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

(Incorporated in Bermuda with limited liability)

(Stock Code: 00858)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2006

The Board of Directors (the "Board") of Extrawell Pharmaceutical Holdings Limited (the "Company") hereby announces the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2006 as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31 March 2006

	Note	**2006** *HK$'000*	2005 *HK$'000* (Restated)
Turnover	3	**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	4	**7,605**	(85,632)
Finance costs		**(908)**	(2,203)
Profit/(loss) before taxation		**6,697**	(87,835)
Taxation	5	**(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	6	**–**	–
Earnings/(loss) per share for profit/(loss) attributable to the equity holders of the Company during the year	7		
Basic		**HK$0.002**	(HK$0.033)
Diluted		**N/A**	N/A

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

CONSOLIDATED BALANCE SHEET

At 31 March 2006

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

Notes:

1. **BASIS OF PREPARATION**

   The consolidated financial statements of Extrawell Pharmaceutical Holdings Limited have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which is a collective term that includes 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.

2. CHANGES IN 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 the 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 were summarised as follows:

Consolidated Balance Sheet
As at 31 March 2006

	HKAS 17 *HK$'000*	**HKAS 38** *HK$'000*	**HKAS 39** *HK$'000*	**Total** *HK$'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

	HKAS 17 *HK$'000*	**HKAS 38** *HK$'000*	**HKAS 39** *HK$'000*	**Total** *HK$'000*
Decrease in depreciation	(561)	–	–	(561)
Increase in amortisation of land use rights	561	–	–	561
Increase in impairment of 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 *HK$'000*	**HKAS 38** *HK$'000*	**HKAS 39** *HK$'000*	**Total** *HK$'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

	HKAS 17 *HK$'000*	**HKAS 38** *HK$'000*	**HKAS 39** *HK$'000*	**Total** *HK$'000*
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.

3. TURNOVER AND SEGMENT INFORMATION

Turnover

The Group's turnover comprised of the followings:

	2006 ***HK$'000***	2005 *HK$'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.

Segment information

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

	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)
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

4. PROFIT/(LOSS) FROM OPERATIONS

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

	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Depreciation	**4,530**	5,830
Amortisation of intangible assets	**732**	7,317
Amortisation of goodwill	**–**	3,526
Amortisation of land use rights	**561**	566
Impairment loss on trade receivables	**8,090**	–
Changes in fair value of financial assets through profit or loss	**1,646**	–

5. 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. Tax 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.

	2006	2005
	HK$'000	*HK$'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)

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.

6. DIVIDEND

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

7. 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 shareholders 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 2006 and 2005 and accordingly, no diluted earnings/(loss) per share has been presented.

8. TRADE RECEIVABLES

The aging analysis of trade receivables is as follows:

	2006	2005
	HK$'000	*HK$'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

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.

9. TRADE AND BILLS PAYABLES

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

	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.

EXTRACTED FROM THE REPORT OF THE AUDITORS

The financial statements for the year ended 31 March 2006 have been audited by the Group's auditors. The auditors' report of the Group's financial statements for the year ended 31 March 2006 contained a qualified opinion. The following are extracted from the auditors' 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 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 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 the financial statements, the Phase II clinical trial of the Product has completed and the result has 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.

MANAGEMENT DISCUSSION AND ANALYSIS

(A) BUSINESS REVIEW

Overall Performance

In the current financial year ended 31 March 2006, we have recovered from the bitter experience of business re-alignment last year and back on the right track of growth and profitability.

Our sales surge by 5% from about HK$170.0 million in 2005 to about HK$178.3 million in 2006. Revenue growth is mainly attributable to sales of our own manufactured pharmaceuticals. Sales of manufactured pharmaceutical products has 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. Our 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 have experienced significant improvements of 51.4% and 12.1% respectively. Gross profit margin has 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 People's Republic of China (the "PRC") is 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 last year. Gross profit and gross profit margin for imported products are relatively consistent as compared to last year.

We have managed to upturn from net loss for the year of about HK$86.0 million last year to net profit for the year of about HK$4.2 million this year. In last year, 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 last year and about HK$15.9 million in the current year, profit for the years for 2005 and 2006 are 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 has 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 are lowered and the promotional activities are conducted in more disciplinary manners. As an ethical manufacturer, we gradually enjoy the protection from a more discipline market and competitive advantage of our established brand name.

In the current year, sales, gross profit and gross profit margin have improved significantly. The gap of segment loss has been significantly narrowed from a loss of about HK$14.4 million (representing an operating loss margin of 36.8%) last year to a loss of about HK$7.0 million (representing an operating loss margin of 13.6%) this year. We believe that we are back on the right track and are confidence that our manufactured products segment will turn around in the near future.

Imported Pharmaceutical Sector

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

Gross profit and gross profit margin for imported products segment are relatively stable. We have experienced some costs savings from lower selling and distribution expenses, as we enjoyed some brought forward effect from last year's major marketing and promotional activities such as television special programs and medical seminars. The operating profit generated from this segment has 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, due to the strategic allocation of low resource to this sector, our gene development business is 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 reflects our successful effort in cost containment in marketing and promotional activities. However, we did not simply cut costs for the sake of lowing budget. Our professional marketing and sales support team are 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 academic, and providing detailed and responsive after sales support on product application, dosage, efficacy and side effects, we have improved the efficiency of our marketing and promotional activities.

Administrative Expenses

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

The lower administrative expenses are the combined effect of amortisation of goodwill about HK$3.5 million last year, 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 this year 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 are 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. The lower costs of amortisation of intangible assets by about HK$6.7 million is 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 last year. The provision for doubtful debts of about HK$8.1 million is 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 compare with 2004 following the substantial decrease in turnover in that year.

Profit Before Taxation

After re-alignment of our business, we have rally our forces and regain positive results this year. We have 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 last year.

In last year, 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 current year, we have 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. Our profit before taxation for 2005 and 2006 are in a loss of about HK$1.2 million and a profit about HK$22.6 million respectively should we exclude the effect of non-cash impairment provisions and fair value adjustments of HK$86.6 million in last year and HK$15.9 million in the current year.

(B) OUTLOOK AND NEW DEVELOPMENT

Progress of Oral Insulin

Oral insulin is jointly developed by the Department of Bio-engineering of Tsinghua University and Fosse Bio-Engineering Development Ltd ("Fosse Bio"). After close examination, the State Food and Drug Administration of the PRC ("SFDA") has granted permission to perform Phase I and Phase II clinical trials on oral insulin in July 2003. Fosse Bio is a non-wholly owned subsidiary of the Company, 51% of which is held by Smart Ascent Limited (a 51%-owned subsidiary of the Company) ("Smart Ascent").

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 is effective in lowering the glucose level after it has entered into the blood system through the digestive system and the oral insulin is 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 aims 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 has 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 the year 2005, the phase II clinical trial has been completed with encouraging results issued by the above five SFDA authorised medical centers. The result has been submitted to the SFDA for approval.

Insulin, itself, in fact is not a new drug. It can be taken in other forms, such as injection and more recently, in the form of inhalation in the USA. However, our product allows 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 is absorbed by human digestive system into the blood streams, which is the same as our natural insulin produced by our own body. We are confident that with our patented technological advantage and our costs advantage by manufacturing in the PRC, our product will have great demand once available in the market.

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

In order to meet the huge future demand, we are, on one hand, in the process to re-organise and upgrade our GMP (Good Manufacturing Practice) factory in Jilin; and on the other hand, searching for suitable new production premises.

In the coming year, we will 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 our long-term success depends on our ability to devise and commercialise innovative pharmaceutical products.

We have introduced to the PRC market in the prior years an internationally renowned product, Skin-cap Spray, which is considered the most effective and rapid treatment for cases of psoriasis, dandruff, dermatitis, atopic dermatitis, eczema and some tinea. It relieves itching, eliminates the flaking of the skin and scalp and improves the appearance of the skin. The product has been well-received in the market. We will further promote this product through our widely spreaded marketing and distribution network in the coming year.

During the year, we have launched six more new products by our 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, we have two more products in the pipeline pending for SFDA approvals:

1. Cellulose Capsule – patients who are in danger with chemical liver damage, low immunity;
2. Trimetazidine Dihydrochloride Tablets – preventive treatment for angina pectoris, auxiliary treatment for dizziness and tinnitus.

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

(C) FINANCIAL REVIEW

Liquidity and Financial Resources

The Group generally finances 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 are 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 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.

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.

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

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

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

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

CORPORATE GOVERNANCE PRACTICES

The Company and its subsidiaries (the "Group") recognise the importance of achieving and monitoring the high standard of corporate governance consistent with the need and requirements of its business and the best interest of all of its shareholders. The Group is fully committed to doing so. During the year ended 31 March 2006, the Company has adopted and applied the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") save as disclosed below. It is with the objectives in mind that the Group has applied such principles and will comply with the individual code provisions.

(a) Code provision A1.3 stipulates that 14-days notice should be given for each board meeting. The Company agrees that sufficient time should be given to the directors of the Company (the "Directors") in order to make a proper decision. In these respects, the Company adopts a more feasible 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 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 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 proportion of Directors in continuing which is to the best interest of the Company's shareholder.

(d) Code provisions B1.1-5 stipulate the establishment of a remuneration committee, its operations and its term of reference. In addition, Code provision C3.3 stipulates the terms of reference of the audit committee. The previous terms of reference of our audit committee do not fully cover those set out in Code provision C3.3. The Company has adopted terms of reference as set out in Code provision C3.3 and set up a remuneration committee according to the Code provisions B1.1-5 on 16 December 2005.

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.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

AUDIT COMMITTEE

The Company has established an Audit Committee (the "Committee"), with written terms of reference, in compliance with Rule 3.21 of the Listing Rules, for the purpose of reviewing and providing supervision over the financial reporting process and internal controls of the Group. The Committee comprises three independent non-executive directors. The Group's financial statements for the year ended 31 March 2006 have been reviewed by the Committee. The Committee is of the opinion that such financial statements comply with the applicable accounting standards, and stock exchange and legal requirements, and that adequate disclosures have been made.

PUBLICATION OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE

The Company's 2006 annual report containing the relevant information required by the Listing Rules will be despatched to the shareholders of the Company and published on the website of the Stock Exchange in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 25 August 2006 to 29 August 2006, both days inclusive, during which period no transfer of shares will be effected. Tengis Limited is the Company's Registrar for registration and is located at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong.

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

List of Directors as at 19 July 2006

Executive Directors:	*Independent Non-executive Directors and Audit and Remuneration Committee:*
Dr. MAO Yu Min	Mr. FANG Lin Hu
Mr. HO Chin Hou	Mr. XUE Jing Lun
Mr. HO Yu Ling	Ms. JIN Song
Mr. LI Qiang	
Dr. XIE Yi	

Hong Kong, 19 July 2006

* *For identification only*

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