EXTRAWELL PHARMACEUTICAL HOLDINGS LIMITED
精優藥業控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 00858)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2005

The Board of Directors (the "Board") of Extrawell Pharmaceutical Holdings Limited (the "Company") hereby announces the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2005 as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Year ended 31 March 2005	
		2005	2004
	Notes	***HK$'000***	*HK$'000*
TURNOVER	*3*	**169,766**	215,631
Cost of sales		**(123,676)**	(135,076)
Gross profit		**46,090**	80,555
Other revenue		**1,168**	24,667
Selling and distribution costs		**(17,046)**	(18,816)
Administrative expenses		**(29,436)**	(32,767)
Other operating expenses, net	*4*	**(6,450)**	(25,391)
Impairment of intangible assets		**(79,958)**	(59,981)
LOSS FROM OPERATING ACTIVITIES	*4*	**(85,632)**	(31,733)
Finance costs	*5*	**(2,203)**	(2,375)
Share of loss of an associate		**–**	(1,727)
LOSS BEFORE TAX		**(87,835)**	(35,835)
Tax	*6*	**1,793**	(1,103)
LOSS BEFORE MINORITY INTERESTS		**(86,042)**	(36,938)
Minority interests		**10,219**	51,579
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		**(75,823)**	14,641
EARNINGS/(LOSS) PER SHARE	*7*		
Basic		**HK(3.31) cent**	HK0.64 cent
Diluted		**N/A**	N/A

CONSOLIDATED BALANCE SHEET

		31 March 2005	
		2005	2004
	Notes	***HK$'000***	*HK$'000*
NON-CURRENT ASSETS			
Fixed assets		**84,080**	113,208
Intangible assets		**288,454**	127,744
Goodwill		**5,151**	15,277
Investment in a jointly-controlled entity		**–**	–
Investment in an associate		**–**	7,247
Deposits paid		**–**	20,368
Deferred tax assets		**1,246**	2,493
		378,931	286,337
CURRENT ASSETS			
Inventories		**15,691**	10,034
Accounts receivable	*8*	**73,804**	92,113
Prepayments, deposits and other receivables		**51,383**	48,738
Due from a related company		**–**	9,171
Due from minority shareholders		**8**	–
Tax recoverable		**932**	–
Pledged bank deposits		**12,204**	13,305
Cash and bank balances		**58,337**	70,634
		212,359	243,995
CURRENT LIABILITIES			
Accounts and bills payable	*9*	**7,319**	13,063
Tax payable		**368**	5,931
Accrued liabilities and other payables		**20,153**	23,910
Interest-bearing bank borrowings		**37,466**	45,302
Due to a minority shareholder		**32,404**	–
		97,710	88,206
NET CURRENT ASSETS		**114,649**	155,789
TOTAL ASSETS LESS CURRENT LIABILITIES		**493,580**	442,126
NON-CURRENT LIABILITIES			
Due to a minority equity holder		**–**	18,868
Deferred tax liabilities		**102**	–
		102	18,868
MINORITY INTERESTS		**220,609**	74,566
		272,869	348,692
CAPITAL AND RESERVES			
Issued capital		**22,900**	22,900
Reserves		**249,969**	325,792
		272,869	348,692

Notes:

1. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants has issued a number of new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, hereinafter collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 March 2005. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

HKFRS 3 "Business Combinations" applies to the accounting for business combinations for which the agreement date is on or after 1 January 2005. The Group did not have such business combinations and accordingly, HKFRS 3 has had no impact on these financial statements.

2. 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 Mainland China, and over 90% of the Group's assets are located in Mainland China.

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 sale 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 of certain gene inventions, the research on genome-related technology, and the development and manufacture of genechips; and

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

Business segments

The following tables present revenue, results and certain asset, liability and expenditure information for the Group's business segments.

	Manufacturing		**Trading**		**Gene development**		**Oral insulin**		**Consolidated**	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue										
Sales to external customers	**39,033**	83,567	**129,740**	128,579	**993**	3,485	**–**	–	**169,766**	215,631
Segment results	**(14,352)**	12,983	**26,582**	30,974	**(88,581)**	(69,307)	**(279)**	–	**(76,630)**	(25,350)
Interest income									**925**	749
Net unallocated expenses									**(9,927)**	(7,132)
Loss from operating activities									**(85,632)**	(31,733)
Finance costs									**(2,203)**	(2,375)
Share of loss of an associate	**–**	–	**–**	–	**–**	(1,727)	**–**	–	**–**	(1,727)
Loss before tax									**(87,835)**	(35,835)
Tax									**1,793**	(1,103)
Loss before minority interests									**(86,042)**	(36,938)
Minority interests									**10,219**	51,579
Net profit/(loss) from ordinary activities attributable to shareholders									**(75,823)**	14,641

3. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and proceeds from the assignment of technical know-how. All significant transactions among the companies comprising the Group have been eliminated on consolidation.

4. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging/(crediting):

	2005 *HK$'000*	2004 *HK$'000*
Depreciation	**6,396**	11,805
Intangible assets:		
Amortisation for the year *	**7,317**	9,933
Impairment arising during the year	**79,958**	59,981
	87,275	69,914
Goodwill:		
Amortisation for the year **	**3,526**	2,838
Impairment arising during the year **	**6,600**	8,906
	10,126	11,744
Provision/(write-back of provision for bad and doubtful debts) **	**(9,858)**	4,635
Gain on disposal of intangible assets	**–**	(3,158)
Gain on disposal of subsidiaries	**(72)**	–
Gain on partial disposal of a subsidiary	**–**	(20,760)
Amount due from a related company	**–**	(311)

Cost of inventories sold includes HK$8,789,000 (2004: HK$18,091,000) relating to staff costs, depreciation, amortisation of technical know-how, and minimum lease payments under operating leases for land and buildings, which is also included in the respective total amounts disclosed separately above for these types of expenses.

* The amortisation of intangible assets for the year is included as to HK$2,567,000 in "Cost of sales" and as to HK$4,750,000 in "Other operating expenses, net" on the face of the consolidated profit and loss account.

** These items are included in "Other operating expenses, net" on the face of the consolidated profit and loss account for the current year.

5. FINANCE COSTS

	Group 2005 *HK$'000*	 2004 *HK$'000*
Interest expense on bank overdrafts and loans wholly repayable within five years	**2,203**	2,375

6. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2005 *HK$'000*	2004 *HK$'000*
Group:		
Current – Hong Kong		
Charge for the year	**207**	90
Overprovision in prior years	**(4,413)**	(2,000)
Current – Elsewhere		
Charge for the year	**806**	3,735
Underprovision in prior year	**258**	–
Deferred	**1,349**	(722)
Total tax charge/(credit) for the year	**(1,793)**	1,103

A reconciliation of the tax expense applicable to loss before tax 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:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Loss before tax	**(87,835)**	(35,835)
Tax at the applicable tax rate	**(18,621)**	(22,356)
Preferential statutory rate offered	**1,326**	(4,097)
Temporary differences not recognised	**–**	74
Adjustments in respect of current tax of previous periods	**(4,155)**	(2,000)
Income not subject to tax	**(1,712)**	(3,431)
Expenses not deductible for tax	**21,369**	32,913
Tax charge/(credit) at the Group's effective rate	**(1,793)**	1,103

The applicable tax rate is calculated based on the Hong Kong profits tax rate of 17.5% (2004: 17.5%), the flat rate of Malaysian income tax of MYR20,000 per annum (2004: MYR20,000 per annum) and the statutory corporate income tax rate and preferential tax rate in Mainland China of 33% (2004: 33%) and 18% (2004: 18%), respectively.

Under the PRC income tax law, enterprises are subject to corporate income tax ("CIT") at a rate of 33%. However, since two of the Group's subsidiaries in Mainland China are operating in specific development zones of Mainland China, and the relevant tax authorities have granted those subsidiaries a preferential CIT rate of 18%.

In accordance with the relevant tax legislation in Malaysia, enterprises are subject to a profit tax rate of a lower of a flat rate of MYR20,000 per annum or a rate of 3% of their net profits for the year. Certain of the Group's subsidiaries, which operate in Malaysia, elected to pay the profits tax at a flat rate of MYR20,000 per annum for the two years ended 31 March 2004 and 2005.

7. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK$75,823,000 (2004: net profit of HK$14,641,000) and the 2,290,000,000 (2004: 2,290,000,000) ordinary shares in issue during the year.

Diluted earnings/(loss) per share amounts for the years ended 31 March 2004 and 2005 have not been disclosed as no diluting events existed during these two years.

8. ACCOUNTS RECEIVABLE

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

An aged analysis of the accounts receivable as at the balance sheet date is as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within 90 days	**48,512**	58,221
91 to 180 days	**15,346**	22,932
181 to 365 days	**8,999**	17,866
1 to 2 years	**7,037**	6,997
Over 2 years	**3,041**	5,086
	82,935	111,102
Less: Provision for bad and doubtful debts	**(9,131)**	(18,989)
	73,804	92,113

9. ACCOUNTS AND BILLS PAYABLE

An aged analysis of the accounts and bills payable as at the balance sheet date is as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Outstanding balances with ages:		
Within 90 days	**4,721**	13,052
91 to 180 days	**2,598**	–
1 to 2 years	**–**	11
	7,319	13,063

10. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these financial statements, during the year ended 31 March 2004, R&R a wholly-owned subsidiary of the Company, and Shanghai Biowindow entered into an agreement for the transfer of five gene inventions rights from Shanghai Biowindow to R&R at nil consideration.

11. EXTRACT FROM AUDITORS' OPINION

The auditors' report of the Group' Financial Statements for the year ended 31 March 2005 contained a disclaimer opinion. The followings are extracted from the auditors' report:

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited as follows:

(1) Scope limitation – Prior year's audit scope limitation affecting opening balances

As detailed in our report dated 26 August 2004 on the Group's financial statements for the year ended 31 March 2004, we were unable to obtain sufficient reliable evidence to satisfy ourselves as to the reasonableness of the bases and assumptions used by the directors in arriving at the business valuation of 19 gene invention rights (the "Gene Invention Rights"), which were carried at HK$84,708,000 and included in the intangible assets of HK$127,744,000 in the consolidated balance sheet of the Group at 31 March 2004. Consequently, we were unable to determine whether the carrying amount of the Gene Invention Rights were fairly stated as at 31 March 2004. Any adjustments found to be necessary in respect thereof had we obtained sufficient reliable evidence would have had a consequential effect on the net assets of the Group at 31 March 2004, and of its net loss for the current year and the prior year and the related disclosures thereof in the financial statements.

(2) Scope limitation – Impairment of intangible assets

The Gene Invention Rights are held by two subsidiaries (the "Subsidiaries") of the Company. As further detailed in note 13 to the financial statements, the directors considered that there was a slow down in the global gene sector during the year and there was no sign of significant improvement up to the date of approval of these financial statements. Accordingly, the directors considered that a full provision on impairment of the carrying amount of the Gene Invention Rights was required and thus the net carrying amount of the Gene Invention Rights of HK$79,958,000 (HK$84,708,000 at 31 March 2004 less amortisation of HK$4,750,000 for the year) has been fully charged to the profit and loss account for the year. Our audit scope was limited due to the absence of reliable information to enable us to assess the value of the Gene Invention Rights. We are therefore unable to satisfy ourselves as to whether the recognition of the impairment loss of HK$79,958,000 is appropriate. There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the appropriateness of the impairment loss recognised on the intangible assets of the Group. Any adjustments found to be necessary had we obtained such evidence may have a significant consequential effect on the Group's loss for the year and its net assets as at 31 March 2005 and the related disclosures thereof in the financial statements.

(3) Scope limitation – Disposal of subsidiaries, interest in an associate and interest in a jointly-controlled entity

As further explained in note 31(b) to the financial statements, on 3 August 2004 (the "Disposal Date"), the Group disposed of certain subsidiaries, interest in an associate and interest in a jointly-controlled entity (together referred to as the "Disposed Companies"). The directors have represented to us that they are unable to obtain any books and records of the Disposed Companies following their disposal. Due to lack of available books and records, we are unable to obtain sufficient evidence and audit comfort regarding the value of the net assets disposed of by the Group as at the Disposal Date and hence the gain on disposal of HK$72,000 arising thereon; the net inflow of cash and cash equivalents of approximately HK$24,105,000 in respect of the disposal and the other amounts related to the Disposed Companies included in the consolidated cash flow statement; and the turnover of HK$993,000, share of result of an associate of HK$nil and loss after tax of HK$2,010,000 relating to the Disposed Companies included in the consolidated profit and loss account for the period up to the Disposal Date. Any adjustments found to be necessary to the above amounts would affect the amounts recorded in the consolidated profit and loss account in respect of the Disposed Companies up until the Disposal Date, with a corresponding effect on the gain on disposal, amounts recorded in the consolidated cash flow statement and the related disclosures thereof in the financial statements.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Fundamental uncertainty – recoverability of intangible asset and other receivable

In forming our opinion, we have considered the adequacy of the disclosures made in note 13 to the financial statements concerning the carrying value of technical know-how (the "Know-how") in relation to an oral insulin product (the "Product") and the exclusive right for the commericalisation of the Product owned by the Group of HK$284 million as at 31 March 2005. The Know-how is held by Fosse Bio-Engineering Development Limited ("Fosse Bio"), a subsidiary acquired by the Group during the year through the acquisition of Smart Ascent Limited ("Smart Ascent"), which owns 51% equity interest in Fosse Bio, from two vendors (the "Vendors"). We have also considered the adequacy of the disclosures made in note 21 to the financial statements concerning the recoverability of a receivable (the "Receivable") in the amount of HK$31,780,000 owed by one of the Vendors to the Group. The Receivable is secured on the remaining 49% equity interest in Smart Ascent.

As further explained in notes 13 and 21 to the financial statements, the Product is subject to clinical trials which are currently ongoing. The recoverability of the carrying values of the Know-how and the Receivable depends upon the result of the clinical trials and the successful launching of the Product, the outcome of which is currently uncertain.

The financial statements do not include any adjustments that may be necessary should the clinical trials or the launching of the Product be unsuccessful. We consider that appropriate disclosures have been made, but since the fundamental uncertainty is so extreme we have disclaimed our opinion in respect of the carrying value of the Know-how and the Receivable.

Disclaimer opinion

Because of the significance of (i) the possible effects of the limitations of scope in evidence available to us as referred to points (1) and (2) above under the basis of opinion section; and (ii) the fundamental uncertainty relating to the carrying values of the Know-how and the Receivable, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2005 and of the loss and cash flows of the Group for the year then ended and as to whether or not the financial statements have been prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Had we not disclaimed our opinion in respect of the matters described above, we would otherwise have qualified our opinion in respect of the limitation in evidence relating to the disposal of subsidiaries, interest in an associate and interest in a jointly-controlled entity as set out in point (3) above in the basis of opinion section of this report.

In respect alone of the limitations on our work as set out under points (1) to (3) in the "Basis of opinion" section of this report, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

In respect alone of the limitation on our work as set out under point (3) in the "Basis of opinion" section of this report, we were unable to determine whether proper books and records had been kept.

MANAGEMENT DISCUSSION AND ANALYSIS

(A) Business Review

Overall performance this year

In the past financial year, we have been facing challenges brought by the changing market conditions. In response to such challenges, the management has made speedy response and decisive moves to preserve the financial resources of the Group and to regain our market share of our immunological products, P-Transfer Factor manufactured in Changchun Extrawell.

Total turnover for the year ended 31 March 2005 was about HK$170.0 million, representing a decrease of the 21.3% from the turnover of about HK$215.6 million for the year ended 31 March 2004. The overall decrease of turnover of the Group was attributable to the mixed results from different sectors. The sales contribution from gene development sector has been down by HK$2.5 million and the sales of self-manufactured products has been down by HK$44.6 million while our imported pharmaceutical sector has recorded growth of HK$1.2 million, representing 0.9% growth as compared to previous financial year.

Imported Pharmaceuticals Sector

Turnover for the imported pharmaceutical sector increased for about 0.9% from about HK$128.6 million last year to HK$129.7 million this year. Segment operating profit is HK$26.6 million, representing a decline of operating profit by 14.2% comparing to the segment results for the financial year ended 31 March 2004. In 2005, GM-1, our major product in the Central Nervous System (CNS) areas, continues to recover from the SARS period and post SARS period pharmaceutical market turbulence in the PRC market. During the year, our products faced intense competition and market disturbance brought by counterfeit products and low-costs, but low quality replica in the market. To confront the challenge, the management have staged swift proactive and intensified marketing activities stressing on our product quality and reliability. Sales have been recovered with mild increment while margins have been slightly hampered by the effect of increased marketing and promotional expenditures.

Over the years, GM-1 has shown signs of steady growth as more PRC pharma-medical professionals and academia have gradually got to know and recognize its significant efficacy over patients who suffered from central nervous system damages.

Manufactured Pharmaceutical Sector

Turnover of manufactured pharmaceutical sector dropped significantly from about HK$83.6 million for the year ended 31 March 2004 to about HK$39.0 million for the year ended 31 March 2005, representing a decrease of 53.3%. We have recorded a gross loss of HK$14.4 million in segment results this year.

The substantial decrease was due to the lower sales volume and price cut of P-Transfer Factors during the last four months in 2004. Subsequent to the SARS trauma, the PRC pharmaceutical market was flooded with large amount of immunity drugs and health care products and low price replica of similar functions, resulted from the sharp fall in demand from the high point during SARS period and over expansion of our competitors during the SARS periods. Sales have been declined and margins been squeezed during that period.

Nevertheless, we managed to regain our grounds in 2005. We addressed our product and market risk through persistent effort of quality assurance and reliance on our strong marketing networks and dedicated and responsive sales team. Intensified marketing effort were coupled with significant discounts offered to our customers to retain their loyalty. Despite significant improvement achieved in the recovery of sales in 2005, margins have been eroded, which resulted in a gross operating loss in this sector.

As the PRC pharmaceutical market is getting more mature and more systematically regulated, we believe that products with inferior quality and low level of customer loyalty will gradually fade out in the long race.

Gene Development Sector

Due to the slow down of the gene market and the disposal of a group of loss making subsidiaries in the gene development sector early this year, turnover of the sector dropped from about HK$3.5 million last year to about HK$1.0 million this year, representing a decline of 71.5% in sales. Segment results reported significant loss of HK$88.6 million, which is mainly due to a HK$80.00 million on one time non cash charge of impairment of intangibles.

In view of slow down of this sector so far and the unfavourable market environment, we have decided to stop further investment in the gene development sector. This is to divert our financial resources to strengthen and elevate our growth-intensive research and development activities and our core business. The management has taken a conservative evaluation of the future prospects of this sector and decided to make full provision for the intangible assets in this sector. We make decisions based on facts, but decisive judgment and visionary insights are necessary as these future-orientated research and development activities are very often associated with financial as well as technological risks and uncertainties.

Operating Results

The gross profit margin of the Group decreased from 37% for the year ended 31 March 2004 to 27% for the year ended 31 March 2005, representing a drop of 10%, which is mainly due to the decrease in gross profit margin of both self-manufacturing sector and the imported pharmaceutical sector.

Apart from the one-off impairment provision of our intangible assets of about HK$80.0 million and impairment of goodwill of about HK$6.6 million (2004: HK$68.9 million) about, we recorded an net profit of about HK$4.2 million this year. The decrease in net profit of HK$90.5 million represented a decline of about 618.1% as comparing to last year.

For the first time in the history of our Group, we recorded a net operating loss of HK$75.8 million. Nevertheless, with the year of cut-throat competition and difficult decisions behind us, we have made a turn for the better. Strong signs of recovery in sales and profit margins were reported in the first quarter of 2005.

(B) Outlook and new Development

Progress of our Research and Development on Oral Insulin

Oral Insulin is jointly developed by the Department of Bio-engineering of Tsinghua University and Fosse Bio-Engineering Development Ltd. After close examination, the State Food and Drug Administration (SFDA) has granted permission to perform Phase I and Phase II clinical trials on oral insulin in July 2003.

Phase I clinical trial:

Phase I clinical trial was undertaken at the State Drug Administration Base for Drug Clinical Trial of Beijing Xiehe Hospital (hereinafter referred to as "Xiehe Hospital") under the Chinese Academy of Medical Science between October 2003 and February 2004. The clinical trial was undertaken at a random and alternate basis and a comparison of the test results will be made. Healthy volunteers are required to receive 20 treatments on oral insulin and subcutaneous insulin infusions alternatively (i.e. a total of 40 doses), and the results will be verified by glucose clamp technique (葡萄糖鉗夾技術), the most authoritative and objective method. The results show that, notwithstanding the oral insulin has first reached liver, the target organ, before delivered to the peripheral blood, the relative bioavailability of oral insulin at peripheral blood still reaches a level of 7.42+3.25%. The relative bioavailability as shown in the clinical trial was 24.78±8.10%

The results of Phase I clinical trial shows that the oral insulin is effective in lowering the glucose level after it has entered into the blood system through the digestive system and the oral insulin is safe in application. With the positive results shown in the Phase I clinical trial, the oral insulin will proceed to Phase II clinical trial.

Phase II clinical trial:

With the diabetics being the target, the Phase II clinical trial aims at verifying the medical effects of the oral insulin in bringing down the glucose level of diabetics and the safety in application and such trial involves a variety of testing and comparison made on random basis. From October 2004, the clinical trial has been undertaken in five medical centers, namely Beijing Xiehe Hospital, Beijing Tongren Hospital, the First Clinical Hospital, China Medical University, Shenyang, Shanghai Changzheng Hospital and Qilu Hospital of Shandong Medical University, Jinan, under the leadership of Beijing Xiehe Hospital. Each center will admit 48 to 60 patients and will make comparison on the treatment of the oral insulin and subcutaneous insulin infusions.

All patients in Phase II trial suffered from type II diabetes that cannot be cured through controlling diets and taking oral regulating drugs. Patients who take part in our test will be subjected to the treatment of the oral insulin or subcutaneous insulin infusions for 12 weeks under the continual application of existing medical treatment. The test will examine the change in the level of fasting glucose, postprandial glucose and HbA1c on the patients, as well as the effect on heart, liver, kidney, blood and bio-chemistry to define the safety level of the drugs being tested.

According to the above indications generated from the patients participated in our test, the oral insulin produces a satisfactory effect on lowering the level of glucose and HbA1c (for patients completed the entire test process). It is shown that patients have similar improvement in terms of the above indications as compared with patients who are subjected to subcutaneous insulin infusions treatment.

The selection of patients participated in our test was completed in May of this year. Each patient is subjected to an observation period of 12 weeks until the end of August this year. There are a total of 300 patients selected for the test, and the final test results will be based on the number of patients who have completed the entire test process. By now, around 70% of the patients have already completed the entire test process.

Subsequent work of Phase II clinical trial includes the input and compilation of test data, statistical analysis, and preparation of different reports. And the final stage work would be the submission for SFDA's approval. The management expects that this unprecedented products will bring along munificent profit into the Group in the near future.

Outlook

We expect the PRC pharmaceutical market will continue on a rapid expansionary course, albeit at a slower pace for the time being due to the market disorder and over expansion of production capacity. However, we will continue to focus on our core competency and invest in high growth potential research and development and products.

The significant progress of the oral insulin is encouraging. We have strong expectation in the growth potential and future profitability of this product. We anticipate completing the clinical trials and commencing the commercialization of the oral insulin next year. We are confident that with the launch of this product, both the sales and profitability of the Group will be significantly improved.

(C) Financial Review

Liquidity and Financial Resources

The Group generally finances its operations with internally generated cash flows and banking facilities. As at 31 March 2005, the Group had total cash and bank balances of about HK$70.5 million (2004: HK$83.9 million).

As at 31 March 2005, the Group had bank borrowings of about HK$37.5 million (2004: HK$45.3 million), representing a 17% decrease from that at 31 March 2004. All these bank borrowings are repayable within one year or on demand. The Group's banking facilities were supported by the pledge of the Group's fixed deposits of about HK$12.2 million (2004: HK$13.3 million); corporate guarantees from the Company and certain subsidiaries of the Company; and legal charges over leasehold land and buildings of certain subsidiaries of the Company.

Included in the amount due to minority shareholder of about HK$32.4 million was an amounted of about HK$31.8 million which is a payable acquired during our acquisition of a subsidiary, Smart Ascent Limited ("SAL"). This payable was representing the outstanding consideration payable by SAL during its acquisition for its subsidiary, Fosse Bio. Since the Vendors of SAL by contract has agreed to assume these liabilities when they fall due, a receivable of the equivalent amount was included in "Prepayment, deposits and other receivable" under current assets. Accordingly, the said amount due to minority shareholder did not have any impact to the net current asset position nor the future cash flow of the Group and the amount was excluded in calculating the Groups' gearing ratio.

The Group's gearing ratio as at 31 March 2005 was 0.06 (2004: 0.09), calculated based on the Group's total debts of HK$38.1 million (2004: HK$45.3 million), comprising bank borrowings of about HK$37.5 million (2004: HK$45.3 million) and due to a minority shareholder of about HK$0.6 million (2004: nil), over the Group's total assets of about HK$591.3 million (2004: HK$530.3 million).

Currency Structure

The Group had limited exposure to foreign exchange rate fluctuation as most of its transactions, including borrowings, were mainly conducted in Hong Kong dollar, Renminbi or US dollars and the exchange rates of these currencies were relatively stable throughout the year.

Contingent Liabilities

(a) As at 31 March 2005, the Company had provided corporate guarantees to certain banks for banking facilities provided to certain of its subsidiaries. These banking facilities had been utilised to the extent of about HK$43,018,000 (2004: HK$57,079,000) as at the balance sheet date.

(b) As at 31 March 2005, the Group had bills discounted with recourse of about HK$25,033,000 (2004: HK$30,543,000).

(c) As at 31 March 2005, the Company had provided corporate guarantees in favour of a subsidiary (the "Subsidiary") to a landlord that the Subsidiary will duly observe the terms and pay the monies, being the total rental expenses of HK$5,078,000 for the entire lease period stratify from may, contained in the tenancy agreement signed between the landlord and the subsidiary during the year.

At 31 March 2005, the Group's banking facilities were supported by the following:

(a) the pledge of the Group's fixed deposits of HK$12,204,000 (2004: HK$13,305,000);

(b) corporate guarantees from the Company and certain subsidiaries of the Company; and

(c) legal charges over the leasehold land and buildings of certain subsidiaries of the Company (note 12).

EMPLOYMENT AND REMUNERATION POLICY

As at 31 March 2005, the Group had 350 employees (2004: 369). Staff costs excluding directors remuneration for the year ended 31 March 2005 amounted to approximately HK$17.4 million (2004: HK$18.9 million).

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 Group remuneration its employees including directors board in their performance, work experience and the prevailing market price. Performance related bonuses are granted on a discretionary basis. Other employee benefits includes mandatory provident fund, insurance, and medical coverage, training and share option scheme.

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.

No share option was granted under the Scheme.

SEASONAL OR CYCLICAL FACTORS

The Group's business operations were not significantly affected by any seasonal and cyclical factors except that extended statutory holidays in the PRC may lead to lower Group turnover and profit for the months in which these holidays are declared.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

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

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the annual report.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

AUDIT COMMITTEE

The Company has established an Audit Committee (the "Committee"), with written terms of reference, in compliance with Rule 3.21 of the Listing Rules, for the purpose of reviewing and providing supervision over the financial reporting process and internal controls of the Group. The Committee comprises three independent non-executive directors. The Group's financial statements for the year ended 31 March 2005 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 and legal requirements, and that adequate disclosures have been made.

DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE

The financial and other information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the website of The Stock Exchange of Hong Kong Limited in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 14 September 2005 to 16 September 2005, both days inclusive, during which period no transfer of shares will be effected. Tengis Limited is the Company's Registrar for registration and is located at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wan Chai, Hong Kong.

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

List of Directors as at 26 July 2005

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

Independent Non-executive Directors and Audit Committee:
Mr. FANG Lin Hu
Mr. XUE Jing Lun
Ms. JIN Song
(appointed on 28 September 2004)

Hong Kong, 26 July 2005

* *For identification only*

"Please also refer to the published version of this announcement in The Standard"