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

(incorporated in Bermuda with limited liability)

(Stock Code: 00858)

SUPPLEMENTAL ANNOUNCEMENT REGARDING ANNUAL RESULTS ANNOUNCEMENT AND THE ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 2018

Reference is made to the announcement (the "**Announcement**") of Extrawell Pharmaceutical Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") dated 29 June 2018 and the annual report ("**Annual Report**") of the Company for the year ended 31 March 2018. Terms used herein shall have the same meanings as defined in the Announcement unless the context requires otherwise.

In addition to the information provided in the Announcement and the Annual Report, the Board wishes to provide further information in relation to the disclaimer of opinion on the consolidated financial statements of the Group for the year ended 31 March 2018 issued by the auditor of the Company, (the "**Auditor**") in relation to (i) management and audit committee's position on the disclaimer of opinion; (ii) the adjustment of expected timeline for the commercialization 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.

AUDIT COMMITTEE AND MANAGEMENT'S VIEW

The management of the Company had made an enquiry with the management of Innovative Pharmaceutical Biotech Limited ("**Innovative Pharm**", together with its subsidiaries "**Innovative Pharm Group**"), being the holding company of 51% shareholder of Smart Ascent Limited ("**Smart Ascent**", together with its subsidiaries "**Smart Ascent Group**"), and had discussion with the Auditor explaining, among others, the basis for the assumptions and estimation in the Cash Flow Projection. Nevertheless, while the Directors acknowledge the inherent uncertainty and risks involved in the In-process R&D and the lack of alternative audit procedures, in making the assessment as to the recoverability of the In-process R&D and the fair value of the interest in the associate for the year ended 31 March 2018, the Group had engaged a Valuer in preparing a valuation report.

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 Projection, which the estimated cash inflows derived from budgeted sales and gross margin were based on the expectation for the market development, In addition, the key assumptions of the valuation included the regulatory approvals from the relevant government bodies (in particular, the granting of the certificate of new medicine and pharmaceutical manufacturing permit for the Product by State Drug Administration, formerly known as China Food and Drug Administration) to launch the Product by mid of 2020. The recoverable amount of the interest in 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-year period from the initial recognition by Innovative Pharm in 2014. The calculation used in the Cash Flow Projection with certain key parameters are as below:

Discount rate (post-tax)	26.08%
Growth rate	3%
Gross profit ratio	57.75%

The valuation methodology and assumptions were consistently adopted and applied in the valuation conducted by the Valuer. The management of the Group considered that the basis and assumptions used for preparing the Cash Flow Projection and the valuation methodology, basis and assumptions used for preparing the valuation report were reasonable and appropriate, and did not consider any impairment adjustment was needed notwithstanding the aforesaid uncertainty.

The management and the audit committee ("**Audit Committee**") of the Company consider that the In-process R&D is, by its nature, inherently complex, high risk and potentially high rewarding endeavour. While some of the processes of the In-process R&D are managed and controlled by the management of Innovative Pharm, the results of the clinical trial and the commercialization of the Product are subject to the approval by the government authorities. Therefore, the timetable for the commercialization of the Product is beyond the control of the Group.

In preparing the independent auditor's report on the consolidated financial statements of the Group for the year ended 31 March 2018, the Auditor had requested for objective audit evidence sufficient to support the timing of the completion of the clinical trials, the expected date for obtaining the regulatory approval. Nevertheless, the availability of such audit evidence would depend on the actual progress of the clinical trial. Given the nature of the reasons underlying the audit qualification, the management of the Group and the Audit Committee consider that there remains uncertainty as to the removal of the disclaimer of opinion in the Company's next financial statements.

The Audit Committee had discussion with the Auditor explaining the basis of preparation of the Cash Flow Projection and independent valuation involved significant assumptions and judgment, in particular, the timing of commercialization of the Product by mid of 2020 was based on best estimation by Smart Ascent Group and is subject to uncertainty. The Audit Committee considered that the valuation methodology, and assumptions for such preparation were fair and reasonable having considered the prevailing market conditions including but not limited to, the constantly growing diabetic population and the enormous potential market for the Product in China, and value of recoverable amount as calculated by the Valuer. The Audit Committee did not find any impairment indicator and concurred with the view of the management of the Company that no impairment on the interest in associate was considered necessary for the year ended 31 March 2018, and expects the management of the Smart Ascent Group would use their best endeavours to accelerate the progress of the In-process R&D so as to facilitate in providing audit evidence to the Auditor for removing the disclaimer of opinion in the Company's consolidated financial statements for the financial year ending 31 March 2019. The Board is of the view that there might be other objective audit evidence which the Group might be able to provide to the Auditor after the commencement of the clinical trials which are expected to commence in late 2018. As the Company is given to understand that the management of Innovative Pharm and Smart Ascent Group are allocating human and financial resources (as further explained below) in conducting the clinical trials, the Board and the Audit Committee are of the view that the adjusted timeline to launch the Product by mid 2020 is achievable.

THE ADJUSTMENT OF EXPECTED TIMELINE FOR THE COMMERCIALIZATION OF THE PRODUCT

The original timeline for commercialization of the Product has been changed from end of 2019 to mid of 2020. As the Product is regarded as a novel drug for its oral delivery method of insulin, and in order to increase the chances of success of the clinical trials and to ensure that the clinical trials are done in the most-effective way, the management of Smart Ascent Group and Innovative Pharm considered it desirable to put additional efforts and time to optimize the implementation plan, which involved collaboration between different clinical experts, using different evaluation method and making different hypothesis, and taking further expert advice. Furthermore, the unexpected delay was also due to restructuring of relevant organization of experts in early 2018 which has led to a slowdown in communication between the project team working for Innovative Pharm and Smart Ascent Group and those experts in finalizing the implementation plan.

Based on the currently available information and expected timeline, the estimated funding required to complete the research and development and commercialization of the Product by stages are as follows:

Expected timeline	Event	Estimated funding required
Third quarter of 2018	Engagement of hospitals to conduct Part B of phase III clinical trials and Recruitment of supervisors to monitor the progress	RMB5 million
Late 2018 till end of 2019	Part B of phase III clinical trials	RMB25 million
Early of 2020	Commercialization of the Product	RMB20 million

THE COMPANY'S PARTICIPATION IN THE PROGRESS OF THE LAUNCH OF THE PRODUCT

The Company has been working closely with Innovative Pharm in respect of the progress of the In-process R&D. For example, meetings were from time to time held between the Group and the management of Innovative Pharm and Smart Ascent Group throughout the year in order for the Group to collate information and updates on the status of the In-process R&D and for performing impairment assessment for the financial year ended 31 March 2018.

With reference to the working capital requirements of Smart Ascent Group for the upcoming financial year, 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. The Board is of the view that the Loan could enable smoother operation of Smart Ascent and facilitate the progress of the In-process R&D and commercialization of the Product.

In addition, the Company has assigned one of its key management personnel to assist in the clinical trial of the Product. The Board is of the view that such arrangement would enable the Group to be in a better position to monitor the progress for the commercialization of the Product.

THE LATEST STATUS OF THE PRODUCT

The management of the Group has made an enquiry with the management of Innovative Pharm and was given to understand that as at the date of this announcement, the implementation plan of the Part B of phase III clinical trials has been finalized and the engagement with the relevant contract research organisation is still in progress. Innovative Pharm is allocating human and financial resources for conducting the clinical trials which are expected to commence in or around the third quarter of 2018.

The additional information set out above does not affect other information contained in the Announcement and the Annual Report and the contents of the Announcement and the Annual Report remain unchanged.

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

Hong Kong, 15 August 2018

As at the date of this announcement, the executive Directors are Dr. Xie Yi, Dr. Lou Yi, Mr. Cheng Yong, Ms. Wong Sau Kuen, Mr. Liu Kwok Wah and Mr. Lu Zhiqiang and the independent non-executive Directors are Mr. Fang Lin Hu, Mr. Xue Jing Lun and Ms. Jin Song.

* *For identification purpose only*