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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 2015

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 2015 together with the comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At 30 September 2015 (Unaudited) HK\$'000	At 31 March 2015 (Audited) HK\$'000
	<i>Notes</i>		
Non-current assets			
Investment properties		1,586	1,615
Property, plant and equipment		166,623	175,930
Prepaid lease payments		10,390	10,879
Intangible assets		1,807	1,807
Investments in convertible bonds		291,572	349,220
Available-for-sale investments		—	—
Interest in an associate	3	335,364	335,466
Amount due from an associate		11,551	10,108
		<u>818,893</u>	<u>885,025</u>
Current assets			
Inventories		12,407	17,050
Trade receivables	4	72,603	57,568
Deposits, prepayments and other receivables		7,363	6,802
Pledged bank deposits		20,025	19,971
Bank balances and cash		160,566	152,227
		<u>272,964</u>	<u>253,618</u>
Total assets		<u><u>1,091,857</u></u>	<u><u>1,138,643</u></u>

	<i>Notes</i>	At 30 September 2015 (Unaudited) HK\$'000	At 31 March 2015 (Audited) HK\$'000
Capital and reserves			
Share capital		23,900	23,900
Reserves		<u>929,166</u>	<u>967,990</u>
Equity attributable to owners of the Company		953,066	991,890
Non-controlling interests		<u>1,891</u>	<u>4,489</u>
Total equity		954,957	996,379
Non-current liabilities			
Deferred tax liabilities		102	102
Convertible bonds		<u>27,226</u>	<u>24,982</u>
		27,328	25,084
Current liabilities			
Trade and bills payables	5	12,202	12,676
Accruals and other payables		61,727	66,134
Amount due to an associate		19,780	19,780
Tax payable		<u>15,863</u>	<u>18,590</u>
		<u>109,572</u>	<u>117,180</u>
Total equity and liabilities		<u>1,091,857</u>	<u>1,138,643</u>
Net current assets		<u>163,392</u>	<u>136,438</u>
Total assets less current liabilities		<u>982,285</u>	<u>1,021,463</u>

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

		For the six months ended	
		30 September	
		2015	2014
		(Unaudited)	(Unaudited
	<i>Notes</i>	HK\$'000	and restated)
			<i>HK\$'000</i>
Continuing operations			
Revenue	6	81,634	74,308
Cost of sales		<u>(41,943)</u>	<u>(41,957)</u>
Gross profit		39,691	32,351
Other income	7	32,503	10,102
Other gains and losses, net	8	(68,128)	(3,111)
Selling and distribution expenses		(22,958)	(23,943)
Administrative expenses		(14,717)	(14,896)
Share of results of an associate		(102)	(134)
Effective interest expense on convertible bonds		<u>(2,244)</u>	<u>(1,890)</u>
Loss before taxation	9	(35,955)	(1,521)
Taxation	10	<u>(62)</u>	<u>(55)</u>
Loss from continuing operations		(36,017)	(1,576)
Discontinued operation			
Profit from discontinued operation	11	<u>—</u>	<u>607,543</u>
(Loss) profit for the period		(36,017)	605,967
Other comprehensive (expense) income			
Item that may be reclassified subsequently to profit or loss			
— Exchange differences arising on translation of foreign operations		<u>(5,405)</u>	<u>—</u>
Total comprehensive (expense) income for the period		<u>(41,422)</u>	<u>605,967</u>
Interim dividends	12	<u>—</u>	<u>—</u>
(Loss) profit for the period attributable to owners of the Company			
— from continuing operations		(33,593)	3,156
— from discontinued operation		<u>—</u>	<u>609,645</u>
		<u>(33,593)</u>	<u>612,801</u>

	For the six months ended 30 September	
	2015	2014
	(Unaudited)	(Unaudited and restated)
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
(Loss) profit for the period attributable to non-controlling interests		
— from continuing operations	(2,424)	(4,732)
— from discontinued operation	<u>—</u>	<u>(2,102)</u>
	<u>(2,424)</u>	<u>(6,834)</u>
	<u>(36,017)</u>	<u>605,967</u>
Total comprehensive (expense) income for the period attributable to		
Owners of the Company	(38,824)	612,801
Non-controlling interests	<u>(2,598)</u>	<u>(6,834)</u>
	<u>(41,422)</u>	<u>605,967</u>
	(Unaudited)	(Unaudited and restated)
	<i>HK cents</i>	<i>HK cents</i>
(Loss) earnings per share		
		<i>13</i>
From continuing and discontinued operations		
— Basic	<u>(1.41)</u>	<u>25.64</u>
— Diluted	<u>(1.41)</u>	<u>18.68</u>
From continuing operations		
— Basic	<u>(1.41)</u>	<u>0.13</u>
— Diluted	<u>(1.41)</u>	<u>0.13</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 2015.

Key event

On 21 September 2015, Jilin Extrawell Changbaishan Pharmaceutical Co., Ltd. (“**JECP**”), a wholly-owned subsidiary of the Company entered into a transfer agreement to transfer its entire right, title and interest in the production technologies in relation to its tablet and capsule products and the trademarks in the PRC at a consideration of RMB2,600,000 (the “**Transfer**”).

The Transfer constitutes a discloseable transaction of the Company under Chapter 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”), details of which are disclosed in the announcement of the Company on 21 September 2015.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The Interim Financial Information has been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Listing Rules, 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 consolidated financial statements for the year ended 31 March 2015 (the “**2015 Audited Financial Statements**”), which have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRS**”).

The Group has adopted, for the first time, the following new amendments to HKFRS issued by the HKICPA that are relevant for the current interim period, and the application of which has no material impact on the Interim Financial Information:

- Amendments to HKAS 19 Defined Benefit Plans: Employee Contributions
- Amendments to HKFRSs Annual Improvements to HKFRSs 2010–2012 Cycle
- Amendments to HKFRSs Annual Improvements to HKFRSs 2011–2013 Cycle

3. EMPHASIS OF SIGNIFICANT MATTER — 2015 AUDITED FINANCIAL STATEMENTS

In the 2015 Audited Financial Statements, an emphasis of matter paragraph was included in the Independent Auditor's Report in relation to the Group's interest in an associate, which is now reproduced as below:

“As explained in note 23 to the consolidated financial statements, the carrying amount of interest in an associate, representing interest in Smart Ascent Limited and its subsidiaries (the “**Smart Ascent Group**”), is HK\$335,466,000 as at 31 March 2015. The major asset held by the Smart Ascent Group is the intangible asset in relation to an in-process research and development project (the “**In-process R&D**”) involving an oral insulin product (the “**Product**”). As at 31 March 2014, the carrying amount of the In-process R&D was HK\$284,260,000 and classified as intangible asset of the Group when the Smart Ascent Limited was the subsidiary of the Company. Upon the completion of the disposal of 51% equity interest of Smart Ascent Limited on 28 July 2014, the Group's interest in Smart Ascent Limited has reduced from 100% to 49% and accordingly Smart Ascent Limited has become an associate of the Company. The carrying amount of interest in an associate (2014: the In-process R&D) is highly dependent upon further research and development work required to be carried out, 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 be required and consequently have an adverse effect on the net assets and the results of the Group.”

4. 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.

The aging analysis of trade receivables, net of allowance for bad and doubtful debts is as follows:

	At 30 September 2015 (Unaudited) HK\$'000	At 31 March 2015 (Audited) HK\$'000
0–90 days	26,539	21,183
91–180 days	39,928	19,332
181–365 days	6,136	17,023
Over 365 days	—	30
	<u>72,603</u>	<u>57,568</u>

5. TRADE AND BILLS PAYABLES

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

	At 30 September 2015 (Unaudited) <i>HK\$'000</i>	At 31 March 2015 (Audited) <i>HK\$'000</i>
0–90 days	9,753	9,680
91–180 days	960	2,459
181–365 days	1,440	495
1–2 years	49	42
	<u>12,202</u>	<u>12,676</u>

6. REVENUE AND SEGMENT INFORMATION

The Group's revenue comprises the following:

	For the six months ended 30 September	
	2015 (Unaudited) <i>HK\$'000</i>	2014 (Unaudited) <i>HK\$'000</i>
Manufacturing of pharmaceutical products	21,879	16,307
Trading of pharmaceutical products	<u>59,755</u>	<u>58,001</u>
	<u>81,634</u>	<u>74,308</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. Summarized details of the reportable and operating 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 gene development segment engages in the commercial exploitation and development of genome-related technology.

6. REVENUE AND SEGMENT INFORMATION (CONTINUED)

An operating segment regarding the development and commercialization of oral insulin products was discontinued in July 2014, and the details of which are set out in note 11 to the Interim Financial Information and note 14 to the 2015 Audited Financial Statements. The following is an analysis of the Group's revenue and results from continuing operations by reportable and operating segment for the six months ended 30 September 2015:

Continuing operations

	Unaudited — For the six months ended 30 September							
	Manufacturing		Trading		Gene Development		Total	
	2015	2014	2015	2014	2015	2014	2015	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue								
Sales to external customers	<u>21,879</u>	<u>16,307</u>	<u>59,755</u>	<u>58,001</u>	<u>—</u>	<u>—</u>	<u>81,634</u>	<u>74,308</u>
Segment results	<u>(11,525)</u>	<u>(18,165)</u>	<u>12,072</u>	<u>8,244</u>	<u>(38)</u>	<u>(31)</u>	<u>509</u>	<u>(9,952)</u>
Unallocated other income							<u>32,503</u>	<u>10,102</u>
Unallocated other gains and losses, net							<u>(63,191)</u>	<u>5,153</u>
Corporate expenses							<u>(3,430)</u>	<u>(4,800)</u>
Effective interest expense on convertible bonds							<u>(2,244)</u>	<u>(1,890)</u>
Share of results of an associate							<u>(102)</u>	<u>(134)</u>
Loss before taxation							<u>(35,955)</u>	<u>(1,521)</u>
Taxation							<u>(62)</u>	<u>(55)</u>
Loss for the period							<u>(36,017)</u>	<u>(1,576)</u>

7. OTHER INCOME

	For the six months ended	
	30 September	
	2015	2014
	(Unaudited)	(Unaudited and restated)
	HK\$'000	HK\$'000
Continuing operations		
Interest income	<u>376</u>	<u>426</u>
Rental income	<u>114</u>	<u>111</u>
Sundry income	<u>2</u>	<u>12</u>
Effective interest income from investments in convertible bonds	<u>30,568</u>	<u>9,169</u>
Imputed interest income from amount due from an associate	<u>1,443</u>	<u>384</u>
	<u>32,503</u>	<u>10,102</u>

8. OTHER GAINS AND LOSSES, NET

For the six months ended
30 September

2015 2014
(Unaudited and
(Unaudited) restated)
HK\$'000 HK\$'000

Continuing operations

Gain on disposal of property, plant and equipment	28	—
Impairment on property, plant and equipment	(74)	—
Impairment on deposits, prepayments and other receivables	(662)	—
Allowance for bad and doubtful debts, net	(4,229)	(8,264)
Change in fair value (loss) gain of derivative component of investments in convertible bonds		
	<u>(63,191)</u>	<u>5,153</u>
	<u><u>(68,128)</u></u>	<u><u>(3,111)</u></u>

9. LOSS BEFORE TAXATION

The Group's loss before taxation from continuing operations has been arrived at after charging:

For the six months ended
30 September

2015 2014
(Unaudited
(Unaudited) and restated)
HK\$'000 HK\$'000

Continuing operations

Amortization of prepaid lease payments	124	124
Depreciation of investment properties	29	29
Depreciation of property, plant and equipment	3,172	2,458
Cost of inventories recognized as expenses	41,943	41,957
Including: Provision for allowance for inventories	1,406	1,366
Operating lease charges in respect of land and buildings	1,034	1,159
Staff cost (including directors' emoluments)		
Salaries, bonus and allowances (note)	9,469	9,822
Retirement benefits scheme contributions	2,091	1,584

Note: As at 30 September 2014, staff cost of about HK\$1,289,000 incurred for GMP certification work was included in "Deposits, prepayments and other receivables" and was subsequently capitalized as property, plant and equipment.

10. TAXATION

	For the six months ended	
	30 September	
	2015	2014
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Continuing operations		
Current tax:		
Hong Kong	37	30
Other jurisdictions	<u>25</u>	<u>25</u>
Taxation	<u><u>62</u></u>	<u><u>55</u></u>

Hong Kong Profits Tax has been provided at the rate of 16.5% of the estimated assessable profits for both periods.

Under the Law of the PRC on Enterprise Income Tax (the “EIT”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

11. PROFIT FROM DISCONTINUED OPERATION

On 28 July 2014, the Group completed its disposal of 51% equity interest of its wholly owned subsidiary Smart Ascent Limited (“**Smart Ascent**”), the holding company of the Group’s oral insulin operation. As the Group lost control in Smart Ascent, the operation was classified as discontinued operation. Total profit from the discontinued operation amounted to HK\$607,543,000, which was attributable to the gain on disposal of the Group’s 51% interest in Smart Ascent of HK\$611,867,000 and operating loss of HK\$4,324,000 for the period from 1 April 2014 to the date of completion of disposal.

Details regarding the discontinued operation are set out in notes 14 and 37 to the 2015 Audited Financial Statements.

12. INTERIM DIVIDENDS

The directors do not recommend the payment of an interim dividend in respect of the six months ended 30 September 2015 (six months ended 30 September 2014: HK\$ Nil).

13. (LOSS) EARNINGS PER SHARE

Basic (loss) earnings per share are calculated by dividing the loss attributable to owners of the Company from continuing and discontinued operations of HK\$33,593,000 (2014 (restated): profit: HK\$612,801,000) and from continuing operations of HK\$33,593,000 (2014 (restated): profit: HK\$3,156,000) by 2,390,000,000 ordinary shares in issue.

Diluted (loss) earnings per share are calculated by dividing the basic loss for the current period, which does not require adjustments for the effects of dilutive potential ordinary shares and adjusted earnings of the corresponding period for the effective interest expense on convertible bonds of HK\$1,890,000 where there is no anti-dilutive effect, by the weighted average number of 3,290,000,000 ordinary shares outstanding.

14. COMPARATIVE FIGURES

Certain comparative figures have been reclassified and restated in order to conform the current period presentation and to reflect the effects of reassessment of fair value of the Group's investments in convertible bonds, gain recognized on disposal of 51% equity interest in Smart Ascent and prior period adjustments as disclosed in notes 21, 37 and 44 to the 2015 Audited Financial Statements respectively.

The impact on profit for the six months ended 30 September 2014 is summarized as below:

	<i>HK\$'000</i>
Profit for the period (Unaudited and original stated)	232,581
Increase in fair value of derivative component of investments in convertible bonds	61,128
Increase in gain on disposal of 51% equity interest in Smart Ascent	307,573
Increase in imputed interest income from amount due from an associate	385
Decrease in effective interest expense on convertible bonds	2,939
Increase in effective interest income from investments in convertible bonds	<u>1,361</u>
	<u>373,386</u>
Profit for the period (As restated)	<u><u>605,967</u></u>
Represented by:	
(Loss) from continuing operations	(1,576)
Profit from discontinued operation	<u>607,543</u>
Profit from continuing and discontinued operations	<u><u>605,967</u></u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Overall Performance

In the period under review, China's economic growth slowed down from 7.0% in the second quarter to 6.9% in the third quarter of year 2015 amid ongoing economic reforms and evolving policy environment. Pharmaceutical enterprises inevitably embraced continued pricing and costing pressures which had made market conditions more challenging. In the meantime, with the government's policy direction to give an increasing weighting on drug quality and a market-driven pricing mechanism, technological innovation are encouraged, thereby promoting research and development capability and facilitating consolidation and integration within the industry. Although pharmaceutical enterprises would remain pressured by intense market competition, the government's supportive policies along with innovative technologies foster the sustainable pace of development in the industry and bring new opportunities and challenges to pharmaceutical enterprises.

For the six months ended 30 September 2015 (the "**2015 Interim Period**"), the Group's revenue and gross profit were about HK\$81.6 million and HK\$39.7 million as compared to the six months ended 30 September 2014 (the "**2014 Interim Period**") of about HK\$74.3 million and HK\$32.4 million (restated), representing an increase of about HK\$7.3 million or 9.9% in revenue and about HK\$7.3 million or 22.7% in gross profit. The increase in revenue was benefitted from the increase in sales of self-manufactured products from the Group's new factory in Changchun, the PRC and the increase in gross profit was the result of sales mix and favorable currency impact on cost of sales of imported pharmaceutical products arising from depreciation of Euro against Hong Kong dollar.

The Group's administrative, selling and distribution expenses were in aggregate of about HK\$36.7 million after excluding closure provision of about HK\$0.9 million for JECF's manufacturing operation ceased in September 2015, which was maintained at similar level as compared to the 2014 Interim Period of about HK\$37.2 million after excluding production-related amortization and depreciation charges of about HK\$0.9 million classified as administrative expenses when undertaking GMP certification works at the Changchun new factory and stamp duty of about HK\$0.8 million paid for disposal of the Group's 51% interest in Smart Ascent.

Despite improvement in performance of the Group's trading and manufacturing segments in the 2015 Interim Period, Group's loss attributable to the owners of the Company was about HK\$33.6 million when compared to profit of about HK\$612.8 million (restated) in the 2014 Interim Period, representing a decrease of about HK\$646.4 million. Such loss was primarily attributable to non-cash items, including a decrease in fair value of derivative component of the Group's investments in convertible bonds of about HK\$63.2 million that partially offset by its effective interest income of about HK\$30.6 million, and the record of one-off and non-recurring gain on disposal of the Group's 51% equity interest in Smart Ascent in July 2014 of about HK\$611.9 million (restated) in the 2014 Interim Period.

Revenue and Operating Results

Imported Pharmaceutical Sector

Revenue and segment profit for the period increased to about HK\$59.8 million and HK\$12.1 million, representing increase of 3.0% and 46.4% respectively as compared to about HK\$58.0 million and HK\$8.2 million in the 2014 Interim Period. The increase was primarily due to the double-digit growth of skin treatment drugs both in terms of volume and value, and the favorable currency impact on its cost of sales resulting from depreciation of the Euro against Hong Kong dollar.

Manufactured Pharmaceutical Sector

In the period under review, the segment had achieved satisfactory growth in revenue and made significant improvement in operating results, in which revenue increased by HK\$5.6 million to about HK\$21.9 million (2014 Interim Period: HK\$16.3 million) and segment loss reduced by HK\$6.6 million to about HK\$11.5 million (2014 Interim Period: HK\$18.2 million).

Since resumption of normal operation upon obtaining GMP certification for all product lines by Changchun's new factory, there were significant efforts made by management to regain the market share, which delivered results in the current period.

Reduction in segment loss was mainly due to decrease in expenses including allowance for bad and doubtful debts of about HK\$4.0 million, promotion expenses of about HK\$2.5 million as a result of adjustment in marketing strategy, and research and development expenses of about HK\$1.1 million, respectively, while there was an increase in closure costs provision for JECF's manufacturing operation of about HK\$2.1 million.

Gene Development Sector

The Group has been persistently looking at the ongoing development of the gene industry in the PRC market and other parts of the world, and seeking development opportunities as and when these arise. During this interim period, gene development remained inactive and no revenue was recorded.

Other Income and Gain and Losses, Net

Other income and gains and losses, net were in total a loss of about HK\$35.6 million, which mainly came from allowance for bad and doubtful debts of HK\$4.3 million, effective interest income of HK\$30.6 million and change in fair value of derivative component of HK\$63.2 million (loss) from investments in convertible bonds. This represents an increase in loss of about HK\$42.6 million when compared to a total net gain of about HK\$7.0 million in the 2014 Interim Period with corresponding amounts of HK\$8.3 million, HK\$9.2 million and HK\$5.2 million (gain) respectively.

Selling and Distribution Expenses

Selling and distribution expenses decreased slightly to about HK\$23.0 million as compared to HK\$24.0 million in the 2014 Interim Period, which was mainly due to decrease in research and development expenses.

Administrative Expenses

Administrative expenses remained relatively stable at similar level as in the 2014 Interim Period, after taking into account of closure provision of about HK\$0.9 million for JECP's manufacturing operation ceased in the current period and stamp duty of about HK\$0.8 million paid on disposal of 51% interest in Smart Ascent in the 2014 Interim Period.

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 2015, the Group had total cash and bank balances (including pledged bank deposits of HK\$20.0 million) of HK\$180.6 million (31 March 2015: HK\$172.2 million), representing an increase by approximately 4.9%.

The Group did not have bank borrowings as at 30 September 2015 (31 March 2015: HK\$ Nil) but had banking facilities on trade finance, which were supported by the pledge of the Group's fixed deposits of about HK\$20.0 million (31 March 2015: HK\$20.0 million) and corporate guarantees from the Company and certain subsidiaries of the Company. In general, there is no significant seasonality fluctuation on trade finance requirement of the Group.

The Group's total borrowing over total assets ratio as at 30 September 2015 was 0.043 (31 March 2015: 0.039), calculated based on the Group's total assets of HK\$1,091.9 million (31 March 2015: HK\$1,138.6 million) and total debts of about HK\$47.0 million (31 March 2015: HK\$44.8 million), comprising convertible bonds of HK\$27.2 million (31 March 2015: HK\$25.0 million) and amount due to an associate of HK\$19.8 million (31 March 2015: HK\$19.8 million).

Foreign Exchange Exposure

Save for certain purchases are denominated in Euro, 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

China is in a process of rebalancing its economy under the new normal state and its growth moderates with continued structural economic transformation. The heightened regulatory requirements under the healthcare reforms have impacted the operating environments in terms of intense price competition and rising operating costs.

In light of the prevailing market conditions, the Group has taken proactive measures to reallocate its resources within its manufacturing segment and cease JECP's manufacturing operation which is comparatively of less development prospects with a view to conserving resources and focusing on advancing productivity and operating efficiency of the new factory in Changchun, the PRC, which has become a key strategic platform of the Group in managing the development and production of pharmaceutical products for China market. At the same time, the Group has been deploying better resources and adopting strategies to expand its distribution networks and strengthen coverage over rural markets in order to secure its market share. In addition to the investment in oral insulin project, the Group will continuously pursue opportunities with growth potentials which can bolster its long-term development and increase its corporate value.

Although China has been facing a complicated situation in the midst of its structural reform, the guidelines for the draft of the 13th Five-Year Plan (2016–20) recently released have reflected its policy direction to set out a target of maintaining medium-high growth in its economy and achieving a well-off society. Combined factors of demographic trends, continuing urbanization, increasing public health awareness and consumption of quality pharmaceutical products support growth momentum to China's pharmaceutical industry. And the Group remains cautiously optimistic and confident with its future development.

EMPLOYMENT AND REMUNERATION POLICY

As at 30 September 2015, the Group had 265 employees (30 September 2014: 305). Staff costs (including directors' emoluments) for the six months ended 30 September 2015 amounted to approximately HK\$11.6 million (six months ended 30 September 2014: approximately HK\$12.7 million, adjusted for comparison purpose to include capitalized amount of HK\$1.3 million arising from GMP certification works). The decrease was mainly due to lower staff level at the manufacturing segment.

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

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

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

During the period ended 30 September 2015, no share option has been granted under the Scheme.

CORPORATE GOVERNANCE

The Group recognizes 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 2015, 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 (“**NEDs**”) should be appointed for a specific term), (iv) 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 (v) A.6.7 (independent non-executive directors (“**INEDs**”) and other NEDs should attend general meetings) (Two INEDs could not attend the annual general meeting of the Company held on 28 August 2015, 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 2015 annual report of the Company published in July 2015.

The Company will continue to review and monitor the situation as stated above, and to improve the practices as and when the circumstances demand.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as the Company’s code of conduct for dealings in securities of the Company by the directors. Based on specific enquiry of the Company’s directors, the directors have complied with the required standards set out in the Model Code throughout the interim period.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the six months ended 30 September 2015, 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 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 2015, 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 2015

As at the date of this announcement, the executive directors are Dr. Xie Yi, Dr. Lou Yi, Mr. Cheng Yong, 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*