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

(Incorporated in Bermuda with limited liability)

(Stock Code: 00858)

UNAUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2022

The board of directors (the "**Board**") of Extrawell Pharmaceutical Holdings Limited (the "**Company**") hereby announces the unaudited consolidated results of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 March 2022 together with the comparative figures as follows:

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2022

	Notes	**2022** *HK$'000*	2021 *HK$'000*
Revenue	*3*	**73,925**	78,802
Cost of sales		**(36,369)**	(36,236)
Gross profit		**37,556**	42,566
Other income	*4*	**1,536**	6,205
Other gains and losses, net	*5*	**160,618**	(100,879)
Selling and distribution expenses		**(26,292)**	(29,544)
Administrative expenses		**(24,207)**	(23,890)
Share of results of an associate		**(3,652)**	(2,879)
Finance costs		**(13,229)**	(11,242)
Profit/(Loss) before income tax	*6*	**132,330**	(119,663)
Income tax expense	*7*	**(1,239)**	—
Profit/(Loss) for the year		**131,091**	(119,663)

	Notes	2022 HK$'000	2021 HK$'000
Other comprehensive income/(expense)			
Item that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		**4,539**	9,109
Other comprehensive income for the year		**4,539**	9,109
Total comprehensive income/(expense) for the year		**135,630**	(110,554)
Profit/(Loss) for the year attributable to:			
Owners of the Company		**130,588**	(121,098)
Non-controlling interests		**503**	1,435
		131,091	(119,663)
Total comprehensive income/(expense) for the year attributable to:			
Owners of the Company		**135,148**	(111,990)
Non-controlling interests		**482**	1,436
		135,630	(110,554)
		HK cents	HK cents
Earnings/(Loss) per share for profit/(loss) attributable to owners of the Company:	*8*		
— Basic		**5.46**	(5.07)
— Diluted		**4.36**	(5.07)

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 MARCH 2022

	Notes	2022 HK$'000	2021 HK$'000
NON-CURRENT ASSETS			
Investment properties		**2,681**	1,260
Property, plant and equipment		**130,362**	131,075
Right-of-use assets		**10,140**	12,488
Intangible assets		**1,807**	1,807
Financial assets at fair value through profit or loss		**634,907**	466,322
Financial assets at fair value through other comprehensive income		**—**	—
Deposits		**7,888**	—
Interest in an associate		**320,365**	324,018
Loan to an associate		**14,500**	16,118
Deferred tax assets		**69**	69
		1,122,719	953,157
CURRENT ASSETS			
Inventories		**8,465**	7,558
Trade and bills receivables	*10*	**7,813**	9,130
Deposits, prepayments and other receivables		**6,491**	2,263
Amount due from an associate		**36,089**	41,947
Financial assets at fair value through profit or loss		**1,905**	1,786
Pledged bank deposits		**21,738**	21,688
Cash and bank balances		**111,881**	126,710
		194,382	211,082
CURRENT LIABILITIES			
Trade and bills payables	*11*	**6,456**	6,692
Accruals, other payables and contract liabilities		**38,078**	33,893
Lease liabilities		**2,194**	1,771
Deferred income on government grants		**131**	127
Tax payable		**17,204**	15,410
		64,063	57,893
NET CURRENT ASSETS		**130,319**	153,189
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,253,038**	1,106,346

	Notes	**2022** HK$'000	2021 HK$'000
NON-CURRENT LIABILITIES			
Convertible bonds		**83,074**	69,980
Lease liabilities		**39**	2,123
Deferred income on government grants		**5,001**	4,949
		88,114	77,052
NET ASSETS		**1,164,924**	1,029,294
EQUITY			
Share capital		**23,900**	23,900
Reserves		**1,141,753**	1,006,605
Equity attributable to owners of the Company		**1,165,653**	1,030,505
Non-controlling interests		**(729)**	(1,211)
TOTAL EQUITY		**1,164,924**	1,029,294

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. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) New and amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") for the first time, which are mandatorily effective for the annual periods beginning on or after 1 April 2021 for the preparation of the consolidated financial statements:

Amendment to HKFRS 16	COVID-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial position.

(b) New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

		Effective for annual periods beginning on or after
HKFRS 17	Insurance Contracts and the related Amendments	1 January 2023
Amendments to HKFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	A date to be determined
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)	1 January 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to HKAS 8	Definition of Accounting Estimates	1 January 2023
Amendments to HKAS 12	Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction	1 January 2023
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use	1 January 2022
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract	1 January 2022
Amendments to HKFRSs	Annual Improvements to HKFRS 2018–2020 cycle	1 January 2022

The directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

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:

	2022	2021
	HK$'000	*HK$'000*
Manufacturing of pharmaceutical products	**73,925**	78,802

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**").

During the year, the Group has reviewed and revised the basis of performance measurement of the trading segment and corporate activities in order to fairly reflect and monitor the resource allocation and performance measurement of the trading segment for decision-making. As there is no change in the structure of the Group's reportable segments, the segment information for the corresponding year has not been restated.

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**	
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue								
Sales to external customers	**73,925**	78,802	**—**	—	**—**	—	**73,925**	78,802
Segment results	**2,132**	4,027	**(4,168)**	(4,416)	**(90)**	(96)	**(2,126)**	(485)
Unallocated other income							**1,536**	6,205
Unallocated other gains and losses, net							**160,374**	(104,743)
Corporate expenses							**(10,708)**	(6,731)
Effective interest expense on convertible bonds							**(13,094)**	(11,030)
Share of results of an associate							**(3,652)**	(2,879)
Profit/(Loss) before income tax							**132,330**	(119,663)
Income tax expense							**(1,239)**	—
Profit/(Loss) for the year							**131,091**	(119,663)

Segment profit/(loss) represents the profit earned by/(loss from) each segment without allocation of interest income, other gains and losses, net, corporate expenses, effective interest expense on convertible bonds and share of results of an associate. 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	
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets								
Segment assets	**194,340**	182,186	**66,063**	69,338	**15**	7	**260,418**	251,531
Financial assets at fair value through profit or loss — investments in convertible bonds							**634,907**	466,322
Interest in an associate							**320,365**	324,018
Corporate and other assets							**101,411**	122,368
Total assets							**1,317,101**	1,164,239
Segment liabilities								
Segment liabilities	**64,376**	58,561	**1,211**	5,092	**64**	64	**65,651**	63,717
Convertible bonds							**83,074**	69,980
Corporate and other liabilities							**3,452**	1,248
Total liabilities							**152,177**	134,945

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	
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021
	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	**6,557**	5,982	**133**	2,010	**—**	—	**6,690**	7,992
Unallocated depreciation and amortisation							**2,035**	132
							8,725	8,124
(Reversal of) impairment loss on trade receivables, net	**(272)**	241	**—**	(2,971)	**—**	—	**(272)**	(2,730)
Loss on disposal of property, plant and equipment	**—**	—	**55**	—	**—**	—	**55**	—
Provision for/(Reversal of) impairment loss on other receivables	**25**	(151)	**—**	(943)	**—**	—	**25**	(1,094)
Reversal of impairment loss on inventories, net	**—**	(60)	**—**	—	**—**	—	**—**	(60)

4. OTHER INCOME

	2022	2021
	HK$'000	*HK$'000*
Bank interest income	**343**	860
Rental income	**209**	—
Government grants	**249**	1,040
Imputed interest income from amount due from an associate	**—**	3,570
Loan interest income from an associate	**735**	735
	1,536	6,205

5. OTHER GAINS AND LOSSES, NET

	2022	2021
	HK$'000	*HK$'000*
(Loss) on disposal of property, plant and equipment	**(55)**	—
Change in fair value on financial assets at fair value through profit or loss		
— investments in convertible bonds	**168,585**	(104,743)
Change in fair value on financial assets at fair value through profit or loss		
— short term investment	**52**	40
Provision for impairment loss on loan to an associate	**(2,353)**	—
Provision for impairment loss on amount due from an associate	**(5,858)**	—
(Provision for)/Reversal of impairment loss on other receivables	**(25)**	1,094
Reversal of impairment loss on trade receivables, net	**272**	2,730
	160,618	(100,879)

6. PROFIT/(LOSS) BEFORE INCOME TAX

	2022	2021
	HK$'000	*HK$'000*
Profit/(Loss) before income tax is arrived at after charging/(crediting):		
Auditor's remuneration	**780**	760
Depreciation of right-of-use assets	**2,188**	2,159
Depreciation of investment properties	**93**	59
Depreciation of property, plant and equipment	**6,444**	5,906
Cost of inventories recognised as expenses	**36,369**	36,236
Reversal of impairment loss on inventories, net	**—**	(60)
Staff costs (including directors' emoluments)		
Salaries, bonus and allowances	**19,886**	19,549
Retirement benefit scheme contributions	**2,555**	1,221

7. INCOME TAX EXPENSE

The amount of income tax expense in the unaudited consolidated statement of profit or loss and other comprehensive income represents:

	2022	2021
	HK$'000	*HK$'000*
Current tax		
— Hong Kong	**—**	—
— PRC Enterprise Income Tax	**1,239**	—
Income tax expense	**1,239**	—

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 2022 and 2021, Hong Kong Profits Tax of the qualified entity of the Group 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% (2021: 25%).

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

8. EARNINGS/(LOSS) PER SHARE

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

	2022	2021
	HK$'000	*HK$'000*
Earnings/(Loss)		
Earnings/(Loss) for the purpose of basic earnings per share		
(Profit/(Loss)for the year attributable to owners of the Company)	**130,588**	(121,098)
Effect of potential ordinary shares:		
Interest on convertible bonds	**13,094**	—
Earnings/(Loss) for the purpose of diluted earnings/(loss) per share	**143,682**	(121,098)

	2022	2021
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose		
of basic earnings/(loss) per share	**2,390,000**	2,390,000
Effect of potential ordinary shares:		
Convertible bonds	**900,000**	—
Weighted average number of ordinary shares for the purpose of diluted earnings/(loss) per share	**3,290,000**	2,390,000

The denominators used for the computation of both basic and diluted loss per share for the year ended 31 March 2021 are the same since the assumed exercise the conversion of the Company's outstanding convertible bonds would result in a decrease in loss per share.

9. DIVIDENDS

No dividend was paid or declared by the board of directors during the year ended 31 March 2022 (2021: nil), nor has any dividend been proposed since the end of reporting period.

10. TRADE AND BILLS RECEIVABLES

	2022	2021
	HK$'000	*HK$'000*
Bills receivables	**635**	1,127
Trade receivables	**51,009**	50,538
Less: Provision for impairment loss on trade receivables	**(43,831)**	(42,535)
	7,813	9,130

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:

	2022	2021
	HK$'000	*HK$'000*
Within 90 days	**4,161**	6,134
91 to 180 days	**1,980**	1,257
181 to 365 days	**1,672**	1,739
	7,813	9,130

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:

	2022	2021
	HK$'000	*HK$'000*
Within 90 days	**3,239**	4,290
91 to 180 days	**2,341**	1,613
181 to 365 days	**58**	26
1 to 2 years	**276**	240
Over 2 years	**542**	523
	6,456	6,692

12. EVENTS AFTER THE REPORTING PERIOD

On 9 June 2022, the third reading of a bill for cancelling the Mandatory Provident Fund ("**MPF**") offsetting mechanism (the "**Bill**") was passed in the Legislative Council of Hong Kong. After the Bill takes effect, employers can no longer offset employees' severance payments or long-service payments against the MPF derived from the employer's mandatory and voluntary contributions. The offsetting mechanism will be cancelled starting from 2025.

The matter mentioned above will have impact to the Group's provision for long service payments ("**LSP**"). Upon the MPF offsetting mechanism is cancelled, the Group can no longer deduct LSP from their portion of MPF contributions. The abolition of the offsetting arrangement has no retrospective effect.

As at the date of the issue of this announcement, the exact effective date of the abolition is yet to be determined and the detailed arrangement is yet to be announced by the government. This is a non-adjusting event after the reporting period as the event did not relate to the obligation of the LSP at the end of the reporting period, but reflects the circumstances (i.e. the law) that have arisen subsequently.

The Group has already commenced an assessment of the impact of the Bill to the Group. The Group is not yet in a position to state whether the abolishment of the MPF offsetting mechanism will result in a substantial change to the Group's financial statements.

Other than the abovementioned, no other material subsequent event is noted.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Overall Performance Review

The global economy experienced a strong rebound in 2021 against the backdrop of mass COVID-19 vaccinations, the easing of lockdown measures and the lifting of cross-border travel restrictions in many parts of the world. However, the rapid spread of the Omicron variant of the COVID-19 and the outbreak of the Russia-Ukraine war in early 2022 have posed significant challenges to the global recovery, and brought severe challenges to China's economy.

Amid the challenging year of 2021, China was striving to accelerate the resumption of work and production to stabilise the economy while adhering to the dynamic zero-COVID policy, which aims to curb the flare-ups in the shortest possible time with the lowest social costs. As a result of tremendous efforts, China's economy grew at 18.3%, 7.9%, 4.9%, and 4.0% in the four quarters of 2021 and recorded a 8.1% full-year growth. Although the rising Omicron cases in March 2022 had placed a number of provinces under varying levels of lockdown, China's economy remained on track to grow at 4.8% in the first quarter of 2022, picking up pace from a 4.0% growth in the fourth quarter of 2021.

Although China faced downward pressure of economic growth arising from the waves of pandemic, the pharmaceutical industry maintained its growth momentum underpinned by growing market demands and the government's commitments to invest in the industry toward high-quality and innovation-led development under the guiding principles and policy directions outlined in the Fourteenth Five-Year Plan (2021–2025) and Healthy China 2030 Plan. The government's push to improve quality and promote innovation has profoundly reshaped the industrial landscape. During the year, a raft of deepening healthcare reform policies and measures were introduced by the government, focusing at increasing patients' access and affordability of quality drugs and innovative drugs. These policies, such as the launch of the fifth and sixth rounds of centralised drug procurement, and annual adjustments of the national drug reimbursement list, have driven sector consolidation and added volatility to the market with the continued price-cuts pressure. Large pharmaceutical enterprises with high-quality products and strong innovation capabilities tend to dominate the market, and small manufacturers were facing tremendous pricing pressure and rising market entry barriers in the changing regulatory environment, which have posed significant challenges to the Group.

During the year, the Group's revenue and gross profit, which were contributed by the manufacturing segment operating in China, declined to HK$73.9 million (2021: HK$78.8 million) and HK$37.6 million (2021: HK$42.6 million) respectively, representing a decrease of about HK$4.9 million or 6.2% in revenue and a decrease of about HK$5.0 million or 11.8% in gross profit. Such decreases were mainly a result of the implementation of mandatory factory lockdown by the Chinese government during March 2022 to curb the spread of the coronavirus outbreak in accordance with its dynamic zero-COVID policy. The gross margin dropped from 54.0% to 50.8%, primarily due to a change in the sales mix.

The Group's administrative, selling and distribution expenses in aggregate decreased to about HK$50.5 million, representing a decrease by about HK$2.9 million or 5.5% when compared to about HK$53.4 million of last year. Such decrease was the combined result of a decrease in research and development expenses of about HK$2.6 million and a decrease in the overall administrative expenses of about HK$0.3 million.

The Group's operating profit before income tax was about HK$132.3 million (2021: loss of HK$119.7 million), representing an increase of about HK$252.0 million. Such increase was mainly due to the combined results of certain non-cash items arising from (i) fair value gain of the Group's investments in convertible bonds of about HK$168.6 million (2021: loss HK$104.7 million), (ii) provision for impairment loss on amount due from and loan to an associate in aggregate of about HK$8.2 million, (iii) a decrease in imputed interest income from amount due from an associate by about HK$3.6 million, (iv) a reduction in the write-back of impairment provision for trade and other receivables in aggregate of about HK$3.6 million, and (v) an increase in effective interest expense on convertible bonds of about HK$2.1 million.

As a result, the Group's profit for the year attributable to owners of the Company was about HK$130.6 million, representing an increase of about HK$251.7 million when compared to the loss of about HK$121.1 million of last year.

Revenue and Operating Results

Manufactured Pharmaceutical Sector

During the year, the segment witnessed the rapidly-changing environments, which were fueled by the intensification of price competition driven by the deepened healthcare reforms, including the launch of the fifth and sixth rounds of centralised drug procurement and the disruptions caused by the pandemic. Despite these challenges posted tremendous pressure on the segment, the strategic initiatives to strengthen the competitive position, secure market share, and capture new growth opportunities through collaboration with distributors with extensive distribution networks, and to promote the Group's product awareness in rural areas and communities, continued to facilitate the segment to deliver positive results. Building on the solid foundation laid by these strategic initiatives, the segment was able to maintain the growth momentum, particularly through increasing sales in the Group's product specialised in improving the immunity system of the human body against diseases.

In March 2022, the highly transmissible Omicron variant of COVID-19 had caused a surge of infections in Jilin, China, which had resulted in the government-mandated factory lockdown, including the Group's plants in Changchun. Facing the surge of COVID-19 cases, the entire province was subsequently put under lockdown, and strict pandemic prevention and control measures were imposed by the Chinese authorities to stem the transmission; including city-wide close off, movement restrictions, mass testing and quarantine. After days of arduous efforts, Jilin was able to achieve the dynamic clearance of COVID-19 at the community level in mid-April 2022, and following the lockdown measures eased in phase, the Group's plants in Changchun resumed normal production in May 2022. With intense management efforts, the Group's production plants have been operating safely without any significant impact on productivity and cost efficiency.

During the year, segment revenue was maintained at about HK$73.9 million (2021: HK$78.8 million), representing a decrease of about HK$4.9 million or 6.2%, and gross profit decreased by about HK$5.0 million or 11.8% when compared to last year. The change in the sales mix and the temporary closure of factory had impacted the gross margin, which decreased from about 54.0% to about 50.8%, while there was a reduction of marketing expenses of about HK$0.6 million and a reduction of research and development expenses of about HK$2.6 million. As a result, the segment profit declined to about HK$2.1 million, representing a reduction of about HK$1.9 million or 47.06% when compared to the profit of about HK$4.0 million recorded last year.

The Group will stay focused on enhancing internal management and cost control to cope with the fast-changing operating environment and strive for delivering better performance in future.

Imported Pharmaceutical Sector

During the year, no revenue was recorded by the segment as it continued to be impacted by the issues of sales suspension of the segment's major revenue contributor, the imported skin treatment product and the import license renewal, which were disclosed in the 2020 and 2021 Annual Reports. This difficult situation has placed significant pressure on the segment, and despite the disruptions caused by the COVID-19 pandemic, management has maintained a focus to develop new products and to build up a new sales platform in an effort to restore performance of the segment. This strategy remains firmly on track, and the manufacturer has been making continued efforts on the development of a new line of products. Meanwhile, management continued to review the staff and overhead costs of the segment, aiming for further minimising its overall operating costs, and for the purpose of facilitating internal management and performance assessment, certain internal resources were reallocated to corporate activities within the Group.

As a result, the segment recorded a loss of about HK$4.2 million (2021: HK$4.4 million), representing a decrease in loss of about HK$0.2 million or 5.6%. The decrease was mainly the result of a reduction of operating expenses in aggregate of about HK$4.1 million arising from the reallocation of internal resources to corporate activities and reduction of staff costs and no write-back of impairment provision for trade and other receivables in aggregate of about HK$3.9 million as made last year.

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 (the "**Product**"), which is still at its clinical trial stage. As a minority shareholder of Smart Ascent, the Group has been working closely with 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 (the "**First Loan Agreement**") for a loan to Smart Ascent amounting to HK$30 million in total (the "**First 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 First Loan is unsecured, interest bearing at 5% per annum and has a repayment term fixed at 60 months after each drawdown of the First Loan. In August 2019 and September 2018, Smart Ascent had drawn down in aggregate of HK$20 million and HK$10 million respectively, that the First Loan of HK$30 million had been fully drawn down, and accordingly, the Group and Innovative Pharm Group had made contribution in the aggregate sum of HK$14.7 million and HK$15.3 million respectively to Smart Ascent.

To enhance the financial resources of Smart Ascent Group and facilitate the progress of the clinical trial and further development of the Product, the Company and Innovative Pharm through their respective wholly-owned subsidiaries, as lenders and Smart Ascent as borrower, entered into the second shareholders' loan agreement (the "**Second Loan Agreement**") on 8 March 2022 for a loan to Smart Ascent amounting to HK$12 million in total (the "**Second Loan**"), to be contributed as to 49% i.e. HK$5.88 million by the Group and as to 51% i.e. HK$6.12 million by Innovative Pharm Group. Details regarding the Second Loan Agreement are disclosed in the Company's announcement dated 8 March 2022.

The Second Loan is unsecured, interest bearing at 5% per annum and has a repayment term fixed at 60 months after each drawdown of the Second Loan. On 15 June 2022, Smart Ascent made a drawdown to the Second Loan amounting to HK$5 million, and the Group and Innovative Pharm Group had made their respective contributions amounting to HK$2.45 million and HK$2.55 million to Smart Ascent.

As stated in the 2021 Annual Report, the COVID-19 pandemic since early 2020 had disrupted the normal operations of participating hospitals for the clinical trial of the Product, that the clinical trial in the process of selection and enrolment of patients was temporarily suspended pending improvement in the pandemic situation, for the safety of patients and clinical researchers. As the pandemic situation in China had gradually improved, during the third quarter of 2020, the enrolment of patients had commenced, and though the pandemic situation in China was largely under control, the preventive and control measures associated with the prolonged pandemic situation have been continuously implemented causing certain delay in patient selection and enrolment, and the timeline for commercialisation of the Product by Smart Ascent Group was expected to be in around mid of 2023.

During the year, the sporadic outbreaks of COVID-19 variant in China, and particularly the emergence of the highly transmissible Omicron variant in early 2022, have driven the nation to vigilantly stick to its toughest COVID-19 measures, and recently caused regional and citywide lockdowns in many parts of China, those have restricted patient flows and impacted on clinical research activities. As such, the patient selection and enrolment process experienced certain delay, and is still ongoing. In light of the aforesaid, the timeline for commercialistion of the Product has been reassessed by Smart Ascent Group and subject to the pandemic situation in China, is currently expected to be in around mid of 2024.

During the year, the loss of Smart Ascent Group was about HK$13.2 million (2021: HK$10.1 million), for which the Group's share of loss amounted to about HK$3.7 million (2021: HK$2.9 million) representing an increase of about HK$0.8 million. Such increase mainly related to increase in research and development expenses for the Product.

In light of the accelerating aging population and increasing life expectancy, and the development of chronic diseases such as diabetes in China, market demand for quality diabetes drugs is expected to be enormous. 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 there will be enormous market potential 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 in around mid of 2024. 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)	27.3%
Growth rate	2%
Gross profit ratio	64.19%

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 the interest in the associate as at 31 March 2022 that may need to be impaired. Accordingly, no impairment is considered necessary as at 31 March 2022.

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 the 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$162.1 million (2021: loss of HK$94.7 million), which increased by about HK$256.8 million. The increase was mainly the result of (i) an increase in a gain of a non-cash item by about HK$273.3 million arising from fair value change of the Group's investments in convertible bonds, (ii) increase in provision for impairment loss on amount due from and loan to an associate of about HK$5.9 million and HK$2.3 million, (iii) decrease in reversal of impairment provisions for trade and other receivables of about HK$2.5 million and HK$1.1 million, (iv) decrease in imputed interest income from an associate of about HK$3.6 million, (v) decrease in bank interest income of about HK$0.5 million, (vi) decrease in subsidies from governments of about HK$0.8 million, and (vii) increase in rental income of about HK$0.2 million.

Selling and Distribution Expenses

Selling and distribution expenses decreased to about HK$26.3 million (2021: HK$29.5 million), representing a decrease of about HK$3.3 million or 11.0%. Such decrease was mainly due to (i) a reduction in the research and development expenses by about HK$2.6 million when compared to the costs incurred last year to enhance the quality and efficacy of the Group's self-manufactured products, and (ii) a decrease in marketing expenses of about HK$0.6 million as a result of relevant budget control.

Administrative Expenses

Administrative expenses were at about HK$24.2 million (2021: HK$23.9 million), representing an increase of about HK$0.3 million or 1.3%, which was primarily due to the decrease in foreign exchange gain. Although the administrative expenses tend to remain stable, management will continue vigilantly managing the existing cost level and identifying areas for improving operating efficiency and further reduction of overhead costs.

OUTLOOK

The prospects of global recovery remain highly uncertain amid the resurgence of COVID-19 new variants and the disruptions caused by the war in Ukraine. Despite these uncertainties dampening China's economic outlook for 2022, China's economy has demonstrated its growth momentum facilitated by its dual-circulation economic strategy, and its economic fundamentals remain strong in the long term. It is anticipated that the Chinese government will continue to stepping up efforts to drive the transformation of the pharmaceutical industry in accordance with the Fourteenth Five-Year Plan (2021–2025) and Healthy China 2030 Plan. Heading into the second year of the Fourteenth Five-Year Plan, nine Chinese official departments; including, *inter alia*s, the National Development and Reform

Commission, National Medical Products Administration, the National Health Commission, and the National Healthcare Security Administration, jointly issued the "Fourteenth Five-Year Plan for the Development of the Pharmaceutical Industry", which specifically sets out the goals for the development of China's pharmaceutical industry in the next five years, highlighting the innovation-led transformation and upgrade of the industry chain. Further, China released a guideline on accelerating the building of a unified domestic market that is efficient, rules-based and open and encourages fair competition, which is expected to deepen market-oriented reforms and accelerate industrial transformation.

Against this backdrop, the Group believes that China's pharmaceutical industry will be facing significant changes as it continues to undergo structural transformation. The continued deepening healthcare reform policies including, *inter alia*s, the normalisation and expanded scope of centralised drug procurement, adjustments of national reimbursement drug list, and dual-channel drug reimbursement policy to include both the hospital channel and designated direct-to-patient pharmacy channel for certain negotiated drugs, will continue to reshape the landscape of the industry and intensify market competition. These have brought new challenges and opportunities to pharmaceutical enterprises.

In light of the rapidly changing market environment, the Group will continue to maintain its resilience and agility in responding to the shifts in market dynamics, and will remain focusing on the growth of its manufacturing segment by leveraging its production capacity, established distribution networks and quality products, and will strive for improving operational efficiency to drive long-term growth.

Despite challenging operating conditions in the year ahead, the Group believes that it is positioned on the right track for sustainable development, given the sound financial position of the Group, and management's commitments to striving for business growth, such that the Group is optimistic about its future prospects.

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 2022, the Group had total cash and bank balances (including pledged bank deposits) of about HK$133.6 million (2021: HK$148.4 million), representing a decrease by about HK$14.8 million or 10.0%. Such decrease in cash and bank balances primarily due to cash used in the Group's operating activities and deposits paid for acquisition of property, plant and equipment.

Accruals and Other Payables

Accruals and other payables increased by about HK$2.4 million to HK$31.3 million as of 31 March 2022 (2021: HK$28.9 million). Such increase was mainly due to increase in payables for operating expenses.

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$21.7 million (2021: HK$21.7 million) and corporate guarantees from the Company and certain subsidiaries of the Company. In general, there is no significant seasonality fluctuation on trade finance requirement of the Group.

The Group's total borrowing over total assets ratio as at 31 March 2022 was 0.065 (2021: 0.063), calculated based on the Group's total assets of about HK$1,317.1 million (2021: HK$1,164.2 million) and total debts of about HK$85.3 million (2021: HK$73.9 million), comprising convertible bonds of about HK$83.1 million (2021: HK$70.0 million) and lease liabilities of about HK$2.2 million (2021: HK$3.9 million).

Foreign Exchange Exposure

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 was no material acquisition or disposal of subsidiaries, associates and investment in financial instruments during the year ended 31 March 2022.

Financial Assets at Fair Value through Profit or Loss — Investments in Convertible Bonds

The Company held financial assets at fair value through profit or loss of approximately HK$634.9 million as at 31 March 2022 (2021: approximately HK$466.3 million), which related to the convertible bonds issued by Innovative Pharm. The fair value of the Company's investments in the convertible bonds issued by Innovative Pharm represented 48.2% of the Group's total assets as at 31 March 2022 (2021: 40.1%).

Innovative Pharm is an investment holding company the shares of which are listed on the Main Board of the Stock Exchange (stock code: 399), and its subsidiaries are principally engaged in the trading of beauty products and equipment, and research, development and commercialisation of the oral insulin product.

Employment and Remuneration Policy

As at 31 March 2022, the Group had 168 employees (2021: 171). Staff costs (including directors' emoluments) for the year ended 31 March 2022 amounted to approximately HK$22.4 million (2021: approximately HK$20.8 million). The increase was mainly due to increased expenses of wages and salaries of the manufacturing segment and no further social security contribution relief granted by the Chinese government, which outweighed the cost reduction in other operations.

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.

From the effective date of the Scheme to 31 March 2022, no share options have been granted, exercised, cancelled or lapsed under the Scheme.

CORPORATE GOVERNANCE

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

The Company had adopted and complied with the code provisions of the Corporate Governance Code ("**Code Provisions**") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange, applicable to the Group's financial year ended 31 March 2022, except for certain deviations as set out below. From 1 April 2022 onwards, the corporate governance principles and code provisions set out in the amended Corporate Governance Code which took effect from 1 January 2022, shall be applied and adopted by the Company.

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. During the second half of the financial year, the deviations were properly dealt with by streamlining internal procedures and the Company expects to comply with these Code Provisions in the next financial year.

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 and 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 Board should attend the annual general meeting of the Company. Dr. Xie Yi was unable to attend the annual general meeting of the Company held on 27 August 2021 due to two-way quarantine free travel corridors not available under the relevant border crossing travel restrictions. Ms. Wong Sau Kuen, an executive director of the Company, was appointed to chair the annual general meeting in accordance with the provisions of the Company's bye-laws and answered questions from shareholders of the Company.

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 2022.

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 unaudited annual results for the year ended 31 March 2022 and the accounting principles and practices adopted by the Group, have been reviewed by the Committee.

PUBLICATION OF UNAUDITED AND AUDITED ANNUAL RESULTS AND ANNUAL REPORT

The auditing process for the annual results of the Group for the year ended 31 March 2022 has not been completed due to different levels of lockdowns and movement restrictions imposed recently in parts of China to combat the COVID-19 variant outbreak, which have an impact on the document flows throughout China, that the Company's auditor has yet to obtain certain necessary documents, including the audit confirmation letters from third party, customers and suppliers in China, to complete the audit work. Other than the aforesaid, there is no other outstanding matter or issue that has been raised to the Committee or the Board by the Company's auditor up to the date of this announcement. The financial information of the Group for the year ended 31 March 2022 contained herein in respect of the annual results of the Group for the year ended 31 March 2022 have not been audited and have not been agreed by the Company's auditor.

The Company expects the auditing process will be completed on or before 15 July 2022 and will issue an announcement relating to the audited annual results when the auditing process has been completed. The annual report is expected to be despatched to the shareholders of the Company by end of July 2022.

This results announcement is published on the Stock Exchange's website (www.hkexnews.hk) and the Company's website (www.extrawell.com.hk).

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

Hong Kong, 29 June 2022

List of Directors as at the date of this announcement:

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

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

* *For identification purpose only*