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 2019

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 2019 together with the comparative figures as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2019

	Notes	**2019** *HK$'000*	2018 *HK$'000*
Revenue	*3*	**89,218**	85,762
Cost of sales		**(39,618)**	(43,713)
Gross profit		**49,600**	42,049
Other income	*4*	**10,214**	90,514
Other gains and losses, net	*5*	**78,863**	(37,522)
Selling and distribution expenses		**(40,170)**	(32,259)
Administrative expenses		**(26,402)**	(27,007)
Share of results of an associate		**(908)**	1
Effective interest expense on convertible bonds		**(7,823)**	(6,590)
Profit before income tax	*6*	**63,374**	29,186
Income tax (expense)/credit	*7*	**(50)**	86
Profit for the year		**63,324**	29,272

	Notes	**2019** **HK$'000**	2018 HK$'000
Other comprehensive (expense)/income			
Item that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		**(6,881)**	11,956
Item that will not be reclassified subsequently to profit or loss			
Change in fair value on financial assets through other comprehensive income		**(59,047)**	—
Other comprehensive (expense)/income for the year		**(65,928)**	11,956
Total comprehensive (expense)/income for the year		**(2,604)**	41,228
Profit/(Loss) for the year attributable to:			
Owners of the Company		**64,030**	29,930
Non-controlling interests		**(706)**	(658)
		63,324	29,272
Total comprehensive (expense)/income for the year attributable to:			
Owners of the Company		**(2,042)**	41,881
Non-controlling interests		**(562)**	(653)
		(2,604)	41,228
		HK cents	*HK cents*
Earnings per share for profit attributable to owners of the Company:	*8*		
— Basic		**2.68**	1.25
— Diluted		**2.18**	1.11

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 MARCH 2019

	Notes	2019 HK$'000	2018 HK$'000
NON-CURRENT ASSETS			
Investment properties		**1,378**	1,437
Property, plant and equipment		**140,740**	155,469
Prepaid lease payments		**9,236**	10,017
Intangible assets		**1,807**	1,807
Investments in convertible bonds		**—**	417,783
Financial assets at fair value through profit or loss		**469,737**	—
Available-for-sale investments		**—**	59,047
Financial assets at fair value through other comprehensive income		**—**	—
Interest in an associate		**330,062**	330,970
Amount due from an associate		**29,388**	22,505
Loan to an associate		**5,027**	—
Deferred tax assets		**69**	69
		987,444	999,104
CURRENT ASSETS			
Inventories		**5,824**	4,100
Trade and bills receivables	*10*	**20,047**	21,076
Deposits, prepayments and other receivables		**11,106**	8,361
Available-for-sale investments		**—**	1,875
Financial assets at fair value through profit or loss		**1,769**	—
Pledged bank deposits		**20,994**	20,502
Cash and bank balances		**148,902**	161,765
		208,642	217,679
CURRENT LIABILITIES			
Trade and bills payables	*11*	**8,125**	6,916
Accruals, other payables and contract liabilities		**56,201**	60,721
Amount due to an associate		**—**	19,780
Deferred income on government grants		**125**	98
Tax payable		**15,287**	16,255
		79,738	103,770
NET CURRENT ASSETS		**128,904**	113,909
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,116,348**	1,113,013

	Notes	**2019**	2018
		HK$'000	*HK$'000*
NON-CURRENT LIABILITIES			
Convertible bonds		**49,635**	41,812
Deferred income on government grants		**5,142**	4,122
		54,777	45,934
NET ASSETS		**1,061,571**	1,067,079
EQUITY			
Share capital		**23,900**	23,900
Reserves		**1,042,752**	1,047,673
Equity attributable to owners of the Company		**1,066,652**	1,071,573
Non-controlling interests		**(5,081)**	(4,494)
TOTAL EQUITY		**1,061,571**	1,067,079

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 2018

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers

(A) HKFRS 9 — Financial Instruments

HKFRS 9 replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: (1) classification and measurement; (2) impairment and (3) hedge accounting. The adoption of HKFRS 9 from 1 April 2018 has resulted in changes in accounting policies of the Group and the amounts recognised in the consolidated financial statements.

(i) *Classification and measurement of financial instruments*

The following tables summarise the impact, net of tax, of transition to HKFRS 9 on the opening balance of reserves, retained earnings and non-controlling interests as of 1 April 2018 as follows (increase/(decrease)):

	HK$'000
Retained earnings	
Retained earnings as at 31 March 2018	297,225
Combined effects to reclassify available-for-sale investments at fair value to fair value through other comprehensive income ("FVTOCI") and measure investments in convertible bonds in its entirety *(notes I to III below)*	21,229
Increase in expected credit losses ("ECLs") in trade receivables *(note (ii) below)*	(69)
Restated retained earnings as at 1 April 2018	318,385

	HK$'000
Non-controlling interests	
Non-controlling interests as at 31 March 2018	(4,494)
Increase in ECLs in trade receivables *(note (ii) below)*	(25)
Restated non-controlling interests as at 1 April 2018	(4,519)
FVTOCI reserve	
FVTOCI reserves balance as at 31 March 2018	—
Reclassify available-for-sale investments to FVTOCI *(note I below)*	(24,039)
Restated FVTOCI reserves balance as at 1 April 2018	(24,039)

Notes:

(I) As of 1 April 2018, certain available-for-sale investments were reclassified from available-for-sale financial assets to FVTOCI. The Group intends to hold these equity investments for long term strategic purposes. Under HKFRS 9, the Group has designated these equity investments at the date of initial application as measured at FVTOCI. As a result, financial assets with a fair value of HK$59,047,000 were reclassified from available-for-sale financial assets at fair value to financial assets at FVTOCI and fair value loss of HK$24,039,000 were reclassified from the retained earnings to the FVTOCI reserve on 1 April 2018.

(II) As at 1 April 2018, the unlisted financial instruments were reclassified from available-for-sale financial assets at fair value to financial assets at fair value through profit or loss ("FVTPL"). The non-determinable return rate causes the financial assets to fail to meet the solely payments of principal and interest ("SPPI") criterion. This is because the non-determinable return rate do not give rise solely to payments of principal and interest on the principal amount outstanding of the financial assets. As a result, that unlisted financial instrument is classified as at FVTPL. As at 1 April 2018, there is no difference between the previous carrying amount and the fair value of HK$1,875,000.

(III) As at 1 April 2018, the entire of debt component and derivative component of the investments in convertible bonds were reclassified to financial assets at FVTPL. The derivative component causes the financial assets to fail to meet the SPPI criterion. This is because the embedded feature cannot be separated and the contractual terms of that convertible loan receivable as a whole do not give rise solely to payments of principal and interest on the principal amount outstanding of the loan. As a result, that investments in convertible bonds in its entirety are classified as at FVTPL. As at 1 April 2018, the difference between the previous carrying amount and the fair value of HK$2,810,000 has been included in the opening retained earnings.

The following table summarises the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Group's financial assets as at 1 April 2018:

Financial assets	Original classification under HKAS 39	New classification under HKFRS 9	Carrying amount as at 1 April 2018 under HKAS 39	Remeasurement	Carrying amount as at 1 April 2018 under HKFRS 9
			HK$'000	*HK$'000*	*HK$'000*
Unlisted investment funds	Available-for-sale (at fair value) *(note (I) above)*	FVTOCI	59,047	—	59,047
Unlisted equity investment	Available-for-sale *(note (I) above)*	FVTOCI	—	—	—
Unlisted financial instrument	Available-for-sale (at fair value) *(note (II) above)*	FVTPL	1,875	—	1,875
Investments in convertible bonds	Debt component: amortised cost *(note (III) above)* Derivative component: FVTPL	As a whole: FVTPL	417,783	(2,810)	414,973

(ii) *Impairment of financial assets*

The adoption of HKFRS 9 has changed the Group's impairment model by replacing the HKAS 39 "incurred loss model" to the "expected credit losses ("ECLs") model". HKFRS 9 requires the Group to recognise ECL for trade receivables, financial assets at amortised costs, contract assets and debt investment at FVTOCI earlier than HKAS 39. Cash and cash equivalents are subject to ECL model but the impairment is immaterial for the current period.

Impact of the ECL model

Impairment of trade receivables

As mentioned above, the Group applies the HKFRS 9 simplified approach to measure ECLs which recognises lifetime ECLs for all trade receivables. The loss allowance for trade receivables as at 1 April 2018 were determined as follows:

1 April 2018	**Current**	**More than 90 days past due**	**More than 120 days past due**	**More than 12 months past due**	**Total**
Expected credit loss rate (%)	1.34	1.34	1.34	1.34	1.34
Gross carrying amount (HK$'000)	10,410	5,133	3,510	2,023	21,076
Loss allowance (HK$'000)					(94)

The increase in loss allowance for trade receivables upon the transition to HKFRS 9 as of 1 April 2018 were approximately HK$94,000. The loss allowances further increased for approximately HK$3,000 for trade receivables during the year ended 31 March 2019.

(iii) *Hedge accounting*

Hedge accounting under HKFRS 9 has no impact on the Group as the Group does not apply hedge accounting in its hedging relationships.

(iv) *Transition*

The Group has applied the transitional provision in HKFRS 9 such that HKFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new ECLs rules are therefore not reflected in the consolidated statement of financial position as at 31 March 2018, but are recognised in the statement of financial position on 1 April 2018. This means that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 April 2018. Accordingly, the information presented for 2018 does not reflect the requirements of HKFRS 9 but rather those of HKAS 39.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application (the "DIA") of HKFRS 9:

- The determination of the business model within which a financial asset is held;
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL; and
- The designation of certain investments in equity investments not held for trading as at FVTOCI.

If an investment in a debt investment had low credit risk at the DIA, then the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

(B) HKFRS 15 — Revenue from Contracts with Customers

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations. HKFRS 15 has established a five-steps model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has adopted HKFRS 15 using the cumulative effect method without practical expedients. The Group has recognised the cumulative effect of initially applying HKFRS 15 as an adjustment to the opening balance of retained earnings at the date of initial application (that is, 1 April 2018). As a result, the financial information presented for 2018 has not been restated.

(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.

HKFRS 16	Leases[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKFRS 3, Business Combinations[1]
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKFRS 11, Joint Arrangements[1]
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKAS 12, Income Taxes[1]
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKAS 23, Borrowing Costs[1]
HKFRS 17	Insurance Contracts[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 2019

2 Effective for annual periods beginning on or after 1 January 2021

3 The amendments were originally intended to be effective for periods beginning on or after 1 January 2017. The effective date has now been deferred/removed. Early application of the amendments continue to be permitted.

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:

	2019	2018
	HK$'000	*HK$'000*
Manufacturing of pharmaceutical products	**75,821**	60,176
Trading of pharmaceutical products	**13,397**	25,586
	89,218	85,762

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	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue								
Sales to external customers	**75,821**	60,176	**13,397**	25,586	**—**	—	**89,218**	85,762
Segment results	**(3,633)**	(3,695)	**(6,624)**	(6,009)	**(85)**	(83)	**(10,342)**	(9,787)
Unallocated other income							**10,214**	90,514
Unallocated other gains and losses, net							**79,789**	(37,735)
Corporate expenses							**(7,556)**	(7,217)
Effective interest expense on convertible bonds							**(7,823)**	(6,590)
Share of results of an associate							**(908)**	1
Profit before income tax							**63,374**	29,186
Income tax (expense)/credit							**(50)**	86
Profit for the year							**63,324**	29,272

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	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets								
Segment assets	**184,818**	201,454	**86,162**	90,707	**6**	6	**270,986**	292,167
Investments in convertible bonds							**469,737**	417,783
Interest in an associate							**330,062**	330,970
Corporate and other assets							**125,301**	175,863
Total assets							**1,196,086**	1,216,783
Segment liabilities								
Segment liabilities	**75,390**	82,269	**8,293**	4,700	**64**	64	**83,747**	87,033
Convertible bonds							**49,635**	41,812
Corporate and other liabilities							**1,133**	20,859
Total liabilities							**134,515**	149,704

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	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
	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	**6,312**	6,393	**86**	94	**—**	—	**6,398**	6,487
Unallocated depreciation and amortisation							**132**	133
							6,530	6,620
Provision for impairment loss on trade receivables, net	**255**	3,218	**—**	—	**—**	—	**255**	3,218
Bad debts recovered	**—**	(3,431)	**—**	—	**—**	—	**—**	(3,431)
Loss on disposal of property, plant and equipment	**734**	—	**—**	—	**—**	—	**734**	—
(Reversal of)/Provision for impairment loss on inventories, net	**(44)**	85	**—**	—	**—**	—	**(44)**	85

4. OTHER INCOME

	2019	2018
	HK$'000	*HK$'000*
Interest income	**2,947**	1,806
Government grants	**257**	172
Effective interest income from investments in convertible bonds	**—**	83,266
Imputed interest income from amount due from an associate	**6,883**	5,270
Loan interest income from an associate	**127**	—
	10,214	90,514

5. OTHER GAINS AND LOSSES, NET

	2019	2018
	HK$'000	*HK$'000*
Loss on disposal of property, plant and equipment	**(734)**	—
Change in fair value of derivative component of investments in convertible bonds	**—**	(16,782)
Change in fair value on financial assets at FVTPL — investments in convertible bonds	**79,789**	—
Change in fair value on financial assets at FVTPL — short term investment	**61**	—
Impairment loss on available-for-sale investments	**—**	(20,953)
Reversal of impairment loss on other receivables	**2**	—
Provision for impairment loss on trade receivables, net	**(255)**	(3,218)
Bad debts recovered	**—**	3,431
	78,863	(37,522)

6. PROFIT BEFORE INCOME TAX

	2019	2018
	HK$'000	*HK$'000*
Profit before income tax is arrived at after charging:		
Auditor's remuneration	**700**	798
Amortisation of prepaid lease payments	**234**	233
Depreciation of investment properties	**59**	60
Depreciation of property, plant and equipment	**6,237**	6,327
Cost of inventories recognised as expenses	**39,618**	43,713
Operating lease charges in respect of land and buildings	**1,826**	1,826
(Reversal of)/Provision for impairment loss on inventories, net	**(44)**	85
Staff costs (including directors' emoluments)		
Salaries, bonus and allowances	**21,038**	23,362
Retirement benefits scheme contributions	**2,705**	2,484

7. INCOME TAX

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

	2019	2018
	HK$'000	*HK$'000*
Current tax		
— Hong Kong	**12**	45
— PRC Enterprise Income Tax	**—**	—
— Other jurisdictions	**40**	40
	52	85
Overprovision in prior years		
— Hong Kong	**—**	—
— Other jurisdictions	**(2)**	—
	(2)	—
	50	85
Deferred tax		
— current year	**—**	(171)
— over provision in prior years	**—**	—
	—	(171)
Income tax expense/(credit)	**50**	(86)

Hong Kong Profits Tax has been provided at the rate of 8.25% (2018: 16.5%) of the estimated assessable profits for the first HK$2 million under the two-tiered profits tax rates regime effective on 1 April 2018.

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% (2018: 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:

	2019	2018
	HK$'000	*HK$'000*
Earnings		
Earnings for the purpose of basic earnings per share (Profit for the year attributable to owners of the Company)	**64,030**	29,930
Effect of potential ordinary shares:		
Interest on convertible bonds	**7,823**	6,590
Earnings for the purpose of diluted earnings per share	**71,853**	36,520

	2019	2018
	'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 2019 (2018: nil), nor has any dividend been proposed since the end of reporting period.

10. TRADE AND BILLS RECEIVABLES

	2019	2018
	HK$'000	*HK$'000*
Bills receivables	**1,490**	2,063
Trade receivables	**58,722**	61,318
Less: Provision for impairment loss on trade receivables	**(40,165)**	(42,305)
	20,047	21,076

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:

	2019	2018
	HK$'000	*HK$'000*
Within 90 days	**10,932**	10,410
91 to 180 days	**5,170**	5,133
181 to 365 days	**3,945**	5,533
	20,047	21,076

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:

	2019	2018
	HK$'000	*HK$'000*
Within 90 days	**3,202**	4,714
91 to 180 days	**4,186**	1,186
181 to 365 days	**44**	96
1 to 2 years	**176**	371
Over 2 years	**517**	549
	8,125	6,916

EXTRACT FROM INDEPENDENT AUDITOR'S REPORT

The auditor will issue a qualified report in the independent auditor's report on the consolidated financial statements of the Group for the year ended 31 March 2019. The details of which are extracted as follows:

"**Qualified Opinion**

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Qualified Opinion

Prior year's audit scope limitation affecting opening balances and comparative figures

The auditor's report on the consolidated financial statements of the Group for the year ended 31 March 2018 contained a disclaimer of opinion on the limitation on the audit scope in relation to interest in an associate. Details of which had been set out in the auditor's report dated 29 June 2018.

As the consolidated financial statements of the Group for the year ended 31 March 2018 formed the basis for the corresponding figures presented in the current year's consolidated financial statements, any adjustments found to be necessary in respect of the carrying amount of interest in an associate would have a significant effect on the opening balances and consequential effect on the results and the related disclosures thereof for the year ended 31 March 2019."

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Overall Performance Review

The global economic growth started encouragingly in early 2018 but slowed down notably as the year progressed, reflecting the faded momentum and diverged trends of growth across regions. Facing the complicated international environment and intense trade tensions with the United States, the Chinese economy recorded in 2018 its slowest growth at 6.6% since 1990. Despite the challenges, China has been making progress in its structural reform from rapid growth to high-quality development in the third year of its Thirteenth Five-Year Plan (2016-2020) and maintained growth at 6.4% in the first quarter of 2019. The regulatory landscape of the pharmaceutical industry has been going through significant changes along with the deepening healthcare reforms and Healthy China 2030 Plan. The sweeping institutional reshuffle including the reorganisation of the drug regulator China Food and Drug Administration, now renamed as National Medical Products Administration and under direct supervision of State Administration for Market Regulation; the set-up of National Health Commission and National Health Security Administration directly under the State Council, would facilitate advancing the healthcare reforms and promoting the Healthy China initiatives. The frequent roll out of national policies and the institutional reshuffle have reflected the Chinese government's determination in improving accessibility and affordability of drugs and healthcare services to its citizens and bringing China into close alignment with international regulatory practices in terms of efficacy, safety and quality. The deepening of the healthcare reforms followed with a brace of policies changes including adjustments to National Drugs Reimbursement List, full implementation of two invoice system, adoption of a new centralised drugs procurement arrangement in 11 cities to compel quality drugs tendering with minimum procurement quantities at the lowest prices, has driven a new round of consolidation and integration in the industry, whilst encouraging research and development of innovative drugs to meet the unmet medical demand. Large pharmaceutical players with scale economies emerging as formidable competitors in all segments of the market have posed tremendous pressure to the Group.

Notwithstanding the challenging conditions, the Group's manufacturing segment continued posting revenue growth with improved margin, which more than covered the decline in revenue and gross profit of the imported segment. As a result, the Group's revenue and gross profit increased to HK$89.2 million (2018: HK$85.8 million) and HK$49.6 million (2018: HK$42.0 million) respectively, representing an increase of about 4.0% and 18.0% as compared with that of last financial year.

The Group's operating profit before income tax was about HK$63.4 million (2018: HK$29.2 million), representing an increase of about HK$34.2 million. Such increase was mainly due to an increase in a net gain of about HK$13.3 million arising from the fair value change of the Group's investments in convertible bonds, and no impairment provision made for unrealised loss related to investments in unlisted funds as compared to about HK$21 million recorded in last year, whereas its fair value loss of about HK$59.0 million arisen in the year was recognised in other reserve other than profit or loss, upon adopting new accounting standard Hong Kong Financial Reporting Standard 9 ("HKFRS 9") for financial instruments that is effective for the Group's current accounting period.

The Group's profit for the year attributable to owners of the Company was about HK$64.0 million, representing an increase of about HK$34.1 million when compared to profit of about HK$29.9 million of last financial year.

Revenue and Operating Results

Manufactured Pharmaceutical Sector

During the year, management continued executing last year's strategic initiatives by adjusting distribution channels, expanding market coverage through collaboration with distributors and outsourcing service providers with extensive distribution network to promote product awareness in rural areas and communities. These strategic initiatives enabled the segment to strengthen its competitive position, enlarge market share and capture new growth opportunities. As a result, the segment revenue grew to about HK$75.8 million (2018: HK$60.2 million), representing an increase of HK$15.6 million or 26.0%, and driven by such increase offset more than rising labor and material costs, gross profit increased by about HK$15.1 million.

In tandem with revenue growth, management had strengthened risk management measures to monitor customers' creditability and collection of receivables with the aim of limiting the credit exposure, which significantly reduced the allowance for bad and doubtful debts to about HK$0.3 million (2018: HK$3.2 million), representing a reduction of about HK$3.0 million. However, there was no further bad debts recovered when compared to the recovery of HK$3.4 million made in previous year.

Although the revenue and gross profit growth contributed positively to the segment results, the segment had a large impact from high costs of selling and marketing activities. Significant resources were deployed on symposium, seminars as well as promotional activities in order to cope with the challenges from aggressive competitors for market share, which led to a surge of selling and marketing expenses by more than HK$14.2 million when compared to last year. Together with a loss on disposal of about HK$0.7 million arising from replacement of coal-fired boilers with natural gas boilers under the increasingly stringent environmental requirements for pollutant emissions, segment loss was thus slightly reduced to about HK$3.6 million (2018: HK$3.7 million).

In a highly competitive and difficult regulatory environment as depicted above, management believes that revenue growth accompanied with larger spending in selling and marketing expenses may impact short term performance, but in a longer term perspective, strengthening of revenue growth and building of brand awareness will ultimately help improve profitability. Apart from executing the initiatives to expand market coverage, management will continue to focus on improving product quality, reducing production and operation costs in order to drive for a better performance.

Imported Pharmaceutical Sector

The overall market conditions adversely affected the segment performance. The unfavorable factors as stated in the Group's interim report issued on 29 November 2018, including the intensified competition from competing products produced by Chinese manufacturers, the increasing regulatory scrutiny on imported products, backlog of approval process for the renewal of import license for the central nervous product expired in October 2017 as well as uncertainties of outcome of overseas on-site inspection for the skin treatment product ("Skin Drug"), had dented the first half-yearly results. The segment revenue dented further in the second half of the year by the outcome of on-site inspection for Skin Drug which is a major revenue contributor to the segment. As disclosed in the Company's announcement dated 15 February 2019, the Group was given to understand that the Chinese authorities had concluded in end January 2019 certain manufacturing practices issues which required the Skin Drug manufacturer's remedies in order to fully comply with the Chinese manufacturing practices and decided to temporarily suspend sales of the Skin Drug in China. According to the contract terms with the Group's customers and suppliers, the Group would not be involved in the product recall of the Skin Drug.

Given this difficult operating environment, segment revenue dropped significantly to about HK$13.4 million (2018: HK$25.6 million), representing a decrease of about HK$12.2 million or 47.6%. Despite management had cautiously maintained the administrative costs at its minimal level, the decrease in revenue and gross profit caused segment loss to about HK$6.6 million (2018: HK$6.0 million), representing an increase of about HK$0.6 million.

As the Group is given to understand that the respective manufacturers for Skin Drug and the central nervous product are still in the process of rectifying the issues with the relevant Chinese authorities, as such, the Group considers that the loss-making position of this segment will likely extend into the coming year. However, the Group and its business partners have been making collaborative effort with a view to resolving all those issues in the long term so as to bring its imported products back to the China market as soon as practicable. Management believes that the concerted efforts made by the Group and its business partners will be ultimately reflected in the segment performance.

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. As a minority shareholder of Smart Ascent, the Group has been working closely with Innovative Pharmaceutical

Biotech Limited ("Innovative Pharm"), the 51% shareholder of Smart Ascent, in monitoring the progress of the oral insulin project with a view to facilitating successful launching of the Product to the market.

As stated in the 2018 Annual Report, the timeline for commercialisation of the Product was expected to be in around mid of 2020.

A supplemental announcement was made by the Company on 15 August 2018 to provide further information in relation to (i) management and audit committee's position on the disclaimer of opinion; (ii) the adjustment of expected timeline for the commercialisation of the Product; (iii) the Company's participation in the progress of the launch of the Product; and (iv) the latest status of the Product.

With reference to the working capital requirements of Smart Ascent Group, Innovative Pharm and the Company through their respective wholly-owned subsidiaries as lenders and Smart Ascent as borrower entered into a shareholders' loan agreement on 27 July 2018 for a loan to Smart Ascent amounting to HK$30 million in total (the "Loan"), to be contributed as to 51% i.e. HK$15.3 million by Innovative Pharm Group and as to 49% i.e. HK$14.7 million by the Group. In September 2018, Smart Ascent had drawn down HK$10 million of the Loan, of which the Group's share was HK$4.9 million.

In October 2018, Fosse Bio-Engineering Development Limited ("Fosse Bio", one of the members of the Smart Ascent Group) had finalised the engagement of the contract research organisation ("CRO") and entered into a technical service agreement with the CRO to conduct clinical research of the Product. And a supplemental agreement was entered into between Tsinghua University and Fosse Bio to renew the term of the collaboration arrangement for another five years to October 2023, under which Fosse Bio continues to be entitled to commercialise the relevant technologies of the Product and to manufacture and sell the Product on an exclusive basis.

Upon the engagement of the CRO, the CRO has been working with the project team so as to select the participating hospitals for the clinical trial; meetings were held with the hospitals as shortlisted. Fosse Bio has engaged a hospital to act as the leader hospital or principal investigator for the clinical trial. Engagement of other shortlisted hospitals is in progress, whereas the oral insulin samples for clinical trial purpose have been manufactured. Given the recent progress and the reassessment of the timeline by Smart Ascent Group, the expected timeline for commercialisation of the Product has been revised to be by January 2022.

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 January 2022. 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.

The expected future economic benefits attributable to the In-process R&D was assumed to cover a 10 years period from the commercialisation of the Product. The calculation used in the cash flow projection with certain key parameters are as below:

Discount rate (post-tax)	23.64%
Growth rate	3%
Gross profit ratio	64.44%

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 2019 that may need to be impaired. Accordingly, no impairment is considered necessary as at 31 March 2019.

The Group will continue to closely coordinate with Innovative Pharm in monitoring the progress of the oral insulin project with a view to facilitating successful launching of the Product to the market. In addition, the Group will continue to perform impairment assessment on the carrying amount of the interest in associate in accordance with Hong Kong Accounting Standard 36 "Impairment of Assets" where necessary.

Other income and gains and losses, net

Other income and gains and losses, net were in total a gain of about HK$89.1 million (2018: HK$53.0 million), which increased by about HK$36.1 million or 68.1%. The increase was primarily attributable to (i) an increase in a net gain of about HK$13.3 million arising from the fair value change of the Group's investments in convertible bonds and (ii) no impairment provision made for unrealised loss related to investments in unlisted funds as compared to about HK$21 million recorded in last year, whereas its fair value loss of about HK$59.0 million arisen in the year was recognised in other reserve other than profit or loss, upon adopting new accounting standard for financial instruments; namely HKFRS 9 that is effective for the Group's current accounting period.

Selling and Distribution Expenses

Selling and distribution expenses of the Group increased to about HK$40.2 million (2018: HK$32.3 million), representing an increase of HK$7.9 million or 24.5%. Such increase was due to the combined effect of decrease in promotional expenses resulting from revenue decline of the imported segment and increase in marketing expenses for revenue growth in the manufacturing segment.

Administrative Expenses

Administrative expenses maintained at a broadly steady level of about HK$26.4 million (2018: HK$27.0 million), representing a slight decrease by about HK$0.6 million or 2.2%. Such decrease reflected a continued focus of the Group on execution of cost containment initiatives to control the expenses and to improve profitability.

Outlook

Despite waning global growth momentum and concerns about escalating trade tensions between the US and China, the World Bank recently released and maintained its growth forecast for China at 6.2% in 2019. Against the backdrop of stable economic growth, it is anticipated that the Chinese government will continue to commit resources to invest in the healthcare reforms in accordance with the Thirteenth Five-Year Plan and Healthy China 2030 Plan. Following the Chinese government's reorganisation of drug regulator and establishment of new institutions to push forwards the plans, the pharmaceutical industry has entered into a new regime with greater levels of regulatory influence, which has a material and profound impact on the industry. New round of policies including new regulations on centralised drugs procurement, regulatory monitoring over adjuvant drugs, comprehensively implementation of two invoice system have intensified market competition and posed significant challenges to the Group.

In light of the challenges and ever-increasingly competitive landscape, development of the Group's own quality products and enhancement of the Group's core competitiveness by advancing its production technology remain crucial and necessary to create a favorable momentum of long-term development and growth for the Group. In addition to measures on enhancing production efficiency and strengthening cost savings, the Group will continue to leverage its competitive advantages of scale economies, product quality and established distribution networks of its manufacturing segment in competition for gaining greater market share in order to achieve better performance. As the Group has been placing more focus on reinforcing the fundamentals for development of the Group's manufacturing segment which has demonstrated positive progress in these recent years, the Group believes that the loss-making situation of its imported pharmaceuticals trading segment in the near term would not have material adverse impact on the financial position of the Group, which remains sound.

Looking forward, the operating environment will be very challenging as the pharmaceutical industry has been undergoing a radical change in its regulatory landscape. However, the Group remains optimistic that the industry will maintain a stable growth driven by mounting demands of accelerated aging population, growing chronic diseases and improving standard of living in China. In the meantime, the Group will continuously endeavor to adopt a flexible strategy in parallel to the market challenges so as to improve the Group's business operations, and stay alert for business opportunities which may diversify its revenue stream.

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 2019, the Group had total cash and bank balances (including pledged bank deposits) of about HK$169.9 million (2018: HK$182.3 million), representing a decrease by approximately 6.8%. Such decrease was mainly due to the combined effect of working capital changes as well as utilisation of interest income received from investments in convertible bonds of about HK$25.0 million to fund respectively the repayment of about HK$19.8 million and provision of a shareholder's loan of about HK$4.9 million to Smart Ascent.

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$21.0 million (2018: HK$20.5 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 2019 was 0.041 (2018: 0.051), calculated based on the Group's total assets of about HK$1,196.1 million (2018: HK$1,216.8 million) and total debts of about HK$49.6 million (2018: HK$61.6 million), comprising convertible bonds of about HK$49.6 million (2018: HK$41.8 million) and amount due to an associate of HK$ Nil (2018: 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.

Investments in Unlisted Funds

As at 31 March 2019, the Group held a total of 80,000 participating shares ("Relevant Participating Shares") in KKC Capital SPC, a segregated portfolio company incorporated in the Cayman Islands at aggregate consideration of HK$80,000,000 (the "Funds"). During the year, the Funds have been reclassified from available-for-sale investments at fair value through other comprehensive income ("FVTOCI") to financial assets at FVTOCI upon adopting a new accounting standard for financial instruments on 1 April 2018. Due to volatile fluctuations in equity markets resulting from an escalating trade conflict between the US and China and weakening corporates earnings, fair value loss of about HK$59,047,000 was recognised in FVTOCI reserve. Details of the Funds at 31 March 2019 as held by the Group are set out below:

Name of unlisted investment	**Brief description of the business**	**Number of units held**	**Investment cost** *HK$'000*	**Market value** *HK$'000*	*(Note)* **Fair value loss recognised in FVTOCI reserve** *HK$'000*	**Percentage to total assets value of the Group**
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	—	80,000	—

Note: Of this balance, HK$20,953,000 related to impairment loss recognised in last year's profit or loss and transferred to FVTOCI reserve as a result of adopting the new accounting standard for financial instruments.

In order to mitigate the loss, the Board considers exploring the possibilities of identifying potential investors for acquiring the Relevant Participating Shares subject to the then performance of the Funds and the offer from the potential investors, if any, and in accordance with the requirements of the Listing Rules.

Employment and Remuneration Policy

As at 31 March 2019, the Group had 171 employees (2018: 178). Staff costs (including directors' emoluments) for the year ended 31 March 2019 amounted to approximately HK$23.7 million (2018: approximately HK$25.8 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 of Hong Kong Limited 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 2019, 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 2019, 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 other important engagement, Dr. Xie Yi was unable to attend the annual general meeting of the Company held on 24 August 2018. 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, and answered questions from shareholders of the Company.

Code provision E.1.5 stipulates that the Company should have a policy on payment of dividends. The Company has not established a dividend policy as the Company considers it more appropriate to determine a dividend payment after taking into account those factors including the Company's then financial performance, operating and capital requirements and market conditions, to enable the Company be in a better position to cope with its future development, which is to the best interest of the Company and its shareholders as a whole.

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 2019.

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 risk management and internal control systems of the Group. The Committee comprises three INEDs. The Group's financial statements for the year ended 31 March 2019 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, 28 June 2019

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*