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

(incorporated in Bermuda with limited liability)

(Stock Code: 00858)

ANNUAL RESULTS
FOR THE YEAR ENDED 31 MARCH 2011

The board of directors (the "Board") of Extrawell Pharmaceutical Holdings Limited (the "Company") hereby announces the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 March 2011 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 March 2011

	NOTE	**2011** ***HK$'000***	2010 *HK$'000*
TURNOVER	*3*	**198,816**	196,291
COST OF SALES		**(146,785)**	(142,447)
GROSS PROFIT		**52,031**	53,844
OTHER REVENUES		**11,592**	13,518
SELLING AND DISTRIBUTION EXPENSES		**(16,481)**	(19,836)
ADMINISTRATIVE EXPENSES		**(29,418)**	(28,421)
RESEARCH AND DEVELOPMENT EXPENSES	*4*	**(8,339)**	(809)
IMPAIRMENT ON TRADE RECEIVABLES		**(4,282)**	(5,508)
PROFIT BEFORE TAXATION	*4*	**5,103**	12,788
TAXATION	*5*	**(1,055)**	2,784

	NOTE	2011 HK$'000	2010 HK$'000
PROFIT FOR THE YEAR		**4,048**	15,572
OTHER COMPREHENSIVE INCOME			
EXCHANGE REALIGNMENT		**6,139**	—
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**10,187**	15,572
PROFIT FOR THE YEAR			
ATTRIBUTABLE TO:			
EQUITY HOLDERS OF THE COMPANY		**11,567**	14,624
NON-CONTROLLING INTERESTS		**(7,519)**	948
		4,048	15,572
TOTAL COMPREHENSIVE INCOME			
ATTRIBUTABLE TO:			
EQUITY HOLDERS OF THE COMPANY		**17,359**	14,624
NON-CONTROLLING INTERESTS		**(7,172)**	948
		10,187	15,572
		HK cents	*HK cents*
EARNINGS PER SHARE			
FOR PROFIT ATTRIBUTABLE TO			
EQUITY HOLDERS OF THE COMPANY			
BASIC	6	**0.51**	0.64
DILUTED	6	**N/A**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2011

	NOTE	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**49,657**	50,045
Prepaid land lease payments		**23,691**	13,634
Intangible assets		**286,936**	287,186
Amounts due from non-controlling interests		**12,970**	9,598
		373,254	360,463
CURRENT ASSETS			
Inventories		**15,232**	23,121
Trade receivables	7	**72,575**	84,756
Deposits, prepayments and other receivables		**57,712**	60,304
Amount due from a non-controlling interest		**3**	3
Pledged bank deposits		**20,743**	20,579
Cash and cash equivalents		**124,573**	104,987
		290,838	293,750
CURRENT LIABILITIES			
Trade and bills payables	8	**7,152**	8,479
Accruals and other payables		**35,949**	46,312
Amounts due to non-controlling interests		**36,778**	32,570
Tax payables		**1,987**	2,171
		81,866	89,532
NET CURRENT ASSETS		**208,972**	204,218
TOTAL ASSETS LESS CURRENT LIABILITIES		**582,226**	564,681
NON-CURRENT LIABILITIES			
Amounts due to non-controlling interests		**21,851**	14,493
Deferred tax liabilities		**102**	102
		21,953	14,595
NET ASSETS		**560,273**	550,086
CAPITAL AND RESERVES			
Share capital		**22,900**	22,900
Reserves		**331,255**	313,896
Equity attributable to equity holders of the Company		**354,155**	336,796
Non-controlling interests		**206,118**	213,290
TOTAL EQUITY		**560,273**	550,086

Notes:

1. BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), which collective term includes all applicable individual HKFRS, Hong Kong Accounting Standards ("HKAS") and Interpretations ("Ints") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Hong Kong Companies Ordinance. These consolidated financial statements have been prepared under the historical cost convention.

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

The preparation of consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements.

2.1 AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS EFFECTIVE FOR THE GROUP'S ANNUAL FINANCIAL YEAR BEGINNING ON 1 APRIL 2010 AND RELEVANT TO THE GROUP

HKFRS 3 (revised)	Business combinations
HKAS 27 (revised)	Consolidated and separate financial statements
HKFRSs (amendment)	Improvements to HKFRSs issued in 2009
HK (Int) 5	Presentation of financial statements — Classification by the borrower of a term loan that contains a repayment on demand clause

HKFRS 3 (revised), "Business combinations", and consequential amendments to HKAS 27 "Consolidated and separate financial statements", are effective prospectively to business combinations for which the acquisition date is on or after 1 April 2010.

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. HKFRS 3 (revised) has had no impact on the current period, as there have been no contingent payments included in the purchase costs of the acquisition of the subsidiaries during the period.

HKAS 27 (revised), "Consolidated and separate financial statements", requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. HKAS 27 (revised) has had no impact on the current period, as none of the non-controlling interests have a deficit balance; there have been no transactions whereby an interest in an entity is retained after the loss of control of that entity, and there have been no transactions with non-controlling interests.

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

HK (Int) 5, "Presentation of financial statements — Classification by the borrower of a term loan that contains a repayment on demand clause", clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ("repayment on demand clause") should be classified by the borrower as current liabilities. HK (Int) 5 requires retrospective application. The adoption of HK (Int) 5 has had no material impact on the Group's consolidated financial statements as the Interpretation's conclusions were consistent with policies already adopted by the Group.

2.2 STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS THAT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN EARLY ADOPTED

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

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010[1]
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets[6]
HKAS 24 (as revised in 2009)	Related party disclosures[4]
HKAS 32 (Amendments)	Classification of rights issues[2]
HKFRSs 7 (Amendments)	Disclosures — Transfers of financial assets[5]
HKFRS 9	Financial instruments[7]
HK(IFRIC)-INT 14 (Amendments)	Prepayments of a minimum funding requirement[4]
HK(IFRIC)-INT 19	Extinguishing financial liabilities with equity instruments[3]

[1] *Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.*
[2] *Effective for accounting periods beginning on or after 1 February 2010.*
[3] *Effective for accounting periods beginning on or after 1 July 2010.*
[4] *Effective for accounting periods beginning on or after 1 January 2011.*
[5] *Effective for accounting periods beginning on or after 1 July 2011.*
[6] *Effective for accounting periods beginning on or after 1 January 2012.*
[7] *Effective for accounting periods beginning on or after 1 January 2013.*

3. SEGMENT INFORMATION

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

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products they provide. Each of the Group's business segments represents a strategic business unit that offers products which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the manufacturing segment engages in the development, manufacture and sales of pharmaceutical products;

(b) the trading segment engages in the marketing and distribution of imported pharmaceutical products;

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

(d) the oral insulin segment engages in the development and commercialisation of oral insulin products.

3. SEGMENT INFORMATION (continued)

Business segments

The following table provides an analysis of the Group's revenue, results and certain assets, liabilities and expenditures information by business nature for the year ended 31 March 2011 and 31 March 2010.

	Manufacturing		Trading		Gene development		Oral insulin		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
	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	**39,888**	45,722	**158,928**	150,569	**—**	—	**—**	—	**198,816**	196,291
Segment results	**2,492**	4,219	**17,883**	14,734	**(66)**	(67)	**(11,071)**	(1,160)	**9,238**	17,726
Interest income									**931**	637
Net unallocated expenses									**(5,066)**	(5,575)
Profit before taxation									**5,103**	12,788
Taxation									**(1,055)**	2,784
Profit for the year									**4,048**	15,572
Segment assets	**156,050**	148,549	**76,590**	138,370	**5**	5	**312,386**	305,925	**545,031**	592,849
Unallocated assets									**119,061**	61,364
Total assets									**664,092**	654,213
Segment liabilities	**13,155**	12,663	**29,705**	41,041	**50**	50	**27,809**	17,125	**70,719**	70,879
Unallocated liabilities									**33,100**	33,248
Total liabilities									**103,819**	104,127
Other segment information:										
Capital expenditure	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—
Unallocated capital expenditure									**—**	—
									—	—
Depreciation and amortisation	**3,159**	4,897	**426**	569	**—**	—	**—**	—	**3,585**	5,466
Unallocated depreciation and amortisation									**252**	251
									3,837	5,717
Other non-cash expenses, other than depreciation and amortisation:										
Impairment on trade receivables	**4,062**	4,952	**220**	556	**—**	—	**—**	—	**4,282**	5,508
Impairment on other receivables	**482**	94	**—**	—	**—**	—	**987**	—	**1,469**	94
Increase in allowance for obsolete inventories	**—**	264	**—**	—	**—**	—	**—**	—	**—**	264
Loss on disposal of property, plant and equipment	**—**	—	**—**	3	**—**	—	**—**	—	**—**	3
Unallocated loss on disposal of property, plant and equipment									**—**	1
									—	4

4. PROFIT BEFORE TAXATION

The Group's profit before taxation has been arrived at after charging:

	2011	2010
	HK$'000	*HK$'000*
Amortisation of prepaid land lease payments	**536**	794
Amortisation of intangible assets (included in cost of sales)	**283**	297
Auditors' remuneration	**660**	650
Cost of sales*	**146,785**	142,447
Depreciation of property, plant and equipment	**3,018**	4,626
Exchange loss	**—**	558
Increase in allowance for obsolete inventories	**—**	264
Impairment on other receivables	**1,469**	94
Impairment on trade receivables	**4,282**	5,508
Loss on disposal of property, plant and equipment	**—**	4
Operating lease charges in respect of land and buildings	**2,218**	2,222
Research and development expenses**	**8,339**	809
Staff cost (including directors' emoluments)		
— Salaries, bonus and allowances	**36,842**	36,529
— Retirement benefits scheme contributions	**2,144**	1,906

Note:

* Cost of sales included staff cost and depreciation of property, plant and equipment of approximately HK$5,914,000 (2010: HK$8,454,000) for the year.

** Of this amount, HK$8,126,000 related to expenditure for the oral insulin project and the remaining of HK$213,000 (2010: HK$809,000) related to others.

5. TAXATION

Taxation in consolidated statement of comprehensive income represents:

	2011	2010
	HK$'000	*HK$'000*
Current tax — Hong Kong Profits Tax		
Provision for the year	**85**	80
Under/(over)-provision in prior years	**6**	(110)
	91	(30)
Current tax — Overseas		
Provision for the year	**967**	1,246
(Over)-provision in prior years	**(3)**	(4,000)
	964	(2,754)
Income tax charge/(credit)	**1,055**	(2,784)

Hong Kong Profits Tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits for the year. Tax charges on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

When the EIT Law was introduced in the beginning of 2008, the Group made a provision amounting to HK$15,000,000 in the consolidated financial statements for the year ended 31 March 2008 for the exposure that the Group may face due to the implementation of the EIT Law. However, subsequent advices sought from PRC tax professionals confirmed that the EIT Law does not contain provisions for retrospective application. Accordingly, write back of the provision in the amounts of HK$4,000,000 and HK$14,200,000 were made to the consolidated financial statements for the year ended 31 March 2010 and 31 March 2009 respectively.

5. TAXATION (continued)

A reconciliation of the tax expenses applicable to profit before taxation using the statutory rates for the regions in which the Company and its subsidiaries are domiciled, and the tax expenses at the effective tax rates, was as follows:

	2011	2010
	HK$'000	*HK$'000*
Profit before taxation	**5,103**	12,788
Tax at the statutory tax rates applicable to the respective tax jurisdictions	**(1,412)**	450
Tax effect on expenses not deductible	**2,786**	1,870
Tax effect on income not taxable	**(441)**	(18)
Tax effect of temporary differences not recognised	**13**	4
Under/(Over)-provision in prior years	**64**	(4,110)
Others	**45**	(980)
Income tax charge/(credit)	**1,055**	(2,784)

6. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to the Company's equity holders of approximately HK$11,567,000 (2010: profit attributable to the Company's equity holders of approximately HK$14,624,000) and on the weighted average of 2,290,000,000 (2010: 2,290,000,000) ordinary shares in issue during the year.

As there were no potential dilutive ordinary shares in existence for each of the years ended 31 March 2011 and 31 March 2010 and accordingly, no diluted earnings per share have been presented.

7. TRADE RECEIVABLES

	2011	2010
	HK$'000	*HK$'000*
Trade receivables	**91,351**	103,415
Less: Impairment on trade receivables	**(18,776)**	(18,659)
Trade receivables, net of provision	**72,575**	84,756
Maximum exposure to credit risk	**72,575**	84,756

The carrying amounts of trade receivables approximate their fair values as at 31 March 2011 and 31 March 2010. The Group does not hold any collateral over these balances.

7. TRADE RECEIVABLES (continued)

At the end of reporting period, the aging analysis of the trade receivables is as follows:

	2011 *HK$'000*	2010 *HK$'000*
Within 90 days	**25,910**	37,391
Between 91 to 180 days	**16,240**	25,576
Between 181 to 365 days	**30,425**	21,789
Between 1 to 2 years	**4,282**	5,508
Over 2 years	**14,494**	13,151
	91,351	103,415

The aging analysis of the trade receivables, net of impairment loss is as follows:

	2011 *HK$'000*	2010 *HK$'000*
Within 90 days	**25,910**	37,391
Between 91 to 180 days	**16,240**	25,576
Between 181 to 365 days	**30,425**	21,789
	72,575	84,756

The Group's trading terms with its customers are mainly based on credit, except for new customers, where payment in advance is normally required. The credit period is generally 120 days, extending up to one year for some major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management.

The movements for impairment on trade receivables are as follows:

	2011 *HK$'000*	2010 *HK$'000*
At 1 April	**18,659**	20,183
Exchange realignments	**659**	—
Written-off on trade receivables	**(1,567)**	(571)
Impairment on trade receivables	**4,282**	5,508
Reversal of impairment on trade receivables	**(3,257)**	(6,461)
At 31 March	**18,776**	18,659

7. TRADE RECEIVABLES (continued)

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

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

8. TRADE AND BILLS PAYABLES

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

	2011	2010
	HK$'000	*HK$'000*
Within 90 days	**4,025**	5,877
Between 91 to 180 days	**1,577**	1,665
Between 181 to 365 days	**178**	623
Between 1 to 2 years	**992**	309
Over 2 years	**380**	5
	7,152	8,479

The carrying amounts of the Group's trade and bills payables, approximate their fair values as at 31 March 2011 and 31 March 2010 and are denominated in the following foreign currencies:

	2011	2010
	HK$'000	*HK$'000*
Renminbi	**2,852**	3,273
United States dollars	**4,300**	2,751
Euro	**—**	2,455
	7,152	8,479

9. DIVIDENDS

The directors do not recommend the payment of dividend for the year ended 31 March 2011 (2010: HK$Nil).

EXTRACTED FROM INDEPENDENT AUDITORS' REPORT

The consolidated financial statements for the year ended 31 March 2011 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 2011 was modified. The independent auditors' report is extracted as follows:

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2011 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.

EMPHASIS OF SIGNIFICANT MATTERS

There are two significant matters that need to be highlighted in this Report.

(a) Included in Intangible Assets as at 31 March 2011 is the technological know-how with the carrying value of approximately HK$284,260,000 (2010: HK$284,260,000) (the "Know-how") in relation to an oral insulin product (the "Product") and the exclusive right for the commercialization of the Product owned by the Group. The Know-how is held by an indirect subsidiary of the Group, Fosse Bio-Engineering Development Limited ("Fosse Bio"), a company in which an indirect subsidiary of the Group, Smart Ascent Limited ("Smart Ascent") had acquired a 51% interest in November 2003, and through the Group's acquisition of a 51% interest in Smart Ascent in March 2004. In an appraisal conducted by an independent professional valuer, the Know-how is valued at an amount that is not less than HK$284,260,000. Notwithstanding this valuation, the recoverability of the carrying value of the Know-how is still uncertain as it depends upon the result of the clinical trial and the successful launching of the Product. Should the outcome of the clinical trial and the launching of the Product be unsuccessful, material adjustments may have adverse effect on the business and results of the Group.

(b) In connection with the acquisition of the shares of Fosse Bio as referred to in the above paragraph, Smart Ascent owed the vendors of the sales of the 51% interest of Fosse Bio (the "Fosse Bio Vendors") the amount of HK$31,780,000 (2010: HK$31,780,000), being the third and fourth installments of the consideration for the 51% interest of Fosse Bio. The repayment of these two installments is to be made upon the issuance of certain certificates of the clinical trial as well as the Product by the State Food and Drug Administration of the PRC. At the time when the Group acquired the 51% interest in Smart Ascent, this liability continues to exist but the vendors of the sales of the 51% interest of Smart Ascent (the "Smart Ascent Vendors") undertook to pay the full HK$31,780,000 as and when the amount becomes due and payable. As security for this undertaking, Mr. Ong Cheng Heang ("Mr. Ong"), a non-controlling interest of Smart Ascent pledged to the Group his shares of Smart Ascent representing the balance of the 49% interest in Smart Ascent. There is no assurance that the Smart Ascent Vendors are capable of repaying the full HK$31,780,000. While this risk of recoverability is mitigated by the shares representing the

49% interest in Smart Ascent, the risk continues to exist in the event that the Group fails to realize the profitability from the Product as mentioned in the above paragraph, it would suffer a further loss in respect of this amount of HK$31,780,000. In addition, the Group has entered into an agreement to acquire from Mr. Ong the pledged of his 49% interest. Similar to the matter mentioned in Paragraph (a) above, the risks in relation to the Product will affect the Group's ability to recover the payment for this liability of HK$31,780,000.

Having considered the availability of the appraisal report by the independent professional valuer of the value of the Know-how and the disclosure in the notes to the consolidated financial statements, we consider the uncertainty as to the risks associated with the assets as mentioned in the above two paragraphs have been adequately disclosed in the consolidated financial statements and do not find it necessary to make further qualifications in this report in respect of the value of the Know-how or the receivables.

MANAGEMENT DISCUSSION AND ANALYSIS

A. Business Review

Overall Performance

In the year under review, various initiatives were introduced by the Chinese Government in the wake of 3-year healthcare reform as undertaken since 2009, which included an increase in budgeted investment for the reform from RMB850 billion to RMB1,134.2 billion, implementation of a series of new policies at both national and provincial levels; promulgation of new Good Manufacturing Practice, and setting of stricter regulation towards environmental protection under the "Twelfth Five-Year Plan" beginning in year 2011. The market has undergone rapid growth and consolidation where large pharmaceutical enterprises tend to expand rapidly by way of mergers and acquisitions in order to lower costs through economies of scale, and to enlarge and strengthen distribution networks for market share.

In view of the highly competitive business environment, the Group took proactive steps to adjust its marketing and distribution strategies for its imported products and focus on cost control over the business operations. As a result, the Group managed to maintain a turnover of about HK$198.8 million, representing an increase of 1.3% as compared with that of last financial year. Although this led to a slight decrease in overall gross margin from 27.4% to 26.2%, the total administrative, selling and distribution expenses reduced slightly by HK$2.4 million to HK$45.9 million when compared to HK$48.3 million as in last year, which was primarily due to cost reduction upon adjustment of its distribution model for part of its imported product portfolio.

During the year, the Group had continuously deployed resources in progressing the clinical trial of the oral insulin project resulting in an upsurge of research and development expenses to HK$8.3 million. Barring from such increase, the Group's profit before taxation for the year would have been at level of about HK$12.6 million (2010: HK$12.8 million), a decrease of HK$0.2 million.

The Group's profit for the year attributable to the equity holders of the Company was about HK$11.6 million, representing a decrease of about HK$3.1 million as compared to profit of about HK$14.6 million in 2010. This was mainly due to the Group's share of expenses incurred in the oral insulin project.

Turnover and Operating Results

Imported Pharmaceutical Sector

In the year under review, turnover and segment result increased by 5.6% and 21.4% respectively to approximately HK$158.9 million and HK$17.9 million as a result of increase in volume of sales.

The pharmaceutical market in the Mainland continued to be fueled by the increasing demand brought by the healthcare reform. However, the Group faced increasing pressure due to intensifying competition. In response to the market challenges, the Group had made a strategic move during the year in adjusting its distribution model and simplifying the path of distribution for some of its products. Through integrating large volumes of distributional transactions and encouraging bulk orders, price adjustment was made for certain product whilst the profitability remained intact as there was a corresponding reduction in the related selling and distribution expenses. This helped to maintain market share and improved overall performance in the year under review.

The Group would endeavor to continue adopting measures and strategies to achieve satisfactory performance despite intensifying market competition.

Manufactured Pharmaceutical Sector

Sales of manufactured pharmaceutical products dropped to about HK$39.9 million, a decline of approximately 12.8% as compared to about HK$45.7 million in 2010, resulting from decrease in sales volume amid the severe price-cut competition in certain provinces.

In this challenging market environment, apart from taking measures to streamline organization to reduce costs, increase efficiency and output of the production process, and being vigilant to strict controls on cost and capital expenditure, management would continue focusing on launching products with better margin such as "Ferrous Sulfate Sustained-released Tablet" for treating iron deficiency anemia, which had contributed positively to both the turnover and gross profit in the year under review.

Affected by the pricing pressure on products and costs, the segment result was maintained at about HK$2.5 million, representing a decrease of 40.9% as compared to about HK$4.2 million in 2010.

Facing the challenges ahead, the Group would take positive approaches in developing its product lines by focusing on cost control as well as enhancing production capacity and capability upon future relocation of factory on the site acquired in year 2011. In the meantime, the Group believes that tapping with the competitive advantage of its established brand name products it will be back on the right track and will deliver better results in future.

Gene Development Sector

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

Oral Insulin Sector

There was no revenue generated in the sector during this year. The increase in loss was mainly due to an increase in research and development expenses incurred in progressing the clinical trial, and the administrative expenses in relation thereon.

Selling and Distribution Expenses

Selling and distribution expenses of the Group decreased from about HK$19.8 million in 2010 to about HK$16.5 million in 2011, representing a decrease of about HK$3.3 million or 16.9%. This was mainly attributable to reduction in distribution and promotion expenses upon reshuffling its marketing and distribution strategies.

Administrative Expenses

Administrative expenses of the Group remained stable at HK$29.4 million, an increase by 3.5% from about HK$28.4 million which was mainly due to inflationary adjustment.

Research and Development Expenses

Research and development expenses were about HK$8.3 million for the year under review, about HK$7.5 million higher than HK$0.8 million in year 2010, which were mainly related to the oral insulin project.

Other Revenues and Impairment on Trade Receivables

Other revenues mainly comprised reversal of impairment on trade receivables, sundry income and interest income. Other revenues decreased by about HK$1.9 million from about HK$13.5 million to about HK$11.6 million this year. This was the result of decrease in reversal of impairment on trade receivables of about HK$3.2 million, increase in sundry income of HK$1.0 million in respect of consultancy services rendered to other factories as well as increase in interest income by about HK$0.3 million.

Taxation

In the year 2010, there was a write-back of tax provision of HK$4 million for potential tax exposure for the new PRC income tax law on advice given by the PRC tax professionals. And when taking into account of this factor, the tax charges were generally in line with the Group's profit in year 2011.

B. Outlook

With the engagement of clinical trial expertise for provision of the clinical trial management services and related clinical studies, and subsequent to the Group's submission of its best implementation plan to the State Food and Drug Administration of the PRC in 2010, the cautious approach in conducting the forefront but essentially reinforcing work laid a solid foundation towards advancement of a new stage. Manufacturing of clinical trial materials has been done and the patient recruitment process of the clinical trial is progressing well in clinical trial centres located in reputable hospitals in the PRC. Concurrently, the Group has been allocating its best resources to expedite the processes and believes that with the joint efforts of the expertise, this phase of clinical trial will progress steadily with encouraging results. The Group stays positive and optimistic on its success.

In addition to the oral insulin project, the Group would continue to input resources in the research and development initiatives. Product development projects with potential investment value or complementary to the Group's product structure will be prudently considered to strengthen its market position and to sustain a long-term growth and development of the Group. Through taking positive initiatives in striving for operational performance, the Group is optimistic about its future prospects.

C. Financial Review

Liquidity and Financial Resources

It is the Group's strategy to manage its financial resources conservatively by maintaining a healthy level of cash flows to meet all its financial commitments when they fall due. The Group generally finances its operations with internally generated cash flow and banking facilities.

As at 31 March 2011, the Group had total cash and bank balances (including pledged bank deposits) of about HK$145.3 million (2010: HK$125.6 million), representing an increase by approximately 15.7%.

The Group did not have bank borrowings during the year but with banking facilities on trade finance, which were supported by the pledge of the Group's fixed deposits of about HK$20.7 million (2010: HK$20.6 million) and corporate guarantees from the Company and certain subsidiaries of the Company. In general, there is no significant seasonality fluctuation on trade finance requirement of the Group.

The Group's total borrowing over total assets ratio as at 31 March 2011 was 0.06 (2010: 0.05) calculated based on the Group's total debts of about HK$36.8 million (2010: HK$32.6 million), comprising amount due to a non-controlling interest of about HK$32.4 million (2010: HK$32.4 million).

Currency Structure

The Group's business transactions, assets and liabilities are principally denominated in Hong Kong dollars, United States dollars and Renminbi. The Group had limited exposure to foreign exchange rate fluctuation as most of its transactions were mainly conducted in Hong Kong dollars, Renminbi or United States dollars and the exchange rates of these currencies were relatively stable throughout the period. No hedge on foreign currencies was made during the period, however the Group has closely monitored its exposure to foreign currency movement.

D. Employment and Remuneration Policy

As at 31 March 2011, the Group had 415 employees (2010: 416). Staff costs (including directors' emoluments) for the year ended 31 March 2011 amounted to approximately HK$39.0 million (2010: approximately HK$38.4 million). The slight increase was mainly due to salary adjustment. The Group has not experienced any significant problems with its employees or disruptions to the operations due to labour disputes nor has it experienced difficulties in the recruitment and retention of experienced staff.

The Group remunerates its employees based on industry practices. Its staff benefits, welfare and statutory contributions, if any, are made in accordance with prevailing labour laws of its operating entities. The employees (including directors) are remunerated according to their performance, work experience and the prevailing market price. Other employee benefits include mandatory provident fund, insurance and medical coverage, training and share option scheme. In August 2002, shareholders of the Company have approved the adoption of a share option scheme (the "Scheme"). The Scheme will enable the Group to reward the employees, the directors and other selected participants for their contribution to the Group and will also assist the Group in its recruitment and retention of high caliber professionals, executives and employees who are instrumental to the growth of the Group.

No share option has been granted under the Scheme.

CORPORATE GOVERNANCE REPORT

Corporate Governance Practices

The Group recognizes the importance of achieving and monitoring the high standard of corporate governance consistent with the need and requirements of its business and the best interest of all of its shareholders. The Group is fully committed to doing so.

During the year ended 31 March 2011, the Company has adopted and applied the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") save as disclosed below. It is with the objectives in mind that the Group has applied such principles and will comply with the individual code provisions.

(a) Code provisions A1.3 and A6.1 stipulate that 14-day notice should be given for each regular board meeting and that in respect of regular meetings, and so far as practicable in all other cases, an agenda and accompanying board papers should be sent in full to all directors in a timely manner and at least 3 days before the intended date of a board or board committee meeting (or such other period as agreed). The Company agrees that sufficient time should be given to the Directors in order to make a proper decision. In these respects, the Company adopts a more flexible approach (and yet sufficient time has been given) in convening board meetings to ensure efficient and prompt management decisions could be made.

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

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

(d) Code provision A4.2 also stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. According to the bye-laws of the Company, any director so appointed shall hold office only until the next following annual general meeting. The Company's bye-laws deviate from the code provision. However, the Company believes that it is in the best interest of the Company's shareholders to transact this ordinary course of business in the annual general meeting.

(e) Code provision E1.2 stipulates that the Chairman of the Board should attend the annual general meeting of the Company. Due to other overseas business commitments, Dr. Mao Yu Min was unable to attend the annual general meeting of the Company held on 10 September 2010. Dr. Xie Yi, an executive director of the Company was appointed to chair the annual general meeting in accordance with the provisions of the Company's bye-laws.

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

AUDIT COMMITTEE

The Company has established an Audit Committee (the "Committee"), with written terms of reference, in compliance with Rule 3.21 of the Listing Rules, for the purpose of reviewing and providing supervision over the financial reporting process and internal controls of the Group. The Committee comprises three independent non-executive directors. The Group's financial statements for the year ended 31 March 2011 have been reviewed by the Committee. The Committee is of the opinion that such financial statements comply with the applicable accounting standards, and Stock Exchange's and legal requirements, and that adequate disclosures have been made.

By order of the Board
Extrawell Pharmaceutical Holdings Limited
Xie Yi
Director

List of Directors as at the date of this announcement:

Executive Directors:
Dr. MAO Yu Min
Dr. XIE Yi
Dr. LOU Yi
Ms. WONG Sau Kuen

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

Hong Kong, 29 June 2011

* *For identification purpose only*