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 2017

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 2017 together with the comparative figures as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2017

	Notes	**2017** *HK$'000*	2016 *HK$'000*
Revenue	*3*	**107,903**	142,201
Cost of sales		**(64,007)**	(72,888)
Gross profit		**43,896**	69,313
Other income	*4*	**77,418**	67,798
Other gains and losses, net	*5*	**(35,034)**	(33,606)
Selling and distribution expenses		**(31,673)**	(42,359)
Administrative expenses		**(27,231)**	(27,368)
Share of results of an associate		**(2,897)**	(1,600)
Effective interest expense on convertible bonds		**(5,552)**	(4,688)
Profit before taxation	*6*	**18,927**	27,490
Taxation	*7*	**(616)**	(90)
Profit for the year		**18,311**	27,400
Other comprehensive expense			
Item that may be reclassified subsequently to profit or loss			
Exchange differences arising on translation of foreign operations		**(8,359)**	(7,880)
Total comprehensive income for the year		**9,952**	19,520

	Notes	**2017** *HK$'000*	2016 *HK$'000*
Profit (loss) for the year attributable to:			
Owners of the Company		**20,796**	32,781
Non-controlling interests		**(2,485)**	(5,381)
		18,311	27,400
Total comprehensive income (expense) attributable to:			
Owners of the Company		**12,443**	25,359
Non-controlling interests		**(2,491)**	(5,839)
		9,952	19,520
		HK cents	*HK cents*
Earnings per share for profit attributable to owners of the Company:	*8*		
— Basic		**0.87**	1.37
— Diluted		**0.80**	1.14

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 MARCH 2017

	Notes	2017 HK$'000	2016 HK$'000
NON-CURRENT ASSETS			
Investment properties		**1,497**	1,556
Property, plant and equipment		**145,839**	161,911
Prepaid lease payments		**9,299**	10,155
Intangible assets		**1,807**	1,807
Investments in convertible bonds		**376,324**	362,960
Available-for-sale investments		**—**	—
Interest in an associate	*10*	**330,969**	333,866
Amount due from an associate		**17,235**	13,199
		882,970	885,454
CURRENT ASSETS			
Inventories		**7,607**	5,924
Trade receivables	*11*	**37,417**	57,019
Deposits, prepayments and other receivables		**4,972**	8,393
Available-for-sale investments		**1,685**	3,012
Pledged bank deposits		**20,215**	20,053
Bank balances and cash		**217,803**	180,998
		289,699	275,399
CURRENT LIABILITIES			
Trade and bills payables	*12*	**14,859**	11,093
Accruals and other payables		**59,501**	68,614
Amount due to an associate		**19,780**	19,780
Deferred income on government grants		**63**	—
Tax payable		**14,587**	15,695
		108,790	115,182
NET CURRENT ASSETS		**180,909**	160,217
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,063,879**	1,045,671

	Notes	**2017**	2016
		HK$'000	*HK$'000*
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**102**	102
Convertible bonds		**35,222**	29,670
Deferred income on government grants		**2,704**	—
		38,028	29,772
NET ASSETS		**1,025,851**	1,015,899
CAPITAL AND RESERVES			
Share capital		**23,900**	23,900
Reserves		**1,005,792**	993,349
Equity attributable to owners of the Company		**1,029,692**	1,017,249
Non-controlling interests		**(3,841)**	(1,350)
TOTAL EQUITY		**1,025,851**	1,015,899

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. The principal activities of the Company's subsidiaries and an associate are set out in annual report.

The functional currency of the Company is Hong Kong dollar ("HK$"), which is the same as the presentation currency of the consolidated financial statements.

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. They have been prepared under the historical cost convention, except for certain financial instruments, which are measured at fair value.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(i) New and revised HKFRSs adopted by the Group

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
HKFRS 14	Regulatory Deferral Accounts
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Annual Improvements 2012–2014 Cycle	Amendments to a number of HKFRSs

The adoption of above new and revised standards has had no material financial impact on these financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

(ii) New and revised HKFRSs that have been issued but not yet effective

The Group has not early adopted the following new and revised HKFRSs that have been issued but are not yet effective, in these financial statements.

Amendments to HKAS 7	Statement of Cash Flows: Disclosure Initiative[1]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[1]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[2]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[2]
HKFRS 9 (2014)	Financial Instruments[2]
HKFRS 15	Revenue from Contracts with Customers[2]
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers[2]
HK (IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration[2]
Amendments to HKAS 40	Transfers of Investment Property[2]
HKFRS 16	Leases[3]
Amendments to HKFRS 10 and HKAS 28 (2011)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Annual Improvements to HKFRSs 2014–2016 Cycle	Amendments to HKFRSs[5]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 No mandatory effective date yet determined but available for adoption
5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

The Group has already commenced an assessment of the impact of adopting the above new and revised HKFRSs to the Group. The Group is not yet in a position to state whether these pronouncements will result in substantial changes to the Group's accounting policies and financial statements.

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:

	2017	2016
	HK$'000	*HK$'000*
Manufacturing of pharmaceutical products	**44,477**	42,893
Trading of pharmaceutical products	**63,426**	99,308
	107,903	142,201

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;

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

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

Segment revenues and results

The following is an analysis of the Group's revenue and results from operation by reportable and operating segments.

	Manufacturing		**Trading**		**Gene development**		**Total**	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue								
Sales to external customers	**44,477**	42,893	**63,426**	99,308	**—**	—	**107,903**	142,201
Segment results	**(12,044)**	(20,218)	**2,709**	16,829	**(83)**	(81)	**(9,418)**	(3,470)
Unallocated other income							**77,418**	67,798
Unallocated other gains and losses, net							**(33,397)**	(23,953)
Corporate expenses							**(7,227)**	(6,597)
Effective interest expense on convertible bonds							**(5,552)**	(4,688)
Share of results of an associate							**(2,897)**	(1,600)
Profit before taxation							**18,927**	27,490
Taxation							**(616)**	(90)
Profit for the year							**18,311**	27,400

3. REVENUE AND SEGMENT INFORMATION (CONTINUED)

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 executive and non-executive directors of the Company, for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

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

	Manufacturing		**Trading**		**Gene development**		**Total**	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets								
Segment assets	**186,775**	212,943	**144,865**	128,759	**6**	6	**331,646**	341,708
Investments in convertible bonds							**376,324**	362,960
Interest in an associate							**330,969**	333,866
Corporate and other assets							**133,730**	122,319
Total assets							**1,172,669**	1,160,853
Segment liabilities								
Segment liabilities	**77,121**	83,260	**13,992**	11,845	**64**	64	**91,177**	95,169
Convertible bonds							**35,222**	29,670
Corporate and other liabilities							**20,419**	20,115
Total liabilities							**146,818**	144,954

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.

3. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Other segment information

	Manufacturing		Trading		Gene development		Total	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	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	**6,483**	6,323	**99**	103	**—**	—	**6,582**	6,426
Unallocated depreciation and amortisation							**132**	111
							6,714	6,537
Allowance for bad and doubtful debts, net	**4,456**	9,004	**—**	—	**—**	—	**4,456**	9,004
Impairment on other receivables	**—**	717	**—**	—	**—**	—	**—**	717
Gain on disposal of property, plant and equipment, net	**—**	(71)	**—**	3	**—**	—	**—**	(68)
Gain on disposal of intangible assets	**(2,819)**	—	**—**	—	**—**	—	**(2,819)**	—

4. OTHER INCOME

	2017	2016
	HK$'000	*HK$'000*
Interest income	**1,299**	831
Rental income	**54**	228
Sundry income	**50**	930
Government grants	**193**	—
Effective interest income from investments in convertible bonds	**71,786**	62,718
Imputed interest income from amount due from an associate	**4,036**	3,091
	77,418	67,798

5. OTHER GAINS AND LOSSES, NET

	2017	2016
	HK$'000	*HK$'000*
Gain on disposal of property, plant and equipment, net	**—**	68
Gain on disposal of intangible assets	**2,819**	—
Change in fair value of derivative component of investments in convertible bonds	**(33,397)**	(23,953)
Allowance for bad and doubtful debts, net	**(4,456)**	(9,004)
Impairment on other receivables	**—**	(717)
	(35,034)	(33,606)

6. PROFIT BEFORE TAXATION

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

	2017	2016
	HK$'000	*HK$'000*
Amortisation of prepaid lease payments	**228**	243
Depreciation of investment properties	**59**	59
Depreciation of property, plant and equipment	**6,427**	6,235
Auditors' remuneration	**760**	728
Cost of inventories recognised as expenses	**64,007**	72,888
Including: Allowance for inventories *(Note)*	**—**	713
Operating lease charges in respect of land and buildings	**1,792**	1,925
Staff cost (including directors' emoluments)		
Salaries, bonus and allowances	**23,581**	19,428
Retirement benefits scheme contributions	**3,172**	3,203

Note: Allowance for inventories is reversed when the relevant inventory is utilised/sold.

7. TAXATION

	2017	2016
	HK$'000	*HK$'000*
Current tax:		
Hong Kong	**56**	70
PRC Enterprise Income Tax	**554**	—
Other jurisdictions	**40**	50
	650	120
(Over) provision in prior years		
Hong Kong	**(19)**	(20)
Other jurisdictions	**(15)**	(10)
	(34)	(30)
Taxation	**616**	90

Hong Kong Profits Tax has been provided at the rate of 16.5% (2016: 16.5%) of the estimated assessable profits for both years.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

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 the owners of the Company is based on the following data:

Earnings

	2017	2016
	HK$'000	*HK$'000*
Earnings for the purpose of basic earnings per share (Profit for the year attributable to owners of the Company)	**20,796**	32,781
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds	**5,552**	4,688
Earnings for the purpose of diluted earnings per share	**26,348**	37,469

8. **EARNINGS PER SHARE (CONTINUED)**

Number of shares

	2017	2016
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,390,000,000**	2,390,000,000
Effect of dilutive potential ordinary shares:		
Convertible bonds	**900,000,000**	900,000,000
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**3,290,000,000**	3,290,000,000

9. **DIVIDENDS**

The directors do not recommend the payment of dividend for the year ended 31 March 2017 (2016: nil).

10. **INTEREST IN AN ASSOCIATE**

	2017	2016
	HK$'000	*HK$'000*
Cost of investment in associate, unlisted	**337,000**	337,000
Share of post-acquisition losses and other comprehensive expense	**(6,031)**	(3,134)
	330,969	333,866

11. **TRADE RECEIVABLES**

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.

11. TRADE RECEIVABLES (CONTINUED)

The following is an aged analysis of trade receivables, net of allowance for bad and doubtful debts presented based on the date of delivery of goods which approximated the respective dates on which revenue was recognised.

	2017	2016
	HK$'000	*HK$'000*
0–90 days	**14,352**	19,467
91–180 days	**15,490**	26,658
181–365 days	**7,575**	10,894
	37,417	57,019

12. TRADE AND BILLS PAYABLES

The following is an aged analysis of trade and bills payables presented based on the invoice date at the end of the reporting period.

	2017	2016
	HK$'000	*HK$'000*
0–90 days	**8,968**	8,725
91–180 days	**4,473**	1,363
181–365 days	**756**	156
1–2 years	**168**	325
Over 2 years	**494**	524
	14,859	11,093

13. EVENTS AFTER THE REPORTING PERIOD

On 2 June and 11 May 2017, Extrawell Enterprises Limited (the "Subscriber"), an indirect wholly-owned subsidiary of the Company, entered into the subscription agreements with KKC Capital SPC, a segregated portfolio company incorporated in the Cayman Islands (the "Fund"), and pursuant to which the Subscriber agreed to subscribe for 30,000 and 50,000 participating shares in the Fund attributable to the segregated portfolio at aggregate consideration of HK$30,000,000 and HK$50,000,000 respectively on the respective dates, which were both funded by the internal resources of the Group. Details in relation to the subscriptions are disclosed in the announcements dated 2 June and 11 May 2017.

EXTRACTED FROM THE INDEPENDENT AUDITORS' REPORT

The auditors will issue a disclaimer of opinion in the independent auditors' report on the consolidated financial statements of the Group for the year ended 31 March 2017. The details of which are extracted as follows:

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

Basis for Disclaimer of Opinion

Impairment for interest in an associate, Smart Ascent Limited and its subsidiaries ("Smart Ascent Group")

As disclosed in note 22 to the consolidated financial statements, the major asset held by the associate is the intangible asset in relation to an in-process research and development project ("In-process R&D") involving an oral insulin product ("Product"). The carrying amount of the In-process R&D is determined based on the management's key assumptions which are made with high degree of estimation uncertainties. This carrying amount is highly dependent upon further research and development work that is required to be carried out, results of clinical trials, successful launching of the Product and key assumptions to be applied in preparing a cash flow projection for the sales of the Product.

One of the major assumptions relied on in assessing the carrying amount is the directors' opinion that the Smart Ascent Group would be successful in obtaining the regulatory approvals from the relevant government bodies and launching the Product by the end of 2019. These assumptions are the fundamental factors upon which the entire valuation exercise as to the recoverable amount of the In-process R&D is based.

However, we are unable to obtain sufficient and appropriate audit evidence to support the probability of the Smart Ascent Group successfully launching the Product, that is, specifically, the likelihood and timing in obtaining the regulatory approvals from the relevant government bodies to launch the Product by the end of 2019. In the absence of sufficient audit evidence for these fundamental assumptions, we are unable to ascertain the reasonableness of the key assumptions relied on by the management in assessing the recoverable amount of the intangible asset as at 31 March 2017.

Consequently, we were unable to satisfy ourselves as to whether the carrying amount of the Group's interest in the associate approximately HK$330,969,000 as included in the Group's consolidated statement of financial position as at 31 March 2017 was fairly stated, and whether any impairment on the interest in an associate should be recognised.

Any further adjustments to the interest in the associate would affect the amount of net assets reported by the Group as at 31 March 2017 and of its financial performance for the year then ended, and the related disclosures thereof in the consolidated financial statements.

In addition, included in the interests in subsidiaries as shown in note 36 to the consolidated financial statements, the Company has equity interest in Extrawell (BVI) Limited ("EBVI") amounting to HK$624,604,000 as at 31 March 2017.

The Smart Ascent Group, is also an associated company in relation to the Company's subsidiary, EBVI, as at 31 March 2017. In the absence of sufficient audit evidence supporting that the carrying amount of interest in the Smart Ascent Group was fairly stated, we were similarly unable to satisfy ourselves as to whether the carrying amount of the Company's equity interest in EBVI amounting to approximately HK$624,604,000 as included in the Company's statement of financial position as at 31 March 2017 was fairly stated, and whether any impairment on the interest in the subsidiary should be recognised."

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Overall Performance Review

The global economy recovered slowly and grew at 2.5% only in 2016, which was the year with the lowest growth rate since the financial crisis began in 2009. Yet despite most countries still facing anemic growth, China had a good beginning in its Thirteenth Five-Year Plan (2016–2020) (the "Plan") with stable growth at 6.7%. The Plan, *inter alia*s, outlines priorities and targets with the aim of promoting "Healthy China", which seeks to enhance the quality and accessibility of healthcare services for the people while rolling out various measures to reform its healthcare system. Against this backdrop, the pharmaceutical industry continued its growth momentum albeit at a slower pace since the launch of reforms in 2009. And after years of deepening healthcare reforms, the market is now highly competitive and more consolidated, causing larger corporations gaining market share of small competitors.

This trend had been accelerating under the frequent reform policies released in 2016, which affected drugs pricing and usage capacity and posed significant challenge to the Group. In the year under review, revenue and gross profit decreased to HK$107.9 million (2016: HK$142.2 million) and HK$43.9 million (2016: HK$69.3 million) respectively, representing a decrease of about 24.1% and 36.7% as compared with that of last financial year. These were mainly the results of decrease in sales of the imported pharmaceutical products under the trading segment, in spite of having improvement in performance of the Group's manufacturing segment.

Operating profit before taxation was about HK$18.9 million (2016: HK$27.5 million), representing a decrease of about HK$8.6 million or 31.1%, and when excluding the increase in share of loss in an associate of about HK$1.3 million, the decrease was about HK$7.3 million. Such decrease was mainly due to the decrease in gross profit of about HK$25.4 million with corresponding decrease in selling and distribution expenses of about HK$10.7 million, the respective increases in effective interest income arising from and loss in fair value changes on investments in convertible bonds of about HK$9.1 million and HK$9.4 million, decrease in allowance for trade and other receivables in aggregate of about HK$5.3 million and a gain on disposal of intangible assets of about HK$2.8 million.

The Group's profit for the year attributable to owners of the Company was about HK$20.8 million, representing a decrease of about HK$12.0 million when compared to profit of about HK$32.8 million of last financial year.

Revenue and Operating Results

Imported Pharmaceutical Sector

In the year under review, the segment was hardest hit as the sales of Group's products continued to decline in the second half of the financial year. Revenue and segment profit decreased to about HK$63.4 million (2016: HK$99.3 million) and HK$2.7 million (2016: HK$16.8 million), representing decrease of HK$35.9 million and HK$14.1 million respectively. Such decrease was primarily due to price adjustments for most of the Group's imported products coupled with the drastic drop of sales quantity in skin treatment drugs.

Although the Group's imported products were perceived of premium quality, intensified competition from competing products of local PRC manufacturers in a price-sensitive market impacted sales and gross margin. In response to this challenging market environment, management has focused on streamlining operating efficiency and deploying resources to strengthen its networks with medical professionals in order to increase product awareness and recapture the market share in the long term. Management believes that sales would be back on track with the continuous marketing efforts and more detailed market cultivation and would strive for delivering better results.

Manufactured Pharmaceutical Sector

Amid challenging market environment, the performance in the year under review was a strong start where revenue growth compensated the sales lost from the closure of JECP last year that accounted for more than one-third of the revenue line. Sustained with the growth momentum in the first half of the year and bolstered by increased production, revenue increased to about HK$44.5 million (2016: HK$42.9 million), representing an increase of HK$1.6 million or 3.7%. This reflected management's efforts on expanding new distribution channels to increase market share with competitive pricing by leveraging the benefit of lowering manufacturing costs. However, gross margin decreased slightly by 1.0% as the advantage of increased production was partly offset by product price reduction in order to cope with intensified market competition.

In addition to the disciplines on enhancing productivity and improving operating efficiency, management had focused on risk management measures for creditability of customers with the aim of limiting the credit exposure. As a result, segment loss reduced from about HK$20.2 million to HK$12.0 million, representing an improvement of HK$8.2 million or 40.4%. Such improvement was mainly due to decrease in allowance for bad and doubtful debts.

With enhanced production capabilities and assured product quality, the GMP compliant factory in Jiu Tai, Changchun has established a clear pathway for sustainable growth in future. From a position of increased competitiveness, management would continue focusing on enhancing productivity, operating efficiency and risk management with the aim of delivering better performance.

Gene Development Sector

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

Interest in an Associate

The Group regards its 49% equity interest in Smart Ascent Limited a potential investment for the Group in light of the enormous market arising from the growing diabetic population in the PRC. The Group anticipates that the project team of oral insulin will exert additional efforts in expediting the development of the oral insulin and keep the project on track. The directors of the Company are of the view that the success of the oral insulin project could bring impetus to the Group.

The directors of the Company do not identify any indication on the carrying amount of interest in the associate as at 31 March 2017 may need to be impaired. In view of the nature of the intangible asset in relation to an In-process R&D owned by the Smart Ascent Group, the directors of the Company have performed impairment assessment on the interest in the associate by reference to the valuation conducted by an independent qualified valuer. The recoverable amount of the associate is determined based on share of the estimated fair value of the In-process R&D. Based on the assessment, the recoverable amount of the Group's interest in the associate is estimated to be higher than the carrying amount and therefore the directors of the Company considered that no impairment is necessary as at 31 March 2017.

Other income and gains and losses, net

Other income and gains and losses, net were in total a gain of about HK$42.4 million (2016: HK$34.2 million), which increased by about HK$8.2 million or 24.0%. The increase was primarily attributable to investments in convertible bonds in which its effective interest income increased by about HK$9.1 million but levelled off by its increase in loss on change in fair value of its derivative component of about HK$9.4 million, decrease in allowance for trade and other receivables of about HK$5.3 million, gain on disposal of intangible assets of about HK$2.8 million.

Selling and Distribution Expenses

Selling and distribution expenses of the Group decreased to about HK$31.7 million (2016: HK$42.4 million), representing a decrease of HK$10.7 million or 25.2%. The decrease was the result of decrease in sales.

Administrative Expenses

Total administrative expenses were about HK$27.2 million (2016: HK$27.4 million), representing a decrease of about HK$0.2 million. However, when excluding the one-time expense of about HK$0.9 million for closure costs of JECP's operation as included in the corresponding year, there was an increase of about HK$0.7 million or 2.6%, which mainly related to higher staff costs following the increase in headcount and salary adjustments.

Outlook

Against the backdrop of geopolitical uncertainties, the World Bank has recently released its forecast on global economic growth at 2.7% in 2017. Both global trade and China's economy show a decent momentum going into 2017. In light of mounting demands, in particular, driven by combined factors of accelerated aging population, growing chronic diseases and improving standard of living in China, the opportunity from the pharmaceutical market is huge despite the multiple challenges brought by the deepening healthcare reforms. Although the industry has undergone unprecedented changes under the reforms, the prospect is affirmative and expected to grow parallel during the 5-year period under the Thirteen Five-Year Plan.

To confront with the competitive threats in the context of decline in revenue and margin squeeze caused by pricing pressure and regulatory compliance, the Group will deploy resources to reinforce and strengthen the competitive advantages of its quality products with the aim of increasing revenue and gaining market share, and at the same time, the Group will continue to enhance the performance of its segments through more flexible marketing strategies and tighter cost controls. Further, the Group will keep a close watch on the investment opportunities with a view to enhancing its corporate value.

Despite the rising challenges that the Group currently encounters, the outlook remains cautiously positive. The Group will take the challenges as an opportunity to adjust its business model and align its capabilities for sustainable and profitable growth in future.

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 2017, the Group had total cash and bank balances (including pledged bank deposits) of about HK$238.0 million (2016: HK$201.1 million), representing an increase by approximately 18.4%.

The Group did not have bank borrowings during the year but had banking facilities on trade finance, which were supported by the pledge of the Group's fixed deposits of about HK$20.2 million (2016: HK$20.1 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 2017 was 0.047 (2016: 0.043), calculated based on the Group's total assets of about HK$1,172.7 million (2016: HK$1,160.9 million) and total debts of about HK$55.0 million (2016: HK$49.5 million), comprising convertible bonds of about HK$35.2 million (2016: HK$29.7 million) and amount due to an associate of HK$19.8 million (2016: 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.

Employment and Remuneration Policy

As at 31 March 2017, the Group had 238 employees (2016: 220). Staff costs (including directors' emoluments) for the year ended 31 March 2017 amounted to approximately HK$26.8 million (2016: approximately HK$22.6 million), which was mainly due to increase in headcount and salary adjustments.

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

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

The Scheme will enable the Group to reward the employees, the directors and other selected participants for their contribution to the Group and will also assist the Group in its recruitment and retention of high caliber professionals, executives and employees who are instrumental to the growth of the Group.

From the effective date of the Scheme to 31 March 2017, 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 2017, 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.

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 2017.

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 system of the Group. The Committee comprises three INEDs. The Group's financial statements for the year ended 31 March 2017 have been reviewed by the Committee. The Committee is of the opinion that such financial statements comply with the applicable accounting standards, and Stock Exchange's and legal requirements, and that adequate disclosures have been made.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

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

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

Hong Kong, 29 June 2017

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*