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 2023

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 2023 together with the comparative figures as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2023

	Notes	**2023** ***HK$'000***	2022 *HK$'000*
Revenue	*3*	**72,577**	73,925
Cost of sales		**(41,434)**	(36,369)
Gross profit		**31,143**	37,556
Other income	*4*	**3,707**	1,536
Other gains and losses, net	*5*	**157,957**	160,618
Selling and distribution expenses		**(16,683)**	(26,292)
Administrative expenses		**(25,738)**	(24,206)
Share of results of an associate		**(3,849)**	(3,653)
Finance costs		**(15,636)**	(13,229)
Profit before income tax	*6*	**130,901**	132,330
Income tax expense	*7*	**(1,128)**	(1,239)
Profit for the year		**129,773**	131,091

	Notes	**2023**	2022
		HK$'000	*HK$'000*
Other comprehensive (expense)/income			
Item that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		**(13,127)**	4,539
Other comprehensive (expense)/income for the year		**(13,127)**	4,539
Total comprehensive income for the year		**116,646**	135,630
Profit for the year attributable to:			
Owners of the Company		**129,265**	130,588
Non-controlling interests		**508**	503
		129,773	131,091
Total comprehensive income for the year attributable to:			
Owners of the Company		**116,069**	135,148
Non-controlling interests		**577**	482
		116,646	135,630
		HK cents	*HK cents*
Earnings per share for profit attributable to owners of the Company:	*8*		
— Basic		**5.41**	5.46
— Diluted		**4.40**	4.36

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 MARCH 2023

	Notes	**2023** **HK$'000**	2022 *HK$'000*
NON-CURRENT ASSETS			
Investment properties		**2,549**	2,681
Property, plant and equipment		**124,785**	138,250
Right-of-use assets		**11,759**	10,140
Intangible assets		**1,807**	1,807
Financial assets at fair value through profit or loss		**793,530**	634,907
Financial assets at fair value through other comprehensive income		**—**	—
Interest in an associate		**316,516**	320,365
Loan to an associate		**15,196**	14,500
Deferred tax assets		**69**	69
		1,266,211	1,122,719
CURRENT ASSETS			
Inventories		**3,018**	8,465
Trade and bills receivables	*10*	**5,797**	7,813
Deposits, prepayments and other receivables		**4,455**	6,491
Amount due from an associate		**36,245**	36,089
Loan to an associate		**5,190**	—
Financial assets at fair value through profit or loss		**1,754**	1,905
Pledged bank deposits		**19,803**	21,738
Cash and bank balances		**102,401**	111,881
		178,663	194,382
CURRENT LIABILITIES			
Trade and bills payables	*11*	**6,634**	6,456
Accruals, other payables and contract liabilities		**32,517**	38,078
Lease liabilities		**1,316**	2,194
Deferred income on government grants		**118**	131
Tax payable		**16,429**	17,204
		57,014	64,063
NET CURRENT ASSETS		**121,649**	130,319
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,387,860**	1,253,038

	Notes	2023 HK$'000	2022 HK$'000
NON-CURRENT LIABILITIES			
Convertible bonds		**98,617**	83,074
Lease liabilities		**3,291**	39
Deferred income on government grants		**4,382**	5,001
		106,290	88,114
NET ASSETS		**1,281,570**	1,164,924
EQUITY			
Share capital		**23,900**	23,900
Reserves		**1,257,822**	1,141,753
Equity attributable to owners of the Company		**1,281,722**	1,165,653
Non-controlling interests		**(152)**	(729)
TOTAL EQUITY		**1,281,570**	1,164,924

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 the Company's annual report.

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

(a) 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 2022 for the preparation of the consolidated financial statements:

Amendment to HKFRS 3	Reference to the Conceptual Framework
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKAS 16	Property, plant and equipment — Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020

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 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts	1 January 2023
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 2024
Amendments to HKAS 1	Non-current Liabilities with Covenants	1 January 2024
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 HKFRS 16	Lease Liability in a Sale and Leaseback	1 January 2024

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:

	2023	2022
	HK$'000	*HK$'000*
Trading of pharmaceutical products	**4**	—
Manufacturing of pharmaceutical products	**72,573**	73,925
	72,577	73,925

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**	
	2023	2022	**2023**	2022	**2023**	2022	**2023**	2022
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue								
Sales to external customers	**72,573**	73,925	**4**	—	**—**	—	**72,577**	73,925
Segment results	**2,143**	2,132	**(3,354)**	(4,168)	**(91)**	(90)	**(1,302)**	(2,126)
Unallocated other income							**3,707**	1,536
Unallocated other gains and losses, net							**157,957**	160,374
Corporate expenses							**(10,069)**	(10,708)
Effective interest expense on convertible bonds							**(15,543)**	(13,094)
Share of results of an associate							**(3,849)**	(3,652)
Profit before income tax							**130,901**	132,330
Income tax expense							**(1,128)**	(1,239)
Profit for the year							**129,773**	131,091

Segment profit represents the profit earned by 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	
	2023	2022	**2023**	2022	**2023**	2022	**2023**	2022
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets								
Segment assets	**176,617**	194,340	**45,827**	66,063	**15**	15	**222,459**	260,418
Financial assets at fair value through profit or loss — investments in convertible bonds							**793,530**	634,907
Interest in an associate							**316,516**	320,365
Corporate and other assets							**112,369**	101,411
Total assets							**1,444,874**	1,317,101
Segment liabilities								
Segment liabilities	**57,917**	64,376	**709**	1,211	**64**	64	**58,690**	65,651
Convertible bonds							**98,617**	83,074
Corporate and other liabilities							**5,997**	3,452
Total liabilities							**163,304**	152,177

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	
	2023	2022	**2023**	2022	**2023**	2022	**2023**	2022
	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	**6,660**	6,557	**1,507**	133	**—**	—	**8,167**	6,690
Unallocated depreciation and amortisation							**630**	2,037
							8,797	8,727
Provision for/(reversal of) impairment loss on trade receivables, net	**795**	(272)	**—**	—	**—**	—	**795**	(272)
Loss on disposal of property, plant and equipment	**—**	—	**—**	55	**—**	—	**—**	55
Reversal of written off on other receivables	**(787)**	—	**—**	—	**—**	—	**(787)**	—
Provision for impairment loss on other receivables	**—**	25	**—**	—	**—**	—	**—**	25
Allowance for obsolete inventories, net	**115**	—	**—**	—	**—**	—	**115**	—

4. OTHER INCOME

	2023	2022
	HK$'000	*HK$'000*
Bank interest income	**2,126**	343
Rental income	**437**	209
Government grants	**284**	249
Loan interest income from an associate	**860**	735
	3,707	1,536

5. OTHER GAINS AND LOSSES, NET

	2023 HK$'000	2022 HK$'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	**158,623**	168,585
Change in fair value on financial assets at fair value through profit or loss — short term investment	**41**	52
Provision for impairment loss on loan to an associate	**(854)**	(2,353)
Reversal of/(Provision for) impairment loss on amount due from an associate	**155**	(5,858)
Provision for impairment loss on other receivables	**—**	(25)
Reversal of written off on other receivables	**787**	—
(Provision for)/Reversal of impairment loss on trade receivables, net	**(795)**	272
	157,957	160,618

6. PROFIT BEFORE INCOME TAX

	2023 HK$'000	2022 HK$'000
Profit before income tax is arrived at after charging:		
Auditor's remuneration	**800**	780
Depreciation of right-of-use assets	**2,151**	2,188
Depreciation of investment properties	**132**	95
Depreciation of property, plant and equipment	**6,514**	6,444
Cost of inventories recognised as expenses	**20,646**	24,021
Research and development cost	**881**	444
Allowance for obsolete inventories, net	**115**	—
Staff costs (including directors' emoluments)		
Salaries, bonus and allowances	**18,874**	19,886
Retirement benefit scheme contributions	**2,224**	2,555

7. INCOME TAX EXPENSE

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

	2023 HK$'000	2022 HK$'000
Current tax		
— Hong Kong	**—**	—
— PRC Enterprise Income Tax	**1,128**	1,239
Income tax expense	**1,128**	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 2023 and 2022, 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% (2022: 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:

	2023	2022
	HK$'000	*HK$'000*
Earnings		
Earnings for the purpose of basic earnings per share (Profit for the year attributable to owners of the Company)	**129,265**	130,588
Effect of potential ordinary shares:		
Interest on convertible bonds	**15,543**	13,094
Earnings for the purpose of diluted Earnings per share	**144,808**	143,682

	2023	2022
	'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 2023 (2022: nil), nor has any dividend been proposed since the end of reporting period.

10. TRADE AND BILLS RECEIVABLES

	2023	2022
	HK$'000	*HK$'000*
Bills receivables	**304**	635
Trade receivables	**45,701**	51,009
Less: Provision for impairment loss on trade receivables	**(40,208)**	(43,831)
	5,797	7,813

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:

	2023	2022
	HK$'000	*HK$'000*
Within 90 days	**2,987**	4,161
91 to 180 days	**1,047**	1,980
181 to 365 days	**1,763**	1,672
	5,797	7,813

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:

	2023	2022
	HK$'000	*HK$'000*
Within 90 days	**4,568**	3,239
91 to 180 days	**653**	2,341
181 to 365 days	**432**	58
1 to 2 years	**494**	276
Over 2 years	**487**	542
	6,634	6,456

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Overall Performance Review

Global economic growth slowed in 2022 amid macroeconomic headwinds. China's economy, battered by the country's dynamic zero-COVID policy and faltering overseas demand, recorded a 3% full-year growth in 2022, marking one of its weakest annual performances in decades. Resurgence of sporadic spikes in COVID-19 cases in China caused widespread lockdowns to its major cities to contain transmission of the COVID-19 variants, particularly in the first half of 2022. Restrictive measures related to the COVID-19 pandemic have gradually been lifted in China starting from December 2022. China's economy got off to a solid start in 2023, registering a growth of 4.5% in the first quarter.

The citywide lockdowns, travel restrictions and supply chain interruptions caused by the lingering pandemic outbreaks in the past years, impacted the growth pace of China's pharmaceutical industry. However, under the Fourteenth Five-Year Plan, intensive policy reforms in China's pharmaceutical industry have provided strong support for the shift from generic to innovative drug research and development while drug regulations better align with international standards. China's pharmaceutical industry continues to transform and upgrade with stress on innovation and technological advancement, supported by the government's unwavering commitment to deepening reforms, expanding high-level opening up and widening market access. The pharmaceutical industry is entering a stage of high-quality development with focus on innovation-driven growth. The launch of the expanded scope of centralised drug procurement and the dynamic adjustments of the national drug reimbursement list have become normalised, and pharmaceutical enterprises, including the Group, are facing pricing pressure and intensifying competition in the dynamic market.

During the year, the Group's revenue and gross profit, which were mainly contributed by the manufacturing segment operating in China, was about HK$72.6 million (2022: HK$73.9 million) and HK$31.1 million (2022: HK$37.6 million) respectively, representing a decrease of about HK$1.3 million or 1.8% in revenue and a decrease of about HK$6.4 million or 17.1% in gross profit. While the revenue was kept relatively stable, there was decrease in gross profit caused by the multiple effects arising from the government-mandated factory lockdown imposed on Changchun city during March to May 2022, including the Group's manufacturing plants, that resulted in lower production outputs, and the supply chain interruptions due to transport constraints and movement restrictions, that increased the cost of sales, and primarily due to the short-term effect of such disruptions and certain change in sales mix, the gross margin dropped from 50.8% to 42.9%.

The Group's administrative, selling and distribution expenses in aggregate decreased to about HK$42.4 million, representing a decrease by about HK$8.1 million or 16.0% when compared to about HK$50.5 million of last year. There was a decrease in selling and distribution expenses of about HK$9.6 million which was primarily due to substantial lower marketing and sales activities caused by the disruptions of regional and citywide lockdowns in China during the first half of 2022 and budget controls, while there was an increase in administrative expenses of about HK$1.5 million which was mainly due to increase in overall maintenance costs and expenses for optimising the workplaces of the Group's manufacturing segment that outweighed the cost reduction in other operations.

The Group's profit for the year attributable to owners of the Company was about HK$129.3 million, representing a decrease of about HK$1.3 million, primarily due to the non-cash item related to the gain from fair value change of the Group's investments in convertible bonds.

REVENUE AND OPERATING RESULTS

Manufactured Pharmaceutical Sector

While the Group has become responsive to the challenges brought by the continued deepening of healthcare reforms, the COVID-19 outbreaks across China in March 2022 that extended into the second quarter of 2022 leading to citywide lockdowns of major cities in China, presented added challenge to manufacturing operations nationwide including the Group. The Group observed the imposition of mandated factory lockdown by the Chinese authorities during April and May 2022 to temporarily halt production operations of its manufacturing plants in Changchun, to safeguard the safety and health of the Group's personnel and the general public as a whole. Following the lifting of the strict lockdown measures in phase, the Group's manufacturing plants gradually resumed its normal production in late May 2022 and have been operating safely with the Group's deployment of reinforced health measures for its personnel at the workplaces.

The temporary closure of factory led to lower production volumes and the supply chain interruptions caused increase in materials cost in the near term, which squeezed gross profit margins, and inevitably affected the segment's revenue and profitability. However, with management's arduous efforts to strengthen internal management and production efficiency, the impacts of the production halt was minimised, and the Group's production has picked up pace to meet market demand.

During the year, segment revenue was maintained at about HK$72.6 million (2022: HK$73.9 million), representing a decrease of about HK$1.3 million or 1.8% and gross profit decreased by about HK$6.4 million or 17.1% when compared to that of last year. The temporary closure of factory and the resulting increase in cost of sales, had impacted the gross margin, which decreased from 50.8% to 42.9%, while there was a reduction of marketing and promotion expenses of about HK$10.0 million mainly due to citywide lockdowns and movement restrictions hindering marketing activities and management's efforts in budget control in response to the evolving challenges, which were partly offset by the increase in overall maintenance costs and expenses for optimising the Group's workplaces of about HK$2.4 million, while there was an increase in research and development expenses of about HK$0.4 million and an increase in property tax of about HK$0.7 million due to less tax relief by the government, and an increase in reversal of other receivables previously written off of about HK$0.8 million was fully offset by an increase in provision for impairment loss on trade receivables of about HK$1.1 million. Despite the complicated operating environment, the segment profit was maintained at about HK$2.1 million with management's relentless efforts in strengthening cost control and improving operational efficiency.

The Group will continue to strengthen its development potentials by enhancing its production capability and capacity so as to cope with the market demand in the competitive landscape, and strive to improve operating performance to sustain a long-term development path.

Imported Pharmaceutical Sector

During the year, the issues of sales suspension of the segment's major revenue contributor, the imported skin treatment product and the import license renewal, as disclosed in the 2022 Annual Report, continued to impact on the segment. While the prolonged pandemic in the past three years resulting widespread impacts on worldwide business operations to varying degrees, that made the hard situation even more difficult, however, the substantial lifting of the pandemic control measures in China, including borders reopening and resumption of normal travel around the world from early 2023, are expected to open up new opportunities for trade and development.

In early 2023, the Group took a positive move to carry out a startup sales of a new product to test the market. A small amount of revenue of about HK$4,000 was recorded during the year. Meanwhile, management continued to implement stringent cost control measures to reduce operating costs and expenses so as to minimise segment loss. As a result, segment loss reduced to about HK$3.4 million, representing a decrease of about HK$0.8 million or 19.5% when compared to about HK$4.2 million of last year.

Management will make continued efforts with the manufacturer to develop a new line of products to achieve market acceptance and will keep monitoring the market trends to identify business opportunities that may provide an income stream to the Group.

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 Pharmaceutical Biotech Limited ("**Innovative Pharm**", together with its subsidiaries, the "**Innovative Pharm Group**"), the 51% shareholder of Smart Ascent, in monitoring the progress of the In-process R&D 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 In-process R&D, the Group and Innovative Pharm Group, as lenders and Smart Ascent, as borrower, entered into a shareholders' loan agreement on 27 July 2018 ("**First Loan Agreement**") for a loan to Smart Ascent amounting to HK$30 million in total ("**First Loan**"), 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 Innovative Pharm Group and the Group had made contribution in the aggregate sum of HK$15.3 million and HK$14.7 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, Innovative Pharm Group and the Group, as lenders, and Smart Ascent, as borrower, entered into the second shareholders' loan agreement ("**Second Loan Agreement**") on 8 March 2022 for a loan to Smart Ascent amounting to HK$12 million in total ("**Second Loan**"), contributed as to 51% i.e. HK$6.12 million by Innovative Pharm Group and as to 49% i.e. HK$5.88 million by the Group.

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. Smart Ascent had drawn down HK$5 million, HK$4.5 million and HK$2.5 million in June 2022, December 2022 and March 2023 respectively, that the Second Loan had been fully drawn down, and Innovative Pharm Group and the Group had made contribution in the aggregate sum of HK$6.12 million and HK$5.88 million respectively to Smart Ascent.

As stated in the 2022 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 while 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. Furthermore, the sporadic outbreaks of COVID-19 variant in China, and particularly the emergence of the highly transmissible Omicron variant in early 2022, had driven the nation to vigilantly stick to its toughest COVID-19 measures, and caused regional and citywide lockdowns in many parts of China, restricting patient flows and impacting on clinical research activities. As such, the patient selection and enrolment process experienced further delay, and is still ongoing. In light of the aforesaid, and based on the current information available to the Company, as the pandemic control measures in China have been substantially lifted from early 2023, the prolonged pandemic disruptions are expected to be gradually minimised that Smart Ascent Group has under the current circumstance, reassessed the timeline for commercialisation of the Product which is currently expected to be in around the first quarter of 2025.

During the year, the loss of Smart Ascent Group was about HK$13.0 million (2022: HK$13.2 million), for which the Group's share of loss amounted to about HK$3.8 million (2022: HK$3.7 million) representing an increase of about HK$0.1 million.

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 characterised by 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, and once the Product is commercialised, it will bring substantial benefits to the Group.

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 the first quarter of 2025. 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)	28.98%
Growth rate	2.2%
Gross profit ratio	63.41%

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 2023 that may need to be impaired. Accordingly, no impairment is considered necessary as at 31 March 2023.

The Group will continue to closely coordinate with Innovative Pharm in monitoring the progress of the In-process R&D 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 other gains and losses, net

Other income and other gains and losses, net were in total a gain of about HK$161.7 million (2022: gain of HK$162.2 million), which decreased by about HK$0.5 million. The decrease was mainly the result of (i) a non-cash item related to decrease in gain arising from fair value change of the Group's investment in convertible bonds of about HK$10.0 million; (ii) decrease in provision for impairment loss on amount due from an associate and loan to an associate of about HK$7.5 million in aggregate; (iii) increase in provision for impairment loss on trade receivables of about HK$1.1 million and reversal of written off on other receivables of about HK$0.8 million respectively; (iv) increase in bank interest income of about HK$1.8 million; (v) increase in rental income of about HK$0.2 million and (vi) increase in loan interest income of about HK$0.1 million.

Selling and Distribution Expenses

Selling and distribution expenses decreased to about HK$16.7 million (2022: HK$26.3 million), representing a decrease of about HK$9.6 million or 36.5%. Such decrease was mainly due to significant decrease in marketing and promotion expenses of about HK$10.0 million as a result of the substantially lower marketing and sales activities caused by the disruptions of regional and citywide lockdowns in China and the relevant budget control, and partly offset by the increase in research and development expenses of about HK$0.4 million.

Administrative Expenses

Administrative expenses were about HK$25.7 million (2022: HK$24.2 million), representing an increase of about HK$1.5 million or 6.3%, which was primarily due to the increase in overall maintenance costs and expenses for optimising the Group's workplaces of the manufacturing segment of about HK$2.4 million, which outweighed the cost reduction in other operations.

OUTLOOK

Against the backdrop of COVID-19 pandemic abating, cross-border travels and normal economic activities resuming in many countries, and supply chain disruptions starting to ease, the global economy is expected to gradually recover in the post-pandemic era. However, inflationary pressure, geopolitical tensions and soaring energy prices continued to add to the uncertainties surrounding the economic outlook. Despite challenges and complexities from the external environment, China has always demonstrated its resilience to stabilise its economy and exhibited signs of gradual recovery through implementing an array of policies against the destabilising forces, and leveraging its dual circulation economic strategy.

The prolonged COVID-19 pandemic situation in the past three years impacted the pharmaceutical industry's growth pace as the citywide lockdowns and border restrictions caused disruptions to supply chains, affecting pharmaceutical manufacturing and distribution in China. However, China's timely implementation of the pandemic containment measures and controls, together with a series of policies and reforms on stabilising the economy and advancing the research and development of innovative drugs, have facilitated the industry to continuously develop in a sustainable development pace. As the pandemic control measures in China have been substantially lifted from early 2023, the supply chain interruptions that may impact business operations will be gradually minimised, and the Group expects that the pharmaceutical manufacturing sector in China will continue to prosper and facilitate the business growth of the Group's pharmaceutical manufacturing business in the years to come.

Amid the challenges brought by the prolonged COVID-19 pandemic, the health awareness among people is growing and demand for quality drugs remains robust in China. In accordance with the Fourteenth Five-Year Plan (2021–2025), China's pharmaceutical industry is expected to continuously undergo transformation and thereby developing a sustainable path while the health systems will continuously be enhanced to cater for building of Healthy China. Grasping the development trends of the pharmaceutical industry, the Group will continue to allocate its internal resources to develop quality products so as to meet market demand and enhance its core competitiveness in the long run.

The Group believes that it has maintained prudent cash management to preserve a sound financial position, which remains stable, such that the Group will endeavor to capture the growing market opportunity while remaining cautiously optimistic in striving for a sustainable development path for the Group.

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 2023, the Group had total cash and bank balances (including pledged bank deposits) of about HK$122.2 million (2022: HK$133.6 million), representing a decrease by about HK$11.4 million or 8.5%. Such decrease in cash and bank balances included net cash used in operations, provision of a shareholder's loan of about HK$5.9 million to Smart Ascent, the cash utilisations for acquisition of property, plant and equipment of about HK$6.6 million and payment of lease interests and liabilities of about HK$2.2 million, and an increase in bank interest income of about HK$1.8 million.

Accruals and Other Payables

Accruals and other payables decreased by about HK$5.3 million to about HK$26.0 million as of 31 March 2023 (2022: HK$31.3 million). Such decrease was mainly due to decrease in payables for marketing and promotion expenses and other 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$19.8 million (2022: 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 2023 was 0.07 (2022: 0.065), calculated based on the Group's total assets of about HK$1,444.9 million (2022: HK$1,317.1 million) and total debts of about HK$103.2 million (2022: HK$85.3 million), comprising convertible bonds of about HK$98.6 million (2022: HK$83.1 million) and lease liabilities of about HK$4.6 million (2022: HK$2.2 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 2023.

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$793.5 million as at 31 March 2023 (2022: approximately HK$634.9 million), which related to the convertible bonds issued by Innovative Pharm ("**Innovative Pharm Bonds**"). The fair value of the Group's investments in the convertible bonds issued by Innovative Pharm represented 55.0% of the Group's total assets as at 31 March 2023 (2022: 48.3%).

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.

As stated in the Company's profit warning announcement dated 16 June 2023, based on a preliminary assessment by the directors of the Company on the Group's consolidated management accounts for the year ended 31 March 2023, there would be a loss of about HK$165 million attributable to a non-cash item, resulted from the fair value change of the Group's investments in convertible bonds, which was based on the valuation conducted by the Valuer with the assumption that the maturity date of the Innovative Pharm Bonds would be extended for two years to 28 July 2025 in accordance with the third deed of amendment ("**Third Amendment Deed**") dated 28 April 2023 entered into between the Company and Innovative Pharm to further amend certain terms and conditions of the Innovative Pharm Bonds ("**Third Amendments**"), as the Company's circular and notice had been despatched to its shareholders for the special general meeting to be held on 28 June 2023 to approve the Third Amendments.

In the course of finalising the annual results of the Group for the year ended 31 March 2023 and when further discussions with the auditor, the Company noted that certain terms of the Third Amendments including the increase of annual interest rate from 3.5% to 4.5% for the two years' extension to 28 July 2025 had yet to fix prior to the year-end date 31 March 2023, that it becomes more appropriate for the

Company to assess the impact of the fair value change of the Innovative Pharm Bonds without taking into account the extension term of the Innovative Pharm Bonds, that is approved by the shareholders on 28 June 2023.

Employment and Remuneration Policy

As at 31 March 2023, the Group had 181 employees (2022: 168). Staff costs (including directors' emoluments) for the year ended 31 March 2023 amounted to approximately HK$21.1 million (2022: approximately HK$22.4 million). The increase in number of employees primarily related to increase in production workforce of the manufacturing segment in the first quarter of 2023. The decrease in staff costs was mainly due to decreased expenses of wages, salaries and allowances of the manufacturing segment due to the factory lockdown in accordance with the COVID-19 containment measures in China, and cost reduction in other operations of the Group.

The Group remunerates its employees with salary, bonus and other benefits based on industry practices and provides various training opportunities to its staff members and directors. Its staff benefits, welfare and statutory contributions, if any, are made in accordance with prevailing labour laws of its operating entities.

Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 30 August 2022, a new share option scheme ("**New Scheme**") had been adopted by the Company, which became effective on 2 September 2022 upon obtaining listing approval from the Stock Exchange, and unless otherwise cancelled or amended, will remain in force for 10 years from that date, while the share option scheme adopted by the Company with effective adoption date of 29 August 2012 which had a term of 10 years expired on 28 August 2022 ("**Old Scheme**") and no share options had been granted, exercised, cancelled or lapsed under the Old Scheme.

The New Scheme will enable the Group to reward the employees, the directors and other selected participants for their contribution to the Group and will assist the Group in its recruitment and retention of high caliber professionals, executives and employees who are instrumental to the long-term growth of the Group. Details of the New Scheme are disclosed in the Company's circular dated 29 July 2022.

From the effective date of the New Scheme to 31 March 2023, no share options have been granted, exercised, cancelled or lapsed under the New Scheme.

Events after the Reporting Period

(a) On 31 March 2023, Changchun Extrawell Pharmaceutical Co., Ltd. ("**Changchun Extrawell**"), an indirect non-wholly owned subsidiary of the Company, entered into the share buy-back agreement with the vendor to buy-back shares representing 9.14% of total issued share capital of Changchun Extrawell ("**Share Buy-Back**") for cancellation ("**Share Cancellation**") at the consideration of RMB4,400,000 (equivalent to approximately HK$4,972,000). Upon completion of the Share Buy-Back and Share Cancellation, the Group's shareholding in Changchun Extrawell will be increased to 80.46% and Changchun Extrawell will continue to be an indirect non-wholly owned subsidiary of the Group. The Share Buy-Back transaction was completed on 19 June 2023.

(b) On 28 April 2023, the Company as the bondholder and Innovative Pharm as the issuer of the HK$715,000,000 convertible bonds due on 28 July 2023 ("**Innovative Pharm Bonds**"), entered into, the third deed of amendment ("**Third Amendment Deed**") to further amend certain terms and conditions of the Innovative Pharm Bonds in respect of the further extension on the maturity date and the payment of the interest of the Innovative Pharm Bonds to 28 July 2025 ("**Third Amendments**"), and the deed of waiver pursuant to which the Company granted to Innovative Pharm a waiver in respect of the obligation of Innovative Pharm to the extent necessary and solely to effect the Third Amendments. The transaction contemplated under the Third Amendment Deed in respect of the Third Amendments constitutes a major transaction for the Company which is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

    At a special general meeting of the Company held on 28 June 2023, the transaction was approved by the shareholders.

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

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 has 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 during the year ended 31 March 2023, except for certain deviations as set out below.

Code Provision C.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 B.2.2 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 F.1.1 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 2023.

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 accordance with the prevailing provisions of the Corporate Governance Code, 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 independent non-executive directors. The Group's annual results for the year ended 31 March 2023 and the accounting principles and practices adopted by the Group, have been reviewed by the Committee.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual 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 2023

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

Independent Non-executive Directors and Audit Committee:
Mr. FANG Lin Hu
Ms. JIN Song
Dr. GUO Yi

* *For identification purpose only*