Annual Report 2007

精優藥業控股有限公司

Extrawell Pharmaceutical Holdings Limited

(Incorporated in Bermuda with limited liability)

Stock code : 858

Contents

Corporate Information

CHAIRMAN AND EXECUTIVE DIRECTOR

Dr. MAO Yu Min

EXECUTIVE DIRECTORS

Mr. HO Chin Hou
Mr. HO Yu Ling
Mr. LI Qiang
Dr. XIE Yi

INDEPENDENT NON-EXECUTIVE DIRECTORS, AUDIT COMMITTEE AND REMUNERATION COMMITTEE

Mr. FANG Lin Hu
Mr. XUE Jing Lun
Ms. JIN Song

QUALIFIED ACCOUNTANT

Mr. HO Yeong Fan

COMPANY SECRETARY

Ms. WONG Elsie

HONG KONG LEGAL ADVISERS

Chiu & Partners Solicitors

AUDITORS

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 4701–4, 47/F
Tower One, Times Square
1 Matheson Street
Causeway Bay
Hong Kong

PRINCIPAL BANKERS

Industrial and Commercial Bank of China (Asia) Limited
Malayan Banking Berhad
The Bank of East Asia, Limited
Dah Sing Bank, Limited
DBS Bank (Hong Kong) Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

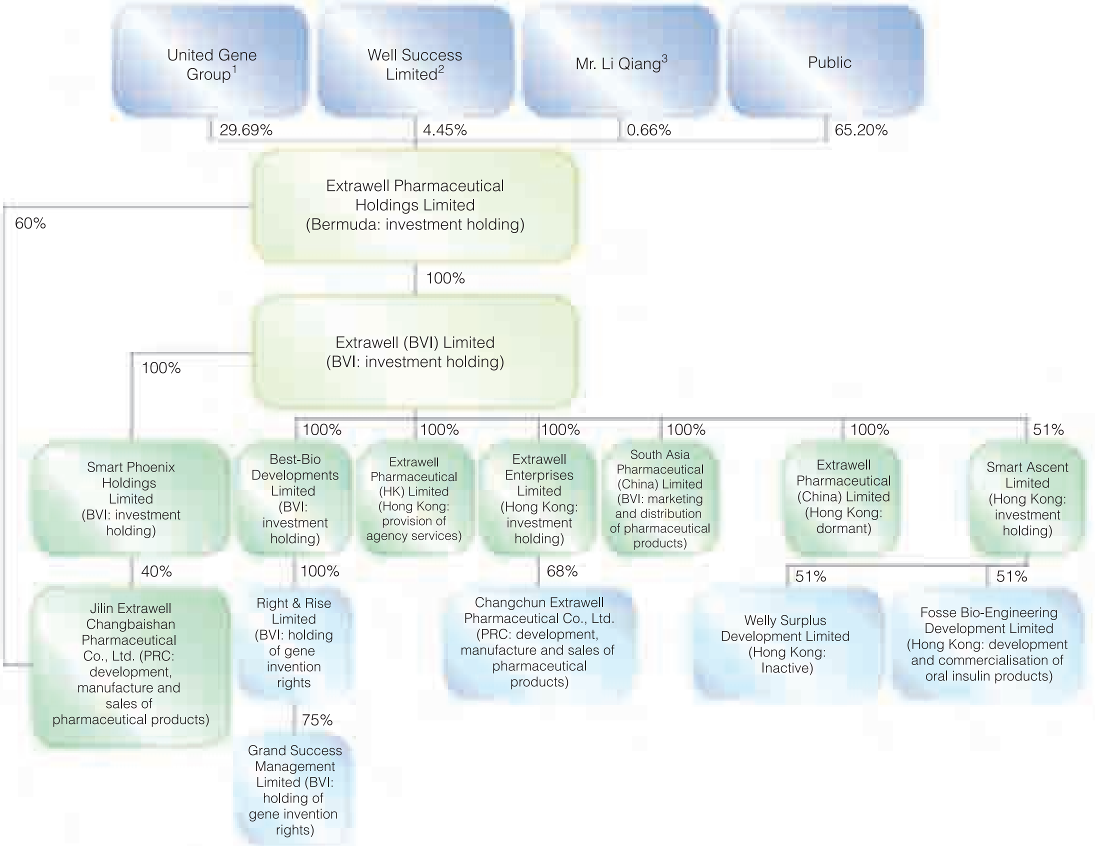
The Bank of Bermuda Limited
Bank of Bermuda Building
6 Front Street
Hamilton HM 11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited
26/F., Tesbury Centre
28 Queen's Road East
Hong Kong

Group Structure

As at 31 March 2007, the corporate structure and principal activities of the principal members of the Group are shown below:



Notes:

1. *JNJ Investments Ltd. ("JNJ Investments"), Fudan Pharmaceutical Limited ("FPL"), Biowindow Gene Development (Hong Kong) Limited ("HK Biowindow") and Fudan Biotech (Hong Kong) Limited ("Fudan Biotech") own 500,000,000, 30,000,000, 74,000,000 and 76,000,000 ordinary shares of the Company, respectively.*

   The entire issued share capital of JNJ Investments is owned by HK Biowindow, the issued share capital of which is owned as to 99% by United Gene Group Ltd. (a company incorporated in the British Virgin Islands), as to 0.99% by 聯合基因科技有限公司 (United Gene Holdings Limited) (a company registered in the People's Republic of China) ("United Gene-PRC") and as to 0.01% by Shanghai Biowindow Gene Development Co., Ltd. ("Shanghai Biowindow").

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

   The capital of Shanghai Biowindow is 60% owned by United Gene-PRC, 13.575% owned by Dr. Xie Yi and 13.575% owned by Ms. Sheng Xiao Yu, who is the wife of Dr. Mao Yu Min. The equity capital of United Gene-PRC is beneficially owned as to 33.5% by Dr. Mao Yu Min and as to 33.5% (including 8.5% direct interest and 25% indirectly through his shareholding in Ease Gold Investments Limited) by Dr. Xie Yi.

   HK Biowindow owned 80% of the share capital of FPL.

   Fudan Biotech is owned as to 99% by Shanghai Fudan Biotech Limited. Shanghai Fudan Biotech Limited is owned as to 75% by Shanghai Biowindow.

2. *The entire issued share capital of Well Success Limited is beneficially owned by Mr. Ho Yu Ling, a director of the Company.*

3. *Mr. Li Qiang is a director of the Company.*

Chairman's Statement

Extrawell Pharmaceutical Holdings Limited

Dear shareholders

RESULT HIGHLIGHTS

2007 was a year of progress and development for Extrawell. Thanks to the dedication of our management team and staff, we delivered solid 2007 financial results while taking prospective steps to position the Group for future growth. In the current financial year, we need to rationalise our market positioning and strategy to cater for the new market environment and yet, we delivered a net profit of about HK$9.3 million, twofold that of last year.

NEW DEVELOPMENTS

The development of oral insulin product, which required intensive resources and vigor, remains as one of our focus.

Diabetes is a disease with over 3,000 years of history and it is one of the leading causes of death in most developed countries. In the PRC, a country with population of about 1.3 billion, over 4% of its population are suffered from diabetes. In addition, the increasing cases reported with the condition of impaired glucose tolerance ("IGT") generated increasing public awareness. IGT is recognised as being a stage in the transition from normality to diabetes and individuals with IGT have a significant risk of developing to type 2 diabetes.

One of the major breakthroughs in medical sciences of the last century was the discovery of insulin in 1921. Insulin preparations have been enhanced since then along with the production technology. Besides, a series of different insulin injection preparations has been developed. Theoretically, all these preparations should satisfy the blood glucose lowering effects of different types of diabetic patients. However, due to the inconvenience and some side-effect of injection, it affects the compliance of the patients. Therefore, non-injection type of insulin preparations has been researched and developed since insulin is used as the major drug in diabetes. Not until recently, breakthrough insulin delivery technique has been developed through the hard-work of researchers and development of new technology, which brought breakthrough progress of our major investment project.

Our Insulin Enteric-Coated Soft Capsule ("Oral Insulin") is one of the non-injection insulin preparations developed from a patented technology jointly owned by Bio-Science and Technology Unit of Tsing Hua University and one of our subsidiaries. It is an oral preparation, which brings super convenience to diabetic patients. The management is anticipated that this product will be in high demand when it is available to the market and its commercialization will bring us high returns. The management believes that progress and development of this project is encouraging.

To stage progress in commercialisation of Oral Insulin, we believe that investment in production facilities through progress payment is advantageous our risk and cash flow management. We have introduced a business partner, who have extensive experience in real estates development and manufacturing of health care products in Jiangsu, the PRC. By making this move, we have successfully limited our risk as to the huge initial investment requirements in the construction of a GMP compliant pharmaceutical manufacturing premises, and more importantly, we bring in the construction development and pharmaceutical manufacturing expertise of our business partner.

KEY OF SUCCESS

We believe that every enterprise is unique and our uniqueness derives from management philosophies that define our business model and have guide us through extraordinary changes in the pharmaceutical industry in the past few years. We:

- are a team of committed and scrupulous professionals lead by visioned management;
- flexibly pool expertise in various fields in order to rationalise the result of research and development in the laboratory into a product in the open market; and
- have proven track records in successful commercialisation of new pharmaceutical products through our strong marketing ability.

We believe that our strategic principals, which have served us well in outpacing the past challenges, are even more relevant to our future growth as we look ahead to the strengths required in an environment characterized by rising competitiveness and increasing economic complexity.

Dr. Mao Yu Min
Chairman

Hong Kong, 30 July 2007

Management Discussion and Analysis

A. BUSINESS REVIEW

Overall Performance

China pharmaceutical is a fast growing industry serving a market of vast and aging population of more than 1.3 billion. According to statistics, the annual growth rate has reached about 17.5%, which is higher than the global growth rate of pharmaceutical industry and the per capita GDP growth in the PRC. At the same time, competition is intensifying as more players, both domestic and international, are attracted to enter into this market. Price competition has become a very important tool to drive competitors away and/or to stay and maintain market share.

Although we enjoyed competitive advantage of our established brand name and quality of our products, we are unavoidably affected by the market sentiment of fierce price competition.

The PRC government has strengthen its policy to restrict all government controlled hospitals to source medicines through open tender. As a result, sourcing agents are placing more emphasis on pure price comparison while less emphasis is on the quality and individual needs of each individual patient. In the early stage of implementation of this policy, we are unavoidably affected but we responded proactively to lower our sales price in order to maintain our market share. In the long run, we are confident that the superior quality and efficacy of our products and our more established manufacturing and marketing teams will drive away less established competitors.

Our turnover was dropped by approximately 10.9% from about HK$178.3 million for 2006 to about HK$158.8 million for 2007. The gross profit has also been lowered by 30.1% from about HK$69.8 million for 2006 to about HK$48.8 million for 2007.

The overall industrial environment has affected both our manufactured pharmaceutical products and imported pharmaceutical products which resulted in decline in sales of both sectors.

Nevertheless, we achieved a total profit attributable to equity holders of the Company of approximately HK$9.3 million for the year ended 31 March 2007, doubled that of approximately HK$4.7 million last year.

Imported Pharmaceutical Sector

Turnover for the imported pharmaceutical sector decreased for about 8.7% from about HK$126.6 million last year to about HK$115.5 million this year. Segment operating profit is about HK$17.2 million for the year ended 31 March 2007, representing a decline of operating profit by 48.4% comparing to the segment results for the financial year ended 31 March 2006.

Despite of the competitive market condition, our leading product, GM-1, continued to enjoy competitive advantage in the market. GM-1 is a specialised prescription drug, which can re-establish functional recovery of central nervous system. This product's major pharmaceutical indication is for vascular or traumatic lesions of central nervous system and Parkinson's disease.

Manufactured Pharmaceutical Sector

The recent changes in regulatory environment and market conditions as mentioned above has also affected our manufactured pharmaceutical sector, which resulted in a 16.3% decrease of sales from HK$51.7 million for the year ended 31 March 2006 to about HK$43.3 million for the year ended 31 March 2007.

A. BUSINESS REVIEW (Continued)

Manufactured Pharmaceutical Sector (Continued)

On the other hand, the segment operating profit of the manufactured pharmaceutical sector has turned around from a loss of about HK$7.0 million last year to a profit of about HK$1.1 million this year. Higher profitability is mainly attributable to better credit control in this year, which result in lower level of impairment loss.

During the year, our new manufactured products, such as Muscular Amino Acids and Peptides and Nucleosides Injection, Heparolysate Injection and Saponins, were well-received in the market.

Gene Development Sector

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

Oral Insulin Sector

As the clinical trials are under the final stage, and the results have been submitted to SFDA for further approval, no revenue was recorded in this year.

Selling and Distribution Expenses

Selling and distribution expenses of the Group decreased slightly from about HK$14.9 million in 2006 to about HK$14.4 million in 2007, representing a drop of about 3%. The decrease in selling and distribution expenses is due to a decrease in academic promotional meetings and seminars held.

Administrative Expenses

Administrative expenses of the Group slightly increased during the year from about HK$26.3 million in 2006 to about HK$26.7 million in 2007 by approximately 1.0%. The increase was a result of salary adjustment in administrative costs during the year.

Other Revenue and Income

Other revenue and income increased by about HK$5.8 million from about HK$4.7 million last year to about HK$10.5 million this year. This increase was due to an increase in interest income by about HK$0.8 million and an income from reversal of impairment loss on trade receivables and other receivables by about HK$5.5 million.

Profit Before Taxation

Through the continuous effort in integrating and re-engineering of our work force, we have back to the right track of profitability. During this year ended 31 March 2007, we have achieved a profit before taxation of about HK$9.3 million and profit attributable to equity holders to the Company of about HK$9.3 million, representing an increase of about HK$2.6 million and about HK$4.7 million, respectively.

B. OUTLOOK AND NEW PRODUCTS DEVELOPMENT

While the clinical trials are under the final stage and the results have been submitted to the SFDA for further approval, we have speed up our time frame for construction of productions facilities and which is a signification move to commercialise oral insulin product. In preparing for the production of our first oral insulin product — Oral Insulin Enteric-Coated Soft Capsules ("Oral Insulin"), on 19 October 2006, a subsidiary of the Company entered into agreements with an independent third party to establish a Good Manufacturing Practices ("GMP") compliance manufacturing premises equipped with an annual production capacity of 1.5 billion capsules, which is extendable to 3.0 billion capsules.

According to the agreements, we will be able to acquire this GMP-compliant manufacturing premises at a consideration of about RMB 40 million upon completion and certification of full GMP compliant with of deferred payment for 6 years. This arrangement effectively lower the investment risk of the Group as investment cost and risk involve in constructing a pharmaceutical manufacturing plant for the production of medicine can be significant. The investor may also face the risk of change in regulatory requirements for GMP certification and production approvals. This strategic move has on one hand consolidated the strengths of our prominent business partner who is well-established real properties developer and healthcare products manufacturer in Jiangsu, the PRC, and ensure that the Oral Insulin can be launched to the market in a timely and effectively manner.

In addition to Oral Insulin, we also have several new products with promising market potential in our product launching pipe line. In March 2007, we obtained approval for manufacturing and sales of "Lu Ling Huang Capsule" from the SFDA. "Lu Ling Huang Capsule" is a pharmaceutical product which is allowed to be sold "over-the-counter" ("OTC"). Its efficacy includes protective action for patients who are in danger with chemical liver damage and enhancement of patients' body immunity. This product is planned to be launched next year.

Another OTC product, Trimetazidine Dihydrochloride Tablets (efficacy in the area of preventive treatment for angina pectoris, auxiliary treatment for dizziness and tinnitus) is still pending for SFDA's approvals. We believes these new products will contribute to our continuing upward trend of profitability.

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 flows and banking facilities. As at 31 March 2007, the Group had total cash and bank balances (including pledged bank deposits) of about HK$86.5 million (2006: HK$55.0 million).

As at 31 March 2007, the Group had bank borrowings of about HK$3.5 million (2006: HK$4.6 million), representing a 23.9% decrease from that of 31 March 2006. 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$7.5 million (2006: HK$7.3 million) and corporate guarantees from the Company and certain subsidiaries of the Company. All of the Group's borrowings are denominated in US dollars at effective interest rates ranging from 6.65% to 8.25% per annum. There is no seasonality in borrowing requirements of the Group.

C. FINANCIAL REVIEW (Continued)

Liquidity and Financial Resources (Continued)

The Group's gearing ratio as at 31 March 2007 was 0.06 (2006: 0.06), calculated based on the Group's total debts of about HK$35.9 million (2006: HK$37.0 million), comprising bank borrowings of about HK$3.5 million (2006: HK$4.6 million) and amount of due to a minority shareholder of about HK$32.4 million (2006: HK$32.4 million), over the Group's total assets of about HK$594.0 million (2006: HK$571.3 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 dollars, Renminbi or US dollars and the exchange rates of these currencies were relatively stable throughout the year.

Contingent Liabilities

(a) On 19 October 2006, Sea Ascent Investment Limited ("Sea Ascent"), an independent third party to the Group, and Welly Surplus Development Limited ("Welly Surplus"), a 51%-owned indirect subsidiary of the Company, entered into a sale and purchase agreement ("SP Agreement") that Sea Ascent agreed to sell and Welly Surplus agreed to acquire (i) the entire share capital (the "Sale Share") in Joy Kingdom Industrial Limited ("Joy Kingdom") and (ii) the unsecured, non-interest bearing loan ("Shareholder's Loan") for an aggregate principal sum of RMB40 million to be advanced by Sea Ascent to Joy Kingdom pursuant to the terms of the Cooperation Agreement (as defined hereinafter) at considerations of RMB40 million and HK$1 respectively (the "Consideration"). The completion of the SP Agreement was subject to the Cooperation Agreement becoming effective in accordance with its terms.

On 19 October 2006, Sea Ascent, Welly Surplus and Fosse Bio entered into a cooperation agreement (the "Cooperation Agreement") in connection with the cooperation (the "Cooperation") between Sea Ascent and Welly Surplus in respect of (i) Sea Ascent shall procure Joy Kingdom to establish a wholly foreign owned enterprise in the PRC under the proposed name of 江蘇派樂施藥業有限公司 (Jiangsu Prevalence Pharmaceutical Limited) ("Jiangsu Prevalence"); (ii) Sea Ascent shall advance a sum equivalent to RMB40 million to Joy Kingdom by way of an unsecured, non-interest bearing Shareholder's Loan for the payment of the registered capital of Jiangsu Prevalence and the acquisition of land and construction of a factory in the PRC; and (iii) Welly Surplus shall procure Joy Kingdom or Jiangsu Prevalence, if so agreed, to pay to Sea Ascent, during a period of six years from the date on which the Oral Insulin Enteric-Coated Soft Capsules (the "Medicine") is launched for sales in open market (the "Initial Operating Period"), a fee was calculated at RMB6 cents for each capsule of Medicine produced (subject to a deduction) as specified in the Cooperation Agreement.

On 28 November 2006, Sea Ascent advanced US$1 million to Joy Kingdom which has been transferred to Jiangsu Prevalence for the purpose of establishment of Jiangsu Prevalence in the PRC.

At 31 March 2007, the Cooperation Agreement has not become effective and the Consideration has not yet paid up the date of approval of these financial statements.

C. FINANCIAL REVIEW (Continued)

Contingent Liabilities (Continued)

(b) At 31 March 2007, the Company had provided corporate guarantees to certain banks for banking facilities provided to certain of its subsidiaries to the extent of approximately HK$38.0 million (2006: HK$38.0 million). These banking facilities had been utilised to the extent of approximately HK$9.9 million (2006: HK$10.6 million) as at the balance sheet date.

(c) At 31 March 2007, the Company provided corporate guarantee 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, management fee and utility charges of about HK$5.0 million for the entire lease period starting from May 2005, contained in the tenancy agreement signed between the landlord and the Subsidiary during the year.

(d) At 31 March 2007, the Group had bills discounted with recourse of approximately HK$16.0 million (2006: HK$11.1 million).

The changes in contingent liabilities were in line with the business development of the Group.

D. EMPLOYMENT AND REMUNERATION POLICY

As at 31 March 2007, the Group had 377 employees (2006: 376). Staff costs excluding directors' remuneration for the year ended 31 March 2007 amounted to approximately HK$16.5 million (2006: approximately HK$15.8 million). The slight increase in staff costs was due to salary adjustment this year.

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 includes 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 calibre professionals, executives and employees who are instrumental to the growth of the Group. No share option has been granted under the Scheme.

Management Profile

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Dr. Mao Yu Min Ph.D. (aged 55)

Chairman and Executive Director

Dr. Mao Yu Min, Chairman and Executive Director of the Company. Dr. Mao is also the Chairman and one of the founders of 聯合基因科技有限公司 (United Gene Holdings Limited), a member of Fudan University Management Committee, Senior professor, Head of Institute of Genetics, School of Life Science in Fudan University. Dr. Mao's main area of research focuses on biological and genetic engineering. Dr. Mao has accumulated extensive successful experiences in operations in the genomic research based industry. He is responsible for the strategic planning and development of the Group. Dr. Mao joined the Group as an executive director in 2001 and was elected as Chairman of the Company on 22 April 2002. Dr. Mao has discloseable interests in the Company under the provisions of the Securities and Futures Ordinance ("SFO").

Mr. Ho Chin Hou (aged 69)

Executive Director

Mr. Ho Chin Hou joined the Group since 1993 and previously held Chairman position for the Group until 22 April 2002. He is responsible for the sourcing of strategic corporate partners for the Group and overseeing major investment development progress. Mr. Ho has over about 15 years' experience in the PRC and Asia business investment. Mr. Ho Chin Hou is also the Managing Director of John Master Industries Berhad, a public listed company in Kuala Lumpur, Malaysia. He has more than 30 years' experiences in the manufacture and distribution of garment and general trading business. Mr. Ho has discloseable interests in the Company under the provisions of the SFO.

Mr. Ho Yu Ling (aged 53)

Executive Director

Mr. Ho Yu Ling is one of the founders of the Group. He has actively participated in the pharmaceutical business since 1983 and has established good relationship and extensive contacts with overseas suppliers and customers in the People's Republic of China (the "PRC") and Hong Kong SAR. With nearly 25 years of experience, Mr. Ho is well-acquainted with the medical, pharmaceutical business and administration in both the areas. Mr. Ho is also responsible for identifying key investments opportunities. Mr. Ho has discloseable interests in the Company under the provisions of the SFO.

Mr. Li Qiang (aged 53)

Executive Director

Mr. Li Qiang has nearly 25 years of experience in the pharmaceutical field. He joined the Group as senior salesman in 1985, and was promoted to sales manager in 1988. He was further promoted to National Marketing Manager in 1990 and became the Sales and Marketing Director of the Group in 1996. Apart from being familiar with the sales and marketing business of the Group, Mr. Li is also familiar with the drug management and administration policies in the PRC pharmaceutical industry. Mr. Li has discloseable interests in the Company under the provisions of the SFO.

Executive Directors (Continued)

Dr. Xie Yi Ph.D. (aged 44)

Executive Director

Dr. Xie Yi, the Vice Chairman and Chief Executive Officer of United Gene Holdings Limited, Director of United Gene Research Institute, a professor of School of Life Science in Fudan University. Dr. Xie is one of the founders of United Gene Group in the PRC. Being a scientist with significant breakthroughs in human genome research, Dr. Xie is currently responsible for research and development and the day-to-day management of United Gene Group. Dr. Xie joined the Group as an executive director in 2001. On 29 April 2004, he was appointed as the Chairman of Changchun Extrawell Pharmaceutical Co., Ltd. ("CEP"). Dr. Xie has discloseable interests in the Company under the provisions of the SFO.

Independent Non-executive Directors

Mr. Fang Lin Hu (aged 69)

Independent Non-Executive Director

Mr. Fang Lin Hu is a professor in Fudan University, ex-vice chancellor of the Fudan University overseeing technology industrialization and utilization matters. Mr. Fang was a member National Information Technology Education and Electronic Education Advisory Committee and vice faculty head of the Physics Faculty of Fudan University, dean of the Electronic Engineering Faculty, the director of Micro-electronic Research Institute, Mr. Fang has performed research in the area of microwave theory and technology. He is a well recognized scientist who has extensive experience in scientific research and management. Mr. Fang was appointed as an independent non-executive director in 2001.

Mr. Xue Jing Lun (aged 73)

Independent Non-Executive Director

Mr. Xue Jing Lun is the Chief Professor of Fudan University, a guest professor of the Second Military Medical University of China, Tongji Medical University and Shantou University, Chairman of Chinese Environmental Mutagen Association, a director of International Environmental Mutagen Association, and a committee member of the China Genetic Engineering Society. The research team led by Mr. Xue gained international recognition in the area of gene therapy and transgenic animal research. Mr. Xue has been granted a number of national awards for in merits scientific research and is an internationally recognized genetic scientist. Mr. Xue was appointed as an independent non-executive director in 2001.

Ms. Jin Song (aged 36)

Independent Non-Executive Director

Ms. Jin Song, holds a diploma in engineering from Broadcasting University in Shan Dong Province and a diploma in business from Fudan University. She is a member of the Chinese Institute of Certified Public Accountants ("CICPA") and passed all the professional examinations held by CICPA in 2001. Ms. Jin has more than 10 years' experience in accounting in different industries. Ms. Jin was appointed as an independent non-executive director in 2004.

Senior Management

Dr. Wen Ming (aged 46)

Head of Research and Development Department

Dr. Wen Ming joined the Group in 1992. He is responsible for overseeing the regulatory affairs and research & development and the registration of the Group's products. Dr. Wen graduated with a bachelor degree in medical science from the Guangzhou Medical College and obtained a master degree in medical science from Sun Yat Sen University of Medical Sciences (now renamed as the Sun Yat Sen University). Prior to joining the Group, Dr. Wen had been working in a hospital of Sun Yat Sen University as the chief physician for ten years.

Dr. Jiang Jian Yong Ph.D. (aged 51)

General Manager of Jilin Extrawell Changbaishan Pharmaceutical Co., Ltd ("JECP")

Dr. Jiang Jian Yong Ph.D. joined the Group in 2002. Dr. Jiang is responsible for the overall activities of JECP. He received a Ph.D. from Medical College, University of Bergen, Norway in 1997. Prior to joining the Group, he worked with a pharmaceutical company in Canada as the manager of Research and Development Department.

Dr. Liu Xian (Aged 50)

Head of National Sales and Marketing Department

Dr. Liu Xian joined the Group in 1993. He is responsible for overseeing the imported pharmaceutical sales and marketing activities in the PRC. Dr. Liu graduated from the medical unit of the Guangzhou Medical University. He has nearly 15 years of experience in the pharmaceutical field. Prior to joining the Group, Dr. Liu worked in the Guangzhou Thoracic Hospital as a doctor and worked for the Glaxo group of companies in the PRC.

Mr. Zhen Lu (aged 37)

National Sales Manager

Mr. Zhen Lu joined the Group as Product Marketing Manager in 2000. He is responsible for the formulation of marketing strategies for the Group's imported pharmaceutical business in the PRC. He graduated from Beijing Medical University majoring in Biology. Prior to joining the Group, he worked in Guangdong Huajian Medical Company Limited as Product Manager and in Guangdong Weiteman Medical Company Limited as the Medical Equipment Manager in 1998.

Dr. Lin Guang Xiang (aged 40)

Product Development Manager

Dr. Lin Guang Xiang joined the Group in 1995. He graduated from Zhongsan University majoring in Medical Science. Dr. Lin is responsible for imported pharmaceutical product marketing and promotional activities. Prior to joining the Group, he was a resident physician in Guangzhou No. 2 People's Hospital and has worked in United Kingdom pharmaceutical company, Wellcome group in the PRC.

Mr. Chan Lian Bang (aged 52)

General Manager of Changchun Extrawell Pharmaceutical Co., Ltd ("CEP")

Mr. Chan Lian Bang joined the Group in 1992. Mr. Chan is responsible for the formulation of marketing policy and strategy for CEP. Mr. Chan has nearly 30 years experience in the pharmaceutical industry. Prior to joining the company, he worked with a state-owned pharmaceutical enterprise as a factory manager in the PRC.

Senior Management (Continued)

Mr. Ho Yeong Fan (aged 41)

Financial Controller and Qualified Accountant

Mr. Ho is a registered accountant in Malaysia and an associate member of the Institute of Chartered Accountants of England and Wales. Mr. Ho joined the Group in July 2007 as financial controller and qualified accountant and responsible for overseeing the accounting and finance functions of the Group. He had joined our group as an executive director since 1998 and resigned in 2001. Mr. Ho started his professional career with an international accounting firm in London, England. Thereafter, he joined a big-eight accounting firm before moving on to the Corporate Finance Department of a merchant bank. Mr. Ho is also an executive director — corporate & legal of John Master Industries Berhad, a listed company in Kuala Lumpur, Malaysia. He is the son of Mr. Ho Chin Hou, an executive director of the Company.

Ms. Wu Hong (aged 35)

Senior Finance Manager

Ms. Wu Hong, a qualified accountant in the PRC, joined the Group in 1995, responsible for all the financial matters in the PRC of the Group. She was graduated from Jiangsu Television Broadcast University, major in Foreign Trading Accounting. Before joining the Group, she had been working with a joint venture company in the PRC.

Corporate Governance Report

A. CORPORATE GOVERNANCE PRACTICES

The Company and its subsidiaries (the "Group") recognise 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 2007, 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 on The Stock Exchange of Hong Kong Limited (the "Listing Rules") save as disclosed below. It is with the objectives in mind that the Group has applied such principles and will comply with the individual code provisions.

(a) Code provision A1.3 stipulates that 14-days notice should be given for each board meeting. The Company agrees that sufficient time should be given to the directors of the Company (the "Directors") in order to make a proper decision. In these respects, the Company adopts a more feasible approach (and yet sufficient time has been given) in convening board meetings to ensure efficient and prompt management decisions could be made.

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

(c) Code provision A4.2 stipulates that every director should 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 considered that the continuity of the Chairman/Deputy Chairman/managing Director and their leadership is essential for the stability of the business and key management. The rotation methodology ensures a reasonable proportion of Directors in continuity which is to the best interest of the Company's shareholders.

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

C. BOARD OF DIRECTORS

The board of Directors (the "Board") comprises five executive Directors and three independent non-executive Directors. The board of Directors as at the date of this annual report is as follows:

Executive Directors

Dr. Mao Yu Min *(Chairman)*
Mr. Ho Chin Hou
Mr. Ho Yu Ling
Mr. Li Qiang
Dr. Xie Yi

Independent Non-executive Directors

Mr. Fang Lin Hu
Mr. Xue Jing Lun
Ms. Jin Song

There is no other relationship (including financial, business, family or other material/relevant relationship) among the members of the Board.

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performances. The management was delegated the authority and responsibility by the Board for the day-to-day management of the Group. Major corporate matters that are specifically delegated by the Board to the management include the preparation of interim and annual reports and announcements for Board's approval before publishing, execution of business strategies and initiatives adopted by the Board, implementation of adequate internal control systems and risk management procedures, and compliance with relevant statutory and regulatory requirements and rules and regulations.

Each of the INEDs has complied with the provisions set out in Rule 3.13 of the Listing Rules and has confirmed that he/she is independent of the Company and its connected persons (as defined in the Listing Rules) and the Company also considers that they are independent under the Listing Rules. Of the three INEDs, Ms. Jin has appropriate accounting or related financial management experience as required under Rule 3.10(2) of the Listing Rules.

C. BOARD OF DIRECTORS (Continued)

During the year, five board meetings, of which four were regular meetings, were held and the individual attendance of each director is set out as follow:

Name of Directors	Number of attendance
Dr. Mao Yu Min	5/5
Mr. Ho Chin Hou	4/5
Mr. Ho Yu Ling	5/5
Mr. Li Qiang	5/5
Dr. Xie Yi	5/5
Mr. Fang Lin Hu	4/5
Mr. Xue Jing Lun	4/5
Ms. Jin Song	4/5

There is no new appointment and removal of Directors and the Board did not appoint a nomination committee during the year.

D. CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Dr. Mao Yu Min, chairman of the Company, is responsible for the management of the Board and Mr. Ho Yu Ling is responsible for the day-to-day management of the Group's business. Their roles are clearly defined and segregated to ensure balanced power and responsibilities.

E. NON-EXECUTIVE DIRECTORS

Pursuant to Code provision A4.1, non-executive directors should be appointed for a specific term, subject to re-election and, pursuant to Code provision A4.2, every director shall retire by rotation at least once every three years. None of the INEDs of the Company is appointed for a specific term and according to the bye-laws of the Company, one-third of the directors (except for the Chairman) shall retire from office by rotation and become eligible for re-election. The reason for the deviation is that the Company believes that the INEDs ought to be committed to representing the long term interest of the Company's shareholders and the rotation methodology ensures a reasonable proportion of Directors in continuity which is to the best interest of the Company's shareholders.

The function of the INEDs includes but not limited to participating in board meetings and meetings of committees to bring an independent judgement to bear on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct.

F. REMUNERATION OF DIRECTORS AND REMUNERATION COMMITTEE

The Remuneration Committee was set up with specific terms of reference which state clearly its authority and duties. It advises the Board on the remuneration of the Directors and senior management of the Company.

The current members of the Remuneration Committee are Mr. Fang Lin Hu (Chairman), Mr. Xue Jing Lun and Ms. Jin Song. In line of good and fair practice, the Remuneration Committee currently consists of all INEDs.

F. REMUNERATION OF DIRECTORS AND REMUNERATION COMMITTEE (Continued)

During the year, three Remuneration Committee Meetings were held and the individual attendance of each director is set out as follow:

Name of Directors	Number of attendance
Mr. Fang Lin Hu *(Chairman)*	3/3
Mr. Xue Jing Lun	3/3
Ms. Jin Song	3/3

The emoluments of the Directors are reviewed and recommended by the Remuneration Committee and/or decided by the Board as authorised by the shareholders at the annual general meeting according to individual performance and prevailing market conditions. The Company has also adopted a share option scheme as an incentive to the Directors and the senior management. The Board conducts regular review of its structure, usage and composition with particular attention to the skills, knowledge and experience of individual members. The issue of succession planning is also considered at these meetings.

The Remuneration Committee considers that the existing terms of the service contracts of the Directors and the senior management are fair and reasonable.

G. AUDITORS' REMUNERATION

The remuneration paid to the auditors of the Company relating to audit services for the year ended 31 March 2007 amounted to approximately HK$0.6 million. The non-auditing services performed was taxation compliance services and other advisory services with the fee amounted approximately HK$0.3 million was paid for the year ended 31 March 2007.

H. AUDIT COMMITTEE

The Company has established an Audit Committee with specific written terms of reference that have included the duties which are set out in Code provision C3.3 with appropriate modification when necessary.

The major role and function of the Audit Committee are to ensure the maintenance of proper relationship with the Company's auditors, the establishment of proper review and control arrangements relating to internal control systems, financial reporting and the compliance to applicable reporting requirements.

H. AUDIT COMMITTEE (Continued)

The current members of the Audit Committee are Mr. Fang Lin Hu (Chairman), Mr. Xue Jing Lun and Ms. Jin Song. A total of two meetings were held in the year under review and the individual attendance of members are as follows:

Name of Directors	Number of attendance
Mr. Fang Lin Hu *(Chairman)*	2/2
Mr. Xue Jing Lun	2/2
Ms. Jin Song	2/2

The Audit Committee reviewed the half yearly and full year consolidated financial statements, including the Group's adopted accounting principles and practices, of internal control systems and financial reporting matters (in conjunction with the external auditors for the full year results). The Audit Committee endorsed the accounting treatments adopted by the Company and, to the best of its ability assured itself that the disclosures of the financial information in this report, complies with the applicable accounting standards and Appendix 16 of the Listing Rules.

I. FINANCIAL REPORTING

The directors acknowledged their responsibility for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is the independent auditors' responsibility to form an independent opinion, based on their audit, on those financial statements and to report their opinion to the Company's shareholders.

In the independent auditors' report on pages 28 to 29, they have mentioned the uncertainty as to the recoverability of the carrying value of a technical know-how (the "Know-how") in relation to an oral insulin product (the "Product") and other receivables. The clinical trials of the Product are under the final stage and the result has been submitted to the State Food and Drug Administration of the People's Republic of China ("SFDA") for further approval and the approval process is still in progress up to the date of approval of these financial statements. The directors of the Company therefore considered no impairment provision against the carrying amount for the Know-how is necessary. Further details of the Know-how and the receivable are set out in the independent auditor's report and notes 9 and 14 to the financial statements respectively.

J. INTERNAL CONTROL

The Board is responsible for overseeing the Group's internal control systems and to ensure that sound and effective internal control systems are maintained. The Board is responsible for approving and reviewing internal control policies while the day-to-day management of operational risks and implementation of mitigation measures lies with the management.

The Board has established an on-going process for identifying, evaluating and managing the significant risks faced by the Group and this process includes updating the internal control manual when there are changes to business environment or regulatory guidelines.

The Board has engaged an independent professional consultant (the "Consultant") to conduct an annual review of the effectiveness of its internal control systems covering all material controls, including financial, operational and compliance as well as risk management and make recommendations for the improvement and strengthening of the internal control systems.

Based on the assessments made by the Consultant, the Audit Committee and the Board considered that the key areas of the Group's internal control system are reasonably implemented, with room for improvements.

Report of the Directors

The directors present their annual report and the audited financial statements of the Company and the Group for the year ended 31 March 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries consist of the marketing and distribution of pharmaceutical products to customers in the People's Republic of China (the "PRC"); the development, manufacture and sales of pharmaceutical products in the PRC; the business of commercial exploitation and development of genome-related technology; and the development and commercialisation of oral insulin products.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 March 2007 are set out in the consolidated income statement on page 32.

The state of affairs of the Group and the Company as at 31 March 2007 are set out in the consolidated and Company's balance sheets on page 30 and 31 respectively.

The directors do not recommend the payment of any dividend in respect of the year.

FIVE YEARS' FINANCIAL SUMMARY

A summary of the results and the assets, liabilities and minority interests of the Group for the last five financial years is set out on page 76.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in note 7 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

There were no movements in the share capital of the Company during the year. Details of the share capital of the Company are set out in note 18 to the financial statements.

Information about share options and share option scheme of the Company are set out in the note 39 to the financial statements.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in note 19 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 March 2007, the reserves of the Company available for cash distribution and/or distribution in specie amounted to HK$67,403,000 as computed in accordance with the Bermuda Companies Act 1981. In addition, the Company's share premium account with a balance of HK$133,717,000 as at 31 March 2007 may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 March 2007, turnover attributable to the Group's five largest customers accounted for approximately 31% of the Group's turnover and turnover attributed the Group's largest customer accounted for approximately 21% of the Group's turnover.

For the year ended 31 March 2007, purchases attributable to the Group's five largest suppliers accounted for approximately 87% of the Group's purchases and purchases attributable to the Group's largest supplier accounted for approximately 71% of the Group's purchases.

None of the directors, their associates or any shareholders (which to the knowledge of the directors owned more than 5% of the Company's issued share capital) had any interests in the Group's five largest customers or five largest suppliers.

DIRECTORS

The directors of the Company during the year and up to the date of this report are:

Executive directors:

Mao Yu Min
Ho Chin Hou
Ho Yu Ling
Li Qiang
Xie Yi

Independent non-executive directors:

Fang Lin Hu
Xue Jing Lun
Jin Song

In accordance with the Company's bye-law 111, Messrs. Xie Yi and Fang Lin Hu will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

Save as the Chairman, the directors of the Company, including the independent non-executive directors, are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's bye-laws.

The Company has received annual confirmation of independence from Messrs. Fang Lin Hu, Xue Jing Lun and Jin Song and still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 11 to 14 of this annual report.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming annual report has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory obligation.

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of the directors with reference to directors' duties, responsibilities and performance and the result of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

No director had material interests, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 March 2007, the interests and short positions of the directors in the share capital and underlying shares of the Company or its associated corporations within the meaning of Part XV of the Securities and Future Ordinance (the "SFO"), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

1. Long positions in ordinary shares of the Company

		Number of ordinary shares of HK$0.01 each held, capacity and nature of interest			
Name of director	*Notes*	**Directly beneficially owned**	**Through controlled corporations**	**Total**	**Percentage of the Company's issued share capital**
Mao Yu Min	*(a)*	—	680,000,000	680,000,000	29.7
Xie Yi	*(a)*	—	680,000,000	680,000,000	29.7
Ho Yu Ling	*(b)*	—	102,000,000	102,000,000	4.5
Li Qiang		15,000,000	—	15,000,000	0.7

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Continued)

Notes:

(a) *JNJ Investments Ltd. ("JNJ Investments"), Fudan Pharmaceutical Limited ("FPL"), Biowindow Gene Development (Hong Kong) Limited ("HK Biowindow") and Fudan Biotech (Hong Kong) Limited ("Fudan Biotech") own 500,000,000, 30,000,000, 74,000,000 and 76,000,000 ordinary shares of the Company, respectively.*

The entire issued share capital of JNJ Investments is owned by HK Biowindow, the issued share capital of which is owned as to 99% by United Gene Group Ltd. (a company incorporated in the British Virgin Islands), as to 0.99% by 聯合基因科技有限公司 (United Gene Holdings Limited) (a company registered in the People's Republic of China) ("United Gene-PRC") and as to 0.01% by Shanghai Biowindow Gene Development Co., Ltd. ("Shanghai Biowindow").

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

The capital of Shanghai Biowindow is 60% owned by United Gene-PRC, 13.575% owned by Dr. Xie Yi and 13.575% owned by Ms. Sheng Xiao Yu, who is the wife of Dr. Mao Yu Min. The equity capital of United Gene-PRC is beneficially owned as to 33.5% by Dr. Mao Yu Min and as to 33.5% (including 8.5% direct interest and 25% indirectly through his shareholding in Ease Gold Investments Limited) by Dr. Xie Yi.

HK Biowindow owned 80% of the share capital of FPL.

Fudan Biotech is owned as to 99% by Shanghai Fudan Biotech Limited. Shanghai Fudan Biotech Limited is owned as to 75% by Shanghai Biowindow.

(b) *These shares are owned by Well Success Limited, a company incorporated in the British Virgin Islands, the entire issued capital of which is owned by Mr. Ho Yu Ling.*

2. Long positions in shares of associated corporations

Name of director	Name of associated corporation	Relationship with the Company	Shares/equity derivative	Number of shares/equity derivative held	Capacity and nature of interest	Percentage of the associated corporation's issued share capital/paid-up capital
Ho Chin Hou	Extrawell Enterprises Limited	Company's subsidiary	Non-voting deferred shares	100,000 shares *(Note)*	Through controlled corporation	100% of the non-voting deferred shares
Ho Yu Ling	Extrawell Enterprises Limited	Company's subsidiary	Non-voting deferred shares	100,000 shares *(Note)*	Through controlled corporation	100% of the non-voting deferred shares

Note: Extrawell Holdings Limited, a related company of the Group, owns 100,000 non-voting deferred shares of HK$10 each in Extrawell Enterprises Limited. Messrs. Ho Chin Hou and Ho Yu Ling are beneficial shareholders of EHL.

Save as disclosed above, as at 31 March 2007, none of the directors had registered an interest or short position in the shares, underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

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

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

At 31 March 2007, the following interests and short positions of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

Name of substantial shareholders	Capacity and nature of interest	Number of shares held	Approximate percentage of interests held
Ease Gold Investments Limited	Through controlled corporations	604.000,000	26.4
United Gene-BVI	Through controlled corporations	604,000,000	26.4
United Gene Group Ltd.	Through controlled corporations	604,000,000	26.4
HK Biowindow	Directly beneficially owned	74,000,000	3.2
	Through controlled corporations	530,000,000	23.2
		604,000,000	26.4
JNJ Investments	Directly beneficially owned	500,000,000	21.8

Note: JNJ Investments, HK Biowindow, Fudan Biotech and FPL hold 500,000,000, 74,000,000, 76,000,000 and 30,000,000 shares of the Company respectively.

The entire issued share capital of JNJ Investments is owned by HK Biowindow, the issued share capital of which is owned as to 99% by United Gene Group Ltd. (a company incorporated in the British Virgin Islands), as to 0.99% by United Gene-PRC and as to 0.01% by Shanghai Biowindow.

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

The capital of Shanghai Biowindow is 60% owned by United Gene-PRC, 13.575% owned by Dr. Xie Yi and 13.575% owned by Ms. Sheng Xiao Yu, who is the wife of Dr. Mao Yu Min. The equity capital of United Gene-PRC is beneficially owned as to 33.5% by Dr. Mao Yu Min and as to 33.5% (including 8.5% direct interest and 25% indirectly through his shareholding in Ease Gold Investments Limited) by Dr. Xie Yi.

HK Biowindow owned 80% of the share capital of FPL.

Fudan Biotech is owned as to 99% by Shanghai Fudan Biotech Limited. Shanghai Fudan Biotech Limited is owned as to 75% by Shanghai Biowindow.

These interests have also been included in the corporate interests of Dr. Mao Yu Min and Dr. Xie Yi as disclosed under the heading "Directors' interests and short positions in shares and underlying shares" above.

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

Save as disclosed above, as at 31 March 2007, no person, other than certain directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CONNECTED AND RELATED PARTY TRANSACTIONS

Details of the significant related party transactions entered into by the Group which do not constitute connected transactions under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and directors' interest in contracts for the year are set out in note 42 to the financial statements.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set up in note 43 to the financial statements.

CONTRACTS OF SIGNIFICANCE

Other than as disclosed in "connected and related party transactions" above, no contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the year end of the year or at any time during the year.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at 26 July 2007, being the latest practicable date prior to the date of this report.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

CORPORATE GOVERNANCE

Save as the deviations, and the reason thereof, as disclosed in the Corporate Governance Report set out on pages 15 to 20, in the opinion of the directors, the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules during the year.

PURCHASES, SALES 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.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

AUDIT COMMITTEE

The Company has established an Audit Committee (the "Committee"), with written terms of reference, in compliance with Rules 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 2007 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.

AUDITORS

HLB Hodgson Impey Cheng were appointed as the auditors of the Company in succession to Ernst & Young who resigned from the office with effect from 22 March 2006. The financial statements for the year were audited by HLB Hodgson Impey Cheng, who will retire and, being eligible, offer themselves for re-appointment as auditors of the Company at the forthcoming annual general meeting. Save as disclosed above, there was no change in the Company's auditors during the past three years.

On behalf of the Board

Dr. Mao Yu Min
Chairman

Hong Kong, 30 July 2007

Independent Auditors' Report

国衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF EXTRAWELL PHARMACEUTICAL HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Extrawell Pharmaceutical Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 30 to 75 which comprise the consolidated and company balance sheets as at 31 March 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2007 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.

SIGNIFICANT UNCERTAINTY RELATING TO RECOVERABILITY OF INTANGIBLE ASSETS AND OTHER RECEIVABLE

Without qualifying our opinion, we draw attention to notes 9 and 14 to the financial statements. At 31 March 2007, the Group had intangible assets of technical know-how (the "Know-how") in relation to the oral insulin product (the "Product") and the exclusive right for the commercialisation of the Product owned by the Group of carrying value amounting to approximately HK$284,260,000. The Know-how is held by Fosse Bio-Engineering Development Limited ("Fosse Bio"), a subsidiary acquired by the Group during the year ended 31 March 2005 through the acquisition of Smart Ascent Limited ("Smart Ascent"), which owns 51% equity interest in Fosse Bio, from two vendors (the "Vendors"). The Group also had a receivable (the "Receivable") amounting to 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 9 and 14 to the financial statements, the clinical trials of the Product are under the final stage and the results have been submitted to the State Food and Drug Administration of the People's Republic of China for further approval, the approval process is currently ongoing. The recoverability of the carrying values of the Know-how and the Receivable depends upon the results of the clinical trials and the successful launching of the Product, the ultimate outcome of the matter cannot be presently determined, and provision for impairment loss that may result should the clinical trials or the launching of the Product be unsuccessful, adjustment has not been made in the financial statements.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong, 30 July 2007

Consolidated Balance Sheet

At 31 March 2007

	Note	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment	7	**55,384**	56,812
Interests in leasehold land	8	**13,977**	13,850
Intangible assets	9	**287,722**	287,898
Goodwill	10	**—**	—
		357,083	358,560
Current assets			
Inventories	12	**12,453**	14,767
Trade receivables	13	**82,572**	86,177
Deposits, prepayments and other receivables	14	**55,372**	56,851
Amounts due from minority shareholders	15	**8**	8
Pledged bank deposits	16	**7,532**	7,262
Cash and cash equivalents	17	**78,969**	47,702
		236,906	212,767
Total assets		**593,989**	571,327
Capital and reserves attributable to the Company's equity holders			
Share capital	18	**22,900**	22,900
Reserves	19	**276,019**	257,761
		298,919	280,661
Minority interests		**217,565**	220,107
		516,484	500,768
Non-current liabilities			
Deferred taxation	20	**102**	102
Current liabilities			
Trade and bills payables	21	**9,657**	8,323
Accruals and other payables	22	**26,911**	23,459
Interest-bearing borrowings — secured	23	**3,543**	4,630
Tax payable		**1,631**	1,641
Amount due to a director	24	**3,257**	—
Amount due to a minority shareholder	24	**32,404**	32,404
		77,403	70,457
Total equity and liabilities		**593,989**	571,327
Net current assets		**159,503**	142,310
Total assets less current liabilities		**516,586**	500,870

The financial statements on pages 30 to 75 were approved and authorised for issue by the board of directors on 30 July 2007 and are signed on its behalf by:

Dr. Mao Yu Min
Director

Mr. Ho Yu Ling
Director

The accompanying notes form an integral part of these financial statements.

Balance Sheet

At 31 March 2007

	Note	2007 HK$'000	2006 HK$'000
Non-current assets			
Interests in subsidiaries	11	**224,270**	205,885
Current assets			
Deposits, prepayments and other receivables	14	**221**	221
Cash and cash equivalents	17	**18**	19
		239	240
Total assets		**224,509**	206,125
Capital and reserves attributable to the Company's equity holders			
Share capital	18	**22,900**	22,900
Reserves	19	**201,120**	182,713
		224,020	205,613
Current liabilities			
Accruals and other payables	22	**489**	512
Total equity and liabilities		**224,509**	206,125
Net current liabilities		**(250)**	(272)
Total assets less current liabilities		**224,020**	205,613

Approved by the board of directors on 30 July 2007

Dr. Mao Yu Min
Director

Mr. Ho Yu Ling
Director

The accompanying notes form an integral part of these financial statements.

Consolidated Income Statement

For the year ended 31 March 2007

	Note	2007 HK$'000	2006 HK$'000
Turnover	25	**158,763**	178,265
Cost of sales		**(109,996)**	(108,450)
Gross profit		**48,767**	69,815
Other revenue	26	**1,824**	1,537
Other income	27	**8,689**	3,113
Selling and distribution expenses		**(14,436)**	(14,890)
Administrative expenses		**(26,656)**	(26,340)
Impairment loss recognised in respect of trade receivables		**(8,688)**	(8,725)
Impairment loss recognised in respect of other receivables		**—**	(1,011)
Impairment loss recognised in respect of goodwill		**—**	(5,171)
Impairment loss recognised in respect of property, plant, equipment and interests in leasehold land		**—**	(10,723)
Profit from operations	28	**9,500**	7,605
Finance costs	31	**(197)**	(908)
Profit before taxation		**9,303**	6,697
Taxation	32	**(369)**	(2,510)
Profit for the year		**8,934**	4,187
Attributable to:			
Equity holders of the Company		**9,336**	4,669
Minority interests		**(402)**	(482)
		8,934	4,187
Dividends	34	**—**	—
Earnings per share for profit attributable to the equity holders of the Company			
Basic	35	**HK$0.004**	HK$0.002
Diluted	35	**N/A**	N/A

All of the Group's activities are classified as continuing.

The accompanying notes form an integral part of these financial statements.

Consolidated Statement Of Changes In Equity

For the year ended 31 March 2007

	Attributable to the equity holders of the Company								
	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Contributed surplus HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	Total equity HK$'000	Minority interests HK$'000	Total HK$'000
At 1 April 2005	22,900	133,717	4,476	4,839	—	106,937	272,869	220,609	493,478
Exchange differences	—	—	—	—	3,123	—	3,123	—	3,123
Acquisition of a subsidiary	—	—	—	—	—	—	—	(20)	(20)
Net profit/(loss) for the year	—	—	—	—	—	4,669	4,669	(482)	4,187
Total recognised income and expenses for the year	—	—	—	—	3,123	4,669	7,792	(502)	7,290
At 31 March 2006 and 1 April 2006	22,900	133,717	4,476	4,839	3,123	111,606	280,661	220,107	500,768
Exchange differences	—	—	—	—	8,922	—	8,922	11	8,933
Dividend paid to minority shareholders	—	—	—	—	—	—	—	(2,151)	(2,151)
Transfer to capital reserve	—	—	87	—	—	(87)	—	—	—
Net profit for the year	—	—	—	—	—	9,336	9,336	(402)	8,934
Total recognised income and expenses for the year	—	—	87	—	8,922	9,249	18,258	(2,542)	15,716
At 31 March 2007	22,900	133,717	4,563	4,839	12,045	120,855	298,919	217,565	516,484

CAPITAL RESERVE

In accordance with the relevant regulations in the People's Republic of China (the "PRC"), all of the Group's subsidiaries registered in the PRC are required to transfer part of their profit after tax to the capital reserve. Subject to certain restrictions set out in the relevant PRC regulations and the articles of association of these PRC subsidiaries, the capital reserve may be used to offset losses or for capitalisation as paid-up capital.

CONTRIBUTED SURPLUS

The contributed surplus of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group reorganisation in 1999 (the "Group Reorganisation"), over the nominal value of the share capital of the Company issued in exchange thereof.

Consolidated Cash Flow Statement

For the year ended 31 March 2007

	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	**9,303**	6,697
Adjustments for:		
Depreciation	**4,539**	4,530
Amortisation of intangible assets	**751**	732
Impairment loss recognised in respect goodwill	**—**	5,171
Amortisation of interests in leasehold land	**472**	561
Impairment loss recognised in respect property, plant, equipment and interests in leasehold land	**—**	10,723
Impairment loss recognised in respect trade receivables	**8,688**	8,725
Reversal of impairment loss on trade receivables	**(7,545)**	(3,097)
Impairment loss recognised in respect other receivables	**—**	1,011
Reversal of impairment loss on other receivables	**(1,011)**	—
Provision/(reversal on provision) for obsolete inventories	**368**	(573)
Loss on disposal of property, plant and equipment	**42**	45
Gain on disposal of a subsidiary	**(9)**	—
Interest income	**(1,789)**	(1,001)
Finance costs	**197**	908
Operating cash flows before movements in working capital	**14,006**	34,432
Decrease in inventories	**1,946**	1,497
Decrease/(increase) in trade receivables	**1,667**	(18,001)
Decrease/(increase) in deposits, prepayments and other receivables	**2,490**	(6,479)
Increase in trade payables	**1,334**	1,004
Increase in accruals and other payables	**3,452**	3,266
Cash generated from operations	**24,895**	15,719
Interest received	**1,789**	1,001
Interest paid	**(197)**	(908)
Tax (paid)/refunded	**(379)**	941
Net cash generated from operating activities	**26,108**	16,753

	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	**(588)**	(1,158)
Purchases of intangible assets	**(193)**	(29)
Net proceeds from disposal of a subsidiary	**9**	—
(Increase)/decrease in pledged bank deposits	**(270)**	4,942
Net cash (used in)/generated from investing activities	**(1,042)**	3,755
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in trust receipts loans	**(1,087)**	(923)
Loan from a director	**3,257**	—
Repayment of bank loans	**—**	(31,904)
Dividend paid to minority shareholders	**(2,151)**	—
Net cash generated from/(used in) financing activities	**19**	(32,827)
Net increase/(decrease) in cash and cash equivalents	**25,085**	(12,319)
Effect on foreign exchange rate	**6,182**	1,693
Cash and cash equivalents at the beginning of the year	**47,702**	58,328
Cash and cash equivalents at the end of the year	**78,969**	47,702
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	**78,969**	47,702

Notes to the Financial Statements

31 March 2007

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and the address of the head office and principal place of business of the Company is Suite 4701–4, 47/F., Tower One, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong.

The principal activities of the Group included the followings:

— marketing and distribution of pharmaceutical products;

— development, manufacture and sales of pharmaceutical products;

— commercial exploitation and development of genome-related technology; and

— development and commercialisation of oral insulin products.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations of Hong Kong Financial Reporting Standards (the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for accounting periods beginning on or after 1 April 2006. A summary of the new HKFRSs is set out as below:

HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS-Int 4	Determining whether an Arrangement contains a Lease

The adoption of the above new HKFRSs did not result in substantial changes to the Group's accounting policies and did not result in significant impact to the Group's results and financial position for the current and prior periods.

The Group has not early applied the following new standards, amendments or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

HKAS 1 (Amendment)	(Note a)	Capital Disclosures
HKFRS 7	(Note a)	Financial Instruments — Disclosures
HKFRS 8	(Note b)	Operating Segments
HK(IFRIC)-Int 7	(Note c)	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	(Note d)	Scope of HKFRS 2
HK(IFRIC)-Int 9	(Note e)	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	(Note f)	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	(Note g)	HKFRS 2 — Group and Treasury Share Transaction
HK(IFRIC)-Int 12	(Note h)	Service Concession Arrangements

Notes:

a. *Effective for annual periods beginning on or after 1 January 2007*

b. *Effective for annual periods beginning on or after 1 January 2009*

c. *Effective for annual periods beginning on or after 1 March 2006*

d. *Effective for annual periods beginning on or after 1 May 2006*

e. *Effective for annual periods beginning on or after 1 June 2006*

f. *Effective for annual periods beginning on or after 1 November 2006*

g. *Effective for annual periods beginning on or after 1 March 2007*

h. *Effective for annual periods beginning on or after 1 January 2008*

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which is a collective term that includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs"), and Interpretations ("Ints") issued by the HKICPA and accounting principles generally accepted in Hong Kong. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong (the "Listing Rules") and by the Hong Kong Companies Ordinance.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

The consolidated financial statements have been prepared under historical cost convention. The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March each year.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operation policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

All significant inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received or receivables.

(c) Goodwill

Goodwill arising on an acquisition of a subsidiary or an associate represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Goodwill (Continued)

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

(d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any identified impairment losses.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

Depreciation is provided to write off the cost of property, plant and equipment, using the straight line method, over their estimated useful lives. The principal annual rates are as follows:

Buildings	Over the lease terms
Plant and machineries	10%–20%
Furniture, fixtures and office equipment	10%–30%
Motor vehicles	20%

The gain or loss arising from disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Interests in leasehold land

Interests in leasehold land represent prepaid lease payment for leasehold land. Interests in leasehold land are stated at cost less subsequent accumulated amortisation and any accumulated impairment losses. The cost of interests in leasehold land are amortised on a straight-line basis over the unexpired land use period of 50 years.

(f) Intangible assets

Intangible assets, which comprise trade mark and licences, rights to technical know-how and rights to commercially exploit certain gene inventions, are stated at cost less accumulated amortisation and any impairment losses. The categories of the intangible assets are summarised as follows:

Trademark and licences

Trademark and licences are stated as historical cost. Trademarks and licences have a definite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives.

General pharmaceutical products

The cost of acquiring the rights to technical know-how for the development and production of new pharmaceutical products is amortised on the straight-line basis over the estimated economic lives of the know-how of a maximum of five years commencing in the year when the rights are available for use.

Genome related technology

The cost of acquiring the rights to technical know-how for the development and production of genome related products is amortised on the straight-line basis over the estimated economic lives of the know-how of a period up to a maximum of 20 years.

Gene invention rights

The cost of gene invention rights is amortised over the lives of the rights granted for the gene invention of a period up to a maximum of 20 years.

Oral insulin products

The cost of acquiring the rights for development and commercialisation of oral insulin products is amortised on the straight-line basis over the estimated economic lives of the products commencing in the year when the rights are available for use.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Work in progress and finished goods comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(i) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(j) Impairment of assets

i. Impairment of tangible and intangible assets with finite useful lives

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

ii. Impairment of intangible assets not yet available for use

Intangible assets not yet available for use are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Impairment of assets (Continued)

ii. Impairment of intangible assets not yet available for use (Continued)

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

(k) Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

i. Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales of financial assets that requires delivery of assets within the time frame established by regulation or convention in the marketplace.

Loans and receivables (including advance to associates, advance to an investee company, loan receivables, pledged deposits, securities trading receivable and deposits, time deposits, bank balances and cash) are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

ii. Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial instruments (Continued)

ii. Financial liabilities and equity (Continued)

Financial liabilities

Financial liabilities include trade and bills payable, accruals and other payables, interest-bearing borrowings, amount due to a minority shareholder and a director are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issued costs.

iii. Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of debt instrument. A financial guarantee contract issued by the Group and not designated as financial assets at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

iv. Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in income statement.

For financial liabilities, they are removed from the Group's balance sheet when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in income statement.

(l) Provisions

A provision is recognised when the Group has a present legal or constructive obligation, as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value money is material, the amount of a provision is the present value at the balance sheet date of the expenditures expected to be required to settle the obligation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

— from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

— interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

(n) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit is the profit for the year, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary difference can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investment in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Translation of foreign currencies

i. Functional and presentation currency

Items included in the accounts of Group are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in Hong Kong dollars ("HK$") which is the Company's functional and presentation currency.

ii. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, carried at fair value are reported as part of the fair value gain or loss in the income statement except for the transaction difference on non-monetary items in respect of which gains and losses are recognised directly in equity, in which case, the exchange differences are also recognised directly in equity.

iii. Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(1) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(2) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(3) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under operating leases are charged to the income statement on a straight-line basis over the relevant lease term.

(q) Employee benefits

i. Retirement benefit obligations

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution scheme, the assets of which are held in separate trustee-administered funds.

Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, with the employees' contributions subject to a cap of monthly relevant income of HK$20,000. The Group's contributions to the scheme are expensed as incurred are vested in accordance with the scheme's vesting scales. Where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group.

ii. Share-based payment expenses

The fair value of the employee services received in exchange for the grant of the share options and restricted share awards is recognised as an expense in the income statement.

The total amount to be expensed over the vesting period is determined with reference to the fair value of the share options and restricted share awards granted. At each balance sheet date, the Company revises its estimates of the number of share options that are expected to become exercisable and the number of restricted share awards that become vested. It recognises the impact of the revision of original estimates, if any, in the profit and loss account, and a corresponding adjustment to equity in the balance sheet will be made over the remaining vesting periods.

The proceeds received, net of any directly attributable transaction costs, are credited to share capital and share premium accounts when the share options are exercised and when the restricted share awards are vested.

(r) Research and development

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercially value. Product development expenditure which does not meet these criteria is expensed when incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. A contingent asset is not recognised but is disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(t) Related parties transactions

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members of key management personnel, significant shareholders and/or their close family members) or entities of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

(u) Segment reporting

A segment is a distinguishable component of the Group that is engaged in providing products or services (business segment), or in providing products, or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has determined that business segment be presented as the primary reporting format and geographical segment as the secondary reporting format.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Segment reporting (Continued)

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions which are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group companies within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period on additions of segment assets (both tangible and intangible) that are expected to be used for more than one period.

4. FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (foreign exchange risk), credit risk, liquidity risk and cash flow and fair value interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group's treasury function operates as a centralised service for managing financial risks and for providing cost efficient funding to the Group.

i. Market risk — Foreign exchange risk

The Group operates mainly in both the PRC and Hong Kong and majority of transactions are denominated in Hong Kong dollars and Renminbi. Fluctuations in exchange rates between the Renminbi and other currencies in which the Group conducts business may affect its financial condition and results of operations. The Group seeks to limit its exposure to foreign currency risk by minimising its net foreign currency position.

ii. Credit risk

The Group's credit risk is primarily attributable to trade or other receivables. The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history. The exposures to these credit risks are monitored on an ongoing basis.

iii. Liquidity risk

The Group manages its liquidity risk by regularly monitoring current and expected liquidity requirements and ensuring sufficient liquid cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet the Group's liquidity requirements in the short and long term.

iv. Cash flow and fair value interest-rate risk

Borrowings at variable interest-rates expose the Group to cash flow interest-rate risk and those at fixed rates expose the Group to fair value interest-rate risk.

The Group monitors the interest-rate risk exposure on a continuous basis and adjust the portfolio of borrowings where necessary.

4. FINANCIAL RISK MANAGEMENT (Continued)

4.2 Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimation on impairment of intangible assets and goodwill

The Group performs annual tests on whether there has been impairment of intangible assets in accordance with the accounting policy stated in note 3(j). The recoverable amounts of cash-generating units are determined based on value-in-use calculations. These calculations require the use of estimates and assumptions made by management on the future operation of the business, pre-tax discount rates, and other assumptions underlying the value-in-use calculations.

(b) Provision for impairment of receivables

The aged debt profile of trade receivables is reviewed on a regular basis to ensure that the trade receivables balances are collectible and follow up actions are promptly carried out if the agreed credit periods have been exceeded. However, from time to time, the Group may experience delays in collection. Where recoverability of trade debtor balances are called into doubts, specific provisions for bad and doubtful debts are made based on credit status of the customers, the aged analysis of the trade receivable balances and write-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivable to the income statement. Changes in the collectibility of trade receivables for which provisions are not made could affect the results of operations.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(c) Useful lives of property, plant and equipment

The Group estimates the useful lives of property, plant and equipment that to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, and technical obsolescence arising from changes in the market demands or service output of the assets. The Group also performs annual reviews on whether the assumptions made on useful lives continue to be valid.

(d) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience and selling goods of similar nature. It could change significantly as a result of change in market condition. Management will reassess the estimations at the balance sheet date.

6. 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 expenditure 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 segment 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.

6. 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:

	Manufacturing		Trading		Gene development		Oral insulin		Consolidated	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Segment revenue										
Sales to external customers	**43,275**	51,714	**115,488**	126,551	**—**	—	**—**	—	**158,763**	178,265
Segment results	**1,121**	(7,012)	**17,175**	33,257	**(232)**	(341)	**(213)**	(257)	**17,851**	25,647
Interest income									**1,789**	1,001
Net unallocated expenses									**(10,140)**	(19,043)
Profit from operation									**9,500**	7,605
Finance cost									**(197)**	(908)
Profit before taxation									**9,303**	6,697
Taxation									**(369)**	(2,510)
Profit for the year									**8,934**	4,187
Segment assets	**131,920**	133,232	**122,670**	107,887	**6**	7	**285,988**	284,269	**540,584**	525,395
Unallocated assets									**53,405**	45,932
Total assets									**593,989**	571,327
Segment liabilities	**9,572**	9,300	**30,302**	25,520	**67**	64	**827**	238	**40,768**	35,122
Unallocated liabilities									**36,737**	35,437
Total liabilities									**77,505**	70,559
Other segment information:										
Capital expenditure	**671**	448	**71**	685	**—**	—	**—**	—	**742**	1,133
Unallocated capital expenditure									**39**	25
									781	1,158
Depreciation and amortisation	**5,028**	4,939	**513**	391	**—**	—	**—**	—	**5,541**	5,330
Unallocated depreciation and amortisation									**221**	493
									5,762	5,823
Impairment losses recognised	**—**	5,151	**—**	10,723	**—**	—	**—**	20	**—**	15,894
Other non-cash Expenses	**8,390**	9,621	**298**	143	**—**	—	**—**	—	**8,688**	9,764
Unallocated other non-cash expenses									**42**	17
									8,730	9,781

7. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings HK$'000	Plant and machineries HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost					
At 1 April 2005	54,798	23,586	6,419	3,286	88,089
Additions	—	371	148	639	1,158
Disposals	—	—	(137)	—	(137)
Exchange alignments	846	454	69	51	1,420
At 31 March 2006 and at 1 April 2006	55,644	24,411	6,499	3,976	90,530
Additions	—	326	262	—	588
Disposals	—	—	(68)	—	(68)
Exchange alignments	2,264	1,237	—	171	3,672
At 31 March 2007	57,908	25,974	6,693	4,147	94,722
Accumulated depreciation and impairment					
At 1 April 2005	6,998	10,145	3,678	1,658	22,479
Charge for the year	1,451	2,130	465	484	4,530
Eliminated on disposals	—	—	(92)	—	(92)
Impairment loss recognised	6,434	—	—	—	6,434
Exchange alignments	116	199	29	23	367
At 31 March 2006 and at 1 April 2006	14,999	12,474	4,080	2,165	33,718
Charge for the year	1,344	2,252	375	568	4,539
Eliminated on disposals	—	—	(26)	—	(26)
Exchange alignments	369	653	—	85	1,107
At 31 March 2007	16,712	15,379	4,429	2,818	39,338
Net book value					
At 31 March 2007	41,196	10,595	2,264	1,329	55,384
At 31 March 2006	40,645	11,937	2,419	1,811	56,812

Depreciation expenses of HK$2,541,000 (2006: HK$3,275,000) have been expensed in cost of goods sold and HK$1,998,000 (2006: HK$1,255,000) in administrative expenses.

There was no pledged property, plant and equipment as at 31 March 2006 and 2007.

8. INTERESTS IN LEASEHOLD LAND

The Group

	2007 HK$'000	2006 HK$'000
Cost		
At 1 April	**21,386**	21,119
Exchange alignments	**718**	267
At 31 March	**22,104**	21,386
Accumulated amortisation and impairment		
At 1 April	**7,536**	2,649
Charge for the year	**472**	561
Impairment loss recognised	**—**	4,289
Exchange alignments	**119**	37
At 31 March	**8,127**	7,536
Net Book Value		
At 31 March	**13,977**	13,850

The Group's interests in leasehold land represent prepaid operating lease payments and their net book value is analysed as follows:

	2007 HK$'000	2006 HK$'000
Land outside Hong Kong, held on:		
Long-term leases	**13,977**	13,850

Interests in leasehold land comprise cost of acquiring rights to use certain land which are all located in the PRC over fixed periods. Cost of prepaid lease for land use rights is amortised on a straight-line basis over the unexpired period of rights.

There was no pledged interests in leasehold land as at 31 March 2006 and 2007.

9. INTANGIBLE ASSETS

The Group

	Technical know-how HK$'000 *(Note i)*	Gene invention rights HK$'000 *(Note ii)*	Total HK$'000
Cost			
At 1 April 2005	292,228	95,000	387,228
Additions	29	—	29
Exchange alignments	150	—	150
At 31 March 2006 and 1 April 2006	292,407	95,000	387,407
Additions	193	—	193
Exchange alignments	737	—	737
At 31 March 2007	293,337	95,000	388,337
Accumulated amortisation and impairment			
At 1 April 2005	3,774	95,000	98,774
Charge for the year	732	—	732
Exchange alignments	3	—	3
At 31 March 2006 and 1 April 2006	4,509	95,000	99,509
Charge for the year	751	—	751
Exchange alignments	355	—	355
At 31 March 2007	5,615	95,000	100,615
Carrying amount			
At 31 March 2007	**287,722**	**—**	**287,722**
At 31 March 2006	287,898	—	287,898

Amortisation expense has been included in administrative expenses in the consolidated income statement.

9. INTANGIBLE ASSETS (Continued)

Notes:

i. The carrying amount of technical know-how (the "Know how") includes a development cost in relation to an oral insulin product (the "Product") and the exclusive right for the commercialisation of the Product owned by the Group. The Product was co-developed by Fosse Bio-Engineering Development Limited ("Fosse Bio"), a subsidiary acquired by the Group in 2005, and Tsinghua University, Beijing ("THU"). Fosse Bio and THU jointly applied the patent (the "Patent") in respect of the Know-how on 20 April 2001. The Patent was granted by State Intellectual Property Office of the PRC and United States Patent and Trademark office of the United States on 4 August 2004 and 28 March 2006 respectively.

The clinical trials of the Product are under the final stage and the results have been submitted to the State Food and Drug Administration of the People's Republic of China ("SFDA") for further approval and the approval process is still in progress up to the date of approval of these financial statements. Should the approval of the clinical trial fail, the certificate of new medicine cannot be obtained or the launching of the Product be unsuccessful, adjustments would have to be made against the carrying amount of the Know-how.

The directors of the Company have reassessed the recoverable amount of the know-how assets and considered that no impairment against its carring amount is required.

ii. The gene invention rights (the "Gene Invention Rights") represent the rights held by Right & Rise Limited ("R&R") and Grand Success Management Limited ("Grand Success") to commercially exploit 19 gene inventions, which are closely associated with diabetes. The Group is in the process of applying for patents in respect of the Gene Invention Rights. Biowindow Gene Development (Hong Kong) Limited ("HK Biowindow") and Fudan Biotech (Hong Kong) Limited ("Fudan Biotech") have warranted that in the event that the Gene Invention Rights are prohibited from being registered in the PRC by other persons at any time for a period of three years commencing from the completion of the acquisition of the entire issued capital of R&R by the Group on 6 February 2002, they will compensate the Group with an amount of HK$ 5 million less any net income derived from each of those gene inventions so prohibited. Both HK Biowindow and Fudan Biotech are related companies of the Group in which Dr. Mao Yu Min ("Dr. Mao") and Dr. Xie Yi ("Dr Xie"), two directors and shareholders of the Company, have beneficial interests.

As the development of global gene sector has slowed down and there was no indication of significant improvement in the foreseeing future, the directors of the Company have made a full provision on impairment of the carrying amount of Gene Invention Rights of HK$79,958,000 has been provided and fully charged to the income statement for the year ended 31 March 2005.

10. GOODWILL

	The Group	
	2007	2006
	HK$'000	HK$'000
Cost		
At 1 April	**10,917**	17,627
Effect on adoption of HKFRS 3	**—**	(6,730)
Additions	**—**	20
At 31 March	**10,917**	10,917
Accumulated amortisation and impairment		
At 1 April	**10,917**	12,476
Effect on adoption of HKFRS 3	**—**	(6,730)
Impairment loss recognised	**—**	5,171
At 31 March	**10,917**	10,917
Net Book Value		
At 31 March	**—**	—

10. GOODWILL (Continued)

Notes:

In accordance with HKAS 36 "Impairment of Assets", goodwill has been allocated to the Group's various cash generating units ("CGUs") for impairment testing, which by comparing their recoverable amount to their carrying amounts as at the balance sheet date. The recoverable amount of a CGU is determined based on value-in-use calculations.

For the year ended 31 March 2006, goodwill is allocated to the Group's CGUs as production and distribution of pharmaceutical product business segment. The recoverable amount of goodwill in the CGU is determined based on the value-in-use calculation at discount rate of 8%, which is pre-tax and reflect specific risk relating to the relevant segments.

As the production and distribution of pharmaceutical product business under a subsidiary, Jilin Extrawell Changbaishan Pharmaceutical Co., Ltd, continues to be in a loss position, the directors of the Company have provided and charged a provision of impairment loss to the income statement for the year ended 31 March 2006.

11. INTERESTS IN SUBSIDIARIES

	The Company	
	2007	2006
	HK$'000	HK$'000
Unlisted shares, at cost	**52,990**	52,990
Impairment loss recognised	**(12,529)**	(10,121)
	40,461	42,869
Amounts due from subsidiaries	**185,486**	163,016
Amount due to a subsidiary	**(1,677)**	—
	224,270	205,885

The amounts due from/to subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms. In the opinion of the directors of the Company, the amounts are classified as non-current as they are not expected to be repaid within the next twelve months.

The fair value of the amounts due from/to subsidiaries classified under non-current assets of 31 March 2007 determined based on the present value of the estimated future cash flows discounted using the prevailing market rate at the balance sheet date approximates to its carrying value.

The amounts due from/to subsidiaries classified under current assets/liabilities are unsecured, interest-free and repayable on demand. In the opinion of the directors of the Company, the carrying amounts of the amounts due from/to subsidiaries as at 31 March 2007 approximate to their fair values.

The carrying amounts of the interests in subsidiaries is reduced to their recoverable amounts which are determined by reference to the estimation of future cash flows expected to be generated from the respective subsidiaries.

11. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the Company's subsidiaries at 31 March 2007 are set out as follows:

Name	Place of Incorporation/ registration and operation	Nominal value of issued/ registered capital	Percentage of equity attributable to the Company 2007	2006	Principal activities
Directly held					
Extrawell (BVI) Limited	British Virgin Islands ("BVI")	US$10,000 Ordinary	**100**	100	Investment holding
Jilin Extrawell Changbaishan Pharmaceutical Co., Ltd. ("JECP") *(Note i)*	The PRC	RMB33,000,000	**60**	60	Development, manufacture, and sales of pharmaceutical products
Indirectly held					
Extrawell Pharmaceutical (HK) Limited	Hong Kong	HK$2 Ordinary	**100**	100	Provision of agency services
Jilin Extrawell Changbaishan Pharmaceutical Co., Ltd. ("JECP") *(Note i)*	The PRC	RMB33,000,000	**40**	40	Development, manufacture, and sales of pharmaceutical products
South Asia Pharmaceutical (China) Limited	BVI/ Malaysia	US$50,000 Ordinary	**100**	100	Marketing and distribution of pharmaceutical products
Smart Phoenix Holdings Limited	BVI	US$100 Ordinary	**100**	100	Investment holding
Changchun Extrawell Pharmaceutical Co., Ltd. ("CEP") *(Note ii)*	The PRC	RMB50,000,000	**68**	68	Development, manufacture and sales of pharmaceutical products
Best-Bio Developments Limited ("Best-Bio")	BVI	US$1 Ordinary	**100**	100	Investment holding
Right & Rise Limited	BVI	US$50,000 Ordinary	**100**	100	Holding of gene invention rights
Grand Success Management Limited	BVI	US$ 50,000 Ordinary	**75**	75	Holding of gene invention rights
Smart Ascent Limited ("Smart Ascent")	Hong Kong	HK$ 10,000 Ordinary	**51**	51	Investment holding
Fosse Bio-Engineering Development Limited ("Fosse Bio") *(Note iii)*	Hong Kong	HK$100,000 Ordinary	**51**	51	Development and commercialisation of oral insulin products
Welly Surplus Development Limited	Hong Kong	HK$ 100 Ordinary	**51**	51	Inactive

Notes:

(i) JECP is a wholly foreign-owned enterprise established in the PRC with an operating period of 15 years commencing from 22 April 1999.

(ii) CEP is a joint stock limited company established in the PRC for an operating period of 15 years commencing from 8 August 1992.

(iii) Fosse Bio was acquired by the Group through the acquisition of Smart Ascent from two individuals (the "Vendors"), who are independent third parties to the Group for the year ended 31 March 2005. Pursuant to the deed of transfer (the "Deed") entered into between Smart Ascent and a shareholder of Fosse Bio (the "Fosse Vendor"), Smart Ascent acquired a 51% equity interest of Fosse Bio from Fosse Vendor at a consideration (the "Fosse Consideration") which is payable in four installments. The first and second installments were already settled. The third installment of HK$12,000,000 shall be paid within 14 days from the issuance of certificate of clinical trials of the Product issued by the SFDA. The fourth installment of HK$19,780,000 shall be paid within 14 days from the issuance of certificate of new medicine for the Product by SFDA. The third and fourth installments are recorded as an amount due to a minority shareholder as at the balance sheet date and are still outstanding as at the date of this report. Upon the Group acquiring Smart Ascent, the Vendors jointly and severally agreed to undertake in full the outstanding Fosse Consideration if and when the respective sum became due and payable. As a result, a corresponding amount of HK$31,780,000 (note 14) was recorded as other receivables by the Group as at the balance sheet date.

11. INTERESTS IN SUBSIDIARIES (Continued)

The above table listed the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

12. INVENTORIES

	The Group	
	2007	2006
	HK$'000	HK$'000
Raw materials	**2,192**	2,173
Work in progress	**756**	746
Finished goods	**11,135**	13,110
	14,083	16,029
Less: Provision for obsolete inventories *(Note)*	**(1,630)**	(1,262)
	12,453	14,767

Note:

The movements of provision for obsolete inventories were as follows:

	The Group	
	2007	2006
	HK$'000	HK$'000
At 1 April	**1,262**	1,835
Provision for obsolete inventories	**368**	—
Reversal on provision for obsolete inventories	**—**	(573)
At 31 March	**1,630**	1,262

13. TRADE RECEIVABLES

	The Group	
	2007	2006
	HK$'000	HK$'000
Within 90 days	**49,959**	55,273
Between 91 to 180 days	**20,669**	18,237
Between 181 to 365 days	**11,945**	12,610
Between 1 to 2 years	**8,688**	8,782
Over 2 years	**8,008**	6,034
	99,269	100,936
Less: Impairment loss in respect of trade receivables *(note 27)*	**(16,697)**	(14,759)
	82,572	86,177

Notes:

(i) 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. The directors of the Company consider that there is no concentration of credit risk with respect to trade receivables.

(ii) The movements for impairment loss in respect of trade receivables were as follows:

	The Group	
	2007	2006
	HK$'000	HK$'000
At 1 April	**14,759**	9,131
Exchange alignments	**795**	—
Impairment loss recognised in respect of trade receivables	**8,688**	8,725
Reversal of impairment losses on trade receivables *(note 27)*	**(7,545)**	(3,097)
At 31 March	**16,697**	14,759

(iii) The directors of the Company considered that the carrying amounts of trade receivables approximate to their fair values.

14. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Deposits	**1,019**	1,040	**—**	—
Prepayments	**559**	484	**221**	221
Other receivables *(note i)*	**53,794**	56,338	**—**	—
	55,372	57,862	**221**	221
Less: Impairment loss recognised in respect of other receivables	**—**	(1,011)	**—**	—
	55,372	56,851	**221**	221

Notes:

(i) Included in the Group's other receivables as at 31 March 2007 and 2006 of HK$31,780,000 were the third and fourth installments of the Fosse Consideration receivables from two individual shareholders of Smart Ascent for the acquisition of 51% equity interest of Fosse Bio as set out in note 11 to the financial statements. The amount is still outstanding as at the report date. Shares representing 49% equity interest of Smart Ascent have been pledged by one of the above mentioned individual shareholders to the Group for securing the settlement of the Fosse Consideration receivables. Since the Know-how is the only major asset of Fosse Bio, which in turn is the only investment of Smart Ascent, the value of the pledge 49% equity interest of Smart Ascent depends on the results of the clinical trials and the successful in launching the Product. As explained in note 9 to the financial statements, the clinical trials are under the final stage of the Product and the results have been submitted to the SFDA for approval. Should the approval of the clinical trial fail, the certificate of new medicine cannot be obtained or the launching of the Product be unsuccessful, adjustments would have to be made against the carrying amount of the Fosse Consideration receivables.

(ii) The directors of the Company considered that the carrying amounts of deposits, prepayments and other receivables approximate to their fair values.

15. AMOUNTS DUE FROM MINORITY SHAREHOLDERS

	Maximum debit balance HK$'000	The Group 2007 HK$'000	The Group 2006 HK$'000
Zhong Hou Seng	5	**5**	5
Hou Shi Chang	3	**3**	3
		8	8

Notes:

(i) Zhong Hou Seng and Hou Shi Chang are the shareholders of the Company's subsidiary, namely Fosse Bio.

(ii) The amounts due are unsecured, interest free and repayable on demand.

16. PLEDGED BANK DEPOSITS

The pledged bank deposits carried at prevailing market interest rate which represent deposits pledged to banks to secure short-term banking facilities granted to the Group and therefore have been classified as current assets. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

The directors of the Company considered that the carrying amounts of the pledged bank deposits approximate to their fair value.

17. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Deposit with banks and other financial institutions	**47,504**	32,095	**—**	—
Cash at bank and in hand	**31,465**	15,607	**18**	19
Cash and cash equivalents	**78,969**	47,702	**18**	19

Notes:

(i) At the balance sheet date, the cash and cash equivalents of the Group and the Company are denominated in US dollars amounted to approximately HK$52,874,000 (2006: HK$25,148,000), Hong Kong dollars amounted to approximately HK$5,146,000 (2006: HK$13,497,000) and Renminbi amounted to approximately HK$20,949,000 (2006: HK$9,057,000).

(ii) Cash at bank earned interests at floating rates based on daily bank deposit rates. Short-term deposits during the year ended 31 March 2007 are made for varying period of between one day and three months, depending on the immediate cash requirements of the Group, and earned interests at the respective short-term deposit rates. The carrying amounts of the cash and cash equivalents approximate to their fair values.

18. SHARE CAPITAL

	Number of shares		Share capital	
	2007	2006	**2007**	2006
	'000	'000	**HK$'000**	HK$'000
Ordinary shares of HK$0.01 each				
Authorised:				
At 31 March	**20,000,000**	20,000,000	**200,000**	200,000
Issued and fully paid:				
At 31 March	**2,290,000**	2,290,000	**22,900**	22,900

19. RESERVES

The Group

Details of the movements in reserves of the Group during the years ended 31 March 2006 and 31 March 2007 were set out in the consolidated statement of changes in equity.

The Company

	Share premium	Contributed surplus	Exchange reserve	(Accumulated losses)/ Retained earnings	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 April 2005	133,717	64,636	—	(10,902)	187,451
Exchange differences	—	—	377	—	377
Net loss for the year	—	—	—	(5,115)	(5,115)
At 31 March 2006 and at 1 April 2006	133,717	64,636	377	(16,017)	182,713
Exchange differences	—	—	(377)	—	(377)
Net profit for the year	—	—	—	18,784	18,784
At 31 March 2007	**133,717**	**64,636**	**—**	**2,767**	**201,120**

Contributed surplus

The contributed surplus of the Company represents the excess of the then combined net asset value of the subsidiaries acquired pursuant to the Group Reorganisation over the nominal value of the Company's shares issued in exchange therefore. Under the Bermuda Companies Act 1981, the Company may make distributions to its members out of the contributed surplus under certain circumstances.

19. RESERVES (Continued)

The Company (Continued)

In the opinion of the directors of the Company, the Company's reserves available for distribution to the Company's equity holders at the balance sheet date were as follows:

	2007 **HK$'000**	2006 HK$'000
Contributed surplus	**64,636**	64,636
Retained earnings/(accumulated losses)	**2,767**	(16,017)
	67,403	48,619

20. DEFERRED TAXATION

The movements of deferred tax liabilities arising from accelerated tax depreciation were as follows:

	The Group	
	2007 **HK$'000**	2006 HK$'000
At 1 April	**102**	102
Deferred tax charged for the year	**—**	—
At 31 March	**102**	102

The movements of deferred tax assets arising from provision on doubtful debts were as follows:

	The Group	
	2007 **HK$'000**	2006 HK$'000
At 1 April	**—**	1,246
Deferred tax charged for the year	**—**	(1,246)
At 31 March	**—**	—
Net deferred tax liabilities at 31 March	**(102)**	(102)

At the balance sheet date, the Group did not recognise tax losses arising in Hong Kong of HK$2,980,000 (2006: HK$2,502,000 (agreed)) that can be carried forward to set off against future taxable profits of the companies in which the losses arose.

20. DEFERRED TAXATION (Continued)

At 31 March 2007, there was no significant unrecognised deferred tax liabilities (2006: HK$ Nil) for taxes that would have been payable on the unremitted earnings of certain of the Group's subsidiaries as the Group had no liabilities to pay additional tax should such amounts be remitted.

21. TRADE AND BILLS PAYABLES

At 31 March 2007, the aging analysis of the trade and bills payables was as follows:

	The Group	
	2007	2006
	HK$'000	HK$'000
Within 90 days	**6,916**	6,136
Between 91 to 180 days	**2,481**	2,023
Between 181 to 365 days	**253**	—
Between 1 to 2 years	**7**	164
	9,657	8,323

The directors of the Company considered that the carrying amounts of trade and bills payables approximate to their fair value.

22. ACCRUALS AND OTHER PAYABLES

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Accruals	**21,150**	16,641	**489**	512
Other payables	**5,761**	6,818	**—**	—
	26,911	23,459	**489**	512

The directors of the Company considered that the carrying amounts of accruals and other payables approximate to their fair value.

23. INTEREST-BEARING BORROWINGS — SECURED

	The Group	
	2007	2006
	HK$'000	HK$'000
Trust receipt loans		
secured	**3,543**	4,630

The interest-bearing borrowings as at 31 March 2007 and 2006 were short term which due within one year.

At 31 March 2007 and 2006, the Group's borrowings were secured by:

(i) the Group's pledged bank deposits of HK$7,532,000 (2006: HK$7,262,000); and

(ii) corporate guarantees from the Company and certain subsidiaries of the Company.

All of the Group's borrowings are denominated in US dollars and carried at effective interest rate from 6.65% to 8.25% per annum.

24. AMOUNTS DUE TO A DIRECTOR AND A MINORITY SHAREHOLDER

The amounts due to a director of the Company and a minority shareholder are unsecured, interest free and repayable on demand. The directors of the Company considered that the amounts due to a director and a minority shareholder will be demanded for repayment within twelve months from the balance sheet date and therefore have been classified as current liabilities.

25. TURNOVER

	The Group	
	2007	2006
	HK$'000	HK$'000
Manufacturing of pharmaceutical products	**43,275**	51,714
Trading of pharmaceutical products	**115,488**	126,551
	158,763	178,265

26. OTHER REVENUE

	The Group	
	2007	2006
	HK$'000	HK$'000
Interest income	**1,789**	1,001
Sundry income	**35**	536
	1,824	1,537

27. OTHER INCOME

	The Group	
	2007	2006
	HK$'000	HK$'000
Gain on disposal of a subsidiary	**9**	—
Reversal of impairment loss recognised in respect of trade receivables *(note 13)*	**7,545**	3,097
Reversal of impairment loss on other receivables	**1,011**	—
Exchange gain	**124**	16
	8,689	3,113

28. PROFIT FROM OPERATIONS

The Group's profit from operations has been arrived at after charging:

	The Group	
	2007	2006
	HK$'000	HK$'000
Cost of goods sold	**109,996**	108,450
Employee benefit expenses *(Note 29)*	**20,716**	20,012
Depreciation of property, plant and equipment	**4,539**	4,530
Amortisation of intangible assets	**751**	732
Amortisation of interests in leasehold land	**472**	561
Auditors' remuneration	**630**	620
Minimum lease payments under operating leases for land and buildings	**1,669**	1,661
Research and development costs	**185**	466
Loss on disposal of property, plant and equipment	**42**	45

29. EMPLOYEE BENEFIT EXPENSES

	The Group	
	2007	2006
	HK$'000	HK$'000
Employee benefit expenses were analysed as follows:		
Wages, salaries and allowance	**20,604**	19,894
Pension scheme contributions	**112**	118
	20,716	20,012

30. DIRECTORS' EMOLUMENTS AND THE FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

The Group

	Fee		Salaries, bonus and other benefits		Pension scheme contributions		Total	
Name of directors	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Mao Yu Min	**20**	20	**975**	975	**—**	—	**995**	995
Ho Chin Hou	**20**	20	**975**	975	**—**	—	**995**	995
Ho Yu Ling	**20**	20	**975**	975	**12**	12	**1,007**	1,007
Li Qiang	**20**	20	**639**	621	**—**	—	**659**	641
Xie Yi	**20**	20	**489**	479	**—**	—	**509**	499
Fang Lin Hu	**20**	20	**—**	—	**—**	—	**20**	20
Xue Jing Lun	**20**	20	**—**	—	**—**	—	**20**	20
Jin Song	**20**	20	**—**	—	**—**	—	**20**	20
	160	160	**4,053**	4,025	**12**	12	**4,225**	4,197

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included five (2006: five) directors. Details of their emoluments were set out in note 30(a) to the financial statements above.

Emoluments of those individuals were within the following bands:

	2007	2006
Nil to HK$1,000,000	**4**	4
HK$1,000,001 to HK$1,500,000	**1**	1
	5	5

For the years ended 31 March 2007 and 2006, no emoluments were paid by the Group to these five highest paid individuals, including the directors, as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has wavied any emolument during the year.

31. FINANCE COSTS

	The Group	
	2007	2006
	HK$'000	HK$'000
Interest on trust receipt loans wholly repayable within five years	**197**	159
Interest on bank loan repayable within five years	**—**	749
	197	908

32. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 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.

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 the PRC are operating in specific development zones of the PRC, and the relevant tax authorities have granted those subsidiaries a preferential CIT rate of 15% (2006: 15%).

In accordance with the relevant tax legislation in Malaysia, enterprises are subject to profits tax rate of a lower of a flat rate of MYR20,000 per annum or a rate of 3% of their net profits for the year. 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 2007 and 2006.

	The Group	
	2007	2006
	HK$'000	HK$'000
Current — Hong Kong		
Charge/(credit) for the year	**120**	(116)
Over-provision in prior years	**(299)**	—
Current — Elsewhere		
Charge for the year	**548**	1,380
Deferred tax *(Note 20)*	**—**	1,246
Total tax charge for the year	**369**	2,510

32. TAXATION (Continued)

A reconciliation of the tax expense applicable to profit before taxation using the statutory rates for the countries in which the Company and majority of its subsidiaries are domiciled to the tax expense/(income) at the effective tax rates was as follow:

	The Group	
	2007	2006
	HK$'000	HK$'000
Profit before taxation	**9,303**	6,697
Tax at the statutory tax rates applicable to the respective tax jurisdictions	**(1,772)**	(3,075)
Preferential statutory rate offered	**408**	(496)
Adjustment in respect to deferred tax	**—**	1,246
Expenses not deductible for tax purpose	**4,634**	5,991
Tax effect on income not taxable	**(2,901)**	(1,156)
Tax charge for the year	**369**	2,510

33. PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders of the Company for the year ended 31 March 2007 dealt with in the financial statements of the Company amounted to HK$18,784,000 (2006: loss HK$5,115,000).

34. DIVIDEND

The directors do not recommend the payment of any dividend in respect for the year ended 31 March 2007 (2006: Nil).

35. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to the Company's equity holders of HK$9,336,000 (2006: HK$4,669,000) and on 2,290,000,000 (2006: 2,290,000,000) shares in issue during the year.

As there were no potential dilutive ordinary shares in existence for each of the years ended 31 March 2006 and 2007 and accordingly, no diluted earnings per share have been presented.

36. BUSINESS COMBINATION

In February 2006, the Group acquired from an independent third party of 51% equity interest in Welly Surplus Development Limited ("Welly Surplus").

The fair values of the identifiable assets and liabilities of Welly Surplus acquired as at the dates of acquisition and the corresponding carrying amounts immediately before the acquisitions were as follows:

	Fair values recognised on acquisition and carrying amounts 2006 HK$'000
Net liabilities acquired:	
Accruals and other payables	(40)
Minority interest	20
	(20)
Purchase consideration settled in cash	—

No analysis of cash flow in respect of acquisition of Welly Surplus has been presented as there has no movement in cash and cash equivalents for the acquisition.

Since its acquisition, Welly Surplus did not record any profit or loss to the Group for the year ended 31 March 2006.

If the acquisition had been completed on 1 April 2005, there would be no material impact on the Group's revenue and profit before tax for the year ended 31 March 2006.

37. DISPOSAL OF A SUBSIDIARY

During the year ended 31 March 2007, the Group disposed the entire interest in GSA Services (L) Bhd ("GSA") at a net consideration of approximately HK$9,000.

The carrying values of the identifiable assets and liabilities of GSA as at the date of disposal were as follows:

	2007 HK$'000
Net assets disposed:	
Net liabilities	(105)
Amount due to the Group written off upon disposal	105
	—
Gain on disposal of a subsidiary	9
	9
Consideration satisfied by cash	9

The disposal of GSA did not have material effect on the Group's operating cash flow, turnover and operating result for the year ended 31 March 2007.

38. RETIREMENT BENEFITS SCHEMES

With effective from 1 December 2000, the Group has jointed a mandatory provident fund scheme (the "MPF Scheme") for all other qualifying employees. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is utilised during the year and available to reduce the contributions payable in future years.

The retirement benefits cost of the MPF Scheme charged to the income statement represents contributions payable to the fund by the Group at rates specified in the rules of the scheme.

The employees of the Company's subsidiaries in the PRC are members of the state-sponsored retirement benefit scheme organised by the relevant local government authority in the PRC. The subsidiaries are required to contribute, based on a certain percentage of the basis salary of its employees, to the retirement benefit scheme and has no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The state-sponsored retirement benefit scheme represent for the entire pension obligations payable to retired employees.

39. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, and any minority shareholder in the Company's subsidiaries. The Scheme became effective on 15 August 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue as at the date of approval of the Scheme. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted in writing within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted shall be determined by the directors at their absolute discretion, but in any event shall not be more than 10 years from the date of the offer of the share options. The directors of the Company may at their absolute discretion impose any vesting period at the date of grant.

The exercise price of the share options is determinable by the directors, but may not less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of grant; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares on the date of grant.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meeting.

As at 31 March 2007, no share options have been granted, exercised, cancelled or lapsed under the Scheme.

40. CONTINGENT LIABILITIES

(a) On 19 October 2006, Sea Ascent Investment Limited ("Sea Ascent"), an independent third party to the Group, and Welly Surplus Development Limited ("Welly Surplus"), a 51%-owned indirect subsidiary of the Company, entered into a sale and purchase agreement ("SP Agreement") that Sea Ascent agreed to sell and Welly Surplus agreed to acquire (i) the entire share capital (the "Sale Share") in Joy Kingdom Industrial Limited ("Joy Kingdom") and (ii) the unsecured, non-interest bearing loan ("Shareholder's Loan") for an aggregate principal sum of RMB40 million to be advanced by Sea Ascent to Joy Kingdom pursuant to the terms of the Cooperation Agreement (as defined hereinafter) at considerations of RMB40 million and HK$1 respectively (the "Consideration"). The completion of the SP Agreement was subject to the Cooperation Agreement becoming effective in accordance with its terms.

On 19 October 2006, Sea Ascent, Welly Surplus and Fosse Bio entered into a cooperation agreement (the "Cooperation Agreement") in connection with the cooperation (the "Cooperation") between Sea Ascent and Welly Surplus in respect of (i) Sea Ascent shall procure Joy Kingdom to establish a wholly foreign owned enterprise in the PRC under the proposed name of 江蘇派樂施藥業有限公司 (Jiangsu Prevalence Pharmaceutical Limited) ("Jiangsu Prevalence"); (ii) Sea Ascent shall advance a sum equivalent to RMB40 million to Joy Kingdom by way of an unsecured, non-interest bearing Shareholder's Loan for the payment of the registered capital of Jiangsu Prevalence and the acquisition of land and construction of a factory in the PRC; and (iii) Welly Surplus shall procure Joy Kingdom or Jiangsu Prevalence, if so agreed, to pay to Sea Ascent, during a period of six years from the date on which the Oral Insulin Enteric-Coated Soft Capsules (the "Medicine") is launched for sales in open market (the "Initial Operating Period"), a fee was calculated at RMB6 cents for each capsule of Medicine produced (subject to a deduction) as specified in the Cooperation Agreement.

On 28 November 2006, Sea Ascent advanced US$1 million to Joy Kingdom which has been transferred to Jiangsu Prevalence for the purpose of establishment of Jiangsu Prevalence in the PRC.

At 31 March 2007, the Cooperation Agreement has not become effective and the Consideration has not yet paid up to the date of approval of these financial statements.

(b) At 31 March 2007, the Company had provided corporate guarantees to certain banks for banking facilities provided to certain of its subsidiaries to the extent of approximately HK$38,000,000 (2006: HK$38,000,000). These banking facilities had been utilised to the extent of approximately HK$9,950,000 (2006: HK$10,600,000) as at the balance sheet date.

(c) At 31 March 2007, the Company provided corporate guarantee 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, management fee and utility charges of HK$5,078,000 for the entire lease period starting from May 2005, contained in the tenancy agreement signed between the landlord and the Subsidiary during the year.

(d) At 31 March 2007, the Group had bills discounted with recourse of approximately HK$15,999,000 (2006: HK$11,175,000).

41. COMMITMENT

(a) Operating lease commitment

At 31 March 2007, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	The Group	
	2007	2006
	HK$'000	HK$'000
Within one year	**1,574**	1,390
In the second to fifth years, inclusive	**106**	1,402
	1,680	2,792

Operating lease payment represented rental payment by the Company for certain of its office. Leases are negotiated for terms ranging from one to three years.

b) Other commitment

Further to note 11(iii) to the financial statement, at 31 March 2006 and 2007, the Group had a commitment to advance an interest-free loan to Fosse Vendor and/or other shareholders of Fosse Bio for expenses relating to clinical trial of the Product.

42. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the financial statement, the Company entered the related party transactions as follows:

(a) Loan from a related party:

	2007	2006
	HK$'000	HK$'000
Amount due to a director of the Company	**3,257**	—

42. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(b) Compensation for key management personnel, including amount paid to the Company's directors and certain of the highest paid employees, as disclosed in note 30, was as follow:

	2007 HK$'000	2006 HK$'000
Salaries and other benefits	**4,213**	4,185
Pension scheme contributions	**12**	12
	4,225	4,197

43. POST BALANCE SHEET EVENT

On 27 July 2007, Extrawell (BVI) Limited, a direct wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Mr. Ong Cheng Heang ("Mr. Ong"), who is a shareholder owned 49% equity interest in Smart Ascent, a 51% owned indirect subsidiary of the Company. Pursuant to the sale and purchase agreement. Extrawell (BVI) Limited agreed to buy and Mr. Ong agreed to sell the 49% equity interest in Smart Ascent at a consideration of HK$768,900,000 which will be satisfied by allotting and issuing 300,000,000 ordinary shares of the Company with normal value HK$0.01 at issuing price of HK$2.563 each.

44. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 July 2007.

Five Years' Financial Summary

31 March 2007

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years (as restated according to the Hong Kong Financial Reporting Standards which are adopted for the first time during the year ended 31 March 2006), is set out below:

	For the year ended 31 March				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results					
Turnover	**158,763**	178,265	169,766	215,631	215,523
Profit/(loss) before taxation	**9,303**	6,697	(87,835)	(35,835)	53,643
Taxation	**(369)**	(2,510)	1,793	(1,103)	178
Profit/(loss) for the year	**8,934**	4,187	(86,042)	(36,938)	53,821
Attributable to:					
Equity holders of the Company	**9,336**	4,669	(75,823)	14,641	47,428
Minority interests	**(402)**	(482)	(10,219)	(51,579)	6,393
	8,934	4,187	(86,042)	(36,938)	53,821
Dividend	**—**	—	—	—	—

Assets, liabilities and minority interests

	As at 31 March				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**593,989**	571,327	591,290	530,332	601,136
Total liabilities	**(77,505)**	(70,559)	(97,812)	(107,074)	(133,887)
Total equity	**516,484**	500,768	493,478	423,258	467,249
Minority interests	**(217,565)**	(220,107)	(220,609)	(74,566)	(133,198)
	298,919	280,661	272,869	348,692	334,051