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# 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 2013

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 2013 as follows:

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
*For the year ended 31 March 2013*

| | *Notes* | **2013** *HK$'000* | 2012 *HK$'000* |
|---|---|---|---|
| TURNOVER | *4* | **151,068** | 157,406 |
| COST OF SALES | | **(104,374)** | (109,943) |
| GROSS PROFIT | | **46,694** | 47,463 |
| OTHER REVENUES | | **5,933** | 3,561 |
| RECLASSIFICATION FROM TRANSLATION RESERVE | | **—** | 8,384 |
| SELLING AND DISTRIBUTION EXPENSES | | **(9,516)** | (10,430) |
| ADMINISTRATIVE EXPENSES | | **(27,888)** | (27,230) |
| RESEARCH AND DEVELOPMENT EXPENSES | *5* | **(3,251)** | (4,885) |
| SHARE OF RESULTS OF AN ASSOCIATE | | **(3,086)** | — |
| PROFIT BEFORE TAXATION | *5* | **8,886** | 16,863 |
| TAXATION | *6* | **(706)** | (926) |

| | Notes | **2013** HK$'000 | 2012 HK$'000 |
|---|---|---|---|
| PROFIT FOR THE YEAR | | **8,180** | 15,937 |
| OTHER COMPREHENSIVE INCOME/(EXPENSE) | | | |
| RECLASSIFICATION FROM TRANSLATION RESERVE | | **—** | (8,384) |
| EXCHANGE REALIGNMENT | | **35** | 7,251 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | **8,215** | 14,804 |
| PROFIT FOR THE YEAR ATTRIBUTABLE TO: | | | |
| EQUITY HOLDERS OF THE COMPANY | | **10,876** | 20,414 |
| NON-CONTROLLING INTERESTS | | **(2,696)** | (4,477) |
| | | **8,180** | 15,937 |
| TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO: | | | |
| EQUITY HOLDERS OF THE COMPANY | | **10,911** | 19,281 |
| NON-CONTROLLING INTERESTS | | **(2,696)** | (4,477) |
| | | **8,215** | 14,804 |
| | | ***HK cents*** | *HK cents* |
| EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY: | | | |
| BASIC | *7* | **0.47** | 0.89 |
| DILUTED | *7* | **N/A** | N/A |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 March 2013*

| | Notes | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Investment properties | | **1,733** | — |
| Property, plant and equipment | | **78,032** | 50,555 |
| Prepaid land lease payments | | **22,537** | 24,201 |
| Intangible assets | | **286,203** | 286,675 |
| Interest in an associate | | **9,733** | — |
| Amounts due from non-controlling interests | | **6,056** | 6,140 |
| Loan to a non-controlling interest | | **5,997** | 4,807 |
| | | **410,291** | 372,378 |
| CURRENT ASSETS | | | |
| Inventories | | **13,150** | 12,980 |
| Trade receivables | *8* | **74,805** | 73,593 |
| Deposits, prepayments and other receivables | | **63,208** | 69,182 |
| Pledged bank deposits | | **19,712** | 19,600 |
| Cash and cash equivalents | | **136,450** | 140,071 |
| | | **307,325** | 315,426 |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | *9* | **13,898** | 10,527 |
| Accruals and other payables | | **18,984** | 22,884 |
| Amounts due to non-controlling interests | | **39,470** | 39,389 |
| Tax payables | | **1,134** | 1,304 |
| | | **73,486** | 74,104 |
| NET CURRENT ASSETS | | **233,839** | 241,322 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **644,130** | 613,700 |

| | Notes | **2013** *HK$'000* | 2012 *HK$'000* |
|---|---|---|---|
| NON-CURRENT LIABILITIES | | | |
| Amounts due to non-controlling interests | | **17,702** | 15,195 |
| Loan from a non-controlling interest | | **5,997** | 4,807 |
| Deferred income | | **37,037** | 18,519 |
| Deferred tax liabilities | | **102** | 102 |
| | | **60,838** | 38,623 |
| NET ASSETS | | **583,292** | 575,077 |
| CAPITAL AND RESERVES | | | |
| Share capital | | **22,900** | 22,900 |
| Reserves | | **361,447** | 350,536 |
| Equity attributable to equity holders of the Company | | **384,347** | 373,436 |
| Non-controlling interests | | **198,945** | 201,641 |
| TOTAL EQUITY | | **583,292** | 575,077 |

*Notes:*

## 1 GENERAL INFORMATION

Extrawell Pharmaceutical Holdings Limited (the "**Company**") is a limited liability company incorporated in Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The address of its principal place of business is Room 3409–10, 34/F., China Resources Building, 26 Harbour Road, Wanchai, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The Company is an investment holding company and its subsidiaries (collectively the "**Group**") are principally engaged in marketing and distribution of pharmaceutical products in the People's Republic of China (the "**PRC**"); development, manufacturing and sales of pharmaceutical products in the PRC; commercial exploitation and development of genome-related technology; and development and commercialisation of oral insulin products.

## 2. 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 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.

## 3.1 AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS EFFECTIVE FOR THE GROUP'S FINANCIAL YEAR BEGINNING ON 1 APRIL 2012 AND RELEVANT TO THE GROUP

There are no HKFRSs interpretations that are effective for the first time for the financial year beginning on or after 1 April 2012 that would be expected to have a material impact on the Group.

## 3.2 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 |
| HKAS 28 (Revised), "Investments in associates and joint ventures" | 1 January 2013 |
| HKFRS 9, "Financial instruments" | 1 January 2015 |
| HKFRS 10, "Consolidated financial statements" | 1 January 2013 |
| HKFRS 12, "Disclosures of interests in other entities" | 1 January 2013 |
| HKFRS 13, "Fair value measurement" | 1 January 2013 |
| Amendments to HKFRS 7, "Financial instruments: Disclosures — Offsetting financial assets and financial liabilities" | 1 January 2013 |
| Amendments to HKAS 32, "Financial instruments: Presentation — Offsetting financial assets and financial liabilities" | 1 January 2014 |

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.

### 3.2 STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS THAT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN EARLY ADOPTED (Continued)

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 12, "Disclosures of interests in other entities" includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess HKFRS 12's full impact and intends to adopt HKFRS 12 no later than the 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.

Amendments to HKFRS 7, "Financial instruments: Disclosures — Offsetting financial assets and financial liabilities", requires new disclosure requirements which focus on quantitative information about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset. The Group will apply this amendment from 1 April 2013.

Amendments to HKAS 32, "Financial instruments: Presentation — Offsetting financial assets and financial liabilities", is to the application guidance in HKAS 32 "Financial instruments: Presentation", and clarify some of the requirements for offsetting financial assets and financial liabilities on the statement of financial position. The application of the amendments to HKAS 32 might result in changes in presentation of certain financial assets and financial liabilities on the statement of financial position. The Group will apply this amendment from 1 April 2013.

## 4. 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 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.

## 4. 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 2013 and 31 March 2012.

| | Manufacturing | | Trading | | Gene development | | Oral insulin | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 | **2013** | 2012 | **2013** | 2012 | **2013** | 2012 |
| | ***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 | **61,424** | 51,673 | **89,644** | 105,733 | **—** | — | **—** | — | **151,068** | 157,406 |
| Segment results | **2,527** | 2,067 | **19,271** | 25,054 | **(67)** | (66) | **(4,586)** | (6,634) | **17,145** | 20,421 |
| Interest income | | | | | | | | | **1,241** | 1,730 |
| Net unallocated expenses | | | | | | | | | **(6,414)** | (5,288) |
| Share of results of an associate | | | | | | | | | **(3,086)** | — |
| Profit before taxation | | | | | | | | | **8,886** | 16,863 |
| Taxation | | | | | | | | | **(706)** | (926) |
| Profit for the year | | | | | | | | | **8,180** | 15,937 |
| Segment assets | **209,471** | 184,992 | **118,772** | 98,591 | **6** | 6 | **306,342** | 303,611 | **634,591** | 587,200 |
| Unallocated assets | | | | | | | | | **83,025** | 100,604 |
| Total assets | | | | | | | | | **717,616** | 687,804 |
| Segment liabilities | **50,260** | 32,731 | **19,277** | 19,613 | **50** | 50 | **31,634** | 27,856 | **101,221** | 80,250 |
| Unallocated liabilities | | | | | | | | | **33,103** | 32,477 |
| Total liabilities | | | | | | | | | **134,324** | 112,727 |
| Depreciation and amortisation | **3,829** | 3,667 | **134** | 268 | **—** | — | **—** | — | **3,963** | 3,935 |
| Unallocated depreciation and amortisation | | | | | | | | | **133** | 131 |
| | | | | | | | | | **4,096** | 4,066 |
| Other non-cash expenses, other than depreciation and amortisation: | | | | | | | | | | |
| Impairment on trade receivables | **8,551** | 4,550 | **—** | 166 | **—** | — | **—** | — | **8,551** | 4,716 |
| Reversal of impairment on trade receivables | **(8,675)** | (3,595) | **(119)** | (406) | **—** | — | **—** | — | **(8,794)** | (4,001) |
| Impairment on other receivables | **—** | 304 | **—** | — | **—** | — | **—** | — | **—** | 304 |
| Loss on disposal of property, plant and equipment | **—** | — | **—** | 254 | **—** | — | **—** | — | **—** | 254 |

## 5. PROFIT BEFORE TAXATION

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

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Amortisation of prepaid land lease payments | **947** | 561 |
| Amortisation of investment properties | **60** | — |
| Amortisation of intangible assets | **472** | 292 |
| Auditors' remuneration | **670** | 660 |
| Cost of sales* | **104,374** | 109,943 |
| Depreciation of property, plant and equipment | **2,617** | 3,213 |
| (Decrease)/increase in allowance for inventories | **(3)** | 51 |
| Impairment on other receivables | **—** | 304 |
| Impairment on trade receivables | **8,551** | 4,716 |
| Reversal of impairment on trade receivables | **(8,794)** | (4,001) |
| Loss on disposal of property, plant and equipment | **—** | 254 |
| Operating lease charges in respect of land and buildings | **1,919** | 2,068 |
| Research and development expenses** | **3,251** | 4,885 |
| Staff cost (including directors' emoluments) | | |
| — Salaries, bonus and allowances | **24,688** | 25,834 |
| — Retirement benefits scheme contributions | **2,669** | 2,402 |

*Note:*

* Cost of sales included staff cost and depreciation of property, plant and equipment of approximately HK$8,810,000 (2012: HK$8,174,000) for the year.

** Research and development expenses incurred relating to oral insulin project for the year were HK$2,431,000 (2012: HK$4,414,000) and the amounts incurred on other projects for the year was HK$820,000 (2012: HK$471,000).

## 6. TAXATION

Taxation in consolidated statement of comprehensive income represents:

| | 2013<br>*HK$'000* | 2012<br>*HK$'000* |
|---|---|---|
| Current tax — Hong Kong Profits Tax | | |
| Provision for the year | **82** | 76 |
| Over-provision in prior years | **(5)** | (1) |
| | **77** | 75 |
| Current tax — Overseas | | |
| Provision for the year | **628** | 851 |
| Under-provision in prior years | **1** | — |
| | **629** | 851 |
| Income tax charge | **706** | 926 |

Hong Kong Profits Tax has been provided at the rate of 16.5% (2012: 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 PRC Enterprise Income Tax Law, the tax rate of the PRC subsidiaries is 25%.

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, is as follows:

| | 2013<br>*HK$'000* | 2012<br>*HK$'000* |
|---|---|---|
| Profit before taxation | **8,886** | 16,863 |
| Tax at the statutory tax rates applicable to the respective tax jurisdictions | **(1,126)** | (689) |
| Tax effect on expenses not deductible | **2,590** | 1,861 |
| Tax effect on income not taxable | **(564)** | (393) |
| Tax effect of temporary differences not recognised | **(209)** | 148 |
| Over-provision in prior years | **(4)** | (1) |
| Others | **19** | — |
| Income tax charge | **706** | 926 |

## 7. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to the Company's equity holders of approximately HK$10,876,000 (2012: profit attributable to the Company's equity holders of approximately HK$20,414,000) and on the weighted average of 2,290,000,000 (2012: 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 2013 and 31 March 2012 and accordingly, no diluted earnings per share have been presented.

## 8. TRADE RECEIVABLES

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade receivables | **94,980** | 94,011 |
| Less: Impairment on trade receivables | **(20,175)** | (20,418) |
| Trade receivables, net of provision | **74,805** | 73,593 |
| Maximum exposure to credit risk | **74,805** | 73,593 |

The carrying amounts of trade receivables approximate their fair values as at 31 March 2013 and 31 March 2012. 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:

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 90 days | **35,836** | 28,398 |
| Between 91 to 180 days | **26,100** | 20,367 |
| Between 181 to 365 days | **12,869** | 24,828 |
| Between 1 to 2 years | **8,551** | 4,716 |
| Over 2 years | **11,624** | 15,702 |
| | **94,980** | 94,011 |

## 8. TRADE RECEIVABLES (Continued)

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

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 90 days | **35,836** | 28,398 |
| Between 91 to 180 days | **26,100** | 20,367 |
| Between 181 to 365 days | **12,869** | 24,828 |
| | **74,805** | 73,593 |

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 ranging 120 to 180 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:

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| At 1 April | **20,418** | 18,776 |
| Exchange realignments | **—** | 927 |
| Impairment on trade receivables | **8,551** | 4,716 |
| Reversal of impairment on trade receivables | **(8,794)** | (4,001) |
| At 31 March | **20,175** | 20,418 |

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:

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Hong Kong dollars | **30** | — |
| Renminbi | **40,420** | 48,287 |
| United States dollars | **34,355** | 25,306 |
| | **74,805** | 73,593 |

## 9. TRADE AND BILLS PAYABLES

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

| | 2013 | 2012 |
|---|---|---|
| | *HK\$'000* | *HK\$'000* |
| Within 90 days | **11,863** | 7,803 |
| Between 91 to 180 days | **1,492** | 1,122 |
| Between 181 to 365 days | **—** | 207 |
| Between 1 to 2 years | **144** | 996 |
| Over 2 years | **399** | 399 |
| | **13,898** | 10,527 |

The carrying amounts of the Group's trade and bills payables approximate their fair values as at 31 March 2013 and 31 March 2012 and are denominated in the following currencies:

| | 2013 | 2012 |
|---|---|---|
| | *HK\$'000* | *HK\$'000* |
| Renminbi | **2,053** | 3,383 |
| United States dollars | **7,047** | 3,288 |
| Euro | **4,798** | 3,856 |
| | **13,898** | 10,527 |

## 10. DIVIDENDS

The directors do not recommend the payment of dividend for the year ended 31 March 2013 (2012: HK$ Nil).

## EXTRACTED FROM INDEPENDENT AUDITORS' REPORT

The consolidated financial statements for the year ended 31 March 2013 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 2013 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 2013 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 2013 is the technological know-how with the carrying value of approximately HK$284,260,000 (2012: 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 2013. 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 vendor of the sales of the 51% interest of Fosse Bio (the "**Fosse Bio Vendor**") the amount of HK$31,780,000 (2012: 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

### Business Review

#### *Overall Performance*

In the year under review, China's economic growth slowed from 9.3% in 2011 to 7.8% in 2012 as a result of decline in external demand resulting from prolonged sovereign debt crisis in the Eurozone and feeble recovery in the US economy. Despite such uncertain global economic environment, the PRC pharmaceutical industry continued to grow by riding on the extensive healthcare reforms under the Twelfth Five-Year Plan (2011–2015) which include further strengthening the delivery of medical care and the public health infrastructure, providing accessible health insurance, and ensuring a sound system for drug supply and security. The Twelfth Five-Year Plan reflects the central government's continued commitment in healthcare reform, focusing healthcare as a social priority and providing more support for technology innovation in the pharmaceutical industry. The reform efforts thus far have brought about progress toward giving the nation's citizens access to basic medical services, with increased parity between urban and rural residents. While permitting market space to meet additional demands, regulatory policies and measures to pharmaceutical enterprises are reinforcing which tend to pose cost and price pressures, intensifying market competition and leading to acceleration of integration within the industry. In response to the challenging market situation, the Group had persistently adopted its policies in continuously optimising operational efficiencies through streamlining the business operations and flexibly adjusting its marketing and distribution strategies to achieve performance.

The Group maintained its turnover and gross profit at about HK$151.1 million and HK$46.7 million respectively, representing a slight decrease of about 4.0% and 1.6% as compared with that of last financial year. These were mainly the results of the Group's effort on brand building in rural markets which potential demand existed for the Group's manufactured pharmaceuticals and unwinking disciplines over product costs. Excluding the non-recurring item of reclassification of exchange differences from translation reserve of about HK$8.4 million of last financial year, and after taking into account the share of loss of an associate of about HK$3.1 million due to its business start-up costs and a write-back of provision of direct expenses attributable to sales of about HK$4.0 million included in other revenue, the Group's core operations maintained stable performance during the year under review.

The Group's profit for the year attributable to the equity holders of the Company was about HK$10.9 million, representing a decrease of about HK$9.5 million as compared to profit of about HK$20.4 million (comprising a non-recurring item of reclassification of exchange differences from translation reserve of about HK$8.4 million).

***Turnover and Operating Results***

*Imported Pharmaceutical Sector*

Turnover decreased by about 15.2% from about HK$105.7 million last year to about HK$89.6 million this year mainly due to sales mix and price adjustment on products for customers under the adjusted distribution model.

Despite the aforesaid, after consolidation of distribution channels during the year, the Group will be in better position to monitor credit control over the trade receivables and minimise operating costs. Segment results decreased from about HK$25.1 million in 2012 to about HK$19.3 million in 2013. However, when taking into account the non-recurring item of reclassification of exchange differences from translation reserve of about HK$8.4 million of last financial year and other revenue relating to a write-back of provision of direct expenses attributable to sales of about HK$4.0 million this financial year, the segment results decreased slightly from about HK$16.7 million to about HK$15.3 million, representing a decrease of about HK$1.4 million comprising increase in costs and expenses incurred in product license renewal of about HK$0.4 million during the year under review.

The Group would take positive approach in responding quickly to dynamic market by adopting flexibly strategies and initiatives as appropriate to develop the business and strive for better business performance.

*Manufactured Pharmaceutical Sector*

Sales of manufactured pharmaceutical products increased to about HK$61.4 million, an increase of approximately 18.9% when compared to about HK$51.7 million in 2012. The increase was mainly due to growth in demand of end-user terminal market which comprises hospitals and retail pharmacies.

During the year under review, in the face of severe challenges against the backdrop of competitive market situation and rising operating costs, management actively adopted brand building strategy by deploying more resources in organising marketing and promotional activities so as to firmly grasp the market share in the expanding rural markets. The strategy was proved successful with 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) and improved gross margin which balanced off the rising operating costs. As a result, segment profit improved to about HK$2.5 million, an increase of about 22.3% as compared to about HK$2.1 million in 2012.

While the Group would strategically extend its sales network in the rural markets, the Group would leverage the opportunities of plant relocation and production facilities advancement to enrich its product mix through research and development and would consolidate resources of its manufacturing operations in Changchun so as to enhance operating efficiency and facilitate future development by internally generated resources.

*Gene Development Sector*

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

*Oral Insulin Sector*

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

***Selling and Distribution Expenses***

Selling and distribution expenses of the Group decreased from about HK$10.4 million in 2012 to about HK$9.5 million in 2013, representing a decrease of about HK$0.9 million or 8.8%. The decrease was the result of reduction in logistics costs and associated expenses of the imported pharmaceuticals operating under the adjusted distribution model, ongoing cost and credit control measures by manufacturing operations for entertainment, travelling and impairment expenditure which balanced off the increase in spending on symposium, medical meeting and promotion expenses to drive sales growth and to secure market share.

***Administrative Expenses***

Administrative expenses of the Group amounted to about HK$27.9 million which included the professional fee provided for the acquisition of minority interest in Smart Ascent Limited of about HK$1.1 million and costs and associated expenses incurred in product license renewal of about HK$0.4 million, representing an increase of 2.4% from about HK$27.2 million in 2012.

***Research and Development Expenses***

Decrease in research and development expenses from about HK$4.9 million in 2012 to about HK$3.3 million in 2013 was mainly attributable to less expense recognised in relation to the clinical trial of oral insulin.

***Other Revenues***

Other revenues increased from about HK$3.6 million in 2012 to about HK$5.9 million in 2013. This was mainly due to a write-back of provision of about HK$4.0 million for direct expenses attributable to sales as it was no longer required under the adjusted distribution model of the trading business, and such write-back was partially offset by the decrease of foreign exchange gain.

## Outlook

Amid uncertainties over the global economic recovery, China's economic growth tends to slow but sees to adjust and transform on a more sustainable growth path. The continuous increase of investment by the central government in deepening the healthcare reforms and the accelerated demand in urban and rural areas will give momentum to the development and expansion of the PRC pharmaceutical market.

Chronic conditions such as diabetes and hypertension are proliferating rapidly in the PRC given the aging population, accelerating urbanisation coupled with unhealthy diets and sedentary lifestyles in recent years. The Group's oral insulin project has seen promising move during the year as the Group has completed the multi-centered, randomised, double-blinded and placebo-controlled clinical trial of oral insulin on treatment of type 2 diabetes with satisfactory results and the project team is stepping up efforts in organising the extended clinical trial with more extensive sampling in the PRC. Promoting the success of the oral insulin project will still be given high priority in the years to come so that the Group could capture the enormous market opportunities arising from the growing number of diabetics in the PRC.

The construction of new production facilities in Changchun has been progressing for the plant relocation by end of this year. It is a turning point for the Group to enhance its core competiveness of its manufacturing segment by upgrading its production capacity and enhancing its operational efficiency for its long-term growth and development.

Meanwhile, the Group will continue to put efforts in product research and development and exploit new products through collaborative relations with international enterprises to sustain long-term development and growth of the Group.

## 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 2013, the Group had total cash and bank balances (including pledged bank deposits) of about HK$156.2 million (2012: HK$159.7 million), representing a decrease by approximately 2.2%.

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$19.7 million (2012: HK$19.6 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 2013 was 0.09 (2012: 0.09), calculated based on the Group's total assets of about HK$717.6 million (2012: HK$687.8 million) and total debts of about HK$63.2 million (2012: HK$59.4 million), comprising amounts due to non-controlling interests of subsidiaries of about HK$57.2 million (2012: HK$54.6 million) and loan from a non-controlling interest of about HK$6.0 million (2012: HK$4.8 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 movements and may purchase foreign currencies at spot rate, when and where appropriate for meeting its payment obligation. No hedge on foreign currencies was made during the year but the Group will use financial instruments for hedging purpose when considered appropriate.

**Employment and Remuneration Policy**

As at 31 March 2013, the Group had 294 employees (2012: 295). Staff costs (including directors' emoluments) for the year ended 31 March 2013 amounted to approximately HK$27.4 million (2012: approximately HK$28.2 million), reflecting cost economies from consolidation of human resources and streamlined business operations.

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 share option scheme as adopted by the Company on 8 August 2002 ("**2002 Scheme**") expired on 14 August 2012. On its expiration, the shareholders of the Company have approved the adoption of a new share option scheme (the "**Scheme**") on 24 August 2012. The Scheme became effective on 29 August 2012 after obtaining approval from the Listing Committee of the Stock Exchange and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

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.

From the effective date of the Scheme to 31 March 2013, no share option has been granted under the Scheme.

**Corporate Governance**

The Group recognises 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.

The Code on Corporate Governance Practices 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**") was revised to, and renamed as, Corporate Governance Code (the "**Revised Code**") from 1 April 2012. During the year ended 31 March 2013, the Company had adopted and applied the code provisions (the "**Code Provisions**") of the Revised Code as set out in Appendix 14, except for the deviations as set out below:

Code Provisions A.1.3 and A.7.1 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.

Code Provision A.4.1 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.

Code Provision A.4.2 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.

Code Provision A.4.2 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.

Code Provision A.6.7 stipulates that INEDs and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. One of the INEDs, Ms. Jin Song was unable to attend the annual general meeting of the Company held on 24 August 2012 due to other business commitments.

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 2013.

## 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 2013 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.

## PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

The results announcement is published on the Stock Exchange's website (www.hkexnews.hk) and the Company's website (www.extrawell.com.hk). The annual report will be despatched to the shareholders of the Company and available on the above websites in due course.

By order of the Board
**Extrawell Pharmaceutical Holdings Limited**
**Mao Yumin**
*Chairman*

Hong Kong, 28 June 2013

List of Directors as at the date of this announcement:

*Executive Directors:*
Dr. MAO Yumin
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*