EXTRAWELL PHARMACEUTICAL HOLDINGS LIMITED

精優藥業控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 00858)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

The board of directors (the "**Board**") of Extrawell Pharmaceutical Holdings Limited (the "**Company**") announces the unaudited consolidated results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 September 2019 together with the comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**At 30 September 2019 (Unaudited) *HK$'000***	At 31 March 2019 (Audited) *HK$'000*
Non-current assets			
Investment properties		**1,348**	1,378
Property, plant and equipment		**128,837**	140,740
Prepaid lease payments		**—**	9,236
Right-of-use assets		**8,563**	—
Intangible assets		**1,807**	1,807
Financial assets at fair value through profit or loss		**500,173**	469,737
Financial assets at fair value through other comprehensive income		**—**	—
Interest in an associate	*3*	**329,643**	330,062
Amount due from an associate		**33,583**	29,388
Loan to an associate		**15,016**	5,027
Deferred tax assets		**69**	69
		1,019,039	987,444
Current assets			
Inventories		**6,125**	5,824
Trade and bills receivables	*4*	**18,128**	20,047
Deposits, prepayments and other receivables		**9,306**	11,106
Financial assets at fair value through profit or loss		**1,652**	1,769
Pledged bank deposits		**21,257**	20,994
Bank balances and cash		**131,434**	148,902
		187,902	208,642
Total assets		**1,206,941**	1,196,086

	Notes	At 30 September 2019 (Unaudited) HK$'000	At 31 March 2019 (Audited) HK$'000
Capital and reserves			
Share capital		**23,900**	23,900
Reserves		**1,060,393**	1,042,752
Equity attributable to owners of the Company		**1,084,293**	1,066,652
Non-controlling interests		**(3,455)**	(5,081)
Total equity		**1,080,838**	1,061,571
Non-current liabilities			
Convertible bonds		**54,092**	49,635
Deferred income on government grants		**4,740**	5,142
		58,832	54,777
Current liabilities			
Trade and bills payables	*5*	**7,932**	8,125
Accruals, other payables and contract liabilities		**43,216**	56,201
Deferred income on government grants		**121**	125
Tax payable		**16,002**	15,287
		67,271	79,738
Total equity and liabilities		**1,206,941**	1,196,086
Net current assets		**120,631**	128,904
Total assets less current liabilities		**1,139,670**	1,116,348

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		For the six months ended 30 September	
		2019	2018
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
Revenue	*6*	**40,695**	45,047
Cost of sales		**(17,281)**	(20,300)
Gross profit		**23,414**	24,747
Other income	*7*	**6,400**	4,517
Other gains and losses, net	*8*	**27,629**	33,306
Selling and distribution expenses		**(10,972)**	(18,221)
Administrative expenses		**(13,338)**	(13,630)
Share of results of an associate		**(419)**	(142)
Effective interest expense on convertible bonds		**(4,457)**	(3,756)
Profit before taxation	*9*	**28,257**	26,821
Taxation	*10*	**(1,740)**	(253)
Profit for the period		**26,517**	26,568
Other comprehensive income/(expense)			
Item that may be reclassified subsequently to profit or loss			
— Exchange differences arising on translation of foreign operations		**(7,250)**	(10,649)
Item that will not be reclassified subsequently to profit or loss			
— Change in fair value on financial assets through other comprehensive income		**—**	(41,967)
Total comprehensive income/(expense) for the period		**19,267**	(26,048)
Profit for the period attributable to			
Owners of the Company		**25,043**	26,404
Non-controlling interests		**1,474**	164
		26,517	26,568

		For the six months ended 30 September	
		2019	2018
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
Total comprehensive income/(expense) for the period attributable to			
Owners of the Company		**17,641**	(26,431)
Non-controlling interests		**1,626**	383
		19,267	(26,048)
		(Unaudited)	(Unaudited)
		HK cents	*HK cents*
Earnings per share for the period attributable to owners of the Company	*12*		
— Basic		**1.05**	1.10
— Diluted		**0.90**	0.92

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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.

This unaudited condensed consolidated interim financial information of the Group (the "**Interim Financial Information**") was approved for issue by the Board on 29 November 2019.

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES

The Interim Financial Information has been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange, and the Hong Kong Accounting Standard ("**HKAS**") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

This Interim Financial Information should be read in conjunction with the Group's audited financial statements for the year ended 31 March 2019 (the "**2019 Audited Financial Statements**") as prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**"). Other than changes as described below, the accounting policies adopted in this Interim Financial Information are consistent with the 2019 Audited Financial Statements**.**

The Group has adopted the new and amended standards to HKFRSs as issued by the HKICPA that are first effective for the current interim period and considered that there was no significant impact on the Group's results and financial position or any substantial changes in the Group's accounting policies, except for HKFRS 16 Leases, as discussed below.

HKFRS 16 Leases

HKFRS 16 Leases replaces HKAS 17 Leases and related interpretations. It introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17.

The adoption of HKFRS 16 has resulted in changes of accounting policies. In accordance with its transition provisions, the Group has adopted the modified retrospective approach for existing leases at 1 April 2019 with certain reliefs, and under which comparative information is not restated. Under the approach, the Group has applied the following practical expedients on transition to HKFRS 16 to leases previously classified as operating leases under HKAS 17:

(i) reliance on previous assessments on whether leases are onerous;

(ii) applying the recognition exemption for leases of low value assets or short-term leases that ends within 12 months of the date of initial application; and

(iii) the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Upon the adoption of HKFRS 16, the Group reclassified the "prepaid lease payments" to right-of-use assets for presentation as below:

	As originally presented 31 March 2019	**Reclassification under HKFRS 16**	**Restated 1 April 2019**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets (extract)			
Prepaid lease payments	9,236	(9,236)	—
Right-of-use assets	—	9,236	9,236

As a lessee, the Group's leases are mainly rentals of offices with initial period of three years. At the date of transition to HKFRS 16, the Group has applied the recognition exemption not to recognise right-of-use assets and lease liabilities for leases whose remaining lease term ending on or before 31 March 2020. Accordingly, lease payments associated with those leases are recognised as expense on a straight-line basis over the lease term in the current interim period. The following table reconciles the operating lease commitments as disclosed in note 36 to the 2019 Audited Financial Statements to the opening balance for lease liabilities recognised as at 1 April 2019:

	HK$'000
Operating lease commitments at 31 March 2019	1,601
Less: Recognition exemption — short-term leases	(1,601)
Lease liabilities recognised as at 1 April 2019	—

3. QUALIFIED OPINION — 2019 AUDITED FINANCIAL STATEMENTS

In the 2019 Audited Financial Statements, a qualified opinion was expressed in the Independent Auditor's Report in relation to prior year's audit scope limitation affecting opening balances and comparative figures arising from the carrying amount of the Group's interest in an associate, Smart Ascent Limited, which is now extracted as below:

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

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

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the

HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion."

The management of the Company and the Audit Committee, having considered the progress of the In-process R&D, the prevailing market conditions and reasonableness of assumptions used for the cash flow projections for the purpose of impairment assessment, do not identify any indication on the carrying amount of interest in the associate as at 30 September 2019 that may need to be impaired. Accordingly, no impairment is considered necessary as at 30 September 2019.

4. TRADE AND BILLS 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.

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

	At 30 September 2019 (Unaudited) ***HK$'000***	At 31 March 2019 (Audited) *HK$'000*
Within 90 days	**9,208**	10,932
91–180 days	**2,322**	5,170
181–365 days	**6,598**	3,945
	18,128	20,047

5. TRADE AND BILLS PAYABLES

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

	At 30 September 2019 (Unaudited) ***HK$'000***	At 31 March 2019 (Audited) *HK$'000*
Within 90 days	**4,008**	3,202
91–180 days	**520**	4,186
181–365 days	**2,759**	44
1–2 years	**162**	176
Over 2 years	**483**	517
	7,932	8,125

6. REVENUE AND SEGMENT INFORMATION

The Group's revenue comprises the following:

	For the six months ended 30 September	
	2019	2018
	(Unaudited)	(Unaudited)
	HK\$'000	*HK\$'000*
Manufacturing of pharmaceutical products	**40,695**	37,241
Trading of pharmaceutical products	**—**	7,806
	40,695	45,047

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

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

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

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

The following is an analysis of the Group's revenue and results from operation by reportable and operating segment for the six months ended 30 September 2019:

	Unaudited — For the six months ended 30 September							
	Manufacturing		**Trading**		**Gene Development**		**Total**	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue								
Sales to external customers	**40,695**	37,241	**—**	7,806	**—**	—	**40,695**	45,047
Segment results	**7,003**	417	**(6,285)**	(3,268)	**(37)**	(37)	**681**	(2,888)
Unallocated other income							**6,400**	4,517
Unallocated other gains and losses, net							**30,436**	33,380
Corporate expenses							**(4,384)**	(4,290)
Effective interest expense on convertible bonds							**(4,457)**	(3,756)
Share of results of an associate							**(419)**	(142)
Profit before taxation							**28,257**	26,821
Taxation							**(1,740)**	(253)
Profit for the period							**26,517**	26,568

7. OTHER INCOME

	For the six months ended 30 September	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest income	**1,954**	1,253
Government grants	**61**	46
Imputed interest income from amount due from an associate	**4,195**	3,213
Interest income from loan to an associate	**190**	5
	6,400	4,517

8. OTHER GAINS AND LOSSES, NET

	For the six months ended 30 September	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Gain on disposal of property, plant and equipment	**—**	3
Impairment loss on deposits, prepayments and other receivables	**(510)**	(33)
Impairment loss on trade receivables, net	**(2,323)**	(77)
Change in fair value on financial assets at fair value through profit or loss ("**FVTPL**") — investments in convertible bonds*	**30,436**	33,380
Change in fair value on financial assets at FVTPL — short term investments	**26**	33
	27,629	33,306

* *Effective interest income of HK$12,547,000 on investments in convertible bonds was reported as "Other Income" in the 6-month period ended 30 September 2018. To conform to the current period presentation, this balance has been reclassified and disclosed as change in fair value on financial assets at FVTPL — investments in convertible bonds.*

9. PROFIT BEFORE TAXATION

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

	For the six months ended 30 September	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Depreciation of right-of-use assets	**113**	—
Amortisation of prepaid lease payments	**—**	116
Depreciation of investment properties	**30**	29
Depreciation of property, plant and equipment	**2,930**	3,160
Cost of inventories recognised as expenses	**17,281**	20,300
Operating lease charges in respect of land and buildings	**913**	913
Staff cost (including directors' emoluments)		
Salaries, bonus and allowances	**10,073**	10,024
Retirement benefits scheme contributions	**1,190**	1,393

10. TAXATION

	For the six months ended 30 September	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current tax:		
Hong Kong	**—**	29
Other jurisdictions	**1,818**	224
	1,818	253
Overprovision:		
Hong Kong	**(38)**	—
Other jurisdictions	**(40)**	—
	(78)	—
Taxation	**1,740**	253

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

Under the Law of the People's Republic of China (the "**PRC**" or "**China**") on Enterprise Income Tax (the "**EIT**") 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.

11. INTERIM DIVIDENDS

The directors do not recommend the payment of an interim dividend in respect of the six months ended 30 September 2019 (six months ended 30 September 2018: HK$ Nil).

12. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to owners of the Company of HK$25,043,000 (2018: HK$26,404,000) and 2,390,000,000 ordinary shares in issue.

The calculation of the diluted earnings per share is based on adjusted profit of HK$29,500,000 (2018: HK$30,160,000) for effective interest expense on convertible bonds of HK$4,457,000 (2018: HK$3,756,000) and the weighted average number of 3,290,000,000 ordinary shares outstanding.

13. COMPARATIVE FIGURES

Certain comparative figures have been reclassified and restated in order to conform to the current period presentation and to reflect the impact on initial application of HKFRS 9 Financial Instruments as disclosed in Note 2 to the 2019 Audited Financial Statements.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Overall Performance

In the period under review, the global economy was slowing down amid on-going trade war between China and the US. The persistence of trade war with the US weighed on the Chinese economy, which recorded its weakest growth in almost three decades at 6% in the third quarter, slower than that of 6.2% in the second quarter of this year. Despite China's slowing economic growth, the favorable growth dynamics driven by factors such as natural population growth and aging population, accelerating urbanisation and the people's rising living standards accompanied by higher healthcare demands, and the Chinese government's increased investment under the healthcare reforms have supported the growth of the pharmaceutical industry. Following last year's institutional reshuffle to the government bodies, including the reorganisation of the drug regulator, namely the National Medical Products Administration, various policies have been promulgated including adjustment of reimbursement drug list, issue of key monitored drug list, and extension of centralised drug procurement initiative to more cities and provinces, with the aim of rationalising drug prices, promoting market access of quality drugs, optimising the approval process for new drug registration while encouraging research and development of innovative drugs to meet unmet medical demand. The pharmaceutical industry is undergoing transformation toward high-quality and innovation driven development alongside the deepening of the healthcare reforms, which have created a profound impact on the industry.

During the six months period ended 30 September 2019 (the "**2019 Interim Period**"), the Group's revenue was about HK$40.7 million, representing a decrease of about HK$4.4 million or 9.7% when compared to about HK$45.0 million as reported in the six months period ended 30 September 2018 (the "**2018 Interim Period**"). The continuous improvement in performance of the Group's manufacturing segment of revenue growth by about HK$3.5 million, partly outweighed the negative impact in the Group's revenue resulting from temporary suspension of sales in China suffered by the imported segment as reported in the 2019 Annual Report. An improvement in gross profit and gross margin by the manufacturing segment had contributed positively such that the Group recorded an improved gross margin from 54.9% to 57.5%; whereas the gross profit decreased slightly from about HK$24.7 million to about HK$23.4 million, representing a decrease of about HK$1.3 million or 5.4%.

The Group's profit for the period was about HK$26.5 million in the 2019 Interim Period, representing a decrease of about HK$0.1 million when compared to the profit of about HK$26.6 million in the 2018 Interim Period. Such decrease was mainly due to a large reduction in selling and marketing expenses of about HK$7.2 million, which reduced the negative impact of decrease in gross profit of about HK$1.3 million, an increase in impairment provision in receivables of about HK$2.7 million and a decrease in fair value gain of the Group's investments in convertible bonds of about HK$2.9 million.

Revenue and Operating Results

Manufactured Pharmaceutical Sector

In the period under review, the segment continued to make progress in gaining market share through developing market channels and strengthen its foundation to drive revenue growth and profitability. Segment revenue increased to about HK$40.7 million, representing an increase of about HK$3.5 million or 9.3% when compared to revenue of about HK$37.2 million in the 2018 Interim Period. The increase reflected the effective implementation of sound strategic initiatives, which included adjusting distribution channels, expanding market coverage through collaboration with distributors and outsourcing service providers to promote product awareness in rural areas and communities. In addition, the management remained vigilant in controlling costs and improving production efficiency which compensated rising labour and material costs and achieved a slight increase in gross profit margin by about 1.9%.

As a result of concerted efforts made by management to continue focusing on the key initiatives to drive revenue growth and profitability, segment profit increased from about HK$0.4 million in the 2018 Interim Period to about HK$7.0 million in the 2019 Interim Period, representing an increase of about HK$6.6 million. Such increase was mainly the combination of positive impact of increase in gross profit contribution by about HK$2.6 million that accompanying with increases in revenue and gross profit margin and a write-back of provision for marketing and promotion expenses of about HK$3.7 million upon adopting effective marketing strategies and the initiatives to control those budgeted costs and expenses.

Although the implementation of strategic initiatives have resulted in signs of improvement in operating results, the stepping up healthcare reforms with more frequent policies roll-out will post significant challenges to the segment. The management will continue to work on these key initiatives, promptly react to the challenging market conditions and strive to achieve sustainable performance.

Imported Pharmaceutical Sector

In the period under review, the segment continued to be affected by the issues pertaining to temporary sales suspension of the Group's imported products due to manufacturing practices, in particular, the skin treatment product which is the segment's major revenue contributor, since January 2019 as reported in the 2019 Annual Report. As a result, no revenue was generated in the segment, which resulted in the loss of revenue and gross profit contribution by about HK$7.8 million and HK$4.0 million respectively when compared to the 2018 Interim Period.

Although there was a corresponding reduction of selling and marketing expenses as well as operating expenses by about HK$2.7 million and HK$0.3 million respectively, the loss in gross profit contribution together with the increase in impairment provision for trade and other receivables of about HK$1.9 million aggravated the segment loss to about HK$6.3 million, representing an increase of about HK$3.0 million when compared to loss of about HK$3.3 million in the 2018 Interim Period.

Against this difficult situation, the Group has been making persistent efforts with its business partners in order to resolve the regulatory issues in the long term so as to bring the imported products back to the China market. Given that the performance and profitability of the segment will be affected by the above unfavorable factors, in light of the ever-increasingly competitive landscape and pressure of regular operating expenses, apart from deploying resources to work with its business partners to rectify the issues, management has been actively exploring other potential product opportunities in order to restore the segment performance and profitability.

Gene Development Sector

In the period under review, gene development remained inactive and no revenue was recorded.

Other Income and Other Gains and Losses, Net

Other income and other gains and losses, net were in total a decrease of about HK$3.8 million, which mainly came from the non-cash items resulted from a decrease of about HK$2.9 million in fair value gain from the Group's investments in convertible bonds, an increase in impairment provision for receivables of about HK$2.7 million, and an increase in total of about HK$1.8 million of bank interest income as well as loan and imputed interest income from loan to and amount due from an associate.

Selling and Distribution Expenses

Selling and distribution expenses decreased by about HK$7.2 million to HK$11.0 million as compared to HK$18.2 million in the 2018 Interim Period. This was mainly the result of no promotional expenses incurred in the imported segment when compared to about HK$2.6 million recorded in the 2018 Interim Period and a write-back of provision for marketing and promotion expenses of about HK$3.7 million in the manufacturing segment upon adopting effective marketing strategies and the initiatives to control budgeted costs and expenses.

Administrative Expenses

Administrative expenses slightly decreased by about HK$0.3 million or 2.1% from HK$13.6 million in the 2018 Interim Period to about HK$13.3 million in the 2019 Interim Period. Such decrease was primarily due to a decrease of professional and consultancy fees incurred in the period under review.

Seasonal or Cyclical Factors

The Group's business operations were not significantly affected by any seasonal and cyclical factors, except extended statutory holidays in the PRC that may lead to lower Group's revenue and profit for the months in which these holidays are declared. There is no seasonal and cyclical factor for its borrowing requirements.

Financial Review

The Group generally finances its operations with internally generated cash flow and facilities granted by its principal banker in Hong Kong, Industrial and Commercial Bank of China (Asia) Limited. As at 30 September 2019, the Group had total cash and bank balances (including pledged bank deposits of HK$21.3 million) of HK$152.7 million (31 March 2019: HK$169.9 million), representing a decrease by approximately HK$17.2 million or 10.1%. Such decrease was mainly due to provision of a shareholder's loan of about HK$9.8 million to Smart Ascent Limited and the extension the date of annual interest payment of HK$25.0 million from investments in convertible bonds until 28 July 2021.

The Group did not have bank borrowings as at 30 September 2019 (31 March 2019: HK$ Nil) but had banking facilities on trade finance, which were supported by the pledge of the Group's fixed deposits of about HK$21.3 million (31 March 2019: HK$21.0 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 30 September 2019 was 0.045 (31 March 2019: 0.041), calculated based on the Group's total assets of HK$1,206.9 million (31 March 2019: HK$1,196.1 million) and total debts relating to convertible bonds of about HK$54.1 million (31 March 2019: HK$49.6 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 period but the Group will use financial instruments for hedging purpose when considered appropriate.

Outlook

Looking forward, the global economy continues to present challenges and uncertainties amid trade tensions between China and the US. However, it is expected that the Chinese economy will continue to maintain an overall stable development trend, which underpins the deepening healthcare reform in 2019. And against the backdrop of the Thirteenth Five-Year Plan (2016–2020) and Healthy China 2030, the Chinese authorities have stepped up its reform to rationalise price, tighten control over drug quality and usage and foster market competition. The accelerated speed and scale of new policies rollout have posed significant challenges to the pharmaceutical sector, and the Group will endeavor to adopt flexible strategies in response to the market changes.

In light of the progress achieved in the manufacturing segment, the Group will continue to focus on enhancing its core competitiveness by advancing its production technology thereby reinforcing the fundamentals for development of quality products and executing the strategic priorities to expand market share for its manufactured products. The Group believes that enhancement of production efficiency and manufacturing capability will facilitate a more sustainable growth in revenue and profitability in the long term.

As to the trading segment, the suspension of sales and regular operating expenses have affected the Group's revenue and profitability, however, the loss position will not have material adverse impact on the Group's financial positon, which remains sound. In the meantime, the Group has been working closely with its business partners in order to speed up the rectification process and deploying resources to exploit new products to improve the situation.

Further still, embraced with both challenges and opportunities in China's pharmaceutical market, the Group will continue to stay focused in improving its business performance and at the same time stay alert for business opportunities which may diversify its revenue stream.

EMPLOYMENT AND REMUNERATION POLICY

As at 30 September 2019, the Group had 176 employees (30 September 2018: 179). Staff costs (including directors' emoluments) for the six months ended 30 September 2019 amounted to approximately HK$11.3 million (six months ended 30 September 2018: approximately HK$11.4 million). The decrease was mainly due to a reduction in headcount of the manufacturing segment.

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

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

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

During the period ended 30 September 2019, no share option has been granted under the Scheme.

CORPORATE GOVERNANCE

The Group recognises the importance of achieving and monitoring the high standard of corporate governance consistent with the need and requirements of its business and the best interest of all 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 Listing Rules throughout the six months ended 30 September 2019, except for certain deviations from Code Provisions (i) A.1.3 and A.7.1 (notice, agenda as well as accompanying board papers should be given to directors in a timely manner for committee's and board's meeting), (ii) A.2.1 (the roles of chairman and chief executive officer should be separate and should not be performed by the same person), (iii) A.4.1 (non-executive directors should be appointed for a specific term), and (iv) A.4.2 (all directors should be subject to retirement by rotation at least once every three years, and directors appointed to fill a casual vacancy be subject to election at the first general meeting after appointment and (v) E.1.5 (no dividend policy has been established). Details of deviations as set forth in (i) to (v) and considered reasons in relation thereof have been duly set out in the corporate governance report contained in the 2019 annual report of the Company published in July 2019.

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 Company's directors, the directors have complied with the required standards set out in the Model Code throughout the interim period.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the six months ended 30 September 2019, the Company and its subsidiaries did not purchase, redeem or sell any of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee, which comprises three independent non-executive directors with terms of reference in compliance with Code Provision C.3.3, has reviewed the unaudited condensed consolidated interim financial information of the Group for the six months ended 30 September 2019, and was content that the accounting principles and practices adopted by the Group were in conformity with the current practices in Hong Kong.

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM 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 interim 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 November 2019

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*