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

(incorporated in Bermuda with limited liability)

(Stock Code: 00858)

ANNUAL RESULTS
FOR THE YEAR ENDED 31 MARCH 2018

The board of directors (the "**Board**") of Extrawell Pharmaceutical Holdings Limited (the "**Company**") hereby announces the audited consolidated results of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 March 2018 together with the comparative figures as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2018

	Notes	**2018** *HK$'000*	2017 *HK$'000*
Revenue	*3*	**85,762**	107,903
Cost of sales		**(43,713)**	(64,007)
Gross profit		**42,049**	43,896
Other income	*4*	**90,514**	77,418
Other gains and losses, net	*5*	**(37,522)**	(35,034)
Selling and distribution expenses		**(32,259)**	(31,673)
Administrative expenses		**(27,007)**	(27,231)
Share of results of an associate		**1**	(2,897)
Effective interest expense on convertible bonds		**(6,590)**	(5,552)
Profit before income tax	*6*	**29,186**	18,927
Income tax credit/(expense)	*7*	**86**	(616)
Profit for the year		**29,272**	18,311

	Notes	**2018** HK$'000	2017 HK$'000
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		**11,956**	(8,359)
Total comprehensive income for the year		**41,228**	9,952
Profit/(Loss) for the year attributable to:			
Owners of the Company		**29,930**	20,796
Non-controlling interests		**(658)**	(2,485)
		29,272	18,311
Total comprehensive income attributable to:			
Owners of the Company		**41,881**	12,443
Non-controlling interests		**(653)**	(2,491)
		41,228	9,952
		HK cents	*HK cents*
Earnings per share for profit attributable to owners of the Company:	*8*		
— Basic		**1.25**	0.87
— Diluted		**1.11**	0.80

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 MARCH 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Investment properties		**1,437**	1,497
Property, plant and equipment		**155,469**	145,839
Prepaid lease payments		**10,017**	9,299
Intangible assets		**1,807**	1,807
Investments in convertible bonds		**417,783**	376,324
Available-for-sale investments		**59,047**	—
Interest in an associate		**330,970**	330,969
Amount due from an associate		**22,505**	17,235
Deferred tax assets		**69**	—
		999,104	882,970
CURRENT ASSETS			
Inventories		**4,100**	7,607
Trade and bills receivables	*10*	**21,076**	37,417
Deposits, prepayments and other receivables		**8,361**	4,972
Available-for-sale investments		**1,875**	1,685
Pledged bank deposits		**20,502**	20,215
Cash and bank balances		**161,765**	217,803
		217,679	289,699
CURRENT LIABILITIES			
Trade and bills payables	*11*	**6,916**	14,859
Accruals and other payables		**60,721**	59,501
Amount due to an associate		**19,780**	19,780
Deferred income on government grants		**98**	63
Tax payable		**16,255**	14,587
		103,770	108,790
NET CURRENT ASSETS		**113,909**	180,909
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,113,013**	1,063,879

	Notes	2018 *HK$'000*	2017 *HK$'000*
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**—**	102
Convertible bonds		**41,812**	35,222
Deferred income on government grants		**4,122**	2,704
		45,934	38,028
NET ASSETS		**1,067,079**	1,025,851
EQUITY			
Share capital		**23,900**	23,900
Reserves		**1,047,673**	1,005,792
Equity attributable to owners of the Company		**1,071,573**	1,029,692
Non-controlling interests		**(4,494)**	(3,841)
TOTAL EQUITY		**1,067,079**	1,025,851

Notes

1. GENERAL INFORMATION

The Company is a limited liability company incorporated in Bermuda whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). 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 Suites 2206–08, 22/F, Devon House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong.

The Company is an investment holding company (together with the subsidiaries referred as the "Group"). The principal activities of its subsidiaries and an associate are set out in notes to the consolidated financial statements to be included in annual report.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) Adoption of new/revised HKFRSs — effective 1 January 2017

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Annual Improvements to HKFRSs 2014–2016 Cycle	Amendments to HKFRS 12, Disclosure of Interests in Other Entities

The adoption of these amendments has no significant impact on the consolidated financial statements.

(b) New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

Annual Improvements to HKFRSs 2014–2016 Cycle	Amendments to HKAS 28, Investments in Associates and Joint Ventures[1]
Amendments to HKFRS 2	Classification and Measurement of Share-Based Payment Transactions[1]
HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers[1]
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)[1]
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
HKFRS 16	Leases[2]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]

[1] Effective for annual periods beginning on or after 1 January 2018

[2] Effective for annual periods beginning on or after 1 January 2019

[3] The amendments were originally intended to be effective for periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments continue to be permitted

Except for HKFRS 9 Financial Instruments, HKFRS 15 Revenue from Contracts with Customers and HKFRS 16 Leases, the directors of the Company anticipate that other new and revised HKFRSs may result in changes in accounting policies but are unlikely to have material impact on the consolidated financial statements. The potential impacts upon the initial application of HKFRS 9, HKFRS 15 and HKFRS 16 are set out in notes to the consolidated financial statements to be included in annual report.

3. REVENUE AND SEGMENT INFORMATION

Revenue for the year represents the fair value of amounts received and receivable for goods sold to external customers, less discounts and sales-related taxes for the year, and is analysed as follows:

	2018	2017
	HK$'000	*HK$'000*
Manufacturing of pharmaceutical products	**60,176**	44,477
Trading of pharmaceutical products	**25,586**	63,426
	85,762	107,903

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors that makes strategic decisions.

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 operating 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. Summarised details of the reportable and operating segments are as follows:

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

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

(c) the gene development segment engages in the commercial exploitation and development of genome-related technology ("Gene Development").

Segment revenue and results

The following is the Group's revenue and results from operation by reportable and operating segment.

	Manufacturing		Trading		Gene Development		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue								
Sales to external customers	**60,176**	44,477	**25,586**	63,426	**—**	—	**85,762**	107,903
Segment results	**(3,695)**	(12,044)	**(6,009)**	2,709	**(83)**	(83)	**(9,787)**	(9,418)
Unallocated other income							**90,514**	77,418
Unallocated other gains and losses, net							**(37,735)**	(33,397)
Corporate expenses							**(7,217)**	(7,227)
Effective interest expense on convertible bonds							**(6,590)**	(5,552)
Share of results of an associate							**1**	(2,897)
Profit before income tax							**29,186**	18,927
Income tax credit/(expense)							**86**	(616)
Profit for the year							**29,272**	18,311

Segment profit/(loss) represents the profit earned by/(loss from) each segment without allocation of interest income, effective interest income from investments in convertible bonds, other gains and losses, net, corporate expenses, share of results of an associate and effective interest expense on convertible bonds. This is the measure reported to the chief operating decision maker, being the board of directors, for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

The following is the Group's assets and liabilities by reportable and operating segment.

	Manufacturing		Trading		Gene development		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets								
Segment assets	**201,454**	186,775	**90,707**	144,865	**6**	6	**292,167**	331,646
Investments in convertible bonds							**417,783**	376,324
Interest in an associate							**330,970**	330,969
Corporate and other assets							**175,863**	133,730
Total assets							**1,216,783**	1,172,669
Segment liabilities								
Segment liabilities	**82,269**	77,121	**4,700**	13,992	**64**	64	**87,033**	91,177
Convertible bonds							**41,812**	35,222
Corporate and other liabilities							**20,859**	20,419
Total liabilities							**149,704**	146,818

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than investments in convertible bonds, interest in an associate and corporate and other assets; and
- all liabilities are allocated to operating segments other than convertible bonds and corporate and other liabilities

Other segment information

	Manufacturing		Trading		Gene Development		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Amounts included in the measure of segment profit or loss:								
Depreciation and amortisation	**6,393**	6,483	**94**	99	**—**	—	**6,487**	6,582
Unallocated depreciation and amortisation							**133**	132
							6,620	6,714
Provision for impairment on trade receivables, net	**3,218**	4,456	**—**	—	**—**	—	**3,218**	4,456
Bad debts recovered	**(3,431)**	—	**—**	—	**—**	—	**(3,431)**	—
Gain on disposal of intangible assets	**—**	(2,819)	**—**	—	**—**	—	**—**	(2,819)
Provision for impairment loss on inventories, net	**85**	—	**—**	—	**—**	—	**85**	—

4. OTHER INCOME

	2018	2017
	HK$'000	*HK$'000*
Interest income	**1,806**	1,299
Rental income	**—**	54
Sundry income	**—**	50
Government grants	**172**	193
Effective interest income from investments in convertible bonds	**83,266**	71,786
Imputed interest income from amount due from an associate	**5,270**	4,036
	90,514	77,418

5. OTHER GAINS AND LOSSES, NET

	2018	2017
	HK$'000	*HK$'000*
Gain on disposal of intangible assets	**—**	2,819
Change in fair value of derivative component of investments in convertible bonds	**(16,782)**	(33,397)
Impairment loss on available-for-sale investments	**(20,953)**	—
Provision for impairment on trade receivables, net	**(3,218)**	(4,456)
Bad debts recovered	**3,431**	—
	(37,522)	(35,034)

6. PROFIT BEFORE INCOME TAX

	2018	2017
	HK$'000	*HK$'000*
Profit before income tax is arrived at after charging:		
Auditor's remuneration	**798**	760
Amortisation of prepaid lease payments	**233**	228
Depreciation of investment properties	**60**	59
Depreciation of property, plant and equipment	**6,327**	6,427
Cost of inventories recognised as expenses	**43,713**	64,007
Operating lease charges in respect of land and buildings	**1,826**	1,792
Provision for impairment loss on inventories, net	**85**	—
Staff costs (including directors' emoluments)		
Salaries, bonus and allowances	**23,362**	23,581
Retirement benefits scheme contributions	**2,484**	3,172

7. INCOME TAX

The amount of income tax (credit)/expense in the consolidated statements of profit or loss and other comprehensive income represents:

	2018	2017
	HK$'000	*HK$'000*
Current tax		
— Hong Kong	**45**	56
— PRC Enterprise Income Tax	**—**	554
— Other jurisdictions	**40**	40
	85	650
Overprovision in prior years		
— Hong Kong	**—**	(19)
— Other jurisdictions	**—**	(15)
	—	(34)
	85	616
Deferred tax		
— current year	**(171)**	—
— over provision in prior years	**—**	—
	(171)	—
Income tax (credit)/expense	**(86)**	616

Hong Kong Profits Tax has been provided at the rate of 16.5% (2017: 16.5%) of the estimated assessable profits for both years.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% (2017: 25%).

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	2018	2017
	HK$'000	*HK$'000*
Earnings		
Earnings for the purpose of basic earnings per share (Profit for the year attributable to owners of the Company)	**29,930**	20,796
Effect of potential ordinary shares:		
Interest on convertible bonds	**6,590**	5,552
Earnings for the purpose of diluted earnings per share	**36,520**	26,348

	2018	2017
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,390,000**	2,390,000
Effect of potential ordinary shares:		
Convertible bonds	**900,000**	900,000
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**3,290,000**	3,290,000

9. DIVIDENDS

No dividend was paid or declared by the board of directors during the year ended 31 March 2018, nor has any dividend been proposed since the end of reporting period (2017: nil).

10. TRADE AND BILLS RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Bills receivables	**2,063**	752
Trade receivables	**61,318**	71,618
Less: Provision for impairment loss on trade receivables	**(42,305)**	(34,953)
	21,076	37,417

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 ranging from 120 to 180 days, extending up to one year for some major customers.

The ageing analysis of trade and bills receivables (net of provision of impairment loss on trade receivables), based on invoice dates are as follows:

	2018	2017
	HK$'000	*HK$'000*
Within 90 days	**10,410**	14,352
91 to 180 days	**5,133**	15,490
181 to 365 days	**5,533**	7,575
	21,076	37,417

11. TRADE AND BILLS PAYABLES

Trade payables are non-interest bearing and the normal trade credit terms granted to the Group range from two to three months from the date of invoice.

The ageing analysis of trade and bills payables, based on invoice dates are as follows:

	2018	2017
	HK$'000	*HK$'000*
Within 90 days	**4,714**	8,968
91 to 180 days	**1,186**	4,473
181 to 365 days	**96**	756
1 to 2 years	**371**	168
Over 2 years	**549**	494
	6,916	14,859

EXTRACT FROM INDEPENDENT AUDITOR'S REPORT

The auditor will issue a disclaimer of opinion in the independent auditor's report on the consolidated financial statements of the Group for the year ended 31 March 2018. The details of which are extracted as follows:

"We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matters described in the "Basis for Disclaimer of Opinion" section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Disclaimer of Opinion

The Group had an interest in an associate, Smart Ascent Limited of approximately HK$330,970,000 as at 31 March 2018 (2017: HK$330,969,000). The Company's directors has determined that the Group's interest in the associate as at 31 March 2018 is fairly stated.

In its consolidated financial statements, the Group applied equity method of accounting to account for its interest in the associate and shared the associate's net assets as its interests therein. As disclosed in note 21 to the Group's consolidated financial statements, the major asset held by the associate was an intangible asset in relation to an in-process research and development project ("In-process R&D") involving an oral insulin product. For the purpose of assessing that the carrying amount of the intangible asset is not higher than its recoverable amount, the Company's directors estimated the fair value of the intangible asset in relation to the In-process R&D using income approach, which involved the preparation of a cash flow projection ("Cash Flow Projection") using significant management assumptions and judgement.

During the course of our audit for the current year, we had not been provided by the Company's directors and other parties as appropriate with the information which we considered sufficient to satisfy ourselves as to the basis for which the Cash Flow Projection was prepared and the related data to which specific assumptions were applied; including the timing of the amounts of cash flow, the estimation of which related to the completion of the necessary clinical trials, the obtaining of the relevant regulatory approvals and launching of the Product. There were no alternative audit procedures which we could adopt to satisfy ourselves as to this matter. Accordingly we were not able to satisfy ourselves as to whether the Group's share of net assets of Smart Ascent Limited and therefore its interest in associate of HK$330,970,000 as at 31 March 2018 (2017: HK$330,969,000) was fairly stated and whether its share of results of associate for the year then ended would have any adjustment. Any impairment loss to the intangible asset would reduce the Group's interest in the associate and the Group's net assets as at 31 March 2018 and adversely affect the Group's financial performance for the year then ended, and the related information of the disclosures thereof in the consolidated financial statements may be subject to amendments.

In addition, included in the Company's interests in subsidiaries of HK$629,927,000 as stated in note 34 to the consolidated financial statements was an equity interest in Extrawell (BVI) Limited ("EBVI"), a Company's subsidiary, of HK$624,604,000 as at 31 March 2018. Smart Ascent Limited was an associate of EBVI as at 31 March 2018. In the absence of sufficient audit evidence relating to estimating the recoverable amount of the intangible asset as included in Smart Ascent Limited's financial statements, we were unable to satisfy ourselves as to whether the Company's cost of investment in EBVI of HK$624,604,000 as at 31 March 2018 was fairly stated, and whether any impairment provision for the Company's interest in the subsidiary should be recognised.

The auditor had disclaimed their opinion on the consolidated financial statements for the year ended 31 March 2017 as they were unable to obtain sufficient appropriate audit evidence to satisfy themselves as to the reasonableness of certain major assumptions adopted by the management in the impairment assessment of the In-process R&D, and accordingly whether the carrying amount of the Group's interest in associate of HK$330,969,000 was fairly stated and the Company's interest in EBVI of HK$624,604,000 as at 31 March 2017 required any impairment provision. These limitations remained unresolved for the current year."

SCOPE OF WORK OF BDO LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, and the related notes thereto for the year ended 31 March 2018 as set out in the preliminary announcement have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO Limited on the preliminary announcement.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Overall Performance Review

In 2017, the global economy improved steadily throughout the year, which grew at its highest pace since 2011. The Chinese economy in the second year of its Thirteenth Five-Year Plan (2016–2020) also recorded a better-than-expected growth at 6.9%, a pick-up of 0.2% in 2016, and in the first quarter of 2018, reported growth at 6.8%, an indicative of its relatively steady economic growth. Against this stabilised economic backdrop, the Chinese government unveiled a raft of policies and measures; including two-invoice system for drug procurement, cancellation of drug price mark-up in public hospitals, stricter regulatory compliance and supervision on drug manufacture and circulation in order to push forward the structural reform of its healthcare system under the "Healthy China 2030 Plan". These multi-pronged policies to rationalise drug pricing structure and enhance qualities tend to more favour leading pharmaceutical enterprises with strong distribution networks and production capabilities, but entail significant impacts on the revenue and profitability of small enterprises in the face of heightened pressure on prices and costs, which increase uncertainties of being nudged out of market share in the context of ever-changing market environment. Meanwhile, the regulatory policy changes on new drugs stimulate the vitality of drug research and development and support innovation to meet the nation's unmet medical needs.

The highly competitive environments posed significant challenges to the Group. In the year under review, revenue and gross profit decreased to HK$85.8 million (2017: HK$107.9 million) and HK$42.0 million (2017: HK$43.9 million) respectively, representing a decrease of about 20.5% and 4.2% as compared with that of last financial year. These were mainly the results of significant decrease in sales of the imported pharmaceutical products under the Group's trading segment, notwithstanding the continuing improvement in performance of its manufacturing segment.

The Group's operating profit before income tax was about HK$29.2 million (2017: HK$18.9 million), representing an increase of about HK$10.3 million or 54.2%. Such increase was mainly due to the reduction in share of loss of an associate of about HK$2.9 million, the respective increases in effective interest income arising from and decrease in loss in fair value changes on investments in convertible bonds that are both non-cash items of about HK$11.5 million and HK$16.6 million, and partly offset by provision for impairment loss on available-for-sale investments of about HK$21.0 million.

The Group's profit for the year attributable to owners of the Company was about HK$29.9 million, representing an increase of about HK$9.1 million when compared to profit of about HK$20.8 million of last financial year.

Revenue and Operating Results

Imported Pharmaceutical Sector

Trading conditions remain difficult for the Group's imported products. The risks materialising in the year have put the segment under tremendous pressure. The Group's trading business was greatly impacted by the unfavorable factors including the intensifying price competition from competing products of local manufacturers and the negative impact arising from increasing regulatory scrutiny on imported products, as reported in the first half of the financial year extended into the second half of the financial year. Segment revenue (net of provision for sales return of about HK$5.4 million) declined significantly to about HK$25.6 million (2017: HK$63.4 million), representing a decrease of HK$37.8 million or 59.7%. Despite gross margin slightly improved and recurring expenses remained in line with last year figures, this significant decline in revenue and related profit contribution resulted in a notable loss of about HK$6.0 million (2017: profit HK$2.7 million).

As stated in the Group's interim report issued in November 2017, the substantial decline in revenue was primarily due to destocking pressure of customers in anticipation of deeper discount on drug tendering price triggered by increasingly aggressive competition from competing products of local manufacturers, and an adjustment of subsequent sales return in November which reduced revenue by about HK$4.7 million due to a product recall of an imported product from Argentina. As to the understanding of the management, the product recall was due to certain potential manufacturing practices issue reported in an overseas on-site inspection by the Chinese regulatory authorities, and the vendor had applied for renewal of import license of its product that due in end October 2017. The vendor committed to bear all the related costs of the sales return thus incurred and had been taking remedial actions to resolve the matter with the authorities, however, the renewal of its import license has yet to be obtained. Management considered that the sales hiatus of this product would inevitably affect the segment revenue, however, as its gross profit contribution had been decreasing to below 10%, which would not have material impact on the segment profitability. Currently, the backlog of approval process for the renewal is expected to take some time to bring this product back to the market.

During the second half of the financial year, the Chinese authorities conducted another overseas on-site inspection in Spain for the Group's major imported product that is a significant revenue and profit contributor to the trading segment, the outcome of which has yet to be concluded. The increasing regulatory scrutiny on imported products further adversely influence the sentiment of the Group's customers in stock replenishment in light of the uncertainties brought by the on-site inspection and the intensifying competitive landscape by the locally manufactured products. Given the complicated operating environment, the segment performance was considerably below management's expectation despite increased efforts, and management is cautiously alert that such difficult market situation will persist in the coming year.

In light of the tremendous challenges, the Group has been collaborating with business partners and consultants with the aim of resolving any regulatory issues to mitigate the impact on the Group's imported products in the long term, and at the same time, adopting a more flexible pricing approach to capture sales in the rapidly changing environment.

Manufactured Pharmaceutical Sector

The segment continued to make progress in revenue growth and achieve significant reduction of operating loss. Sales of manufactured pharmaceutical products increased to about HK$60.2 million (2017: HK$44.5 million), representing an increase of HK$15.7 million or 35.3% and segment loss reduced to about HK$3.7 million (2017: HK$12.0 million), representing a decrease of HK$8.3 million or 69.3%. However, when taking into account the one-off gain on disposal of intangible assets of about HK$2.8 million as recorded in last year, the loss reduced by about HK$11.2 million.

During the year, the structural reform of pharmaceutical distribution through implementation of two-invoice system in various provinces and cities brought along challenges and opportunities to the segment. In response to the change, management seized the opportunities to adjust its distribution channels and expand its market coverage through collaboration with distributors with extensive distribution network. This led to an increase in revenue, and combined with management's dedicated efforts on improving productivity while maintaining product quality for long-term competitiveness, gross margin improved by about HK$13.8 million or 14.8%. To cope with the market development, management had reduced certain direct sales workforce and deployed providers of promotion, marketing and sales support-related services to promote the Group's product awareness in rural areas and communities. The improved segment results were also contributed by management's efforts to strengthen measures for evaluating creditability of customers and collectability of the overdue accounts receivable. As a result of more effective credit management, provision for impairment on trade receivables made in accordance with the Group's policies reduced by about HK$1.2 million and bad debts recovered by about HK$3.4 million, when compared to provisions made for last financial year.

The progress in the year highlights the Group's investments to build new GMP plants in Jiu Tai, China in 2014 with enhanced production capabilities and assured product quality which are instrumental to meet the challenges of ongoing healthcare reforms. The Group believes that the intense efforts over the past years have laid a solid foundation for future business growth and will continue to deliver long-term performance for the Group.

Gene Development Sector

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

Interest in an Associate

The Group holds 49% equity interest in Smart Ascent Limited ("Smart Ascent", together with its subsidiaries, the "Smart Ascent Group"), and the major asset of the Smart Ascent Group is the intangible asset in relation to an in-process research and development project ("In-process R&D") involving an oral insulin product ("Product"), which is still at its clinical trial stage. In making the assessment as to the recoverability of the In-process R&D and the fair value of the interest in the associate, the Group has engaged an independent qualified valuer, Roma Appraisals Limited ("Valuer") in conducting a valuation. The asset-based valuation approach has been consistently adopted in the valuation and the recoverable amount of the In-process R&D was determined based on fair value calculation using cash flow projections, which the estimated cash inflows derived from budgeted sales and gross margin were based on the expectation for the market development, and which included the regulatory approvals from the relevant government bodies and launching of the Product by mid 2020. The recoverable amount of the interest in the associate was determined based on share of the estimated fair value of the In-process R&D after taking into account the lack of control discount.

In conducting the impairment assessment, the directors of the Company, having considered the prevailing market conditions, reasonableness of assumptions used for the cash flow projections and the valuation as prepared by the Valuer indicating its fair value in excess of the carrying amount, do not identify any indication on the carrying amount of interest in the associate as at 31 March 2018 that may need to be impaired. Accordingly, no impairment is considered necessary as at 31 March 2018.

Other income and gains and losses, net

Other income and gains and losses, net were in total a gain of about HK$53.0 million (2017: HK$42.4 million), which increased by about HK$10.6 million or 25.0%. The increase was primarily attributable to investments in convertible bonds in which the effective income increased by about HK$11.5 million and loss on change in fair value of its derivative component decreased by about HK$16.6 million, bad debts recovered by about HK$3.4 million and partly offset by a provision of about HK$21.0 million arising from impairment loss on available-for-sale investments.

Selling and Distribution Expenses

Selling and distribution expenses of the Group slightly increased to about HK$32.3 million (2017: HK$31.7 million), representing an increase of HK$0.6 million or 1.9%. Such increase reflected sales growth of the Group's manufacturing segment, which was partly offset by a decrease in selling and distribution expenses of the Group's trading segment.

Administrative Expenses

Administrative expenses remained relatively stable at about HK$27.0 million (2017: HK$27.2 million), which reflects the Group's continued efforts and focuses on cost containment initiatives to reduce expenses and to prevent unnecessary spending without causing damage to the Group's profitability.

Outlook

Since the implementation of the Thirteen Five-Year Plan (2016–2020), China's pharmaceutical industry has witnessed frequent rolling out of reform policies bringing healthcare and supply-side structural adjustments which reshape the competitive landscape and accelerate consolidation within the industry.

It is anticipated that the Chinese government's continued measures and initiatives in regulating the pharmaceutical industry and demanding regulatory compliance will continuously intensify market competition and pose challenges on the Group's performance. As the Group's trading segment of imported products has been hard hit by the ever-increasing competition from competing products of local manufacturers, the Group will continue to leverage scale production and product quality in its manufacturing segment in competition for gaining greater market share, which has demonstrated positive progress and achieved continuing improvement in its performance. The Group will continue enhancing the production efficiency and strengthening cost savings measures to reinforce fundamentals for development of the manufacturing segment. In addition, the Group will be more agile in response to policy changes through more flexible marketing strategies and focus on improving the overall operational efficiency to cope with the rapidly changing market conditions.

Looking forward, the year ahead is full of challenges to the Group. Although the pharmaceutical industry has been undergoing very significant changes since healthcare reforms in 2009, the Group believes that the industry will maintain a stable growth as there are mounting demands, in particular, driven by combined factors of accelerated aging population, growing chronic diseases and improving standard of living in China. In the meantime, the Group will continuously endeavor to improve the Group's business operations and will seek potential opportunities with the aim of diversifying its revenue stream and creating long-term value for the shareholders.

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 2018, the Group had total cash and bank balances (including pledged bank deposits) of about HK$182.3 million (2017: HK$238.0 million), representing a decrease by approximately 23.4%. Such decrease was mainly the result of significant investments made in aggregate of HK$80 million (as detailed below) and the receipt of about HK$25.0 million interest income from investments in convertible bonds.

The Group did not have bank borrowings during the year but had banking facilities on trade finance, which were supported by the pledge of the Group's fixed deposits of about HK$20.5 million (2017: HK$20.2 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 2018 was 0.051 (2017: 0.047), calculated based on the Group's total assets of about HK$1,216.8 million (2017: HK$1,172.7 million) and total debts of about HK$61.6 million (2017: HK$55.0 million), comprising convertible bonds of about HK$41.8 million (2017: HK$35.2 million) and amount due to an associate of HK$19.8 million (2017: HK$19.8 million).

Foreign Exchange Exposure

Save for certain purchases are denominated in Euros, the Group's business transactions, assets and liabilities are principally denominated in Hong Kong dollars, United States dollars and Renminbi. The Group manages the foreign currency exposure by closely monitoring the foreign currency movements and may purchase foreign currencies at spot rate, when and where appropriate for meeting its payment obligation. No hedge on foreign currencies was made during the year but the Group will use financial instruments for hedging purpose when considered appropriate.

Significant Investments

In the year under review, the Group subscribed a total of 80,000 participating shares in KKC Capital SPC, a segregated portfolio company incorporated in the Cayman Islands at aggregate consideration of HK$80,000,000. Details of these significant investments at 31 March 2018 as held by the Group and classified as available-for-sale investments at fair value through comprehensive income are set out below:

Name of unlisted investment	**Brief description of the business**	**Number of units held**	**Investment cost**	**Market value**	**Impairment recognised in profit or loss**	**Percentage to total assets value of the Group**
			HK$'000	*HK$'000*	*HK$'000*	
KKC Capital High Growth Fund Segregated Portfolio	The investment objective is for long term capital appreciation by investing primarily in listed and unlisted shares, rights and warrants. The investment manager is KKC Capital Limited and its investment advisor is Avia Asset Management Limited, which is licensed by the Securities and Futures Commission of Hong Kong to carry on Type 4 (advising on securities) and Type 9 (asset management) regulated activities	80,000	80,000	59,047	20,953	4.85%

Employment and Remuneration Policy

As at 31 March 2018, the Group had 178 employees (2017: 238). Staff costs (including directors' emoluments) for the year ended 31 March 2018 amounted to approximately HK$25.8 million (2017: approximately HK$26.8 million), which was mainly due to decrease in headcount at the manufacturing segment.

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.

On 24 August 2012, shareholders of the Company had approved the adoption of a share option scheme (the "Scheme"), which became effective on 29 August 2012 after obtaining approval from the Listing Committee of the Stock Exchange and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

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.

From the effective date of the Scheme to 31 March 2018, no share option has been granted under the Scheme.

Corporate Governance

The Group recognises 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.

In the opinion of the directors, the Company has complied with the code provisions of the Corporate Governance Code and Corporate Governance Report ("Code Provisions") 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"). During the year ended 31 March 2018, the Company had adopted and applied the Code Provisions, except for certain deviations as set out below.

Code Provisions A.1.3 and A.7.1 stipulate that 14-day notice should be given for each regular board meeting and that in respect of regular meetings, and as 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 other agreed period). 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.

Code Provision A.2.1 provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same person. Dr. Xie Yi has served as the Chairman and Chief Executive Officer of the Company. However, the Company believes that there is adequate balance of power and authority in place though vesting the roles of both chairman and chief executive officer in the same person as all major decisions of the Company are made in consultation with members of the Board.

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. The Company deviates from this 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.

Code Provision A.4.2 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 are 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.

Code Provision A.4.2 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 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.

Code provision E.1.2 stipulates that the Chairman of the Board should attend the annual general meeting of the Company. Due to health reason, Dr. Xie Yi was unable to attend the annual general meeting of the Company held on 25 August 2017. Dr. Lou 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.

MODEL CODE FOR 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 year ended 31 March 2018.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

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 INEDs. The Group's financial statements for the year ended 31 March 2018 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.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

The results announcement is published on the Stock Exchange's website (www.hkexnews.hk) and the Company's website (www.extrawell.com.hk). The annual report will be despatched to the shareholders of the Company and available on the above websites in due course.

By order of the Board
Extrawell Pharmaceutical Holdings Limited
Xie Yi
Chairman

Hong Kong, 29 June 2018

List of Directors as at the date of this announcement:

Executive Directors:
Dr. XIE Yi
Dr. LOU Yi
Mr. CHENG Yong
Ms. WONG Sau Kuen
Mr. LIU Kwok Wah
Mr. LU Zhiqiang

Independent Non-executive Directors and Audit Committee:
Mr. FANG Lin Hu
Mr. XUE Jing Lun
Ms. JIN Song

* *For identification purpose only*