

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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 2020

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 2020 together with the comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At 30 September 2020 (Unaudited) HK\$'000	At 31 March 2020 (Audited) HK\$'000
	<i>Notes</i>		
Non-current assets			
Investment properties		1,289	1,319
Property, plant and equipment		123,721	126,070
Right-of-use assets		12,929	14,005
Intangible assets		1,807	1,807
Financial assets at fair value through profit or loss		652,406	571,065
Financial assets at fair value through other comprehensive income		—	—
Interest in an associate	3	326,356	326,897
Loan to an associate		15,752	15,383
Deferred tax assets		69	69
		<u>1,134,329</u>	<u>1,056,615</u>
Current assets			
Inventories		6,822	5,865
Trade and bills receivables	4	10,353	10,484
Deposits, prepayments and other receivables		3,706	4,787
Amount due from an associate		41,947	38,377
Financial assets at fair value through profit or loss		1,652	1,652
Pledged bank deposits		21,636	21,493
Cash and bank balances		125,918	126,437
		<u>212,034</u>	<u>209,095</u>
Total assets		<u><u>1,346,363</u></u>	<u><u>1,265,710</u></u>

		At 30 September 2020 (Unaudited) <i>HK\$'000</i>	At 31 March 2020 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
Equity			
Share capital		23,900	23,900
Reserves		<u>1,193,587</u>	<u>1,118,595</u>
Equity attributable to owners of the Company		1,217,487	1,142,495
Non-controlling interests		<u>(1,691)</u>	<u>(2,647)</u>
Total equity		1,215,796	1,139,848
Non-current liabilities			
Convertible bonds		64,244	58,950
Lease liabilities		3,019	3,894
Deferred income on government grants		<u>4,627</u>	<u>4,686</u>
		71,890	67,530
Current liabilities			
Trade and bills payables	5	5,520	6,239
Accruals, other payables and contract liabilities		35,890	36,052
Lease liabilities		1,731	1,692
Deferred income on government grants		117	117
Tax payable		<u>15,419</u>	<u>14,232</u>
		<u>58,677</u>	<u>58,332</u>
Total equity and liabilities		<u>1,346,363</u>	<u>1,265,710</u>
Net current assets		<u>153,357</u>	<u>150,763</u>
Total assets less current liabilities		<u>1,287,686</u>	<u>1,207,378</u>

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

		For the six months ended	
		30 September	
		2020	2019
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
Revenue	6	36,745	40,695
Cost of sales		<u>(16,457)</u>	<u>(17,281)</u>
Gross profit		20,288	23,414
Other income	7	5,366	6,400
Other gains and losses, net	8	81,776	27,629
Selling and distribution expenses		(13,035)	(10,972)
Administrative expenses		(11,310)	(13,338)
Share of results of an associate		(541)	(419)
Finance cost		<u>(5,409)</u>	<u>(4,457)</u>
Profit before income tax	9	77,135	28,257
Income tax	10	<u>(1,187)</u>	<u>(1,740)</u>
Profit for the period		75,948	26,517
Other comprehensive income/(expense)			
Item that may be reclassified subsequently to profit or loss			
— Exchange differences arising on translation of foreign operations		<u>—</u>	<u>(7,250)</u>
Total comprehensive income for the period		<u>75,948</u>	<u>19,267</u>
Profit for the period attributable to			
Owners of the Company		74,992	25,043
Non-controlling interests		<u>956</u>	<u>1,474</u>
		<u>75,948</u>	<u>26,517</u>

		For the six months ended	
		30 September	
		2020	2019
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
Total comprehensive income for the period attributable to			
Owners of the Company		74,992	17,641
Non-controlling interests		<u>956</u>	<u>1,626</u>
		<u>75,948</u>	<u>19,267</u>
		(Unaudited)	(Unaudited)
		<i>HK cents</i>	<i>HK cents</i>
Earnings per share for profit attributable to owners of the Company			
	<i>12</i>		
— Basic		<u>3.14</u>	<u>1.05</u>
— Diluted		<u>2.44</u>	<u>0.90</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 27 November 2020.

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 2020 (the “**2020 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 2020 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 3	Definition of a Business
Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. QUALIFIED OPINION — 2020 AUDITED FINANCIAL STATEMENTS

In the 2020 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 balance of comparative figures for the Group’s interest in an associate, Smart Ascent Limited (“**2020 Qualified Opinion**”), which is now extracted as below:

“The auditor’s report on the consolidated financial statements of the Group for the year ended 31 March 2019 (“**2019 Financial Statements**”) contained a qualified opinion on the limitation of audit scope in relation to the opening balance on the Group’s interest in an associate. Details of which had been set out in the auditor’s report dated 28 June 2019.

As the 2019 Financial Statements 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 opening balance (i.e. 1 April 2018) on the Group’s interest in an associate would have a significant effect on the results of the year ended 31 March 2019 and the related disclosures thereof for the comparative figures for the year ended 31 March 2020.

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.”

Management’s and Audit Committee’s Views on 2020 Qualified Opinion

Based on the discussion with the Auditor, the management was given to understand and considered that the 2020 Qualified Opinion was a result of the opening balance that related to the 2019 Financial Statements, and the 2019 Financial Statements has formed the basis for the comparative figures of the 2020 Financial Statements. The management expects that the 2020 Qualified Opinion will be removed in the next financial year as the 2020 Financial Statements containing no audit scope limitations will be presented as the corresponding figures for the consolidated financial statements of the Group for the year ending 31 March 2021 (“**FY 2021**”).

Based on the discussion with the Auditor, the audit committee of the Company concurred with the view of management as set out above and its expectation to remove the audit qualification for the corresponding figures for the consolidated financial statements of the Group for FY 2021.

Additional information regarding the 2020 Qualified Opinion was set out in the “Management Discussion and Analysis” section of the 2020 annual report of the Company.

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 2020 (Unaudited) <i>HK\$’000</i>	At 31 March 2020 (Audited) <i>HK\$’000</i>
Within 90 days	7,035	3,707
91–180 days	2,183	4,238
181–365 days	1,135	2,539
	<u>10,353</u>	<u>10,484</u>

5. 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 2020 (Unaudited) HK\$'000	At 31 March 2020 (Audited) HK\$'000
Within 90 days	3,925	3,255
91–180 days	875	981
181–365 days	73	3
1–2 years	164	1,517
Over 2 years	483	483
	<u>5,520</u>	<u>6,239</u>

6. REVENUE AND SEGMENT INFORMATION

The Group's revenue comprises the following:

	For the six months ended 30 September	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Manufacturing of pharmaceutical products	36,745	40,695
Trading of pharmaceutical products	—	—
	<u>36,745</u>	<u>40,695</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 2020:

	Unaudited — For the six months ended 30 September							
	Manufacturing		Trading		Gene Development		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue								
Sales to external customers	<u>36,745</u>	<u>40,695</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>36,745</u>	<u>40,695</u>
Segment results	<u>3,908</u>	<u>7,003</u>	<u>(3,954)</u>	<u>(6,285)</u>	<u>(38)</u>	<u>(37)</u>	<u>(84)</u>	<u>681</u>
Unallocated other income							5,366	6,400
Unallocated other gains and losses, net							81,341	30,436
Corporate expenses							(3,653)	(4,384)
Effective interest expense on convertible bonds							(5,294)	(4,457)
Share of results of an associate							<u>(541)</u>	<u>(419)</u>
Profit before income tax							77,135	28,257
Income tax							<u>(1,187)</u>	<u>(1,740)</u>
Profit for the period							<u>75,948</u>	<u>26,517</u>

7. OTHER INCOME

	For the six months ended	
	30 September	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Bank interest income	619	1,954
Government grants	808	61
Imputed interest income from amount due from an associate	3,570	4,195
Loan interest income from an associate	<u>369</u>	<u>190</u>
	<u>5,366</u>	<u>6,400</u>

8. OTHER GAINS AND LOSSES, NET

For the six months ended

30 September

2020 2019

(Unaudited) (Unaudited)

HK\$'000 HK\$'000

Reversal of/(Provision for) impairment loss on deposits, prepayments and other receivables	452	(510)
Provision for impairment loss on trade receivables, net	(39)	(2,323)
Change in fair value on financial assets at fair value through profit or loss (“FVTPL”) — investments in convertible bonds	81,341	30,436
Change in fair value on financial assets at FVTPL — short term investment	<u>22</u>	<u>26</u>
	<u>81,776</u>	<u>27,629</u>

9. PROFIT BEFORE INCOME TAX

The Group’s profit before income tax has been arrived at after charging:

For the six months ended

30 September

2020 2019

(Unaudited) (Unaudited)

HK\$'000 HK\$'000

Depreciation of right-of-use assets	1,076	113
Depreciation of investment properties	30	30
Depreciation of property, plant and equipment	2,821	2,930
Cost of inventories recognised as expenses	16,457	17,281
Operating lease charges in respect of land and buildings	—	913
Staff cost (including directors’ emoluments)		
Salaries, bonus and allowances	9,405	10,073
Retirement benefits scheme contributions	<u>298</u>	<u>1,190</u>

10. INCOME TAX

	For the six months ended	
	30 September	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current tax:		
Hong Kong	—	—
PRC Enterprise Income Tax	<u>1,187</u>	<u>1,818</u>
	1,187	1,818
Overprovision:		
Hong Kong	—	(38)
PRC Enterprise Income Tax	<u>—</u>	<u>(40)</u>
	—	(78)
Income tax expenses	<u><u>1,187</u></u>	<u><u>1,740</u></u>

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 2020 and 2019.

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.

11. INTERIM DIVIDENDS

The directors do not recommend the payment of an interim dividend in respect of the six months ended 30 September 2020 (six months ended 30 September 2019: 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\$74,992,000 (2019: HK\$25,043,000) and 2,390,000,000 ordinary shares in issue.

The calculation of the diluted earnings per share is based on adjusted profit of HK\$80,286,000 (2019: HK\$29,500,000) for effective interest expense on convertible bonds of HK\$5,294,000 (2019: HK\$4,457,000) and the weighted average number of 3,290,000,000 ordinary shares outstanding.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Overall Performance

In the period under review, the ongoing novel coronavirus pneumonia (“**COVID-19**”) pandemic had brought a significant impact on global commercial activities when many countries implemented lockdown measures to stem the spread of COVID-19 pandemic. The disruptive effects of lockdowns dragged the pace of global recovery, particularly in the second quarter of 2020, and with gradual easing of restrictive measures, mitigated in the third quarter of 2020 against the backdrop of continued improvement of the pandemic conditions. Facing the pandemic and downward pressure from weak global demand, China has built up a relatively quick recovery through proactive and decisive measures, including stringent lockdown at the outset of the pandemic, nationwide population testing and tracking campaigns to prevent further outbreaks as well as supportive government stimulus policies to stabilise employment and promote orderly resumption of work and production. As a result, China’s economy turned around after its historic contraction of 6.8% in the first quarter of 2020 and reported 3.2% and 4.9% economic growth in the second and the third quarter of 2020 respectively. Although the outbreak of COVID-19 had seen to impact the overall growth of China’s pharmaceutical industry in the short term, its growth trend in the longer term will not be fundamentally changed because of growing market demands of aging population, accelerating urbanisation and the people’s rising living standards as well as continuing supports and investments by the Chinese government in pursuit of Healthy China. Notwithstanding the pandemic and challenging economic environments, alongside the deepening healthcare reforms policies, including further optimisation of the national essential drug list, speeding up consistency evaluation of quality and efficacy of generic drugs, launching batches of centralised volume-based drug procurement, which have created significant challenges to the industry and the Group, research and development of innovative drugs are facilitated by the reform policies in order to fill unmet medical demand and the industry is undergoing transformation and upgrading.

During the six months period ended 30 September 2020 (the “**2020 Interim Period**”), affected by the pandemic containment measures that caused slowdown in patient flows and drug sales, the Group’s revenue and gross profit that were contributed by the manufacturing segment, decreased to about HK\$36.7 million and HK\$20.3 million, representing decreases of about HK\$4.0 million and HK\$3.1 million respectively when compared to revenue of about HK\$40.7 million and gross profit of about HK\$23.4 million as reported in the six months period ended 30 September 2019 (the “**2019 Interim Period**”). Gross margin slightly dropped from 57.5% to 55.2%, primarily due to sales mix.

The Group’s profit for the period was about HK\$75.9 million in the 2020 Interim Period, representing an increase of about HK\$49.4 million when compared to the profit of about HK\$26.5 million in the 2019 Interim Period. Such increase was mainly due to an increase in a gain of about HK\$51.0 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, while the overall results of the Group’s operating segments were maintained relatively stable when compared to the 2019 Interim Period.

Revenue and Operating Results

Manufactured Pharmaceutical Sector

In the 2020 Interim Period, segment revenue decreased to about HK\$36.7 million, representing a decrease of about HK\$4.0 million or 9.7% when compared to revenue of about HK\$40.7 million in the 2019 Interim Period. Such decrease was mainly due to a decrease in sales of the Group's products with better margin which were distributed to hospitals where the operational activities were disrupted by the pandemic leading to slowdown in patient flows. As a result, gross margin decreased from 57.5% to 55.2%, and gross profit decreased by about HK\$3.1 million or 13.4% to HK\$20.3 million when compared to HK\$23.4 million in the 2019 Interim Period.

Despite the negative impacts of pandemic and increase in regulatory healthcare reforms policies, segment results slightly improved by about HK\$0.6 million or 18.2% to HK\$3.9 million when compared to the results of about HK\$3.3 million in the 2019 Interim Period after excluding the write-back of prior year's provision for marketing and promotion expenses of about HK\$3.7 million. The improvement was the result of reduction in administrative, selling and marketing expenses in aggregate of about HK\$3.6 million as well as the decrease in impairment provision for trade and other receivables in total of about HK\$1.3 million that largely set off the impact of decrease in gross profit of about HK\$3.1 million and an increase in research and development expenses of about HK\$1.2 million to enhance the quality and efficacy of the Group's products.

The positive segment results reflect the solid foundation laid after two years' full devotion by the Group in executing the strategic initiatives to strengthen the competitive position by securing market share, improving production efficiency and reducing operating costs, and notwithstanding this positive progress, the segment still faces significant challenges in the near term despite easing of the pandemic in China and signs for continued economic recovery, as the operating environments of the industry remain highly competitive in term of high quality, low cost and steady supply. The Group will continue its relentless efforts to enhance its production efficiency and to strengthen its competitiveness for sustainable development in the long term.

Imported Pharmaceutical Sector

Faced with significant challenges as the issues, including the backlog in application for the renewal of import license and temporary sales suspension of the Group's imported skin treatment products as reported since 2019, that have remained unresolved and the work to rectify the issues was disrupted and delayed as authorities around the world implemented lockdown measures to fight the pandemic, the segment generated no revenue in the 2020 Interim Period. Although management had taken decisive cost control initiatives to reduce the staff and overhead costs, the loss in revenue outweighed the benefits of cost savings. The segment recorded a loss of about HK\$3.9 million, a reduction of about HK\$0.5 million when compared to loss of HK\$4.4 million before the impairment provision for trade and other receivables of about HK\$1.9 million made in the 2019 Interim Period. Such decrease was primarily the result of foreign exchange gain and reduction in staff cost and operating expenses.

While the management has been agile in responding to the extremely difficult situations by working closely with business partners, deploying resources to overcome the challenges associated with those issues, exploring other market opportunities by developing new sales platform and taking steps to cost reduction, management is alert that it will take some time to demonstrate progress in order to restore the performance and profitability of the segment. Given that the segment will continue to be affected by the aforesaid unresolved issues in the near future, management will further manage and control its operating costs in an effort to minimise segment loss.

Gene Development Sector

In the 2020 Interim Period, gene development remained inactive and no revenue was recorded.

Interest in an Associate

As stated in the 2020 annual report, the COVID-19 pandemic caused disruptions to the process of selection and enrolment of patients for the ongoing clinical trial, which was temporarily suspended pending the pandemic situation, and subject to the pandemic situation improving, the expected timeline for commercialisation of the Product was reassessed to be in around the fourth quarter of 2022. As the COVID-19 pandemic situation in China has gradually improved, during the third quarter of 2020, the enrolment of patients has commenced and the process is still ongoing.

The directors of the Company have performed impairment assessment on the carrying amount of the interest in the associate as at 30 September 2020. 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 2020 that may need to be impaired. Accordingly, no impairment is considered necessary as at 30 September 2020.

Other Income and Gains and Losses, Net

Other income and gains and losses, net were in total a gain of about HK\$87.1 million, which increased by about HK\$53.1 million as compared to HK\$34.0 million in the 2019 Interim Period. The increase was mainly the result of (i) increase in a gain of a non-cash item by about HK\$51.0 million arising from fair value change of the Group's investments in convertible bonds, (ii) decrease in bank interest income of about HK\$1.3 million, and (iii) decrease in impairment provision for trade and other receivables of about HK\$2.3 million and HK\$1.0 million respectively.

Selling and Distribution Expenses

Selling and distribution expenses decreased by about HK\$1.7 million to HK\$13.0 million as compared to the figure of HK\$14.7 million in the 2019 Interim Period after excluding the write-back of provision for marketing and promotion expenses of about HK\$3.7 million. The decrease was mainly the results of decrease in expenses for selling, promotion and symposium activities of about HK\$2.9 million as a result of the pandemic, which was partially offset by an increase in R&D expenses of about HK\$1.2 million to enhance the quality and efficacy of the Group's products.

Administrative Expenses

Administrative expenses decreased by about HK\$2.0 million or 15.2% from HK\$13.3 million in the 2019 Interim Period to about HK\$11.3 million in the 2020 Interim Period. Such decrease was primarily due to (i) lowering the staff costs and operating expenses in the manufacturing segment as a result of a wide range of policy measures implemented by the Chinese government to waive administrative fees, reduce taxes and social security contributions, (ii) decrease in non-recurring legal and professional expenses, and (iii) increase in exchange gains.

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 2020, the Group had total cash and bank balances (excluding pledged bank deposits of HK\$21.6 million) of HK\$125.9 million (31 March 2020: HK\$126.4 million), representing a decrease by approximately HK\$0.5 million or 0.4%. Such decrease was mainly the result of net cash generated from operating activities of about HK\$0.5 million, receipt of bank interest income of HK\$0.5 million, and the cash utilisations for purchase of property, plant and equipment of about HK\$0.5 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 2020 (31 March 2020: HK\$ Nil) but had banking facilities on trade finance, which were supported by the pledge of the Group's fixed deposits of about HK\$21.6 million (31 March 2020: HK\$21.5 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 2020 was 0.051 (31 March 2020: 0.051), calculated based on the Group's total assets of HK\$1,346.4 million (31 March 2020: HK\$1,265.7 million) and total debts of about HK\$69.0 million (31 March 2020: HK\$64.5 million), comprising convertible bonds of about HK\$64.2 million (31 March 2020: HK\$59.0 million) and lease liabilities of about HK\$4.8 million (31 March 2020: HK\$5.6 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 2020 Interim Period but the Group will use financial instruments for hedging purpose when considered appropriate.

Outlook

The global economy has been hit hard by the ongoing COVID-19 pandemic. Despite the recent good news for promising development of new vaccines to prevent the COVID-19, the global economic recovery from the pandemic is fragile and uncertain as escalating tensions between the US and China have also clouded the outlook of recovery. Facing the pandemic and economic headwinds, the Chinese government has stepped up the building of the new development pattern of “dual circulation” featuring domestic and international dual circulations that complement each other, aiming at achieving sustained and healthy economic development in the next five years with a focus on higher quality growth. Although China’s economic growth has been slowing down, it is expected that the Chinese government will continue to invest in healthcare reforms for the building of a high-standard market system in the upcoming Fourteenth Five-Year Plan (2021–2025) upon the end of the Thirteenth Five-Year Plan under its overarching goal of building a moderately prosperous society in all aspects. China’s pharmaceutical industry will continue to develop in a sustainable, quality-oriented growth direction and pharmaceutical enterprises will embrace both challenges and opportunities in the years to come.

Amid the more complex and volatile economic and operating environment under the influence of the pandemic and sweeping regulatory healthcare reforms policies, the Group has been well-positioned to face the challenges as the positive progress of its manufacturing segment reflects the effectiveness of the strategic initiatives on enhancing its core competitiveness. The Group will remain resilience on executing the strategic initiatives to cope with market challenges and is cautiously optimistic that it will provide a solid foundation for sustainable development, revenue growth and improved profitability for the future.

The Group believes that it has maintained prudent cash management to preserve a sound financial position, which remains stable, and will stay vigilant in managing its business under the tough market environment and be proactive in responding to these challenges so as to capture opportunities when the circumstances turn to be favourable.

EMPLOYMENT AND REMUNERATION POLICY

As at 30 September 2020, the Group had 170 employees (30 September 2019: 176). Staff costs (including directors’ emoluments) for the six months ended 30 September 2020 amounted to approximately HK\$9.7 million (six months ended 30 September 2019: approximately HK\$11.3 million). The decrease was mainly due to the reduction in headcount and social security contributions in 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 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.

During the 2020 Interim Period, 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 2020 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 28 August 2020 due to other important engagement. Ms. Wong Sau Kuen, an executive director of the Company took the chair of 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 2020 annual report of the Company published in July 2020.

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 2020 Interim Period.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the 2020 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 2020, 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, 27 November 2020

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*