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EXTRAWEILL 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 2013

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 2013 together with the comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At 30 September 2013 (Unaudited) HK\$'000	At 31 March 2013 (Audited) HK\$'000
	Note		
Non-Current Assets			
Investment properties		1,704	1,733
Property, plant and equipment		113,354	78,032
Prepaid land lease payments		22,156	22,537
Intangible assets		286,136	286,203
Goodwill		598,349	—
Available-for-sale investments	8	13,128	—
Interest in an associate	8	—	9,733
Amounts due from non-controlling interests		6,583	6,056
Loan to a non-controlling interest		5,997	5,997
		<u>1,047,407</u>	<u>410,291</u>
Current Assets			
Inventories		14,644	13,150
Trade receivables	5	75,004	74,805
Deposits, prepayments and other receivables		43,462	63,208
Pledged bank deposits		19,761	19,712
Cash and cash equivalents	3	153,565	136,450
		<u>306,436</u>	<u>307,325</u>
Total Assets		<u>1,353,843</u>	<u>717,616</u>

		At 30 September 2013 (Unaudited) HK\$'000	At 31 March 2013 (Audited) HK\$'000
	<i>Note</i>		
Capital and Reserves			
Share capital	4,6	23,900	22,900
Reserves		<u>895,420</u>	<u>361,447</u>
Equity attributable to Equity Holders of the Company		919,320	384,347
Non-Controlling Interests		<u>135,837</u>	<u>198,945</u>
Total Equity		<u>1,055,157</u>	<u>583,292</u>
Non-Current Liabilities			
Amounts due to non-controlling interests		9,874	17,702
Loan from a non-controlling interest		5,997	5,997
Deferred income — non-current portion		—	37,037
Deferred tax liabilities		102	102
Convertible bonds	4	<u>116,275</u>	<u>—</u>
		<u>132,248</u>	<u>60,838</u>
Current Liabilities			
Trade and bills payables	7	11,841	13,898
Accruals and other payables		17,655	18,984
Amounts due to non-controlling interests		32,404	39,470
Deferred income — current portion		103,087	—
Tax payables		<u>1,451</u>	<u>1,134</u>
		<u>166,438</u>	<u>73,486</u>
Total Equity and Liabilities		<u>1,353,843</u>	<u>717,616</u>
Net Current Assets		<u>139,998</u>	<u>233,839</u>
Total Assets Less Current Liabilities		<u>1,187,405</u>	<u>644,130</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		For the six months ended 30 September	
	Note	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000
Turnover	9	69,612	82,944
Cost of sales		<u>(47,405)</u>	<u>(57,518)</u>
Gross profit		22,207	25,426
Other revenues		3,214	1,050
Selling and distribution expenses		(4,364)	(3,313)
Administrative expenses		(12,965)	(13,060)
Research and development expenses		(838)	(644)
Gain on reclassification of an associate	8	3,086	—
Share of results of an associate	8	<u>—</u>	<u>(2,142)</u>
Profit from operations		10,340	7,317
Finance costs	4	<u>(2,090)</u>	<u>—</u>
Profit before taxation	10	8,250	7,317
Taxation	11	<u>(529)</u>	<u>(716)</u>
Profit for the period		<u>7,721</u>	<u>6,601</u>
Total comprehensive income for the period		<u>7,721</u>	<u>6,601</u>
Profit for the period attributable to			
Equity holders of the Company		7,858	6,987
Non-controlling interests		<u>(137)</u>	<u>(386)</u>
		<u>7,721</u>	<u>6,601</u>
Total comprehensive income for the period attributable to			
Equity holders of the Company		7,858	6,987
Non-controlling interests		<u>(137)</u>	<u>(386)</u>
		<u>7,721</u>	<u>6,601</u>
Interim dividends	12	<u>—</u>	<u>—</u>
Earnings per share for profit attributable to equity holders of the Company during the period	13	HK cents	HK cents
— Basic		<u>0.34</u>	<u>0.31</u>
— Diluted		<u>0.31</u>	<u>N/A</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. GENERAL INFORMATION

Extrawell Pharmaceutical Holdings Limited (the “Company”) is a limited liability company incorporated in Bermuda. 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 Room 3409–10, 34/F., China Resources Building, 26 Harbour Road, Wanchai, Hong Kong. The Company’s shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

This condensed consolidated interim financial information was approved for issue by the Board on 29 November 2013.

Key events

On 25 April 2013, Jilin Extrawell Changbaishan Pharmaceutical Co., Ltd. (“**Jilin Extrawell**”), a wholly-owned subsidiary of the Company entered into a capital injection and subscription agreement with 東龍脈(上海)健康管理服務有限公司 (“**東龍脈**”) and Dr. Xie Yi (“**Dr. Xie**”), in which Dr. Xie agreed to subscribe RMB7,490,000 (the “**Subscription**”) for the registered capital of 龍脈(上海)健康管理服務有限公司 (“**Shanghai Longmark**”), the then associate of the Company. The Subscription was completed in August 2013, and the registered capital of Shanghai Longmark thus increased from RMB12,500,000 to RMB19,990,000. Accordingly, the Company’s equity interest in Shanghai Longmark was diluted from 20% to 12.51%. 東龍脈 and Shanghai Longmark are both indirectly owned subsidiaries of United Gene High-Tech Group Limited (“**United Gene**”), the shares of which are listed on the Stock Exchange. Details of the transaction are set out in United Gene’s announcement dated 25 April 2013.

On 16 July 2013, Smart Ascent Limited (“**Smart Ascent**”), formerly a 51% owned subsidiary of the Group and the immediate holding company of the Group’s oral insulin operations, has become a wholly-owned subsidiary of the Company upon completion of the Group’s acquisition for the 49% non-controlling interest in Smart Ascent (the “**Acquisition**”). The results of the Company’s special general meeting approving the Acquisition as held on 4 July 2013 are disclosed in the Company’s announcement on the even date, and details regarding the Acquisition are disclosed in the Company’s announcement dated 27 February 2013 and the circular dated 18 June 2013.

On 6 August 2013, Jilin Extrawell entered into a building and land transfer agreement (the “**Transfer Agreement**”) with Jilin Science and Technology Information Research Institute (the “**Institute**”); whereby the Institute has agreed to acquire the manufacturing plants of Jilin Extrawell at a consideration of RMB45,000,000. Jilin Extrawell has received the said consideration in accordance with the terms of the Transfer Agreement in the period under review. The conditions precedent to the Transfer Agreement have not yet been fulfilled as at the date of approval of this condensed consolidated interim financial information. Details are disclosed in the Company’s announcement dated 6 August 2013.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial information of the Group 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 condensed consolidated interim financial information should be read in conjunction with the Group’s audited financial statements for the year ended 31 March 2013 (the “2013 Audited Financial Statements”), which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”). In addition, the accounting policies which did not take place in the Group’s financial year ended 31 March 2013 but in the current interim period are set out as below:

(a) Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond, and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders’ equity, net of transaction costs. The carrying amount of the conversion option is not re-measured in subsequent years. Transaction costs apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturing investments. At the end of each reporting period subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment loss on available-for-sale financial assets is recognised in profit or loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of the reporting period. The Group designated the shareholder’s loan relating to an unlisted investment as available-for-sale financial assets since the Group intends to capitalise the shareholder’s loans as further investments in these investments.

The Group has adopted a number of new and revised HKFRS, which are newly effective for the period under review. The adoption of these new and revised HKFRS has no material impact on the condensed consolidated interim financial information of the Group.

The Group has not early applied the new and revised HKFRS that have been issued but are not yet effective in the preparation of this condensed consolidated interim financial information of the Group. The Group is in the process of making an assessment of the expected impact of these new and revised HKFRS in the period of initial application. So far it is considered that their adoption is unlikely to have a significant impact on the results and the financial position of the Group.

3. MODIFIED AUDIT OPINION — 2013 AUDITED FINANCIAL STATEMENTS

In the 2013 Audited Financial Statements, there were two significant matters highlighted in the Independent Auditors' Report in relation to:

- (i) the amount of technological know-how of approximately HK\$284,260,000 (30 September 2013: HK\$284,260,000) as included in "Intangible assets", and
- (ii) an amount of about HK\$31,780,000 (30 September 2013: HK\$Nil, settled and funds in escrow included in "Cash and cash equivalents") included in "Deposits, prepayments and other receivables" as current asset and an amount of about HK\$31,780,000 (30 September 2013: HK\$31,780,000) included in "Amounts due to non-controlling interests" as current liability.

The emphasis of the aforesaid significant matters as stated in the Independent Auditors' Report is now reproduced as below:

(i) technological know-how of approximately HK\$284,260,000

“(a) Included in Intangible Assets as at 31 March 2013 is the technological know-how with the carrying value of approximately HK\$284,260,000 (2012: HK\$284,260,000) (the “Know-how”) in relation to an oral insulin product (the “Product”) and the exclusive right for the commercialisation of the Product owned by the Group. The Know-how is held by an indirect subsidiary of the Group, Fosse Bio-Engineering Development Limited (“Fosse Bio”), a company in which an indirect subsidiary of the Group, Smart Ascent Limited (“Smart Ascent”) had acquired a 51% interest in November 2003, and through the Group’s acquisition of a 51% interest in Smart Ascent in March 2004. In an appraisal conducted by an independent professional valuer, the Know-how is valued at an amount that is not less than HK\$284,260,000 as at 31 March 2013. Notwithstanding this valuation, the recoverability of the carrying value of the Know-how is still uncertain as it depends upon the result of the clinical trial and the successful launching of the Product. Should the outcome of the clinical trial and the launching of the Product be unsuccessful, material adjustments may have adverse effect on the business and results of the Group.

(ii) amount of approximately HK\$31,780,000

- (b) In connection with the acquisition of the shares of Fosse Bio as referred to in the above paragraph, Smart Ascent owed the vendor of the sales of the 51% interest of Fosse Bio (the “Fosse Bio Vendor”) the amount of HK\$31,780,000 (2012: HK\$31,780,000), being the third and fourth installments of the consideration for the 51% interest of Fosse Bio. The repayment of these two installments is to be made upon the issuance of certain certificates of the clinical trial as well as the Product by the State Food and Drug Administration of the PRC. At the time when the Group acquired the 51% interest in Smart Ascent, this liability continues to exist but the vendors of the sales of the 51% interest of Smart Ascent (the “Smart Ascent Vendors”) undertook to pay the full HK\$31,780,000 as and when the amount becomes due and payable. As security for this undertaking, Mr. Ong Cheng Heang (“Mr. Ong”), a non-controlling interest of Smart Ascent pledged to the Group his shares of Smart Ascent representing the balance of the 49% interest in Smart Ascent. There is no assurance that the Smart Ascent Vendors are capable of repaying the full HK\$31,780,000. While this risk of recoverability is mitigated by the shares representing the 49% interest in Smart Ascent, the risk continues to exist in the event that the Group fails to realise the profitability from the Product as mentioned in the above paragraph, it would suffer a further loss in respect of this amount of HK\$31,780,000. In addition, the Group has entered into an agreement to acquire

from Mr. Ong the pledged of his 49% interest. Similar to the matter mentioned in Paragraph (a) above, the risks in relation to the Product will affect the Group's ability to recover the payment for this liability of HK\$31,780,000.

Having considered the availability of the appraisal report by the independent professional valuer of the value of the Know-how and the disclosure in the notes to the consolidated financial statements, we consider the uncertainty as to the risks associated with the assets as mentioned in the above two paragraphs have been adequately disclosed in the consolidated financial statements and do not find it necessary to make further qualifications in this report in respect of the value of the Know-how or the receivables."

4. CONVERTIBLE BONDS

On 16 July 2013, the Company issued zero coupon convertible bonds with an aggregate principal amount of HK\$641,300,000 (the "**Bonds**") as part of the consideration for the Acquisition. The Bonds are convertible at the option of the bondholders into ordinary shares of the Company at an initial conversion price of HK\$0.6413 per share on or before the seventh business day prior to the maturity date of 16 July 2033.

On initial recognition, the fair value of the Bonds comprising liability component of about HK\$126,938,000 and equity component of about HK\$514,362,000 are separately accounted in non-current liability and equity respectively, and in the period under review, imputed interests of about HK\$2,090,000 in respect of the liability component were recognised as finance costs.

In August 2013, 100,000,000 ordinary shares of the Company were issued upon a bondholder exercising conversion rights attached to the Bonds to the extent of principal amount of HK\$64,130,000 at the conversion price of HK\$0.6413 per share.

5. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly based on credit, except for new customers, where payment in advance is normally required. The credit period is generally ranging from 120 to 180 days, extending up to one year for some major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management.

The ageing analysis of trade receivables, net of impairment loss, is as follows:

	At 30 September 2013 (Unaudited) HK\$'000	At 31 March 2013 (Audited) HK\$'000
Within 90 days	35,572	35,836
Between 91 to 180 days	24,901	26,100
Between 181 to 365 days	<u>14,531</u>	<u>12,869</u>
	<u><u>75,004</u></u>	<u><u>74,805</u></u>

6. SHARE CAPITAL

	At 30 September 2013 (Unaudited) HK\$'000	At 31 March 2013 (Audited) HK\$'000
Authorised:		
20,000,000,000 ordinary shares of HK\$0.01 each	<u>200,000</u>	<u>200,000</u>
Issued and fully paid:		
2,390,000,000 ordinary shares of HK\$0.01 each (note 4)	<u>23,900</u>	<u>22,900</u>

7. TRADE AND BILLS PAYABLES

The ageing analysis of trade and bills payables is as follows:

	At 30 September 2013 (Unaudited) HK\$'000	At 31 March 2013 (Audited) HK\$'000
Within 90 days	11,204	11,863
Between 91 to 180 days	52	1,492
Between 181 to 365 days	1	—
Between 1 to 2 years	131	144
Over 2 years	<u>453</u>	<u>399</u>
	<u>11,841</u>	<u>13,898</u>

8. AVAILABLE-FOR-SALE INVESTMENTS AND INTEREST IN AN ASSOCIATE

Interest in Shanghai Longmark was reclassified from “Interest in an associate” to “Available-for-sale investments” following the completion of the Subscription in August 2013; thereby diluting the Group’s equity interest from 20% to 12.51%. As a result, the Group considered it was no longer in a position to exercise significant influence over Shanghai Longmark and ceased to account for the investments as an associate, which gives rise to an accounting gain of about HK\$3,086,000 on reclassification of the investments in Shanghai Longmark as available-for-sale investments.

As at 30 September 2013, the carrying amount of about HK\$13,128,000 represents the Group’s equity investment of RMB2,500,000, an interest-bearing shareholder’s loan of RMB7,500,000 and loan interest receivable of about RMB634,000. The shareholder’s loan is capital in nature and is therefore designated as available-for-sale investments since the Group intends to capitalise it as further investments in Shanghai Longmark.

9. TURNOVER AND SEGMENT INFORMATION

The Group's turnover comprises the following:

	For the six months ended	
	30 September	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Manufacturing of pharmaceutical products	28,846	34,767
Trading of pharmaceutical products	40,766	48,177
	69,612	82,944

Detailed segment information is presented by way of the Group's primary segment reporting basis, which is by business segment. No further geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in the PRC, and over 90% of the Group's assets and capital expenditures were located in the PRC.

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 business 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. Summary details of the business segments are as follows:

- (a) the manufacturing segment engages in the development, manufacture and sales of pharmaceutical products;
- (b) the trading segment engages in the marketing and distribution of imported pharmaceutical products;
- (c) the oral insulin segment engages in the development and commercialisation of oral insulin products; and
- (d) the gene development segment engages in the commercial exploitation and development of genome-related technology.

The following is an analysis of the Group's revenues and results by operating segments for the period under review:

For the six months ended 30 September									
Manufacturing		Trading		Oral Insulin		Gene Development		Consolidated	
2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
(Unaudited)		(Unaudited)		(Unaudited)		(Unaudited)		(Unaudited)	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:									
Sales to external customers	<u>28,846</u>	<u>34,767</u>	<u>40,766</u>	<u>48,177</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>69,612</u>	<u>82,944</u>
Segment results	<u>2,891</u>	<u>2,777</u>	<u>5,938</u>	<u>9,986</u>	<u>1,555</u>	<u>(1,248)</u>	<u>(31)</u>	<u>10,353</u>	<u>11,509</u>
Bank interest income								786	772
Net unallocated expenses								(3,885)	(2,822)
Gain on reclassification of an associate								3,086	—
Share of results of an associate								—	(2,142)
Finance costs								<u>(2,090)</u>	<u>—</u>
Profit before taxation								8,250	7,317
Taxation								<u>(529)</u>	<u>(716)</u>
Profit for the period								<u>7,721</u>	<u>6,601</u>
Attributable to:									
Equity holders of the Company								7,858	6,987
Non-controlling interests								<u>(137)</u>	<u>(386)</u>
								<u>7,721</u>	<u>6,601</u>

10. PROFIT BEFORE TAXATION

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

	For the six months ended	
	30 September	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of sales	47,405	57,518
Depreciation and amortisation of property, plant and equipment and prepaid land lease payments	1,645	1,800
Amortisation of intangible assets (included in cost of sales)	67	151
Amortisation of investment properties	29	30
Increase in allowance for inventories	1,153	1,060
Impairment on trade receivables	4,545	5,250
Reversal of impairment on trade receivables	(4,875)	(6,865)
Gain on reclassification of an associate	(3,086)	—
Waiver of amount due to a non-controlling interest of a subsidiary*	(2,000)	—
Gain on disposal of property, plant and equipment*	(8)	—
Exchange gain, net	(624)	(22)
Bank interest income*	(786)	(772)
Loan interest income*	(309)	(167)
Rental income from investment properties*	(111)	(111)
Research and development expenses	838	644
Finance costs — imputed interests	2,090	—
Staff cost (including directors' emoluments)		
— Salaries, bonus and allowances	12,227	11,762
— Retirement benefits scheme contributions	1,476	1,639

* Included in Other Revenues

11. TAXATION

Hong Kong Profits Tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profits for the period ended 30 September 2013. Tax charges on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Under the PRC Enterprise Income Tax Law, the tax rate of the PRC subsidiaries is 25%.

In accordance with the relevant tax legislation in Malaysia, enterprises are subject to profits tax rate of a lower of a flat rate of MYR20,000 per annum or a rate of 3% of their net profits for the year. Entity owned by the Group, which operates in Malaysia, elected to pay the profits tax at a flat rate of MYR20,000 per annum for each of the two periods ended 30 September 2013 and 2012.

	For the six months ended	
	30 September	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current — Hong Kong	35	35
Current — Outside Hong Kong	487	681
Under-provision in prior years — Outside Hong Kong	<u>7</u>	<u>—</u>
Total tax charge for the period	<u>529</u>	<u>716</u>

A reconciliation of the tax expense applicable to profit before taxation using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	For the six months ended	
	30 September	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit before taxation	<u>8,250</u>	<u>7,317</u>
Tax at the statutory tax rates applicable to the respective tax jurisdictions	1,119	(41)
Tax effect of share of loss of an associate	—	529
Tax effect on income not taxable	(1,660)	(418)
Tax effect on expenses not deductible	1,064	648
Others	<u>6</u>	<u>(2)</u>
Tax charge for the period	<u>529</u>	<u>716</u>

12. INTERIM DIVIDENDS

The directors do not recommend the payment of an interim dividend in respect of the six months ended 30 September 2013 (six months ended 30 September 2012: HK\$Nil).

13. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the unaudited profit attributable to the equity holders of the Company for the six months ended 30 September 2013 of HK\$7,858,000 (six months ended 30 September 2012: HK\$6,987,000), and the weighted average of 2,321,147,541 ordinary shares (six months ended 30 September 2012: 2,290,000,000) in issue during the six months ended 30 September 2013.

The calculation of the diluted earnings per share is based on the unaudited profit attributable to the equity holders of the Company of HK\$9,948,000 after adjusting the imputed interests of HK\$2,090,000 on the convertible bonds, and the weighted average number of 3,247,121,567 ordinary shares after adjusting the effect on ordinary shares deemed to be issued if all dilutive potential ordinary shares have been converted into ordinary shares of the Company during the six months ended 30 September 2013. As there was no potential dilutive ordinary shares in existence for the period ended 30 September 2012, and accordingly no diluted earnings per share has been presented.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Overall Performance

China's pharmaceutical industry has entered into a new era of development after ten years of rapid growth. The implementation of the Twelfth Five-Year Plan, which is focused on reinforcing the objective of developing an affordable and accessible healthcare system and infrastructure for the entire population, has accelerated the transformation of the industry, facilitating consolidation and technological innovation while promoting healthy competition in middle-to-longer term.

During the period under review, in response to multiple challenges arising from national policy changes and a series of measures implemented on drug tendering alongside the healthcare reforms, the Group had adjusted prices of certain self-manufactured products, aiming at securing market share and promoting its brand and product awareness for long-term benefits of the Group. In review of the pricing pressure, the Group puts more emphasis on cost control and rationalisation of production process to maintain operating efficiency. Through timely adjustments of strategies, strengthening of distribution channel development and continuous exploration of new markets in the third and fourth tier cities, the Group strives to maintain profitability in the midst of industry competition.

For the 6-month period ended 30 September 2013 (the "2013 Interim Period"), the Group's turnover recorded a decrease of about HK\$13.3 million or 16% to about HK\$69.6 million when compared to about HK\$82.9 million in the 6-month period ended 30 September 2012 (the "2012 Interim Period"), as a result of product pricing adjustment in the manufactured pharmaceutical sector and the decrease in turnover of the imported pharmaceutical sector which is primarily attributable to change in delivery schedule of stock replenishment by certain customer in the first half of the financial year, of which corresponding sales increase would be reflected in the fourth quarter of 2013.

Gross profit decreased by about 12.7% from HK\$25.4 million in the 2012 Interim Period to HK\$22.2 million in the 2013 Interim Period, which primarily reflected the decrease in turnover. The slight improvement of gross margin from 30.7% in the 2012 Interim Period to 31.9% in the 2013 Interim Period was the result of curtailment on direct costs of sales.

The Group's administrative, selling and distribution expenses increased by about HK\$0.96 million or 5.8% in the 2013 Interim Period which were mainly attributable to decrease in reversal of impairment on trade receivables which is non-cash in nature, and after excluding exchange gain, impairment adjustments of inventories and accounts receivables, were in aggregate of about HK\$17.1 million (2012: HK\$16.9 million), which were maintained at similar level as in the 2012 Interim Period.

The notable items impacting the results of the 2013 Interim Period included an accounting gain of about HK\$3.1 million arising from reclassification of the Group's investments in an associate to available-for-sale investments and finance costs of about HK\$2.1 million relating to the imputed interest expenses of zero coupon convertible bonds issued by the Company for acquisition of non-controlling interest in a subsidiary.

As a result, the Group's profit attributable to the equity holders of the Company was about HK\$7.9 million, representing an increase of about 12% when compared to about HK\$7.0 million in the 2012 Interim Period.

Imported Pharmaceutical Sector

Sales of imported pharmaceutical products decreased by approximately 15.4% to about HK\$40.8 million when compared to HK\$48.2 million in the 2012 Interim Period. This was primarily due to modification in delivery schedules of stock replenishment plan by one of the Group's major customers in the 2013 Interim Period, which would, however, record corresponding sales increase in the fourth quarter of 2013.

Although there had been a slight price reduction reacting to intensifying market competition, management was able to lower the operating costs by more effective utilisation of marketing and promotion resources. Notwithstanding segment profit reduced by about 41% from about HK\$10 million to about HK\$5.9 million due to decline in turnover in the 2013 Interim Period, sales and gross profit tend to indicate a growth trend in the second half of the financial year in which deliveries of a greater proportion of customers' orders are scheduled to be effected.

Management would continue exerting its greatest efforts in promoting sales and profitability by flexibly adopting various strategies in order to deliver better result in the second half of the financial year.

Manufactured Pharmaceutical Sector

Sales of self-manufactured pharmaceutical products decreased by approximately HK\$5.9 million to HK\$28.8 million, representing about 17% decrease from about HK\$34.8 million in the 2012 Interim Period, which was mainly attributable to price reduction on products with a view to capturing market share in the face of pricing pressure due to national policy and measures implemented on drug tendering across provinces during the period under review.

The impact of decrease in turnover was offset as management has taken measures to reduce direct costs attributable to the sales, leading to an overall improvement of gross margin by about 11%. With management's relentless effort in enhancing production efficiency to improve gross margin, coupled with stringent control over operating expenses, segment result was maintained at about HK\$2.9 million, representing a slight increase of about 4% as compared to about HK\$2.8 million in the 2012 Interim Period.

Additional human resources have been deployed to cope with relocation of the production facilities to Economic Development Zone of Jiu Tai, Changchun, the PRC by end of this year. The Group believes that the new production facilities would enable the Group to optimise its product portfolio to meet market demand thus facilitating the Group's long-term growth.

Oral Insulin Sector

As the clinical trial is still in progress, no revenue was generated during this interim period. However, segment profit of HK\$1,555,000 was recorded as a result of recognition of foreign exchange gain of HK\$634,000 and write-off of the amount due to a then non-controlling interest of HK\$2,000,000 upon completion of the acquisition of 49% interest held by the then non-controlling interest in Smart Ascent.

Gene Development Sector

During this interim period, gene development remained inactive and no revenue was recorded.

Selling and Distribution Expenses

Selling and distribution expenses increased to about HK\$4.4 million, representing an increase of about HK\$1.1 million or 32% as compared to HK\$3.3 million in the 2012 Interim Period. This was mainly a result of decrease in reversal of impairment on trade receivables of about HK\$1.3 million which is non-cash in nature.

Administrative Expenses

Although the Group has been facing tremendous cost pressures on all fronts, management has persistently and relentlessly imposed cost containment activities across the Group's companies, which delivered results. During the period under review, administrative expenses were maintained at level of about HK\$13 million as in the 2012 Interim Period.

Other Revenues

Other revenues increased by about HK\$2.1 million from about HK\$1.1 million in the 2012 Interim Period to about HK\$3.2 million in the 2013 Interim Period. The increase was mainly due to the write-off of HK\$2 million as due to a non-controlling interest of a subsidiary, namely Smart Ascent upon completion of acquisition of 49% non-controlling interest in Smart Ascent by the Group.

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 turnover 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 2013, the Group had total cash and bank balances (including pledged bank deposits of about HK\$19,761,000 and settlement of HK\$31,780,000 by a then non-controlling interest of a subsidiary) of about HK\$173.3 million (31 March 2013: HK\$156.2 million), representing an increase by approximately 11%.

The Group did not have bank borrowings as at 30 September 2013 (31 March 2013: HK\$Nil) but had banking facilities on trade finance, which were supported by the pledge of the Group's fixed deposits of about HK\$19.8 million (31 March 2013: HK\$19.7 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 2013 was 0.04 (31 March 2013: 0.09), calculated based on the Group's total debts of about HK\$48.3 million (31 March 2013: HK\$63.2 million), comprising amounts due to non-controlling interests of subsidiaries of about HK\$42.3 million (31 March 2013: HK\$57.2 million) and loan from a non-controlling interest of about HK\$6.0 million (31 March 2013: HK\$6.0 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

Whilst the pace of global recovery is subject to uncertainties and China's GDP growth softened to 7.6% in the first half of 2013, the Third Plenary Session of the 18th Communist Party of China Central Committee concluded with comprehensively deepening reform package reflecting directions of the central government's heightening support in bringing vitality to the economy and driving up GDP growth. China's pharmaceutical industry would continue to benefit from the government's increasing investment in the healthcare system. The accelerated aging population and continuing urbanization coupled with people's increasing health awareness will further stimulate the explosion of medical needs and expand the pharmaceutical and healthcare industry.

Over the years, the Group has been placing utmost importance on the development of oral insulin which is anticipated to be a growth driver of the Group in light of China's rapidly growing diabetic population and fast growing diabetes drug market. Further still, the Group is allocating its best resources in expediting the progress of the extended clinical trial, aiming at delivering a promising result to capture the market opportunities.

Meanwhile, the Group is in a position to consolidate its manufacturing operations in Changchun to achieve economies of scale upon relocation of its production facilities by end of this year. With the advancement of production capability and capacity, the Group would reinforce its core competitiveness amidst the challenging environment, thereby fostering the sustainable development and growth of the Group.

Looking forward, the Group will continue to evaluate opportunities and investments with growth potentials and explore strategic collaboration with international enterprises in pursuit of synergy, with a view to enhancing the corporate value of the Group.

EMPLOYMENT AND REMUNERATION POLICY

As at 30 September 2013, the Group had 300 employees (30 September 2012: 290). Staff costs excluding directors' remuneration and included those charged in the cost of sales for the six months ended 30 September 2013 amounted to approximately HK\$12.3 million (six months ended 30 September 2012: approximately HK\$12.0 million).

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.

The existing share option scheme (the "Scheme") as adopted by the Company was approved by the shareholders of the Company at the annual general meeting held on 24 August 2012. The Scheme became effective upon obtaining the requisite listing approval from the Stock Exchange on 29 August 2012 and will remain in force for a period of 10 years commencing on 29 August 2012.

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 2013, no share option was granted, exercised, cancelled or lapsed 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 2013, 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.4.1 (non-executive directors ("**NEDs**") should be appointed for a specific term), (iii) A.4.2 (all directors should be appointed for a specific term and subject to retirement by rotation, and directors appointed to fill a casual vacancy be subject to election at the first general meeting after appointment), and (iv) A.6.7 (independent non-executive directors ("**INEDs**") and other NEDs should attend general meetings)(Two INEDs could not attend the special general meeting of the Company held on 4 July 2013, and an INED could not attend the annual general meeting of the Company held on 26 August 2013, due to other

business commitments). Details of deviations and considered reasons in relation thereof have been duly set out in the corporate governance report contained in the 2013 annual report of the Company published in July 2013.

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 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 2013, the Company and its subsidiaries did not purchase, sell or redeem any of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee, which comprises three INEDs 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 2013, 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
Mao Yumin
Chairman

Hong Kong, 29 November 2013

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

* *For identification purpose only*