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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 2021

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 2021 together with the comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	At 30 September 2021 (Unaudited) HK\$'000	At 31 March 2021 (Audited) HK\$'000
Non-current assets			
Investment properties		1,230	1,260
Property, plant and equipment		128,377	131,075
Right-of-use assets		11,411	12,488
Intangible assets		1,807	1,807
Financial assets at fair value through profit or loss		568,297	466,322
Financial assets at fair value through other comprehensive income		—	—
Interest in an associate		321,907	324,018
Loan to an associate		16,487	16,118
Deferred tax assets		69	69
		<u>1,049,585</u>	<u>953,157</u>
Current assets			
Inventories		6,680	7,558
Trade and bills receivables	3	9,760	9,130
Deposits, prepayments and other receivables		6,025	2,263
Amount due from an associate		41,947	41,947
Financial assets at fair value through profit or loss		1,813	1,786
Pledged bank deposits		21,711	21,688
Cash and bank balances		121,838	126,710
		<u>209,774</u>	<u>211,082</u>
Total assets		<u><u>1,259,359</u></u>	<u><u>1,164,239</u></u>

		At 30 September 2021 (Unaudited) <i>HK\$'000</i>	At 31 March 2021 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
Equity			
Share capital		23,900	23,900
Reserves		<u>1,095,178</u>	<u>1,006,605</u>
Equity attributable to owners of the Company		1,119,078	1,030,505
Non-controlling interests		<u>(321)</u>	<u>(1,211)</u>
Total equity		1,118,757	1,029,294
Non-current liabilities			
Convertible bonds		76,264	69,980
Lease liabilities		1,208	2,123
Deferred income on government grants		<u>4,886</u>	<u>4,949</u>
		82,358	77,052
Current liabilities			
Trade and bills payables	4	5,608	6,692
Accruals, other payables and contract liabilities		34,173	33,893
Lease liabilities		1,811	1,771
Deferred income on government grants		127	127
Tax payable		<u>16,525</u>	<u>15,410</u>
		<u>58,244</u>	<u>57,893</u>
Total equity and liabilities		<u><u>1,259,359</u></u>	<u><u>1,164,239</u></u>
Net current assets		<u><u>151,530</u></u>	<u><u>153,189</u></u>
Total assets less current liabilities		<u><u>1,201,115</u></u>	<u><u>1,106,346</u></u>

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME**

	<i>Notes</i>	For the six months ended	
		2021	2020
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
Revenue	5	43,462	36,745
Cost of sales		<u>(19,655)</u>	<u>(16,457)</u>
Gross profit		23,807	20,288
Other income	6	599	5,366
Other gains and losses, net	7	102,213	81,776
Selling and distribution expenses		(15,616)	(13,035)
Administrative expenses		(11,899)	(11,310)
Share of results of an associate		(2,111)	(541)
Finance costs		<u>(6,361)</u>	<u>(5,409)</u>
Profit before income tax	8	90,632	77,135
Income tax	9	<u>(1,129)</u>	<u>(1,187)</u>
Profit for the period		89,503	75,948
Other comprehensive income/(expense)			
Item that may be reclassified subsequently to profit or loss			
— Exchange differences arising on translation of foreign operations		<u>(40)</u>	<u>—</u>
Total comprehensive income for the period		<u>89,463</u>	<u>75,948</u>
Profit for the period attributable to			
Owners of the Company		88,592	74,992
Non-controlling interests		<u>911</u>	<u>956</u>
		<u>89,503</u>	<u>75,948</u>

		For the six months ended	
		30 September	
		2021	2020
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
Total comprehensive income for			
the period attributable to			
Owners of the Company		88,573	74,992
Non-controlling interests		<u>890</u>	<u>956</u>
		<u>89,463</u>	<u>75,948</u>
		(Unaudited)	(Unaudited)
		HK cents	HK cents
Earnings per share for profit attributable to			
owners of the Company			
	<i>11</i>		
— Basic		<u>3.71</u>	<u>3.14</u>
— Diluted		<u>2.88</u>	<u>2.44</u>

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 2021.

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 2021 (the “**2021 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 2021 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:

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2
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The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. 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 2021 (Unaudited) <i>HK\$'000</i>	At 31 March 2021 (Audited) <i>HK\$'000</i>
Within 90 days	6,337	6,134
91–180 days	2,120	1,257
181–365 days	<u>1,303</u>	<u>1,739</u>
	<u>9,760</u>	<u>9,130</u>

4. TRADE AND BILLS PAYABLES

Trade payables are non-interest bearing and the normal trade credit terms granted to the Group range from two to three months from the date of invoice.

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

	At 30 September 2021 (Unaudited) <i>HK\$'000</i>	At 31 March 2021 (Audited) <i>HK\$'000</i>
Within 90 days	3,896	4,290
91–180 days	911	1,613
181–365 days	26	26
1–2 years	252	240
Over 2 years	<u>523</u>	<u>523</u>
	<u>5,608</u>	<u>6,692</u>

5. REVENUE AND SEGMENT INFORMATION

The Group's revenue comprises the following:

	For the six months ended	
	30 September	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Manufacturing of pharmaceutical products	43,462	36,745
Trading of pharmaceutical products	—	—
	<u>43,462</u>	<u>36,745</u>

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 2021:

	Unaudited — For the six months ended 30 September							
	Manufacturing		Trading (*)		Gene Development		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue								
Sales to external customers	<u>43,462</u>	<u>36,745</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>43,462</u>	<u>36,745</u>
Segment results	<u>4,120</u>	<u>3,908</u>	<u>(2,136)</u>	<u>(3,954)</u>	<u>(41)</u>	<u>(38)</u>	<u>1,943</u>	<u>(84)</u>
Unallocated other income							599	5,366
Unallocated other gains and losses, net							101,975	81,341
Corporate expenses (*)							(5,490)	(3,653)
Effective interest expense on convertible bonds							(6,284)	(5,294)
Share of results of an associate							<u>(2,111)</u>	<u>(541)</u>
Profit before income tax							90,632	77,135
Income tax							<u>(1,129)</u>	<u>(1,187)</u>
Profit for the period							<u>89,503</u>	<u>75,948</u>

* For the period ended 30 September 2021, the directors of the Company have reviewed and revised the basis of performance measurement of the trading segment and corporate activities in order to fairly reflect and monitor the resource allocation and performance assessment of the trading segment for decision-making. As there is no change in the Group's reportable segments, the segment information for the corresponding period has not been restated.

6. OTHER INCOME

	For the six months ended	
	30 September	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Bank interest income	166	619
Government grants	64	808
Imputed interest income from amount due from an associate	—	3,570
Loan interest income from an associate	369	369
	<u>599</u>	<u>5,366</u>

7. OTHER GAINS AND LOSSES, NET

	For the six months ended	
	30 September	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Reversal of impairment loss on deposits, prepayments and other receivables	21	452
Reversal of/(Provision for) impairment loss on trade receivables, net	190	(39)
Change in fair value on financial assets at fair value through profit or loss (“FVTPL”) — investments in convertible bonds (<i>Note</i>)	101,975	81,341
Change in fair value on financial assets at FVTPL — short term investment	27	22
	<u>102,213</u>	<u>81,776</u>

Note: The second amendment deed dated 12 May 2021 (“**Second Amendment Deed**”) was entered into between the Company as the bondholder and Innovative Pharmaceutical Biotech Limited as the issuer of the HK\$715,000,000 convertible bonds originally due on 28 July 2021 (“**Innovative Pharm Bonds**”) in respect of the second amendments (“**Second Amendments**”) including the two-year extension of the original maturity date and the extension of payment dates of the interest, of the Innovative Pharm Bonds to 28 July 2023 (“**Extended Bonds**”). The balance included fair value gain of HK\$89,747,000 on initial recognition of the Extended Bonds on 16 August 2021 upon completion of the Second Amendment Deed to effect the Second Amendments.

8. PROFIT BEFORE INCOME TAX

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

	For the six months ended	
	30 September	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation of right-of-use assets	1,084	1,076
Depreciation of investment properties	30	30
Depreciation of property, plant and equipment	3,085	2,821
Cost of inventories recognised as expenses	19,655	16,457
Reversal of impairment loss on inventories, net (included in cost of sales)	(190)	—
Staff costs (including directors' emoluments)		
Salaries, bonus and allowances	9,938	9,405
Retirement benefits scheme contributions	1,346	298

9. INCOME TAX

	For the six months ended	
	30 September	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current tax:		
Hong Kong	—	—
PRC Enterprise Income Tax	1,129	1,187
Income tax expense	1,129	1,187

Under the two-tiered profits tax rates regime, the first HK\$2 million of assessable profits of a qualifying corporation will be taxed at 8.25%, and assessable profits above HK\$2 million will continue to be taxed at 16.5%. Hong Kong Profits Tax of the qualified entity of the group company is calculated in accordance with the two-tiered profits tax rates regime for the periods ended 30 September 2021 and 2020.

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.

10. INTERIM DIVIDENDS

The directors do not recommend the payment of an interim dividend in respect of the six months ended 30 September 2021 (six months ended 30 September 2020: HK\$ Nil).

11. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to owners of the Company of HK\$88,592,000 (2020: HK\$74,992,000) and 2,390,000,000 ordinary shares in issue.

The calculation of the diluted earnings per share is based on adjusted profit of HK\$94,876,000 (2020: HK\$80,286,000) for effective interest expense on convertible bonds of HK\$6,284,000 (2020: HK\$5,294,000) and the weighted average number of 3,290,000,000 ordinary shares outstanding.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Overall Performance

During the six months period ended 30 September 2021 (the “**2021 Interim Period**”), the global economy showed signs of recovery against the backdrop of mass COVID-19 vaccinations. The rapid rollout of effective vaccines mitigated the adverse impacts of COVID-19 pandemic and allowed an earlier relaxation of various lockdown measures and social distancing restrictions, which restored consumption and business sentiments. Although the emergence of the more transmissible new variant of COVID-19 had brought about increased uncertainties on the global economic recovery, the pace of global recovery continued, albeit at weakened momentum.

Notwithstanding the pandemic and the challenging economic environments both abroad and at home, the Chinese economy maintained the recovery momentum as the pandemic situation was well under control. The significant efforts made by the Chinese government to implement stringent infection prevention and control measures as well as nationwide vaccinations enabled a rapid resumption of social and business activities to return to normal. As a result, China’s economy sustained growth of 7.9% and 4.9% in the second and third quarters of 2021. The Chinese government continued to accelerate the pace of healthcare reform to drive the transformation of the pharmaceutical industry towards high-quality and innovation-driven development outlined in the Fourteenth Five-Year Plan (2021–2025). The National Healthcare Security Administration announced a series of deepening reform policies, which include the fifth batch of centralised volume-based procurement of generic drugs and adjustment of national reimbursement drug list. The normalisation of centralised drug procurement arrangements and the regular updates of the reimbursement drug list to improve market access have created tremendous pricing pressure and challenges to the pharmaceutical market. Meanwhile, the implementation of reforms aiming for strengthening of a high-standard market system and the enhancement of health system have led to industry concentration and encouraged product upgrading and innovation.

During the 2021 Interim Period, the Group’s revenue and gross profit, which were contributed by the manufacturing segment increased to about HK\$43.5 million and HK\$23.8 million, representing an increase in revenue and gross profit of about HK\$6.7 million and HK\$3.5 million respectively when compared to revenue of about HK\$36.7 million and gross profit of about HK\$20.3 million as reported in the six months period ended 30 September 2020 (the “**2020 Interim Period**”). Gross margin slightly dropped from 55.2% to 54.8%, primarily due to sales mix.

The Group’s administrative, selling and distribution expenses in aggregate increased to about HK\$27.5 million in the 2021 Interim Period, representing an increase by about HK\$3.2 million or 13.0% when compared to about HK\$24.3 million in the 2020 Interim Period. Such increase was the combined result of an increase in spending on marketing activities of about HK\$2.6 million, increase in professional

fees and expenses incurred for the Company's major transaction and together with decreases in foreign exchange gains and subsidies granted by the Chinese government in aggregate of about HK\$0.6 million.

The Group's profit for the period was about HK\$89.5 million in the 2021 Interim Period, representing an increase of about HK\$13.6 million when compared to the profit of about HK\$75.9 million in the 2020 Interim Period. Such increase was mainly due to a non-cash item, an increase in a gain of about HK\$20.6 million arising from the fair value change of the financial assets at fair value through profit or loss i.e. the Group's investments in convertible bonds, which outweighs the impact of the decreases in imputed interest income from amount due from an associate of about HK\$3.6 million and bank interest income and government grants in aggregate of about HK\$1.2 million, an increase in share of loss of an associate of about HK\$1.6 million and an increase in interest expense on the convertible bonds of the Company, a non-cash item of about HK\$1.0 million.

Revenue and Operating Results

Manufactured Pharmaceutical Sector

During the 2021 Interim Period, the segment demonstrated its resilience to deliver revenue growth and stable performance in the midst of pandemic. With a clear strategic focus executed by the management on expanding market share and coverage in rural areas and communities, segment revenue increased to about HK\$43.5 million in the 2021 Interim Period, representing an increase of about HK\$6.7 million or 18.3% when compared to revenue of about HK\$36.7 million in the 2020 Interim Period. The increase in revenue primarily resulted from the growth in demand for the Group's product specialised in improving the immunity system of the human body against diseases. As a result, gross profit increased to HK\$23.8 million, representing an increase of about HK\$3.5 million or 17.3% when compared to gross profit of about HK\$20.3 million in the 2020 Interim Period. The benefits from growth in revenue offset the unfavourable impact of rising labour and material cost that the segment maintained the gross margin at 54.8%, a slight decline of 0.4% when compared to 55.2% in the 2020 Interim Period.

Despite the intense competition brought about by the regulatory healthcare reform policies, segment results slightly improved by about HK\$0.2 million or 5.4% when compared to the results of about HK\$3.9 million in the 2020 Interim Period. Such improvement reflects management's timely and efficient execution of measures and initiatives to secure market share and to drive revenue growth by enhancing marketing and promotion activities, though there was an increase in marketing and promotion expenses by about HK\$2.6 million when compared to the 2020 Interim Period, the benefits of which have outweighed the increase in expenses incurred.

As the healthcare reform progresses under the strategy of the "Healthy China 2030 Plan", more frequent and deeper reform policies are expected to push forward the structural reform of the pharmaceutical industry. Confronted with the intensifying competition in the pharmaceutical market, the Group will leverage its advantages in product quality and distribution networks with the aim of delivering sustainable performance in future.

Imported Pharmaceutical Sector

During the 2021 Interim Period, the segment generated no revenue as there has been sales suspension by the authorities in China for the Group's imported skin treatment product since 2019. As disclosed in the 2021 Annual Report, the manufacturer and the Group's business partners have opted to develop new products that can potentially overcome the entry barriers and capture the market opportunities. In the meantime, the Group has maintained its focus on building a new sales platform, in an effort to restore performance of the segment.

In light of the difficult situation, management continued to vigilantly engage in managing the staff and overhead costs of the segment, and for the purpose of facilitating internal management and performance assessment, certain internal resources were reallocated to corporate activities within the Group. As a result, segment loss reduced to about HK\$2.1 million, representing a decrease of about HK\$1.8 million or 46.0% when compared to HK\$4.0 million in the 2020 Interim Period. Such decrease primarily relates to reduction in the staff costs and operating costs due to the reallocation of internal resources, and the stringent cost control measures.

The Group will take proactive measures to optimise its cost structure while taking the opportune time to fine tune its business and operation.

Gene Development Sector

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

Interest in an Associate

As stated in the 2021 Annual Report, the COVID-19 pandemic since early 2020 had disrupted the normal operations of participating hospitals for the clinical trial of an oral insulin product (the "**Product**"), that the clinical trial in the process of selection and enrolment of patients was temporarily suspended pending improvement in the pandemic situation, for the safety of patients and clinical researchers. As the pandemic situation in China had gradually improved, during the third quarter of 2020, the enrolment of patients had commenced, and though the pandemic situation in China was largely under control, the preventive and control measures associated with the prolonged pandemic situation have been continuously implemented causing certain delay in patient enrolment and selection. Based on the information available to the Company, patient enrolment and selection in participating hospitals for the clinical trial is ongoing and the timeline for commercialisation of the Product by Smart Ascent Group is currently expected to be in around mid of 2023.

During the 2021 Interim Period, the Group's share of loss increased from about HK\$0.5 million in the 2020 Interim Period by about HK\$1.6 million to HK\$2.1 million. Such increase mainly related to increase in research and development expenses for the Product.

The directors of the Company have performed impairment assessment on the carrying amount of the interest in the associate as at 30 September 2021. 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, the directors of the Company do not identify any indication on the carrying amount of interest in the associate as at 30 September 2021 that may need to be impaired. Accordingly, no impairment is considered necessary as at 30 September 2021.

Other Income and Gains and Losses, Net

Other income and gains and losses, net were in total a gain of about about HK\$102.8 million, which increased by about HK\$15.7 million as compared to HK\$87.1 million in the 2020 Interim Period. Such increase was mainly due to an increase in a gain of about HK\$20.6 million arising from the fair value change of the financial assets at fair value through profit or loss i.e. the Group's investments in convertible bonds, which outweighs the impact of the decreases in imputed interest income from amount due from an associate, bank interest income and government grants in aggregate of about HK\$4.8 million.

Selling and Distribution Expenses

Selling and distribution expenses increased by about HK\$2.6 million or 20.0% from HK\$13 million in the 2020 Interim Period to about HK\$15.6 million in the 2021 Interim Period. Such increase was primarily due to the continuing efforts of the manufacturing segment in expanding and developing the market share.

Administrative Expenses

Administrative expenses increased by about HK\$0.6 million or 5.2% from HK\$11.3 million in the 2020 Interim Period to about HK\$11.9 million in the 2021 Interim Period. Such increase was mainly due to decreases in foreign exchange gains and subsidies granted by the Chinese government and an increase in professional fees and expenses incurred for the Company's major transaction.

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 2021, the Group had total cash and bank balances (excluding pledged bank deposits of HK\$21.7 million) of HK\$121.8 million (31 March 2021: HK\$126.7 million), representing a decrease by approximately HK\$4.9 million or 3.8%. Such decrease was mainly the result of net cash used in operating activities of about HK\$3.6 million and the cash utilisations for purchase of property, plant and equipment of about HK\$0.4 million, payment of lease interests and liabilities in total of about HK\$1.0 million.

The Group did not have bank borrowings as at 30 September 2021 (31 March 2021: HK\$ Nil) but had banking facilities on trade finance, which were supported by the pledge of the Group's fixed deposits of about HK\$21.7 million (31 March 2021: HK\$21.7 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 30 September 2021 was 0.063 (31 March 2021: 0.063), calculated based on the Group's total assets of HK\$1,259.4 million (31 March 2021: HK\$1,164.2 million) and total debts of about HK\$79.3 million (31 March 2021: HK\$73.9 million), comprising convertible bonds of about HK\$76.3 million (31 March 2021: HK\$70.0 million) and lease liabilities of about HK\$3.0 million (31 March 2021: HK\$3.9 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 2021 Interim Period but the Group will use financial instruments for hedging purpose when considered appropriate.

Material Acquisitions and Disposals

During the 2021 Interim Period, the Group did not have any significant investments, material acquisition or disposal.

Outlook

Whilst the global economic recovery continues at a faltering pace amid threats of the emergence of new virus variants and new waves of pandemic, China's economy has managed to maintain its recovery momentum in the first three quarters of 2021 under the circumstances that the international environment uncertainties are mounting. The continuing preventive and control measures and vaccination in response to the evolving pandemic have become normalised and the external environment has grown increasingly complicated. China has strategically deployed a new development pattern of "dual circulation" featuring domestic and international dual circulations that complement each other, with the domestic market as the mainstay, to steer its future growth in the fast changing domestic and international environment.

The domestic pharmaceutical industry has been one of the key contributors to China's economic growth. Under the Fourteenth Five-Year Plan (2021–2025), China's pharmaceutical industry is expected to constantly undergo transformation and upgrading alongside the nation's deepening healthcare reforms, thereby fostering a high-standard market system and propelling innovation momentum across the industry. In the context of a highly challenging landscape, the Group will continue to stay focused on the strategic direction towards developing its self-manufactured products and continue its effort in controlling the operating costs, with the aim of enhancing operational efficiency and preserving financial flexibility for the Group. The Group will also keep reviewing its business and operations and adjust its business strategies to align with the national policy direction, striving for a sustainable development path for the Group.

The Group believes that China's pharmaceutical industry will develop in a sustainable, quality-oriented direction as the market is fueled by huge and aging population, national policy support and investment, rising health consciousness and unmet medical needs. The Group holds a cautiously optimistic view for the coming years as it has preserved a sound financial position, enabling it in a better position to cope with future challenges arising from China's ever-changing pharmaceutical market condition, and grasp the potential opportunities embraced with the challenges ahead.

EMPLOYMENT AND REMUNERATION POLICY

As at 30 September 2021, the Group had 169 employees (30 September 2020: 170). Staff costs (including directors' emoluments) for the six months ended 30 September 2021 amounted to approximately HK\$11.3 million (six months ended 30 September 2020: approximately HK\$9.7 million). The increase was mainly due to no relief for social security contributions by the Chinese government after the pandemic situation stabilised.

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

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

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

From the effective date of the Scheme to 30 September 2021, 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 2021 Interim Period, 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), (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), (v) E.1.5 (no dividend policy has been established), and (vi) E.1.2 (the Chairman of the Board should attend the annual general meeting of the Company (“**AGM**”), Dr. Xie Yi was unable to attend the AGM held on 27 August 2021 due to two-way quarantine free travel corridors not available under the relevant border crossing travel restrictions. Ms. Wong Sau Kuen, an executive director of the Company, was appointed to chair the AGM in accordance with the provisions of the Company’s bye-laws and answered questions from shareholders of the Company). Details of deviations as set forth in (i) to (v) and the considered reasons in relation thereof have been duly set out in the corporate governance report contained in the 2021 annual report of the Company published in July 2021.

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 2021 Interim Period.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the 2021 Interim Period, 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 2021, 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 2021

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

* *For identification purpose only*