Annual Report **2011**

# Extrawell Pharmaceutical Holdings Limited

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

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# Corporate Information

## CHAIRMAN AND EXECUTIVE DIRECTOR

Dr. MAO Yu Min

## EXECUTIVE DIRECTORS

Dr. XIE Yi
Dr. LOU Yi
Ms. WONG Sau Kuen

## INDEPENDENT NON-EXECUTIVE DIRECTORS AND AUDIT COMMITTEE

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

## REMUNERATION COMMITTEE

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

## COMPANY SECRETARY

Mr. LIU Kwok Wah

## HONG KONG LEGAL ADVISERS

Chiu & Partners Solicitors

## INDEPENDENT AUDITORS

East Asia Sentinel Limited
*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

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

HSBC Securities Services (Bermuda) Limited
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
Wanchai
Hong Kong

# Chairman's Statement

On behalf of the board of directors (the "Board"), I am pleased to present the annual report of Extrawell Pharmaceutical Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 March 2011.

In the past financial year, the Group achieved a steady operational performance and continued to maintain a sound financial position amid the fast-changing business environment and intensified market competition in the pharmaceutical industry in mainland China.

Since the launch of the nation's healthcare reform in 2009, and following the nation's further increase in the budgeted government investment in the healthcare reform, the pharmaceutical market has been continuously benefiting from the growing demand. It is anticipated that the continuous increase in medical and healthcare expenditure, coupled with the accelerating aging population and urbanization will further fuel the growth of the pharmaceutical industry in mainland China. Whilst the healthcare reform brings new momentum to the nation's pharmaceutical industry, the ancillary policies and related measures in reinforcing the in-depth implementation of the reform create new challenges to the pharmaceutical enterprises. In March 2011, the Twelfth Five-Year Plan was adopted to guide the nation's economic development through 2015, demonstrating great emphasis on internal markets and domestic demand and at the same time, reflecting policy direction of implementing stricter regulations and stepping up structural adjustment in the pharmaceutical industry. Market competition grows more intense and acceleration of industry integration through mergers and acquisitions tends to be driven by large pharmaceutical groups.

To cope with the operating challenges and industry changes, the Group has been exploring strategies and measures to streamline its business operations and adjusting the distribution model on its trading business with a view to minimizing the impacts and maintaining its profitability for a sustainable development of the Group. Further, enhancement of the capacity and capability of the Group's production facilities for the manufactured products to meet the market demand and competition is under its long-term development plan. The Group believes it will improve core competitiveness and increase its brand exposure with the advanced facilities, thus enhancing the Group's position to gain market share and profitability in future.

Persistent efforts and resources have been made in progressing the oral insulin project. The Group has been optimizing the allocation of its internal resources for the project and would endeavor to accelerate the pace of accomplishing the goal through collaborative efforts of the expertise and the management team. Given the rapidly rising prevalence of diabetes in mainland China, the Group anticipates that the potential benefits from the enormous market demand will justify its investment and the success of the project will create a new driving force for its future growth.

Looking forward, despite the increasingly competitive landscape and ongoing challenges in the pharmaceutical market, the Group would maintain its focus on profitability through exercising effective measures on cost control and adopting initiatives and strategies to enhance its overall operational efficiency . The Group would continue to pursue commercial opportunities emerged in the fast growing pharmaceutical market and optimize its financial position to foster the long-term development and growth of the Group.

On behalf of the Board, I would like to express our sincere gratitude to our shareholders and business partners for their support, and thank all our dedicated staff for their efforts during the year.

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

Hong Kong, 29 June 2011

# Management Discussion and Analysis

## A. Business Review

### Overall Performance

In the year under review, various initiatives were introduced by the Chinese Government in the wake of 3-year healthcare reform as undertaken since 2009, which included an increase in budgeted investment for the reform from RMB850 billion to RMB1,134.2 billion, implementation of a series of new policies at both national and provincial levels; promulgation of new Good Manufacturing Practice, and setting of stricter regulation towards environmental protection under the "Twelfth Five-Year Plan" beginning in year 2011. The market has undergone rapid growth and consolidation where large pharmaceutical enterprises tend to expand rapidly by way of mergers and acquisitions in order to lower costs through economies of scale, and to enlarge and strengthen distribution networks for market share.

In view of the highly competitive business environment, the Group took proactive steps to adjust its marketing and distribution strategies for its imported products and focus on cost control over the business operations. As a result, the Group managed to maintain a turnover of about HK$198.8 million, representing an increase of 1.3% as compared with that of last financial year. Although this led to a slight decrease in overall gross margin from 27.4% to 26.2%, the total administrative, selling and distribution expenses reduced slightly by HK$2.4 million to HK$45.9 million when compared to HK$48.3 million as in last year, which was primarily due to cost reduction upon adjustment of its distribution model for part of its imported product portfolio.

During the year, the Group had continuously deployed resources in progressing the clinical trial of the oral insulin project, resulting in an upsurge of research and development expenses to HK$8.3 million. Barring from such increase, the Group's profit before taxation for the year would have been at level of about HK$12.6 million (2010: HK$12.8 million), a decrease of HK$0.2 million.

The Group's profit for the year attributable to the equity holders of the Company was about HK$11.6 million, representing a decrease of about HK$3.1 million as compared to profit of about HK$14.6 million in 2010. This was mainly due to the Group's share of expenses incurred in the oral insulin project.

### Turnover and Operating Results

#### Imported Pharmaceutical Sector

In the year under review, turnover and segment result increased by 5.6% and 21.4% respectively to approximately HK$158.9 million and HK$17.9 million as a result of increase in volume of sales.

The pharmaceutical market in the Mainland continued to be fueled by the increasing demand brought by the healthcare reform. However, the Group faced increasing pressure due to intensifying competition. In response to the market challenges, the Group had made a strategic move during the year in adjusting its distribution model and simplifying the path of distribution for some of its products. Through integrating large volumes of distributional transactions and encouraging bulk orders, price adjustment was made for certain product whilst the profitability remained intact as there was a corresponding reduction in the related selling and distribution expenses. This helped to maintain market share and improved overall performance in the year under review.

The Group would endeavor to continue adopting measures and strategies to achieve satisfactory performance despite intensifying market competition.

## A. Business Review *(continued)*

### Turnover and Operating Results *(continued)*

**Manufactured Pharmaceutical Sector**

Sales of manufactured pharmaceutical products dropped to about HK$39.9 million, a decline of approximately 12.8% as compared to about HK$45.7 million in 2010, resulting from decrease in sales volume amid the severe price-cut competition in certain provinces.

In this challenging market environment, apart from taking measures to streamline organization to reduce costs, increase efficiency and output of the production process, and being vigilant to strict controls on cost and capital expenditure, management would continue focusing on launching products with better margin such as "Ferrous Sulfate Sustained-released Tablet" for treating iron deficiency anemia, which had contributed positively to both the turnover and gross profit in the year under review.

Affected by the pricing pressure on products and costs, the segment result was maintained at about HK$2.5 million, representing a decrease of 40.9% as compared to about HK$4.2 million in 2010.

Facing the challenges ahead, the Group would take positive approaches in developing its product lines by focusing on cost control as well as enhancing production capacity and capability upon future relocation of factory on the site acquired in year 2011. In the meantime, the Group believes that tapping with the competitive advantage of its established brand name products it will be back on the right track and will deliver better results in future.

**Gene Development Sector**

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

**Oral Insulin Sector**

There was no revenue generated in the sector during this year. The increase in loss was mainly due to an increase in research and development expenses incurred in progressing the clinical trial, and the administrative expenses in relation thereon.

### Selling and Distribution Expenses

Selling and distribution expenses of the Group decreased from about HK$19.8 million in 2010 to about HK$16.5 million in 2011, representing a decrease of about HK$3.3 million or 16.9%. This was mainly attributable to reduction in distribution and promotion expenses upon reshuffling its marketing and distribution strategies.

### Administrative Expenses

Administrative expenses of the Group remained stable at HK$29.4 million, an increase by 3.5% from about HK$28.4 million which was mainly due to inflationary adjustment.

### Research and Development Expenses

Research and development expenses were about HK$8.3 million for the year under review, about HK$7.5 million higher than HK$0.8 million in year 2010, which were mainly related to the oral insulin project.

## A. Business Review *(continued)*

### Other Revenues and Impairment on Trade Receivables

Other revenues mainly comprised reversal of impairment on trade receivables, sundry income and interest income. Other revenues decreased by about HK$1.9 million from about HK$13.5 million to about HK$11.6 million this year. This was the result of decrease in reversal of impairment on trade receivables of about HK$3.2 million, increase in sundry income of HK$1.0 million in respect of consultancy services rendered to other factories as well as increase in interest income by about HK$0.3 million.

### Taxation

In the year 2010, there was a write-back of tax provision of HK$4 million for potential tax exposure for the new PRC income tax law on advice given by the PRC tax professionals. And when taking into account of this factor, the tax charges were generally in line with the Group's profit in year 2011.

## B. Outlook

With the engagement of clinical trial expertise for provision of the clinical trial management services and related clinical studies, and subsequent to the Group's submission of its best implementation plan to the State Food and Drug Administration of the PRC in 2010, the cautious approach in conducting the forefront but essentially reinforcing work laid a solid foundation towards advancement of a new stage. Manufacturing of clinical trial materials has been done and the patient recruitment process of the clinical trial is progressing well in clinical trial centres located in reputable hospitals in the PRC. Concurrently, the Group has been allocating its best resources to expedite the processes and believes that with the joint efforts of the expertise, this phase of clinical trial will progress steadily with encouraging results. The Group stays positive and optimistic on its success.

In addition to the oral insulin project, the Group would continue to input resources in the research and development initiatives. Product development projects with potential investment value or complementary to the Group's product structure will be prudently considered to strengthen its market position and to sustain a long-term growth and development of the Group. Through taking positive initiatives in striving for operational performance, the Group is optimistic about its future prospects.

## C. Financial Review

### Liquidity and Financial Resources

It is the Group's strategy to manage its financial resources conservatively by maintaining a healthy level of cash flows to meet all its financial commitments when they fall due. The Group generally finances its operations with internally generated cash flow and banking facilities.

As at 31 March 2011, the Group had total cash and bank balances (including pledged bank deposits) of about HK$145.3 million (2010: HK$125.6 million), representing an increase by approximately 15.7%.

The Group did not have bank borrowings during the year but with banking facilities on trade finance, which were supported by the pledge of the Group's fixed deposits of about HK$20.7 million (2010: HK$20.6 million) and corporate guarantees from the Company and certain subsidiaries of the Company. In general, there is no significant seasonality fluctuation on trade finance requirement of the Group.

The Group's total borrowing over total assets ratio as at 31 March 2011 was 0.06 (2010: 0.05) calculated based on the Group's total debts of about HK$36.8 million (2010: HK$32.6 million), comprising amount due to a non-controlling interest of about HK$32.4 million (2010: HK$32.4 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 as most of its transactions were mainly conducted in Hong Kong dollars, Renminbi or United States dollars and the exchange rates of these currencies were relatively stable throughout the period. No hedge on foreign currencies was made during the period, however the Group has closely monitored its exposure to foreign currency movement.

## D. Employment and Remuneration Policy

As at 31 March 2011, the Group had 415 employees (2010: 416). Staff costs (including directors' emoluments) for the year ended 31 March 2011 amounted to approximately HK$39.0 million (2010: approximately HK$38.4 million). The slight increase was mainly due to salary adjustment. The Group has not experienced any significant problems with its employees or disruptions to the operations due to labour disputes nor has it experienced difficulties in the recruitment and retention of experienced staff.

The Group remunerates its employees based on industry practices. Its staff benefits, welfare and statutory contributions, if any, are made in accordance with prevailing labour laws of its operating entities. The employees (including directors) are remunerated according to their performance, work experience and the prevailing market price. Other employee benefits include mandatory provident fund, insurance and medical coverage, training and share option scheme. In August 2002, shareholders of the Company have approved the adoption of a share option scheme (the "Scheme"). The Scheme will enable the Group to reward the employees, the directors and other selected participants for their contribution to the Group and will also assist the Group in its recruitment and retention of high caliber professionals, executives and employees who are instrumental to the growth of the Group.

No share option has been granted under the Scheme.

# Directors and Senior Management Profile

## Biographical Details of Directors and Senior Management

### Executive Directors

**Dr. Mao Yu Min Ph.D. (aged 59)**

*Chairman and Executive Director*

Dr. Mao Yu Min, Chairman and Executive Director of the Company, is also the chairman and one of the founders of United Gene Holdings Limited. Dr. Mao is a professor of Fudan University, and was a member of Fudan University Administration Committee, the dean of School of Life Sciences, and the head of Institute of Genetics, 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").

Dr. Mao has also acted as Honorary Chairman and in capacity of external consultant role as the chief scientific adviser of United Gene High-Tech Group Limited (stock code: 399), a company listed on the Stock Exchange, since September 2010.

**Dr. Xie Yi Ph.D. (aged 48)**

*Executive Director*

Dr. Xie Yi is the vice chairman and chief executive officer of United Gene Holdings Limited, director of United Gene Research Institute, a professor of School of Life Sciences 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. Dr. Xie has discloseable interests in the Company under the provisions of the SFO.

**Dr. Lou Yi Ph.D. (aged 52)**

*Executive Director*

Dr. Lou Yi obtained a doctoral degree in medicine and conducted his postdoctoral research in clinical study at Shanghai Second Medical University (now renamed as School of Medicine, Shanghai Jiaotong University) and industrial economy at Fudan University. Dr. Lou had been a director and general manager of Shanghai Biochip Co. Ltd. and as a director and deputy general manager of General Technology Group Pharmaceutical Holdings, Ltd. in China. Dr. Lou was also a non-executive director of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd., a company listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, from June 2004 to June 2006. Dr. Lou is currently a director and general manager of various companies owned by Dr. Mao Yu Min and Dr. Xie Yi, both are the directors of the Company.

**Ms. Wong Sau Kuen (aged 48)**

*Executive Director*

Ms. Wong Sau Kuen joined the Group in May 2008 as assistant to the Board and was appointed as director in October 2008. Ms. Wong has more than 20 years of experience in both the commercial and industrial sectors including the China pharmaceutical market. Ms. Wong has extensive experience in areas of business administration and internal control and she is currently the Authorized Representative of the Company.

## Biographical Details of Directors and Senior Management *(continued)*

### Independent Non-Executive Directors

**Mr. Fang Lin Hu (aged 73)**

*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 was appointed as an independent non-executive director in 2001.

**Mr. Xue Jing Lun (aged 77)**

*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 40)**

*Independent Non-Executive Director*

Ms. Jin Song, holds a diploma in engineering from Broadcasting University in Shandong 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 50)**

*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. Liu Xian (aged 54)**

*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 19 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.

## Biographical Details of Directors and Senior Management *(continued)*

### Senior Management *(continued)*

**Mr. Zhen Lu (aged 41)**

*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 44)**

*Product Development Manager*

Dr. Lin Guang Xiang joined the Group in 1995. He graduated from Zhongshan 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 56)**

*General Manager of Changchun Extrawell Pharmaceutical Co., Ltd. ("CEP") and Jilin Extrawell Changbaishan Pharmaceutical Co., Limited ("JECP")*

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

**Mr. Liu Kwok Wah (aged 49)**

*Financial Controller and Company Secretary*

Mr. Liu Kwok Wah joined the Group in November 2008 and holds a Master's degree in Business Administration. Mr. Liu is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Company, he had worked for international accounting firms and several listed companies in Hong Kong.

**Ms. Wu Hong (aged 39)**

*Senior Finance Manager*

Ms. Wu Hong, a qualified accountant in the PRC, joined the Group in 1995 and is responsible for all the Group's financial matters in the PRC. 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 Group recognizes the importance of achieving and monitoring the high standard of corporate governance consistent with the need and requirements of its business and the best interest of all of its shareholders. The Group is fully committed to doing so.

During the year ended 31 March 2011, 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 provisions A1.3 and A6.1 stipulate that 14-day notice should be given for each regular board meeting and that in respect of regular meetings, and so far as practicable in all other cases, an agenda and accompanying board papers should be sent in full to all directors in a timely manner and at least 3 days before the intended date of a board or board committee meeting (or such other period as agreed). The Company agrees that sufficient time should be given to the directors in order to make a proper decision. In these respects, the Company adopts a more flexible approach (and yet sufficient time has been given) in convening board meetings to ensure efficient and prompt management decisions could be made.

(b) Code provision A4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. The Company deviates from 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 considers 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 continuity of directorship which is to the best interest of the Company's shareholders.

(d) Code provision A4.2 also stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. According to the bye-laws of the Company, any director so appointed shall hold office only until the next following annual general meeting. The Company's bye-laws deviate from the code provision. However, the Company believes that it is in the best interest of the Company's shareholders to transact this ordinary course of business in the annual general meeting.

(e) Code provision E1.2 stipulates that the Chairman of the Board should attend the annual general meeting of the Company. Due to other overseas business commitments, Dr. Mao Yu Min was unable to attend the annual general meeting of the Company held on 10 September 2010. Dr. Xie Yi, an executive director of the Company was appointed to chair the annual general meeting in accordance with the provisions of the Company's bye-laws.

The Company will continue to review and monitor the situation as stated above, and to improve the practices as and when the circumstances demand.

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

## C. Board of Directors

As at the date of this annual report, the board of Directors (the "Board") comprises four executive Directors and three INEDs as follows:

### Executive Directors

Dr. Mao Yu Min *(Chairman)*
Dr. Xie Yi
Dr. Lou Yi
Ms. Wong Sau Kuen

### Independent Non-executive Directors

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

Save as disclosed, 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 with 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 the 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 2011, seven board meetings (excluding committee meetings) were held and attendance of each director is set out as follows:

| Name of Director | Number of attendance |
|---|---|
| Dr. Mao Yu Min | 4/7 |
| Dr. Xie Yi | 7/7 |
| Dr. Lou Yi | 7/7 |
| Ms. Wong Sau Kuen | 7/7 |
| Mr. Fang Lin Hu | 6/7 |
| Mr. Xue Jing Lun | 6/7 |
| Ms. Jin Song | 6/7 |

No nomination committee was appointed during the year in relation to removal and appointment of Directors.

## 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 Directors 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 2011, in line with good and fair practice, members of the Remuneration Committee consisted of all INEDs; namely Mr. Fang Lin Hu (Chairman), Mr. Xue Jing Lun, Ms. Jin Song, and Dr. Xie Yi.

During the year ended 31 March 2011, three Remuneration Committee meetings were held and attendance of each director is set out as follows:

| **Name of Director** | **Number of attendance** |
|---|---|
| Mr. Fang Lin Hu | 3/3 |
| Mr. Xue Jing Lun | 3/3 |
| Ms. Jin Song | 3/3 |
| Dr. Xie Yi | 3/3 |

The emoluments of the Directors are reviewed and recommended by the Remuneration Committee and/or decided by the Board as authorized 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

An analysis of remuneration in respect of audit and non-audit services provided by East Asia Sentinel Limited for the year ended 31 March 2011 is as follows:

| | **HK$'000** |
|---|---|
| Audit services | 660 |
| Non-audit services | 110 |

## H. Audit Committee

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

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

The current members of the Audit Committee are Mr. Fang Lin Hu (Chairman), Mr. Xue Jing Lun and Ms. Jin Song. During the year ended 31 March 2011, three Audit Committee meetings were held and attendance of each director is set out as follows:

| Name of Director | Number of attendance |
|---|---|
| Mr. Fang Lin Hu | 3/3 |
| Mr. Xue Jing Lun | 3/3 |
| Ms. Jin Song | 3/3 |

The Audit Committee reviewed the half yearly and full year consolidated financial statements, including the Group's adopted accounting principles and practices, internal control systems and financial reporting matters (in conjunction with the external auditors for the annual 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 of the Company acknowledged their responsibility for preparing the financial statements of the Group in accordance with the requirements of the Listing Rules and applicable statutory requirements and accounting standards. The Group had adopted the going concern basis in preparing its financial statements.

A statement by the auditors of the Company about their reporting responsibilities is set out in the "Independent Auditors' Report" on pages 26 to 28 of this annual report.

## J. Internal Control

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

During the year, the Company engaged an independent professional consultant; namely Baker Tilly Hong Kong Business Services Limited ("Baker Tilly") to conduct a review of the effectiveness of the Group's system of internal control with the scopes recommended by the Audit Committee for the year ended 31 March 2011. Based on their review, Baker Tilly was satisfied that the management of the Company have maintained sound and adequate internal controls with room for improvement.

The Audit Committee and the Board have reviewed the report submitted by Baker Tilly, and concluded that the key areas of the Group's internal control systems are reasonably and adequately implemented to their satisfaction.

# Report of the Directors

The directors present their annual report and the audited financial statements of Extrawell Pharmaceutical Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2011.

## Principal Activities

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

## Results and Dividend

The results of the Group for the year ended 31 March 2011 are set out in the consolidated statement of comprehensive income on page 29.

The state of affairs of the Group as at 31 March 2011 is set out in the consolidated statement of financial position on page 30.

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 of the assets, liabilities and non-controlling interests of the Group for the last five financial years is set out on page 86.

## 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 30 to the financial statements. Information about share options and share option scheme of the Company is set out in note 34 to the financial statements.

## Distributable Reserves

As at 31 March 2011, the reserves of the Company available for cash distribution and/or distribution in specie amounted to HK$88,066,000 as computed in accordance with the Bermuda Companies Act. In addition, the Company's share premium account with a balance of HK$133,717,000 as at 31 March 2011 may be distributed in the form of fully paid bonus shares.

## Major Customers and Suppliers

For the year ended 31 March 2011, turnover attributable to the Group's five largest customers accounted for approximately 35% of the Group's turnover, and turnover attributable to the Group's largest customer accounted for approximately 16% of the Group's turnover.

For the year ended 31 March 2011, purchases attributable to the Group's five largest suppliers accounted for approximately 92% of the Group's purchases and purchases attributable to the Group's largest supplier accounted for approximately 57% of the Group's purchases.

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

## Directors

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

**Executive directors:**
Mao Yu Min
Xie Yi
Lou Yi
Wong Sau Kuen

**Independent non-executive directors:**
Fang Lin Hu
Xue Jing Lun
Jin Song

In accordance with the Company's bye-law 111, save as for 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 10 to 12 of the Annual Report.

## Directors' Service Contracts

No director proposed for re-election at the forthcoming annual general meeting 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 2011, the interests and short position of the directors in the shares 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:

### Long positions in the ordinary shares of the Company

| | | Number of ordinary shares of HK$0.01 each held, capacity and nature of interest | |
|---|---|---|---|
| **Name of director** | | **Through controlled corporations** | **Percentage of the Company's issued share capital** |
| Mao Yu Min | *Note* | 480,000,000 | 20.96% |
| Xie Yi | *Note* | 480,000,000 | 20.96% |

*Note:*

*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"). On 28 March 2011, United Gene Group Ltd. (a company incorporated in the British Virgin Islands) ("United Gene Group") increased its shareholding in HK Biowindow from 99% to 100% by acquiring the remaining 1% interest in relation thereon as to 0.99% from 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 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.*

*One the same date, HK Biowindow also increased its shareholding in FPL from 80% to 100% by acquiring the remaining 20% interests of FPL from Fudan Biotech (Hong Kong) Limited.*

Save as disclosed above, as at 31 March 2011, 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 corporate.

## Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

At 31 March 2011, 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.

### Long positions in ordinary shares of the Company

| Name of substantial shareholder | *Notes* | Capacity and nature of interest | Number of shares held/entitled | Approximate percentage of interest 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 | *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 owned | 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, and in turn the issued share capital of HK Biowindow is owned by United Gene Group.*

*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.*

*The entire issued share capital of FPL is wholly owned by HK Biowindow.*

*(b) Mr. Ong Cheng Heang ("Mr. Ong") is interested in 300,000,000 shares (the "New Shares") which are the new shares of the Company to be allotted and issued to Mr. Ong pursuant to a conditional sale and purchase agreement entered into between the Company's wholly owned subsidiary Extrawell (BVI) Limited as purchaser and Mr. Ong as vendor on 27 July 2007 in connection with the proposed acquisition of the 4,900 ordinary shares in Smart Ascent Limited. Mr. Ong is the son-in-law of a former director of the Company, Mr. Ho Chin Hou who resigned on 12 March 2009. The New Shares have not been issued up to the date of this report.*

## Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares *(continued)*

Save as disclosed above, as at 31 March 2011, 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

The following connected and related party transactions were recorded during the year and up to the date of this annual report:

### (a) Advances made to Smart Ascent Limited ("Smart Ascent")

The Group via its wholly owned subsidiary Extrawell (BVI) Limited ("Extrawell BVI") owns 51% interest in Smart Ascent, and the remaining 49% of which is owned by Mr. Ong Cheng Heang ("Mr. Ong"). Since the acquisition of the aforesaid interest in March 2004, Extrawell BVI has made advances to Smart Ascent, which are unsecured, non-interest bearing and repayable on demand ("Advances").

In prior years, and up to date of 11 March 2010, Mr. Ong was regarded as a connected person at the Company's level by reason of his relationship being a son-in-law with a former director of the Company, Mr. Ho Chin Hou who resigned as director of the Company on 12 March 2009. As such, each of the Advances made to Smart Ascent during the period concerned would constitute a connected transaction under Chapter 14A of the Listing Rules, details of which have been disclosed in the Company's announcement dated 14 August 2009, and the 2009 and 2010 Annual Reports.

Against this backdrop and from 12 March 2010 onwards, Mr. Ong is regarded as a connected person only at the Company's subsidiary level, and therefore the Advances made by Extrawell BVI to Smart Ascent during the period under review do not constitute connected transactions under the Listing Rules. As at 31 March 2011, the outstanding balance of the Advances made by Extrawell BVI to Smart Ascent was approximately HK$16,529,000 (31 March 2010: approximately HK$9,578,000).

### (b) Provision of Financial Assistance to Fordnew Industrial Limited ("Fordnew")

On 25 May 2011, Smart Ascent has conditionally agreed to grant an unsecured, non-interest bearing loan in the aggregate amount of up to HK$30 million to Fordnew for its onward lending to Fosse Bio-Engineering Development Limited ("Fosse Bio"), a 51% owned subsidiary of Smart Ascent, for payment of expenses relating to clinical trial of oral insulin products.

As Fordnew owns 29% interest in the issued share capital of Fosse Bio, a substantial shareholder of the latter, the grant of the loan by Smart Ascent to Fordnew therefore constitutes a connected transaction for the Company, which shall be subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Further details regarding the transaction are set out in the Company's announcement dated 25 May 2011.

## Contracts of Significance

Save 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 13 to 18, 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.

## Purchase, Sale or Redemption of Listed Securities of the Company

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

## 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 Rule 3.21 of the Listing Rules, for the purpose of reviewing and providing supervision over the financial reporting process and internal controls of the Group. The Committee comprises three independent non-executive directors. The Group's financial statements for the year ended 31 March 2011 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 Auditors

The financial statements for the year were audited by East Asia Sentinel Limited, who will retire and, being eligible, offer themselves for re-appointment as auditors of the Company at the forthcoming annual general meeting.

On behalf of the Board

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

Hong Kong, 29 June 2011

# Independent Auditors' Report

**East Asia Sentinel Limited**
**衛亞會計師事務所有限公司**
*Certified Public Accountants*

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Wanchai, Hong Kong

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**TO THE SHAREHOLDERS OF**
**EXTRAWELL PHARMACEUTICAL HOLDINGS LIMITED**
*(Incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of Extrawell Pharmaceutical Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") set out on pages 29 to 85, which comprise the consolidated and company statements of financial position as at 31 March 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## Directors' Responsibility for the Consolidated Financial Statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditors' Responsibility

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

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

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

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

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2011 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

## Emphasis of Significant Matters

There are two significant matters that need to be highlighted in this Report.

(a) As set out in note 18 to the consolidated financial statements, included in Intangible Assets as at 31 March 2011 is the technological know-how with the carrying value of approximately HK$284,260,000 (2010: HK$284,260,000) (the "Know-how") in relation to an oral insulin product (the "Product") and the exclusive right for the commercialization of the Product owned by the Group. The Know-how is held by an indirect subsidiary of the Group, Fosse Bio-Engineering Development Limited ("Fosse Bio"), a company in which an indirect subsidiary of the Group, Smart Ascent Limited ("Smart Ascent") had acquired a 51% interest in November 2003, and through the Group's acquisition of a 51% interest in Smart Ascent in March 2004. In an appraisal conducted by an independent professional valuer, the Know-how is valued at an amount that is not less than HK$284,260,000. Notwithstanding this valuation, the recoverability of the carrying value of the Know-how is still uncertain as it depends upon the result of the clinical trial and the successful launching of the Product. Should the outcome of the clinical trial and the launching of the Product be unsuccessful, material adjustments may have adverse effect on the business and results of the Group.

(b) As set out in note 20(c) to the consolidated financial statements, in connection with the acquisition of the shares of Fosse Bio as referred to in the above paragraph, Smart Ascent owed the vendors of the sales of the 51% interest of Fosse Bio (the "Fosse Bio Vendors") the amount of HK$31,780,000 (2010: HK$31,780,000), being the third and fourth installments of the consideration for the 51% interest of Fosse Bio. The repayment of these two installments is to be made upon the issuance of certain certificates of the clinical trial as well as the Product by the State Food and Drug Administration of the PRC. At the time when the Group acquired the 51% interest in Smart Ascent, this liability continues to exist but the vendors of the sales of the 51% interest of Smart Ascent (the "Smart Ascent Vendors") undertook to pay the full HK$31,780,000 as and when the amount becomes due and payable. As security for this undertaking, Mr. Ong Cheng Heang ("Mr. Ong"), a non-controlling interest of Smart Ascent pledged to the Group his shares of Smart Ascent representing the balance of the 49% interest in Smart Ascent. There is no assurance that the Smart Ascent Vendors are capable of repaying the full HK$31,780,000. While this risk of recoverability is mitigated by the shares representing the 49% interest in Smart Ascent, the risk continues to exist in the event that the Group fails to realize the profitability from the Product as mentioned in the above paragraph, it would suffer a further loss in respect of this amount of HK$31,780,000. In addition, the Group has entered into an agreement to acquire from Mr. Ong the pledged of his 49% interest. Similar to the matter mentioned in Paragraph (a) above, the risks in relation to the Product will affect the Group's ability to recover the payment for this liability of HK$31,780,000.

Having considered the availability of the appraisal report by the independent professional valuer of the value of the Know-how and the disclosure in the notes to the consolidated financial statements, we consider the uncertainty as to the risks associated with the assets as mentioned in the above two paragraphs have been adequately disclosed in the consolidated financial statements and do not find it necessary to make further qualifications in this report in respect of the value of the Know-how or the receivables.

**East Asia Sentinel Limited**
*Certified Public Accountants*

**So Kwok Keung Keith**
*Director*
Practising Certificate No. P1724

Hong Kong, 29 June 2011

# Consolidated Statement of Comprehensive Income

For the year ended 31 March 2011

| | Note | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|---|
| TURNOVER | 7 | **198,816** | 196,291 |
| COST OF SALES | | **(146,785)** | (142,447) |
| GROSS PROFIT | | **52,031** | 53,844 |
| OTHER REVENUES | 8 | **11,592** | 13,518 |
| SELLING AND DISTRIBUTION EXPENSES | | **(16,481)** | (19,836) |
| ADMINISTRATIVE EXPENSES | | **(29,418)** | (28,421) |
| RESEARCH AND DEVELOPMENT EXPENSES | 9 | **(8,339)** | (809) |
| IMPAIRMENT ON TRADE RECEIVABLES | 22 | **(4,282)** | (5,508) |
| PROFIT BEFORE TAXATION | 9 | **5,103** | 12,788 |
| TAXATION | 10 | **(1,055)** | 2,784 |
| PROFIT FOR THE YEAR | | **4,048** | 15,572 |
| OTHER COMPREHENSIVE INCOME | | | |
| EXCHANGE REALIGNMENT | 31(a) | **6,139** | — |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | **10,187** | 15,572 |
| PROFIT FOR THE YEAR ATTRIBUTABLE TO: | | | |
| EQUITY HOLDERS OF THE COMPANY | 13 | **11,567** | 14,624 |
| NON-CONTROLLING INTERESTS | | **(7,519)** | 948 |
| | | **4,048** | 15,572 |
| TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO: | | | |
| EQUITY HOLDERS OF THE COMPANY | | **17,359** | 14,624 |
| NON-CONTROLLING INTERESTS | | **(7,172)** | 948 |
| | | **10,187** | 15,572 |
| | | **HK cents** | HK cents |
| EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY | | | |
| BASIC | 14 | **0.51** | 0.64 |
| DILUTED | 14 | **N/A** | N/A |

The notes on pages 35 to 85 form an integral part of these consolidated financial statements.

# Consolidated Statement of Financial Position

As at 31 March 2011

| | Note | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 16 | **49,657** | 50,045 |
| Prepaid land lease payments | 17 | **23,691** | 13,634 |
| Intangible assets | 18 | **286,936** | 287,186 |
| Amounts due from non-controlling interests | 19 | **12,970** | 9,598 |
| | | **373,254** | 360,463 |
| CURRENT ASSETS | | | |
| Inventories | 21 | **15,232** | 23,121 |
| Trade receivables | 22 | **72,575** | 84,756 |
| Deposits, prepayments and other receivables | 23 | **57,712** | 60,304 |
| Amount due from a non-controlling interest | 19 | **3** | 3 |
| Pledged bank deposits | 24 | **20,743** | 20,579 |
| Cash and cash equivalents | 25 | **124,573** | 104,987 |
| | | **290,838** | 293,750 |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | 26 | **7,152** | 8,479 |
| Accruals and other payables | 27 | **35,949** | 46,312 |
| Amounts due to non-controlling interests | 28 | **36,778** | 32,570 |
| Tax payables | | **1,987** | 2,171 |
| | | **81,866** | 89,532 |
| NET CURRENT ASSETS | | **208,972** | 204,218 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **582,226** | 564,681 |
| NON-CURRENT LIABILITIES | | | |
| Amounts due to non-controlling interests | 28 | **21,851** | 14,493 |
| Deferred tax liabilities | 29 | **102** | 102 |
| | | **21,953** | 14,595 |
| NET ASSETS | | **560,273** | 550,086 |
| CAPITAL AND RESERVES | | | |
| Share capital | 30 | **22,900** | 22,900 |
| Reserves | 31 | **331,255** | 313,896 |
| Equity attributable to equity holders of the Company | | **354,155** | 336,796 |
| Non-controlling interests | | **206,118** | 213,290 |
| TOTAL EQUITY | | **560,273** | 550,086 |

**Mao Yu Min**
*Director*

**Xie Yi**
*Director*

The notes on pages 35 to 85 form an integral part of these consolidated financial statements.

# Statement of Financial Position

As at 31 March 2011

| | Note | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Interests in subsidiaries | *20* | **131,568** | 133,614 |
| CURRENT ASSETS | | | |
| Dividend receivables | | **61,049** | 69,232 |
| Deposits, prepayments and other receivables | *23* | **221** | 231 |
| Cash and cash equivalents | *25* | **56,136** | 21 |
| | | **117,406** | 69,484 |
| CURRENT LIABILITIES | | | |
| Accruals and other payables | *27* | **429** | 527 |
| NET CURRENT ASSETS | | **116,977** | 68,957 |
| NET ASSETS | | **248,545** | 202,571 |
| CAPITAL AND RESERVES | | | |
| Share capital | *30* | **22,900** | 22,900 |
| Reserves | *31* | **225,645** | 179,671 |
| TOTAL EQUITY | | **248,545** | 202,571 |

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

The notes on pages 35 to 85 form an integral part of these consolidated financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31 March 2011

| | Attributable to the equity holders of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Share capital** HK$'000 | **Share premium** HK$'000 *(note 31(b)(i))* | **Capital reserve** HK$'000 *(note 31(b)(ii))* | **Contributed surplus** HK$'000 *(note 31(b)(iii))* | **Foreign currency translation reserve** HK$'000 *(note 31(b)(iv))* | **Retained earnings** HK$'000 | **Total** HK$'000 | **Non-controlling interests** HK$'000 | **Total equity** HK$'000 |
| **FOR THE YEAR ENDED 31 MARCH 2010** | | | | | | | | | |
| At 1 April 2009 | 22,900 | 133,717 | 6,542 | 4,839 | 31,482 | 122,692 | 322,172 | 214,832 | 537,004 |
| **Comprehensive income** | | | | | | | | | |
| Profit for the year | — | — | — | — | — | 14,624 | 14,624 | 948 | 15,572 |
| **Total comprehensive income** | — | — | — | — | — | 14,624 | 14,624 | 948 | 15,572 |
| **Transactions with equity holders** | | | | | | | | | |
| Acquisition of additional interest in a subsidiary | — | — | — | — | — | — | — | (2,490) | (2,490) |
| **Total transactions with equity holders** | — | — | — | — | — | — | — | (2,490) | (2,490) |
| At 31 March 2010 | 22,900 | 133,717 | 6,542 | 4,839 | 31,482 | 137,316 | 336,796 | 213,290 | 550,086 |
| **FOR THE YEAR ENDED 31 MARCH 2011** | | | | | | | | | |
| At 1 April 2010 | **22,900** | **133,717** | **6,542** | **4,839** | **31,482** | **137,316** | **336,796** | **213,290** | **550,086** |
| **Comprehensive income** | | | | | | | | | |
| Profit for the year | **—** | **—** | **—** | **—** | **—** | **11,567** | **11,567** | **(7,519)** | **4,048** |
| **Other comprehensive income** | | | | | | | | | |
| Currency translation differences | **—** | **—** | **—** | **—** | **5,792** | **—** | **5,792** | **347** | **6,139** |
| **Total comprehensive income** | **—** | **—** | **—** | **—** | **5,792** | **11,567** | **17,359** | **(7,172)** | **10,187** |
| At 31 March 2011 | **22,900** | **133,717** | **6,542** | **4,839** | **37,274** | **148,883** | **354,155** | **206,118** | **560,273** |

The notes on pages 35 to 85 form an integral part of these consolidated financial statements.

# Consolidated Statement of Cash Flows

For the year ended 31 March 2011

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Profit before taxation | **5,103** | 12,788 |
| Adjustments for: | | |
| Amortisation of intangible assets | **283** | 297 |
| Amortisation of prepaid land lease payments | **536** | 794 |
| Depreciation of property, plant and equipment | **3,018** | 4,626 |
| Increase in allowance for obsolete inventories | **—** | 264 |
| Impairment on trade receivables | **4,282** | 5,508 |
| Impairment on other receivables | **1,469** | 94 |
| Loss on disposal of property, plant and equipment | **—** | 4 |
| Reversal of impairment on trade receivables | **(3,257)** | (6,461) |
| Interest income | **(931)** | (637) |
| Operating profit before changes in working capital | **10,503** | 17,277 |
| Decrease in inventories | **7,889** | 4,906 |
| Decrease in trade receivables | **11,156** | 5,872 |
| Decrease in deposits, prepayments and other receivables | **1,123** | 4,054 |
| (Decrease) in trade and bills payables | **(1,327)** | (1,922) |
| (Decrease)/increase in accruals and other payables | **(10,363)** | 1,749 |
| Cash generated from operations | **18,981** | 31,936 |
| Income tax paid | **(1,174)** | (1,208) |
| Prepaid tax | **(65)** | — |
| Interest income received | **931** | 637 |
| NET CASH GENERATED FROM OPERATING ACTIVITIES | **18,673** | 31,365 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of prepaid land lease payments | **(10,184)** | — |
| Purchases of property, plant and equipment | **(1,065)** | (1,423) |
| Purchase of additional interest in a subsidiary *(note 35)* | **—** | (2,240) |
| Increase in pledged bank deposits | **(164)** | (81) |
| NET CASH (USED IN) INVESTING ACTIVITIES | **(11,413)** | (3,744) |

# Consolidated Statement of Cash Flows (continued)

For the year ended 31 March 2011

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| (Increase) in amounts due from non-controlling interests | **(3,372)** | (2,598) |
| Increase in amounts due to non-controlling interests | **11,566** | 544 |
| Dividend paid to a non-controlling interest | **—** | (1,298) |
| NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES | **8,194** | (3,352) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | **15,454** | 24,269 |
| EFFECT ON FOREIGN EXCHANGE RATE CHANGES | **4,132** | — |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | **104,987** | 80,718 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | **124,573** | 104,987 |
| ANALYSIS OF THE CASH AND CASH EQUIVALENTS | | |
| Cash and cash equivalents | **124,573** | 104,987 |

The notes on pages 35 to 85 form an integral part of these consolidated financial statements.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2011

## 1. General Information

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

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

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 20 to the consolidated financial statements.

## 2. Basis of Preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), which in collective term includes all applicable individual HKFRS, Hong Kong Accounting Standards ("HKAS") and Interpretations ("Ints") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Hong Kong Companies Ordinance. These consolidated financial statements have been prepared under the historical cost convention.

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

The preparation of consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

### (a) Amendments and interpretations to existing standards effective for the Group's annual financial year beginning on 1 April 2010 and relevant to the Group

| | |
|---|---|
| HKFRS 3 (revised) | Business combinations |
| HKAS 27 (revised) | Consolidated and separate financial statements |
| HKFRSs (amendment) | Improvements to HKFRSs issued in 2009 |
| HK (Int) 5 | Presentation of financial statements — Classification by the borrower of a term loan that contains a repayment on demand clause |

## 2. Basis of Preparation *(continued)*

### (a) Amendments and interpretations to existing standards effective for the Group's annual financial year beginning on 1 April 2010 and relevant to the Group *(continued)*

HKFRS 3 (revised), "Business combinations", and consequential amendments to HKAS 27 "Consolidated and separate financial statements", are effective prospectively to business combinations for which the acquisition date is on or after 1 April 2010.

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. HKFRS 3 (revised) has had no impact on the current period, as there have been no contingent payments included in the purchase costs of the acquisition of the subsidiaries during the period.

HKAS 27 (revised), "Consolidated and separate financial statements", requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. HKAS 27 (revised) has had no impact on the current period, as none of the non-controlling interests have a deficit balance; there have been no transactions whereby an interest in an entity is retained after the loss of control of that entity, and there have been no transactions with non-controlling interests.

The "Improvements to HKFRSs (2009)" comprises a number of minor and non-urgent amendments to a range of HKFRS which the HKICPA has issued as an omnibus batch of amendments. The impact of these amendments is not considered to be material to the Group and have not resulted in changes to the Group's accounting policies.

HK (Int) 5, "Presentation of financial statements — Classification by the borrower of a term loan that contains a repayment on demand clause", clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ("repayment on demand clause") should be classified by the borrower as current liabilities. HK (Int) 5 requires retrospective application. The adoption of HK (Int) 5 has had no material impact on the Group's consolidated financial statements as the Interpretation's conclusions were consistent with policies already adopted by the Group.

## 2. Basis of Preparation *(continued)*

### (b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted

The following new standards, amendments and interpretations to existing standards (collectively, the "Amendments") have been published that are mandatory for the Group's accounting periods beginning on or after 1 April 2010. Some of the Amendments are relevant and applicable to the Group. However, they have not been early adopted in these consolidated financial statements. The Group has commenced, but not yet completed, an assessment of the impact of the applicable Amendments on its results of operations and financial positions. The directors are of the view that the impact on the consolidated financial statements would not be significant other than certain additional disclosures.

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2010[1] |
| HKAS 12 (Amendments) | Deferred tax: Recovery of underlying assets[6] |
| HKAS 24 (as revised in 2009) | Related party disclosures[4] |
| HKAS 32 (Amendments) | Classification of rights issues[2] |
| HKFRSs 7 (Amendments) | Disclosures — Transfers of financial assets[5] |
| HKFRS 9 | Financial instruments[7] |
| HK(IFRIC)-INT 14 (Amendments) | Prepayments of a minimum funding requirement[4] |
| HK(IFRIC)-INT 19 | Extinguishing financial liabilities with equity instruments[3] |

1 *Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.*
2 *Effective for accounting periods beginning on or after 1 February 2010.*
3 *Effective for accounting periods beginning on or after 1 July 2010.*
4 *Effective for accounting periods beginning on or after 1 January 2011.*
5 *Effective for accounting periods beginning on or after 1 July 2011.*
6 *Effective for accounting periods beginning on or after 1 January 2012.*
7 *Effective for accounting periods beginning on or after 1 January 2013.*

## 3. Significant Accounting Policies

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

### (a) Consolidation

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

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

## 3. Significant Accounting Policies *(continued)*

### (a) Consolidation *(continued)*

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's statement of financial position, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

The Group treats transactions with non-controlling interests as transactions with equity holders of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

## 3. Significant Accounting Policies *(continued)*

### (b) Intangible assets

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

#### (i) 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.

#### (ii) 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.

#### (iii) Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated statement of financial position as an "intangible asset". Goodwill is initially measured at cost and subsequently carried at cost less accumulated impairment losses. In the case of associates and jointly-controlled entities, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated statement of financial position.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 March. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

## 3. Significant Accounting Policies *(continued)*

### (c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided regularly to the Group's chief operating decision-maker for the purpose of allocating resources to, and assessing performance of, various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

### (d) Foreign currency translation

#### (i) Functional and presentation currency

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the Group entities operate (the "functional currency") which include Hong Kong dollars and Renminbi. As the Company is listed in Hong Kong, for the convenience of the users of these consolidated financial statements, the results and the financial position of the Group are expressed in Hong Kong dollars, the presentation currency for the consolidated financial statements, except those arising from foreign currency loans used to hedge a net investment in a foreign operation which are recognised directly in other comprehensive income.

#### (ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

#### (iii) Group entities

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

— assets and liabilities for each reporting period presented are translated at the closing rate at the date of that reporting period;

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

— all resulting exchange differences are recognised as a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

## 3. Significant Accounting Policies *(continued)*

### (e) Property, plant and equipment

Buildings comprise mainly factories and offices. Buildings are carried at cost less subsequent depreciation and impairment losses. All other property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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 recorded as expenses in the consolidated statement of comprehensive income 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 assets' residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains or losses on disposal are determined by comparing the proceeds with the carrying amounts and are recognised in the consolidated statement of comprehensive income.

When revalued assets are sold, the amounts included in other reserves are transferred to retained profits.

### (f) Impairment of investments in subsidiaries and non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting period.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

## 3. Significant Accounting Policies *(continued)*

### (g) Inventories

Inventories comprise raw materials, work-in-progress and finished goods. 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 comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses and the estimated costs necessary to make the sales.

### (h) Receivables

Receivables, including trade and other receivables, and amounts due from related parties are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of 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 the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated statement of comprehensive income within administrative expenses. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the consolidated statement of comprehensive income.

### (i) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

### (j) Payables

Payables, including trade and bills payables, accruals and other payables, and amounts due to related parties are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. They are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability at least 12 months after the end of reporting period.

### (k) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost, and difference between the proceeds (net of transactions costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowings 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 end of reporting period.

## 3. Significant Accounting Policies *(continued)*

### (l) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation where, as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

### (m) Income tax

The tax expense for the year comprises current income tax and deferred income tax.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of reporting period in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the end of reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, and associates, except where the timing of the reverse of the temporary differences is controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

## 3. Significant Accounting Policies *(continued)*

### (n) Employee benefits

#### (i) Employee leave entitlements

Employees' entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of reporting period. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

#### (ii) Pension obligations

The Group operates a defined contribution retirement scheme under a mandatory provident fund scheme ("MPF scheme") in Hong Kong for its employees in Hong Kong, the assets of which are held in separate trustee-administered funds. The Group's contributions to the MPF scheme are based on a fixed percentage of the employees' relevant income per month.

In accordance with the PRC regulations, the Group is required to pay social security contributions for its PRC staff based on certain percentage of their salaries to the social security plan organised by related governmental bodies (the "PRC plan").

The Group has no further payment obligations once the contributions have been paid to the retirement schemes and PRC plan. The Group's contributions to these retirement schemes and PRC plan are recognised as employee benefit expense in the consolidated statement of comprehensive income when they are due.

#### (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) Revenue recognition

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

(i) Revenue from the sales of manufactured goods and trading of finished goods are 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.

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

(iii) Rental income is recognised on a time proportion basis over the terms of leases.

(iv) Sundry income is recognised on an accrual basis.

## 3. Significant Accounting Policies *(continued)*

### (p) Leases

#### (i) Operating leases (As a lessee)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged in the consolidated statement of comprehensive income on a straight-line basis over the period of the lease term.

#### (ii) Finance leases

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid land lease payments" in the consolidated statement of financial position and are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment. Unless it is clear that both elements are operating lease, in which case the entire lease is classified as an operating lease.

### (q) 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 consolidated statement of comprehensive income the period in which it is incurred.

### (r) 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 Group;

## 3. Significant Accounting Policies *(continued)*

### (r) Related parties *(continued)*

(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.

## 4. Critical Judgement in Applying Policies

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

### (a) Estimation on impairment of intangible assets

The Group performs annual tests of impairment on intangible assets in respect of the oral insulin product with the carrying amount of approximately HK$284,260,000 (2010: HK$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 and goodwill with the carrying amount of approximately HK$869,000 and HK$1,807,000 respectively (2010: HK$1,119,000 and HK$1,807,000 respectively) whenever there are indications that these assets have suffered 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.

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

Allowance for slow-moving and obsolete inventories is made based on the aging 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.

## 4. Critical Judgement in Applying Policies *(continued)*

### (c) Allowance for slow-moving and obsolete inventories *(continued)*

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expense. 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 changes in market condition. The Group will reassess the estimates by the end of each reporting period.

### (d) 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. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. 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 major financial instruments include trade receivables, deposits, prepayments and other receivables, cash and cash equivalents, amounts due from/(to) non-controlling interests, trade and bills payables, and accruals and other payables. Details of these financial instruments are disclosed in respective notes.

The Group's activities expose it to a variety of financial risks such as 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. The management monitors and manages the financial risks through internal risk assessment which analyses exposures by degree and magnitude of risks.

### (a) Foreign exchange risk

Foreign exchange risk arises when commercial transactions, assets or liabilities are denominated in a currency that is not the functional currency of the Group entities. The Group operates mainly in Hong Kong and the PRC and is exposed to foreign currency exchange rate risk arising from various foreign currency exposures, primarily with respect to United States dollars.

The directors are of the opinion that the Hong Kong dollars are reasonably stable with the United States dollars under the Linked Exchange Rate System, and accordingly, no sensitivity analysis of United States dollars with respect to Hong Kong dollars is performed.

At 31 March 2011, if Renminbi had strengthened/weakened by 1% (2010: 1%) against the Hong Kong dollars with all other variables held constant, the Group's pre-tax profit for the year would have been higher/lower by HK$902,000 (2010: HK$740,000), mainly as a result of foreign exchange gains/losses on translation of Renminbi-denominated net asset/ liabilities, representing trade and other receivables, cash and cash equivalents, trade and bills payables, and accruals and other payables.

## 5. Financial Risk Management *(continued)*

### (b) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables, amounts due from related parties and cash at banks.

The Group has no significant concentration of credit risk. In respect of trade receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. The Group has policies in place to ensure that sales are made to customers with an appropriate credit history. These credit evaluations focus on the customers' past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group will make specific provision for those balances which cannot be recovered. Normally, the Group does not obtain collateral from customers. In the opinion of the directors, the default risk of the Group is considered to be low.

With respect to credit risk arising from other receivables and amounts due from related parties, in the opinion of the directors, no significant credit risk is expected as there is no default repayment history.

Credit risk on liquid funds in a bank balance held under the name of another company is limited because the Group is able to control the usage of the bank balance.

The credit risk on liquid funds in banks is limited because the counterparties are reputable and creditworthy banks.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset at the end of reporting period.

### (c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient cash and bank deposits to meet its liquidity requirements in the short and longer term. Accordingly, the directors are of the opinion that the Group does not have significant liquidity risk.

## 5. Financial Risk Management *(continued)*

### (c) Liquidity risk *(continued)*

The table below analyses the Group's and the Company's financial liabilities into relevant maturity groupings based on the remaining period at reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

**The Group**

| | Less than 1 year HK$'000 | Between 1 and 2 years HK$'000 | Total HK$'000 |
|---|---|---|---|
| At 31 March 2011 | | | |
| Trade and bills payables | **7,152** | **—** | **7,152** |
| Accruals and other payables | **35,949** | **—** | **35,949** |
| Amounts due to non-controlling interests | **36,778** | **21,851** | **58,629** |
| | **79,879** | **21,851** | **101,730** |
| At 31 March 2010 | | | |
| Trade and bills payables | 8,479 | — | 8,479 |
| Accruals and other payables | 46,312 | — | 46,312 |
| Amounts due to non-controlling interests | 32,570 | 14,493 | 47,063 |
| | 87,361 | 14,493 | 101,854 |

**The Company**

| | Less than 1 year HK$'000 | Between 1 and 2 years HK$'000 | Total HK$'000 |
|---|---|---|---|
| At 31 March 2011 | | | |
| Accruals and other payables | **429** | **—** | **429** |
| At 31 March 2010 | | | |
| Accruals and other payables | 527 | — | 527 |

## 5. Financial Risk Management *(continued)*

### (d) Interest rate risk

Other than the cash at banks and pledged bank deposits which carry interest at prevailing market interest rates, the Group has no other significant interest-bearing assets or liabilities. The interest rate risk mainly arises from interest-bearing bank deposits.

At 31 March 2011, if interest rates on interest bearing bank deposits, had been 100 basis points increase/decrease with all other variables held constant, the Group's pre-tax profit for the year would have been approximately HK$210,000 increase/decrease (2010: consolidated profit for the year would have been approximately HK$785,000 increase/decrease).

The directors are of the opinion that the Group does not have significant fair value interest rate risk and no sensitivity analysis is performed.

## 6. Segment Information

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

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

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

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

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

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

## 6. Segment Information *(continued)*

### Business segments

The following table provides an analysis of the Group's revenue, results and certain assets, liabilities and expenditures information by business nature for the year ended 31 March 2011 and 31 March 2010.

| | Manufacturing | | Trading | | Gene development | | Oral insulin | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Segment revenue | | | | | | | | | | |
| Sales to external customers | **39,888** | 45,722 | **158,928** | 150,569 | **—** | — | **—** | — | **198,816** | 196,291 |
| Segment results | **2,492** | 4,219 | **17,883** | 14,734 | **(66)** | (67) | **(11,071)** | (1,160) | **9,238** | 17,726 |
| Interest income | | | | | | | | | **931** | 637 |
| Net unallocated expenses | | | | | | | | | **(5,066)** | (5,575) |
| Profit before taxation | | | | | | | | | **5,103** | 12,788 |
| Taxation | | | | | | | | | **(1,055)** | 2,784 |
| Profit for the year | | | | | | | | | **4,048** | 15,572 |
| Segment assets | **156,050** | 148,549 | **76,590** | 138,370 | **5** | 5 | **312,386** | 305,925 | **545,031** | 592,849 |
| Unallocated assets | | | | | | | | | **119,061** | 61,364 |
| Total assets | | | | | | | | | **664,092** | 654,213 |
| Segment liabilities | **13,155** | 12,663 | **29,705** | 41,041 | **50** | 50 | **27,809** | 17,125 | **70,719** | 70,879 |
| Unallocated liabilities | | | | | | | | | **33,100** | 33,248 |
| Total liabilities | | | | | | | | | **103,819** | 104,127 |
| Other segment information: | | | | | | | | | | |
| Capital expenditure | **—** | — | **—** | — | **—** | — | **—** | — | **—** | — |
| Unallocated capital expenditure | | | | | | | | | **—** | — |
| | | | | | | | | | **—** | — |
| Depreciation and amortisation | **3,159** | 4,897 | **426** | 569 | **—** | — | **—** | — | **3,585** | 5,466 |
| Unallocated depreciation and amortisation | | | | | | | | | **252** | 251 |
| | | | | | | | | | **3,837** | 5,717 |
| Other non-cash expenses, other than depreciation and amortisation: | | | | | | | | | | |
| Impairment on trade receivables | **4,062** | 4,952 | **220** | 556 | **—** | — | **—** | — | **4,282** | 5,508 |
| Impairment on other receivables | **482** | 94 | **—** | — | **—** | — | **987** | — | **1,469** | 94 |
| Increase in allowance for obsolete inventories | **—** | 264 | **—** | — | **—** | — | **—** | — | **—** | 264 |
| Loss on disposal of property, plant and equipment | **—** | — | **—** | 3 | **—** | — | **—** | — | **—** | 3 |
| Unallocated loss on disposal of property, plant and equipment | | | | | | | | | **—** | 1 |
| | | | | | | | | | **—** | 4 |

## 7. Turnover

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Manufacturing of pharmaceutical products | **39,888** | 45,722 |
| Trading of pharmaceutical products | **158,928** | 150,569 |
| | **198,816** | 196,291 |

## 8. Other Revenues

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Exchange gain | **113** | 57 |
| Interest income | **931** | 637 |
| Rental income | **—** | 60 |
| Reversal of impairment on trade receivables *(note 22)* | **3,257** | 6,461 |
| Sundry income | **7,291** | 6,303 |
| | **11,592** | 13,518 |

## 9. Profit Before Taxation

The Group's profit before taxation has been arrived at after charging:

| | **2011 HK$'000** | 2010 HK$'000 |
|---|---|---|
| Amortisation of prepaid land lease payments | **536** | 794 |
| Amortisation of intangible assets (included in cost of sales) | **283** | 297 |
| Auditors' remuneration | **660** | 650 |
| Cost of sales* | **146,785** | 142,447 |
| Depreciation of property, plant and equipment | **3,018** | 4,626 |
| Exchange loss | **—** | 558 |
| Increase in allowance for obsolete inventories | **—** | 264 |
| Impairment on other receivables | **1,469** | 94 |
| Impairment on trade receivables | **4,282** | 5,508 |
| Loss on disposal of property, plant and equipment | **—** | 4 |
| Operating lease charges in respect of land and buildings | **2,218** | 2,222 |
| Research and development expenses** | **8,339** | 809 |
| Staff cost (including directors' emoluments) | | |
| — Salaries, bonus and allowances | **36,842** | 36,529 |
| — Retirement benefits scheme contributions | **2,144** | 1,906 |

*Note:*

* *Cost of sales included staff cost and depreciation of property, plant and equipment of approximately HK$5,914,000 (2010: HK$8,454,000) for the year.*

** *Of this amount, HK$8,126,000 related to expenditure for the oral insulin project and the remaining of HK$213,000 (2010: HK$809,000) related to others.*

## 10. Taxation

Taxation in consolidated statement of comprehensive income represents:

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Current tax — Hong Kong Profits Tax | | |
| Provision for the year | 85 | 80 |
| Under/(over)-provision in prior years | 6 | (110) |
| | 91 | (30) |
| Current tax — Overseas | | |
| Provision for the year | 967 | 1,246 |
| (Over)-provision in prior years | (3) | (4,000) |
| | 964 | (2,754) |
| Income tax charge/(credit) | 1,055 | (2,784) |

Hong Kong Profits Tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits for the year. Tax charges on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Under the Enterprise Income Tax Law (the "EIT Law"), the PRC corporate income tax has been standardised at the rate of 25%. However, certain subsidiaries of the Company have been granted preferential tax treatments prior to the introduction of the EIT Law. They continue to enjoy the preferential tax treatment and are subject to the corporate income tax at the rate of 22% for 2010. The rate would gradually increase to 24% for 2011 and 25% for 2012 according to the grandfathering rules stipulated in the Implementation Rules and related circular.

When the EIT Law was introduced in the beginning of 2008, the Group made a provision amounting to HK$15,000,000 in the consolidated financial statements for the year ended 31 March 2008 for the exposure that the Group may face due to the implementation of the EIT Law. However, subsequent advices sought from PRC tax professionals confirmed that the EIT Law does not contain provisions for retrospective application. Accordingly, write back of the provision in the amounts of HK$4,000,000 and HK$14,200,000 were made to the consolidated financial statements for the year ended 31 March 2010 and 31 March 2009 respectively.

## 10. Taxation *(continued)*

A reconciliation of the tax expenses applicable to profit before taxation using the statutory rates for the regions in which the Company and its subsidiaries are domiciled, and the tax expenses at the effective tax rates, was as follows:

| | **2011 HK$'000** | 2010 HK$'000 |
|---|---|---|
| Profit before taxation | **5,103** | 12,788 |
| Tax at the statutory tax rates applicable to the respective tax jurisdictions | **(1,412)** | 450 |
| Tax effect on expenses not deductible | **2,786** | 1,870 |
| Tax effect on income not taxable | **(441)** | (18) |
| Tax effect of temporary differences not recognised | **13** | 4 |
| Under/(Over)-provision in prior years | **64** | (4,110) |
| Others | **45** | (980) |
| Income tax charge/(credit) | **1,055** | (2,784) |

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

Directors' emoluments, disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance are as follows:

### (a) Directors' emoluments

| | **Fee** | | **Salaries, bonus and other benefits** | | **Pension scheme contributions** | | **Total** | |
|---|---|---|---|---|---|---|---|---|
| | **2011 HK$'000** | 2010 HK$'000 | **2011 HK$'000** | 2010 HK$'000 | **2011 HK$'000** | 2010 HK'000 | **2011 HK$'000** | 2010 HK$'000 |
| **Name of director** | | | | | | | | |
| Mao Yu Min | **40** | 40 | **712** | 975 | **—** | — | **752** | 1,015 |
| Xie Yi | **40** | 40 | **975** | 679 | **—** | — | **1,015** | 719 |
| Lou Yi | **40** | 20 | **320** | 25 | **—** | — | **360** | 45 |
| Wong Sau Kuen | **40** | 20 | **511** | 494 | **12** | 12 | **563** | 526 |
| Fang Lin Hu | **40** | 40 | **—** | — | **—** | — | **40** | 40 |
| Xue Jing Lun | **40** | 40 | **—** | — | **—** | — | **40** | 40 |
| Jin Song | **40** | 40 | **—** | — | **—** | — | **40** | 40 |
| | **280** | 240 | **2,518** | 2,173 | **12** | 12 | **2,810** | 2,425 |

## 11. Directors' Emoluments and the Five Highest Paid Individuals *(continued)*

### (a) Directors' emoluments *(continued)*

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 emoluments during the year.

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2010: three) directors whose emoluments are shown in note 11(a). The emoluments paid to the remaining two individuals (2010: two) during the year are as follows:

| | **2011** | 2010 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Salaries and allowance | **1,455** | 1,430 |
| Pension scheme contributions | **24** | 24 |
| | **1,479** | 1,454 |

| | **Number of individuals** | |
|---|---|---|
| | **2011** | 2010 |
| Emolument bands | | |
| Nil to HK$1,000,000 | **2** | 2 |

## 12. Retirement Benefit Scheme

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 Scheme 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 consolidated statement of comprehensive income represents contributions payable to the fund by the Group at rates specified in the rules of the scheme.

The employees of the Group'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.

## 13. Profit/(Loss) Attributable to Equity Holders

The profit/(loss) attributable to equity holders of the Company is dealt with in the statement of comprehensive income of the Company to the extent of HK$45,974,000 (2010: Loss of HK$7,139,000).

## 14. Earnings Per Share

The calculation of the basic earnings per share is based on the profit attributable to the Company's equity holders of approximately HK$11,567,000 (2010: profit attributable to the Company's equity holders of approximately HK$14,624,000) and on the weighted average of 2,290,000,000 (2010: 2,290,000,000) ordinary shares in issue during the year.

As there were no potential dilutive ordinary shares in existence for each of the years ended 31 March 2011 and 31 March 2010 and accordingly, no diluted earnings per share have been presented.

## 15. Dividends

The directors do not recommend the payment of dividend for the year ended 31 March 2011 (2010: HK$Nil).

## 16. Property, Plant and Equipment

The Group:

| | 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 2009 | 58,514 | 27,636 | 7,355 | 6,168 | 99,673 |
| Additions | 59 | 1,206 | 158 | — | 1,423 |
| Disposal *(note)* | — | — | (243) | — | (243) |
| At 31 March 2010 | 58,573 | 28,842 | 7,270 | 6,168 | 100,853 |
| Additions | — | 330 | 103 | 632 | 1,065 |
| Exchange realignments | 1,686 | 1,018 | 153 | 195 | 3,052 |
| At 31 March 2011 | 60,259 | 30,190 | 7,526 | 6,995 | 104,970 |
| **ACCUMULATED DEPRECIATION AND IMPAIRMENT** | | | | | |
| At 1 April 2009 | 17,052 | 20,187 | 4,913 | 4,269 | 46,421 |
| Charge for the year | 1,523 | 2,011 | 556 | 536 | 4,626 |
| Written back on disposal | — | — | (239) | — | (239) |
| At 31 March 2010 | 18,575 | 22,198 | 5,230 | 4,805 | 50,808 |
| Charge for the year | 1,010 | 1,085 | 456 | 467 | 3,018 |
| Exchange realignments | 386 | 826 | 116 | 159 | 1,487 |
| At 31 March 2011 | 19,971 | 24,109 | 5,802 | 5,431 | 55,313 |
| **CARRYING AMOUNT** | | | | | |
| At 31 March 2011 | 40,288 | 6,081 | 1,724 | 1,564 | 49,657 |
| At 31 March 2010 | 39,998 | 6,644 | 2,040 | 1,363 | 50,045 |

Depreciation of property, plant and equipment of HK$1,204,000 (2010: HK$1,942,000) has been charged in administrative expenses and HK$1,814,000 (2010: HK$2,684,000) has been charged in cost of sales.

*Note:*

*On 21 July 2008, Changchun Extrawell Pharmaceutical Co., Ltd. ("CEP"), a subsidiary of the Company, entered into a sale and purchase agreement regarding disposal of certain buildings located in 吉林省長春市朝陽區長瀋路98號 to an independent third party for a consideration of RMB1,500,000. However, the transfer of the legal title in the buildings has still not been completed up to the date of this report.*

## 17. Prepaid Land Lease Payments

The Group:

| | HK$'000 |
|---|---|
| **COST** | |
| At 1 April 2009 and at 31 March 2010 | 23,966 |
| Additions *(note)* | 10,184 |
| Exchange realignments | 592 |
| At 31 March 2011 | 34,742 |
| **ACCUMULATED AMORTISATION AND IMPAIRMENT** | |
| At 1 April 2009 | 9,538 |
| Charge for the year | 794 |
| At 31 March 2010 | 10,332 |
| Charge for the year | 536 |
| Exchange realignments | 183 |
| At 31 March 2011 | 11,051 |
| **CARRYING AMOUNT** | |
| At 31 March 2011 | 23,691 |
| At 31 March 2010 | 13,634 |

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

| | **2011**<br>**HK$'000** | 2010<br>HK$'000 |
|---|---|---|
| Land outside Hong Kong : | | |
| Medium-term leases | **23,691** | 13,634 |

Amortisation of prepaid land lease payments of HK$53,000 (2010: HK$355,000) has been charged in administrative expenses and HK$483,000 (2010: HK$439,000) has been charged in cost of sales.

*Note:*

*During the year ended 31 March 2011, CEP entered into a sale and purchase agreement with an independent third party for acquisition of a piece of land in Changchun, the PRC. CEP has paid in full the consideration of RMB8,657,000 and has booked the payment as prepaid land lease payment. CEP is in the process of obtaining the land use right certificate for the piece of land acquired.*

## 18. Intangible Assets

The Group:

| | Technological know-how HK$'000 | Gene invention rights HK$'000 | Goodwill HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **COST** | | | | |
| At 1 April 2009 | 294,793 | 95,000 | — | 389,793 |
| Additions | — | — | 1,807 | 1,807 |
| At 31 March 2010 | 294,793 | 95,000 | 1,807 | 391,600 |
| Exchange realignments | 372 | — | — | 372 |
| At 31 March 2011 | 295,165 | 95,000 | 1,807 | 391,972 |
| **ACCUMULATED AMORTISATION AND IMPAIRMENT** | | | | |
| At 1 April 2009 | 9,117 | 95,000 | — | 104,117 |
| Charge for the year | 297 | — | — | 297 |
| At 31 March 2010 | 9,414 | 95,000 | — | 104,414 |
| Charge for the year | 283 | — | — | 283 |
| Exchange realignments | 339 | — | — | 339 |
| At 31 March 2011 | 10,036 | 95,000 | — | 105,036 |
| **CARRYING AMOUNT** | | | | |
| At 31 March 2011 | 285,129 | — | 1,807 | 286,936 |
| At 31 March 2010 | 285,379 | — | 1,807 | 287,186 |

Amortisation of intangible assets of HK$283,000 (2010: HK$297,000) has been charged in cost of sales.

## 18. Intangible Assets *(continued)*

*Note:*

*The carrying amount of technological know-how includes the technological know-how of approximately HK$284,260,000 (2010: 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. 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 for a patent registration (the "Patent") in respect of the Know-how in the PRC and the United States of America (the "USA"). The Patent was granted by State Intellectual Property Office of the PRC and United Stated Patent and Trademark office of the USA on 4 August 2004 and 28 March 2006 respectively.*

*An independent professional valuer was engaged by the Company to conduct a valuation of the Know-how. The independent professional valuer had prepared a report, providing a value as of 31 March 2011 that is no less than the carrying amount of the Know-how of HK$284,260,000. Should the approval of results of the clinical trial fail, the certificate of new medicine cannot be obtained from the State Food and Drug Administration ("SFDA") of the PRC or the launching of the Product is 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$869,000 (2010: HK$1,119,000) 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 conducted an annual assessment on the recoverable amount of the technological know-how held by JECP and considered that no further provision for impairment is required (2010: HK$Nil) for the year.*

*Goodwill represents the excess of the cost of acquisition over the net fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities arising from an acquisition of additional 5.49% interests in CEP from a non-controlling interest in 2009. The carrying amount of goodwill was allocated to the cash-generating units ("CGU") of the Group's operations related to manufacturing of pharmaceutical products.*

*The recoverable amounts of the relevant CGU have been determined on the basis of value in use calculations. For the purpose of impairment testing, the recoverable amount for the CGU is determined based on its fair value less cost to sell or value-in-use calculations. The key assumption for the Group has been determined by the Group's management based on the future income generated from the acquisition of the additional interests in CEP. The directors are of the opinion that no impairment provision is required on goodwill for the year.*

## 19. Amounts due from Non-Controlling Interests

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Non-current portion | | |
| Fordnew Industrial Limited *(notes b, c and e)* | **7,676** | 5,680 |
| Zheng Chang Xue *(notes b, c and e)* | **2,205** | 1,632 |
| Hou Shi Chang *(notes b, c, d and e)* | **389** | 288 |
| Groupmark Investment Group Limited *(notes b, c and e)* | **2,051** | 1,518 |
| Feel So Good Limited *(notes b, c and e)* | **649** | 480 |
| | **12,970** | 9,598 |
| Current portion | | |
| Hou Shi Chang *(notes a, d and f)* | **3** | 3 |

*Notes:*

*(a) The amount due is unsecured, interest-free and repayable on demand.*

*(b) The amounts due are unsecured, interest-free and have no fixed terms of repayment.*

*(c) The amounts represent outstanding contributions' receivable from non-controlling interests of Fosse Bio who made calls from its shareholders to contribute based on their respective equity interests in the company in respect of working capital and operation funds for the further clinical trial of the oral insulin project. The aggregate contribution calls in relation thereof are recorded as amounts due to non-controlling interest in note 28.*

*(d) Hou Shi Chang is a shareholder of Fosse Bio.*

*(e) The amounts due are denominated in Renminbi.*

*(f) The amount due is denominated in Hong Kong dollars.*

## 20. Interests in Subsidiaries

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Unlisted shares, at cost | **52,990** | 52,990 |
| Add: Amounts due from subsidiaries | **123,236** | 120,348 |
| | **176,226** | 173,338 |
| Less: Amounts due to subsidiaries | **(26,828)** | (21,894) |
| Impairment on interests in subsidiaries | **(17,830)** | (17,830) |
| | **131,568** | 133,614 |

Particulars of the Company's principal subsidiaries as at 31 March 2011 are as follows:

| Name | Place of incorporation/ registration and operations | Issued and paid-up capital/ registered capital | Percentage of ownership/ interest Direct | Percentage of ownership/ interest 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 Enterprises Limited | Hong Kong | 2 ordinary shares of HK$10 each, and 100,000 non-voting deferred shares of HK$10 each | — | 100% | Investment holding |
| Extrawell Pharmaceutical (HK) Limited | Hong Kong | 2 ordinary shares of HK$1 each | — | 100% | Provision of agency services |

## 20. Interests in Subsidiaries *(continued)*

| Name | Place of incorporation/ registration and operations | Issued and paid-up capital/ registered capital | Percentage of ownership/ interest Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| South Asia Pharmaceutical (China) Limited | Malaysia | 1 ordinary share of US$1 each | — | 100% | Marketing and distribution of pharmaceutical products |
| Mega Asia Pharmaceutical Limited | Hong Kong/ The PRC | 10,000 ordinary shares of HK$1 each | — | 100% | Provision of agency services |
| Smart Phoenix Holdings Limited | BVI | 100 ordinary shares of US$1 each | — | 100% | Investment holding |
| CEP *(Note b)* | The PRC | RMB50,000,000 | — | 73% | Development, manufacture and sales of pharmaceutical products |
| Best-Bio Developments Limited ("Best-Bio") | BVI | 1 ordinary share of US$1 each | — | 100% | Investment holding |
| Right & Rise Limited ("R&R") | BVI | 50,000 ordinary shares of US$1 each | — | 100% | Holding of gene invention rights and investment holding |
| Grand Success Management Limited ("Grand Success") | BVI | 50,000 ordinary shares of US$1 each | — | 75% | Holding of gene invention rights |
| Smart Ascent Limited ("Smart Ascent") *(Note c)* | Hong Kong | 10,000 ordinary shares of HK$1 each | — | 51% | Investment holding |
| Fosse Bio-Engineering Development Limited ("Fosse Bio") *(Notes c and d)* | Hong Kong/ The PRC | 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 |

The above table lists the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results or net assets of the Group.

## 20. Interests in 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. During the year ended 31 March 2010, the Group had acquired an additional 5.49% interests from a non-controlling interest and as a result the equity interest of the Group increased from approximately 68% to 73%.*

(c) *The interest in Fosse Bio was originally acquired in November 2003 by Smart Ascent, an indirect subsidiary in which the Group holds 51% interest. Two installments of the consideration for acquiring the 51% interest in Fosse Bio, amounting to HK$31,780,000 remain unpaid by Smart Ascent as at 31 March 2011. These two installments are to be paid as to HK$12,000,000 within 14 days from the issuance of the certificate of phase III clinical trial of the Product by the SFDA as mentioned in note 18 and as to HK$19,780,000 within 14 days from the issuance of the certificate of new medicine for the Product by the SFDA. The unpaid installments are included in amounts due to non-controlling interests.*

*At the time when the Group acquired the 51% interest in Smart Ascent, the vendors of the shares of Smart Ascent (the "Smart Ascent Vendors") undertook to repay the outstanding consideration of HK$31,780,000 as referred to in the above paragraph. The Smart Ascent Vendors had pledged the shares representing 49% interest in Smart Ascent. Further discussion of the amounts due from the Smart Ascent Vendors is set out in note 23.*

*At the time when the Group acquired the 51% interest in Smart Ascent, the Group without knowing the relationship, failed to disclose that the Smart Ascent Vendors are the respective son-in-law and daughter-in-law of Mr. Ho Chin Hou, a former executive director of the Company who had resigned as director with effect from 12 March 2009, and that the acquisition of the 51% interest in Smart Ascent (the "2004 Transaction") constituted a connected transaction under the Listing Rules. Pursuant to a special general meeting of the Company held on 8 June 2009, an ordinary resolution was passed to ratify and approve this acquisition.*

*On 27 July 2007, the Group entered into a sale and purchase agreement with one of the Smart Ascent Vendors to acquire the remaining 49% interest in Smart Ascent, at the consideration of HK$768,900,000 which would be satisfied by allotting 300,000,000 ordinary shares of the Company with the nominal value of HK$0.01 at the issuing price of HK$2.563 each. This transaction was approved in a special general meeting of the Company held on 20 September 2007. Notwithstanding that the relationship as stated in the above paragraph was disclosed, prior to the said special general meeting, in an announcement dated 17 September 2007, the Stock Exchange requested the Company to convene another special general meeting after the ratification of the 2004 Transaction to re-approve this acquisition. This special general meeting requested by the Stock Exchange has not been held at the date of issuance of these financial statements.*

*Pursuant to an announcement dated 23 July 2009, the Company submitted a report as prepared by the Independent Board to the Stock Exchange for the purpose of the Company's application of lifting the suspension of trading of the Company's shares on the Stock Exchange. The report identified, amongst other matters, that the Group had also failed to disclose the advances made by Extrawell BVI, a wholly owned subsidiary of the Company to Smart Ascent during the three years ended 31 March 2007 which should have constituted connected transactions, as a result of the matters disclosed in the above paragraphs. Further announcement was made by the Company on 14 August 2009, which disclosed that the advances constituted connected transactions which should have been subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules, and details of the advances made were further disclosed in the Company's 2010 Annual Report. Pursuant to the Company's announcement dated 23 December 2009, the Company had fulfilled all resumption conditions and trading in the Company's shares was resumed on 24 December 2009.*

(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. Therefore, the effective equity interest of Fosse Bio and Welly Surplus held by the Group are both 26%.*

## 21. Inventories

The Group:

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Raw materials | 2,390 | 2,551 |
| Work in progress | 1,470 | 1,549 |
| Finished goods | 11,925 | 19,574 |
| | 15,785 | 23,674 |
| Less: Provision for obsolete inventories | (553) | (553) |
| | 15,232 | 23,121 |

Amount of inventories recognised as expenses approximate the cost of sales as shown in the consolidated statement of comprehensive income for both years.

## 22. Trade Receivables

The Group:

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Trade receivables | 91,351 | 103,415 |
| Less: Impairment on trade receivables | (18,776) | (18,659) |
| Trade receivables, net of provision | 72,575 | 84,756 |
| Maximum exposure to credit risk | 72,575 | 84,756 |

The carrying amounts of trade receivables approximate their fair values as at 31 March 2011 and 31 March 2010. The Group does not hold any collateral over these balances.

## 22. Trade Receivables *(continued)*

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

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Within 90 days | 25,910 | 37,391 |
| Between 91 to 180 days | 16,240 | 25,576 |
| Between 181 to 365 days | 30,425 | 21,789 |
| Between 1 to 2 years | 4,282 | 5,508 |
| Over 2 years | 14,494 | 13,151 |
| | 91,351 | 103,415 |

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

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Within 90 days | 25,910 | 37,391 |
| Between 91 to 180 days | 16,240 | 25,576 |
| Between 181 to 365 days | 30,425 | 21,789 |
| | 72,575 | 84,756 |

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

The movements of impairment on trade receivables are as follows:

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| At 1 April | 18,659 | 20,183 |
| Exchange realignments | 659 | — |
| Written-off on trade receivables | (1,567) | (571) |
| Impairment on trade receivables *(note 9)* | 4,282 | 5,508 |
| Reversal of impairment on trade receivables *(note 8)* | (3,257) | (6,461) |
| At 31 March | 18,776 | 18,659 |

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

All the carrying amounts of the Group's trade receivables are denominated in Renminbi.

## 23. Deposits, Prepayments and Other Receivables

The Group:

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Deposits | **6,450** | 1,652 |
| Other receivables, net of impairment loss | **18,994** | 23,024 |
| Other receivables due from connected persons *(Note)* | **31,780** | 31,780 |
| Maximum exposure to credit risk | **57,224** | 56,456 |
| Prepayments | **488** | 3,848 |
| | **57,712** | 60,304 |

The Company:

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Prepayments | **221** | 231 |

The carrying amounts of the Group's deposits, prepayments and other receivables approximate their fair values as at 31 March 2011 and 31 March 2010. The Group does not hold any collateral over these balances, except the other receivables due from connected persons as disclosed below.

*Note:*

*The amount of HK$31,780,000 included in the Group's other receivables is due from the Smart Ascent Vendors as referred to in note 20(c) who had, in connection with the acquisition by the Group of 51% interest in Smart Ascent, undertaken to repay this amount to the vendors for the interest of 51% in Fosse Bio, being the third and fourth installments of the consideration for this interest in Fosse Bio.*

*Risk in respect of the other receivables due from connected persons*

*As mentioned in note 20(c), the other receivables due from connected persons are secured against the shares representing 49% interest in Smart Ascent held in name of Mr. Ong Cheng Heang. The risk associated with these other receivables is assessed to be the ability of Smart Ascent Vendors to repay the amount in full or the ultimate success of the oral insulin product (please refer to note 18 for details).*

## 23. Deposits, Prepayments and Other Receivables *(continued)*

The carrying amounts of the Group's deposits, prepayments and other receivables are denominated in the following currencies:

| | **2011 HK$'000** | 2010 HK$'000 |
|---|---|---|
| Renminbi | **24,861** | 15,580 |
| Hong Kong dollars | **32,851** | 44,724 |
| | **57,712** | 60,304 |

## 24. Pledged Bank Deposits

The Group:

| | **2011 HK$'000** | 2010 HK$'000 |
|---|---|---|
| Pledged time deposits | **20,743** | 20,579 |

The carrying amount of the Group's pledged time deposits is denominated in the following currencies:

| | **2011 HK$'000** | 2010 HK$'000 |
|---|---|---|
| United States dollars | **17,263** | 17,126 |
| Hong Kong dollars | **3,480** | 3,453 |
| | **20,743** | 20,579 |

The Group's pledged bank deposits represent deposits pledged to a bank to secure banking facilities granted to the Group. The pledged bank deposits are arranged at floating interest rates ranging from 0.51% to 1.1% (2010: 0.24% to 0.68%) per annum.

## 25. Cash and Cash Equivalents

The Group:

| | **2011** | 2010 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Cash and bank balances | **124,573** | 104,987 |
| Maximum exposure to credit risk | **121,178** | 102,450 |

The Company:

| | **2011** | 2010 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Cash and bank balances and maximum exposure to credit risk | **56,136** | 21 |

The carrying amounts of the Group's and the Company's cash and cash equivalents are denominated in the following currencies:

The Group:

| | **2011** | 2010 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Renminbi | **53,930** | 38,597 |
| United States dollars | **57,925** | 65,192 |
| Euro | **1,467** | — |
| Hong Kong dollars | **11,251** | 1,198 |
| | **124,573** | 104,987 |

## 25. Cash and Cash Equivalents *(continued)*

The Company:

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| United States dollars | **50,563** | 2 |
| Euro | **1,433** | — |
| Hong Kong dollars | **4,140** | 19 |
| | **56,136** | 21 |

The cash and cash equivalents are carried at floating interest rates of 0.01% to 0.65% (2010: 0.01% to 0.5%) per annum, thus exposing the Group to 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 cash and cash equivalents was a bank balance of approximately HK$19,083,000 (2010: HK$11,206,000) being held under the name of another company. The Group is able to control the usage of this bank balance and as a result the balance was treated as the bank balance of the Group.

## 26. Trade and Bills Payables

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

The Group:

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Within 90 days | **4,025** | 5,877 |
| Between 91 to 180 days | **1,577** | 1,665 |
| Between 181 to 365 days | **178** | 623 |
| Between 1 to 2 years | **992** | 309 |
| Over 2 years | **380** | 5 |
| | **7,152** | 8,479 |

## 26. Trade and Bills Payables *(continued)*

The carrying amounts of the Group's trade and bills payables, approximate their fair values as at 31 March 2011 and 31 March 2010 and are denominated in the following foreign currencies:

The Group:

| | **2011** | 2010 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Renminbi | **2,852** | 3,273 |
| United States dollars | **4,300** | 2,751 |
| Euro | **—** | 2,455 |
| | **7,152** | 8,479 |

## 27. Accruals and Other Payables

The Group:

| | **2011** | 2010 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Accruals and other payables | **35,949** | 46,312 |

The Company:

| | **2011** | 2010 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Accruals and other payables | **429** | 527 |

## 27. Accruals and Other Payables *(continued)*

The carrying amounts of the Group's and the Company's accruals and other payables approximate their fair values as at 31 March 2011 and 31 March 2010 and are denominated in the following currencies:

The Group:

| | **2011** **HK$'000** | 2010 HK$'000 |
|---|---|---|
| Renminbi | **34,339** | 44,021 |
| Hong Kong dollars | **1,610** | 2,291 |
| | **35,949** | 46,312 |

The Company:

| | **2011** **HK$'000** | 2010 HK$'000 |
|---|---|---|
| Hong Kong dollars | **429** | 527 |

## 28. Amounts due to Non-Controlling Interests

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Non-current portion | | |
| Ong Cheng Heang *(notes b, c, e and f)* | **7,380** | 4,895 |
| Fordnew Industrial Limited *(notes b, c and e)* | **8,564** | 5,680 |
| Zheng Chang Xue *(notes b, c and e)* | **2,460** | 1,632 |
| Hou Shi Chang *(notes b, c and e)* | **434** | 288 |
| Groupmark Investment Group Limited *(notes b, c and e)* | **2,289** | 1,518 |
| Feel So Good Limited *(notes b, c and e)* | **724** | 480 |
| | **21,851** | 14,493 |
| Current portion | | |
| Ong Cheng Heang *(notes a and e)* | **4,374** | 166 |
| Fordnew Industrial Limited *(notes a and d)* | **32,404** | 32,404 |
| | **36,778** | 32,570 |

*Notes:*

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

(b) *The amounts due are unsecured, interest-free and have no fixed terms of repayment.*

(c) *The amounts represent contributions made by non-controlling interests of Fosse Bio in respect of working capital and operation funds for the further clinical trial of the oral insulin project, and the corresponding outstanding contributions receivable from them are recorded as amounts due from non-controlling interest in note 19.*

(d) *The amount due is denominated in Hong Kong dollars.*

(e) *The amounts due are denominated in Renminbi.*

(f) *Ong Cheng Heang is a shareholder of Smart Ascent, which owns 51% equity interest in Fosse Bio.*

## 29. Deferred Tax Liabilities

The deferred tax liabilities at 31 March 2011 arose from accelerated tax depreciation.

At 31 March 2011, the Group has unused tax losses arising in Hong Kong and the PRC of approximately HK$3,458,000 (2010: HK$3,460,000) and HK$7,478,000 (2010: HK$5,485,000) 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 expire as follows:

| | **2011**<br>**HK$'000** | 2010<br>HK$'000 |
|---|---|---|
| **Year** | | |
| 2010 | **—** | 954 |
| 2011 | **2,197** | 905 |
| 2012 | **745** | 1,083 |
| 2013 | **964** | 404 |
| 2014 | **2,215** | 2,139 |
| 2015 | **1,357** | — |
| | **7,478** | 5,485 |

## 30. Share Capital

The Group and the Company:

| | **Number of shares** | | **Share capital** | |
|---|---|---|---|---|
| | **2011**<br>**'000** | 2010<br>'000 | **2011**<br>**HK$'000** | 2010<br>HK$'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 |

## 31. Reserves

### (a) The Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statements of changes in equity on page 32 of the consolidated financial statements.

### (b) Nature and purpose of reserve

**(i) Share premium**

The funds in the share premium account are distributable in form of fully paid bonus shares.

**(ii) Capital reserve**

In accordance with the relevant regulations in 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.

**(iii) Contributed surplus**

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

**(iv) Foreign currency translation reserve**

The foreign currency translation reserve comprises all foreign exchange differences 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(d)(iii) to the consolidated financial statements.

## 31. Reserves *(continued)*

### (c) The Company:

| | Share premium HK$'000 | Contributed surplus HK$'000 | Foreign currency translation reserve HK$'000 | (Accumulated losses)/ retained earnings HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| For the year ended 31 March 2010 | | | | | |
| At 1 April 2009 | 133,717 | 64,636 | 3,862 | (15,405) | 186,810 |
| Loss for the year *(note 13)* | — | — | — | (7,139) | (7,139) |
| At 31 March 2010 | 133,717 | 64,636 | 3,862 | (22,544) | 179,671 |
| For the year ended 31 March 2011 | | | | | |
| At 1 April 2010 | **133,717** | **64,636** | **3,862** | **(22,544)** | **179,671** |
| Profit for the year *(note 13)* | **—** | **—** | **—** | **45,974** | **45,974** |
| At 31 March 2011 | **133,717** | **64,636** | **3,862** | **23,430** | **225,645** |

## 32. Capital Risk Management

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 through optimisation of capital structure to reduce the cost of capital. The Group's overall strategy remains unchanged from prior years.

The Group regularly reviews and manages its capital structure, and makes adjustments to it taking into account the changes in economic conditions, risk characteristics of the underlying assets, the Group's investment strategy and opportunities, projected operating cashflows and capital expenditures. To maintain or adjust the capital structure, the Group may adjust the level of borrowings, dividend payment to shareholders, issue new shares, or repurchase of its own shares.

The Group monitors its capital structure using debt to equity ratio; whereas debt comprises bank borrowings and amounts due to non-controlling interests whilst equity means the total equity of the Group. During the year, the Group's strategy to maintain a healthy debt to equity ratio has remained unchanged, and the debt to equity ratio were 0.100 and 0.086 as at 31 March 2011 and 31 March 2010 respectively.

## 33. Banking Facilities

At 31 March 2011, the banking facilities of certain subsidiaries and the Company were secured by the following:

(i) Fixed deposits placed with a bank for not less than HK$18,000,000 or its equivalent in United States dollars in name of Extrawell Pharmaceutical (HK) Limited to be charged to the bank and registered; and

(ii) A continuing corporate guarantee in the amount of HK$6,000,000 given by the Company in favour of a bank.

## 34. 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 non-controlling interests of the Company's non-wholly owned 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 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.

## 34. Share Option Scheme *(continued)*

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.

From the effective date of the Scheme to 31 March 2011, no share options have been granted, exercised, cancelled or lapsed under the Scheme.

## 35. Business Combination

On 21 December 2009, the Group entered into an agreement to acquire an additional 5.49% interest in CEP for a cash consideration of RMB3,000,000. The interest in this subsidiary was subsequently increased to 73%.

The recognised amounts of identifiable assets acquired and liabilities assumed as at the date of acquisition are as follows:

| | **2011**<br>**HK$'000** | 2010<br>HK$'000 |
|---|---|---|
| Net assets acquired: | | |
| Property, plant and equipment, carrying amount | — | 1,667 |
| Cash and bank balances | — | 1,172 |
| Trade receivables | — | 1,970 |
| Prepayments and other receivables | — | 572 |
| Inventories | — | 298 |
| Trade payables | — | (133) |
| Accrued expenses | — | (186) |
| Dividend payable | — | (77) |
| Provision for taxation | — | (84) |
| Amount due to fellow subsidiaries | — | (3,594) |
| Total identifiable net assets | — | 1,605 |
| Purchase consideration | — | (3,412) |
| Goodwill arising from acquisition | — | (1,807) |

## 35. Business Combination *(continued)*

Analysis of net outflow of cash and cash equivalents in respect of acquisition of additional interests in the subsidiary:

| | **2011** **HK$'000** | 2010 HK$'000 |
|---|---|---|
| Cash consideration | **—** | 3,412 |
| Cash and bank balances acquired | **—** | (1,172) |
| Net cash outflow | **—** | 2,240 |

## 36. Commitments

### (a) Commitment under operating lease

The Group had future aggregate minimum lease payable under non-cancellable operation lease with respect to office premises rental as follows:

| | **2011** **HK$'000** | 2010 HK$'000 |
|---|---|---|
| Within one year | **1,733** | 1,565 |
| In the second to fifth years, inclusive | **3,323** | — |
| | **5,056** | 1,565 |

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) In connection with the acquisition of the interest in Fosse Bio as disclosed in the consolidated financial statements, at 31 March 2011, the Group had a commitment to advance an interest-free loan to Fosse Bio Vendor and/or other shareholders of Fosse Bio to cover expenses relating to clinical trials of the Product.

On 25 May 2011, Smart Ascent has conditionally agreed to grant an unsecured, non-interest bearing loan in the aggregate amount of up to HK$30,000,000 to Fordnew Industrial Limited ("Fordnew") for its onward lending to Fosse Bio, a 51% owned subsidiary of Smart Ascent, for payment of expenses relating to the clinical trial of oral insulin products.

As Fordnew owns 29% interest in the issued share capital of Fosse Bio and is a substantial shareholder of the latter, the grant of the loan by Smart Ascent to Fordnew therefore constitutes a connected transaction for the Company, which was subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Further details regarding the transaction are set out in the Company's announcement dated 25 May 2011.

Independent shareholders' approval for the provision of financial assistance to Fordnew has yet to be obtained as at the date of approval of these consolidated financial statements.

## 36. 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 the following:

(1) Sea Ascent shall procure its wholly owned subsidiary, Joy Kingdom Industrial Limited ("Joy Kingdom"), to establish a wholly foreign owned enterprise in the PRC in the name of 江蘇派樂施藥業有限公司 (Jiangsu Prevalence Pharmaceutical Limited) ("Jiangsu Prevalence");

(2) 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");

(3) 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 the Medicine produced (subject to a maximum fee of RMB180 million for each year and deduction as specified in the Cooperation Agreement); and

(4) Unless the New Medicine Certificate in respect of the Medicine has not been granted by the relevant PRC authorities, Welly Surplus shall procure Fosse Bio to allow the manufacturing of the Medicine by Jiangsu Prevalence and to assist Jiangsu Prevalence to obtain the relevant Pharmaceutical Manufacturing Permit (藥品生產許可證) for the manufacture of the Medicine during the Initial Operating Period.

Under the Cooperation Agreement, Fosse Bio has agreed to guarantee the due performance by Welly Surplus of its obligations and liabilities ("Secured Liabilities") as mentioned in above paragraphs, provided that the maximum liability of Fosse Bio under such guarantee shall not exceed 51% of the Securities Liabilities. 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.

## 36. Commitments *(continued)*

### (b) Other commitments *(continued)*

(ii) *(continued)*

On 19 October 2006, Sea Ascent and Welly Surplus also entered into a sale and purchase agreement (the "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. On 8 April 2009, Welly Surplus and Sea Ascent signed a confirmation whereby both parties agreed to extend the long stop date of the SP Agreement from 30 November 2007 to 30 June 2010. In light of the progress of the further clinical trial, Welly Surplus and Sea Ascent have not yet concluded the revised completion timetable in relation to the construction of the Plant by 30 June 2010, and therefore the extension of the long stop date of the SP Agreement is yet to conclude. 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 consolidated financial statements.

(iii) Pursuant to clinical trial of the oral insulin project, Fosse Bio has entered into the following contracts with 瀋陽鑫泰格爾醫藥科技開發有限公司 (the "Project Administrator") with value in aggregate amounting to RMB17,080,000 (equivalent to approximately HK$20,094,000):

(1) Service contracts dated 16 December 2009 with value in total of RMB12,080,000 (equivalent to approximately HK$14,212,000) for provision of clinical trial management services and the related clinical studies, and

(2) Supplementary contract dated 25 July 2010 with value of RMB5,000,000 (equivalent to approximately HK$5,882,000) for provision of certified testing drugs.

Up to 31 March 2011, RMB10,500,000 (equivalent to approximately HK$12,288,000) (2010: RMB1,000,000 (equivalent to approximately HK$1,136,000)) has been paid to the Project Administrator in relation to the above contracts. The aggregate contract value not provided for in these consolidated financial statements amounted to RMB6,580,000 (equivalent to approximately HK$7,741,000) as at 31 March 2011.

## 37. Related Party Transactions

In addition to these related parties transactions and balances disclosed elsewhere in the consolidated financial statements, the Group had the following transactions with its related parties during the year.

(a) Compensation for key management personnel, including amounts paid to the Company's directors, as disclosed in note 11 to the consolidated financial statements, is as follows. Directors' service contracts are exempted from all reporting requirements of connected transaction under the Listing Rules.

| | **2011**<br>**HK$'000** | 2010<br>HK$'000 |
|---|---|---|
| Salaries and other benefits | **2,798** | 2,413 |
| Pension scheme contributions | **12** | 12 |
| | **2,810** | 2,425 |

(b) During the year ended 31 March 2011, Extrawell (BVI) Limited ("Extrawell BVI"), a wholly owned subsidiary of the Company had made advances to Smart Ascent, a 51% non-wholly owned subsidiary of the Company, totalling approximately HK$16,529,000 (2010: approximately HK$9,578,000). These advances were unsecured, non-interest bearing and repayable on demand.

In prior years, and up to the date of 11 March 2010, Mr. Ong was regarded as a connected person at the Company's level by reason of his relationship being a son-in-law with a former director of the Company, Mr. Ho Chin Hou who resigned as director of the Company on 12 March 2009. As such, each of the advances made to Smart Ascent during the period concerned would constitute a connected transaction under Chapter 14A of the Listing Rules, details of which have been disclosed in the Company's announcement dated 14 August 2009, and the 2009 and 2010 Annual Reports.

However, from 12 March 2010 onwards, Mr. Ong is regarded as a connected person only at the Company's subsidiary level, and therefore the advances made by Extrawell BVI to Smart Ascent during the period under review do not constitute connected transactions under the Listing Rules.

## 38. Financial Instruments by Category

The Group's and the Company's financial instruments include the following:

The Group:

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Financial assets — Loan and receivables | | |
| Trade receivables | **72,575** | 84,756 |
| Deposits and other receivables | **57,224** | 56,456 |
| Amounts due from non-controlling interests | **12,973** | 9,601 |
| Pledged bank deposits | **20,743** | 20,579 |
| Cash and cash equivalents | **121,178** | 102,450 |
| | **284,693** | 273,842 |
| Financial liabilities — Other financial liabilities | | |
| Trade and bills payables | **7,152** | 8,479 |
| Accruals and other payables | **35,949** | 46,312 |
| Amounts due to non-controlling interests | **58,629** | 47,063 |
| | **101,730** | 101,854 |

The Company:

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Financial assets — Loan and receivables | | |
| Dividend receivables | **61,049** | 69,232 |
| Cash and cash equivalents | **56,136** | 21 |
| | **117,185** | 69,253 |
| Financial liabilities — Other financial liabilities | | |
| Accruals and other payables | **429** | 527 |

## 39. Fair Value Estimation

The carrying values less impairment provision of trade receivables, deposits, prepayments and other receivables, trade and bills payables, accruals and other payables as well as amounts due from/to non-controlling interests, are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments, unless the effect of discounting will be immaterial.

## 40. Approval of Consolidated Financial Statements

The consolidated financial statements were approved and authorised for issue by the board of directors on 29 June 2011.

# Five Years' Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, is set out below:

| | For the year ended 31 March | | | | |
|---|---|---|---|---|---|
| | **2011** | 2010 | 2009 | 2008 | 2007 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **RESULTS** | | | | | |
| Turnover | **198,816** | 196,291 | 184,434 | 165,079 | 158,763 |
| Profit before taxation | **5,103** | 12,788 | 7,989 | 2,393 | 9,303 |
| Taxation | **(1,055)** | 2,784 | 9,418 | (15,728) | (369) |
| Profit/(loss) for the year | **4,048** | 15,572 | 17,407 | (13,335) | 8,934 |
| Attributable to: | | | | | |
| — Equity holders of the Company | **11,567** | 14,624 | 15,551 | (11,735) | 9,336 |
| — Non-controlling interests | **(7,519)** | 948 | 1,856 | (1,600) | (402) |
| | **4,048** | 15,572 | 17,407 | (13,335) | 8,934 |
| Dividends | **—** | — | — | — | — |

| | As at 31 March | | | | |
|---|---|---|---|---|---|
| | **2011** | 2010 | 2009 | 2008 | 2007 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS** | | | | | |
| Total assets | **664,092** | 654,213 | 646,050 | 619,573 | 609,988 |
| Total liabilities | **(103,819)** | (104,127) | (109,046) | (106,696) | (93,504) |
| Total equity | **560,273** | 550,086 | 537,004 | 512,877 | 516,484 |
| Non-controlling interests | **(206,118)** | (213,290) | (214,832) | (215,957) | (217,565) |
| | **354,155** | 336,796 | 322,172 | 296,920 | 298,919 |