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 2007

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 2007 as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31 March 2007

	Note	**2007** *HK$'000*	2006 *HK$'000*
Turnover	3	**158,763**	178,265
Cost of sales		**(109,996)**	(108,450)
Gross profit		**48,767**	69,815
Other revenue		**1,824**	1,537
Other income		**8,689**	3,113
Selling and distribution expenses		**(14,436)**	(14,890)
Administrative expenses		**(26,656)**	(26,340)
Impairment loss recognised in respect of trade receivables		**(8,688)**	(8,725)
Impairment loss recognised in respect of other receivables		**—**	(1,011)
Impairment loss recognised in respect of goodwill		**—**	(5,171)
Impairment loss recognised in respect of property, plant, equipment and interests in leasehold land		**—**	(10,723)
Profit from operations	4	**9,500**	7,605
Finance costs		**(197)**	(908)
Profit before taxation		**9,303**	6,697
Taxation	5	**(369)**	(2,510)
Profit for the year		**8,934**	4,187
Attributable to:			
Equity holders of the Company		**9,336**	4,669
Minority interests		**(402)**	(482)
		8,934	4,187
Dividend	6	**—**	—
Earnings per share for profit attributable to the equity holders of the Company			
Basic	7	**HK$0.004**	HK$0.002
Diluted	7	**N/A**	N/A

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

CONSOLIDATED BALANCE SHEET
At 31 March 2007

	Note	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment		**55,384**	56,812
Interests in leasehold land		**13,977**	13,850
Intangible assets		**287,722**	287,898
Goodwill		**—**	—
		357,083	358,560
Current assets			
Inventories		**12,453**	14,767
Trade receivables	8	**82,572**	86,177
Deposits, prepayments and other receivables		**55,372**	56,851
Amounts due from minority shareholders		**8**	8
Pledged bank deposits		**7,532**	7,262
Cash and cash equivalents		**78,969**	47,702
		236,906	212,767
Total assets		**593,989**	571,327
Capital and reserves attributable to the Company's equity holders			
Share capital		**22,900**	22,900
Reserves		**276,019**	257,761
		298,919	280,661
Minority interests		**217,565**	220,107
		516,484	500,768
Non-current liabilities			
Deferred taxation		**102**	102
Current liabilities			
Trade and bills payables	9	**9,657**	8,323
Accruals and other payables		**26,911**	23,459
Interest-bearing borrowings — secured		**3,543**	4,630
Tax payable		**1,631**	1,641
Amount due to a director		**3,257**	—
Amount due to a minority shareholder		**32,404**	32,404
		77,403	70,457
Total equity and liabilities		**593,989**	571,327
Net current assets		**159,503**	142,310
Total assets less current liabilities		**516,586**	500,870

Notes:

1. BASIS OF PREPARATION

The consolidated financial statements 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 ("Ints") issued by the HKICPA and accounting principles generally accepted in Hong Kong. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong (the "Listing Rules") and by the Hong Kong Companies Ordinance.

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. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations of Hong Kong Financial Reporting Standards (the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for accounting periods beginning on or after 1 April 2006. A summary of the new HKFRSs is set out as below:

HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS-Int 4	Determining whether an Arrangement contains a Lease

The adoption of the above new HKFRSs did not result in substantial changes to the Group's accounting policies and did not result in significant impact to the Group's results and financial position for the current and prior periods.

The Group has not early applied the following new standards, amendments or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	(Note a)	Capital Disclosures
HKFRS 7	(Note a)	Financial Instruments — Disclosures
HKFRS 8	(Note b)	Operating Segments
HK(IFRIC)-Int 7	(Note c)	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	(Note d)	Scope of HKFRS 2
HK(IFRIC)-Int 9	(Note e)	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	(Note f)	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	(Note g)	HKFRS 2 — Group and Treasury Share Transaction
HK(IFRIC)-Int 12	(Note h)	Service Concession Arrangements

Notes:

a. *Effective for annual periods beginning on or after 1 January 2007*

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

c. *Effective for annual periods beginning on or after 1 March 2006*

d. *Effective for annual periods beginning on or after 1 May 2006*

e. *Effective for annual periods beginning on or after 1 June 2006*

f. *Effective for annual periods beginning on or after 1 November 2006*

g. *Effective for annual periods beginning on or after 1 March 2007*

h. *Effective for annual periods beginning on or after 1 January 2008*

3. TURNOVER AND SEGMENT INFORMATION

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Manufacturing of pharmaceutical products	**43,275**	51,714
Trading of pharmaceutical products	**115,488**	126,551
	158,763	178,265

Segment Information

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

The Group's operating businesses are structutred 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 revenue, results and certain assets, liabilities and expenditures information by business nature:

	Manufacturing		Trading		Gene development		Oral insulin		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	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	**43,275**	51,714	**115,488**	126,551	**—**	—	**—**	—	**158,763**	178,265
Segment results	**1,121**	(7,012)	**17,175**	33,257	**(232)**	(341)	**(213)**	(257)	**17,851**	25,647
Interest income									**1,789**	1,001
Net unallocated expenses									**(10,140)**	(19,043)
Profit from operation									**9,500**	7,605
Finance cost									**(197)**	(908)
Profit before taxation									**9,303**	6,697
Taxation									**(369)**	(2,510)
Profit for the year									**8,934**	4,187
Segment assets	**131,920**	133,232	**122,670**	107,887	**6**	7	**285,988**	284,269	**540,584**	525,395
Unallocated assets									**53,405**	45,932
Total assets									**593,989**	571,327
Segment liabilities	**9,572**	9,300	**30,302**	25,520	**67**	64	**827**	238	**40,768**	35,122
Unallocated liabilities									**36,737**	35,437
Total liabilities									**77,505**	70,559
Other segment information:										
Capital expenditure	**671**	448	**71**	685	**—**	—	**—**	—	**742**	1,133
Unallocated capital expenditure									**39**	25
									781	1,158
Depreciation and amortisation	**5,028**	4,939	**513**	391	**—**	—	**—**	—	**5,541**	5,330
Unallocated depreciation and amortisation									**221**	493
									5,762	5,823
Impairment losses recognised	**—**	5,151	**—**	10,723	**—**	—	**—**	20	**—**	15,894
Other non-cash Expenses	**8,390**	9,621	**298**	143	**—**	—	**—**	—	**8,688**	9,764
Unallocated other non-cash expenses									**42**	17
									8,730	9,781

4. PROFIT FROM OPERATIONS

The Group's profit from operations has been arrived at after charging:

	The Group 2007 HK$'000	2006 HK$'000
Cost of goods sold	**109,996**	108,450
Employee benefit expenses	**20,716**	20,012
Depreciation of property, plant and equipment	**4,539**	4,530
Amortisation of intangible assets	**751**	732
Amortisation of interests in leasehold land	**472**	561
Auditors' remuneration	**630**	620
Minimum lease payments under operating leases for land and buildings	**1,669**	1,661
Research and development costs	**185**	466
Loss on disposal of property, plant and equipment	**42**	45

5. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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% (2006: 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 the two years ended 31 March 2007 and 2006.

	The Group 2007 HK$'000	2006 HK$'000
Current — Hong Kong		
Charge/(credit) for the year	**120**	(116)
Over-provision in prior years	**(299)**	—
Current — Elsewhere		
Charge for the year	**548**	1,380
Deferred tax	**—**	1,246
Total tax charge for the year	**369**	2,510

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

	The Group 2007 HK$'000	2006 HK$'000
Profit before taxation	**9,303**	6,697
Tax at the statutory tax rates applicable to the relevent tax jurisdictions	**(1,772)**	(3,075)
Preferential statutory rate offered	**408**	(496)
Adjustment in respect to deferred tax	**—**	1,246
Expenses not deductible for tax purpose	**4,634**	5,991
Tax effect on income not taxable	**(2,901)**	(1,156)
Tax charge for the year	**369**	2,510

6. DIVIDEND

The directors do not recommend the payment of any dividend in respect for the year ended 31 March 2007 (2006: Nil).

7. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to the Company's equity holders of HK$9,336,000 (2006: HK$4,669,000) and on 2,290,000,000 (2006: 2,290,000,000) shares in issue during the year.

As there were no potential dilutive ordinary shares in existence for each of the years ended 31 March 2006 and 2007 and accordingly, no diluted earnings per share have been presented.

8. TRADE RECEIVABLES

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Within 90 days	**49,959**	55,273
Between 91 to 180 days	**20,669**	18,237
Between 181 to 365 days	**11,945**	12,610
Between 1 to 2 years	**8,688**	8,782
Over 2 years	**8,008**	6,034
	99,269	100,936
Less: Impairment loss in respect of trade receivables	**(16,697)**	(14,759)
	82,572	86,177

Notes:

(i) *The Group's trading terms with its customers, are mainly based on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of 120 days, extending up to one year for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. The directors of the Company consider that there is no concentration of credit risk with respect to trade receivables.*

(ii) *The movements for impairment loss in respect of trade receivables were as follows:*

	The Group	
	2007	2006
	HK$'000	*HK$'000*
At 1 April	**14,759**	9,131
Exchange alignments	**795**	—
Impairment loss recognised in respect of trade receivables	**8,688**	8,725
Reversal of impairment losses on trade receivables	**(7,545)**	(3,097)
At 31 March	**16,697**	14,759

(iii) *The directors considered that the carrying amounts of trade receivables approximate to their fair values.*

9. TRADE AND BILLS PAYABLES

At 31 March 2007, the aging analysis of the trade and bills payables was as follows:

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Within 90 days	**6,916**	6,136
Between 91 to 180 days	**2,481**	2,023
Between 181 to 365 days	**253**	—
Between 1 to 2 years	**7**	164
	9,657	8,323

The directors considered that the carrying amounts of trade and bills payables approximate to their fair value.

EXTRACTED FROM INDEPENDENT AUDITORS' REPORT

The consolidated financial statements for the year end 31 March 2007 have been audited by the Group's independent auditors. The independent auditors' report of the Group's financial statements for the year ended 31 March 2007 was modified. The independent auditors' report is extracted as follows:

"Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Significant Uncertainty Relating To Recoverability Of Intangible Assets And Other Receivable

Without qualifying our opinion, we draw attention to notes 9 and 14 to the financial statements. At 31 March 2007, the Group had intangible assets of technical know-how (the "Know-how") in relation to the oral insulin product (the "Product") and the exclusive right for the commercialisation of the Product owned by the Group of carrying value amounting to approximately HK$284,260,000. The Know-how is held by Fosse Bio-Engineering Development Limited ("Fosse Bio"), a subsidiary acquired by the Group during the year ended 31 March 2005 through the acquisition of Smart Ascent Limited ("Smart Ascent"), which owns 51% equity interest in Fosse Bio, from two vendors (the "Vendors"). The Group also had a receivable (the "Receivable") amounting 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 clinical trials of the Product are under the final stage and the results have been submitted to the State Food and Drug Administration of the People's Republic of China for further approval, the approval process is currently ongoing. The recoverability of the carrying values of the Know-how and the Receivable depends upon the results of the clinical trials and the successful launching of the Product, the ultimate outcome of the matter cannot be presently determined, and provision for impairment loss that may result should the clinical trials or the launching of the Product be unsuccessful, adjustment has not been made in the financial statements."

POST BALANCE SHEET EVENT

On 27 July 2007, Extrawell (BVI) Limited, a direct wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Mr. Ong Cheng Heang ("Mr. Ong"), who is a shareholder owned 49% equity interest in Smart Ascent, a 51%-owned indirect subsidiary of the Company. Pursuant to the sale and purchase agreement, Extrawell (BVI) Limited agreed to buy and Mr. Ong agreed to sell the 49% equity interest in Smart Ascent at a consideration of HK$768,900,000, which will be satisfied by allotting and issuing 300,000,000 ordinary shares of the Company with nominal value HK$0.01 at issuing price of HK$2.563 each.

MANAGEMENT DISCUSSION AND ANALYSIS

A. Business Review

Overall Performance

China pharmaceutical is a fast growing industry serving a market of vast and aging population of more than 1.3 billion. According to statistics, the annual growth rate has reached about 17.5%, which is higher than the global growth rate of pharmaceutical industry and the per capita GDP growth in the PRC. At the same time, competition is intensifying as more players, both locally and internationally, are attracted to enter into this market. Price competition has become a very important tool to drive competitors away and/or to stay and maintain market share.

Although we enjoyed competitive advantage of our established brand name and quality of our products, we are unavoidably affected by the market sentiment of fierce price competition.

The PRC government has strengthen its policy to restrict all government controlled hospitals to source medicines through open tender. As a result, sourcing agents are placing more emphasis on pure price comparison while less emphasis is on the quality and individual needs of each individual patient. In the early stage of implementation of this policy, we are unavoidably affected but we responded proactively to lower our sales price in order to maintain our market share. In the long run, we are confident that the superior quality and efficacy of our products and our more established manufacturing and marketing teams will drive away less established competitors.

Our turnover was dropped by approximately 10.9% from about HK$178.3 million for 2006 to about HK$158.8 million for 2007. The gross profit has also been lowered by 30.1% from about HK$69.8 million for 2006 to about HK$48.8 million for 2007.

The overall industrial environment has affected both our manufactured pharmaceutical products and imported pharmaceutical products which resulted in decline in sales of both sectors.

Nevertheless, we achieved a total profit attributable to equity holders of the Company of approximately HK$9.3 million for the year ended 31 March 2007, doubled that of approximately HK$4.7 million last year.

Imported Pharmaceutical Sector

Turnover for the imported pharmaceutical sector decreased for about 8.7% from about HK$126.6 million last year to about HK$115.5 million this year. Segment operating profit is about HK$17.2 million for the year ended 31 March 2007, representing a decline of operating profit by 48.4% comparing to the segment results for the financial year ended 31 March 2006.

Despite of the competitive market condition, our leading product, GM-1, continued to enjoy competitive advantage in the market. GM-1 is a specialised prescription drug, which can re-establish functional recovery of central nervous system. This product's major pharmaceutical indication is for vascular or traumatic lesions of central nervous system and Parkinson's disease.

Manufactured Pharmaceutical Sector

The recent changes in regulatory environment and market conditions as mentioned above have also affected our manufactured pharmaceutical sector, which resulted in a 16.3% decrease of sales from HK$51.7 million for the year ended 31 March 2006 to about HK$43.3 million for the year ended 31 March 2007.

On the other hand, the segment operating profit of the manufactured pharmaceutical sector has turned around from a loss of about HK$7.0 million last year to a profit of about HK$1.1 million this year. Higher profitability is mainly attributable to better credit control in the year, which resulted in lower level of impairment loss.

During the year, our new manufactured products, such as Muscular Amino Acids and Peptides and Nucleosides Injection, Heparolysate Injection and Saponins, were well-received in the market.

Gene Development Sector

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

Oral Insulin Sector

As the clinical trials are under the final stage, and the results have been submitted to SFDA for further approval, no revenue was recorded in this year.

Selling and Distribution Expenses

Selling and distribution expenses of the Group decreased slightly from about HK$14.9 million in 2006 to about HK$14.4 million in 2007, representing a drop of about 3%. The decrease in selling and distribution expenses is due to a decrease in academic promotional meetings and seminars held.

Administrative Expenses

Administrative expenses of the Group slightly increased during the year from about HK$26.3 million in 2006 to about HK$26.7 million in 2007 by approximately 1.0%. The increase was a result of salary adjustment during the year.

Other Revenue and Income

Other revenue and income increased by about HK$5.8 million from about HK$4.7 million last year to about HK$10.5 million this year. This increase was due to an increase in interest income by about HK$0.8 million and an income from reversal of impairment loss on trade receivables and other receivables by about HK$5.5 million.

Profit Before Taxation

Through the continuous effort in integrating and re-engineering of our work force, we have back to the right track of profitability. During this year ended 31 March 2007, we have achieved a profit before taxation of about HK$9.3 million and profit attributable to equity holders to the Company of about HK$9.3 million, representing an increase of about HK$2.6 million and about HK$4.7 million, respectively.

B. Outlook and New Products Development

While the clinical trials are under the final stage and the results have been submittled the SFDA for further approval, we have speed up our time frame for construction of productions facilities and which is a signification move to comercialise oral insulin product. In preparing for the production of our first oral insulin product — Oral Insulin Enteric-Coated Soft Capsules ("Oral Insulin"), on 19 October 2006, a subsidiary of the Company entered into agreements with an independent third party to establish a Good Manufacturing Practices ("GMP") compliance manufacturing premises equipped with an annual production capacity of 1.5 billion capsules, which is extendable to 3.0 billion capsules.

According to the agreements, we will be able to acquire this GMP-compliant manufacturing premises at a consideration of about RMB 40 million upon completion and certification of full GMP compliant with of deferred payment for 6 years. This arrangement effectively lower the investment risk of the Group as investment cost and risk involve in constructing a pharmaceutical manufacturing plant for the production of medicine can be significant. The investor may also face the risk of change in regulatory requirements for GMP certification and production approvals. This strategic move has on one hand consolidated the strengths of our prominent business partner who is well-established real properties developer and healthcare products manufacturer in Jiangsu, the PRC, and ensure that the Oral Insulin can be launched to the market in a timely and effectively manner.

In addition to Oral Insulin, we also have several new products with promising market potential in our product launching pipe line. In March 2007, we obtained approval for manufacturing and sales of "Lu Ling Huang Capsule" from the SFDA. "Lu Ling Huang Capsule" is a pharmaceutical product which is allowed to be sold "over-the-counter" ("OTC"). Its efficacy includes protective action for patients who are in danger with chemical liver damage and enhancement of patients' body immunity. This product is planned to be launched next year.

Another OTC product, Trimetazidine Dihydrochloride Tablets (efficacy in the area of preventive treatment for angina pectoris, auxiliary treatment for dizziness and tinnitus) is still pending for SFDA's approvals. We believes these new products will contribute to our continuing upward trend of profitability.

C. FINANCIAL REVIEW

Liquidity and Financial Resources

It is the Group's strategy to manage its financial resources conservatively by maintaining a healthy level of cash flows to meet all its financial commitments when they fall due. The Group generally finances its operations with internally generated cash flows and banking facilities. As at 31 March 2007, the Group had total cash and bank balances (including pledged bank deposits) of about HK$86.5 million (2006: HK$55.0 million).

As at 31 March 2007, the Group had bank borrowings of about HK$3.5 million (2006: HK$4.6 million), representing a 23.9% decrease from that of 31 March 2006. 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$7.5 million (2006: HK$7.3 million) and corporate guarantees from the Company and certain subsidiaries of the Company. All of the Group's borrowings are denominated in US dollars at effective interest rates ranging from 6.65% to 8.25% per annum. There is no seasonality in borrowing requirements of the Group.

The Group's gearing ratio as at 31 March 2007 was 0.06 (2006: 0.06), calculated based on the Group's total debts of about HK$35.9 million (2006: HK$37.0 million), comprising bank borrowings of about HK$3.5 million (2006: HK$4.6 million) and amount of due to a minority shareholder of about HK$32.4 million (2006: HK$32.4 million), over the Group's total assets of about HK$594.0 million (2006: HK$571.3 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) On 19 October 2006, Sea Ascent Investment Limited ("Sea Ascent"), an independent third party to the Group, and Welly Surplus Development Limited ("Welly Surplus"), a 51%-owned indirect subsidiary of the Company, entered into a sale and purchase agreement ("SP Agreement") that Sea Ascent agreed to sell and Welly Surplus agreed to acquire (i) the entire share capital (the "Sale Share") in Joy Kingdom Industrial Limited ("Joy Kingdom") and (ii) the unsecured, non-interest bearing loan ("Shareholder's Loan") for an 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) at considerations of RMB40 million and HK$1 respectively (the "Consideration"). The completion of the SP Agreement was subject to the Cooperation Agreement becoming effective in accordance with its terms.

On 19 October 2006, Sea Ascent, Welly Surplus and Fosse Bio entered into a cooperation agreement (the "Cooperation Agreement") in connection with the cooperation (the "Cooperation") between Sea Ascent and Welly Surplus in respect of (i) Sea Ascent shall procure Joy Kingdom to establish 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) Sea Ascent shall advance a sum equivalent to RMB40 million to Joy Kingdom by way of an unsecured, non-interest bearing Shareholder's Loan for the payment of the registered capital of Jiangsu Prevalence and the acquisition of land 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 the Oral Insulin Enteric-Coated Soft Capsules (the "Medicine") is launched for sales in open market (the "Initial Operating Period"), a fee was calculated at RMB6 cents for each capsule of Medicine produced (subject to a deduction) as specified in the Cooperation Agreement.

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

At 31 March 2007, the Cooperation Agreement has not become effective and the Consideration has not yet paid up to the date of approval of these financial statements.

(b) At 31 March 2007, the Company had provided corporate guarantees to certain banks for banking facilities provided to certain of its subsidiaries to the extent of approximately HK$38.0 million (2006: HK$38.0 million). These banking facilities had been utilised to the extent of approximately HK$9.9 million (2006: HK$10.6 million) as at the balance sheet date.

(c) At 31 March 2007, 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 about HK$5.0 million for the entire lease period starting from May 2005, contained in the tenancy agreement signed between the landlord and the Subsidiary during the year.

(d) At 31 March 2007, the Group had bills discounted with recourse of approximately HK$16.0 million (2006: HK$11.1 million).

The changes in contingent liabilities were in line with the business development of the Group.

D. Employment and Remuneration Policy

As at 31 March 2007, the Group had 377 employees (2006: 376). Staff costs excluding directors' remuneration for the year ended 31 March 2007 amounted to approximately HK$16.5 million (2006: approximately HK$15.8 million). The slight increase in staff costs was due to salary adjustment this year.

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 has been granted under the Scheme.

CORPORATE GOVERNANCE REPORT

The Company and its subsidiaries 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 2007, 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 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 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 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 proportion of Directors in continuity which is to the best interest of the Company's shareholders.

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 2007 have been reviewed by the Committee. The Committee is of the opinion that such financial statements comply with the applicable accounting standards, 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 2007 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.

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

List of Directors as at the date of this announcement:

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

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

Hong Kong, 30 July 2007

* *For identification only*