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 2014

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 2014 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 March 2014

	Notes	**2014**	2013
		HK$'000	*HK$'000*
Turnover	*3*	**150,673**	151,068
Cost of sales		**(110,512)**	(104,374)
Gross profit		**40,161**	46,694
Other revenues	*4*	**62,030**	5,933
Selling and distribution expenses		**(15,420)**	(9,516)
Administrative expenses		**(34,151)**	(27,888)
Research and development expenses	*5*	**(4,084)**	(3,251)
Impairment on loan and interest receivables		**(10,747)**	—
Share of results of an associate		**—**	(3,086)
Profit from operations		**37,789**	8,886
Finance costs		**(6,893)**	—
Profit before taxation	*5*	**30,896**	8,886
Taxation	*6*	**(14,537)**	(706)

	Notes	2014 HK$'000	2013 HK$'000
Profit for the year		**16,359**	8,180
Other comprehensive income/(expenses)			
Exchange realignment		**(649)**	35
Total comprehensive income for the year		**15,710**	8,215
Profit for the year attributable to:			
Equity holders of the Company		**15,700**	10,876
Non-controlling interests		**659**	(2,696)
		16,359	8,180
Total comprehensive income attributable to:			
Equity holders of the Company		**15,181**	10,911
Non-controlling interests		**529**	(2,696)
		15,710	8,215
		HK cents	*HK cents*
Earnings per share for profit attributable to:			
Equity holders of the Company			
— Basic	*7*	**0.67**	0.47
— Diluted	*7*	**N/A**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2014

	Notes	2014 HK$'000	2013 HK$'000
NON-CURRENT ASSETS			
Investment properties		**1,674**	1,733
Property, plant and equipment		**172,978**	78,032
Prepaid land lease payments		**10,873**	22,537
Intangible assets		**286,067**	286,203
Available-for-sale investments		**—**	—
Interest in an associate		**—**	9,733
Amounts due from non-controlling interests		**5,267**	6,056
Amounts due from former non-controlling interests		**1,691**	—
Loan to a non-controlling interest		**7,790**	5,997
		486,340	410,291
CURRENT ASSETS			
Inventories		**9,225**	13,150
Trade receivables	*8*	**69,554**	74,805
Deposits, prepayments and other receivables		**31,712**	63,208
Pledged bank deposits		**19,819**	19,712
Cash and cash equivalents		**103,696**	136,450
		234,006	307,325
CURRENT LIABILITIES			
Trade and bill payables	*9*	**13,036**	13,898
Accruals and other payables		**67,990**	18,984
Amount due to a non-controlling interest		**20,674**	39,470
Tax payable		**14,898**	1,134
		116,598	73,486
NET CURRENT ASSETS		**117,408**	233,839
TOTAL ASSETS LESS CURRENT LIABILITIES		**603,748**	644,130

	Notes	2014 HK$'000	2013 HK$'000
NON-CURRENT LIABILITIES			
Amounts due to non-controlling interests		**7,736**	17,702
Amounts due to former non-controlling interests		**2,514**	—
Loan from a non-controlling interest		**7,520**	5,997
Deferred income		**—**	37,037
Deferred tax liabilities		**102**	102
Convertible bonds		**121,078**	—
		138,950	60,838
NET ASSETS		**464,798**	583,292
CAPITAL AND RESERVES			
Share Capital		**23,900**	22,900
Reserves		**304,396**	361,447
Equity attributable to equity holders of the Company		**328,296**	384,347
Non-controlling interests		**136,502**	198,945
TOTAL EQUITY		**464,798**	583,292

Notes:

1 GENERAL INFORMATION

Extrawell Pharmaceutical Holdings Limited (the "**Company**") is a limited liability company incorporated in Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The address of its principal place of business is Suites 2206–08, 22/F, Devon House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

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

2. BASIS OF PREPARATION

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

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

The preparation of consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

2.1 Amendments and interpretations to existing standards effective for the Group's financial year beginning on 1 April 2013 and relevant to the Group

In the current year, the Group has applied HKFRS that were issued by the HKICPA. The following standards/amendments are mandatory and relevant to the Group for the financial year beginning on 1 April 2013.

HKAS 1 (Amendment)	Presentation of financial statements
HKAS 19 (Revised 2011)	Employee benefits
HKAS 27 (Revised 2011)	Separate financial statements
HKAS 28 (Revised 2011)	Investments in associates and joint ventures
HKFRS 7 (Amendment)	Financial instruments: Disclosures — offsetting financial assets and financial liabilities
HKFRS 10	Consolidated financial statements
HKFRS 12	Disclosure of interests in other entities
HKFRS 13	Fair value measurement
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendment)	Consolidated financial statements, joint arrangement and disclosure of interests in other entities: Transition guidance

The application of the above standards/amendments has had no material effect on the consolidated financial statements of the Group and the statement of financial position of the Company for the current and prior years.

2.2 Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted

Up to the date of issue of these consolidated financial statements, the HKICPA have issued a number of new standards, amendments to standards and interpretations which are effective for annual periods beginning after 1 April 2014, and which have not been adopted in preparing these consolidated financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 9, "Financial instruments"	No mandatory effective date yet determined but is available for immediate adoption
HKAS 32 (Amendments), "Financial instruments: Presentation — offsetting financial assets and financial liabilities"	1 January 2014
HKAS 36 (Amendments), "Impairment of assets"	1 January 2014
HKFRS 7 and HKFRS 9 (Amendments), " Mandatory effective date and transition disclosures"	1 January 2015

The Group is in the process of assessing the impact of these new and revised standards, amendments to standards and interpretations to existing standards and does not expect that there will be a material impact on the consolidated financial statements of the Group.

There are no other HKFRSs or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

3. SEGMENT INFORMATION

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

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

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

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

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

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

3. SEGMENT INFORMATION (CONTINUED)

Business segments

The following table provides an analysis of the Group's revenue, results and certain assets, liabilities and expenditures information by business nature for the year ended 31 March 2014 and 31 March 2013.

	Manufacturing		Trading		Gene development		Oral insulin		Total	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue										
Sales to external customers	**53,752**	61,424	**96,921**	89,644	**—**	—	**—**	—	**150,673**	151,068
Segment results	**33,481**	2,527	**14,446**	19,271	**(67)**	(67)	**(3,303)**	(4,586)	**44,557**	17,145
Interest income									**1,485**	1,241
Net unallocated expenses									**(8,253)**	(6,414)
Finance costs									**(6,893)**	—
Share of results of an associate									**—**	(3,086)
Profit before taxation									**30,896**	8,886
Taxation									**(14,537)**	(706)
Profit for the year									**16,359**	8,180
Segment assets	**253,835**	209,471	**106,249**	118,772	**6**	6	**311,898**	306,342	**671,988**	634,591
Unallocated assets									**48,358**	83,025
Total assets									**720,346**	717,616
Segment liabilities	**75,276**	50,260	**16,623**	19,277	**50**	50	**41,161**	31,634	**133,110**	101,221
Unallocated liabilities									**122,438**	33,103
Total liabilities									**255,548**	134,324
Depreciation and amortization	**3,316**	3,829	**109**	134	**—**	—	**—**	—	**3,425**	3,963
Unallocated depreciation and amortization									**130**	133
									3,555	4,096
Other non-cash expenses, other than depreciation and amortization:										
Impairment on trade receivables	**10,215**	8,551	**—**	—	**—**	—	**—**	—	**10,215**	8,551
(Reversal) of impairment on trade receivables	**(3,353)**	(8,675)	**(177)**	(119)	**—**	—	**—**	—	**(3,530)**	(8,794)
Impairment on loan and interest receivables	**10,747**	—	**—**	—	**—**	—	**—**	—	**10,747**	—
(Gain) on disposal of property, plant and equipment	**(57,691)**	—	**(8)**	—	**—**	—	**—**	—	**(57,699)**	—

4. OTHER REVENUES

	2014	2013
	HK$'000	*HK$'000*
Exchange gain	**—**	2
Interest income	**1,485**	1,241
Interest on loan	**622**	474
Gains on disposal of property, plant and equipment	**57,699**	—
Rental income	**224**	222
Waiver of amount due to a non-controlling interest of a subsidiary	**2,000**	—
Sundry income	**—**	3,994
	62,030	5,933

5. PROFIT BEFORE TAXATION

The Group's profit before taxation has been arrived at after charging/(crediting):

	2014	2013
	HK$'000	*HK$'000*
Amortization of prepaid land lease payments	**615**	947
Amortization of investment properties	**59**	60
Amortization of intangible assets	**136**	472
Auditors' remuneration	**695**	670
Cost of sales*	**110,512**	104,374
Depreciation of property, plant and equipment	**2,745**	2,617
(Decrease) in allowance for inventories	**(439)**	(3)
Impairment on trade receivables	**10,215**	8,551
Reversal of impairment on trade receivables	**(3,530)**	(8,794)
Waiver of amount due to a non-controlling interest of a subsidiary	**(2,000)**	—
Impairment on loan and interest receivables	**10,747**	—
(Gain) on disposal of property, plant and equipment	**(57,699)**	—
Operating lease charges in respect of land and buildings	**2,493**	1,919
Research and development expenses**	**4,084**	3,251
Staff cost (including directors' emoluments)		
— Salaries, bonus and allowances	**26,590**	24,688
— Retirement benefits scheme contributions	**3,740**	2,669

Note:

* Cost of sales included staff cost and depreciation of property, plant and equipment of approximately HK$7,815,000 (2013: HK$8,810,000) for the year.

** Research and development expenses incurred relating to oral insulin project for the year were HK$3,272,000 (2013: HK$2,431,000) and the amounts incurred on other projects for the year were HK$812,000 (2013: HK$820,000).

6. TAXATION

(a) Taxation in consolidated statement of comprehensive income represents:

	2014	2013
	HK$'000	*HK$'000*
Current tax — Hong Kong Profits Tax		
Provision for the year	**110**	82
Under/(Over)-provision in prior years	**1**	(5)
	111	77
Current tax — Overseas		
Provision for the year	**11,949**	628
(Over)/under-provision in prior years	**(1)**	1
	11,948	629
PRC land appreciation tax ("LAT")	**2,478**	—
Income tax charge	**14,537**	706

Hong Kong Profits Tax has been provided at the rate of 16.5% (2013: 16.5%) on the estimated assessable profits for the year. Tax charges on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Under the PRC Enterprise Income Tax Law, the tax rate of the PRC subsidiaries is 25%.

Pursuant to the requirements of the Provisional Regulations of the PRC on LAT, and the Detailed Implementation Rules on the Provision Regulations of the PRC on LAT, all income from the sale or transfer of state-owned land use rights, buildings and their attached facilities in the PRC is subject to LAT at progressive rates ranging from 30% to 60% of the appreciation value.

7. EARNINGS PER SHARE

Basic

The calculation of the basic earnings per share is based on the profit attributable to the Company's equity holders of approximately HK$15,700,000 (2013: profit attributable to the Company's equity holders of approximately HK$10,876,000) and on the weighted average of 2,355,479,452 (2013: 2,290,000,000) ordinary shares in issue during the year.

Diluted

No diluted earnings per share has been presented as the exercise of the outstanding convertible bonds issued by the Company in July 2013 would result in an increase in earnings per share (i.e. anti-dilutive). The Company had no potential dilutive ordinary shares that were outstanding for the years ended 31 March 2014 and 2013.

8. TRADE RECEIVABLES

The Group:

	2014	2013
	HK$'000	*HK$'000*
Trade receivables	**96,414**	94,980
Less: Impairment on trade receivables	**(26,860)**	(20,175)
Trade receivables, net of provision	**69,554**	74,805
Maximum exposure to credit risk	**69,554**	74,805

The carrying amounts of trade receivables approximate their fair values as at 31 March 2014 and 31 March 2013. The Group does not hold any collateral over these balances.

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

	2014	2013
	HK$'000	*HK$'000*
Within 90 days	**31,238**	35,836
Between 91 to 180 days	**30,219**	26,100
Between 181 to 365 days	**8,097**	12,869
Between 1 to 2 years	**10,215**	8,551
Over 2 years	**16,645**	11,624
	96,414	94,980

8. TRADE RECEIVABLES (CONTINUED)

The Group: (continued)

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

	2014	2013
	HK$'000	*HK$'000*
Within 90 days	**31,238**	35,836
Between 91 to 180 days	**30,219**	26,100
Between 181 to 365 days	**8,097**	12,869
	69,554	74,805

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. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimize credit risk. Overdue balances are reviewed regularly by senior management.

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	2014	2013
	HK$'000	*HK$'000*
Hong Kong dollars	**30**	30
Renminbi	**34,900**	40,420
United States dollars	**34,624**	34,355
	69,554	74,805

9. TRADE AND BILLS PAYABLES

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

The Group:

	2014	2013
	HK$'000	*HK$'000*
Within 90 days	**10,326**	11,863
Between 91 to 180 days	**2,640**	1,492
Between 181 to 365 days	**8**	—
Between 1 to 2 years	**15**	144
Over 2 years	**47**	399
	13,036	13,898

The carrying amounts of the Group's trade and bills payables approximate their fair values as at 31 March 2014 and 31 March 2013 and are denominated in the following currencies:

	2014	2013
	HK$'000	*HK$'000*
Renminbi	**1,930**	2,053
United States dollars	**6,424**	7,047
Euro	**4,682**	4,798
	13,036	13,898

10. DIVIDENDS

The directors do not recommend the payment of dividend for the year ended 31 March 2014 (2013: HK$ Nil).

EXTRACTED FROM INDEPENDENT AUDITORS' REPORT

The consolidated financial statements for the year ended 31 March 2014 have been audited by the Group's independent auditors. The independent auditors' report of the Group's financial statements for the year ended 31 March 2014 was an unqualified opinion but adding an emphasis of significant matter paragraph as follows:

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2014 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

EMPHASIS OF SIGNIFICANT MATTER

Included in Intangible Assets as at 31 March 2014 is the technological know-how with the carrying value of approximately HK$284,260,000 (2013: HK$284,260,000) (the "**Know-how**") in relation to an oral insulin product (the "**Product**") and the exclusive right for the commercialization of the Product owned by the Group. The Know-how is held by an indirect subsidiary of the Group, Fosse Bio-Engineering Development Limited ("**Fosse Bio**"), a company in which an indirect subsidiary of the Group, Smart Ascent Limited ("**Smart Ascent**") had acquired a 51% interest in November 2003, and through the Group's acquisition of a 51% interest in Smart Ascent in March 2004. The Group had completed the acquisition of the remaining 49% interest in Smart Ascent in July 2013. Smart Ascent has been a wholly owned subsidiary of the Group since then. In an appraisal conducted by an independent professional valuer, the Know-how is valued at an amount that is not less than HK$284,260,000 as at 31 March 2014. Notwithstanding this valuation, the recoverability of the carrying value of the Know-how is still uncertain as it depends upon the result of the clinical trial and the successful launching of the Product. Should the outcome of the clinical trial and the launching of the Product be unsuccessful, material adjustments may have adverse effect on the business and results of the Group.

Having considered the availability of the appraisal report by the independent professional valuer of the value of the Know-how and the disclosure in the notes to the consolidated financial statements, we consider the uncertainty as to the risks associated with the asset as mentioned in the above paragraph has been adequately disclosed in the consolidated financial statements. Our opinion is not qualified in respect of this matter.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Overall Performance

In the year under review, the global economy became stabilized and improved but uncertainties persist in the global market place. China's economy grew 7.7 percent year on year in 2013, registering a remarkable growth rate among major economies though its growth slowed down slightly to 7.4 percent in the first quarter of 2014. China's acceleration in economic reform, with extensive and in depth measures brought by the central government, tend to be key drivers in promoting China's healthy, sustainable growth but also create ongoing and emerging challenges to the business enterprises.

The pharmaceutical industry in the PRC maintained its growth momentum alongside with both challenges and opportunities to pharmaceutical enterprises. The central government continued to deepen the healthcare reforms in which medical spending for the year increased by 13.3% to about RMB821 billion when compared to 2012. The pharmaceutical industry experienced a dynamic change and restructuring as more comprehensive and deepened reforms policies were implemented with aim to providing the nation's citizens access to basic and quality medical services at reasonable price. These policies included, *inter alia*s, the implementation of new GMP to upgrade production quality and eliminate the non-compliance pharmaceutical enterprises, implementing more detailed policies to further optimize the drug tendering system of essential drugs and taking measures to regulate the drug promotion activities. The stricter policies and intensified market competition increased the production and operational costs which further squeezed industry profitability. In response to the highly competitive landscape and challenging operating environment, the Group stayed with its policies in continuously optimizing operational efficiencies through streamlining the business operations and flexibly adjusting its marketing and distribution strategies to achieve performance.

The Group's turnover and gross profit were about HK$150.7 million (2013: HK$151.1 million) and HK$40.2 million (2013: HK$46.7 million) respectively, representing a decrease of about 0.3% and 14.0% as compared with that of last financial year. The decrease in gross profit was mainly due to price adjustment and rising direct costs of sales. A significant gain on disposals of property, plant and equipment of the Group's two plants in Changchun of about HK$57.7 million was recorded, which was partly balanced off by (i) rising operating costs in aggregate of about HK$13 million comprising an impairment provision for trade receivables of about HK$6.7 million and plant relocation and associated expenses of about HK$2.5 million (ii) impairment provision for loan and interest receivables of about HK$10.7 million on investment in Shanghai Longmark; (iii) imputed interests of the Company's convertible bonds of about HK$6.9 million and (iv) increase in tax expenses arising from the aforesaid gain on disposals of about HK$14.4 million.

The Group's profit for the year attributable to the equity holders of the Company was about HK$15.7 million, representing an increase of about HK$4.8 million as compared to profit of about HK$10.9 million in 2013.

Imported Pharmaceutical Sector

The implementation of new good supply practice for pharmaceutical products, and the strengthening administrative measures on drug pricing by the PRC's National Development and Reform Commission exerted tremendous pressure on sales and gross margin of the segment. However, the Group was able to get through the challenge with the assuring quality of its imported pharmaceutical products and management efforts in unswerving execution of marketing strategy to expand its market share. Sales increased by about 8.1% from about HK$89.6 million last year to about HK$96.9 million this year as a result of double-digit growth of skin treatment drugs both in terms of volume and value.

Segment results decreased from about HK$19.3 million in 2013 to about HK$14.4 million in 2014, however, taking into account of a non-recurring item arising from the write-back of provision of direct expenses attributable to sales of about HK$4.0 million in 2013, the segment results decreased slightly from about HK$15.3 million to about HK$14.4 million, representing a decrease of about HK$0.9 million or 5.9%.

Manufactured Pharmaceutical Sector

Sales of self-manufactured pharmaceutical products decreased by approximately 12.5% to about HK$53.8 million when compared to about HK$61.4 million in 2013. This was primarily attributable to price reduction on products to capture market share and in particular, one of the Group's main product included in the essential drug list which led to lowering in product price.

In face of massive healthcare reforms policies and intensive market competition, management was committed to cost control in order to curb with rising operating costs and to make adjustments in its strategies to secure its market share. Notwithstanding the cost savings of expenses on symposium and seminars, there had been decrease in gross profit due to the rising production costs and lowering product gross margin resulting from product price reduction to cope with intensified competition.

During the year, management encouraged cash sales to its customers by granting discount on sales, aiming at shortening the collection period and boosting sales, nevertheless, such sales unexpectedly led to slower settlement from certain customers for the past due accounts. Although management considered that there had not been any significant change in the credit quality of such receivables, an impairment provision on trade receivables of about HK$7.3 million had been made according to the Group's accounting policies. Upon disposal of the Group's two plants, additional relocation and associated expenses of about HK$2.5 million were incurred, whereas a significant gain on the disposals of about HK$57.7 million before tax was recognized which was partly balanced off by the increase in operating expenses as aforesaid mentioned and an impairment provision for loan and interest receivables on an investment in a healthcare management company, namely Shanghai Longmark of about HK$10.7 million. As a result, segment profit increased from about HK$2.5 million by about HK$31.0 million to HK$33.5 million as compared to 2013.

As a new plant with more advanced production facilities has been set up in Jiu Tai, Changchun, pending for GMP certification, the relocation to this new production site in early 2014 has provided an opportunity for the Group to enhance its production capacity and quality, and increase its core competitiveness. The Group believes that the new plant, building on economies of scale and enhanced operating efficiency, will foster a sustainable and long term development of the Group amidst the competitive market.

Gene Development Sector

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

Oral Insulin Sector

The clinical trial is still in progress. There was no revenue generated in the sector. The decrease in loss was due to more research and development expenses incurred during the year.

Selling and Distribution Expenses

Selling and distribution expenses of the Group increased from about HK$9.5 million in 2013 to about HK$15.4 million in 2014, representing an increase of about HK$5.9 million or 62.1%. Although adjustment in marketing strategy reduced symposium expenses by about HK$1.4 million, the execution of cash sales strategy originally intended to boost sales and shorten the customers' collection period had unexpectedly led to slower settlement from certain customers for past-due accounts which increased the impairment provision by about HK$7.3 million in accordance with the Group's accounting policies. Management had taken measures to adjust its marketing strategy in order to maintain a good balance for accommodation the benefits and potential disadvantages to drive sales growth and collection on receivables.

Administrative Expenses

Administrative expenses of the Group increased from about HK$27.9 million in 2013 to about HK$34.2 million in 2014, representing an increase of about HK$6.3 million or 22.5%. However, when taking into account expenses of non-recurring nature including professional fee provided for the disposal of 51% interest in Smart Ascent Limited of about HK$1.2 million, loss on disposal of fixed assets on relocation of Hong Kong Headquarters of about HK$0.3 million, costs and associated expenses incurred for Changchun plants relocation of about HK$2.5 million, and after accounting for foreign exchange gain of about HK$0.6 million arising from acquisition of 49% non-controlling interest in Smart Ascent Limited as completed in July 2013, the Group's administrative expenses would be about HK$30.8 million; an increase of about HK$2.9 million or 10.4% when compared to 2013 which was mainly due to increase of rental expenses of about HK$0.8 million, depreciation and amortization charges for the new factory premises in Changchun of about HK$1.0 million and staff costs of about HK$1.0 million.

Research and Development Expenses

Increase in research and development expenses from about HK$3.3 million in 2013 to about HK$4.1 million in 2014 was mainly attributable to more expenses recognized in relation to the clinical trial of oral insulin.

Other Revenues

Other revenues increased from about HK$5.9 million in 2013 to about HK$62.0 million in 2014. This was mainly due to the write-off of HK$2 million as due to a non-controlling interest on completion of the Group's acquisition of its 49% interest in Smart Ascent Limited and gain on disposal of property, plant and equipment of about HK$57.7 million in relation to Changchun plants.

Outlook

The outlook for the global economy in 2014 is positive as there have been much impetus for growth coming from the developed countries. Although recent economic results have shown downsized risks of China's economic growth, it is estimated that the growth will be at moderate rate of 7.5% similar to 2013 and that the central government will continue to commit resources to invest in the healthcare reforms in accordance with the Twelfth Five-Year Plan. With anticipation that the State's policies will be more comprehensive and stricter to deepen the transformation of healthcare infrastructure and to improve public insurance coverage, coupled with increase in people's income level and health awareness, the demand for quality pharmaceutical products in China is expected to increase further in the years to come.

The Group has been well-positioned in face of market challenges and opportunities and is cautiously optimistic and confident that the advancement of production capacity and capability of its new production facilities will enhance its core competitiveness to capture greater market share and achieve better performance in the long run. The Group will stay with its strategy to develop quality pharmaceutical products by deploying resources in product research and development and to exploit new products through collaborative relations with international enterprises to sustain long-term development and growth of the Group.

While the Group is committed to allocate its best resources to the oral insulin project, as announced in March 2014, the Group entered into a sales and purchase agreement with Clear Rich International Limited, a wholly-owned subsidiary of United Gene High-Tech Group Limited (stock code 399), a listed company on the Stock Exchange, to dispose of the Group's 51% equity interest in Smart Ascent Limited, the holding company of the Group's oral insulin operation, which has yet to be completed as at the date of this announcement. Assuming the said disposal be completed, the Group will still hold 49% equity interest in Smart Ascent Limited, thus enabling it to enjoy any benefit from the future growth and success of Smart Ascent Limited with input of resources by the 51% equity holder as a new partner, in the development of the oral insulin project. The cash payment of HK$65 million and the interest payments of HK$25 million per annum for the convertible bonds of 7 years maturity, generated from the consideration of the disposal can also enhance the resources the Group may deploy to the Group's other existing pharmaceutical businesses to improve their performances and to seize profitable investment opportunities, thus fostering the Group's long-term growth and development.

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 2014, the Group had total cash and bank balances (including pledged bank deposits) of about HK$123.5 million (2013: HK$156.2 million), representing a decrease by approximately 20.9%.

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$19.8 million (2013: HK$19.7 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 2014 was 0.22 (2013: 0.09), calculated based on the Group's total assets of about HK$720.3 million (2013: HK$717.6 million) and total debts of about HK$159.5 million (2013: HK$63.2 million), comprising convertible bonds of about HK$121.1 million (2013: HK$ Nil), amounts due to present and former non-controlling interests of subsidiaries of about HK$30.9 million (2013: HK$57.2 million) and loan from a non-controlling interest of about HK$7.5 million (2013: HK$6.0 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.

Employment and Remuneration Policy

As at 31 March 2014, the Group had 312 employees (2013: 294). Staff costs (including directors' emoluments) for the year ended 31 March 2014 amounted to approximately HK$30.3 million (2013: approximately HK$27.4 million), which was mainly due to increase in headcount and annual salary adjustment.

The Group remunerates its employees based on industry practices. Its staff benefits, welfare and statutory contributions, if any, are made in accordance with prevailing labour laws of its operating entities.

The share option scheme as adopted by the Company on 8 August 2002 ("**2002 Scheme**") expired on 14 August 2012. On its expiration, the shareholders of the Company have approved the adoption of a new share option scheme (the "**Scheme**") on 24 August 2012. The Scheme became effective on 29 August 2012 ("**Effective Date**") 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 2014, no share option has been granted under the Scheme.

Corporate Governance

The Group recognizes the importance of achieving and monitoring the high standard of corporate governance consistent with the need and requirements of its business and the best interest of all of its shareholders. The Group is fully committed to doing so.

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 2014, 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 so far as practicable in all other cases, an agenda and accompanying board papers should be sent in full to all directors in a timely manner and at least 3 days before the intended date of a board or board committee meeting (or such other period as agreed). The Company agrees that sufficient time should be given to the directors in order to make a proper decision. In these respects, the Company adopts a more flexible approach (and yet sufficient time has been given) in convening board meetings to ensure efficient and prompt management decisions could be made.

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 been re-designated as the Chairman of the Board upon resignation of Dr. Mao Yumin on 5 December 2013, and since then Dr. Xie Yi has served as the Chairman and Chief Executive Officer of the Company. As all major decisions of the

Company are made in consultation with members of the Board, 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.

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 A.6.7 stipulates that INEDs and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. One of the INEDs, Ms. Jin Song was unable to attend the annual general meeting of the Company held on 26 August 2013 due to other business commitments.

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 2014.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

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 2014 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, 30 June 2014

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

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

* *For identification purpose only*