EXTRAWELL PHARMACEUTICAL HOLDINGS LIMITED
精優藥業控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00858)

ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2020

The board of directors (the "**Board**") of Extrawell Pharmaceutical Holdings Limited (the "**Company**") hereby announces the audited consolidated results of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 March 2020 together with the comparative figures as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2020

	Notes	2020 HK$'000	2019 HK$'000
Revenue	3	**77,584**	89,218
Cost of sales		**(34,668)**	(39,618)
Gross profit		**42,916**	49,600
Other income	4	**12,932**	10,214
Other gains and losses, net	5	**93,153**	78,863
Selling and distribution expenses		**(24,552)**	(40,170)
Administrative expenses		**(26,445)**	(26,402)
Share of results of an associate		**(3,165)**	(908)
Finance costs		**(9,348)**	(7,823)
Profit before income tax	6	**85,491**	63,374
Income tax credit/(expense)	7	**90**	(50)
Profit for the year		**85,581**	63,324

	Notes	**2020**	2019
		HK$'000	*HK$'000*
Other comprehensive expense			
Item that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		**(7,304)**	(6,881)
Item that will not be reclassified subsequently to profit or loss			
Change in fair value on financial assets through other comprehensive income		**—**	(59,047)
Other comprehensive expense for the year		**(7,304)**	(65,928)
Total comprehensive income/(expense) for the year		**78,277**	(2,604)
Profit/(Loss) for the year attributable to:			
Owners of the Company		**83,280**	64,030
Non-controlling interests		**2,301**	(706)
		85,581	63,324
Total comprehensive income/(expense) for the year attributable to:			
Owners of the Company		**75,843**	(2,042)
Non-controlling interests		**2,434**	(562)
		78,277	(2,604)
		HK cents	HK cents
Earnings per share for profit attributable to owners of the Company:	*8*		
— Basic		**3.48**	2.68
— Diluted		**2.81**	2.18

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 MARCH 2020

	Notes	**2020** **HK$'000**	2019 HK$'000
NON-CURRENT ASSETS			
Investment properties		**1,319**	1,378
Property, plant and equipment		**126,070**	140,740
Prepaid lease payments		**—**	9,236
Right-of-use assets		**14,005**	—
Intangible assets		**1,807**	1,807
Financial assets at fair value through profit or loss		**571,065**	469,737
Financial assets at fair value through other comprehensive income		**—**	—
Interest in an associate		**326,897**	330,062
Amount due from an associate		**—**	29,388
Loan to an associate		**15,383**	5,027
Deferred tax assets		**69**	69
		1,056,615	987,444
CURRENT ASSETS			
Inventories		**5,865**	5,824
Trade and bills receivables	*10*	**10,484**	20,047
Deposits, prepayments and other receivables		**4,787**	11,106
Amount due from an associate		**38,377**	—
Financial assets at fair value through profit or loss		**1,652**	1,769
Pledged bank deposits		**21,493**	20,994
Cash and bank balances		**126,437**	148,902
		209,095	208,642
CURRENT LIABILITIES			
Trade and bills payables	*11*	**6,239**	8,125
Accruals, other payables and contract liabilities		**36,052**	56,201
Lease liabilities		**1,692**	—
Deferred income on government grants		**117**	125
Tax payable		**14,232**	15,287
		58,332	79,738
NET CURRENT ASSETS		**150,763**	128,904
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,207,378**	1,116,348

	Notes	**2020** ***HK$'000***	2019 *HK$'000*
NON-CURRENT LIABILITIES			
Convertible bonds		**58,950**	49,635
Lease liabilities		**3,894**	—
Deferred income on government grants		**4,686**	5,142
		67,530	54,777
NET ASSETS		**1,139,848**	1,061,571
EQUITY			
Share capital		**23,900**	23,900
Reserves		**1,118,595**	1,042,752
Equity attributable to owners of the Company		**1,142,495**	1,066,652
Non-controlling interests		**(2,647)**	(5,081)
TOTAL EQUITY		**1,139,848**	1,061,571

Notes:

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.

The Company is an investment holding company (together with the subsidiaries referred as the "Group"). The principal activities of its subsidiaries and an associate are set out in notes to the consolidated financial statements to be included in annual report.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) Adoption of new/revised HKFRSs — effective 1 April 2019

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of new or amended HKFRSs that are first effective for the current accounting period of the Group:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

Except as described below, the application of the new/revised HKFRSs and amendment to HKFRSs in the current year has had no material impact on the Group's accounting policies.

HKFRS 16 — Leases

The impact of the adoption of HKFRS 16 "Leases" has been summarised below. The other new or amended HKFRSs that are effective from 1 April 2019 did not have any significant impact on the Group's accounting policies.

(i) *Impact of the adoption of HKFRS 16*

HKFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces HKAS 17 "Leases" ("HKAS 17"), HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease", HK(SIC)-Int 15 "Operating Leases — Incentives" and HK(SIC)-Int 27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". From a lessee's perspective, almost all leases are recognised in the statement of financial position as a right-of-use assets and a lease liability, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor's perspective, the accounting treatment is substantially unchanged from HKAS 17. For details of HKFRS 16 regarding its new definition of a lease, its impact on the Group's accounting policies and the transition method adopted by the Group as allowed under HKFRS 16, please refer to section (ii) to (iv) of this note.

The Group has applied HKFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying HKFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application. The comparative information presented in 2019 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The following table summarises the impact of transition to HKFRS 16 on consolidated statement of financial position as of 31 March 2019 to that of 1 April 2019 as follows (increase/(decrease)):

	HK$'000
Consolidated statement of financial position as at 1 April 2019	
Right-of-use assets	9,236
Prepaid lease payments	(9,236)

The following reconciliation explains how the operating lease commitments disclosed applying HKAS 17 as at 31 March 2019 could be reconciled to the lease liabilities at the date of initial application recognised in the consolidated statement of financial position as at 1 April 2019:

	HK$'000
Reconciliation of operating lease commitment to lease liabilities	
Operating lease commitment as of 31 March 2019	1,601
Less: short-term leases for which lease terms end within 31 March 2020	(1,601)
Total lease liabilities as of 1 April 2019	—

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the consolidated statement of financial position as at 1 April 2019 is 4.54%.

(ii) *The new definition of a lease*

Under HKFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative standalone price of the lease component and the aggregate stand-alone price of the non-lease components, unless the lessee applies the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

The Group has elected not to separate non-lease components and accounted for all each lease component and any associated non-lease components as a single lease component for all leases.

(iii) *Accounting as a lessee*

Under HKAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the statement of financial position of the lessee.

Under HKFRS 16, all leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but HKFRS 16 provides accounting policy choices for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

The Group recognised a right-of-use asset and a lease liability at the commencement date of a lease.

<u>Right-of-use asset</u>

The right-of-use asset is recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee; and (iv) an estimate of costs to be incurred by the Group in dismantling and removing the underlying asset, restoring the site on which the underlying asset is located or restoring the underlying asset to the condition required by the terms and conditions of the lease. Except for right-of-use asset that meets the definition of an investment property or a class of property, plant and equipment to which the Group applies the revaluation model, the Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-of-use assets at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability. For right-of-use asset that meets the definition of an investment property, they are carried at fair value and for right-of-use asset that meets the definition of a leasehold land and buildings held for own use, they are carried at cost.

Leasehold land and buildings that were held for rental or capital appreciation purpose would continue to be accounted for under HKAS 40 and would be carried at fair value. For leasehold land and buildings which is held for own use would continue to be accounted for under HKAS 16 and would be carried at cost. The adoption of HKFRS 16 therefore does not have any significant impact on these right-of-use assets. Other than the above right-of-use assets, the Group also has leased a property under tenancy agreement which the Group exercises its judgement and determines that is the building leased for own use carried at cost. As a result, the right-of-use assets arising from the property under tenancy agreement are carried at depreciated cost.

<u>Lease liability</u>

The lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the Group's incremental borrowing rate.

The following payments for the right of use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

(iv) *Transition*

As mentioned above, the Group has applied HKFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying HKFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application (1 April 2019). The comparative information presented in 2019 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The Group has recognised the lease liabilities at the date of 1 April 2019 for leases previously classified as operating leases applying HKAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 April 2019.

The Group has elected to recognise all the right-of-use assets at 1 April 2019 for leases previously classified operating leases under HKAS 17 as if HKFRS 16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application. For all these right-of-use assets, the Group has applied HKAS 36 "Impairment of Assets" at 1 April 2019 to assess if there was any impairment as on that date.

The Group has also applied the following practical expedients: (i) applied a single discount rate to a portfolio of leases with reasonably similar characteristics; (ii) applied the exemption of not to recognise right-of-use assets and lease liabilities for leases with term that will end within 12 months of the date of initial application (1 April 2019) and accounted for those leases as short-term leases; (iii) exclude the initial direct costs from the measurement of the right-of-use asset at 1 April 2019; and (iv) used hindsight in determining the lease terms if the contracts contain options to extend or terminate the leases.

In addition, the Group has also applied the practical expedients such that: (i) HKFRS 16 is applied to all of the Group's lease contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease"; and (ii) not to apply HKFRS 16 to contracts that were not previously identified as containing a lease under HKAS 17 and HK(IFRIC)-Int4.

(b) New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's consolidated financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

Amendments to HKFRS 3	Definition of a Business[1]
Amendments to HKAS 1 and HKAS 8	Definition of Material[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[1]
HKFRS 17	Insurance Contracts[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKFRS 16	COVID-19 — Related Rent Concessions[4]

1. Effective for annual periods beginning on or after 1 January 2020.
2. Effective for annual periods beginning on or after 1 January 2021.
3. The amendments were originally intended to be effective for periods beginning on or after 1 April 2018. The effective date has now been deferred/removed. Early application of the amendments continues to be permitted.
4. Effective for annual periods beginning on or after 1 June 2020.

3. REVENUE AND SEGMENT INFORMATION

Revenue for the year represents the fair value of amounts received and receivable for goods sold to external customers, less discounts and sales-related taxes for the year, and is analysed as follows:

	2020	2019
	HK$'000	*HK$'000*
Manufacturing of pharmaceutical products	**77,584**	75,821
Trading of pharmaceutical products	**—**	13,397
	77,584	89,218

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors that makes strategic decisions.

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"); and

(c) the gene development segment engages in the commercial exploitation and development of genome-related technology ("Gene Development").

Segment revenue and results

The following is the Group's revenue and results from operation by reportable and operating segment.

	Manufacturing		**Trading**		**Gene Development**		**Total**	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue								
Sales to external customers	**77,584**	75,821	**—**	13,397	**—**	—	**77,584**	89,218
Segment results	**6,453**	(3,633)	**(14,919)**	(6,624)	**(86)**	(85)	**(8,552)**	(10,342)
Unallocated other income							**12,932**	10,214
Unallocated other gains and losses, net							**101,328**	79,789
Corporate expenses							**(7,737)**	(7,556)
Effective interest expense on convertible bonds							**(9,315)**	(7,823)
Share of results of an associate							**(3,165)**	(908)
Profit before income tax							**85,491**	63,374
Income tax credit/(expense)							**90**	(50)
Profit for the year							**85,581**	63,324

Segment profit/(loss) represents the profit earned by/(loss from) each segment without allocation of interest income, other gains and losses, net, corporate expenses, share of results of an associate and effective interest expense on convertible bonds. This is the measure reported to the chief operating decision maker, being the board of directors, for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

The following is the Group's assets and liabilities by reportable and operating segment.

	Manufacturing		Trading		Gene Development		Total	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets								
Segment assets	**163,379**	184,818	**71,677**	86,162	**7**	6	**235,063**	270,986
Financial assets at fair value through profit or loss — investments in convertible bonds							**571,065**	469,737
Interest in an associate							**326,897**	330,062
Corporate and other assets							**132,685**	125,301
Total assets							**1,265,710**	1,196,086
Segment liabilities								
Segment liabilities	**54,109**	75,390	**11,666**	8,293	**72**	64	**65,847**	83,747
Convertible bonds							**58,950**	49,635
Corporate and other liabilities							**1,065**	1,133
Total liabilities							**125,862**	134,515

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than financial assets at fair value through profit or loss — investments in convertible bonds, interest in an associate and corporate and other assets; and

- all liabilities are allocated to operating segments other than convertible bonds and corporate and other liabilities

Other segment information

	Manufacturing		Trading		Gene Development		Total	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Amounts included in the measure of segment profit or loss:								
Depreciation and amortisation	**5,910**	6,312	**320**	86	**—**	—	**6,230**	6,398
Unallocated depreciation and amortisation							**131**	132
							6,361	6,530
Provision for impairment loss on trade receivables, net	**1,567**	255	**4,354**	—	**—**	—	**5,921**	255
Bad debts recovered from trade receivables previously written off	**(2,127)**	—	**—**	—	**—**	—	**(2,127)**	—
(Gain)/Loss on disposal of property, plant and equipment	**(85)**	734	**—**	—	**—**	—	**(85)**	734
Provision for/(Reversal of) impairment loss on other receivables	**2,921**	(2)	**1,596**	—	**—**	—	**4,517**	(2)
Provision for/(Reversal of) impairment loss on inventories, net	**253**	(44)	**—**	—	**—**	—	**253**	(44)

4. OTHER INCOME

	2020	2019
	HK$'000	*HK$'000*
Bank interest income	**3,264**	2,947
Sundry income	**2**	—
Government grants	**121**	257
Imputed interest income from amount due from an associate	**8,989**	6,883
Loan interest income from an associate	**556**	127
	12,932	10,214

5. OTHER GAINS AND LOSSES, NET

	2020	2019
	HK$'000	*HK$'000*
Gain/(Loss) on disposal of property, plant and equipment	**85**	(734)
Change in fair value on financial assets at fair value through profit or loss — investments in convertible bonds	**101,328**	79,789
Change in fair value on financial assets at fair value through profit or loss — short term investment	**51**	61
(Provision for)/Reversal of impairment loss on other receivables	**(4,517)**	2
Provision for impairment loss on trade receivables, net	**(5,921)**	(255)
Bad debts recovered from trade receivables previously written off	**2,127**	—
	93,153	78,863

6. PROFIT BEFORE INCOME TAX

	2020	2019
	HK$'000	*HK$'000*
Profit before income tax is arrived at after charging/(crediting):		
Auditor's remuneration	**730**	700
Amortisation of prepaid lease payments	**—**	234
Depreciation of right-of-use assets	**467**	—
Depreciation of investment properties	**59**	59
Depreciation of property, plant and equipment	**5,835**	6,237
Cost of inventories recognised as expenses	**34,668**	39,618
Operating lease charges in respect of land and buildings	**1,601**	1,826
Provision for/(Reversal of) impairment loss on inventories, net	**253**	(44)
Staff costs (including directors' emoluments)		
Salaries, bonus and allowances	**20,395**	21,038
Retirement benefits scheme contributions	**2,056**	2,705

7. INCOME TAX

The amount of income tax (credit)/expense in the consolidated statement of profit or loss and other comprehensive income represents:

	2020	2019
	HK$'000	*HK$'000*
Current tax		
— Hong Kong	**—**	12
— PRC Enterprise Income Tax	**—**	—
— Other jurisdictions	**—**	40
	—	52
Overprovision in prior years		
— Hong Kong	**(50)**	—
— Other jurisdictions	**(40)**	(2)
	(90)	(2)
Income tax (credit)/expense	**(90)**	50

Under the two-tiered profits tax rates regime, the first HK$2 million of assessable profits of a qualifying corporation will be taxed at 8.25%, and assessable profits above HK$2 million will continue to be taxed at 16.5%. For the years ended 31 March 2020 and 2019, Hong Kong Profits Tax of the qualified entity of the Group company is calculated in accordance with the two-tiered profits tax rates regime.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% (2019: 25%).

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

8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	2020	2019
	HK$'000	*HK$'000*
Earnings		
Earnings for the purpose of basic earnings per share (Profit for the year attributable to owners of the Company)	**83,280**	64,030
Effect of potential ordinary shares:		
Interest on convertible bonds	**9,315**	7,823
Earnings for the purpose of diluted earnings per share	**92,595**	71,853

	2020	2019
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,390,000**	2,390,000
Effect of potential ordinary shares:		
Convertible bonds	**900,000**	900,000
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**3,290,000**	3,290,000

9. DIVIDENDS

No dividend was paid or declared by the board of directors during the year ended 31 March 2020 (2019: nil), nor has any dividend been proposed since the end of reporting period.

10. TRADE AND BILLS RECEIVABLES

	2020	2019
	HK$'000	*HK$'000*
Bills receivables	**827**	1,490
Trade receivables	**53,063**	58,722
Less: Provision for impairment loss on trade receivables	**(43,406)**	(40,165)
	10,484	20,047

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 ageing analysis of trade and bills receivables (net of provision of impairment loss on trade receivables), based on invoice dates are as follows:

	2020	2019
	HK$'000	*HK$'000*
Within 90 days	**3,707**	10,932
91 to 180 days	**4,238**	5,170
181 to 365 days	**2,539**	3,945
	10,484	20,047

11. TRADE AND BILLS PAYABLES

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

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

	2020	2019
	HK$'000	*HK$'000*
Within 90 days	**3,255**	3,202
91 to 180 days	**981**	4,186
181 to 365 days	**3**	44
1 to 2 years	**1,517**	176
Over 2 years	**483**	517
	6,239	8,125

EXTRACT FROM INDEPENDENT AUDITOR'S REPORT

The auditor will issue a qualified report in the independent auditor's report on the consolidated financial statements of the Group for the year ended 31 March 2020. The details of which are extracted as follows:

"Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Qualified Opinion

Prior year's audit scope limitation affecting opening balance of comparative figures for the Group's interest in an associate

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

As the 2019 Financial Statements formed the basis for the comparative figures presented in the current year's consolidated financial statements, any adjustments found to be necessary in respect of the opening balance (i.e. 1 April 2018) on the Group's interest in an associate would have a significant effect on the results of the year ended 31 March 2019 and the related disclosures thereof for the comparative figures for the year ended 31 March 2020."

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Overall Performance Review

Global economy showed subdued growth momentum throughout 2019, which was marked by the heightened uncertainty of global political and economic environment, largely due to protracted and escalating US-China trade disputes. Global economic growth dropped to its decade low to 2.9% in 2019 according to the International Monetary Fund, while China's economy continued performing within a reasonable range, albeit slower, maintained a stable growth of 6.1% in 2019. Nevertheless, overshadowed by the outbreak of COVID-19 pandemic in early 2020, the world was put to an almost standstill and China's economy was impacted when large scale lockdowns of cities and quarantines were implemented by the government in order to contain the spread of the pandemic. As a result, China had experienced its first contraction in economic growth since 1992, shrinking 6.8% in the first quarter of 2020. Although China faced tremendous downward pressures of economic growth, the pharmaceutical industry maintained its growth momentum underpinned by growing market demands and increasing government's investments in the industry toward high-quality and innovation driven development under the directives of the Thirteenth Five-Year Plan (2016–2020) and Healthy China 2030 Plan. Following last year's major institutional reform to streamline the drug regulatory administration framework, the Chinese government had stepped up the reform to amend the Drug Administration Law, which came into effect on 1 December 2019, seeking to improve health legislation, reinforcing drug administration and intensifying penalties for non-compliance. The legislative reform as well as the continuous rollout of expanded scope of policies including the advancement of consistent quality and efficacy evaluation, adjustment of reimbursement drug list, issue of key monitored drug list, and extension of centralised drug procurement initiative to more cities and provinces have brought significant challenges to the pharmaceutical market and the Group.

The challenging economic conditions and the acceleration of regulatory changes have further intensified the competition in the industry on all fronts, which have placed immense pressure on the Group's performance, and largely due to negative impact of no revenue generated in the imported pharmaceutical trading segment, the Group's revenue and gross profit decreased to HK$77.6 million (2019: HK$89.2 million) and HK$42.9 million (2019: HK$49.6 million) respectively, representing a decrease of about 13.0% and 13.5% as compared with that of last financial year.

However, the operating results of the Group's manufacturing segment continued to improve and reported a segmental profit of about HK$6.5 million (2019: loss HK$3.6 million) which offset the increase in segmental loss mainly due to impairment provision made for trade and other receivables, of the trading segment. The Group's profit for the year was about HK$85.6 million (2019: HK$63.3 million), representing an increase of about HK$22.3 million or 35.1%. The increase in profit was primarily attributable to a non-cash item, resulted from an increase in a gain of about HK$21.5 million arising from the fair value change of the Group's investments in convertible bonds.

The Group's profit for the year attributable to owners of the Company was about HK$83.3 million, representing an increase of about HK$19.3 million when compared to profit of about HK$64.0 million of last financial year.

Revenue and Operating Results

Manufactured Pharmaceutical Sector

The pandemic outbreak in early 2020 had created tremendous pressures to manufacturing enterprises in China. The Group's plants in Changchun were temporarily closed after the Lunar New Year holidays until mid-February 2020 in response to the nationwide containment measures, and upon resumption of production, management had promptly implemented stricter health and hygiene measures to safeguard health and safety of the staff in the workplace while consolidating efforts to strengthen internal management and external material supply to avoid disruption to production, which helped mitigate the negative impact on the segment's performance.

The shifting market dynamics as driven by tightened regulatory controls and deepened healthcare reform policies had also exerted tremendous pressures to the segment. In face of rapidly changing and highly competitive market environment, aside from building on executing the successful strategic initiatives implemented last year to strengthen competitive position, secure market share and capture new growth opportunities, management had swiftly put in place more stringent measures focused on profitability by improving production efficiency and reducing operating costs. These combined efforts enabled the segment to maintain the trend of revenue growth and stable gross profit margin for the Group's major product lines, in particular, the product specialised in improving the immunity system of human body against diseases. As a result, segment revenue slightly increased to about HK$77.6 million (2019: HK$75.8 million) with gross profit margin maintained at similar level as last year.

During the year, segment results recorded a profit of about HK$6.5 million (2019: loss HK$3.6 million), representing a significant improvement by about HK$10.1 million, contributed by stable revenue and gross profit margin, together with management's efforts in promptly adjusting its marketing strategies and controlling those budgeted costs and expenses in response to market changes, which led to a write-back of provision for marketing and promotion expenses of about HK$3.7 million coupled with a further reduction in such overall selling and distribution expenses of about HK$7.5 million, whilst there was a recovery of bad debts of about HK$2.1 million to partly offset the increase in impairment provision for receivables of about HK$4.2 million made in accordance with the Group's accounting policies.

Imported Pharmaceutical Sector

The unfavorable factors as stated in the Group's Annual and Interim Reports published respectively in July and December 2019, including the backlog of approval process for the renewal of import license and the issues pertaining to temporary sales suspension of the Group's imported products, have continued adversely affecting the segment performance. As a consequence, no revenue was generated in the year under review, which resulted in the loss of revenue and gross profit contribution to about HK$13.4 million and HK$7.1 million respectively when compared to last year.

Although there was a corresponding reduction of selling and marketing expenses as well as operating expenses by about HK$4.5 million and HK$0.3 million respectively, the loss in gross profit contribution together with the increase in impairment provision for trade and other receivables of about HK$6.0 million aggravated the segment loss to about HK$14.9 million (2019: loss HK$6.6 million), representing an increase of about HK$8.3 million. The Group has taken measures to rationalise its operations with the aim of reducing its operating costs, other than the overhead expenses comprising mainly offices and staff costs that are necessary to maintain its ongoing operations.

Despite the above, the Group and its business partners have been making persistent efforts in order to resolve the regulatory issues in the long term so as to bring the imported product, in particular, the skin treatment product which was the major revenue contributor to the segment, back to the China market, and at the same time to explore other market opportunities by developing new sales platform.

Gene Development Sector

During the year, gene development remained inactive and no revenue was recorded.

Interest in an Associate

The Group holds 49% equity interest in Smart Ascent Limited ("Smart Ascent", together with its subsidiaries, the "Smart Ascent Group"), and the major asset of the Smart Ascent Group is the intangible asset in relation to an in-process research and development project ("In-process R&D") involving an oral insulin product ("Product"), which is still at its clinical trial stage. As a minority shareholder of Smart Ascent, the Group has been working closely with Innovative Pharmaceutical Biotech Limited ("Innovative Pharm"), the 51% shareholder of Smart Ascent, in monitoring the progress of the oral insulin project with a view to facilitating successful launching of the Product to the market.

For the purpose of financing the working capital requirements of Smart Ascent Group for the oral insulin project, Innovative Pharm (together with its subsidiaries, the "Innovative Pharm Group") and the Company through their respective wholly-owned subsidiaries as lenders and Smart Ascent as borrower entered into a shareholders' loan agreement on 27 July 2018 for a loan to Smart Ascent amounting to HK$30 million in total (the "Loan"), to be contributed as to 51% i.e. HK$15.3 million by Innovative Pharm Group and as to 49% i.e. HK$14.7 million by the Group. The Loan is unsecured, interest bearing at 5% per annum and has a repayment term fixed at 60 months after each drawdown of the Loan. In August 2019, Smart Ascent had drawn down in aggregate of HK$20 million, and accordingly, the Group and Innovative Pharm Group made contribution in the sum of HK$9.8 million and HK$10.2 million respectively to Smart Ascent, and together with the HK$10 million drawn down in September 2018, Smart Ascent had fully drawn down the Loan of HK$30 million.

As stated in the 2019 Annual Report, the timeline for commercialisation of the Product was expected to be in around January 2022.

The contract research organisation engaged by Smart Ascent Group has been working with the principal investigator for the clinical trial and the project team in the process of selection of participating hospitals and the selection and enrolment of patients for the clinical trial. However, the outbreak of COVID-19 in China since early 2020 has disrupted the normal operations of participating hospitals for the clinical trial of the Product, and to ensure the safety of patients and clinical researchers, the clinical trial in the process of selection and enrolment of patients, was temporarily suspended pending improvement in the pandemic situation. Given the aforesaid delay in the selection and enrolment of patients for the clinical trial caused by the unexpected pandemic outbreak, and subject to the pandemic situation improving, the timeline for commercialisation of the Product as reassessed by Smart Ascent Group has been revised to be in around the fourth quarter of 2022.

During the year, the share of loss of Smart Ascent Group increased to about HK$3.2 million (2019: HK$0.9 million), representing an increase of HK$2.3 million. Such increase mainly related to increase in research and development expenses for the oral insulin project.

In light of the growing aging population and development of chronic diseases such as diabetes, in China, enormous market exists for quality diabetes drugs, and the Product featured with oral administration of insulin is expected to provide an effective treatment and better quality of life for the constantly growing diabetic population in China that market prospect will be enormous for the Product.

In making the assessment as to the recoverability of the In-process R&D and the fair value of the interest in the associate, the Group has engaged an independent qualified valuer, Roma Appraisals Limited ("Valuer") in conducting a valuation. The asset-based valuation approach has been consistently adopted in the valuation and the recoverable amount of the In-process R&D was determined based on fair value calculation using cash flow projections, which the estimated cash inflows derived from budgeted sales and gross margin were based on the expectation for the market development, and which included the regulatory approvals from the relevant government bodies and launching of the Product by the fourth quarter of 2022. The recoverable amount of the interest in the associate was determined based on share of the estimated fair value of the In-process R&D after taking into account the lack of control discount.

The expected future economic benefits attributable to the In-process R&D was assumed to cover a 10-year period from the commercialisation of the Product. The calculation used in the cash flow projections with certain key parameters are as below:

Discount rate (post-tax)	24.64%
Growth rate	3%
Gross profit ratio	64.44%

In conducting the impairment assessment, the directors of the Company, having considered the prevailing market conditions, reasonableness of assumptions used for the cash flow projections and the valuation as prepared by the Valuer indicating its fair value in excess of the carrying amount, do not identify any indication on the carrying amount of interest in the associate as at 31 March 2020 that may need to be impaired. Accordingly, no impairment is considered necessary as at 31 March 2020.

The Group will continue to closely coordinate with Innovative Pharm in monitoring the progress of the oral insulin project with a view to facilitating successful launching of the Product to the market. In addition, the Group will continue to perform impairment assessment on the carrying amount of the interest in associate in accordance with Hong Kong Accounting Standard 36 "Impairment of Assets" where necessary.

Other income and gains and losses, net

Other income and gains and losses, net were in total a gain of about HK$106.1 million (2019: HK$89.1 million), which increased by about HK$17.0 million or 19.1%. The increase was mainly attributable to (i) increase in a gain by about HK$21.5 million arising from fair value change of the Group's investments in convertible bonds, (ii) increase in loan and imputed interest income from an associate in aggregate of about HK$2.5 million, (iii) bad debts recovery of about HK$2.1 million, and (iv) increase in impairment provision for trade and other receivables of about HK$5.7 million and HK$4.5 million respectively.

Selling and Distribution Expenses

Selling and distribution expenses of the Group decreased to about HK$24.6 million (2019: HK$40.2 million), representing a decrease of HK$15.6 million or 38.9%. The decrease was the result of a combination of effect from (i) manufacturing segment upon its adoption effective marketing strategies and the initiatives to control budgeted costs and expenses, which led to savings by about HK$7.5 million and a write-back of provision of about HK$3.7 million made in prior year, and (ii) trading segment, which generated no sales causing a decrease of related expenses by about HK$4.5 million.

Administrative Expenses

Administrative expenses were maintained at a similar level of about HK$26.4 million (2019: HK$26.4 million), which reflects management's efforts and vigilance in cost control and savings with the aim of improving the Group's profitability.

Outlook

Despite signs of gradual recovery after easing lockdown measures to contain the spread of COVID-19 pandemic, the widespread uncertainties of the second wave of infections as well as diplomatic rifts between the US and China have clouded the outlook for the global economic growth. Facing global slowdown and domestic headwinds, the Chinese government has unveiled larger fiscal and monetary policies to support businesses, stimulate domestic demands, and sustain employments in order to weather this difficult time.

Although the pace of growth in China has been slowing, it is expected that the government will continue to commit resources to invest in the healthcare reforms in the last year of the Thirteenth Five-Year Plan. Notwithstanding a slew of regulatory reforms to rationalise drug prices, improve access to new drugs, tighten control over drug quality and safety, promote innovation and foster market competition, the Group remains optimistic that opportunities in the pharmaceutical market are huge in light of mounting demands driven by the accelerated aging population, rising standard of living and increasing health consciousness emerged from the recent pandemic outbreak.

Looking ahead, the economic and operating environments are expected to be more complex and dynamic. The outbreak of COVID-19 pandemic as well as the radical changes in the regulatory landscape of the industry have caused disturbances to the market and the whole process of the industry chain, which poses significant challenges to the production and operation of the Group's business segments operating in China. As the positive progress by the Group's manufacturing segment reflects the effectiveness of the strategic initiatives adopted, management is committed to moving forward with these strategic initiatives and believes that the Group will build a more solid foundation for sustainable growth in revenue and profitability in the long term.

Given the uncertainties of magnitude and depth the pandemic impacting the global and China's economy, management will continuously endeavor to adopt flexible strategies in response to the market changes and stay vigilance in controlling the operating costs in order to enhance operational efficiency and preserve financial flexibility for the Group. Buttressed upon the Group's sound financial position, the Group believes that it is in a better position to respond to abrupt changes and challenges and sustain a development path for a better future.

Financial Review

Liquidity and Financial Resources

It is the Group's strategy to manage its financial resources conservatively by maintaining a healthy level of cash flows to meet all its financial commitments when they fall due. The Group generally finances its operations with internally generated cash flow and banking facilities.

As at 31 March 2020, the Group had total cash and bank balances (including pledged bank deposits) of about HK$147.9 million (2019: HK$169.9 million), representing a decrease by about HK$22.0 million or 12.9%. Such decrease was mainly due to provision of a shareholder's loan of about HK$9.8 million to Smart Ascent Limited and a negative operating cash flows of about HK$13 million, which was also the result of the extension the date of annual interest payment of HK$25.0 million from investments in convertible bonds until 28 July 2021 to partly offset the cash utilisation.

The Group did not have bank borrowings during the year but had banking facilities on trade finance, which were supported by the pledge of the Group's fixed deposits of about HK$21.5 million (2019: HK$21.0 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 31 March 2020 was 0.051 (2019: 0.041), calculated based on the Group's total assets of about HK$1,265.7 million (2019: HK$1,197.0 million) and total debts of about HK$64.5 million (2019: HK$49.6 million), comprising convertible bonds of about HK$59.0 million (2019: HK$49.6 million) and lease liabilities about HK$5.6 million (2019: nil).

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 year but the Group will use financial instruments for hedging purpose when considered appropriate.

Material Acquisitions and Disposals

There is no material acquisition or disposal of subsidiaries, associates and investments in financial instruments during the year ended 31 March 2020.

Employment and Remuneration Policy

As at 31 March 2020, the Group had 169 employees (2019: 171). Staff costs (including directors' emoluments) for the year ended 31 March 2020 amounted to approximately HK$22.5 million (2019: approximately HK$23.7 million), which was mainly due to decrease in headcount and adjustment of sales expenses reimbursement system 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 of Hong Kong Limited and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

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

From the effective date of the Scheme to 31 March 2020, 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 of 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 Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). During the year ended 31 March 2020, the Company had adopted and applied the Code Provisions, except for certain deviations as set out below.

Code Provisions A.1.3 and A.7.1 stipulate that 14-day notice should be given for each regular board meeting and that in respect of regular meetings, and as far as practicable in all other cases, an agenda and accompanying board papers should be sent in full to all directors in a timely manner and at least 3 days before the intended date of a board or board committee meeting (or other agreed period). The Company agrees that sufficient time should be given to the directors in order to make a proper decision. In these respects, the Company adopts a more flexible approach (and yet sufficient time has been given) in convening board meetings to ensure efficient and prompt management decisions could be made.

Code Provision A.2.1 provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same person. Dr. Xie Yi has served as the Chairman and Chief Executive Officer of the Company. However, the Company believes that there is adequate balance of power and authority in place though vesting the roles of both chairman and chief executive officer in the same person as all major decisions of the Company are made in consultation with members of the Board.

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. The Company deviates from this Code Provision as the independent non-executive directors ("INEDs") are not appointed for specific terms. According to the bye-laws of the Company, however, the INEDs are subject to retirement and re-election. The reason for the deviation is that the Company believes that the directors ought to be committed to representing the long-term interest of the Company's shareholders.

Code Provision A.4.2 stipulates that every director should be subject to retirement by rotation at least once every three years. According to the bye-laws of the Company, one-third of the directors shall retire from office by rotation provided that the Chairman, Deputy Chairman or Managing Director shall not be subject to retirement by rotation. The Company's bye-laws deviate from the Code Provision. The Company considers that the continuity of the Chairman/Deputy Chairman/Managing Director and their leadership are essential for the stability of the business and key management. The rotation methodology ensures a reasonable continuity of directorship which is to the best interest of the Company's shareholders.

Code Provision A.4.2 also stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. According to the bye-laws of the Company, any director so appointed shall hold office only until the next annual general meeting. The Company's bye-laws deviate from the Code Provision. However, the Company believes that it is in the best interest of the Company's shareholders to transact this ordinary course of business in the annual general meeting.

Code provision E.1.2 stipulates that the chairman of the independent board committee (if any) should be available to answer questions at any general meeting to approve a connected transaction or any other transaction that requires independent shareholders' approval. The chairman of the independent board committee was unable to attend the special general meeting of the Company held on 17 October 2019 due to health reason.

Code provision E.1.5 stipulates that the Company should have a policy on payment of dividends. The Company has not established a dividend policy as the Company considers it more appropriate to determine a dividend payment after taking into account those factors including the Company's then financial performance, operating and capital requirements and market conditions, to enable the Company be in a better position to cope with its future development, which is to the best interest of the Company and its shareholders as a whole.

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 directors, the directors have complied with the required standard set out in the Model Code throughout the year ended 31 March 2020.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

AUDIT COMMITTEE

The Company has established an Audit Committee (the "Committee"), with written terms of reference, in compliance with Rule 3.21 of the Listing Rules, for the purpose of reviewing and providing supervision over the financial reporting process and risk management and internal control systems of the Group. The Committee comprises three INEDs. The Group's financial statements for the year ended 31 March 2020 have been reviewed by the Committee. The Committee is of the opinion that such financial statements comply with the applicable accounting standards, and Stock Exchange's and legal requirements, and that adequate disclosures have been made.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL 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 annual 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 June 2020

List of Directors as at the date of this announcement:

Executive Directors:
Dr. XIE Yi
Dr. LOU Yi
Mr. CHENG Yong
Ms. WONG Sau Kuen
Mr. LIU Kwok Wah
Mr. LU Zhiqiang

Independent Non-executive Directors and Audit Committee:
Mr. FANG Lin Hu
Mr. XUE Jing Lun
Ms. JIN Song

* *For identification purpose only*