EXTRAWELL PHARMACEUTICAL HOLDINGS LIMITED

精優藥業控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 00858)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

The board of directors (the "Board") of Extrawell Pharmaceutical Holdings Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2011 together with the comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**At 30 September 2011 (Unaudited)** ***HK$'000***	At 31 March 2011 (Audited) *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**48,659**	49,657
Prepaid land lease payments		**23,418**	23,691
Intangible assets	*3*	**286,791**	286,936
Amounts due from non-controlling interests	*8*	**13,548**	12,970
Loan to a non-controlling interest	*4*	**4,807**	—
		377,223	373,254
CURRENT ASSETS			
Inventories		**14,494**	15,232
Trade receivables	*5*	**84,206**	72,575
Deposits, prepayments and other receivables	*3*	**61,508**	57,712
Amount due from a non-controlling interest		**3**	3
Pledged bank deposits		**20,807**	20,743
Cash and cash equivalents		**121,724**	124,573
		302,742	290,838
TOTAL ASSETS		**679,965**	664,092

	Note	At 30 September 2011 (Unaudited) HK$'000	At 31 March 2011 (Audited) HK$'000
CAPITAL AND RESERVES			
Share capital	*6*	**22,900**	22,900
Reserves		**338,407**	331,255
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		**361,307**	354,155
NON-CONTROLLING INTERESTS		**205,634**	206,118
TOTAL EQUITY		**566,941**	560,273
NON-CURRENT LIABILITIES			
Amounts due to non-controlling interests	*8*	**25,080**	21,851
Loan from a non-controlling interest	*4*	**4,807**	—
Deferred tax liabilities		**102**	102
		29,989	21,953
CURRENT LIABILITIES			
Trade and bills payables	*7*	**10,998**	7,152
Accruals and other payables		**33,832**	35,949
Amounts due to non-controlling interests	*3*	**36,769**	36,778
Tax payables		**1,436**	1,987
		83,035	81,866
TOTAL EQUITY AND LIABILITIES		**679,965**	664,092
NET CURRENT ASSETS		**219,707**	208,972
TOTAL ASSETS LESS CURRENT LIABILITIES		**596,930**	582,226

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	For the six months ended 30 September 2011 (Unaudited) HK$'000	2010 (Unaudited) HK$'000
Turnover	9	**78,617**	131,561
Cost of sales		**(53,822)**	(97,461)
Gross profit		**24,795**	34,100
Other revenues		**4,719**	7,275
Selling and distribution expenses		**(5,197)**	(8,587)
Administrative expenses		**(11,434)**	(12,530)
Impairment on trade receivables		**(4,238)**	(6,277)
Profit before taxation	11	**8,645**	13,981
Taxation	12	**(415)**	(393)
Profit for the period		**8,230**	13,588
Other comprehensive income/(expenses)			
Reclassification adjustment			
— Release of translation reserve upon closure of a foreign operation		**(1,562)**	—
Total comprehensive income for the period		**6,668**	13,588
Profit for the period attributable to			
Equity holders of the Company		**8,714**	13,262
Non-controlling interests		**(484)**	326
		8,230	13,588
Total comprehensive income for the period attributable to			
Equity holders of the Company		**7,152**	13,262
Non-controlling interests		**(484)**	326
		6,668	13,588
Interim dividends	13	**—**	—
Earnings per share for profit attributable to equity holders of the Company during the period	14	**HK cents**	HK cents
— Basic		**0.38**	0.58
— Diluted		**N/A**	N/A

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements of the Group have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to 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 Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements of the Group have been prepared under the historical cost convention, and the accounting policies used in preparation of these interim financial statements are consistent with those set out in the Group's annual financial statements for the year ended 31 March 2011.

In the current interim period, the Group has applied the following revised standards, interpretations and amendments to the Hong Kong Financial Reporting Standards ("HKFRS") issued by the HKICPA that are effective for the Group's financial year beginning on 1 April 2011, and the application of which has had no material effect on the amounts in these reported results and financial position of the Group for the period concerned.

- HKICPA's Improvements to HKFRS 2010
- HKAS 24 (revised) Related Party Disclosures
- Amendment to HKAS 32 Classification of Rights Issues
- Amendments to HK(IFRIC)-Int 14 Prepayments of a Minimum Funding Requirement
- HK(IFRIC)-Int 19 Extinguishing Financial Liabilities with Equity Instruments

In addition to the above, the HKICPA has issued a number of new standards, interpretations and amendments to the HKFRS which are not effective for accounting period beginning on 1 April 2011. No early application has been adopted by the Group in preparation of these consolidated interim financial statements.

The directors are in the process of making an assessment of the expected impact of the new standards, interpretations and amendments in the period of initial application. So far it is considered that their adoption is unlikely to have a significant impact on the results and the financial position of the Group.

3. MODIFIED AUDIT OPINION - 31 MARCH 2011 AUDITED FINANCIAL STATEMENTS

There were two significant matters highlighted in the Independent Auditors' Report for the 31 March 2011 financial statements of the Group in relation to:

(i) the amount of technological know-how of approximately HK$284,260,000 (30 September 2011: HK$284,260,000) as included in "Intangible assets", and

(ii) amounts each of about HK$31,780,000 (30 September 2011: HK$31,780,000) included in "Deposits, prepayments and other receivables" as current asset and "Amounts due to non-controlling interests" as current liability respectively.

The emphasis of the aforesaid significant matters as stated in the auditors' report is now reproduced as below:

(i) technological know-how of approximately HK$284,260,000

"(a) As set out in note 18 to the consolidated financial statements, 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.

(ii) amount of approximately HK$31,780,000

(b) As set out in note 20(c) to the consolidated financial statements, 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."

4. LOAN TO/(FROM) A NON-CONTROLLING INTEREST

The respective amounts each of approximately HK$4,807,000 relate to the loan made by Smart Ascent to Fordnew Industrial Limited ("Fordnew") pursuant to the loan agreement entered into between Smart Ascent and Fordnew on 25 May 2011, and the immediate onward lending of which by Fordnew to Fosse Bio for making progress payment to the project administrator in respect of the service contract for the clinical trial. Further details are set out in notes 16(b)(i) and 17(ii).

5. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly based on credit, except for new customers, where payment in advance is normally required. The credit period is generally 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 to minimize credit risk. Overdue balances are reviewed regularly by senior management.

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

	At 30 September 2011 (Unaudited)	At 31 March 2011 (Audited)
	HK$'000	*HK$'000*
Within 90 days	**31,674**	25,910
Between 91 to 180 days	**13,373**	16,240
Between 181 to 365 days	**38,445**	30,425
Between 1 to 2 years	**714**	—
	84,206	72,575

6. SHARE CAPITAL

	At 30 September 2011 (Unaudited)	At 31 March 2011 (Audited)
	HK$'000	*HK$'000*
Authorized:		
20,000,000,000 ordinary shares of HK$0.01 each	**200,000**	200,000
Issued and fully paid:		
2,290,000,000 ordinary shares of HK$0.01 each	**22,900**	22,900

7. TRADE AND BILLS PAYABLES

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

	At 30 September 2011 (Unaudited) *HK$'000*	At 31 March 2011 (Audited) *HK$'000*
Within 90 days	**9,564**	4,025
Between 91 to 180 days	**596**	1,577
Between 181 to 365 days	**281**	178
Between 1 to 2 years	**133**	992
Over 2 years	**424**	380
	10,998	7,152

8. AMOUNTS DUE FROM/(TO) NON-CONTROLLING INTERESTS

The non-current portion of amounts due from non-controlling interests represents outstanding contributions' receivable from non-controlling interests of the Group's 51% owned subsidiary Fosse Bio-Engineering Development Limited ("Fosse Bio") in respect of working capital and operation funds for the further clinical trial of the oral insulin project. The aggregate contribution calls in relation thereof are recorded under non-current liabilities as amounts due to non-controlling interests of Fosse Bio.

The amounts due from/due to non-controlling interests of Fosse Bio are denominated in Renminbi, which are unsecured, interest-free and have no fixed term of repayment.

9. TURNOVER

The Group's turnover comprises the following:

	For the six months ended 30 September	
	2011 (Unaudited) *HK$'000*	2010 (Unaudited) *HK$'000*
Manufacturing of pharmaceutical products	**24,917**	21,822
Trading of pharmaceutical products	**53,700**	109,739
	78,617	131,561

10. SEGMENT INFORMATION

Detailed segment information is presented by way of the Group's primary segment reporting basis, which is by business segment. No further geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in the PRC, 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 oral insulin segment engages in the development and commercialization of oral insulin products; and

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

The following is an analysis of the Group's revenues and results by operating segments for the period under review:

	For the six months ended 30 September									
	Manufacturing		**Trading**		**Oral insulin**		**Gene development**		**Consolidated**	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
	(Unaudited)		**(Unaudited)**		**(Unaudited)**		**(Unaudited)**		**(Unaudited)**	
	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	**24,917**	21,822	**53,700**	109,739	**—**	—	**—**	—	**78,617**	131,561
Segment results	**2,430**	765	**9,813**	15,443	**(1,074)**	(52)	**(30)**	(30)	**11,139**	16,126
Bank interest income									**653**	492
Net unallocated expenses									**(3,147)**	(2,637)
Profit before taxation									**8,645**	13,981
Taxation									**(415)**	(393)
Profit for the period									**8,230**	13,588
Attributable to:										
Equity holders of the Company									**8,714**	13,262
Non-controlling Interests									**(484)**	326
									8,230	13,588

11. PROFIT BEFORE TAXATION

The Group's profit before taxation has been arrived at after charging/(crediting):

	For the six months ended 30 September	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cost of sales	**53,822**	97,461
Depreciation and amortization of property, plant and equipment and prepaid land lease payments	**1,882**	2,851
Amortization of intangible assets (included in cost of sales)	**144**	140
Impairment on trade receivables	**4,238**	6,277
Reversal of impairment on trade receivables*	**(4,066)**	(5,646)
Loss on disposal of property, plant and equipment	**1**	—
Release of translation reserve upon closure of a foreign operation	**(1,562)**	—
Exchange gain, net	**(532)**	(397)
Interest income on bank balances*	**(653)**	(492)
Staff cost (including directors' emoluments)		
— Salaries, bonus and allowances	**13,671**	18,370
— Retirement benefits scheme contributions	**1,265**	1,280

* *Included in Other Revenues*

12. TAXATION

Hong Kong Profits Tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits for the period ended 30 September 2011. 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 standardized 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 24% for 2011 (2010: 22%). The rate would gradually increase to 25% for 2012 according to the grandfathering rules stipulated in the Implementation Rules and related circular.

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. Entity owned by the Group, which operates in Malaysia, elected to pay the profits tax at a flat rate of MYR20,000 per annum for each of the two periods ended 30 September 2011 and 2010.

	For the six months ended 30 September	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current — Hong Kong	**36**	60
Current — Outside Hong Kong	**379**	333
Total tax charge for the period	**415**	393

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

	For the six months ended 30 September	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Profit before taxation	**8,645**	13,981
Tax at the statutory tax rates applicable to the respective tax jurisdictions	**321**	(97)
Tax effect on income not taxable	**(585)**	(488)
Tax effect on expenses not deductible	**679**	978
Tax charge for the period	**415**	393

13. INTERIM DIVIDENDS

The directors do not recommend the payment of an interim dividend in respect of the six months ended 30 September 2011 (six months ended 30 September 2010: HK$ Nil).

14. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to the equity holders of the Company for the six months ended 30 September 2011 of HK$8,714,000 (six months ended 30 September 2010: HK$13,262,000) and on 2,290,000,000 (2010: 2,290,000,000) ordinary shares in issue during the six months ended 30 September 2011.

There were no potential diluted ordinary shares in existence for each of the six months ended 30 September 2011 and 2010 and accordingly, no diluted earnings per share has been presented.

15. CONTINGENT LIABILITIES

At 30 September 2011, corporate guarantees totaling HK$18 million were given by the Group to a bank in connection with banking facilities provided to certain of the Company's subsidiaries, and approximately HK$3.8 million (31 March 2011: HK$5.1 million) of the facilities had been utilized.

16. COMMITMENTS

(a) Operating lease commitments

At 30 September 2011, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 September 2011 (Unaudited) ***HK$'000***	At 31 March 2011 (Audited) *HK$'000*
Within one year	**1,734**	1,733
In the second to fifth years, inclusive	**2,456**	3,323
	4,190	5,056

Operating lease payments represent rental payable by the Group for certain of its offices. Leases are negotiated for terms ranging from one to three years and rentals are fixed over the lease terms and do not include contingent rentals.

(b) Other commitments

(i) In connection with the acquisition of the interest in Fosse Bio, as at 31 March and 30 September 2011, the Group had a commitment to advance an interest-free loan to Fosse Bio Vendor and/or other shareholders of Fosse Bio to cover expenses relating to clinical trials of the Product.

On 25 May 2011, Smart Ascent has conditionally agreed to grant an unsecured, non-interest bearing loan in the aggregate amount of up to HK$30,000,000 to Fordnew for its onward lending to Fosse Bio, a 51% owned subsidiary of Smart Ascent, for payment of expenses relating to the clinical trial of oral insulin products.

As Fordnew owns 29% interest in the issued share capital of Fosse Bio and is a substantial shareholder of the latter, the grant of the loan by Smart Ascent to Fordnew therefore constitutes a connected transaction for the Company, which was subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Further details regarding the transaction are set out in the Company's announcement dated 25 May 2011 and the circular dated 30 June 2011.

On 19 July 2011, a special general meeting was held and whereby approval from the independent shareholders of the Company had been obtained.

(ii) On 19 October 2006, Sea Ascent Investment Limited ("Sea Ascent"), Welly Surplus Development Limited ("Welly Surplus"), an indirect non-wholly owned subsidiary of the Company, and Fosse Bio, an indirect non-wholly owned subsidiary of the Company, entered into a cooperation agreement (the "Cooperation Agreement") in connection with the cooperation (the "Cooperation") between Sea Ascent and Welly Surplus in respect of the following:

(1) Sea Ascent shall procure its wholly owned subsidiary, Joy Kingdom Industrial Limited ("Joy Kingdom") to establish a wholly foreign owned enterprise in the PRC under the name of 江蘇派樂施藥業有限公司 (Jiangsu Prevalence Pharmaceutical Limited) ("Jiangsu Prevalence");

(2) Sea Ascent shall advance a sum equivalent to RMB40 million to Joy Kingdom by way of an unsecured, non-interest bearing shareholder's loan ("Shareholder's Loan") for the payment of the registered capital of Jiangsu Prevalence and the acquisition of land and construction of a factory (the "Plant") at Pi Zhou City, Jiangsu, the PRC for the production of the Group's Oral Insulin Enteric-Coated Soft Capsules (the "Medicine");

(3) Subject to Sea Ascent's performance of its obligations as aforesaid and completion of the acquisition of Joy Kingdom by Welly Surplus as mentioned below, 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 Medicine is launched for sales in open market (the "Initial Operating Period"), a fee calculated at RMB6 cents for each capsule of the Medicine produced (subject to a maximum fee of RMB180 million for each year and deductions as specified in the Cooperation Agreement); and

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

Under the Cooperation Agreement, Fosse Bio has agreed to guarantee the due performance by Welly Surplus of its obligations and liabilities ("Secured Liabilities") as mentioned in the above paragraphs, provided that the maximum liability of Fosse Bio under such guarantee shall not exceed 51% of the Secured Liabilities. The Cooperation Agreement became effective upon the shareholders' approval in the special general meeting of the Company held on 3 January 2007, until the expiry of the Initial Operating Period.

On 19 October 2006, Sea Ascent and Welly Surplus also entered into a sale and purchase agreement (the "SP Agreement") pursuant to which Sea Ascent agreed to sell and Welly Surplus agreed to acquire (i) the entire share capital (the "Sale Share") in Joy Kingdom and (ii) the Shareholder's Loan at considerations of RMB40 million and HK$1 respectively (the "Consideration"). The completion of the SP Agreement was subject to, among other conditions, approval of the SP Agreement by the Company's shareholders, the Cooperation Agreement becoming effective and the completion of the construction of the Plant by Jiangsu Prevalence in accordance with the terms of the Cooperation Agreement. The SP Agreement was approved in the special general meeting of the Company held on 3 January 2007. On 8 April 2009, Welly Surplus and Sea Ascent signed a confirmation, whereby both parties agreed to extend the long stop date of the SP Agreement from 30 November 2007 to 30 June 2010. In light of the progress of the further clinical trial, Welly Surplus and Sea Ascent have not yet concluded the revised completion timetable in relation to the construction of the Plant by 30 June 2010, and therefore the extension of the long stop date of the SP Agreement is yet to conclude. The SP Agreement has not yet become unconditional and the Consideration has not yet been due and paid up to the date of approval of these interim financial statements.

(iii) Pursuant to clinical trial of the oral insulin project, Fosse Bio has entered into the following contracts with 瀋陽鑫泰格爾醫藥科技開發有限公司 (the "Project Administrator") with value in aggregate amounting to RMB17,080,000:

(1) Service contracts dated 16 December 2009 with value in total of RMB12,080,000 for provision of clinical trial management services and the related clinical studies, and

(2) Supplementary contract dated 25 July 2010 with value of RMB5,000,000 for provision of certified testing drugs.

Up to 30 September 2011, RMB14,475,000 (31 March 2011: RMB10,500,000) has been paid to the Project Administrator in relation to the above contracts. The aggregate contract value not provided for in these unaudited consolidated interim financial statements amounted to RMB2,605,000 as at 30 September 2011 (31 March 2011: RMB6,580,000).

17. CONNECTED AND RELATED PARTY TRANSACTIONS

In addition to the disclosures elsewhere in these interim financial statements, the Group had the following transactions with its related parties during the period ended 30 September 2011:

(i) Compensation for key management personnel, including amounts paid to the Company's directors is as follows:

	For the six months ended 30 September	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Salaries, fees and other benefits	**1,353**	1,249
Pension scheme contributions	**6**	6
	1,359	1,255

(ii) Provision of a loan to Fordnew

On 22 July 2011, Fordnew made a drawdown notice for the sum of approximately HK$4,807,000 to Smart Ascent pursuant to the loan agreement dated 25 May 2011 entered into between Smart Ascent and Fordnew so that it could on-lend the sum to Fosse Bio for making progress payment to the Project Administrator in connection with the service contract for the clinical trial. The amount of the loan to Fordnew was contributed by the Company's wholly owned subsidiary Extrawell (BVI) Limited ("EBVI") and Mr Ong Cheng Heang ("Mr Ong") based on their respective equity interests of 51% and 49% in Smart Ascent. Further details are set out in notes 4 and 16(b)(i).

(iii) During the period under review, EBVI had advanced to Smart Ascent of approximately HK$2,976,000. These advances are unsecured, non-interest bearing and repayable upon demand. Mr Ong is regarded as a connected person only at the Company's subsidiary level, and therefore the advances made by EBVI to Smart Ascent during the period under review do not constitute connected transactions under the Listing Rules. As at 30 September 2011, the outstanding balance of the advances made by EBVI to Smart Ascent was approximately HK$19,505,000 (31 March 2011: approximately HK$16,529,000).

18. COMPARATIVE FIGURES

Certain comparative figures in the 2010 Interim Period have been reclassified in order to conform with the current period's presentation.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 September 2011, the interests and short positions of the directors in the shares and underlying shares of the Company or its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

1. Long positions in the ordinary shares of the Company

Name of director	*Notes*	Capacity and nature of interest	Number of ordinary shares of HK$0.01 each held/entitled	Approximate percentage of interests held/entitled
Mao Yu Min	*(a)*	Through controlled corporations	480,000,000	20.96%
	(b)	Directly beneficially owned	150,000,000	6.55%
			630,000,000	27.51%
Xie Yi	*(a)*	Through controlled corporations	480,000,000	20.96%

Notes:

(a) JNJ Investments Ltd. ("JNJ Investments") and Fudan Pharmaceutical Limited ("FPL") own 450,000,000 and 30,000,000 ordinary shares of the Company, respectively.

The entire issued share capital of JNJ Investments is owned by Biowindow Gene Development (Hong Kong) Limited ("HK Biowindow"). On 28 March 2011, United Gene Group Ltd. (a company incorporated in the British Virgin Islands) ("United Gene Group") increased its shareholding in HK Biowindow from 99% to 100% by acquiring the remaining 1% interest in relation thereon as to 0.99% from 聯合基因科技有限公司 (United Gene Holdings Limited) (a company registered in the PRC) ("United Gene-PRC") and 0.01% by Shanghai Biowindow Gene Development Co., Ltd. ("Shanghai Biowindow").

The issued share capital of United Gene Group is owned as to 33% by United Gene Holdings Limited (a company incorporated in the British Virgin Islands) ("United Gene-BVI") and as to 33% by Ease Gold Investments Limited. The issued share capital of United Gene-BVI and Ease Gold Investments Limited is wholly owned by Dr. Mao Yu Min and Dr. Xie Yi respectively.

On the same date, HK Biowindow also increased its shareholding in FPL from 80% to 100% by acquiring the remaining 20% interests of FPL from Fudan Biotech (Hong Kong) Limited.

(b) In connection with note (b) under the section "Substantial shareholders' and other persons' interests and short positions in shares and underlying shares", where details of the interest of Dr. Mao Yu Min ("Dr. Mao") in a conditional sale and purchase agreement entered into between Mr. Ong Cheng Heang and Dr. Mao on 6 September 2011, are disclosed.

2. Long positions in shares of associated corporation

Name of director	Name of associated corporation	Relationship with the Company	Shares/equity derivative	Number of shares/ equity derivative held	Capacity and nature of interest	Percentage of the associated corporation's issued share capital
Mao Yu Min	Smart Ascent Limited ("Smart Ascent")	Company's subsidiary	Ordinary shares	2,450	Directly beneficially owned	24.50%

Note: Extrawell (BVI) Limited ("EBVI"), a wholly owned subsidiary of the Company and Mr. Ong Cheng Heang ("Mr. Ong") each hold 5,100 and 4,900 ordinary shares of HK$1.00 each in Smart Ascent. In connection with note (b) under the section "Substantial shareholders' and other persons' interests and short positions in shares and underlying shares", where details of the interest of Dr. Mao Yu Min ("Dr. Mao") in a conditional sale and purchase agreement entered into between Mr. Ong and Dr. Mao on 6 September 2011, are disclosed.

Save as disclosed above, as at 30 September 2011, none of the directors had registered an interest or short position in the shares and underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the period were rights to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate granted to any director or their respective spouse or minor children, or were any such rights exercised by them, or was the Company or any of its subsidiaries a party to any arrangement to enable the directors, their respective spouse or minor children to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 September 2011, the following interests and short positions of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

Long positions in the ordinary shares of the Company

Name of substantial shareholder	Notes	Capacity and nature of interest	Number of shares held/ entitled	Approximate percentage of interests held/entitled
Ease Gold Investments Limited	(a)	Through controlled corporations	480,000,000	20.96%
United Gene-BVI	(a)	Through controlled corporations	480,000,000	20.96%
United Gene Group	(a)	Through controlled corporations	480,000,000	20.96%
HK Biowindow	(a)	Through controlled corporations	480,000,000	20.96%
JNJ Investments	(a)	Directly beneficially owned	450,000,000	19.65%
Ong Cheng Heang	(b)	Directly beneficially owned	150,000,000	6.55%

Notes:

(a) JNJ Investments and FPL hold 450,000,000 and 30,000,000 ordinary shares of the Company respectively.

The entire issued share capital of JNJ Investments is owned by HK Biowindow, and in turn the issued share capital of HK Biowindow is owned by United Gene Group.

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

The entire issued share capital of FPL is owned by HK Biowindow.

(b) Mr. Ong Cheng Heang ("Mr. Ong") is interested in 300,000,000 shares (the "Consideration Shares") which are the new shares of the Company to be allotted and issued to Mr. Ong pursuant to a conditional sale and purchase agreement entered into between the Company's wholly owned subsidiary Extrawell (BVI) Limited ("EBVI") as purchaser and Mr. Ong as vendor on 27 July 2007 (the "2007 Agreement") in connection with the proposed acquisition of the 4,900 ordinary shares in Smart Ascent Limited. The Consideration Shares have not been issued up to the date of this announcement.

As disclosed in the Company's voluntary announcement dated 7 September 2011, a conditional sale and purchase agreement was entered into between Mr. Ong as vendor and Dr. Mao Yu Min as purchaser on 6 September 2011 (the "SP Agreement") in connection with the sale and purchase of the 150 million of the Consideration Shares (the "Sale Listco Shares") where the 2007 Agreement shall be completed in accordance with its terms or, as the case may be, the 24.5% interest in the share capital of Smart Ascent (the "Sale Smart Shares") where the 2007 Agreement shall lapse or otherwise be terminated in accordance with its terms. Mr. Ong had proposed to the Company that supplemental agreement (the "Proposed Supplemental Agreement") should be entered into between Mr. Ong and EBVI to supplement the 2007 Agreement. The Proposed Supplemental Agreement has not been entered into up to the date of this announcement.

Save as disclosed above, as at 30 September 2011, no person, other than certain directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CORPORATE GOVERNANCE PRACTICES

The Company has complied with the applicable code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 September 2011, except for the deviations as set out below:

(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 this 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 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 commitments, Dr. Mao Yu Min was unable to attend the annual general meeting of the Company held on 2 September 2011. 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.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to 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 interim period.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Overall performance

The Chinese government's continuous introduction of measures and policies in the healthcare reform, and the adoption of The Twelfth Five-Year Plan since March this year have enhanced the development of the Mainland's pharmaceutical industry, and at the same time pharmaceutical enterprises are exposed to various challenges in the fast-changing and more complicated operating environment.

In the period under review, the Group continued to streamline the business operations to address market challenges and adjust its distribution model on trading business of imported pharmaceuticals with a view to attaining profitability amid the intensification of market competition. Though the Group's turnover recorded a decline of about 40.2% to HK$78.6 million when compared to the corresponding period of last year, there was a positive effect on improvement of gross margin from 25.9% to 31.5% and reduction in operating costs as a result. The Group has been taking further initiatives and cost-saving measures in enhancing its operating efficiency so as to improve operating performance in the second half of the financial year.

The Group's profit attributable to the equity holders of the Company was about HK$8.7 million, representing a decrease of 34.3% as compared to the corresponding period in 2010.

Imported Pharmaceutical Sector

Sales of imported pharmaceutical products decreased by approximately 51.1% to HK$53.7 million when compared to the corresponding period of last year, which was primarily due to price adjustments on products for customers under the adjusted distribution model, and customers' relatively prudent approach in stock replenishment at the Group's tightening credit control in light of volatile macroeconomic environment.

Benefiting from cost savings in direct logistic costs and associated expenses upon change in distribution model, and with the recording of exchange reserve reclassification adjustment of about HK$1.6 million, segment profit was about HK$9.8 million, representing a decrease of 36.5% from about HK$15.4 million in the 2010 Interim Period.

Manufactured Pharmaceutical Sector

Sales of self-manufactured pharmaceutical products increased by approximately HK$3.1 million to HK$24.9 million, representing 14.2% increase from about HK$21.8 million in the 2010 Interim Period.

The increase was mainly due to the success in launching of products with better margin, such as "Ferrous Sulfate Sustained-released Tablet" for treating iron deficiency anemia in the highly competitive market where competition was mainly on price basis.

Segment profit increased by about HK$1.67 million or 220% over the corresponding period in 2010 and segment profit margin increased from about 3.5% in the 2010 Interim Period to about 9.8% in the 2011 Interim Period as a result of increase in gross margin.

Oral insulin sector

As the clinical trial is still in progress, there was no revenue generated in the sector during this interim period. The increase in loss was mainly due to an increase in the administrative expenses for the clinical trial.

Gene development sector

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

Selling and distribution expenses

Selling and distribution expenses decreased to about HK$5.2 million, representing a drop of about HK$3.4 million or 39.5% as compared to HK$8.6 million in the 2010 Interim Period, as a result of change in distribution model of trading business where there was a corresponding decrease in direct logistic costs and its associated expenses.

Administrative expenses

Administrative expenses remained relatively stable at about HK$13.0 million when taking into account of the release on translation reserve of about HK$1.6 million on the foreign operation; a slight increase by about HK$0.5 million or 3.7% when compared to HK$12.5 million in the 2010 Interim Period was mainly attributable to a non-recurrent legal and professional fee.

Other revenues

Other revenues decreased by about HK$2.6 million from about HK$7.3 million in the 2010 Interim Period to about HK$4.7 million in the 2011 Interim Period, representing a drop of about 35.1%. The decrease was due to a reduction in reversal of impairment provision on trade receivables, and no income was derived from consultancy services provided to other factories.

Seasonal or Cyclical Factors

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

Financial Review

The Group generally finances its operations with internally generated cash flow and facilities granted by its principal banker in Hong Kong, Industrial and Commercial Bank of China (Asia) Limited. As at 30 September 2011, the Group had total cash and bank balances (including pledged bank deposits) of about HK$142.5 million (31 March 2011: HK$145.3 million), representing a slight decrease by approximately 2.0%.

The Group did not have bank borrowings as at 30 September 2011 (31 March 2011: HK$ Nil) but had banking facilities on trade finance, which were supported by the pledge of the Group's fixed deposits of about HK$20.8 million (31 March 2011: HK$20.7 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 30 September 2011 was 0.06 (31 March 2011: 0.06), calculated based on the Group's total debts of about HK$41.6 million (31 March 2011: HK$36.8 million), comprising amounts due to non-controlling interests of subsidiaries of about HK$37.2 million (31 March 2011: HK$32.4 million).

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. Despite the aforesaid, the Group monitors constantly of its exposure to foreign currency movement.

Outlook

In face of the uncertainties of the state policies and market pressure which lead to a more complicated operating environment in the Mainland's pharmaceutical industry, the Group has been exerting efforts to optimize its resources allocation and strategically streamline the business operations to minimize the impacts and maintain a stable development of the Group.

Whilst declining tender prices and inflationary costs have continuously affected the profitability of our manufacturing business, its performance has exhibited signs of improvement as a result of persistent efforts in improving production efficiency, tightening cost control, and extending sales network over rural communities. The Group will further drive the growth of the business through product development and sales network expansion.

For the long-term development of the Group, the Group has been continuously allocating its internal resources to accelerate the progress of the clinical trial of oral insulin which is conducted in clinical trial centres in the Mainland, and will explore new opportunities in research and development.

In the context of recent global financial turmoil, and the highly challenging operating environment in the Mainland, the Group will continue to maintain its prudent approach in managing its business with an aim to further strengthening its financial position and foundation for its future development and growth.

EMPLOYMENT AND REMUNERATION POLICY

As at 30 September 2011, the Group had 310 employees (30 September 2010: 398). Staff costs excluding directors' remuneration and included those charged in the cost of sales for the six months ended 30 September 2011 amounted to approximately HK$13.6 million (six months ended 30 September 2010: approximately HK$18.4 million).

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

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

During the period ended 30 September 2011, no share option was granted, exercised, cancelled or lapsed under the Scheme.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the six months ended 30 September 2011, the Company and its subsidiaries did not purchase, sell or redeem any of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee, which comprises three INEDs with terms of reference in compliance with Code provision C3.3, has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including the review of the unaudited interim results of the Group for the six months ended 30 September 2011.

REMUNERATION COMMITTEE

The Remuneration Committee, which comprises three INEDs and Dr. Xie Yi, an executive director, was formed with terms of reference in compliance with Code provision B1.3 to oversee the remuneration policies of the Group during the six months ended 30 September 2011.

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

Hong Kong, 25 November 2011

As at the date of this announcement, the executive directors are Dr Mao Yu Min, Dr Xie Yi, Dr Lou Yi and Ms Wong Sau Kuen and the independent non-executive directors are Mr Fang Lin Hu, Mr Xue Jing Lun and Ms Jin Song.

* *For identification purpose only*