EXTRAWELL PHARMACEUTICAL HOLDINGS LIMITED

精優藥業控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 00858)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

The board of directors (the "Directors") of Extrawell Pharmaceutical Holdings Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2006.

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	**(Unaudited) At 30 September 2006** ***HK$'000***	(Audited) At 31 March 2006 *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**55,431**	56,812
Land use rights		**13,736**	13,850
Intangible assets		**287,774**	287,898
		356,941	358,560
CURRENT ASSETS			
Inventories		**8,927**	14,767
Trade receivables	*2*	**85,962**	86,177
Prepayments, deposits and other receivables		**59,320**	56,851
Amounts due from minority shareholders	*8*	**8**	8
Pledged bank deposits		**7,384**	7,262
Cash and cash equivalents	*3*	**48,693**	47,702
		210,294	212,767
TOTAL ASSETS		**567,235**	571,327
EQUITY			
Capital and reserve attributable to the equity holders of the Company			
Share capital	*4*	**22,900**	22,900
Reserves		**260,827**	257,761
		283,727	280,661
MINORITY INTERESTS		**220,090**	220,107
		503,817	500,768

	Notes	(Unaudited) At 30 September 2006 HK$'000	(Audited) At 31 March 2006 HK$'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	*5*	**102**	102
CURRENT LIABILITIES			
Trade and bills payables	*6*	**4,945**	8,323
Accruals and other payables		**21,234**	23,459
Bank interest-bearing borrowings – secured	*7*	**3,117**	4,630
Tax payables		**1,616**	1,641
Amount due to a minority shareholder	*8*	**32,404**	32,404
		63,316	70,457
TOTAL EQUITY AND LIABILITIES		**567,235**	571,327
NET CURRENT ASSETS		**146,978**	142,310
TOTAL ASSETS LESS CURRENT LIABILITIES		**503,919**	500,870

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

		For the six months ended 30 September	
		2006	2005
	Notes	***HK$'000***	*HK$'000*
Turnover	*9*	**68,991**	70,462
Cost of sales		**(49,009)**	(47,110)
Gross profit		**19,982**	23,352
Other revenue		**786**	445
Selling and distribution costs		**(6,808)**	(7,061)
Administrative expenses		**(12,025)**	(11,449)
Other operating expenses		**(439)**	(2,000)
Profit from operations	*11*	**1,496**	3,287
Finance costs	*12*	**(90)**	(848)
Profit before taxation		**1,406**	2,439
Taxation	*13*	**(147)**	(542)
Profit for the period		**1,259**	1,897
Attributable to:			
Equity holders of the Company		**1,276**	719
Minority interests		**(17)**	1,178
		1,259	1,897
Dividend	*14*	**–**	–
Earnings per share for profit attributable to the equity holders of the Company during the period	*15*		
– Basic		**HK 0.06 cent**	HK 0.03 cent
– Diluted		**N/A**	N/A

Notes:

1. **BASIS OF PREPARATION AND ACCOUNTING POLICIES**

These unaudited condensed consolidated interim financial statements have not been audited by the Company's auditors but have been reviewed by the Company's Audit Committee.

The Directors are responsible for the preparation of the Group's unaudited condensed consolidated interim financial statements. In preparing these unaudited condensed consolidated interim financial statements, the Directors confirm that the basis of preparation, accounting policies and method of computation applied are consistent with those used in the audited consolidated financial statements for the year ended 31 March 2006, which are relevant to its operations.

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosure requirements set out in Appendix 16 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The accounting policies used in preparation of these unaudited condensed consolidated interim financial statements are consistent with those adopted in the financial statements for the year ended 31 March 2006. The HKICPA has issued certain new Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) and amendments to existing standards, collectively "New Standards"), certain of which are effective for accounting periods beginning on or after 1 April 2006. The Group has assessed the impact of these New Standards and concluded that the adoption of these New Standards in the current period did not have any material impact on this unaudited condensed consolidated interim financial statements.

The Group has not early applied the New Standards that have been issued but are not yet effective. The Group is still considering the potential impact of New Standards but is not yet in a position to determine whether the adoption of these New Standards would have a significant impact on its results of operations and financial position.

2. **TRADE RECEIVABLES**

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.

The aging analysis of trade receivables is as follows:

	(Unaudited) **At 30 September** **2006** ***HK$'000***	(Audited) At 31 March 2006 *HK$'000*
Within 90 days	**35,619**	55,273
91 to 180 days	**12,153**	18,237
181 to 365 days	**37,685**	12,610
1 to 2 years	**8,617**	8,782
Over 2 years	**7,576**	6,034
	101,650	100,936
Less: Impairment loss on trade receivables	**(14,261)**	(14,124)
Change in fair value of financial assets through profit or loss	**(1,427)**	(635)
	85,962	86,177

The carrying amount of trade receivables approximate to their fair value.

3. CASH AND CASH EQUIVALENTS

At 30 September 2006, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to approximately HK$15,348,000 (31 March 2006: HK$9,057,000). In general, RMB is not freely convertible into other currencies. However, under the Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations of the People's Republic of China (the "PRC"), the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

4. SHARE CAPITAL

	(Unaudited) At 30 September 2006 *HK$'000*	(Audited) At 31 March 2006 *HK$'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

5. DEFERRED TAXATION

The movement in deferred tax liabilities arising from accelerated tax depreciation during the period is as follows:

	(Unaudited) ***HK$'000***
At 1 April 2006	**102**
Deferred tax charged for the period	**–**
At 30 September 2006	**102**

The Group did not recognise tax losses arising in Hong Kong of approximately HK$14,323,000 (31 March 2006: HK$10,234,000) that can be carried forward against future taxable profits of the companies in which the losses arose.

At 30 September 2006, there were no significant unrecognised deferred tax liabilities (31 March 2006: 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 pay additional tax should such amounts be remitted.

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

6. TRADE AND BILLS PAYABLES

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

	(Unaudited) At 30 September 2006 *HK$'000*	(Audited) At 31 March 2006 *HK$'000*
Within 90 days	**4,678**	6,136
Between 91 to 180 days	**48**	2,023
Between 181 to 365 days	**219**	–
Between 1 to 2 years	**–**	164
	4,945	8,323

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

7. BANK INTEREST-BEARING BORROWINGS – SECURED

	(Unaudited) At 30 September 2006 HK$'000	(Audited) At 31 March 2006 HK$'000
Trust receipt loans		
– Secured	**3,117**	4,630

The bank interest-bearing borrowings as at 30 September 2006 and 31 March 2006 were short term which due within one year.

At 30 September 2006, the Group's banking facilities were supported by the followings:

– The pledge of the Group's fixed deposits of HK$7,384,000 (31 March 2006: HK$7,262,000); 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 rates adopted both in Hong Kong and the PRC. All of the Group's borrowings are denominated in Renminbi or Hong Kong dollars.

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

8. AMOUNTS DUE FROM/(TO) MINORITY SHAREHOLDERS

The amounts due from/(to) minority shareholders are unsecured, interest-free and have no fixed terms of repayment.

9. TURNOVER

The Group's turnover comprised the followings:

	(Unaudited) For the six months ended 30 September 2006 HK$'000	2005 HK$'000
Manufacturing of pharmaceutical products	**17,252**	20,713
Trading of pharmaceutical products	**51,739**	49,749
	68,991	70,462

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.

10. 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.

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 oral insulin segment engages in the development and commercialisation of oral insulin products; and

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

The following table provides an analysis of the revenues and results information for the Group's business segments:

	(Unaudited) Manufacturing Six months ended 30 September		(Unaudited) Trading Six months ended 30 September		(Unaudited) Oral insulin Six months ended 30 September		(Unaudited) Gene development Six months ended 30 September		(Unaudited) Consolidated Six months ended 30 September	
	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 revenue:										
Sales to external customers	**17,252**	20,713	**51,739**	49,749	**–**	–	**–**	–	**68,991**	70,462
Segment results	**(1,896)**	1,897	**5,563**	4,877	**(557)**	(797)	**(106)**	(1,135)	**3,004**	4,842
Bank interest income									**766**	445
Net unallocated expenses									**(2,274)**	(2,000)
Profit from operations									**1,496**	3,287
Finance costs									**(90)**	(848)
Profit before taxation									**1,406**	2,439
Taxation									**(147)**	(542)
Profit for the period									**1,259**	1,897
Attributable to:										
Equity holders of the Company									**1,276**	719
Minority interests									**(17)**	1,178
									1,259	1,897

11. PROFIT FROM OPERATIONS

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

	(Unaudited) For the six months ended 30 September	
	2006	2005
	HK$'000	*HK$'000*
Cost of goods sold	**49,009**	47,110
Depreciation and amortisation of property, plant and equipment and land use rights	**2,472**	2,535
Amortisation of intangible assets	**371**	364
Compensation for key management personnel including amounts paid to the Directors and senior executives:		
– Salaries and other benefits	**1,962**	1,953
– Pension scheme contributions	**6**	6
Deficit on revaluation of property, plant and equipment and land use rights	**–**	2,000
Loss on disposal of property, plant and equipment and intangible assets, net	**41**	28
Exchange losses/(gains), net	**(115)**	22
Gain on disposal of a subsidiary	**(10)**	–
Bank interest income	**(766)**	(445)

12. FINANCE COSTS

	(Unaudited) For the six months ended 30 September	
	2006	2005
	HK$'000	*HK$'000*
Interest expenses on:		
Trust receipt loans wholly repayable within five years	**90**	60
Bank loans wholly repayable within five years	**–**	788
	90	848

13. TAXATION

No provision for Hong Kong profits tax has been provided because the Group did not generate any assessable profits arising in Hong Kong. Taxes on profits assessable elsewhere have been calculated at the rates of taxes prevailing in the countries in which the Group operates, interpretations and practices in respect thereof.

	(Unaudited) For the six months ended 30 September	
	2006	2005
	HK$'000	*HK$'000*
Current – Outside Hong Kong	**147**	793
Over-provision in prior years – Hong Kong	**–**	(251)
Total tax charge for the period	**147**	542

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

	(Unaudited) For the six months ended 30 September	
	2006	2005
	HK$'000	*HK$'000*
Profit before taxation	**1,406**	2,439
Tax at the statutory tax rates	**(940)**	(239)
Preferential statutory rate offered	**(87)**	(387)
Expenses not deductible for tax including companies with tax losses	**1,174**	1,419
Over-provision of profits tax for prior years	**–**	(251)
Tax charge at the Group's effective rate	**147**	542

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 15%.

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 periods ended 30 September 2006 and 2005.

14. DIVIDEND

The Directors do not recommend the payment of any interim dividend in respect of the six months ended 30 September 2006 (six months ended 30 September 2005: Nil).

15. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to the Company's equity holders for the period of HK$1,276,000 (six months ended 30 September 2005: HK$719,000) and on 2,290,000,000 (2005: 2,290,000,000) shares in issue during the period.

There were no potential shares in existence for each of the six months ended 30 September 2005 and 2006 and accordingly, no diluted earnings per share has been presented.

16. CONTINGENT LIABILITIES

(a) As at 30 September 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 (31 March 2006: HK$38,000,000). These banking facilities had been utilised to the extent of approximately HK$6,650,000 (31 March 2006: approximately HK$10,600,000) as at the balance sheet.

(b) As at 30 September 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 30 September 2006, the Group did not have any bills discounted with recourse. Bill discounted with recourse as at 31 March 2006 was approximately HK$11,175,000.

17. COMMITMENT

(a) Operating lease commitment

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

At 30 September 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	(Unaudited) **At 30 September** **2006** ***HK$'000***	(Audited) At 31 March 2006 *HK$'000*
Within one year	**1,420**	1,390
In the second to fifth years, inclusive	**742**	1,402
	2,162	2,792

(b) Other commitment

During the year ended 31 March 2005, Fosse Bio-Engineering Development Limited ("Fosse Bio") was acquired by the Group through the acquisition of Smart Ascent Limited ("Smart Ascent"), an indirect subsidiary of the Company, from two individuals (the "Vendors") who are independent third parties to the Group. Pursuant to the deed of transfer (the "Deed") entered into between Smart Ascent and an equity holder 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 oral insulin product issued by the State Food and Drug Administration of the People's Republic of China ("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 oral insulin 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 was recorded as an other receivable by the Group as at the balance sheet date.

As at 30 September and 31 March 2006, the Group had a commitment to advance to Fosse Bio, the Fosse Vendor and/or other equity holders of Fosse Bio for expenses relating to clinical trial of the oral insulin product. The loans so advanced can be offset against the fourth installment of the Consideration payable in accordance with the Deed.

18. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these interim financial statements, there was no material transaction with related party during the periods ended 30 September 2006 and 2005.

19. POST BALANCE SHEET EVENT

Save as disclosed elsewhere in these interim financial statements, the Group also had the following significant post balance sheet event:

On 19 October 2006, a sale and purchase agreement was made between (i) Sea Ascent Investment Limited ("Sea Ascent"), an independent third party of the Group, as the vendor and (ii) Welly Surplus Development Ltd. ("Welly Surplus"), a non-wholly owned subsidiary of the Company, as the purchaser, in connection with the acquisition ("Acquisition") of 1 share of US$1.00 each in the capital of Joy Kingdom Industrial Limited ("Joy Kingdom"), representing 100% of the existing issued share capital of Joy Kingdom; and the unsecured, non-interest bearing loan ("Shareholder's 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 (as defined hereinafter). On the same date, a cooperation agreement (the "Cooperation Agreement") was made between (i) Sea Ascent, (ii) Welly Surplus and (iii) Fosse Bio (as a guarantor to guarantee the performance of Welly Surplus under the Cooperation Agreement) in connection with the cooperation between Sea Ascent and Welly Surplus (the "Cooperation") in respect of the (i) establishment of a wholly foreign 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"); (ii) provision of the Shareholder's Loan of the aggregate principal sum of RMB40 million by Sea Ascent to Joy Kingdom for the acquisition and construction of a factory in the PRC; and (iii) Welly Surplus shall procure Joy Kingdom or Jiangsu Prevalence, if so agreed, to pay to Sea Ascent, during a period of six years from the date on which Oral Insulin Enteric-Coated Soft Capsules (口服胰島素腸溶軟膠丸) (the "Medicine") is launched for sales in open market (the "Initial Operating Period"), a fee calculated by at RMB6 cents for each capsule of Medicine produced (subject to a deduction).

The Cooperation and the Acquisition constitute a very substantial acquisition ("VSA") of the Company under Chapter 14 of the Listing Rules and are subject to the disclosure requirements and the approval of the Company's shareholders. Further details of the VSA were set out in a circular of the Company dated 18 December 2006 and a special general meeting of the Company will be held on 3 January 2007.

CORPORATE GOVERNANCE

The Company has complied with the applicable code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 September 2006 except for the following deviations as detailed in the Company's last annual report:

(a) Code provision A1.3 stipulates that 14-days notice should be given for each regular board meeting. The Company agrees that sufficient time should be given to the Directors in order to make a proper decision. In these respects, the Company adopts a more flexible approach (and yet sufficient time has been given) in convening board meetings to ensure efficient and prompt management decisions could be made.

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted a code of conducts for securities transactions with terms no less exacting than the required standard of the Model Code as set out in Appendix 10 to the Listing Rules.

Following specific enquiry made with the directors of the Company, the Company has confirmed that each of its directors has complied with the required standard set out in the Model Code regarding securities transactions by directors.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Sales and Gross Profit

Following the revitalising year of 2005/6, we have experienced a dynamic business environment and at the same time a demanding market in the first half of 2006/7.

The consolidated turnover of the Group for six months ended 30 September 2006 (the "2006 Interim Period") was approximately HK$69.0 million, represented a slight drop of approximately HK$1.5 million or 2.1% from approximately HK$70.5 million in the six months ended 30 September 2005 (the "2005 Interim Period"). This result is composed of the mild growth in the trading sector (Imported Pharmaceuticals Sector) and a decrease in sales in the manufacturing sector (Manufactured Pharmaceuticals Sector) due to keen competitions in the market.

The consolidated gross profit of the Group for 2006 Interim Period was approximately HK$20.0 million, represented a drop of approximately HK$3.4 million from approximately HK$23.4 million in 2005 Interim Period. The drop in gross profit was mainly due to the drop of gross profit margin in the Manufactured Pharmaceuticals Sector.

Despite the drop in gross profit, the total profit attributable to equity holders of the Company has been doubled from approximately HK$0.7 million in last interim period to approximately HK$1.3 million in current interim period. The increase was mainly attributable to lower other operating costs and our finance costs. The overall selling and distribution costs and administrative expenses were properly controlled according to our budgets. The slight increase in administrative expenses of approximately HK$0.6 million in the current period has been offset by the decrease in selling and distribution costs of approximately HK$0.3 million. The other operating expenses represented an impairment loss on land and buildings of HK$2 million in last interim period. The lower of other operating expenses in the current interim period was due to such impairment provision is not required in the current interim period. Finance cost has also been declined from HK$0.8 million in last interim period to HK$0.1 million in the current interim period.

Imported Pharmaceuticals Sector

Thanks to our devoted and enthusiastic sales team and the distinguish quality of our products, sales of imported pharmaceutical products has been back on the right track of growth. Sales of imported pharmaceuticals successfully rebounced by 4.0% from approximately HK$49.7 million for 2005 Interim Period to approximately HK$51.7 million for 2006 Interim Period. The segment profit of this sector recorded an increase from approximately HK$4.9 million in 2005 Interim Period to approximately HK$5.6 million in 2006 Interim Period.

Our leading product, GM-1, a specialised prescription drug for central nervous system, continued to be well-received in the market and has achieved a stable sale in the current interim period. In previous years, we have introduced to the PRC market an internationally renowned product, Skin-cap Spray. Skin-cap Spray, being the most effective and efficient treatment for cases of psoriasis, dandruff, seborrheic dermatitis, atopic dermatitis, eczema and some tinea, also achieved a promising growth in sales in the current interim period.

Manufactured Pharmaceuticals Sector

Due to the competitive market conditions, the manufactured pharmaceutical products have experienced a rival period. Turnover of this sector has declined by approximately HK$3.4 million from approximately HK$20.7 million in 2005 Interim Period to approximately HK$17.3 million in 2006 Interim Period. As a result, the segment result recorded a loss of approximately HK$1.9 million, representing a decrease of profit by approximately HK$3.8 million from a segment profit of approximately HK$1.9 million in 2005 Interim Period.

Due to severe market competition, some of our products have lowered the selling price in order to remain competitive. The drop in profit margin caused by the price cut was partly compensated by a decrease in selling costs. Nevertheless, one of our leading products, P-Transfer Factor (a product which improves the health and immunity of human bodies with successful experience against the threats of SARS infection), is able to maintain a strong and stable sales trend in the current interim period. In addition, the Group is confident in the new products launched in the current period such as Saponins, extracts from Ginseng, which are raw materials or intermediates widely used in the production of pharmaceuticals, health care and cosmetic products. The product has been well received by customers and expecting a continuous upward sales trend in the coming period.

Oral Insulin Sector

The Group, with the cooperation of Tsinghua University, is developing a new oral insulin medicine. Instead of traditional forms of insulin treatment such as injection, the new medicine allows diabetic patients to receive insulin treatment in the form of oral capsule which is the first medicine by which insulin can be almost successfully absorbed through the digestive system.

Currently, the Group has completed the phase II clinical trial and has submitted the results thereof to the SFDA. Large scale commercialization has yet to be commenced upon receipt of SFDA approval.

Gene Development Sector

Following the strategic decision of suspension of gene development research in the prior years, no sale has been recorded in the Gene Development Sector for the current and last interim period and the Group only maintained minimal corporate and managerial costs for this sector.

Decrease in Group's Selling and Distribution Costs

Selling and distribution costs have been decreased by approximately HK$0.3 million from approximately HK$7.1 million in 2005 Interim Period to approximately HK$6.8 million in 2006 Interim Period which is mainly due to the change in marketing strategy resulting in a decrease in selling and distribution costs.

Increase in Group's Administrative Expenses

Administrative expenses have slightly increased by approximately HK$0.6 million from approximately HK$11.4 million in 2005 Interim Period to approximately HK$12.0 million in 2006 Interim Period following to an increase in our headcounts and staff costs. The increases are in line with our budgets.

Seasonal or Cyclical Factors

The Group's business operations were not significantly affected by any seasonal and cyclical factors except that extended statutory holidays in the PRC may lead to lower Group turnover and profit for the months in which these holidays are declared. There is no seasonal and cyclical factor for its borrowing requirements.

Financial Review
The Group generally finances its operations with internally generated cash flow and facilities granted by its principal bankers in Hong Kong. Its principal bankers are Industrial and Commercial Bank of China (Asia) Limited, Malayan Banking Berhad, The Bank of East Asia, Limited, Dah Sing Bank, Limited and DBS Bank (Hong Kong) Limited. As at 30 September 2006, the Group had total cash and cash equivalents of about HK$56.1 million (31 March 2006: HK$55.0 million).

The Group has kept its borrowing at a minimal level. As at 30 September 2006, the Group's had bank borrowings of approximately HK$3.1 million (31 March 2006: HK$4.6 million), representing a 32.6% decrease from that of 31 March 2006. The Group's banking facilities were supported by the pledge of the Group's fixed deposits of about HK$7.4 million (31 March 2006: HK$7.3 million) and corporate guarantees from the Company and certain subsidiaries of the Company. All those bank borrowings are interest-bearing at the prevailing market rates and repayable within one year or on demand.

Included in the amount due to minority shareholder of about HK$32.4 million (31 March 2006: HK$32.4 million) was an amount of about HK$31.8 million (31 March 2006: HK$31.8 million) which is a payable acquired during our 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 have agreed to assume these liabilities when they fall 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.

As at 30 September 2006, the gearing ratio was 0.01 (31 March 2006: 0.01), calculated based on the Group's total debts of approximately HK$3.7 million (31 March 2006: HK$5.2 million), comprising bank borrowings of about HK$3.1 million (31 March 2006: HK$4.6 million) and net amount of due to a minority shareholder of about HK$0.6 million (31 March 2006: HK$0.6 million), over the Group's total assets of about HK$567.2 million (31 March 2006: HK$571.3 million). The gearing ratio would be 0.06 (31 March 2006: 0.06) if the said consideration payable of about HK$31.8 million (31 March 2006: HK$31.8 million) was included in the gearing ratio calculation.

All bank borrowings are recorded in Hong Kong dollars. 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 period. No hedge on foreign currencies was made during the period.

Except as mentioned above, there were no significant changes in loan structure of the Group during the period.

Contingent Liabilities
As at 30 September 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 (31 March 2006: HK$38,000,000). These banking facilities had been utilised to the extent of approximately HK$6,650,000 (31 March 2006: approximately HK$10,600,000) as at the balance sheet. The decrease was due to the appropriation of surplus fund to pay up the outstanding banking facilities during the period in order to minimize finance costs incurred.

As at 30 September 2006, the Company also provided corporate guarantee in favour of 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.

The Group did not have any bills discounted with recourse as at 30 September 2006. Bill discounted with recourse as at 31 March 2006 was approximately HK$11,175,000. The decrease was due to the appropriation of surplus fund to pay up the outstanding banking facilities during the period in order to minimize finance costs incurred.

Except for the above, there were no significant changes in the contingent liabilities of the Group during the period.

EMPLOYMENT AND REMUNERATION POLICY

As at 30 September 2006, the Group had 382 employees (31 March 2006: 376). Staff costs excluding directors' remuneration for the six months ended 30 September 2006 amounted to approximately HK$6.4 million (six months ended 2005: approximately HK$6.2 million).

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

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

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 will enable the Group to reward the employees, the Directors and other selected participants for their contribution to the Group and will also assist the Group in its recruitment and retention of high caliber professionals, executives and employees who are instrumental to the growth of the Group.

No share option was granted under the Scheme.

OUTLOOK

New Plant for Oral Insulin

Looking ahead, we will continue our focus in the development, manufacturing and marketing of our oral insulin product. On 19 October 2006, agreements have been signed with an independent third party for the acquisition and construction of a new manufacturing plant in the PRC for the oral insulin product for a consideration of approximately RMB40 million and a fee calculated at RMB6 cents for each capsule of Oral Insulin Ebteric-Coated Soft Capsules produced during the Initial Operating Period. The new factory will be equipped with production facilities of annual production capacity of at least 1.5 billion capsules, with a capacity expandable to 3 billion capsules, in compliance with the standards and requirements of certificate under the Guidelines on Good Manufacturing Practices for Pharmaceuticals ("GMP") (藥品生產質量管理規範).

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

Sea Ascent is an investment holding company. Its sole shareholder, Mr. Wang Wei, was principally engaged in the investments of real properties and health care products in Jiangsu, the PRC. He has extensive experience in investment at Pi Zhou City, Jiangsu, the PRC, where the pharmaceutical manufacturing plant is proposed to be established. The Directors consider that the new arrangements can successful diversify the risk of such investment cost to Sea Ascent on one hand, and can ensure that the Oral Insulin Ebteric-Coated Soft Capsules can be launched to the market in a timely and efficiently manner. The management considered that this mode of cooperation is prudent and to the best benefit of shareholders of the Group.

New Products In the Pipeline

The ability of research, development and introduction of quality and innovative pharmaceutical products has set a solid ground to maintain our distinguished market position. In our last annual report, we have announced that there are several new products in the pipeline pending for SFDA approvals. These products are:

(i) Lu Ling Huang Capsule, expecting to have the new drug licence in a few months; and

(ii) Trimetazidine Dihydrochloride Tablet, the new drug licence has been issued and we are in the preparation of manufacturing and launching this product. Trimetazidine Dihydrochloride Tablet is used for prophylactic treatment for angina pectoris, auxiliary treatment for dizziness and tinnitus. It is believed that the demand for the product will be great in the PRC market.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the six months ended 30 September 2006, the Company and its subsidiaries did not purchase, sell or redeem any of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee, which comprised three INEDs with terms of reference in compliance with Code provision C3.3, has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including the review of the unaudited interim results. The Directors are also in the progress of reviewing the internal control systems of the Group.

REMUNERATION COMMITTEE

The Remuneration Committee, which comprised three INEDs, was formed on 16 December 2005 with terms of reference in compliance with Code provision B1.3 to oversee the remuneration policies of the Group during the six months ended 30 September 2006.

PUBLICATION OF THE INTERIM RESULTS ON THE INTERNET WEBSITE OF THE STOCK EXCHANGE

A detailed announcement of results containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange (http://www.hkex.com.hk) and will also be available on the Company's website at http://www.extrawell.com.hk.

By Order of the Board
Mao Yu Min
Chairman

Hong Kong, 20 December 2006

* *for identification only*

As at the date of this announcement, the executive directors of the Company are Dr. Mao Yu Min, Mr. Ho Chin Hou, Mr. Ho Yu Ling, Mr. Li Qiang, Dr. Xie Yi and the independent non-executive directors of the Company are Mr. Fang Lin Hu, Mr. Xue Jing Lun and Ms. Jin Song.

Please also refer to the published version of this announcement in The Standard.