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 2012

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 2012 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 March 2012

	NOTE	**2012** *HK$'000*	2011 *HK$'000*
TURNOVER	3	**157,406**	198,816
COST OF SALES		**(109,943)**	(146,785)
GROSS PROFIT		**47,463**	52,031
OTHER REVENUES		**3,561**	8,335
RECLASSIFICATION FROM TRANSLATION RESERVE		**8,384**	—
SELLING AND DISTRIBUTION EXPENSES		**(10,430)**	(17,506)
ADMINISTRATIVE EXPENSES		**(27,230)**	(29,418)
RESEARCH AND DEVELOPMENT EXPENSES	4	**(4,885)**	(8,339)
PROFIT BEFORE TAXATION	4	**16,863**	5,103
TAXATION	5	**(926)**	(1,055)

	NOTE	2012 HK$'000	2011 HK$'000
PROFIT FOR THE YEAR		**15,937**	4,048
OTHER COMPREHENSIVE INCOME/(EXPENSE)			
RECLASSIFICATION FROM TRANSLATION RESERVE		**(8,384)**	—
EXCHANGE REALIGNMENT		**7,251**	6,139
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**14,804**	10,187
PROFIT FOR THE YEAR ATTRIBUTABLE TO:			
EQUITY HOLDERS OF THE COMPANY		**20,414**	11,567
NON-CONTROLLING INTERESTS		**(4,477)**	(7,519)
		15,937	4,048
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
EQUITY HOLDERS OF THE COMPANY		**19,281**	17,359
NON-CONTROLLING INTERESTS		**(4,477)**	(7,172)
		14,804	10,187
		HK cents	*HK cents*
EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
BASIC	6	**0.89**	0.51
DILUTED	6	**N/A**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2012

	NOTE	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**50,555**	49,657
Prepaid land lease payments		**24,201**	23,691
Intangible assets		**286,675**	286,936
Amounts due from non-controlling interests		**6,140**	12,970
Loan to a non-controlling interest		**4,807**	—
		372,378	373,254
CURRENT ASSETS			
Inventories		**12,980**	15,232
Trade receivables	*7*	**73,593**	72,575
Deposits, prepayments and other receivables		**69,182**	57,712
Amount due from a non-controlling interest		**—**	3
Pledged bank deposits		**19,600**	20,743
Cash and cash equivalents		**140,071**	124,573
		315,426	290,838
CURRENT LIABILITIES			
Trade and bills payables	*8*	**10,527**	7,152
Accruals and other payables		**22,884**	35,949
Amounts due to non-controlling interests		**39,389**	36,778
Tax payables		**1,304**	1,987
		74,104	81,866
NET CURRENT ASSETS		**241,322**	208,972
TOTAL ASSETS LESS CURRENT LIABILITIES		**613,700**	582,226

	NOTE	2012 HK$'000	2011 HK$'000
NON-CURRENT LIABILITIES			
Amounts due to non-controlling interests		**15,195**	21,851
Loan from a non-controlling interest		**4,807**	—
Deferred income		**18,519**	—
Deferred tax liabilities		**102**	102
		38,623	21,953
NET ASSETS		**575,077**	560,273
CAPITAL AND RESERVES			
Share capital		**22,900**	22,900
Reserves		**350,536**	331,255
Equity attributable to equity holders of the Company		**373,436**	354,155
Non-controlling interests		**201,641**	206,118
TOTAL EQUITY		**575,077**	560,273

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 in 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 and the Hong Kong Companies Ordinance. These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities which have been measured at fair value.

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

2.1 AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS EFFECTIVE FOR THE GROUP'S ANNUAL FINANCIAL YEAR BEGINNING ON 1 APRIL 2011 AND RELEVANT TO THE GROUP

Revised HKAS 24 (revised), "Related party disclosures", issued in November 2009. It supersedes HKAS 24, "Related party disclosures", issued in 2003. HKAS 24 (revised) is mandatory for periods beginning on or after 1 January 2011. Earlier application, in whole or in part, is permitted. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities, if any. The adoption of this revised standard has no significant impact to the Group's consolidated financial statements.

The "Improvements to HKFRSs (2010)" comprises a number of minor and non-urgent amendments to a range of HKFRSs 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.

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

Up to the date of issue of these consolidated financial statements, the HKICPA have issued a number of new standards, amendments to standards and interpretations which are effective for the Group's accounting periods beginning after 1 April 2012, and which have not been adopted in preparing these consolidated financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKAS 1 (Revised), "Presentation of financial statements"	1 July 2012
HKAS 27 (Revised), "Separate financial statements"	1 January 2013
HKFRS 9, "Financial instruments"	1 January 2015
HKFRS 10, "Consolidated financial statements"	1 January 2013
HKFRS 13, "Fair value measurement"	1 January 2013

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

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

Amendments to HKAS 1 (Revised), "Presentation of financial statements", change the grouping of items presented in other comprehensive income, items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from its accounting period beginning on 1 April 2013.

HKFRS 9, "Financial instruments", addresses the classification, measurement and recognition of financial assets and financial liabilities. HKFRS 9 was issued in November 2009 and October 2010. It replaces the parts of HKAS 39 that relate to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the statement of comprehensive income, unless this creates an accounting mismatch. The Group is yet to assess HKFRS 9's full impact and intends to adopt HKFRS 9 no later than its accounting period beginning on or after 1 April 2015.

HKFRS 10, "Consolidated financial statements", builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is yet to assess HKFRS 10's full impact and intends to adopt HKFRS 10 no later than its accounting period beginning on or after 1 April 2013.

HKFRS 13, "Fair value measurement", provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from its accounting period on 1 April 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 2012 and 31 March 2011.

	Manufacturing		Trading		Gene development		Oral insulin		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
	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	**51,673**	39,888	**105,733**	158,928	**—**	—	**—**	—	**157,406**	198,816
Segment results	**2,067**	2,492	**25,054**	17,883	**(66)**	(66)	**(6,634)**	(11,071)	**20,421**	9,238
Interest income									**1,730**	931
Net unallocated expenses									**(5,288)**	(5,066)
Profit before taxation									**16,863**	5,103
Taxation									**(926)**	(1,055)
Profit for the year									**15,937**	4,048
Segment assets	**184,992**	156,050	**98,591**	76,590	**6**	5	**303,611**	312,386	**587,200**	545,031
Unallocated assets									**100,604**	119,061
Total assets									**687,804**	664,092
Segment liabilities	**32,731**	13,155	**19,613**	29,705	**50**	50	**27,856**	27,809	**80,250**	70,719
Unallocated liabilities									**32,477**	33,100
Total liabilities									**112,727**	103,819
Depreciation and amortisation	**3,667**	3,159	**268**	426	**—**	—	**—**	—	**3,935**	3,585
Unallocated Depreciation and amortisation									**132**	252
									4,067	3,837
Other non-cash expenses, other than depreciation and amortisation:										
Impairment on trade receivables	**4,550**	4,062	**166**	220	**—**	—	**—**	—	**4,716**	4,282
Impairment on other receivables	**304**	482	**—**	—	**—**	—	**—**	987	**304**	1,469
Increase in allowance for obsolete inventories	**51**	—	**—**	—	**—**	—	**—**	—	**51**	—
Loss on disposal of property, plant and equipment	**—**	—	**254**	—	**—**	—	**—**	—	**254**	—
Unallocated loss on disposal of property, plant and equipment									**—**	—
									254	—

4. PROFIT BEFORE TAXATION

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

	2012	2011
	HK$'000	*HK$'000*
Amortisation of prepaid land lease payments	**561**	536
Amortisation of intangible assets	**292**	283
Auditors' remuneration	**660**	660
Cost of sales*	**109,943**	146,785
Depreciation of property, plant and equipment	**3,213**	3,018
Increase in allowance for obsolete inventories	**51**	—
Impairment on other receivables	**304**	1,469
Impairment on trade receivables	**4,716**	4,282
Reversal of impairment on trade receivables	**(4,001)**	(3,257)
Loss on disposal of property, plant and equipment	**254**	—
Operating lease charges in respect of land and buildings	**2,068**	2,218
Research and development expenses**	**4,885**	8,339
Staff cost (including directors' emoluments)		
— Salaries, bonus and allowances	**25,834**	36,842
— Retirement benefits scheme contributions	**2,402**	2,144

Note:

* Cost of sales included staff cost and depreciation of property, plant and equipment of approximately HK$8,174,000 (2011: HK$7,159,000) for the year.

** Expenditure incurred on oral insulin project for the year was HK$4,414,000 (2011: HK$8,126,000) and the amount incurred on other projects for the year was HK$471,000 (2011: HK$213,000).

5. TAXATION

Taxation in consolidated statement of comprehensive income represents:

	2012	2011
	HK$'000	*HK$'000*
Current tax — Hong Kong Profits Tax		
Provision for the year	**76**	85
(Over)/under — provision in prior years	**(1)**	6
	75	91
Current tax — Overseas		
Provision for the year	**851**	967
(Over) — provision in prior years	**—**	(3)
	851	964
Income tax charge	**926**	1,055

Hong Kong Profits Tax has been provided at the rate of 16.5% (2011: 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 enterprise 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 24% for 2011. The income tax rate would increase from 24% to 25% in 2012 according to the grandfathering rules stipulated in the Implementation Rules and related circulars.

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:

	2012	2011
	HK$'000	*HK$'000*
Profit before taxation	**16,863**	5,103
Tax at the statutory tax rates applicable to the respective tax jurisdictions	**(689)**	(1,412)
Tax effect on expenses not deductible	**1,861**	2,786
Tax effect on income not taxable	**(393)**	(441)
Tax effect of temporary differences not recognised	**148**	13
(Over)/under — provision in prior years	**(1)**	64
Others	**—**	45
Income tax charge	**926**	1,055

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$20,414,000 (2011: profit attributable to the Company's equity holders of approximately HK$11,567,000) and on the weighted average of 2,290,000,000 (2011: 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 2012 and 31 March 2011 and accordingly, no diluted earnings per share have been presented.

7. TRADE RECEIVABLES

	2012	2011
	HK$'000	*HK$'000*
Trade receivables	**94,011**	91,351
Less: Impairment on trade receivables	**(20,418)**	(18,776)
Trade receivables, net of provision	**73,593**	72,575
Maximum exposure to credit risk	**73,593**	72,575

The carrying amounts of trade receivables approximated their fair values as at 31 March 2012 and 31 March 2011. The Group does not hold any collateral over these balances.

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

	2012	2011
	HK$'000	*HK$'000*
Within 90 days	**28,398**	25,910
Between 91 to 180 days	**20,367**	16,240
Between 181 to 365 days	**24,828**	30,425
Between 1 to 2 years	**4,716**	4,282
Over 2 years	**15,702**	14,494
	94,011	91,351

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

	2012	2011
	HK$'000	*HK$'000*
Within 90 days	**28,398**	25,910
Between 91 to 180 days	**20,367**	16,240
Between 181 to 365 days	**24,828**	30,425
	73,593	72,575

7. TRADE RECEIVABLES (continued)

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 of impairment on trade receivables are as follows:

	2012	2011
	HK$'000	*HK$'000*
At 1 April	**18,776**	18,659
Exchange realignments	**927**	659
Written-off on trade receivables	**—**	(1,567)
Impairment on trade receivables	**4,716**	4,282
Reversal of impairment on trade receivables	**(4,001)**	(3,257)
At 31 March	**20,418**	18,776

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

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	2012	2011
	HK$'000	*HK$'000*
Renminbi	**48,287**	72,575
United State dollars	**25,306**	—
	73,593	72,575

8. TRADE AND BILLS PAYABLES

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

	2012	2011
	HK$'000	*HK$'000*
Within 90 days	**7,803**	4,025
Between 91 to 180 days	**1,122**	1,577
Between 181 to 365 days	**207**	178
Between 1 to 2 years	**996**	992
Over 2 years	**399**	380
	10,527	7,152

8. TRADE AND BILLS PAYABLES (continued)

The carrying amounts of the Group's trade and bills payables, approximated their fair values as at 31 March 2012 and 31 March 2011 and are denominated in the following currencies:

	2012	2011
	HK$'000	*HK$'000*
Renminbi	**3,383**	2,852
United States dollars	**3,288**	4,300
Euro	**3,856**	—
	10,527	7,152

9. DIVIDENDS

The directors do not recommend the payment of dividend for the year ended 31 March 2012 (2011: HK$Nil).

EXTRACTED FROM INDEPENDENT AUDITORS' REPORT

The consolidated financial statements for the year ended 31 March 2012 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 2012 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 2012 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 2012 is the technological know-how with the carrying value of approximately HK$284,260,000 (2011: HK$284,260,000) (the "**Know-how**") in relation to an oral insulin product (the "**Product**") and the exclusive right for the commercialisation of the Product owned by the Group. 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 as at 31 March 2012. 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 (2011: 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 realise 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

With the adoption of The Twelfth Five-Year Plan in 2011 and the central government's increasing investment to the nation's healthcare reforms, the pharmaceutical industry continued to demonstrate a strong growth momentum supported by robust market demand primarily driven by natural growth and aging of population, accelerating urbanization and the people's rising living standards. The deepening implementation of stricter regulatory requirements towards the industry along with the healthcare reforms and the inflationary atmosphere during the year posed pressures and ongoing challenges to the operating environment of pharmaceutical enterprises, intensifying market competition and changing the landscape of the industry.

In the context of the ever-changing competitive landscape, the Group persisted in optimizing operational efficiencies by streamlining the business operations and adjusting its marketing and distribution strategies whilst fortifying stringent controls over costs and expenses. In line with adjusting the distribution model on trading business of imported pharmaceuticals, there was a decline of the Group's turnover to about HK$157.4 million, representing a decrease of 20.8% as compared with that of last financial year. However, positive effects of an improved overall gross margin from 26.2% to 30.2% and a reduction of the total administrative, selling and distribution expenses by about HK$9.3 million from HK$46.9 million to HK$37.7 million were achieved. As a result, the Group's profit for the year was about HK$15.9 million comprising reclassification of exchange differences from translation reserve of about HK$8.4 million in respect of partial disposal of operation outside Hong Kong upon adjusting the distribution model of the imported pharmaceutical business.

The Group's profit for the year attributable to the equity holders of the Company was about HK$20.4 million, representing an increase of about HK$8.8 million as compared to profit of about HK$11.6 million in 2011.

Turnover and Operating Results

Imported Pharmaceutical Sector

While turnover for the imported pharmaceutical sector decreased by about 33.5% from about HK$158.9 million last year to about HK$105.8 million this year, which was primarily due to price adjustments on products for customers under the introduction of the adjusted distribution model, segment profit was maintained at about HK$25.1 million including the reclassification of exchange differences from translation reserve of about HK$8.4 million. The result was achieved as there were a corresponding reduction of operating costs and expenses upon the adjusted distribution model, and an increasing sales contribution of the dermatological product propelled by effective execution of academic promotion activities during the year.

Confronting the complexity and challenges in the pharmaceutical market amidst macroeconomic volatility, management will devote continuing efforts to adopt strategies more flexibly according to market changes and will strive for further improvement on business performance.

Manufactured Pharmaceutical Sector

Sales of manufactured pharmaceutical products increased to about HK$51.7 million, an increase of approximately 29.5% as compared to about HK$39.9 million in 2011. The substantial increase in sales was mainly attributable to the increase in sales of the Group's two product lines specialised in improving the immunity system of human body against infectious diseases and for treating iron deficiency anemia.

During the year under review, the launch of a series of deepening policies in healthcare reforms triggered low-price bidding competition on drugs and heavier burden of regulatory costs for drug manufacturers. Impacted by the fierce market competition and inflationary environment, management made relentless efforts in rationalizing production procedures to enhance productivity and adjusting marketing strategies to penetrate into rural markets. The severe challenges in the operating environment were also mitigated by improving gross margin with product mix and the continuous cost control measures to manage operating expenses. As a result, segment profit was maintained at about HK$2.1 million, a decrease of about HK$0.4 million as compared to about HK$2.5 million in 2011.

After entering into the land resumption and compensation agreement with the governmental authority in end of 2011, a relocation arrangement of the Group's production facilities by stages with minimal disruption to its existing operation is organized. It is the Group's intention to advance the capacity and capability of its new production facilities to enhance its core competitiveness in the long run. Meanwhile, the Group would continue to optimise its product mix to capture greater market share and reduce the production and operation costs in order to secure profitability and drive for better performance.

Gene Development Sector

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

Oral Insulin Sector

The clinical trial is in progress. There was no revenue generated in the sector. The decrease in loss was due to lesser research and development expenses incurred for the clinical trial this year.

Selling and Distribution Expenses

Selling and distribution expenses of the Group decreased from about HK$17.5 million in 2011 to about HK$10.4 million in 2012, representing a decrease of about HK$7.1 million or 40.4%. This was mainly attributable to reduction in logistics costs and associated expenses upon adjusting the distribution model of our imported pharmaceutical products and more effective utilization of marketing resources and execution of marketing strategies.

Administrative Expenses

Administrative expenses of the Group reduced by 7.4% from about HK$29.4 million in 2011 to about HK$27.2 million in 2012 which was mainly due to reduction in staff costs upon the adjusted distribution model on imported pharmaceuticals and benefits achieved from consolidation of human resources.

Research and Development Expenses

Research and development expenses reduced from about HK$8.3 million in 2011 to about HK$4.9 million in 2012 attributable to less expenses relating to the oral insulin project were recognized in the year under review.

Other Revenues

Other revenues decreased from about HK$8.3 million in 2011 to about HK$3.6 million in 2012, a decrease by 57.3%. This was mainly due to no consultancy service rendered for other factories during the year and such reduction of about HK$7.3 million was partially offset by the increase of interest income by about HK$0.8 million and foreign exchange gain of about HK$1.5 million.

B. Outlook

While national policy changes and the healthcare reforms pose uncertainties ahead, the central government's commitments in establishing a universal healthcare coverage over the nation's population boost demand for quality pharmaceuticals and encourage innovation in the pharmaceutical industry.

It has been a positive move for the Group during the year as the clinical trial of oral insulin is conducted in the clinical trial centres in the Mainland, under the administration of the project administrator engaged by the Group. The multi-centered, randomized, double-blinded, placebo-controlled clinical trial is progressing towards validating the efficacy and safety of the use of oral insulin. The Group would focus resources on the ongoing progress of the clinical trial and believe that the success of the project will foster the growth of the Group.

With enhancement of the Group's core competitiveness as its key focus, the Group will continue to identify investment projects with potentials to bring prospects for the Group and will seek collaborative opportunities which will create synergies to develop and tap the advantages of growing domestic demand in the Mainland.

The Group is committed to maintaining a stable growth of its business in the challenging operating environment and holds a cautiously optimistic view towards the coming year.

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 2012, the Group had total cash and bank balances (including pledged bank deposits) of about HK$159.7 million (2011: HK$145.3 million), representing a moderate increase by approximately 9.9%.

The Group did not have bank borrowings during the year but had banking facilities on trade finance, which were supported by the pledge of the Group's fixed deposits of about HK$19.6 million (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 31 March 2012 was 0.06 (2011: 0.06) calculated based on the Group's total debts of about HK$39.4 million (2011: HK$36.8 million), comprising amount due to a non-controlling interest of about HK$32.4 million (2011: HK$32.4 million).

Foreign Exchange Exposure

Save for certain purchases are denominated in Euros, the Group's business transactions, assets and liabilities are principally denominated in Hong Kong dollars, United States dollars, and Renminbi. The Group manages the foreign currency exposure by closely monitoring the foreign currency movement and may purchase foreign currency at spot rate, when and where appropriate for meeting its payment obligation. No hedge on foreign currencies was made during the period but the Group will use financial instrument for hedging purpose when considered appropriate.

D. Employment and Remuneration Policy

As at 31 March 2012, the Group had 295 employees (2011: 415). Staff costs (including directors' emoluments) for the year ended 31 March 2012 amounted to approximately HK$28.2 million (2011: approximately HK$39.0 million). The decrease was mainly due to adjustments in the distribution model of trading business and the consolidation of human resources in the Group's operations. 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 was granted under the Scheme during the year ended 31 March 2012.

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 2012, 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:

(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 are 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.

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 for Securities Transactions by Directors of Listed Issuers (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 directors, the directors have complied with the required standard set out in the Model Code throughout the year ended 31 March 2012.

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 INEDs. The Group's financial statements for the year ended 31 March 2012 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
Mao Yu Min
Chairman

Hong Kong, 29 June 2012

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

* *For identification purpose only*