmed that up to the date of the legal opinion (i.e. 18 December, 2006), the property is not subject to any lease, mortgage or any third party interests, or any legal disputes, investigations, resumption or other legal proceedings.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 October 2006 *HK$*
3.	Various buildings and structures erected on a parcel of land located at No. 940 Shenzhen Street, Changchun Economic and Technological Development Zone, Changchun, Jilin Province, The PRC.	The property comprises 6 buildings and structures erected on a parcel of land having a site area of 12,846.9 sq. m. The buildings and structures were completed in about 1999. The buildings have a total gross floor area of 8,029.56 sq. m. The property is subject to a land use rights for a term expiring on 29th November, 2046.	The property is currently occupied by the Group for production, warehouse, office and dormitory purposes.	25,210,000 (100% interest) 25,210,000 (100% interest attributable to the Group)

Notes:

1. According to a State-owned Land Use Rights Certificate – Ji Guo Yong (2004) No. 010500056 (國有土地使用証－吉國用(2004)第010500056號) dated 15th August, 2004 which was issued by Jilin Province People's Government (吉林省人民政府), the land use rights holder of the parcel of land is 吉林精優長白山藥業有限公司 (Jilin Extrawell Changbaishan Pharmaceutical Co., Ltd.), of which 100% interest is attributable to the Group. Pursuant to this certificate, the parcel of land has a site area of 12,846.9 sq. m. and is designated for industrial purpose.

2. Pursuant to four Building Ownership Certificates – Fang Quan Zheng Chang Fang Quan Zi Nos. 4100000028, 4100000029, 4100000030 and 4100000031 (房屋所有權証－房權証長房權字第4100000028, 4100000029, 4100000030及4100000031號) all dated 27th February, 2006 and issued by Changchun Shi Real Estate Management Bureau (長春市房地產管理局), the owner of the buildings is 吉林精優長白山藥業有限公司 (Jilin Extrawell Changbaishan Pharmaceutical Co., Ltd.) , of which 100% interest is attributable to the Group.

3. According to the opinion provided by the Company's PRC legal advisers, the followings, inter alia, were noted:

   i. 吉林精優長白山藥業有限公司 (Jilin Extrawell Changbaishan Pharmaceutical Co., Ltd.) ("Jilin Extrawell") is the unique legal holder of the land use rights and owner of the buildings;

   ii. Jilin Extrawell can transfer, let and mortgage the property without any consent from any government bodies and without payment of any land premium;

   iii. Jilin Extrawell confirmed that the actual use of the property is in accordance with the designated use stated in the title documents;

   iv. Jilin Extrawell confirmed that up to the date of the legal opinion (i.e. 18 December, 2006), the property is not subject to any lease, mortgage or any third party interests, or any legal disputes, investigations, resumption or other legal proceedings.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 October 2006 *HK$*
4.	Various portions of buildings erected on a parcel of land located at No. 98 Changshen Highway, Chaoyang District, Changchun, Jilin Province, The PRC.	The property comprises various portions of buildings erected on a parcel of land having a site area of 947 sq. m. The buildings were completed in about 1992. The various portions of buildings have a total gross floor area of 2,407.61 sq. m. The property is subject to a land use rights for a term expiring on 8th August, 2007.	The property is currently vacant.	103,000 (100% interest) 70,040 (68% interest attributable to the Group)

Notes:

1. According to a State-owned Land Use Rights Certificate – Chang Guo Yong (2003) No. 040201411 (國有土地使用証－長國用(2003)第040201411號) dated 4th December, 2003 which was issued by Changchun Shi People's Government (長春市人民政府), the land use rights holder of the parcel of land is 長春精優藥業股份有限公司 (Changchun Extrawell Pharmaceutical Co., Ltd.), of which 68% interest is attributable to the Group. Pursuant to this certificate, the parcel of land has a site area of 947 sq. m. and is designated for industrial purpose. The land use rights term of this certificate shall expire on 8th August, 2007.

2. Pursuant to five Building Ownership Certificates – Fang Quan Zheng Chang Fang Quan Zi Nos. 10901124, 10901125, 10901126, 10901127 and 10901128 (房屋所有權証－房權証長房權字第10901124, 10901125, 10901126, 10901127及10901128號) all dated 28th April, 2003 and issued by Changchun Shi Real Estate Management Bureau (長春市房地產管理局), the owner of the buildings is 長春精優藥業股份有限公司 (Changchun Extrawell Pharmaceutical Co., Ltd.), of which 68% interest is attributable to the Group.

3. According to the opinion provided by the Company's PRC legal advisers, the followings, inter alia, were noted:

   i. 長春精優藥業股份有限公司 (Changchun Extrawell Pharmaceutical Co., Ltd.) ("Changchun Extrawell") is the unique legal holder of the land use rights and owner of the buildings;

   ii. Changchun Extrawell can transfer, let and mortgage the property without any consent from any government bodies and without payment of any land premium;

   iii. Changchun Extrawell confirmed that the actual use of the property is in accordance with the designated use stated in the title documents;

   iv. Changchun Extrawell confirmed that up to the date of the legal opinion (i.e. 18 December, 2006), the property is not subject to any lease, mortgage or any third party interests, or any legal disputes, investigations, resumption or other legal proceedings.

Group II – Property rented by the Group in Hong Kong

	Property	Description	Particulars of tenancy	Capital value in existing state as at 31 October 2006 *HK$*
1.	Suites 4701-4, 47th Floor, Tower One, Times Square, No. 1 Matheson Street, Causeway Bay, Hong Kong.	The property comprises 4 adjoining office units on 47th Floor of a multi-storey office building which was completed in about 1994. The property has a lettable area of about 6,054 sq. ft. (about 562.4 sq. m.) The property is currently occupied by the Group for office purpose.	The property is rented by the Group for a term of 3 years commencing from 2nd May, 2005 to 1st May, 2008 at a monthly rent of HK$105,945 exclusive of management fees.	No commercial value

Note: The tenant is Extrawell Pharmaceutical (HK) Limited, a wholly-owned subsidiary of the Group.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURE

(a) As at the Latest Practicable Date, the interests and short positions of each Director in the shares, underlying shares and debenture of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which he was deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Name of director	Name of company	Capacity	Number and class of securities *(Note 1)*	Approximate percentage of interests held
Dr. Mao Yu Min	The Company	Interest of controlled corporation *(Note 2)*	680,000,000 Shares (L)	29.7%
Dr. Xie Yi	The Company	Interest of controlled corporation *(Note 2)*	680,000,000 Shares (L)	29.7%
Mr. Ho Yu Ling	The Company	Interest of controlled corporation *(Note 3)*	102,000,000 Shares (L)	4.5%
	Extrawell Enterprises Limited ("**EEL**")	Interest of controlled corporation *(Note 4)*	100,000 non-voting deferred shares of HK$10 each in EEL (L)	99.9%
Mr. Li Qiang	The Company	Beneficial owner	15,000,000 Shares (L)	0.7%
Mr. Ho Chin Hou	EEL	Interest of controlled corporation *(Note 4)*	100,000 non-voting deferred shares of HK$10 each in EEL (L)	99.9%

Notes:

(1) The letter "L" represents the Director's interests in the shares and underlying shares of the Company or its associated corporations.

(2) Each of JNJ Investments Ltd. ("**JNJ Investments**"), Biowindow Gene Development (Hong Kong) Limited ("**HK Biowindow**"), Fudan Biotech (Hong Kong) Limited ("**Fudan Biotech**") and Fudan Pharmaceutical Limited ("**FPL**") holds 500,000,000, 74,000,000, 76,000,000 and 30,000,000 Shares respectively.

The entire issued share capital of JNJ Investments is owned by HK Biowindow, the issued share capital of which is owned as to 99% by United Gene Group Ltd., as to 0.99% by 聯合基因科技有限公司 (United Gene Holdings Limited) ("**United Gene-PRC**") and as to 0.01% by Shanghai Biowindow Gene Development Co., Ltd. ("**Shanghai Biowindow**").

The entire registered capital of Shanghai Biowindow is owned as to 60% by United Gene-PRC, as to 13.575% by Dr. Xie Yi and as to 13.575% by Ms. Sheng Xiao Yu, who is the wife of Dr. Mao Yu Min. The entire registered capital of United Gene-PRC is beneficially owned as to 33.5% by Dr. Mao Yu Min and as to 33.5% by Dr. Xie Yi (including his 8.5% direct interest and his 25% indirect interest through his shareholding in Ease Gold Investments Limited).

The issued share capital of United Gene Group Ltd. is owned as to 33% by United Gene Holdings Limited ("**United Gene-BVI**") and as to 33% by Ease Gold Investments Limited. The issued share capital of United Gene-BVI and Ease Gold Investments Limited was wholly owned by Dr. Mao Yu Min and Dr. Xie Yi respectively.

Fudan Biotech is owned as to 99% by Shanghai Fudan Biotech Limited. Shanghai Fudan Biotech Limited is owned as to 75% by Shanghai Biowindow.

HK Biowindow owned 80% of the share capital of FPL.

Each of Dr. Mao Yu Min and Dr. Xie Yi is taken to be interested in all the Shares in which each of JNJ Investments, HK Biowindow, Fudan Biotech and FPL is interested by virtue of the SFO.

(3) These Shares are owned by Well Success Limited, a company incorporated in the British Virgin Islands, the entire issued capital of which is owned by Mr. Ho Yu Ling. Mr. Ho Yu Ling is taken to be interested in all the Shares in which Well Success Limited is interested by virtue of the SFO.

(4) These 100,000 non-voting deferred shares of HK$10 each in EEL are owned by Extrawell Holdings Limited, the entire issued share capital of which is owned as to 41.6% by Mr. Ho Yu Ling and as to 55.6% by Mr. Ho Chin Hou. Each of Mr. Ho Yu Ling and Mr. Ho Chin Hou is taken to be interested in all the shares of EEL in which Extrawell Holdings Limited is interested.

(b) Save as disclosed in paragraph 2(a) above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interest and short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions in which they were deemed or taken to have under such provisions of the SFO), or which are required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

(c) As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Enlarged Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Enlarged Group since 31 March 2006, the date to which the latest published audited financial statements of the Group were made up.

(d) As at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Enlarged Group subsisting as at the date of this circular.

(e) As at the Latest Practicable Date, none of the Directors or their respective associates was interested in any business apart from the business of the Enlarged Group, which competed or was likely to compete, either directly or indirectly, with that of the Enlarged Group.

3. SUBSTANTIAL SHAREHOLDERS

(a) As at the Latest Practicable Date, so far as is known to the Directors, the following persons, other than a director or chief executive of the Company, had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

Name of Shareholder	Number of Shares *(Note 1)*	Capacity *(Note 2)*	Approximate percentage of interests held
Ease Gold Investments Limited	604,000,000 Shares (L)	Interest of controlled corporation	26.4%
United Gene – BVI	604,000,000 Shares (L)	Interest of controlled corporation	26.4%
United Gene Group Ltd.	604,000,000 Shares (L)	Interest of controlled corporation	26.4%
HK Biowindow	74,000,000 Shares (L)	Beneficial owner	3.2%
	530,000,000 Shares (L)	Interest of controlled corporation	23.1%
JNJ Investments	500,000,000 Shares (L)	Beneficial owner	21.8%

Notes:

1. The letter "L" represents the entity's interests in the Shares.

2. Each of JNJ Investments, HK Biowindow, Fudan Biotech and FPL holds 500,000,000, 74,000,000, 76,000,000 and 30,000,000 Shares respectively.

   The entire issued share capital of JNJ Investments is owned by HK Biowindow, the issued share capital of which is owned as to 99% by United Gene Group Ltd., as to 0.99% by United Gene-PRC and as to 0.01% by Shanghai Biowindow.

   The entire registered capital of Shanghai Biowindow is owned as to 60% by United Gene-PRC, as to 13.575% by Dr. Xie Yi and as to 13.575% by Ms. Sheng Xiao Yu, who is the wife of Dr. Mao Yu Min. The entire registered capital of United Gene-PRC is beneficially owned as to 33.5% by Dr. Mao Yu Min and as to 33.5% by Dr. Xie Yi (including his 8.5% direct interest and his 25% indirect interest through his shareholding in Ease Gold Investments Limited). The issued share capital of United Gene Group Ltd. is owned as to 33% by United Gene-BVI and as to 33% by Ease Gold Investments Limited. The issued share capital of United Gene-BVI and Ease Gold Investments Limited was wholly owned by Dr. Mao Yu Min and Dr. Xie Yi respectively.

   Fudan Biotech is owned as to 99% by Shanghai Fudan Biotech Limited. Shanghai Fudan Biotech Limited isowned as to 75% by Shanghai Biowindow.

   HK Biowindow owned 80% of the share capital of FPL.

(b) As at the Latest Practicable Date, so far as is known to the Directors, the following persons were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Enlarged Group (other than the Company):

Name of company	Name of shareholder	Number of shares/amount of registered capital held	Approximate percentage of interests held
Changchun Extrawell Pharmaceutical Co., Ltd.	吉林省天和對外經濟貿易集團有限公司	RMB9,140,000	18%
Grand Success Management Limited	Charmtex Investments Limited	10,000 shares of US$1 each	10%
Smart Ascent	Mr. Ong Cheng Heang	4,900 shares of HK$1 each	49%
Fosse Bio	Fordnew Industrial Limited	2,900 shares of HK$10 each	29%
Welly Surplus	Smart Allied Holdings Limited	29 shares of HK$1 each	29%

Name of company	Name of shareholder	Number of shares/amount of registered capital held	Approximate percentage of interests held
Welly Surplus	Goachieve Holdings Limited	20 shares of HK$1 each	20%
Joy Kingdom	Wang Wei	1 share of US$1	100%

Save as disclosed in this circular, so far as is known to the Directors, there is no other person who had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, had a direct or indirect interests amounting to 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Enlarged Group.

4. MATERIAL CONTRACTS

Save for the Cooperation Agreement and the SP Agreement, no other contracts (being contracts not entered in the ordinary course of business) were entered into by any members of the Enlarged Group within two years immediately preceding the date of this circular which is or may be material.

5. LITIGATION

As at the Latest Practicable Date, none of any member of the Enlarged Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Enlarged Group.

6. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

7. QUALIFICATIONS AND CONSENTS OF EXPERTS

(a) The followings are the qualifications of the experts who have given their reports, opinions or advice which are included in this circular:

Name	Qualification
HLB Hodgson Impey Cheng	Chartered Accountants Certified Public Accountants
Castores Magi (Hong Kong) Limited	Registered Professional Surveyors
GFE Law Office	PRC legal advisers

(b) None of HLB Hodgson Impey Cheng, Castores Magi (Hong Kong) Limited and GFE Law Office has any shareholding, directly or indirectly, in any member of the Enlarged Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group.

(c) Each of HLB Hodgson Impey Cheng, Castores Magi (Hong Kong) Limited and GFE Law Office has given and has not withdrawn its written consent to the issue of this circular, with copies of its letter and/or reports and the references to its name included in the forms and contexts in which they are respectively included.

(d) None of HLB Hodgson Impey Cheng, Castores Magi (Hong Kong) Limited and GFE Law Office had any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Enlarged Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Enlarged Group since 31 March 2006, the date to which the latest published audited financial statements of the Group were made up.

8. MISCELLANEOUS

(a) The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

(b) The head office and principal place of business of the Company in Hong Kong is at Suites 4701-4, 47th Floor, Tower One, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong.

(c) The company secretary of the Company is Ms. Elsie Wong. Ms. Elsie Wong is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

(d) The qualified accountant of the Company is Ms. Yong On Nah. Ms. Yong is a chartered accountant of the Institute of Chartered Accountants in Australia.

(e) The branch share registrar and transfer office of the Company is Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(f) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the head office and principal place of business of the Company in Hong Kong, Suites 4701-4, 47th Floor, Tower One, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong, up to and including the date of the SGM:

(a) the memorandum and bye-laws of the Company;

(b) the accountants' report of Joy Kingdom, the text of which is set out in appendix II to this circular;

(c) the annual reports of the Company for each of the three years ended 31 March 2004, 2005 and 2006;

(d) the report from HLB Hodgson Impey Cheng in relation to the unaudited pro forma financial information of the Enlarged Group as set out in appendix IV to this circular;

(e) the property valuation report on property interests of the Enlarged Group issued by Castores Magi (Hong Kong) Limited contained in appendix V to this circular;

(f) the material contracts referred to in the section headed "Material Contracts" in this appendix;

(g) the letters of consent referred to in the section headed "Qualifications and Consents of Experts" in this appendix; and

(h) this circular.

EXTRAWELL PHARMACEUTICAL HOLDINGS LIMITED
精優藥業控股有限公司*

(Incorporated in Bermuda with limited liability)
(Stock Code: 00858)

NOTICE IS HEREBY GIVEN that a special general meeting of Extrawell Pharmaceutical Holdings Limited ("**Company**") will be held at Suites 4701-4, 47th Floor, Tower One, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong on 3 January 2007 at 3:00 p.m. for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. "**THAT**

(a) the sale and purchase agreement ("**SP Agreement**") dated 19 October 2006 and entered into between (i) Welly Surplus Development Limited ("**Welly Surplus**"), a non-wholly owned subsidiary of the Company, as purchaser; and (ii) Sea Ascent Investment Limited ("**Sea Ascent**") as vendor, in connection with the acquisition by Welly Surplus of the entire issued share capital of Joy Kingdom Industrial Limited ("**Joy Kingdom**") and the unsecured, non-interesting bearing loan of an aggregate principal sum of RMB40 million to be advanced by Sea Ascent to Joy Kingdom (a copy of which has been produced to the meeting marked "A" and signed by the chairman of the meeting for the purpose of identification) and all the transactions contemplated thereby be and it is hereby approved;

(b) the signing and execution (under hand or under seal), and the perfection and delivery of the SP Agreement be and are hereby confirmed; and

(c) any one director ("**Director**") of the Company be and he/she is hereby authorised to do or execute for on behalf of the Company all such acts and things and such other documents under hand (and, where required, under the common seal of the Company together with such other Director or person authorised by the board of Directors) and to take such steps as he/she or they may consider necessary, appropriate, desirable or expedient to implement or give effect to the terms of the SP Agreement, and all transactions contemplated under the SP Agreement and all other matters incidental thereto or in connection therewith and to agree to and make such variation, amendment and waiver of any of the matters relating thereto or in connection therewith."

* *For identification purpose only*

2. “**THAT**

(a) the cooperation agreement (“**Cooperation Agreement**”) dated 19 October 2006 and entered into between (i) Welly Surplus Development Limited (“**Welly Surplus**”), a non-wholly owned subsidiary of the Company; and (ii) Sea Ascent Investment Limited (“**Sea Ascent**”); and (iii) Fosse Bio-Engineering Development Limited, a non-wholly owned subsidiary of the Company in connection with the cooperation between Welly Surplus and Sea Ascent in respect of, among other matters, the establishment of a wholly foreign owned enterprise in the People’s Republic of China and the establishment thereby of a pharmaceutical manufacturing plant (copy of which has been produced to the meeting marked “B” and signed by the chairman of the meeting for the purpose of identification) and all the transactions contemplated thereby be and it is hereby approved;

(b) the signing and execution (under hand or under seal), and the perfection and delivery of the Cooperation Agreement be and are hereby confirmed; and

(c) any one director (“**Director**”) of the Company be and he/she is hereby authorised to do or execute for on behalf of the Company all such acts and things and such other documents under hand (and, where required, under the common seal of the Company together with such other Director or person authorised by the board of Directors) and to take such steps as he/she or they may consider necessary, appropriate, desirable or expedient to implement or give effect to the terms of the Cooperation Agreement, and all transactions contemplated under the Cooperation Agreement and all other matters incidental thereto or in connection therewith and to agree to and make such variation, amendment and waiver of any of the matters relating thereto or in connection therewith.”

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

Hong Kong, 18 December 2006

Executive directors:
Dr. Mao Yu Min
Mr. Ho Chin Hou
Mr. Ho Yu Ling
Mr. Li Qiang
Dr. Xie Yi

Independent non-executive directors:
Mr. Fang Lin Hu
Mr. Xue Jing Lun
Ms. Jin Song

Head office and principal place of business in Hong Kong:
Suites 4701-4, 47th Floor
Tower One, Times Square
1 Matheson Street
Causeway Bay
Hong Kong

Notes:

(1) A member entitled to attend and vote at the meeting convened by the above notice or any adjournment thereof is entitled to appoint one or more than one proxy to attend and, subject to the provisions of the bye-laws of the Company, vote in his stead. A proxy need not be a member of the Company.

(2) A form of proxy for use at the meeting is enclosed. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority, if any, under which it is signed or a certified copy of that power or authority, at the offices of the Company's Hong Kong branch share registrar, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong no less than 48 hours before the time for holding the meeting or any adjournment thereof.

(3) Delivery of an instrument appointing a proxy should not preclude a member from attending and voting in person at the above meeting or any adjournment thereof and in such event, the instrument appointing a proxy shall be deemed to be revoked.

(4) In the case of joint holders of a share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she/it were solely entitled thereto to. If more than one of such joint holders are present at the above meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.