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 2018

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 2018 together with the comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**At 30 September 2018 (Unaudited)** ***HK$'000***	At 31 March 2018 (Audited) *HK$'000*
Non-current assets			
Investment properties		**1,408**	1,437
Property, plant and equipment		**138,703**	155,469
Prepaid lease payments		**9,058**	10,017
Intangible assets		**1,807**	1,807
Investments in convertible bonds		**—**	417,783
Financial assets at fair value through profit or loss		**423,328**	—
Available-for-sale investments		**—**	59,047
Financial assets at fair value through other comprehensive income		**17,080**	—
Interest in an associate	*3*	**330,828**	330,970
Amount due from an associate		**25,718**	22,505
Loan to an associate		**4,905**	—
Deferred tax assets		**69**	69
		952,904	999,104
Current assets			
Inventories		**4,573**	4,100
Trade and bills receivables	*4*	**22,863**	21,076
Deposits, prepayments and other receivables		**7,477**	8,361
Available-for-sale investments		**—**	1,875
Financial assets at fair value through profit or loss		**1,709**	—
Pledged bank deposits		**20,712**	20,502
Bank balances and cash		**170,838**	161,765
		228,172	217,679
Total assets		**1,181,076**	1,216,783

	Notes	At 30 September 2018 (Unaudited) *HK$'000*	At 31 March 2018 (Audited) *HK$'000*
Capital and reserves			
Share capital		**23,900**	23,900
Reserves		**1,018,432**	1,047,673
Equity attributable to owners of the Company		**1,042,332**	1,071,573
Non-controlling interests		**(4,111)**	(4,494)
Total equity		**1,038,221**	1,067,079
Non-current liabilities			
Convertible bonds		**45,568**	41,812
Deferred income on government grants		**3,703**	4,122
		49,271	45,934
Current liabilities			
Trade and bills payables	*5*	**5,650**	6,916
Accruals, other payables and contract liabilities		**53,079**	60,721
Amount due to an associate		**19,780**	19,780
Deferred income on government grants		**89**	98
Tax payable		**14,986**	16,255
		93,584	103,770
Total equity and liabilities		**1,181,076**	1,216,783
Net current assets		**134,588**	113,909
Total assets less current liabilities		**1,087,492**	1,113,013

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		For the six months ended 30 September	
		2018	2017
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
Revenue	*6*	**45,047**	47,405
Cost of sales		**(20,300)**	(25,069)
Gross profit		**24,747**	22,336
Other income	*7*	**17,064**	43,805
Other gains and losses, net	*8*	**20,759**	(16,810)
Selling and distribution expenses		**(18,221)**	(16,747)
Administrative expenses		**(13,630)**	(13,222)
Share of results of an associate		**(142)**	75
Effective interest expense on convertible bonds		**(3,756)**	(3,163)
Profit before taxation	*9*	**26,821**	16,274
Taxation	*10*	**(253)**	(61)
Profit for the period		**26,568**	16,213
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
— Change in fair value on available-for-sale investments		**—**	(3,834)
— Exchange differences arising on translation of foreign operations		**(10,649)**	4,937
Item that will not be reclassified subsequently to profit or loss			
— Change in fair value on financial assets through other comprehensive income		**(41,967)**	—
Total comprehensive income for the period		**(26,048)**	17,316
Profit (loss) for the period attributable to			
Owners of the Company		**26,404**	17,726
Non-controlling interests		**164**	(1,513)
		26,568	16,213

	Notes	For the six months ended 30 September 2018 (Unaudited) HK$'000	2017 (Unaudited) HK$'000
Total comprehensive income for the period attributable to			
Owners of the Company		**(26,431)**	18,824
Non-controlling interests		**383**	(1,508)
		(26,048)	17,316
		(Unaudited) *HK cents*	(Unaudited) *HK cents*
Earnings per share for the period attributable to owners of the Company	*12*		
— Basic		**1.10**	0.74
— Diluted		**0.92**	0.63

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. GENERAL INFORMATION

The Company is a limited liability company incorporated in Bermuda whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The address of its principal place of business is Suites 2206–08, 22/F, Devon House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong.

This unaudited condensed consolidated interim financial information of the Group (the "**Interim Financial Information**") was approved for issue by the Board on 29 November 2018.

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 2018 (the "**2018 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 2018 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. Of these, the following are relevant for the preparation of this Interim Financial Information:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers

(A) HKFRS 9 — Financial Instruments

HKFRS 9 replaces HKAS 39 Financial Instruments: Recognition and Measurement. It introduces new requirements on classification and measurement of financial instruments, a new expected credit loss ("**ECL**") impairment model for financial assets and general hedge accounting. The Group has been impacted by HKFRS 9 in relation to classification and measurement of financial assets as well as impairment under ECL model.

The adoption of HKFRS 9 has resulted in changes of accounting policies. The Group has applied the transitional provisions in this standard to recognise the cumulative effects of its initial application as adjustments to the opening equity at 1 April 2018 and not to restate comparative information.

Classification and measurement of financial assets

The Group has assessed which business models apply to its financial assets on 1 April 2018. Based on the assessment, the following financial assets have been classified and measured in accordance with the appropriate categories under HKFRS 9, and all other financial assets continue to be measured on the same bases as were previously measured under HKAS 39. The effects on the Group's condensed consolidated financial position on 1 April 2018 are summarised below:

	Notes	As originally presented 31 March 2018 HK$'000	Effect of Adoption HKFRS 9 HK$'000	Restated 1 April 2018 HK$'000
Non-current assets (extract)				
Investments in convertible bonds	*(i)*	417,783	(417,783)	—
Financial assets at fair value through profit or loss	*(i)*	—	414,973	414,973
Available-for-sale investments	*(ii)*	59,047	(59,047)	—
Financial assets at fair value through other comprehensive income	*(ii)*	—	59,047	59,047
Current assets (extract)				
Available-for-sale investments	*(iii)*	1,875	(1,875)	—
Financial assets at fair value through profit or loss	*(iii)*	—	1,875	1,875
		478,705	(2,810)	475,895
Equity (extract)				
Retained earnings		297,225	21,229	318,454
Fair value through other comprehensive income reserve		—	(24,039)	(24,039)
		297,225	(2,810)	294,415

(i) Investments in convertible bonds were previously split into two components — debt component and equity component which were measured at amortised cost and at fair value through profit or loss ("**FVTPL**") respectively under HKAS 39. Under HKFRS 9, these investments are classified in its entirety as financial assets measured at FVTPL. The difference between the carrying amount of these investments and its fair value as at 1 April 2018 amounting to about HK$ 2.8 million is recognised in retained earnings. Subsequent changes in fair value of these investments are recognised in profit or loss.

(ii) Unlisted equity investments were previously classified as available-for-sale investments, which were measured at either fair value through other comprehensive income ("**FVTOCI**") or at cost less impairment under HKAS 39. Under HKFRS 9, these investments are all classified as financial assets measured at FVTOCI. The impairment loss in aggregate of about HK$24.0 million previously recognised in profit or loss is reclassified from retained earnings to fair value through other comprehensive income reserve ("**FVTOCI Reserve**") as at 1 April 2018. Subsequent changes in fair value of these investments are recognised in FVTOCI Reserve and the cumulative gains or losses on disposals are recognised in retained earnings.

(iii) Unlisted non-derivative short-term investments in a financial institution were previously classified as available-for-sale investments and measured at amortised cost under HKAS 39. Under HKFRS 9, these investments are classified as financial assets measured at FVTPL. Subsequent changes in fair value of these investments are recognised in profit or loss.

Impairment under ECL model

The new impairment requirements in HKFRS 9 are based on an ECL model, which replaces the HKAS 39 incurred loss model. Under the ECL model, it is no longer necessary for a credit loss event to occur before an impairment loss is recognised. The model applies to debt instruments (such as bank deposits, loans and trade receivables) recorded at amortised cost or at fair value through other comprehensive income, lease receivables and contract assets under HKFRS 15, loan commitments and financial guarantee contracts that are not measured at FVTPL.

The Group has assessed on a forward looking basis the ECL associated with its financial assets measured at amortised cost on 1 April 2018, and considered that the change to ECL model does not have a significant impact on the Group's financial statements.

(B) HKFRS 15 — Revenue from Contracts with Customers

HKFRS 15 supersedes HKAS 18 Revenue and HKAS 11 Construction Contracts. It establishes a 5-step approach to revenue recognition. Under this approach, revenue is recognised when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

The adoption of HKFRS 15 has resulted in changes of accounting policies. The Group has applied the modified retrospective approach only to contracts not completed at the date of its initial application on 1 April 2018 and not to restate comparative information.

The directors of the Company have assessed its performance obligations of its manufacture and sales of pharmaceutical products pursuant to HKFRS 15 and have concluded that there are no material impact on the Group's revenue recognition as there are no significant differences on the timing and amounts of revenue recognised for these revenue streams. The key impact on adoption of this new standard is the presentation of the outstanding balance of advances from customers as contract liabilities, which amounted to about HK$6.2 million as at 1 April 2018 and was included in "Accruals and other payables". To reflect this change in presentation, the Group changed the name of this line item to "Accruals, other payables and contract liabilities" in the consolidated statement of financial position.

3. DISCLAIMER OF OPINION — 2018 AUDITED FINANCIAL STATEMENTS

In the 2018 Audited Financial Statements, a disclaimer of opinion was expressed in the Independent Auditor's Report in relation to the carrying amount of the Group's interest in an associate, Smart Ascent Limited ("**Smart Ascent**" together with its subsidiaries, "**Smart Ascent Group**"), which is now extracted as below:

"In its consolidated financial statements, the Group applied equity method of accounting to account for its interest in the associate and shared the associate's net assets as its interests therein. As disclosed in note 21 to the Group's consolidated financial statements, the major asset held by the associate was an intangible asset in relation to an in-process research and development project ("**In-process R&D**") involving an oral insulin product ("**Product**"). For the purpose of assessing that the carrying amount of the intangible asset is not higher than its recoverable amount, the

Company's directors estimated the fair value of the intangible asset in relation to the In-process R&D using income approach, which involved the preparation of a cash flow projection ("**Cash Flow Projection**") using significant management assumptions and judgement.

During the course of our audit for the current year, we had not been provided by the Company's directors and other parties as appropriate with the information which we considered sufficient to satisfy ourselves as to the basis for which the Cash Flow Projection was prepared and the related data to which specific assumptions were applied; including the timing of the amounts of cash flow, the estimation of which related to the completion of the necessary clinical trials, the obtaining of the relevant regulatory approvals and launching of the Product. There were no alternative audit procedures which we could adopt to satisfy ourselves as to this matter. Accordingly we were not able to satisfy ourselves as to whether the Group's share of net assets of Smart Ascent Limited and therefore its interest in associate of HK$330,970,000 as at 31 March 2018 (2017: HK$330,969,000) was fairly stated and whether its share of results of associate for the year then ended would have any adjustment. Any impairment loss to the intangible asset would reduce the Group's interest in the associate and the Group's net assets as at 31 March 2018 and adversely affect the Group's financial performance for the year then ended, and the related information of the disclosures thereof in the consolidated financial statements may be subject to amendments."

A supplemental announcement was made by the Company on 15 August 2018 to provide further information in relation to (i) management and audit committee's position on the disclaimer of opinion; (ii) the adjustment of expected timeline for the commercialisation of the Product; (iii) the Company's participation in the progress of the launch of the Product; and (iv) the latest status of the Product.

In the meantime, the Group has kept coordinating with management of Innovative Pharmaceutical Biotech Limited and Smart Ascent Group with a view to facilitating the progress of the In-process R&D. The Group noted that, in end October 2018, Fosse Bio-Engineering Development Limited ("**Fosse Bio**", one of the members of the Smart Ascent Group) had finalised the engagement of the contract research organisation ("**CRO**") and entered into a technical service agreement with the CRO to conduct clinical research of the Product, and the Smart Ascent Group is taking steps to progress the clinical trial. And a supplemental agreement was entered into between Tsinghua University and Fosse Bio to renew the term of the collaboration arrangement for another five years to October 2023, under which Fosse Bio continues to be entitled to commercialise the relevant technologies of the Product and to manufacture and sell the Product on an exclusive basis.

The management of the Company and the Audit Committee, having considered the progress of the In-process R&D, the prevailing market conditions and reasonableness of assumptions used for the cash flow projection, do not identify any indication on the carrying amount of interest in the associate as at 30 September 2018 that may need to be impaired. Accordingly, no impairment is considered necessary as at 30 September 2018.

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 allowance for bad and doubtful debts is as follows:

	At 30 September 2018 (Unaudited) ***HK$'000***	At 31 March 2018 (Audited) *HK$'000*
Within 90 days	**9,967**	10,410
91–180 days	**6,042**	5,133
181–365 days	**6,854**	5,533
	22,863	21,076

5. TRADE AND BILLS PAYABLES

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

	At 30 September 2018 (Unaudited) ***HK$'000***	At 31 March 2018 (Audited) *HK$'000*
Within 90 days	**4,462**	4,714
91–180 days	**346**	1,186
181–365 days	**35**	96
1–2 years	**308**	371
Over 2 years	**499**	549
	5,650	6,916

6. REVENUE AND SEGMENT INFORMATION

The Group's revenue comprises the following:

	For the six months ended 30 September	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Manufacturing of pharmaceutical products	**37,241**	23,613
Trading of pharmaceutical products	**7,806**	23,792
	45,047	47,405

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 2018:

	Unaudited — For the six months ended 30 September							
	Manufacturing		**Trading**		**Gene Development**		**Total**	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue								
Sales to external customers	**37,241**	23,613	**7,806**	23,792	**—**	—	**45,047**	47,405
Segment results	**417**	(6,310)	**(3,268)**	(902)	**(37)**	(36)	**(2,888)**	(7,248)
Unallocated other income							**17,064**	43,805
Unallocated other gains and losses, net							**20,833**	(13,562)
Corporate expenses							**(4,290)**	(3,633)
Effective interest expense on convertible bonds							**(3,756)**	(3,163)
Share of results of an associate							**(142)**	75
Profit before taxation							**26,821**	16,274
Taxation							**(253)**	(61)
Profit for the period							**26,568**	16,213

7. OTHER INCOME

	For the six months ended 30 September	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest income	**1,253**	918
Government grants	**46**	32
Effective interest income from investments in convertible bonds	**—**	40,395
Interest income from financial assets at FVTPL — investments in convertible bonds	**12,547**	—
Imputed interest income from amount due from an associate	**3,213**	2,460
Interest income from loan to an associate	**5**	—
	17,064	43,805

8. OTHER GAINS AND LOSSES, NET

	For the six months ended 30 September	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Gain on disposal of property, plant and equipment	**3**	—
Impairment on deposits, prepayments and other receivables	**(33)**	—
Allowance for bad and doubtful debts, net	**(77)**	(3,248)
Change in fair value loss of derivative component of investments in convertible bonds	**—**	(13,562)
Change in fair value on financial assets at FVTPL — investments in convertible bonds	**20,833**	—
Change in fair value on financial assets at FVTPL — short term investments	**33**	—
	20,759	(16,810)

9. PROFIT BEFORE TAXATION

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

	For the six months ended 30 September	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Amortisation of prepaid lease payments	**116**	114
Depreciation of investment properties	**29**	30
Depreciation of property, plant and equipment	**3,160**	3,091
Cost of inventories recognised as expenses	**20,300**	25,069
Operating lease charges in respect of land and buildings	**913**	913
Staff cost (including directors' emoluments)		
Salaries, bonus and allowances	**10,024**	11,132
Retirement benefits scheme contributions	**1,393**	1,197

10. TAXATION

	For the six months ended 30 September	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current tax:		
Hong Kong	**29**	36
Other jurisdictions	**224**	25
Taxation	**253**	61

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 People's Republic of China (the "**PRC**" or "**China**") on Enterprise Income Tax (the "**EIT**") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

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

11. INTERIM DIVIDENDS

The directors do not recommend the payment of an interim dividend in respect of the six months ended 30 September 2018 (six months ended 30 September 2017: 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$26,404,000 (2017: HK$17,726,000) and 2,390,000,000 ordinary shares in issue.

The calculation of the diluted earnings per share is based on adjusted profit of HK$30,160,000 for effective interest expense on convertible bonds of HK$3,756,000 (but no adjustment required for the corresponding period where there is anti-dilutive effect) 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 global economy remained volatile though maintaining the momentum of recovery at a steady rate. In the face of the threat of escalating trade dispute between China and the US, the Chinese economy posted its weak pace of growth at 6.5% in the third quarter, slower than that of 6.7% in the second quarter of this year. China's pharmaceutical industry has witnessed relatively stable growth as driven by multiple factors including rising aging population and raising medical demand and the Chinese government's continuous commitment to improve the wellbeing of its citizens through ongoing healthcare reforms. This year marks a further dimension to the pace of reforms as a result of the reorganisation of the drug regulator, the China Food and Drug Administration has been merged into a new regulatory structure, renamed as National Medical Products Administration and under direct supervision of State Administration for Market Regulation set up in April 2018. The change has signaled the government's efforts to speed up the reforms with tightened market surveillance in order to address the mounting concerns of drug safety and enhance market development. The pharmaceutical industry in China is presently experiencing a new wave of competing challenges with regards to more stringent drug quality regulatory requirements and an improving market accessibility for multinationals with innovative drugs, and elimination of multi-layers of distribution intermediaries.

During the six months period ended 30 September 2018 (the "**2018 Interim Period**"), the Group's revenue and gross profit were about HK$45.0 million and HK$24.7 million respectively, representing a slightly decrease in revenue of about HK$2.4 million or 5.0% and an improvement in gross profit of about HK$2.4 million or 10.8% when compared to about HK$47.4 million and HK$22.3 million as reported in the six months period ended 30 September 2017 (the "**2017 Interim Period**"). This was achieved as a result of continuous improvement in performance of the Group's manufacturing segment on maintaining a strong momentum of revenue growth and margin improvement, which offset the negative impact of imported segment operating under a difficult market condition with a significant decline in revenue and gross profit contribution.

The Group's administrative, selling and distribution expenses in aggregate increased to about HK$31.9 million in the 2018 Interim Period, representing an increase by about HK$1.9 million or 6.3% when compared to about HK$30.0 million in the 2017 Interim Period. The increase primarily reflected the increase in revenue of the manufacturing segment and its related marketing and promotion expenses.

In addition to the improved performance in the manufacturing segment, the non-cash items in relation to a decrease in impairment provision in trade receivables of about HK$3.2 million as well as a net gain of about HK$6.5 million arising from the fair value change of and interest income from the Group's investments in convertible bonds also contributed to the profit attributable to owners of the Company to about HK$26.4 million in the 2018 Interim Period, representing an increase of about HK$8.7 million when compared to the profit of about HK$17.7 million in the 2017 Interim Period.

Revenue and Operating Results

Manufactured Pharmaceutical Sector

In the period under review, the segment had been making encouraging progress in the context of a highly competitive environment. Driven by management dedication to continue working on the strategic initiatives as stated in the 2018 Annual Report; which included adjusting distribution channels, expanding market coverage through collaboration with distributors and outsourcing service providers to promote product awareness in rural areas and communities, segment revenue increased to about HK$37.2 million in the 2018 Interim Period, representing an increase of about HK$13.6 million or 57.7% when compared to revenue of about HK$23.6 million in the 2017 Interim Period. Although rising labour and material costs created pressure on the gross margin, the strong growth in revenue was more than offset this unfavorable impact. As a result, gross margin improved by about 18% when compared to the 2017 Interim Period.

The concerted efforts made by the management to return to profitability were paying off. Segment results successfully achieved a turnaround from operating loss of about HK$6.3 million in the 2017 Interim Period to a small profit of about HK$0.4 million in the 2018 Interim Period. Such turnaround was mainly attributable to the increase in gross profit of about HK$11.8 million as well as a reduction in allowance for bad and doubtful debts of about HK$3.2 million, which outweighed the increase in selling and marketing expenses of about HK$8.2 million.

As the competitive dynamics rise to a new level, management will adapt to the tough environment by continuous improvement in operating efficiency and enhancing products quality, to achieve sustainable performance. At the same time, management will continue to make vigorous efforts in gaining market share through collaboration with distributors with extensive network in order to drive revenue growth and profitability in the second half of the financial year.

Imported Pharmaceutical Sector

Such unfavourable factors, including the intensified competition from competing products of local manufacturers and the increasing regulatory scrutiny on imported products, in particular, the pending clearance of backlog of approval process for the renewal of import licence for the central nervous product that expired in October 2017 and outcome of overseas on-site inspection for the skin treatment product, which were stated in the 2018 Annual Report have extended into the 2018 Interim Period and further impacted the performance of the imported segment. Segment revenue plummeted as a result of decrease in sales of skin treatment drugs both in terms of volume and value to HK$7.8 million in the 2018 Interim Period, representing a decrease of about HK$16.0 million or 67.2% when compared to revenue of about HK$23.8 million in the 2017 Interim Period. Although there was a corresponding reduction of operating expenses by about HK$7.2 million, the loss in gross profit caused to segment loss of about HK$3.3 million in the 2018 Interim Period, representing an increase of about HK$2.4 million when compared to loss of about HK$0.9 million in the 2017 Interim Period.

Management notes that the imported pharmaceutical sector in the PRC is going through a significant period of changes as fueled by the ongoing healthcare reforms and intensifying competitive landscape by competing products of local manufacturers. Given that such difficult market situation will continue to impact the performance of the Group's imported segment in the coming year, the Group has been working closely with its business partners in order to resolve the regulatory issues to mitigate the impact on the Group's imported products in the long term, and would exert efforts to explore other potential product opportunities.

Gene Development Sector

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

Other Income and Gains and Losses, Net

Other income and gains and losses, net were in total an increase of about HK$10.8 million, which mainly came from the non-cash items resulted from a decrease in impairment provision in trade receivables of about HK$3.2 million as well as a net gain of about HK$6.5 million arising from the fair value change of and interest income from the Group's investments in convertible bonds.

Selling and Distribution Expenses

Selling and distribution expenses slightly increased by about HK$1.5 million to HK$18.2 million as compared to HK$16.7 million in the 2017 Interim Period as a result of competitive market environment.

Administrative Expenses

Administrative expenses slightly increased by about HK$0.4 million or 3.1% from HK$13.2 million in the 2017 Interim Period to about HK$13.6 million in the 2018 Interim Period. Such increase was primarily due to foreign exchange recognised in the periods.

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 2018, the Group had total cash and bank balances (including pledged bank deposits of HK$20.7 million) of HK$191.6 million (31 March 2018: HK$182.3 million), representing an increase by approximately HK$9.3 million or 5.1%. Such increase was mainly due to a negative operating cash of working capital of about HK$10.3 million, provision of a shareholder's loan of about HK$4.9 million to Smart Ascent and the receipt of HK$25.0 million interest income from investments in convertible bonds.

The Group did not have bank borrowings as at 30 September 2018 (31 March 2018: HK$ Nil) but had banking facilities on trade finance, which were supported by the pledge of the Group's fixed deposits of about HK$20.7 million (31 March 2018: HK$20.5 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 2018 was 0.055 (31 March 2018: 0.051), calculated based on the Group's total assets of HK$1,181.1 million (31 March 2018: HK$1,216.8 million) and total debts of about HK$65.4 million (31 March 2018: HK$61.6 million), comprising convertible bonds of HK$45.6 million (31 March 2018: HK$41.8 million) and amount due to an associate of HK$19.8 million (31 March 2018: HK$19.8 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.

Significant Investments

At 30 September 2018, the Group held a total of 80,000 participating shares in KKC Capital SPC, a segregated portfolio company incorporated in the Cayman Islands. At the date of initial application of HKFRS 9 on 1 April 2018, these investments were reclassified from available-for-sale investments to financial assets at fair value through other comprehensive income ("**FVTOCI**") and accordingly, the impairment loss of about HK$20,953,000 previously accumulated up to 31 March 2018 was transferred from retained earnings to FVTOCI reserve. Subsequent changes in fair value of these investments are recorded in the FVTOCI reserve, and when these investments are derecognised, the amounts accumulated in the FVTOCI reserve are not recycled to profit or loss. Information as to these investments as at 30 September 2018 is as follows:

Name of unlisted investment	Brief description of the business	Number of units held	Investment cost	Market value	FVTOCI reserve	Percentage to total assets value of the Group
			HK$'000	*HK$'000*	*HK$'000*	
KKC Capital High Growth Fund Segregated Portfolio	The investment objective is for long term capital appreciation by investing primarily in listed and unlisted shares, rights and warrants. The investment manager is KKC Capital Limited and its investment advisor is Avia Asset Management Limited, which is licensed by the Securities and Futures Commission of Hong Kong to carry on Type 4 (advising on securities) and Type 9 (asset management) regulated activities	80,000	80,000	17,080	62,920	1.45%

Outlook

Looking ahead, the increasing concerns over creeping rise of US-China trade war and rising US interest rates, will present added uncertainties on the growth of the global economy and the PRC economy. Although China is facing tremendous challenges in its economic development, the trend for the pharmaceutical industry to grow is expected to remain unaltered under the healthcare reforms and the goal of "Healthy China 2030". However, the PRC government's increased emphasis on regulatory compliance and more intense competition among pharmaceutical enterprises along with adjustments in drugs prices reshape the competitive landscape and accelerate consolidation within the pharmaceutical industry.

In these recent years, the Group has been placing more focus on enhancing the production efficiency and strengthening cost savings measures to reinforce the fundamentals for development of the manufacturing segment which has demonstrated positive progress. Although the Group's trading segment remains substantially impacted by difficult market conditions, the performance of the Group's manufacturing segment has been improving continuously, as such the weakening performance of the trading segment would not cause material adverse impact to the Group. Whilst the operating environment in the second half of the financial year will continue to be highly challenging to the Group, the Group will remain resilient to adjust its strategies in response to the market challenges.

Further still, the Group will exert efforts to improve the Group's business operations and will seek potential opportunities with the aim of diversifying its revenue stream for the long-term development of the Group.

EMPLOYMENT AND REMUNERATION POLICY

As at 30 September 2018, the Group had 179 employees (30 September 2017: 177). Staff costs (including directors' emoluments) for the six months ended 30 September 2018 amounted to approximately HK$11.4 million (six months ended 30 September 2017: approximately HK$12.3 million). The decrease was mainly due to cost savings on reshuffling of distribution channels through distributors other than direct sales work forces 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 2018, no share option has been granted under the Scheme.

CORPORATE GOVERNANCE

The Group recognises the importance of achieving and monitoring the high standard of corporate governance consistent with the need and requirements of its business and the best interest of all its shareholders. The Group is fully committed to doing so.

In the opinion of the directors, the Company has complied with the code provisions of the Corporate Governance Code and Corporate Governance Report ("**Code Provisions**") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 September 2018, 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), and (v) 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 24 August 2018 due to other important engagement. Dr. Lou Yi, 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 (iv) and considered reasons in relation thereof have been duly set out in the corporate governance report contained in the 2018 annual report of the Company published in July 2018.

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 2018, 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 2018, and was content that the accounting principles and practices adopted by the Group were in conformity with the current practices in Hong Kong.

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

The results announcement is published on the Stock Exchange's website (www.hkexnews.hk) and the Company's website (www.extrawell.com.hk). The interim report will be despatched to the shareholders of the Company and available on the above websites in due course.

By Order of the Board
Extrawell Pharmaceutical Holdings Limited
Xie Yi
Chairman

Hong Kong, 29 November 2018

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

* *For identification purpose only*