

MANAGEMENT DISCUSSION AND ANALYSIS

(A) BUSINESS REVIEW

Overall Performance this Year

The past financial year has been a period of steady progress as well as a period of challenges. We have been successful in instituting both soft and direct promotional activities to enhance our product awareness to a wider customer base. We have also faced challenges from counterfeit products. Despite a year filled with new highlights and challenges, Extrawell remains resolute in our dual objectives – to continue the delivery of positive contribution and endeavor to explore opportunities to sustain growth.

Surge in Turnover

Revenue grew by 8% with turnover increased from approximately HK\$199 million for 2002 to turnover of approximately HK\$216 million for the current year ended 31 March 2003.

Growth in Turnover for Imported Pharmaceutical Products

The distribution of imported pharmaceutical products has been one of the major activities contributing to revenue growth for the Group. Turnover from this sector reached approximately HK\$125 million (2002: HK\$117 million), representing a 7.2% increase over 2002.

A major imported pharmaceutical product for the Group, GM-1, is used in the treatment for brain/nervous system damage and Parkinson's disease. GM-1 continues to contribute significantly to turnover and profits.

During the year, China Central Television, the PRC national television network, has produced a special report on advanced medical technology highlighting the application and efficacy of GM-1 to brain/nervous system damage patients. The research results and clinical trials reports as well as doctors' treatment and experience were introduced to a wide audience all over PRC. A number of senior medical scholars have also written articles on their experience and the efficacy of GM-1 in various magazines in the PRC. The efficacy of this drug has been widely introduced in the mass media in the PRC. As a result of intensified efforts on product symposiums, research reports and other sales efforts, the product message was widely spread, even in the remote and less developed cities of PRC. During the year, we saw steady growth in developed markets and new orders and enquiries from less developed markets which together contributed steady growth in revenue of GM-1 and opened a window for growth in a longer term perspective.

MANAGEMENT DISCUSSION AND ANALYSIS

(A) BUSINESS REVIEW (CONT'D)

Decrease in Turnover in Manufactured Biological Drugs

Turnover from self-manufactured pharmaceutical sector recorded approximately HK\$67 million sales for the current year, representing a 19% decrease over 2002. Sales of manufactured products have been growing steadily in the recent years and significant growth has been reported in the first half of the financial year ended 31 March 2003. In September last year, we have reported in our 2003 interim results a growth of 15% in sales for manufacturing sector. The drop in sales was mainly reported in January and February 2003. During the two months, we faced challenges of counterfeit products sold by unscrupulous illegal manufacturers. Orders and sales dropped significantly especially in Southern China region. These counterfeit products have no quality assurance and are a serious threat to consumer health as well as the reputation and goodwill of our products. Task force were swiftly set up in affected areas collaborating with various local regulatory departments, mainly the police force, trade and commerce bureau, legal and judicial prosecutors in February. By working closely with these regulatory authorities, counterfeit products were rapidly wiped out in the market and perpetrators were identified. On the other hand, the Group has taken immediate action to strengthen its packing by tamper proof codes to avoid further counterfeits. In a very short period of time, sales and distribution has returned to normal levels in March 2003.

Subsequent to year end, in April and May 2003, we saw substantial rise in sales in view of the outbreak of SARS. P-Transfer Factor, an immune system promoter, was widely used as a cost-effective mean of defends against SARS infections, especially in Northern China region.

Contributions from Gene Development Sector

In the last financial year, the Group has acquired the entire interests in Right & Rise Limited, holder of 19 gene invention rights. In July 2002, the Group has acquired a 55% interests in a group of companies involved in research, development, manufacturing and distribution of gene chips. Sales in gene development sector of approximately HK\$23 million (2002: Nil) mainly represent proceeds from assignment of technical knowhow and sales of gene chips in the PRC.

Surge in Profit and Profit Margin

Gross profit for 2003 was approximately HK\$97 million, representing a 13% growth from the last financial year of approximately HK\$86 million. The significant growth in gross profit is attributable to the contribution from increased in sales and gross profit of imported pharmaceutical products and the new contributions from gene development sector, which includes the proceeds from assignment of technical knowhow.

MANAGEMENT DISCUSSION AND ANALYSIS

(A) BUSINESS REVIEW (CONT'D)

Surge in Profit and Profit Margin (cont'd)

Profit from operating activities has increased by 11% from approximately HK\$52 million in 2002 to approximately HK\$57 million in the current year. Profit margin has increased from 26% in 2002 to 27% in the current year.

Improvement in profit margin is mainly attributable to the contributions from the gene development sector. The segment results is approximately HK\$25 million compared with loss of approximately HK\$1 million in 2002. Such impressive segment result is a result of high gross profit income from assignment of technical knowhow as well as additional income from gain of approximately HK\$16 million due to sales of 15% equity interests in a subsidiary, Grand Success Management Limited, which holds 5 gene invention rights.

Additional marketing efforts and costs were invested this year to yield positive contributions to the Group's sales and profitability. Higher administrative expenses mainly represent higher staff costs due to additional head counts and higher rental expenses for our new headquarter.

Growth in Profit for Imported Pharmaceutical Sector

Segment results from imported pharmaceutical products have increased from HK\$31 million in 2002 to HK\$33 million representing a 7% growth in operating profit for 2003.

This increase is mainly attributable to the increase in sales of GM-1 in the current year as a result of the effective marketing activities launched by the Group during the year. Profit margin for imported pharmaceutical products in 2003 is 26%, which is consistent with the profit margin in 2002.

Drop in Profit and Profit Margin for Manufacturing Sector

Segment results from manufactured products has decreased from HK\$28 million in 2002 to HK\$6 million representing a 78% fall in operating profit for 2003.

Decrease in segment results is mainly attributable to a drop in sales in January and February 2003 for the manufacturing sector as well as additional costs incurred in upgrading of packing with tamper proof codes, lower sales personnel utilizations, depreciation of the GMP compliant factory completed in mid-2002. In addition, extra costs were incurred for the preliminary coaching period for preparation of GMP compliance certifications for Jilin Extrawell Pharmaceutical Co., Ltd ("JECP").

MANAGEMENT DISCUSSION AND ANALYSIS

(B) OUTLOOK & NEW DEVELOPMENTS

We will keep striving for “balances” to match our short-term growth as well as our corporate directions to sustain the growth momentum with long term prospective. Looking forward, we will continue to further consolidate and develop our business according to our corporate vision.

Expanding and Penetrating Markets

The Group has deployed a dual strategy of expanding market coverage and deepening market penetration simultaneously. This has been successful in accelerating market acceptance and increasing sales. We will continue our dual strategy of extending our distribution network, while at the same time pursue further penetration of existing markets. New pharmaceutical products and gene chips will be launched in these markets to maximize synergy and leverage available resources to generate sales more effectively.

Strengthen Control and Streamline Management for its manufacturing base

In mid-October 2002, the Board had proposed to acquire 40% minority interests in JECP. JECP has become a wholly-owned subsidiary of the Group since 26 July 2003 after obtaining the shareholders' approval.

The factory is in the process of strengthening management control and upgrading infrastructures to obtain GMP certification. Streamlined production processes to keep cost at efficient levels, larger production volume for new product range for both manufacturing entities located in Changchun will be pursued.

With streamlined and upgraded production facilities, the Group will be able to organize the two production bases to produce different drug administration forms (such as capsules, tablets, oral or injection forms etc.) of pharmaceutical products to yield economies of scale in production with greater level of efficiency.

Introducing the Right Products at the Right Time

We acknowledged the importance of launching the right products at the right time. We have plans to launch new products from the subsidiary's reserve of 49 product licenses by stages in the coming years to capture market opportunities for growth. At the same time, we will also actively identify products with good potential to be injected into JECP.

Sodium Ozage, a product of Changchun Extrawell, has applied to PRC State Drug Authority to be sold over the counter. Subject to the statutory approval, the product is expected to be available in ordinary drug stores in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

(B) OUTLOOK & NEW DEVELOPMENTS (CONT'D)

Contributions from New Genomic Subsidiaries

In July 2002, we acquired a group of subsidiaries engaged in the business of selling gene chips, genome related technology, and services relating to the research of genes. These subsidiaries have contributed significantly to the results of the Group this year. We will continue to develop the gene chips market in the PRC by leveraging on our existing strong distribution network in the PRC. On the other hand, more research and development costs will be invested in the exploitation and utilization of gene invention rights in the coming years. Work ranging from gene expression profiling to disease identification for acceleration of new drug discoveries are being explored.

(C) FINANCIAL REVIEW

Liquidity and Financial Resources

The Group generally finances its operations with internally generated cash flows and banking facilities. As at 31 March 2003, the Group had bank borrowings of HK\$63 million (2002: HK\$47 million). All these bank borrowings are repayable within one year or on demand. The Group's banking facilities were supported by the pledge of the Group's fixed deposits of approximately HK\$24 million (2002: HK\$26 million); corporate guarantees from the Company, two related companies and certain subsidiaries of the Company; and legal charges over certain leasehold land and buildings of a subsidiary of the Company.

The Group had total cash and bank balances of approximately HK\$80 million as at 31 March 2003 (2002: approximately HK\$56 million).

The Group's gearing ratio as at 31 March 2003 was 0.11 (2002: 0.12), calculated based on the Group's total debts of HK\$63 million (2002: HK\$47 million) over the Group's total assets of HK\$599 million (2002: HK\$381 million).

Currency Structure

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

Contingent Liabilities

The Group did not have any material contingent liabilities at 31 March 2003. As at 31 March 2002, the Group had bills discounted with recourse of approximately HK\$17 million.