# Extrawell Pharmaceutical Holdings Limited

(Incorporated in Bermuda with limited liability)
stock code: 858

ANNUAL REPORT 2008

# 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 and Audit Committee

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

## Remuneration Committee

Mr. FANG Lin Hu
Mr. XUE Jing Lun
Ms. JIN Song
Dr. XIE Yi

## Qualified Accountant

Mr. HO Yeong Fan

## Company Secretary

Ms. WONG Elsie (resigned on 27 August 2008)

## Hong Kong Legal Advisers

Chiu & Partners Solicitors

## Independent Auditor

RSM Nelson Wheeler
*Certified Public Accountants*

## Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

## Head Office and Principal Place of Business in Hong Kong

Room 3409–10, 34/F,
China Resources Building
26 Harbour Road
Wanchai
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

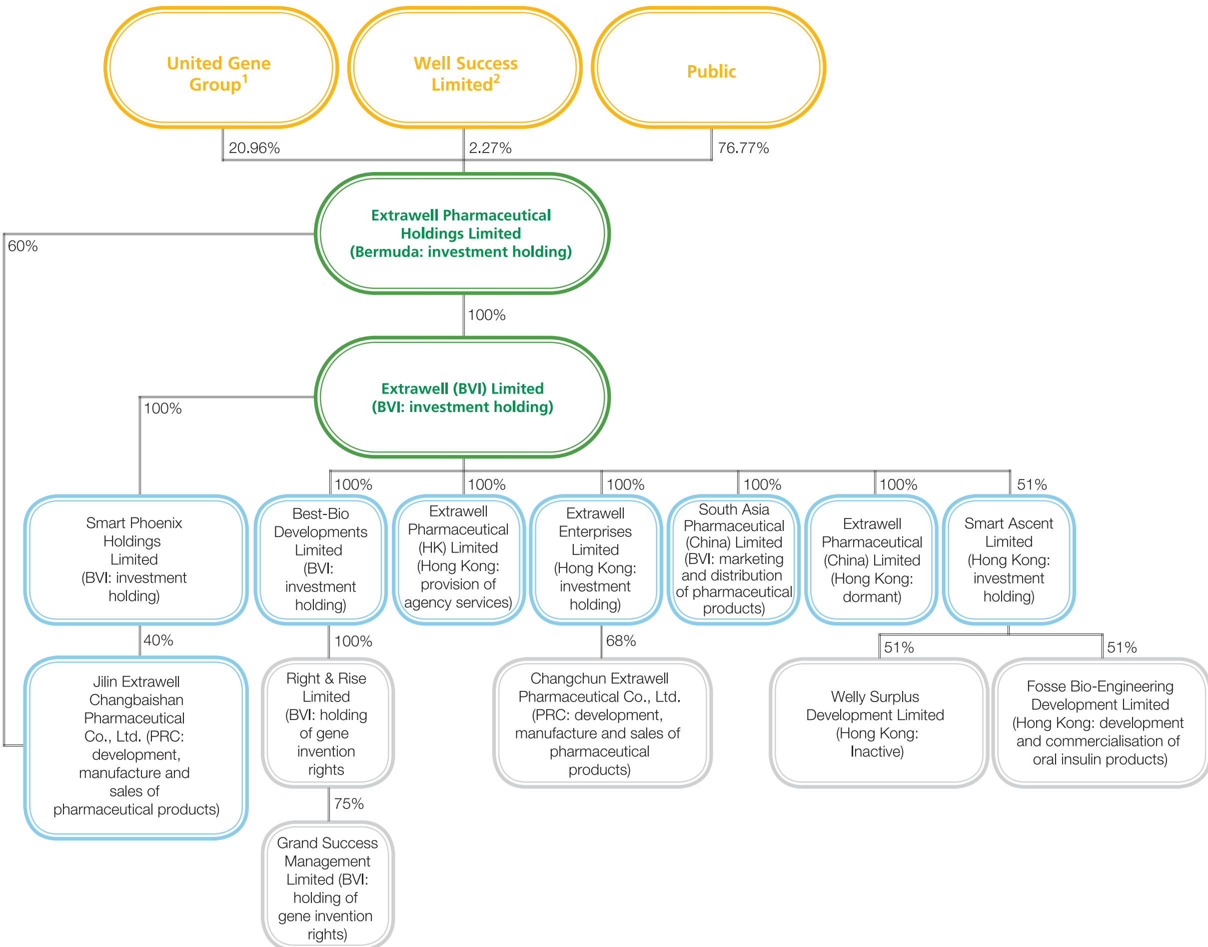
The Bank of Bermuda Limited
Bank of Bermuda Building
6 Front Street
Hamilton HM 11
Bermuda

## Hong Kong Branch Share Registrar and Transfer Office

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

# GROUP STRUCTURE

As at 31 March 2008, the corporate structure and principal activities of the principal members of the Group are shown below:




*Notes:*

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

   *The entire issued share capital of JNJ Investments is owned by Biowindow Gene Development (Hong Kong) Limited ("HK Biowindow"), the issued share capital of which is owned as to 99% by United Gene Group Ltd. (a company incorporated in the British Virgin Islands) ("United Gene Group"), 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 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.*

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

# CHAIRMAN'S STATEMENT

**Extrawell Pharmaceutical Holdings Limited**

On behalf of the board of directors of Extrawell Pharmaceutical Holdings Limited (the "Company"), together with its subsidiaries (the "Group"), I am pleased to present the annual report of the Group for the year ended 31 March 2008.

In recent years, global health care sector has achieved unprecedented focus and the investments and research and development of new pharmaceuticals have become one of the key drivers of economic development. More resources are being invested in the global health care sector than ever. However, the health care sector in the PRC has gone through a period of major development as well as administrative rectifications. These measures include control over pharmaceutical procurement process of hospitals by way of open tenders and adjustments on medicine price caps, etc. As a consequence, the market is getting more competitive and margins squeezed.

Despite the fierce market competition environment, the Group has been able to maintain its market position attributable to the superb quality and reputation of its products. In last year, we achieved a marginal pick-up in turnover with a slight increase in our gross margin.

The administrative measures of hospital and drug station purchases by way of open tenders has been strengthened from major provincial cities to much wider areas of smaller cities and rural areas in last year. These recent developments have brought us pressures on marketing and price adjustment ability. Nevertheless, we have allocated considerable resources to exploit new promotional channels and new customer groups.

Pushing the progress of the development of Oral Insulin remains as one of our major focus. The product is still in the process of further clinical trial. The production plant for Oral Insulin is currently under construction. Although the clinical trial stage is still carrying on, the management, however, is positive and optimistic to the future of this product.

It is the Group's strategy to increase its stake in prominent long term profitable business. During the year, significant administration costs were incurred to step up the acquisitions of our stake in Oral Insulin and to ensure our compliance of the Listing Rules. As these expenses were mostly one-off in nature, it is believed that there will not be significant effects on our future operations and our profitability in the long run.

We believe that changes always come along with opportunities. We are confident that Extrawell will be able to weather the storms and get well soon.

**Dr. Mao Yu Min**
*Chairman*

Hong Kong, 27 August 2008

# MANAGEMENT DISCUSSION AND ANALYSIS

## A. Business Review

### Overall Performance

The macro economic environment for the health care sector in the People's Republic of China (the "PRC") is in its expansion arms. However, in recent years, the PRC government has introduced a number of regulatory measures in the medical and pharmaceutical industries which caused competition and margin squeeze pressure to the Group. Thanks to our devoted marketing teams and loyal customers, we have achieved the turnover of about HK$165.1 million for 2008, marginally increased by approximately 4.0% from that of 2007 about HK$158.8 million.

The gross profit has also slightly increased by 6.8% from about HK$48.8 million for 2007 to about HK$52.1 million for 2008. The increase was due to the Group's costs control measures in our manufactured pharmaceutical sector which has effectively reduced unit costs of production. The profit margin therefore rose from 30.7% in 2007 to 31.6% in 2008.

The Group's higher selling and distribution expenses and administrative expenses have eroded our operating profit for the year ended 31 March 2008, resulted at a profit before tax of approximately HK$2.4 million, a decrease of approximately HK$6.9 million from that of approximately HK$9.3 million for the year ended 31 March 2007.

The Group's loss for the year attributable to shareholders was about HK$11.7 million, representing a decrease of about HK$21.0 million from that of 2007, resulting from the considerable income tax provision during 2008.

### Turnover and Operating Results

#### Imported Pharmaceutical Sector

Turnover for the imported pharmaceutical sector increased by 6.5% from about HK$115.5 million last year to about HK$123.0 million this year.

GM-1, which can re-establish functional recovery of central nervous system has remained one of the leading imported pharmaceutical products of the Group. Its major pharmaceutical indication is for vascular or traumatic lesions of central nervous system and Parkinson's disease. With its outstanding reputation and efficacy, it continues to enjoy remarkable market acceptance among medical practitioners. As the percentage of aged persons in the PRC increased, the demand on GM-1 remained high. During the year, Skin-cap Spray, an internationally renowned specialised drug for cases of psoriasis, dandruff, dermatitis, atopic dermatitis, eczema and some tinea, also achieved a significant increment in sales.

The increase in revenue has been offset by the increasing marketing expenses due to keen competition which resulted in a lower segment operating profit in 2008. Segment operating profit of Imported Pharmaceutical Sector was about HK$15.8 million for the year ended 31 March 2008, representing a decline of operating profit by 8.2% comparing to the segment results for the financial year ended 31 March 2007.

# A. Business Review (Continued)

## Turnover and Operating Results (Continued)

### Manufactured Pharmaceutical Sector

Our manufactured pharmaceutical sector recorded a total turnover of approximately HK$42.0 million during the year ended 31 March 2008, representing a marginal drop of 3.0% from that of approximately HK$43.3 million for the year ended 31 March 2007.

The recent regulatory controls over the medical industry which direct all nation hospitals to make purchases through open tenders posed significant challenges over the sales and marketing functions of the Group. Turnover of the Group was, therefore unavoidably affected. During the year, significant resources has been placed in our marketing and promotional activities in order to meet such challenges. Coupled with the increasing staff costs, the segment operating result of the Manufactured Pharmaceutical Sector recorded a loss of about HK$5.6 million this year, representing a decrease of about HK$6.7 million over segmental operating profit of about HK$1.1 million last year.

### Gene Development Sector

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

### Oral Insulin Sector

As we have not yet obtained the new medicine certificate, no revenue was generated in this sector during this year.

## Selling and Distribution Expenses

During the recent years, the PRC government has introduced a number of new regulatory policies on the medical and pharmaceutical industries that brought challenges on the existing marketing and distributing strategies of the Group. The Group is continuously exploring new sales channels and target markets. As a result, the marketing and distribution costs increased from about HK$14.4 million in 2007 to about HK$16.3 million in 2008. The increase was mainly due to increase in advertising costs and symposium expenses of approximately HK$1.9 million in total.

## Administrative Expenses

Administrative expenses of the Group increased during the year from about HK$26.7 million in 2007 to about HK$35.3 million in 2008 by approximately 32.2%.

During the year, the Group announced the acquisition of 49% in Smart Ascent Limited ("SAL"). Together with the 51% in SAL acquired in 2004, SAL will become a wholly owned subsidiary of the Company. Significant one-off legal and professional fees of around HK$5.0 million were incurred in order to deal with comments raised from The Stock Exchange of Hong Kong Limited in relation to these acquisitions of SAL and the Group's review of the internal controls.

## A. Business Review (Continued)

### Other Income and Impairment on Trade Receivables

Other income mainly comprised reversal of impairment losses and interest income. Other income decreased by about HK$1.4 million from about HK$10.5 million last year to about HK$9.1 million this year. It was due to a decrease in reversal of impairment losses by about HK$2.8 million comparing that of 2008 with 2007.

At the same time, impairment loss relating to trade receivables also decreased by about HK$3.3 million from about HK$8.7 million in 2007 to about HK$5.4 million in 2008. The decrease was due to tight control over the trade receivables which shortened the debtor collection period.

### Taxation

Taxation was provided based on the assessable profits of the Group using the existing tax rates. In 2008, there are new implementation rules against existing income tax regulations. Though there are no significant changes in the operations of the Group as compared with prior years, the Group, with the advices from tax experts, have prudently made additional provisions to migrate risks against uncertainties in applying the prevailing tax regulations.

## B. Outlook and New Products Development

### Progress of Development of Oral Insulin

Oral Insulin will remain as one of our business focus in the coming year. Further clinical trial is being proceeded. The production plant for Oral Insulin is under construction following the progress of the medicine. We take a positive and optimistic view on its future.

### New Products under Negotiation

We are performing market evaluation on the following products:

a. Epigen, an anti-viral product which is used for herpes infections.

b. Skin-cap Cream — It can be used in combination with our existing Skin-cap Spray resulting in a better therapeutic effect.

c. Certain Ophthalmic products including (1) lubricant eye drops for dryness, burning and ocular fatigue, (2) viscoelastic solution for use as a surgical aid in surgery of the anterior and posterior segments of the eye, and (3) Viscous masking and wetting solution used in excimer laser surgery and other surgical procedures.

All these products are provided by our existing suppliers. If market evaluation are positive, we may launch these products in the China market.

## 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 2008, the Group had total cash and bank balances (including pledged bank deposits) of about HK$90.4 million (2007: HK$86.5 million).

The Group had repaid all bank borrowings as at 31 March 2008 (2007 (Restated): HK$19.5 million 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$18.2 million (2007: HK$7.5 million) and corporate guarantees from the Company and certain subsidiaries of the Company. As at 31 March 2008, the Group had provided corporate guarantee amounted to approximately HK$38.0 million (2007: HK$38.0 million). The facilities granted is HK$29.0 million (2007: HK$27.0 million) and the amount utilized excluding the Letter of Credit outstanding is HK$8.5 million (2007: HK$9.9 million). The unutilized banking facilities amounted to approximately HK$20.5 million (2007: HK$17.1 million). All of the Group's borrowings at 31 March 2007 are denominated in United States dollars at effective interest rates ranging from 6.65% to 8.25% per annum. The borrowing are arranged at floating interest rate. There is no seasonality in borrowing requirements of the Group.

The Group's total borrowing over total assets ratio as at 31 March 2008 was 0.05 (2007 (Restated): 0.09), calculated based on the Group's total debts of about HK$32.4 million (2007 (Restated): HK$55.2 million), comprising amount due to a minority shareholder of about HK$32.4 million (2007 (Restated): bank borrowings of HK$19.5 million, amount due to a director of HK$3.3 million and amount due to a minority shareholder of HK$32.4 million) over the Group's total assets of about HK$619.6 million (2007 (Restated): HK$610.0 million).

### Currency Structure

The Group's business transactions, assets and liabilities are principally denominated in Hong Kong dollars, United States dollars and Renminbi. The Group had limited exposure to foreign exchange rate fluctuation except for United States dollars as Hong Kong dollars and Renminbi are the functional currencies of the Company and its subsidiaries. The exchange rates of these currencies were relatively stable throughout the year.

## D. Employment and Remuneration Policy

As at 31 March 2008, the Group had 387 employees (2007: 377). Staff costs (including directors' emoluments) for the year ended 31 March 2008 amounted to approximately HK$30.5 million (2007: approximately HK$28.3 million). The increase in staff costs was due to increase of headcount and also retirement benefit costs during 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.

## D. Employment and Remuneration Policy (Continued)

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 56)

**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 70)

**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 16 years' experience in the PRC and Asia business investment. He has more than 30 years' experiences in the manufacture and distribution of garment and general trading business. Mr. Ho is the father of Mr. Ho Yeong Fan, the Qualified Accountant of the Company. Mr. Ho has discloseable interests in the Company under the provisions of the SFO.

#### Mr. Ho Yu Ling (aged 54)

**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 26 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 54)

**Executive Director**

Mr. Li Qiang has nearly 26 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.

## Executive Directors (Continued)

### Dr. Xie Yi Ph.D. (aged 45)

**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 70)

**Independent Non-Executive Director**

Mr. Fang Lin Hu was a professor in Fudan University, ex-vice chancellor of the Fudan University overseeing technology industrialization and utilization matters. Mr. Fang was a member of 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 retired in 2000. Currently, he is the vice Chairman of the Shanghai Senior Professor Association and a Vice President of Shanghai Retired Education Workers Association. 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 joined the Group and was appointed as an independent non-executive director on 11 June 2001.

### Mr. Xue Jing Lun (aged 74)

**Independent Non-Executive Director**

Mr. Xue Jing Lun was 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. Mr. Xue retired in April 2007. 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 merits in 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 37)

**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 47)

**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 worked in a hospital of Sun Yat Sen University as the chief physician for ten years.

### Dr. Jiang Jian Yong Ph.D. (aged 52)

**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 51)

**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 College. He has nearly 16 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 38)

**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 41)

**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 worked in United Kingdom pharmaceutical company, Wellcome group in the PRC.

### Mr. Chan Lian Bang (aged 53)

**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 over 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 42)

**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 is 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 36)

**Senior Finance Manager**

Ms. Wu Hong, a qualified accountant in the PRC, joined the Group in 1995 and is responsible for all the financial matters in the PRC of the Group. She graduated from Jiangsu Television Broadcast University, majoring in Foreign Trading Accounting. Before joining the Group, she worked 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 2008, the Company has adopted and applied the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") save as disclosed below. 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. For all other board meetings, reasonable notice should be given. In addition, Code provision A6.1 stipulates that in respect of regular board meetings, and so far as practicable in all other cases, an agenda and accompanying board papers should be sent in full to all directors in a timely manner and at least 3 days before the intended date of a board or board committee meeting (or such other period as agreed). In these respects, the Company adopts a more feasible approach (and yet sufficient time has been given) in convening board meetings and the provision of meeting materials to ensure efficient and prompt informed 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 be subject to retirement by rotation at least once every three years. According to the bye-laws of the Company, one-third of the Directors shall retire from office by rotation provided that the Chairman, Deputy Chairman or managing Director shall not be subject to retirement by rotation. The Company's bye-laws deviate from the code provision. The Company 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 INEDs. 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 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 ended 31 March 2008, eleven board meetings, of which four were regular meetings, were held and the individual attendance of each director is set out as follows:

| Name of Directors | Number of attendance |
|---|---|
| Dr. Mao Yu Min | 10/11 |
| Mr. Ho Chin Hou | 9/11 |
| Mr. Ho Yu Ling | 11/11 |
| Mr. Li Qiang | 10/11 |
| Dr. Xie Yi | 8/11 |
| Mr. Fang Lin Hu | 9/11 |
| Mr. Xue Jing Lun | 9/11 |
| Ms. Jin Song | 6/11 |

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

## D. Chairman and Day-to-day Management

Dr. Mao Yu Min, the Chairman of the Company, is responsible for the management of the Board and Dr. Xie Yi 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.

As at 31 March 2008, members of the Remuneration Committee consisted of Mr. Fang Lin Hu (Chairman), Mr. Xue Jing Lun, Ms. Jin Song and Dr. Xie Yi (appointed on 20 December 2007). In line with good and fair practice, all INEDs are currently members of the Remuneration Committee.

During the year, two Remuneration Committee Meetings were held and the individual attendance of each director is set out 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 |
| Dr. Xie Yi (appointed on 20 December 2007) | 0/0 |

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 the remuneration policy and structure of the Directors and senior management which will take into account the prevailing market condition and the responsibility of individual members. The Remuneration Committee has approved the existing remuneration packages of the Directors.

## G. Auditors' Remuneration

The remuneration paid/payable to the auditors of the Company relating to audit services for the year ended 31 March 2008 amounted to approximately HK$1.9 million. The non-auditing services performed mainly comprised review of internal controls and acting as reporting accountants in discloseable transactions with the fees amounted to approximately HK$1.5 million, HK$1.3 million, respectively, were incurred for the year ended 31 March 2008.

## 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.

## H. Audit Committee (Continued)

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

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 auditor 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 comply 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 auditor's responsibility to form an independent opinion, based on its audit, on those financial statements and to report its opinion to the Company's shareholders.

In the independent auditor's report on pages 29 to 31, they have mentioned that there is uncertainty as to (i) the appropriateness of the classification of a party unrelated party in accordance with Hong Kong Accounting Standard 24 and the disclosure thereof; and (ii) the recoverability of the carrying value of a technological know-how (the "Know-how") in relation to an oral insulin product (the "Product") and exclusive right for the commercialisation of the Product owned by the Group and an other receivable owed by the vendors of the 51% interests of Smart Ascent Limited (which were acquired by the Group in the year ended 31 March 2005). The recoverability of the Know-how and the receivable depends upon the result of the clinical trials and the successful launching of the Product. Further clinical trial of the Product is still in progress up to the date of approval of these financial statements and the directors expect positive outcomes. The directors of the Company therefore considered no impairment provision against the carrying amount for the Know-how and receivable is necessary. Further details of the Know-how and the receivable are set out in the independent auditor's report and notes 18(a) and 21 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 lie 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.

During the year ended 31 March 2008, the Board, in response to the Code and the enquiry from the Stock Exchange in respect of the effectiveness of the Group's internal control systems, including its financial, operational and compliance controls and risk management functions in line with good corporate governance practices, (details of which are set out in the Company's announcement dated 31 October 2007), 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.

The Consultant has classified its findings into three levels of priority:

Class H: key control weaknesses potentially requiring immediate actions

Class M: deemed to be of a lesser importance but are still considered necessary for improving overall internal control and/or system of integrity, and hence, should be implemented in the medium term

Class L: good practice recommendations to improve overall internal control or efficiency

According to the Consultant's report, twenty-six findings were noted in which two were classified as Class H which indicated key control weaknesses. The Group has already completed the remedies as to these two findings during the year ended 31 March 2008.

The Audit Committee and the Board considered that the key areas of the Group's internal control systems are reasonably implemented, with room for improvements and circumstances no longer exist to suggest that there may be significant deficiencies in the internal control systems.

# 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 2008.

## 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 2008 are set out in the consolidated income statement on page 32.

The state of affairs of the Group as at 31 March 2008 is set out in the consolidated balance sheet on page 33. 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 16 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 28 to the financial statements. Information about share options and share option scheme of the Company is set out in the note 29 to the financial statements.

## Distributable Reserves

As at 31 March 2008, the reserves of the Company available for cash distribution and/or distribution in specie amounted to HK$59,776,000 as computed in accordance with the Bermuda Companies Act 1981. In addition, the Company's share premium account with a balance of HK$133,700,000 as at 31 March 2008 may be distributed in the form of fully paid bonus shares.

## Major Customers and Suppliers

For the year ended 31 March 2008, turnover attributable to the Group's five largest customers accounted for less than 30% of the Group's turnover.

For the year ended 31 March 2008, purchases attributable to the Group's five largest suppliers accounted for approximately 89.4% of the Group's purchases and purchases attributable to the Group's largest supplier accounted for approximately 70.3% 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 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

## Directors (Continued)

In accordance with the Company's bye-law 111, Messrs. Ho Yu Ling and Li Qiang will retire and not offer themselves for re-election at the forthcoming annual general meeting. 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

Except for disclosed in the financial statements, 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 2008, 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* | **Through controlled corporations** | **Percentage of the Company's issued share capital** |
| Mao Yu Min | (a) | 480,000,000 | 20.96% |
| Xie Yi | (a) | 480,000,000 | 20.96% |
| Ho Yu Ling | (b) | 52,000,000 | 2.27% |

*Notes:*

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

*The entire issued share capital of JNJ Investments is owned by Biowindow Gene Development (Hong Kong) Limited ("HK Biowindow"), the issued share capital of which is owned as to 99% by United Gene Group Ltd. (a company incorporated in the British Virgin Islands) ("United Gene Group"), 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 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.*

*(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.*

## Directors' Interests and Short Positions In Shares and Underlying Shares (Continued)

### 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 2008, 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 2008, 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 | *Notes* | Capacity and nature of interest | Number of shares held | Approximate percentage of interests held |
|---|---|---|---|---|
| Ease Gold Investments Limited | a | Through controlled corporations | 480,000,000 | 20.96% |
| United Gene-BVI | a | Through controlled corporations | 480,000,000 | 20.96% |
| United Gene Group Ltd. | a | Through controlled corporations | 480,000,000 | 20.96% |
| HK Biowindow | a | Through controlled corporations | 480,000,000 | 20.96% |
| JNJ Investments | a | Directly beneficially owned | 450,000,000 | 19.65% |
| Ong Cheng Heang | b | Directly beneficially interested | 300,000,000 | 13.10% |

*Notes:*

a. *JNJ Investments and FPL own 450,000,000 and 30,000,000 ordinary shares of the Company, respectively.*

*The entire issued share capital of JNJ Investments is owned by HK Biowindow, the issued share capital of which is owned as to 99% by United Gene Group, as to 0.99% by United Gene-PRC and as to 0.01% by Shanghai Biowindow.*

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

b. *Mr. Ong Cheng Heang is interested in the 300,000,000 shares ("New Shares") which are the new shares of the Company to be allotted and issued to him pursuant to a conditional sale and purchase agreement entered into between Extrawell (BVI) Limited and the vendor on 27 July 2007 in connection with the proposed acquisition of the 4,900 ordinary shares in Smart Ascent Limited by a subsidiary of the Company from Mr. Ong Cheng Heang, the son-in-law of a Director, Mr. Ho Chin Hou. The New Shares have not been issued up to date of this report.*

Save as disclosed above, as at 31 March 2008, 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

On 27 July 2007, the Group has entered into a contract with the minority shareholder of Smart Ascent Limited ("SAL") (a 51% owned subsidiary of the Company), being a son-in-law of a director of the Company, to acquire the remaining 49% interests in SAL. The transaction constituted a connected transaction under the Rules Governing Listing of Securities (the "Listing Rules") on the Stock Exchange. Further details of the significant connected and related party transactions and directors' interest in contracts for the year are set out in notes 31(c) and 33 to the financial statements in compliance with the disclosure requirements of Listing Rules.

## 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 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 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 2008 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.

## Independent Auditor

HLB Hodgson Impey Cheng were appointed as the independent auditor of the Company in succession to Ernst & Young who resigned from the office with effect from 22 March 2006. On 29 April 2008, the directors of the Company received a resignation letter dated 21 April 2008 from HLB Hodgson Impey Cheng who resigned as the independent auditor of the Company. On 30 April 2008, RSM Nelson Wheeler were appointed as the independent auditor of the Company in succession to HLB Hodgson Impey Cheng.

The financial statements for the year were audited by RSM Nelson Wheeler, who will retire and, being eligible, offer themselves for re-appointment as auditor of the Company at the forthcoming annual general meeting. Save as disclosed above, there was no change in the Company's auditor during the past three years.

On behalf of the Board

**Dr. Mao Yu Min**
*Chairman*

Hong Kong, 27 August 2008

RSM! Nelson Wheeler
中瑞岳華(香港)會計師事務所
Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF**
**EXTRAWELL PHARMACEUTICAL HOLDINGS LIMITED**
*(Incorporated in Bermuda with limited liability)*

We were engaged to audit the consolidated financial statements of Extrawell Pharmaceutical Holdings Limited set out on pages 32 to 75, which comprise the consolidated balance sheet as at 31 March 2008, and the consolidated income statement, consolidated statement of changes in equity and 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 (the "HKICPA") 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.

## Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except for the limitation in the scope of our work as described in the basis for disclaimer of opinion paragraphs, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. 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. However, because of the matters described in the basis for disclaimer of opinion paragraphs, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

## Basis for Disclaimer of Opinion

(a) During the year ended 31 March 2008, the Group had the following significant transactions with 廣東精優惠南醫藥有限公司 ("Domestic Company"), a company established in the People's Republic of China (the "PRC"):

(i) The Domestic Company handled the Group's certain trading transactions in the PRC and the amount of the Group's sales handled by the Domestic Company during the year ended 31 March 2008 was approximately HK$123 million (2007: HK$115 million).

(ii) The Group paid approximately RMB3 million (2007: RMB5 million) and RMB20 million (2007: RMB19 million) to the Domestic Company which acknowledged that it had paid the equivalent amounts to certain customers on behalf of the Group as sales discount and promotion expenses, respectively.

(iii) The Domestic Company had indemnified the Group for the possible PRC tax liabilities in relation to the sales transactions mentioned in (i) above.

In addition, included in trade receivables as at 31 March 2008 is an amount of approximately RMB744,000 (2007: RMB937,000) due from the Domestic Company.

However, we are unable to assess the appropriateness of the classification of the Domestic Company as an unrelated party in accordance with Hong Kong Accounting Standard 24 "Related Party Disclosures" ("HKAS 24"). Should the Domestic Company be classified as a related party in accordance to HKAS 24, the transactions between the Group and the Domestic Company for the years ended 31 March 2008 and 2007 and the outstanding balance due from the Domestic Company as at 31 March 2008 and 2007 mentioned above should be disclosed in the financial statements.

(b) As set out in note 18(a) to the financial statements, included in the intangible assets as at 31 March 2008 is the technological know-how with carrying value of approximately HK$284,260,000 (2007: HK$284,260,000) ("Know-how") in relation to an oral insulin product ("Product") and the exclusive right for the commercialisation of the Product owned by the Group. 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") who are the respective son-in-law and daughter-in-law of a director of Company, Mr. Ho Chin Hou. In addition, as set out in note 21 to the financial statements, included in other receivables as at 31 March 2008 is a receivable with carrying amount of approximately HK$31,780,000 (2007: HK$31,780,000) ("Receivable") owed by the Vendors to the Group. The Receivable is secured on the remaining 49% equity interest in Smart Ascent. As further set out in notes 18(a) and 21, the recoverability of the carrying values of the Know-how and the Receivable depends upon the result of the clinical trials and the successful launching of the Product, the outcome of which is currently uncertain. The financial statements do not include any adjustments that may be necessary should the clinical trials or the launching of the Product be unsuccessful. We consider that the significant uncertainty has been adequately disclosed in the financial statements. However, in view of the extent of the significant uncertainty, we disclaim our opinion in respect of the carrying values of the Know-how and the Receivable as at 31 March 2008 and 2007.

Any adjustments to the above figures might have a significant consequential effect on the Group's results for the years ended 31 March 2008 and 2007 and net assets of the Group as at 31 March 2008 and 2007.

## Disclaimer of Opinion: Disclaimer on View Given by Financial Statements

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of the affairs of the Group as at 31 March 2008 and of the Group's results and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**RSM Nelson Wheeler**
*Certified Public Accountants*
Hong Kong

27 August 2008

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2008

| | Note | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|---|
| **Turnover** | 6 | **165,079** | 158,763 |
| Cost of sales | | **(113,004)** | (109,996) |
| **Gross profit** | | **52,075** | 48,767 |
| Other income | 7 | **9,111** | 10,513 |
| Selling and distribution expenses | | **(16,324)** | (14,436) |
| Administrative expenses | | **(35,295)** | (26,656) |
| Impairment on intangible assets | | **(1,600)** | — |
| Impairment on trade receivables | | **(5,410)** | (8,688) |
| **Profit from operations** | | **2,557** | 9,500 |
| Finance costs | 9 | **(164)** | (197) |
| **Profit before tax** | | **2,393** | 9,303 |
| Income tax expense | 10 | **(15,728)** | (369) |
| **(Loss)/Profit for the year** | 11 | **(13,335)** | 8,934 |
| **Attributable to:** | | | |
| Equity holders of the Company | | **(11,735)** | 9,336 |
| Minority interests | | **(1,600)** | (402) |
| | | **(13,335)** | 8,934 |
| | | **HK cents** | HK cents |
| **(Loss)/Earnings per share** | 15 | | |
| Basic | | **(0.51)** | 0.41 |
| Diluted | | **N/A** | N/A |

# CONSOLIDATED BALANCE SHEET

At 31 March 2008

| | Note | 2008 HK$'000 | 2007 HK$'000 (Restated) |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 16 | **53,854** | 55,384 |
| Prepaid land lease payments | 17 | **14,251** | 13,977 |
| Intangible assets | 18 | **285,782** | 287,722 |
| | | **353,887** | 357,083 |
| **Current assets** | | | |
| Inventories | 19 | **18,639** | 12,453 |
| Trade receivables | 20 | **97,948** | 98,571 |
| Deposits, prepayments and other receivables | 21 | **58,697** | 55,372 |
| Amounts due from minority shareholders | 22 | **8** | 8 |
| Pledged bank deposits | 23 | **18,160** | 7,532 |
| Bank and cash balances | 23 | **72,234** | 78,969 |
| | | **265,686** | 252,905 |
| **Current liabilities** | | | |
| Trade and bills payables | 24 | **13,023** | 9,657 |
| Accruals and other payables | | **44,513** | 26,911 |
| Interest-bearing borrowings — secured | 25 | **—** | 19,542 |
| Amount due to a director | 26 | **—** | 3,257 |
| Amount due to a minority shareholder | 26 | **32,404** | 32,404 |
| Current tax liabilities | | **16,654** | 1,631 |
| | | **106,594** | 93,402 |
| **Net current assets** | | **159,092** | 159,503 |
| **Total assets less current liabilities** | | **512,979** | 516,586 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 27 | **102** | 102 |
| **NET ASSETS** | | **512,877** | 516,484 |
| **Capital and reserves** | | | |
| Share capital | 28 | **22,900** | 22,900 |
| Reserves | | **274,020** | 276,019 |
| Equity attributable to equity holders of the Company | | **296,920** | 298,919 |
| Minority interests | | **215,957** | 217,565 |
| **TOTAL EQUITY** | | **512,877** | 516,484 |

Approved by the Board of Directors on 27 August 2008

| | |
|---|---|
| **Mao Yu Min** | **Xie Yi** |
| *Director* | *Director* |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2008

| | Attributable to the equity holders of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Share capital** HK$'000 | **Share premium** HK$'000 *(note a)* | **Capital reserve** HK$'000 *(note b)* | **Contributed surplus** HK$'000 *(note c)* | **Foreign currency translation reserve** HK$'000 *(note d)* | **Retained earnings** HK$'000 | **Total** HK$'000 | **Minority interests** HK$'000 | **Total equity** HK$'000 |
| At 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 |
| Net income recognised directly in equity | — | — | — | — | 8,922 | — | 8,922 | 11 | 8,933 |
| Profit/(Loss) for the year | — | — | — | — | — | 9,336 | 9,336 | (402) | 8,934 |
| Total recognised income and expense for the year | — | — | — | — | 8,922 | 9,336 | 18,258 | (391) | 17,867 |
| Dividend paid to minority shareholders | — | — | — | — | — | — | — | (2,151) | (2,151) |
| Transfer to capital reserve | — | — | 87 | — | — | (87) | — | — | — |
| At 31 March 2007 and 1 April 2007 | 22,900 | 133,717 | 4,563 | 4,839 | 12,045 | 120,855 | 298,919 | 217,565 | 516,484 |
| Exchange differences | — | — | — | — | 9,736 | — | 9,736 | (8) | 9,728 |
| Net income/(expense) recognised directly in equity | — | — | — | — | 9,736 | — | 9,736 | (8) | 9,728 |
| Loss for the year | — | — | — | — | — | (11,735) | (11,735) | (1,600) | (13,335) |
| Total recognised income and expense for the year | — | — | — | — | 9,736 | (11,735) | (1,999) | (1,608) | (3,607) |
| Transfer to capital reserve | — | — | 956 | — | — | (956) | — | — | — |
| At 31 March 2008 | 22,900 | 133,717 | 5,519 | 4,839 | 21,781 | 108,164 | 296,920 | 215,957 | 512,877 |

*Notes:*

(a) *Under the Companies Act 1981 of Bermuda, the funds in the share premium account are distributable in the form of fully paid bonus shares.*

(b) *In accordance with the relevant regulations in the People's Republic of China (the "PRC"), all of the Company'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.*

(c) *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.*

(d) *The foreign currency translation reserve comprises all foreign exchange difference arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with accounting policies set out in note 3(c)(iii) to the financial statements.*

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2008

| | Note | 2008<br>HK$'000 | 2007<br>HK$'000<br>(Restated) |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit before tax | | **2,393** | 9,303 |
| Adjustments for: | | | |
| Allowance for obsolete inventories | | **510** | 368 |
| Amortisation of intangible assets | | **554** | 751 |
| Amortisation of prepaid land lease payments | | **490** | 472 |
| Depreciation | | **4,681** | 4,539 |
| Gain on disposal of a subsidiary | | **—** | (9) |
| Impairment on trade receivables | | **5,410** | 8,688 |
| Impairment on intangible assets | | **1,600** | — |
| Loss on disposal of property, plant and equipment | | **—** | 42 |
| Write off of property, plant and equipment | | **340** | — |
| Reversal of impairment on other receivables | | **—** | (1,011) |
| Reversal of impairment on trade receivables | | **(5,761)** | (7,545) |
| Finance costs | | **164** | 197 |
| Interest income | | **(2,841)** | (1,789) |
| Operating profit before working capital changes | | **7,540** | 14,006 |
| (Increase)/Decrease in inventories | | **(6,696)** | 1,946 |
| Increase in trade receivables | | **(16,110)** | (14,332) |
| (Increase)/Decrease in deposits, prepayments and other receivables | | **(3,325)** | 2,490 |
| Increase in trade and bills payables | | **3,366** | 1,334 |
| Increase in accruals and other payables | | **17,602** | 3,452 |
| Cash generated from operations | | **2,377** | 8,896 |
| Income tax paid | | **(705)** | (379) |
| Interest received | | **2,841** | 1,789 |
| Interest paid | | **(164)** | (197) |
| Net cash generated from operating activities | | **4,349** | 10,109 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchases of property, plant and equipment | | **(287)** | (588) |
| Purchases of intangible assets | | **(11)** | (193) |
| Net proceeds from disposal of a subsidiary | 30 | **—** | 9 |
| Increase in pledged bank deposits | | **(10,628)** | (270) |
| Net cash used in investing activities | | **(10,926)** | (1,042) |

For the year ended 31 March 2008

| | 2008<br>HK$'000 | 2007<br>HK$'000<br>(Restated) |
|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Decrease in trust receipts loans | **(3,543)** | (1,087) |
| Increase in other bank loans | **—** | 15,999 |
| (Repayment to)/Loan from a director | **(3,257)** | 3,257 |
| Dividend paid to minority shareholders | **—** | (2,151) |
| Net cash (used in)/generated from financing activities | **(6,800)** | 16,018 |
| **NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS** | **(13,377)** | 25,085 |
| Effect on foreign exchange rate changes | **6,642** | 6,182 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **78,969** | 47,702 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | **72,234** | 78,969 |
| **ANALYSIS OF THE CASH AND CASH EQUIVALENTS** | | |
| Bank and cash balances | **72,234** | 78,969 |

## 1. General Information

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

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 31 to the financial statements.

## 2. Adoption of New and Revised Hong Kong Financial Reporting Standards

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for its accounting year beginning on 1 April 2007. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the current year and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its result of operations and financial position.

## 3. Significant Accounting Policies

These financial statements have been prepared in accordance with HKFRSs, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these financial statements, are disclosed in note 4 to the financial statements.

The significant accounting policies applied in the preparation of these financial statements are set out below.

## 3. Significant Accounting Policies (Continued)

### (a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 March. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

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

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill relating to the subsidiary which was not previously charged or recognised in the consolidated income statement and also any related accumulated foreign currency translation reserve.

Inter-company transactions, balances and unrealised profits on transactions between Group companies are eliminated. 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.

Minority interests represent the interests of minority shareholders in the operating results and net assets of subsidiaries. Minority interests are presented in the consolidated balance sheet and consolidated statement of changes in equity within equity. Minority interests are presented in the consolidated income statement as an allocation of profit or loss for the year between minority and shareholders of the Company. Losses applicable to the minority in excess of the minority's interests in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the interests of the Group until the minority's share of losses previously absorbed by the Group has been recovered.

### (b) Business combination and goodwill

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, liabilities and contingent liabilities of the subsidiary in an acquisition are measured at their fair values at the acquisition date.

The excess of the cost of acquisition over the Group's share of the net fair value of the subsidiary's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised in the consolidated income statement.

## 3. Significant Accounting Policies (Continued)

### (b) Business combination and goodwill (Continued)

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses of goodwill are recognised in the consolidated income statement and are not subsequently reversed. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

The interests of minority shareholders in the subsidiary is initially measured at the minority's proportion of the net fair value of the subsidiary's identifiable assets, liabilities and contingent liabilities at the acquisition date.

### (c) Foreign currency translation

#### (i) Functional and presentation currency

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

#### (ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates ruling on the balance sheet date. Profits and losses resulting from this translation policy are included in the income statement.

#### (iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

— Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

— 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 exchange rates on the transaction dates); and

— All resulting exchange differences are recognised in the foreign currency translation reserve.

## 3. Significant Accounting Policies (Continued)

### (c) Foreign currency translation (Continued)

#### (iii) Translation on consolidation (Continued)

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in the consolidated income statement as part of the profit or loss on disposal.

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.

### (d) Property, plant and equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal useful lives and annual rates are as follows:

| | |
|---|---|
| Buildings | Over the lease terms of the relevant leasehold land |
| Plant and machinery | 10% to 20% |
| Furniture, fixtures and equipment | 10% to 30% |
| Motor vehicles | 20% |

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each balance sheet date.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

## 3. Significant Accounting Policies (Continued)

### (e) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the lease term.

### (f) Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally generated intangible asset arising from the Group's products development is recognised only if all of the following conditions are met:

— An asset is created that can be identified (such as software and new processes);

— It is probable that the asset created will generate future economic benefits; and

— The development cost of the asset can be measured reliably.

Internally generated intangible assets are measured initially at cost and are amortised on a straight-line basis over their estimated useful lives. Where no internally generated intangible asset can be recognised, development expenditure is charged to the income statement in the period in which it is incurred.

### (g) Intangible assets

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

#### Technological know-how

This category consists of rights to technological know-how for the development and production of general pharmaceutical products, and rights for development and commercialisation of an oral insulin product. The intangible assets relating to the general pharmaceutical products are amortised on a straight-line basis over the estimated economic lives from seven to fourteen years commencing in the year when the rights are available for use. The intangible assets relating to the oral insulin product are not amortised as the rights are not yet available for use.

#### Gene invention rights

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

## 3. Significant Accounting Policies (Continued)

### (h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

### (i) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the balance sheet when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in the income statement.

Financial liabilities are derecognised 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 is recognised in the income statement.

### (j) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance 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 allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in the income statement.

Impairment losses are reversed in subsequent periods and recognised in the income statement when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

## 3. Significant Accounting Policies (Continued)

### (k) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

### (l) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. 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 for specific financial liabilities and equity instruments are set out below.

#### Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

#### Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

#### Equity instruments

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

## 3. Significant Accounting Policies (Continued)

### (m) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Revenue from the sales of goods is recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

Interest income is recognised on a time-proportion basis using the effective interest method.

### (n) Employee benefits

#### (i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

#### (ii) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the income statement represents contributions payable by the Group to the funds.

#### (iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

### (o) Borrowing costs

All borrowing costs are recognised in the income statement in the period in which they are incurred.

## 3. Significant Accounting Policies (Continued)

### (p) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts 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 differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in 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 investments in subsidiaries 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 is realised, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

## 3. Significant Accounting Policies (Continued)

### (q) Related parties

A party is related to the Group if:

(i) directly or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;

(ii) the party is an associate;

(iii) the party is a joint venture;

(iv) the party is a member of the key management personnel of the Company or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

### (r) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products and 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 segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Segment revenue, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to the segment. Unallocated costs mainly represent corporate expenses. Segment assets consist primarily of property, plant and equipment, intangible assets, inventories and trade receivables. Segment liabilities comprise operating liabilities and exclude items such as tax liabilities and corporate borrowings.

Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment.

## 3. Significant Accounting Policies (Continued)

### (r) Segment reporting (Continued)

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

### (s) Impairment of assets

Intangible assets that have an indefinite useful life or not yet available for use are reviewed annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable.

At each balance sheet date, the Group reviews the carrying amounts of its tangible and other intangible assets except inventories and receivables 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 any impairment loss. 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 that 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 or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or 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 (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

## 3. Significant Accounting Policies (Continued)

### (t) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow is remote.

### (u) Events after the balance sheet date

Events after the balance sheet date that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the balance sheet date that are not adjusting events are disclosed in the notes to the financial statements when material.

## 4. Key Sources of Estimation Uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, 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

The Group performs annual tests of impairment on intangible assets in respect of the oral insulin product with carrying amount of approximately HK$284,260,000 (2007: 284,260,000) which is not yet available for use. It also performs impairment review on the intangible assets in respect of the general pharmaceutical products with carrying amount of approximately HK$1,522,000 (2007: HK$3,462,000) whenever there are indications that these assets have suffered from impairment losses. 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. Where the actual outcome in future is different from the original estimates, such difference will impact the carrying value of the intangible assets and the impairment on intangible assets in the year in which such estimate has been changed.

## 4. Key Sources of Estimation Uncertainty (Continued)

### (b) Impairment loss for bad and doubtful debts

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed.

### (c) Property, plant and equipment and depreciation

The Group determines the estimated useful lives and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives are different to those previously estimated, or it will write-off or write-down technologically obsolete or non-strategic assets that have been abandoned or sold.

### (d) Allowance for slow-moving and obsolete inventories

Allowance for slow-moving and obsolete inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in future is different from the original estimate, such difference will impact the carrying value of inventories and allowance charge/write-back in the period in which such estimate has been changed.

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 of manufacturing and selling products of similar nature. It could change significantly as a result of change in market condition. The Group will reassess the estimates by each balance sheet date.

### (e) Income taxes

The Group is subject to income taxes in several jurisdictions. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

## 5. Financial Risk Management

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and 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.

### (a) Foreign currency risk

The Group's business transactions, assets and liabilities are principally denominated in Hong Kong dollars, United States dollars and Renminbi. The Group's exposure to foreign currency risk is minimal except for United States dollars, as Hong Kong dollars and Renminbi are the functional currencies of the Company and its subsidiaries. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities but the management will monitor the foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

At 31 March 2008, if the Hong Kong dollars had strengthened/weakened 1 per cent against the United Stated dollars with all other variables held constant, consolidated loss for the year would have been approximately HK$430,000 higher/lower (2007: consolidated profit for the year would have been approximately HK$415,000 lower/higher), arising mainly as a result of the foreign exchange loss/gain on bank and cash balances, but partly offset by the foreign exchange gain/loss on bills payables.

### (b) Credit risk

The carrying amount of the pledged bank deposits, bank and cash balances and trade and other receivables included in the balance sheet represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

The credit risk on pledged bank deposits and bank and cash balance is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history. The exposure to these credit risks are monitored on an ongoing basis. The percentage of trade receivables due from the Group's largest trade debtor and due from the Group's five largest trade debtors in aggregate to the Group's total trade receivables are as follows:

| | **2008**<br>**%** | 2007<br>% |
|---|---|---|
| Due from the Group's largest trade debtor | **15.6** | 9.0 |
| Due from the Group's five largest trade debtors | **32.8** | 25.5 |

The credit risk of the other receivables is further detailed in note 21 to the financial statements.

## 5. Financial Risk Management (Continued)

### (c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity analysis of the Group's financial liabilities is as follows:

| | **Less than 1 year** HK$'000 | **Between 1 and 2 years** HK$'000 | **Between 2 and 5 years** HK$'000 | **Over 5 years** HK$'000 |
|---|---|---|---|---|
| **At 31 March 2008** | | | | |
| Trade and bills payables | 13,023 | — | — | — |
| Accruals and other payables | 44,513 | — | — | — |
| Amount due to a minority shareholder | 32,404 | — | — | — |
| **At 31 March 2007** | | | | |
| Trade and bills payables | 9,657 | — | — | — |
| Accruals and other payables | 26,911 | — | — | — |
| Interest bearing borrowings — secured | 19,619 | — | — | — |
| Amount due to a director | 3,257 | — | — | — |
| Amount due to a minority shareholder | 32,404 | — | — | — |

### (d) Interest rate risk

The Group's exposure to interest-rate risk arises from its bank deposits and borrowings. These bank deposits and borrowings bear interests at variable rates varied with the then prevailing market condition.

The Group currently does not have an interest rate hedging policy and will consider hedging significant interest rate exposure should the need arise.

At 31 March 2008, if interest rates at that date had been 100 basis points higher/lower with all other variables held constant, consolidated loss for the year would have been approximately HK$825,000 lower/higher (2007: consolidated profit for the year would have been approximately HK$786,000 higher/lower), arising mainly as a result of higher/lower interest income on bank deposits.

### (e) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated balance sheet approximate their respective fair values.

## 6. Turnover

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Manufacturing of pharmaceutical products | **42,049** | 43,275 |
| Trading of pharmaceutical products | **123,030** | 115,488 |
| | **165,079** | 158,763 |

## 7. Other Income

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Exchange gain | **—** | 124 |
| Gain on disposal of a subsidiary | **—** | 9 |
| Interest income | **2,841** | 1,789 |
| Reversal of impairment on other receivables | **—** | 1,011 |
| Reversal of impairment on trade receivables (note 20(b)) | **5,761** | 7,545 |
| Sundry income | **509** | 35 |
| | **9,111** | 10,513 |

## 8. Segment Information

Detailed segment information is presented by way of the Group's primary segment reporting basis, which is by business segment. No further geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in the PRC, and over 90% of the Group's assets and capital expenditures are located in the PRC.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products they provide. Each of the Group's business segments represents a strategic business unit that offers products which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the manufacturing segment engages in the development, manufacture and sales of pharmaceutical products;

(b) the trading segment engages in the marketing and distribution of imported pharmaceutical products;

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

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

# 8. 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 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 HK$'000 | 2007 HK$'000 | 2008 HK$'000 | 2007 HK$'000 (Restated) | 2008 HK$'000 | 2007 HK$'000 | 2008 HK$'000 | 2007 HK$'000 | 2008 HK$'000 | 2007 HK$'000 (Restated) |
| Segment revenue | | | | | | | | | | |
| Sales to external customers | 42,049 | 43,275 | 123,030 | 115,488 | — | — | — | — | 165,079 | 158,763 |
| Segment results | (5,600) | 1,121 | 15,773 | 17,175 | (186) | (232) | (1,621) | (213) | 8,366 | 17,851 |
| Interest income | | | | | | | | | 2,841 | 1,789 |
| Net unallocated expenses | | | | | | | | | (8,650) | (10,140) |
| Profit from operations | | | | | | | | | 2,557 | 9,500 |
| Finance costs | | | | | | | | | (164) | (197) |
| Profit before tax | | | | | | | | | 2,393 | 9,303 |
| Income tax expense | | | | | | | | | (15,728) | (369) |
| (Loss)/Profit for the year | | | | | | | | | (13,335) | 8,934 |
| Segment assets | 145,063 | 131,920 | 122,977 | 138,669 | 5 | 6 | 285,985 | 285,988 | 554,030 | 556,583 |
| Unallocated assets | | | | | | | | | 65,543 | 53,405 |
| Total assets | | | | | | | | | 619,573 | 609,988 |
| Segment liabilities | 13,243 | 9,572 | 54,906 | 46,301 | 106 | 67 | 1,185 | 827 | 69,440 | 56,767 |
| Unallocated liabilities | | | | | | | | | 37,256 | 36,737 |
| Total liabilities | | | | | | | | | 106,696 | 93,504 |
| Other segment information: | | | | | | | | | | |
| Capital expenditure | 177 | 671 | 76 | 71 | — | — | — | — | 253 | 742 |
| Unallocated capital expenditure | | | | | | | | | 45 | 39 |
| | | | | | | | | | 298 | 781 |
| Depreciation and amortisation | 5,015 | 5,028 | 486 | 513 | — | — | — | — | 5,501 | 5,541 |
| Unallocated depreciation and amortisation | | | | | | | | | 224 | 221 |
| | | | | | | | | | 5,725 | 5,762 |
| Other non-cash expenses, other than depreciation and amortisation: Impairment on intangible assets | 1,600 | — | — | — | — | — | — | — | 1,600 | — |
| Impairment on trade receivables | 5,250 | 8,390 | 160 | 298 | — | — | — | — | 5,410 | 8,688 |
| Allowance for obsolete inventories | 510 | 368 | — | — | — | — | — | — | 510 | 368 |
| Write off of property, plant and equipment | 273 | — | 67 | — | — | — | — | — | 340 | — |

## 9. Finance Costs

| | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|
| Bank loan interests | 164 | 197 |

## 10. Income Tax Expense

| | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|
| Current tax — Hong Kong Profits Tax | | |
| Provision for the year | 120 | 120 |
| Under/(Over)-provision in prior years | 83 | (299) |
| Current tax — Tax other than Hong Kong Profits Tax | | |
| Provision for the year | 15,525 | 548 |
| | 15,728 | 369 |

Hong Kong Profits Tax has been provided at the rate of 17.5% (2007: 17.5%) on the estimated assessable profits for the year ended 31 March 2008. Tax charges on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Under the PRC tax law foreign investment enterprises established or operated in the PRC are subject to Corporate Income Tax at a rate of 30% plus a local income tax of 3% before 2008. However, since the Company's two subsidiaries established in the PRC are operating in specific development zones in the PRC, the relevant tax authorities have granted a preferential Corporate Income Tax rate of 15% plus a local income tax rate of 3% to the subsidiaries established in the PRC.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC (the "New Tax Law") which has taken effect since 1 January 2008. In December 2007, the Implementation Rules of the Corporate Income Tax Law of the PRC and Guo Fa [2007] No. 39 were promulgated to specify certain implementation details and grandfathering arrangements of the New Tax Law. As a result of the New Tax Law, the Company's subsidiaries in the PRC are subject to a unified tax rate of 25% starting from 1 January 2008.

## 10. Income Tax Expense (Continued)

Pursuant to the Implementation Rules of the Corporate Income Tax Law, a 10% withholding tax will be levied on dividends declared to foreign investors by the PRC enterprises effective from 1 January 2008. A lower withholding tax rate may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign investors. On 22 February 2008, Caishui (2008) No. 1 was promulgated by the Ministry of Finance and State Administration of Taxation to specify that dividends declared and remitted out of the PRC after 31 December 2007 from the retained earnings accumulated before 1 January 2008 are exempted from the withholding tax. No provision of deferred tax liabilities in relation to the withholding tax has been made as the directors regard that the relevant liabilities as at 31 March 2008 is minimal.

The reconciliation between the income tax expense and the product of profit before tax multiplied by the statutory tax rates for the jurisdictions in which the Company and its subsidiaries domiciled is as follows:

| | **2008**<br>**HK$'000** | 2007<br>HK$'000 |
|---|---|---|
| Profit before tax | **2,393** | 9,303 |
| Tax at the statutory tax rates applicable to the respective tax jurisdictions | **2,050** | (1,772) |
| Preferential statutory rate offered | **58** | 408 |
| Tax effect on expenses not deductible | **13,797** | 4,634 |
| Tax effect on income not taxable | **(272)** | (2,901) |
| Tax effect of temporary differences not recognised | **5** | — |
| Under-provision in prior years | **83** | — |
| Over-provision in current year | **7** | — |
| Income tax expense | **15,728** | 369 |

## 11. (Loss)/Profit for the Year

The Group's (loss)/profit for the year has been arrived at after charging:

| | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|
| Allowance for obsolete inventories (included in cost of inventories sold) | 510 | 368 |
| Amortisation of intangible assets (included in administrative expenses) | 554 | 751 |
| Auditor's remuneration | 2,022 | 630 |
| Cost of inventories sold | 113,004 | 109,996 |
| Depreciation of property, plant and equipment | 4,681 | 4,539 |
| Exchange loss | 448 | — |
| Loss on disposal of property, plant and equipment | — | 42 |
| Operating lease charges in respect of land and buildings | 2,178 | 2,141 |
| Research and development costs | 130 | 185 |
| Staff costs including directors' emoluments | | |
| Salaries, bonus and allowances | 28,522 | 26,922 |
| Retirement benefits scheme contributions | 1,939 | 1,367 |
| | 30,461 | 28,289 |
| Write off of property, plant and equipment | 340 | — |

*Note: Cost of inventories sold includes staff costs, depreciation and operating lease charges of approximately HK$6,544,000 (2007: HK$5,985,000) which are included in the amounts disclosed separately above.*

## 12. Directors' Emoluments and the Five Highest Paid Individuals

| | Fee | | Salaries, bonus and Other benefits | | Pension scheme contributions | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2008 HK$'000** | 2007 HK$'000 | **2008 HK$'000** | 2007 HK$'000 | **2008 HK$'000** | 2007 HK$'000 | **2008 HK$'000** | 2007 HK$'000 |
| **Name of directors** | | | | | | | | |
| 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 | **681** | 639 | **—** | — | **701** | 659 |
| Xie Yi | **20** | 20 | **520** | 489 | **—** | — | **540** | 509 |
| Fang Lin Hu | **20** | 20 | **—** | — | **—** | — | **20** | 20 |
| Xue Jing Lun | **20** | 20 | **—** | — | **—** | — | **20** | 20 |
| Jin Song | **20** | 20 | **—** | — | **—** | — | **20** | 20 |
| | **160** | 160 | **4,126** | 4,053 | **12** | 12 | **4,298** | 4,225 |

The five highest paid individuals in the Group during the year included five (2007: five) directors whose emoluments are reflected in the analysis presented above.

Emoluments of those individuals were within the following bands:

| | **2008** | 2007 |
|---|---|---|
| Nil to HK$1,000,000 | **4** | 4 |
| HK$1,000,001 to HK$1,500,000 | **1** | 1 |
| | **5** | 5 |

During the year, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived or agreed to waive any emolument during the year.

## 13. Retirement Benefit Scheme

With effective from 1 December 2000, the Group has joined a mandatory provident fund scheme (the "MPF Scheme") for all qualifying employees in Hong Kong. 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.

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 salaries of its employees, to the retirement benefit scheme and have no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions.

## 14. Dividends

The directors do not recommend the payment of any dividend in respect of the year ended 31 March 2008 (2007: HK$Nil).

## 15. (Loss)/Earnings Per Share

The calculation of the basic (loss)/earnings per share is based on the loss attributable to the Company's equity holders of approximately HK$11,735,000 (2007: profit attributable to the Company's equity holders of approximately HK$9,336,000) and on 2,290,000,000 (2007: 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 2008 and 2007 and accordingly, no diluted (loss)/earnings per share have been presented.

## 16. Property, Plant and Equipment

| | Buildings HK$'000 | Plant and machinery HK$'000 | Furniture, fixtures and equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| 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 and 1 April 2007 | 57,908 | 25,974 | 6,693 | 4,147 | 94,722 |
| Additions | — | 34 | 253 | — | 287 |
| Write off | (33) | (2,297) | (618) | — | (2,948) |
| Exchange alignments | 3,038 | 1,603 | 253 | 228 | 5,122 |
| At 31 March 2008 | 60,913 | 25,314 | 6,581 | 4,375 | 97,183 |
| **Accumulated depreciation and impairment** | | | | | |
| 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 and 1 April 2007 | 16,712 | 15,379 | 4,429 | 2,818 | 39,338 |
| Charge for the year | 1,392 | 2,351 | 423 | 515 | 4,681 |
| Eliminated on write off | (30) | (2,067) | (511) | — | (2,608) |
| Exchange alignments | 605 | 1,006 | 146 | 161 | 1,918 |
| At 31 March 2008 | 18,679 | 16,669 | 4,487 | 3,494 | 43,329 |
| **Carrying amount** | | | | | |
| At 31 March 2008 | 42,234 | 8,645 | 2,094 | 881 | 53,854 |
| At 31 March 2007 | 41,196 | 10,595 | 2,264 | 1,329 | 55,384 |

## 17. Prepaid Land Lease Payments

| | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|
| **Cost** | | |
| At beginning of year | 22,104 | 21,386 |
| Exchange alignments | 960 | 718 |
| At end of year | 23,064 | 22,104 |
| **Accumulated amortisation and impairment** | | |
| At beginning of year | 8,127 | 7,536 |
| Charge for the year | 490 | 472 |
| Exchange alignments | 196 | 119 |
| At end of year | 8,813 | 8,127 |
| **Carrying amount** | | |
| At 31 March | 14,251 | 13,977 |

The Group's prepaid land lease payments are analysed as follows:

| | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|
| Land outside Hong Kong: | | |
| Medium-term leases | 14,251 | 13,977 |

## 18. Intangible Assets

| | Technological know-how HK$'000 *(note a)* | Gene invention rights HK$'000 *(note b)* | Total HK$'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 April 2006 | 292,407 | 95,000 | 387,407 |
| Additions | 193 | — | 193 |
| Exchange alignments | 737 | — | 737 |
| At 31 March 2007 and 1 April 2007 | 293,337 | 95,000 | 388,337 |
| Additions | 11 | — | 11 |
| Exchange alignments | 587 | — | 587 |
| At 31 March 2008 | 293,935 | 95,000 | 388,935 |
| **Accumulated amortisation and impairment** | | | |
| At 1 April 2006 | 4,509 | 95,000 | 99,509 |
| Charge for the year | 751 | — | 751 |
| Exchange alignments | 355 | — | 355 |
| At 31 March 2007 and 1 April 2007 | 5,615 | 95,000 | 100,615 |
| Charge for the year | 554 | — | 554 |
| Impairment for the year | 1,600 | — | 1,600 |
| Exchange alignments | 384 | — | 384 |
| At 31 March 2008 | 8,153 | 95,000 | 103,153 |
| **Carrying amount** | | | |
| At 31 March 2008 | 285,782 | — | 285,782 |
| At 31 March 2007 | 287,722 | — | 287,722 |

## 18. Intangible Assets (Continued)

*Notes:*

(a) *The carrying amount of technological know-how includes the technological know-how of approximately HK$284,260,000 (2007: HK$284,260,000) (the "Know-how") in relation to an oral insulin product (the "Product") and the exclusive right for the commercialisation of the Product owned by the Group. The Product was co-developed by Fosse Bio-Engineering Development Limited ("Fosse Bio"), a subsidiary acquired by the Group during the year ended 31 March 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 still in progress up to the date of approval of these financial statements. Should the approval of results of the clinical trial fail, the certificate of new medicine cannot be obtained from the ("SFDA") of the PRC or the launching of the Product be unsuccessful, adjustments would have to be made against the carrying amount of the Know-how.*

*The remaining carrying amount of the technological know-how of approximately HK$1,522,000 (2007: HK$3,462,000) represents the technological know-how in relation to the manufacture and sales of pharmaceutical products held by another subsidiary, Jilin Extrawell Changbaishan Pharmaceutical Co., Ltd. ("JECP").*

*The directors of the Company have reassessed the recoverable amount of the technological know-how and considered that some of the technological know-how is not being used. An impairment of HK$1,600,000 (2007: HK$Nil) had been made against the carrying amount as at 31 March 2008 in respect of such technological know-how.*

(b) *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"), both of which are subsidiaries of the Company, 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 commercial exploitation due to other patents being registered in the PRC 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 and Dr. Xie Yi, two directors and beneficiary 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 foreseeable future, the directors of the Company have made a full provision on impairment of the carrying amount of Gene Invention Rights of approximately HK$79,958,000 which was fully charged to the income statement in the year ended 31 March 2005.*

## 19. Inventories

| | **2008 HK$'000** | 2007 HK$'000 |
|---|---|---|
| Raw materials | **1,820** | 2,018 |
| Work in progress | **710** | 756 |
| Finished goods | **16,109** | 9,679 |
| | **18,639** | 12,453 |

## 20. Trade Receivables

The ageing analysis of trade receivables, based on the delivery dates of goods, is as follows:

| | 2008<br>HK$'000 | 2007<br>HK$'000<br>(Restated) |
|---|---|---|
| Within 90 days | 62,938 | 54,955 |
| Between 91 to 180 days | 21,904 | 31,164 |
| Between 181 to 365 days | 12,387 | 11,945 |
| Between 1 to 2 years | 179 | — |
| Over 2 years | 540 | 507 |
| | 97,948 | 98,571 |

*Notes:*

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

(b) *The movements for impairment on trade receivables are as follows:*

| | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|
| At beginning of year | 16,697 | 14,759 |
| Exchange alignments | 1,085 | 795 |
| Impairment on trade receivables | 5,410 | 8,688 |
| Reversal of impairment on trade receivables (note 7) | (5,761) | (7,545) |
| At end of year | 17,431 | 16,697 |

(c) *As of 31 March 2008, trade receivables of approximately HK$5,570,000 (2007: HK$7,665,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis, based on number of overdue days of these trade receivables, is as follows:*

| | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|
| Within 90 days | 4,747 | 6,500 |
| Between 91 to 180 days | 50 | 558 |
| Between 181 to 365 days | 233 | 100 |
| Over 1 year | 540 | 507 |
| | 5,570 | 7,665 |

(d) *All the trade receivables are denominated in Renminbi.*

## 21. Deposits, Prepayments and Other Receivables

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Deposits | **1,778** | 1,019 |
| Prepayments | **604** | 559 |
| Other receivables | **24,535** | 22,014 |
| Other receivable due from connected persons (note) | **31,780** | 31,780 |
| | **58,697** | 55,372 |

*Note: At 31 March 2008, the Group's other receivable of approximately HK$31,780,000 (2007: HK$31,780,000) ("Receivable") was due from two individual shareholders (the "Vendors") of Smart Ascent Limited ("Smart Ascent"), a subsidiary of the Company. The Vendors are the respective son-in-law and daughter-in-law of one of the directors, Mr. Ho Chin Hou, and hence they are connected persons of the Company as defined under the Listing Rules. The amount represents receivable from the Vendors for the third and fourth installments of the consideration (the "Fosse Consideration") due to undertaking by them for the Group's acquisition of 51% equity interest of Fosse Bio as set out in note 31(c) to the financial statements. The amount is still outstanding as at the approval date of these financial statements. Shares representing 49% equity interest of Smart Ascent have been pledged by one of the Vendors to the Group for securing the settlement of the Fosse Consideration. 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 pledged 49% equity interest of Smart Ascent depends on the results of the clinical trials and the successful launching of the Product. As explained in note 18(a) to the financial statements, should the approval of results of the clinical trial fail, the new medicine certificate of the Product cannot be obtained from the SFDA, or the launching of the Product be unsuccessful, adjustments would have to be made against the carrying amount of the Receivable.*

*Other receivables are denominated in the following currencies:*

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Renminbi | **22,703** | 18,587 |
| Hong Kong dollars | **33,612** | 35,207 |
| | **56,315** | 53,794 |

## 22. Amounts Due from Minority Shareholders

| Name | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Zhong Hou Seng | **5** | 5 |
| Hou Shi Chang | **3** | 3 |
| | **8** | 8 |

*Notes:*

*(a) Zhong Hou Seng and Hou Shi Chang are the shareholders of Fosse Bio.*

*(b) The amounts due are unsecured, interest-free and repayable on demand.*

## 23. Pledged Bank Deposits and Bank and Cash Balances

Pledged bank deposits and bank and cash balances are denominated in the following currencies:

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| **Pledged bank deposits** | | |
| United States dollars | **10,374** | — |
| Hong Kong dollars | **7,786** | 7,532 |
| | **18,160** | 7,532 |
| **Bank and cash balances** | | |
| Renminbi | **24,196** | 20,949 |
| United States dollars | **46,969** | 52,874 |
| Hong Kong dollars | **1,069** | 5,146 |
| | **72,234** | 78,969 |

## 23. Pledged Bank Deposits and Bank and Cash Balances (Continued)

The Group's pledged bank deposits represent deposits pledged to banks to secure banking facilities granted to the Group. The pledged bank deposits are arranged at floating interest rate ranging from 1.03% to 2.50% (2007: 3.30% to 3.81%) per annum and therefore are subject to cash flow interest rate risk.

The bank and cash balances are carried at floating rate of 0.01% to 1.00% (2007: 1.25% to 3.70%) per annum, and thus exposing the Group to cash flow interest rate risk.

Conversion of Renminbi into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

Included in the bank and cash balances was a bank balance of approximately HK$7,634,000 (2007: HK$14,217,000) being held under the name of another company. The Group can control the usage of the bank balance and hence the balance was treated as the bank balance of the Group.

## 24. Trade and Bills Payables

At 31 March 2008, the ageing analysis of the trade and bills payables, based on the dates of receipt of goods, is as follows:

| | **2008 HK$'000** | 2007 HK$'000 |
|---|---|---|
| Within 90 days | **6,788** | 6,916 |
| Between 91 to 180 days | **6,228** | 2,481 |
| Between 181 to 365 days | **—** | 253 |
| Between 1 to 2 years | **2** | 7 |
| Over 2 years | **5** | — |
| | **13,023** | 9,657 |

Trade and bills payables are denominated in the following foreign currencies:

| | **2008 HK$'000** | 2007 HK$'000 |
|---|---|---|
| Renminbi | **1,803** | 1,682 |
| United States dollars | **11,220** | 6,387 |
| Euro | **—** | 1,588 |
| | **13,023** | 9,657 |

## 25. Interest-bearing Borrowings — Secured

| | 2008 HK$'000 | 2007 HK$'000 (Restated) |
|---|---|---|
| Trust receipt loans | — | 3,543 |
| Other bank loans | — | 15,999 |
| | — | 19,542 |

At 31 March 2008 and 2007, the Group's borrowings were secured by the following:

(a) the Group's pledged bank deposits of approximately HK$18,160,000 (2007: HK$7,532,000); and

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

All of the Group's borrowings as at 31 March 2007 were denominated in United States dollars and carried at effective interest rate from 6.65% to 8.25% per annum. The borrowings are arranged at floating interest rate and thus exposing the Group to cash flow interest rate risk.

## 26. 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.

## 27. Deferred Tax Liabilities

The deferred tax liabilities at 31 March 2008 arose from accelerated tax depreciation.

At the balance sheet date the Group has unused tax losses arising in Hong Kong and the PRC of approximately HK$3,001,000, (2007: HK$2,980,000) and HK$3,626,000 (2007: HK$4,191,000) respectively available for offset against future taxable profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Tax losses arising in Hong Kong may be carried forward indefinitely. The tax loss arising in the PRC will be expired as follows:

| **Year** | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| 2008 | — | 969 |
| 2009 | 280 | 280 |
| 2010 | 954 | 954 |
| 2011 | 905 | 905 |
| 2012 | 1,083 | 1,083 |
| 2013 | 404 | — |
| | 3,626 | 4,191 |

## 28. Share Capital

| | Number of shares | | Share capital | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **'000** | '000 | **HK$'000** | HK$'000 |
| Ordinary shares of HK$0.01 each | | | | |
| Authorised | **20,000,000** | 20,000,000 | **200,000** | 200,000 |
| Issued and fully paid | **2,290,000** | 2,290,000 | **22,900** | 22,900 |

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to provide an adequate return to shareholders.

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, if any, return capital to shareholders, issue new shares, or sell assets to reduce debt. No changes had been made in the objectives, policies and processes during the years ended 31 March 2008 and 2007.

The Group monitors capital using a gearing ratio, which is the Group's total debts (comprising bank borrowings and amount due to a minority shareholder) over its total assets. The Company's policy is to keep the gearing ratio at a reasonable level. The Group's gearing ratio as at 31 March 2008 was 0.05 (2007: 0.09).

The only externally imposed capital requirement is that for the Company to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the shares. The directors regard that the requirement of public float is satisfied during the year.

## 29. 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 be 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.

During the years ended 31 March 2008 and 2007, no share options have been granted, exercised, cancelled or lapsed under the Scheme.

## 30. Notes to the Cash Flow Statement

### 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<br>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.

### Major non-cash transaction

During the year, trade receivables of approximately HK$15,999,000 and other bank loans (arising from bills discounted by the Group to banks with recourse) of approximately HK$15,999,000 brought forward from previous year were settled by way of direct payment from the Group's customers to the lending banks.

## 31. Principal Subsidiaries

Particulars of the Company's principal subsidiaries as at 31 March 2008 are as follows:

| Name | Place of incorporation/ registration and operation | Issued and paid up capital/registered capital | Percentage of ownership/interest Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Extrawell (BVI) Limited | British Virgin Islands ("BVI") | 10,000 ordinary shares of US$1 each | 100% | — | Investment holding |
| JECP (note a) | The PRC | RMB33,000,000 | 60% | 40% | Development, manufacture, and sales of pharmaceutical products |
| Extrawell Pharmaceutical (HK) Limited | Hong Kong | 2 ordinary shares of HK$1 each | — | 100% | Provision of agency services |
| South Asia Pharmaceutical (China) Limited | BVI | 50,000 ordinary shares of US$1 each | — | 100% | Marketing and distribution of Pharmaceutical products |
| Smart Phoenix Holdings Limited | BVI | 100 ordinary shares of US$1 each | — | 100% | Investment holding |
| Changchun Extrawell Pharmaceutical Co., Ltd. ("CEP") (note b) | The PRC | RMB50,000,000 | — | 68% | Development, manufacture and sales of pharmaceutical products |
| Best-Bio Developments Limited ("Best-Bio") | BVI | 1 ordinary share of US$1 each | — | 100% | Investment holding |
| R&R | BVI | 50,000 ordinary shares of US$1 each | — | 100% | Holding of gene invention rights and investment holding |
| Grand Success | BVI | 50,000 ordinary shares of US$1 each | — | 75% | Holding of gene invention rights |
| Smart Ascent | Hong Kong | 10,000 ordinary shares of HK$1 each | — | 51% | Investment holding |
| Fosse Bio (notes c and d) | Hong Kong | 100,000 ordinary shares of HK$1 each | — | 26% | Development and commercialisation of oral insulin products |
| Welly Surplus Development Limited ("Welly Surplus") (note d) | Hong Kong | 100 ordinary shares of HK$1 each | — | 26% | Inactive |

## 31. Principal Subsidiaries (Continued)

*Notes:*

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

(b) *CEP is a joint stock limited company. It was initially established in the PRC for an operating period of 15 years commencing from 8 August 1992. After transforming into a joint stock limited company, the operating period became indefinite.*

(c) *Fosse Bio was acquired by the Group through the acquisition of Smart Ascent from the Vendors (the "2004 Transaction") who are connected persons of the Company as defined under the Listing Rules, during 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 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 phase III clincial study 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 with total amount of HK$31,780,000 are included in the amount due to a minority shareholder as at the balance sheet date and are still outstanding as at the approval date of these financial statements. 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 21) was recorded as other receivable by the Group as at the balance sheet date.*

*On 27 July 2007, Extrawell (BVI) Limited, a subsidiary of the Company, entered into a sale and purchase agreement with Mr. Ong Cheng Heang ("Mr. Ong"), who is one of the Vendors and the minority shareholder holding 49% equity interest in Smart Ascent. Mr. Ong is also the son-in-law of a director 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 (the "2007 Transaction") 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 nominal value HK$0.01 at issuing price of HK$2.563 each. In a special general meeting held on 20 September 2007, the 2007 Transaction was approved.*

*Pursuant to an announcement dated 17 September 2007, the Vendors of the 2004 Transaction are the respective son-in-law and the daughter-in-law of Mr. Ho Chin Hou, a director of the Company. Such relationship was not disclosed before the approval of the 2004 Transaction. The Stock Exchange issued a letter to the Company on 20 September 2007 requesting the ratification of the 2004 Transaction and re-approval of the 2007 Transaction. Both the 2004 Transaction and the 2007 Transaction are still subject to ratification and re-approval respectively as at the approval date of these financial statements.*

*As the 2007 Transaction has not yet been completed, Smart Ascent was accounted for as a 51% owned subsidiary of the Company as at 31 March 2008.*

(d) *Both Fosse Bio and Welly Surplus are owned as to 51% by Smart Ascent and Smart Ascent is owned as to 51% by Extrawell (BVI) Limited. Therefore, the effective equity interest of Fosse Bio and Welly Surplus held by the Group are both 26%.*

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.

## 32. Commitments

### (a) Operating lease commitments

At 31 March 2008 the total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|
| Within one year | **1,491** | 1,574 |
| In the second to fifth years, inclusive | **3,277** | 106 |
| | **4,768** | 1,680 |

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

### (b) Other commitments

(i) Further to note 31(c) to the financial statements, at 31 March 2008, 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 trials of the Product.

## 32. Commitments (Continued)

### (b) Other commitments (Continued)

(ii) On 19 October 2006, Sea Ascent Investment Limited ("Sea Ascent"), Welly Surplus, an indirect non-wholly owned subsidiary of the Company, and Fosse Bio, an indirect non-wholly owned subsidiary of the Company, entered into a cooperation agreement (the "Cooperation Agreement") in connection with the cooperation (the "Cooperation") between Sea Ascent and Welly Surplus in respect of (i) Sea Ascent shall procure its wholly owned subsidiary, Joy Kingdom Industrial Limited ("Joy Kingdom"), to establish a wholly foreign owned enterprise in the PRC under the name of 江蘇派樂施藥業有限公司 (Jiangsu Prevalence Pharmaceutical Limited) ("Jiangsu Prevalence"); (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 ("Shareholder's Loan") for the payment of the registered capital of Jiangsu Prevalence and the acquisition of land and construction of a factory (the "Plant") at Pi Zhou City, Jiangsu, the PRC for the production of the Group's Oral Insulin Enteric-Coated Soft Capsules (the "Medicine"); and (iii) subject to Sea Ascent's performance of its obligations as aforesaid and completion of the acquisition of Joy Kingdom by Welly Surplus as mentioned below, Welly Surplus shall procure Joy Kingdom or Jiangsu Prevalence, if so agreed, to pay to Sea Ascent, during a period of six years from the date on which the Medicine is launched for sales in open market (the "Initial Operating Period"), a fee at RMB6 cents for each capsule of Medicine produced (subject to a maximum fee of RMB180 million and deduction as specified in the Cooperation Agreement). The Cooperation Agreement became effective upon the shareholders' approval in the special general meeting of the Company held on 3 January 2007, until the expiry of the Initial Operating Period.

On 19 October 2006, Sea Ascent and Welly Surplus also entered into a sale and purchase agreement ("SP Agreement") pursuant to which Sea Ascent agreed to sell and Welly Surplus agreed to acquire (i) the entire share capital (the "Sale Share") in Joy Kingdom and (ii) the Shareholder's Loan at considerations of RMB40 million and HK$1 respectively (the "Consideration"). The completion of the SP Agreement was subject to, among other conditions, approval of the SP Agreement by the Company's shareholders, the Cooperation Agreement becoming effective and the completion of the construction of the Plant by Jiangsu Prevalence in accordance with the terms of the Cooperation Agreement. The SP Agreement was approved in the special general meeting of the Company held on 3 January 2007. At 31 March 2008, the SP Agreement has not yet become unconditional and the Consideration has not yet been due and paid up to the date of approval of these financial statements.

## 33. Material Related Party Transactions

Save as disclosed elsewhere in the financial statements, the Group had the following transactions with its related parties.

Compensation for key management personnel, including amount paid to the Company's directors, as disclosed in note 12 to the financial statements, is as follows. Directors' service contracts was exempted from all reporting requirements of connected transaction under the Listing Rules.

| | **2008**<br>**HK$'000** | 2007<br>HK$'000 |
|---|---|---|
| Salaries and other benefits | **4,286** | 4,213 |
| Pension scheme contributions | **12** | 12 |
| | **4,298** | 4,225 |

## 34. Retrospective Restatement

At 31 March 2007, the Group had discounted bills with recourse of approximately HK$15,999,000. The corresponding trade receivables and bank loans had been derecognised and the discounted bills were presented as contingent liabilities in the financial statements for the year ended 31 March 2007. However, according to HKAS 39 — Financial Instruments: Recognition and Measurement as set out in note 3(i) to the financial statements, these trade receivables and bank loans did not fulfill the derecognition criteria. As a result, the comparative figures of trade receivables and interest-bearing borrowings in the balance sheet and the corresponding explanatory notes had been restated. The cash flow statement and the corresponding explanatory notes had also been restated accordingly.

## 35. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 27 August 2008.

# FIVE YEARS' FINANCIAL SUMMARY

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 certain Hong Kong Financial Reporting Standards which are adopted for the first time during the years ended 31 March 2006 and 2007), is set out below:

| | For the year ended 31 March | | | | |
|---|---|---|---|---|---|
| | **2008** | 2007 | 2006 | 2005 | 2004 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Results** | | | | | |
| Turnover | **165,079** | 158,763 | 178,265 | 169,766 | 215,631 |
| Profit/(loss) before tax | **2,393** | 9,303 | 6,697 | (87,835) | (35,835) |
| Income tax expense | **(15,728)** | (369) | (2,510) | 1,793 | (1,103) |
| (Loss)/Profit for the year | **(13,335)** | 8,934 | 4,187 | (86,042) | (36,938) |
| Attributable to: | | | | | |
| Equity holders of the Company | **(11,735)** | 9,336 | 4,669 | (75 823) | 14,641 |
| Minority interests | **(1,600)** | (402) | (482) | (10,219) | (51,579) |
| | **(13,335)** | 8,934 | 4,187 | (86,042) | (36,938) |
| Dividends | **—** | — | — | — | — |

| | As at 31 March | | | | |
|---|---|---|---|---|---|
| | **2008** | 2007 | 2006 | 2005 | 2004 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| | | (Restated) | | | |
| **Assets, liabilities and minority interests** | | | | | |
| Total assets | **619,573** | 609,988 | 571,327 | 591,290 | 530,332 |
| Total liabilities | **(106,696)** | (93,504) | (70,559) | (97,812) | (107,074) |
| Total equity | **512,877** | 516,484 | 500,768 | 493,478 | 423,258 |
| Minority interests | **(215,957)** | (217,565) | (220,107) | (220,609) | (74,566) |
| | **296,920** | 298,919 | 280,661 | 272,869 | 348,692 |