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EXTRAWELL PHARMACEUTICAL HOLDINGS LIMITED

精優藥業控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00858)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2023

The board of directors (the “**Board**”) of Extrawell Pharmaceutical Holdings Limited (the “**Company**”) presents the unaudited consolidated results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 September 2023 together with the comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At 30 September 2023 (Unaudited) HK\$'000	At 31 March 2023 (Audited) HK\$'000
	<i>Notes</i>		
Non-current assets			
Investment properties		2,483	2,549
Property, plant and equipment		118,364	124,785
Right-of-use assets		10,629	11,759
Intangible assets		5,047	1,807
Financial asset at fair value through profit or loss	3	567,611	793,530
Financial assets at fair value through other comprehensive income		—	—
Interest in an associate		315,964	316,516
Loan to an associate		5,317	15,196
Deferred tax assets		69	69
		<u>1,025,484</u>	<u>1,266,211</u>
Current assets			
Inventories		5,564	3,018
Trade and bills receivables	4	6,109	5,797
Deposits, prepayments and other receivables		4,310	4,455
Amount due from an associate		36,245	36,245
Loan to an associate		15,511	5,190
Financial asset at fair value through profit or loss	3	1,713	1,754
Pledged bank deposits		20,276	19,803
Cash and bank balances		89,786	102,401
		<u>179,514</u>	<u>178,663</u>
Total assets		<u>1,204,998</u>	<u>1,444,874</u>

	<i>Note</i>	At 30 September 2023 (Unaudited) HK\$'000	At 31 March 2023 (Audited) HK\$'000
Equity			
Share capital		23,900	23,900
Reserves		<u>1,016,623</u>	<u>1,257,822</u>
Equity attributable to owners of the Company		1,040,523	1,281,722
Non-controlling interests		<u>(1,176)</u>	<u>(152)</u>
Total equity		<u>1,039,347</u>	<u>1,281,570</u>
Non-current liabilities			
Convertible bonds		107,473	98,617
Lease liabilities		2,545	3,291
Deferred income on government grants		<u>4,180</u>	<u>4,382</u>
		<u>114,198</u>	<u>106,290</u>
Current liabilities			
Trade and bills payables	5	5,779	6,634
Accruals, other payables and contract liabilities		27,283	32,517
Lease liabilities		1,340	1,316
Deferred income on government grants		118	118
Tax payable		<u>16,933</u>	<u>16,429</u>
		<u>51,453</u>	<u>57,014</u>
Total equity and liabilities		<u>1,204,998</u>	<u>1,444,874</u>
Net current assets		<u>128,061</u>	<u>121,649</u>
Total assets less current liabilities		<u>1,153,545</u>	<u>1,387,860</u>

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

		For the six months ended	
		30 September	
		2023	2022
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
Revenue	6	30,141	34,095
Cost of sales		<u>(15,250)</u>	<u>(20,563)</u>
Gross profit		14,891	13,532
Other income	7	3,137	2,028
Other gains and losses, net	8	(226,081)	60,348
Selling and distribution expenses		(6,684)	(8,770)
Administrative expenses		(11,490)	(12,367)
Share of results of an associate		(552)	(1,125)
Finance costs		<u>(9,016)</u>	<u>(7,498)</u>
Profit/(loss) before income tax	9	(235,795)	46,148
Income tax expense	10	<u>(1,118)</u>	<u>(208)</u>
Profit/(loss) for the period		(236,913)	45,940
Other comprehensive expense			
Item that may be reclassified subsequently to profit or loss			
— Exchange differences arising on translation of foreign operations		<u>(3,661)</u>	<u>(12,790)</u>
Other comprehensive expense for the period		<u>(3,661)</u>	<u>(12,790)</u>
Total comprehensive income/(expense) for the period		<u>(240,574)</u>	<u>33,150</u>

		For the six months ended	
		30 September	
		2023	2022
		(Unaudited)	(Unaudited)
	<i>Note</i>	HK\$'000	HK\$'000
Profit/(loss) for the period attributable to			
Owners of the Company		(237,725)	45,821
Non-controlling interests		<u>812</u>	<u>119</u>
		<u>(236,913)</u>	<u>45,940</u>
Total comprehensive income/(expense) for			
the period attributable to			
Owners of the Company		(241,199)	33,118
Non-controlling interests		<u>625</u>	<u>32</u>
		<u>(240,574)</u>	<u>33,150</u>
		For the six months ended	
		30 September	
		2023	2022
		(Unaudited)	(Unaudited)
		HK cents	HK cents
Earnings/(loss) per share for profit/(loss) attributable to			
owners of the Company			
— Basic	<i>12</i>	<u>(9.95)</u>	<u>1.92</u>
— Diluted		<u>(9.95)</u>	<u>1.62</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. GENERAL INFORMATION

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

This unaudited condensed consolidated interim financial information of the Group for the six months ended 30 September 2023 (the “**Interim Financial Information**”) was approved for issue by the Board on 29 November 2023.

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES

The Interim Financial Information has been prepared in accordance with the Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”), and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “**Listing Rules**”) on the Stock Exchange.

The Interim Financial Information should be read in conjunction with the Group’s audited financial statements for the year ended 31 March 2023 (the “**2023 Audited Financial Statements**”) as prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”). Other than changes as described below, the accounting policies adopted and methods of computation used in the Interim Financial Information are consistent with the 2023 Audited Financial Statements.

In the six months ended 30 September 2023, the Group applied the following new HKFRSs and amendments to HKFRSs issued by the HKICPA for the first time which are mandatorily effective for the annual periods beginning on or after 1 April 2023 for the preparation of the Interim Financial Information. The Group considered that the application of these new or revised HKFRSs has no significant impact on the Group’s results and financial position.

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts
Amendments to HKAS 1 and HKFRS Practice Statement 2	Presentation of Financial Statements: <i>Disclosure of Accounting Policies</i>
Amendments to HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors: <i>Definition of Accounting Estimates</i>
Amendments to HKAS 12	Income Tax: <i>Deferred Tax Related to Assets and Liabilities arising from a Single Transaction</i>
Amendments to HKAS 12	Income Tax: <i>International Tax Reform-Pillar Two Model Rules</i>

The Group has not early applied any new HKFRSs and amendments to HKFRSs that have been issued but are not yet effective for its current accounting period.

3. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	At 30 September 2023 (Unaudited) HK\$'000	At 31 March 2023 (Audited) HK\$'000
Included in non-current assets:		
Investments in convertible bonds (<i>note a</i>)	<u>567,611</u>	<u>793,530</u>
Included in current assets:		
Short-term investment (<i>note b</i>)	<u>1,713</u>	<u>1,754</u>

(a) Investments in convertible bonds

The Group's investments in convertible bonds were issued by Innovative Pharmaceutical Biotech Limited ("**Innovative Pharm**") on 28 July 2014 with principal amount of HK\$715,000,000 and interest bearing at 3.5% per annum, with an original maturity date on the 7th anniversary of the date of issue i.e. 28 July 2021 ("**Innovative Pharm Bonds**"). The Group has the right to convert the Innovative Pharm Bonds into shares of Innovative Pharm up to the maturity date at an initial conversion price of HK\$2.5 per share. Deeds of amendments were entered into between the Company as the bondholder and Innovative Pharm as the issuer of the Innovative Pharm Bonds respectively on 26 July 2019 ("**First Amendment Deed**"), 12 May 2021 ("**Second Amendment Deed**") and 28 April 2023 ("**Third Amendment Deed**") to amend certain terms and conditions of the Innovative Pharm Bonds.

Pursuant to the First Amendment Deed which was effective on 28 October 2019, the then outstanding annual interests of the Innovative Pharm Bonds together with an additional interest charged for the extension of interest payment dates, were to be paid on 28 July 2021, details of which were set out in the Company's announcements dated 26 July and 28 October of 2019 and the circular dated 16 September 2019.

Pursuant to the Second Amendment Deed which was effective on 16 August 2021, in addition to the extension of certain payments of interests and with an additional interest, the maturity date of the Innovative Pharm Bonds was extended for two years to 28 July 2023, details of which were set out in the Company's announcements dated 12 May, 30 July and 16 August of 2021 and the circular dated 14 July 2021.

The Third Amendment Deed entered into between the Company and Innovative Pharm on 28 April 2023 was completed on 12 July 2023. The amendments mainly included: (i) a further two-year extension of the maturity date of the Innovative Pharm Bonds from 28 July 2023 to 28 July 2025; (ii) the annual interest at 4.5% for the two-year extension period from 28 July 2023 to 28 July 2025; and (iii) the additional interest at 15% per annum on the total outstanding interests up to 28 July 2025, details of which were set out in the Company's announcements dated 28 April, 28 June, 29 June and 12 July of 2023 and the circular dated 12 June 2023. Any outstanding principal amount of the Innovative Pharm Bonds shall be redeemed and the interests shall be paid, on the extended maturity date i.e. 28 July 2025.

The fair values of the Innovative Pharm Bonds at the date of initial recognition on 12 July 2023 upon completion of the Third Amendment Deed and at end of the reporting period on 30 September 2023 are determined based on the valuations conducted by an independent qualified valuer and are calculated using the Binomial Model.

The movements of the Innovative Pharm Bonds for the six months ended 30 September 2023 are set out below:

	<i>HK\$'000</i>
At 31 March 2023 and 1 April 2023 (Audited)	793,530
Change in fair value recognised in profit or loss (Unaudited)	<u>(290,826)</u>
Fair value on initial recognition at 12 July 2023 (Unaudited)	502,704
Change in fair value recognised in profit or loss (Unaudited)	<u>64,907</u>
At 30 September 2023 (Unaudited)	<u><u>567,611</u></u>

(b) Short-term investment

The amount represents short-term highly liquid investments placed in a state-owned financial institution in the People's Republic of China (“PRC” or “China”), which are readily convertible to cash. These investments are all denominated in Renminbi and valued based on non-determinable return rate.

4. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly based on credit, except for new customers, where payment in advance is normally required. The customers are generally given a credit period for 120 to 180 days, extending up to one year for some major customers.

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

	At 30 September 2023 (Unaudited) <i>HK\$'000</i>	At 31 March 2023 (Audited) <i>HK\$'000</i>
Within 90 days	3,313	2,987
91 to 180 days	1,459	1,048
181 to 365 days	<u>1,337</u>	<u>1,762</u>
	<u><u>6,109</u></u>	<u><u>5,797</u></u>

5. TRADE AND BILLS PAYABLES

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

The aging analysis of trade and bills payables based on invoice dates is as follows:

	At 30 September 2023 (Unaudited) <i>HK\$'000</i>	At 31 March 2023 (Audited) <i>HK\$'000</i>
Within 90 days	2,732	4,568
91 to 180 days	1,640	653
181 to 365 days	164	432
1 to 2 years	771	494
Over 2 years	<u>472</u>	<u>487</u>
	<u><u>5,779</u></u>	<u><u>6,634</u></u>

6. REVENUE AND SEGMENT INFORMATION

The Group's revenue comprises the following:

	For the six months ended 30 September	
	2023 (Unaudited) <i>HK\$'000</i>	2022 (Unaudited) <i>HK\$'000</i>
Manufacturing of pharmaceutical products	30,135	34,095
Trading of pharmaceutical products	<u>6</u>	<u>—</u>
	<u><u>30,141</u></u>	<u><u>34,095</u></u>

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products they provide. Each of the Group's operating segments represents a strategic business unit that offers products which are subject to risks and returns that are different from those of the other business segments. Summarised details of the reportable and operating segments are as follows:

- the manufacturing segment engages in the development, manufacture and sales of pharmaceutical products (“**Manufacturing**”);
- the trading segment engages in the marketing and distribution of imported pharmaceutical products (“**Trading**”); and
- the gene development segment engages in the commercial exploitation and development of genome-related technology (“**Gene Development**”).

The following is an analysis of the Group's revenue and results from operation by reportable and operating segment:

	For the six months ended 30 September (Unaudited)							
	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	<u>30,135</u>	<u>34,095</u>	<u>6</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>30,141</u>	<u>34,095</u>
Segment results	<u>3,506</u>	<u>237</u>	<u>(1,890)</u>	<u>(2,022)</u>	<u>(39)</u>	<u>(48)</u>	<u>1,577</u>	<u>(1,833)</u>
Unallocated other income							3,137	1,125
Unallocated other gains and losses, net							(225,988)	60,817
Unallocated administrative expenses							(5,113)	(5,377)
Interest expense on convertible bonds							(8,856)	(7,459)
Share of results of an associate							(552)	(1,125)
Profit/(loss) before income tax							(235,795)	46,148
Income tax expense							(1,118)	(208)
Profit/(loss) for the period							<u>(236,913)</u>	<u>45,940</u>

7. OTHER INCOME

	For the six months ended	
	30 September	
	2023	2022
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Bank interest income	2,359	603
Rental income	208	229
Government grants	59	792
Loan interest income from an associate	<u>511</u>	<u>404</u>
	<u>3,137</u>	<u>2,028</u>

8. OTHER GAINS AND LOSSES, NET

	For the six months ended	
	30 September	
	2023	2022
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Reversal of impairment loss on other receivables	1	58
Provision for impairment loss on trade receivables, net	(110)	(550)
Change in fair value on financial asset at fair value through profit or loss ("FVTPL") — investments in convertible bonds	(225,919)	60,817
Change in fair value on financial asset at FVTPL — short-term investment	16	23
Provision for impairment loss on loan to an associate	(69)	—
	<u>(226,081)</u>	<u>60,348</u>

9. PROFIT/(LOSS) BEFORE INCOME TAX

The Group's profit/(loss) before income tax is arrived at after charging/(crediting):

	For the six months ended	
	30 September	
	2023	2022
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation of right-of-use assets	898	1,100
Depreciation of investment properties	66	66
Depreciation of property, plant and equipment	3,554	3,059
Cost of inventories recognised as expenses (<i>note</i>)	5,938	10,720
Provision for impairment loss on inventories, net	24	233
Staff costs (including directors' emoluments):		
Salaries and allowances	8,977	9,506
Retirement benefit scheme contributions	1,183	985
	<u>1,183</u>	<u>985</u>

Note: The amount represents the cost of materials that used to produce the goods, excluding the direct labour costs and the manufacturing overheads.

10. INCOME TAX EXPENSE

	For the six months ended	
	30 September	
	2023	2022
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current tax:		
Hong Kong	—	—
PRC Enterprise Income Tax	<u>1,118</u>	<u>208</u>
Income tax expense	<u><u>1,118</u></u>	<u><u>208</u></u>

Under the two-tiered profits tax rates regime of Hong Kong Profits Tax, 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%. Hong Kong Profits Tax of the qualified entity of the Group is calculated in accordance with the two-tiered profits tax rates regime for the periods ended 30 September 2023 and 2022. The profits of group entities not qualifying for the two-tiered profits tax regime will continue to be taxed at a flat rate of 16.5%.

Under the Law of the PRC on Enterprise Income Tax (the “EIT”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% (six months ended 30 September 2022: 25%).

11. INTERIM DIVIDENDS

The directors do not recommend the payment of an interim dividend in respect of the six months ended 30 September 2023 (six months ended 30 September 2022: nil).

12. EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings/(loss) per share is based on the loss attributable to owners of the Company of approximately HK\$237,725,000 (six months ended 30 September 2022: profit of HK\$45,821,000) and 2,390,000,000 (six months ended 30 September 2022: 2,390,000,000) ordinary shares in issue.

The calculation of the diluted earnings per share for the six months ended 30 September 2022 is based on adjusted profit of approximately HK\$53,280,000 for effective interest expense on convertible bonds of HK\$7,459,000 and the weighted average number of 3,290,000,000 ordinary shares outstanding.

The computation of diluted loss per share for the six months ended 30 September 2023, however, does not assume the conversion of the Company’s outstanding convertible bonds since their assumed exercise would result in a decrease in loss per share and therefore is based on loss of approximately HK\$237,725,000 and 2,390,000,000 ordinary shares in issue.

13. RELATED PARTY DISCLOSURES

Save as disclosed elsewhere in the Interim Financial Information, the Group had the following transactions with its related parties during the six months ended 30 September 2023:

(a) Transactions with related parties

	For the six months ended	
	30 September	2022
	2023	2022
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Consultancy fee expense paid to Dr. Mao Yumin, a shareholder of the Company	306	306
Loan interest income receivable from loan to an associate	<u>511</u>	<u>404</u>

(b) Compensation for key management personnel, including amounts paid to the Company's directors

	For the six months ended	
	30 September	2022
	2023	2022
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Salaries, fees and other benefits	1,943	2,846
Retirement benefit scheme contributions	<u>9</u>	<u>18</u>
	<u>1,952</u>	<u>2,864</u>

(c) Share buy-back by a non-wholly owned subsidiary

As of 19 June 2023, the Group's shareholding in Changchun Extrawell Pharmaceutical Co., Ltd. ("**Changchun Extrawell**"), an indirect non-wholly owned subsidiary of the Company, has been increased from 73.11% to 80.46% upon completion of the share buy-back agreement dated 31 March 2023 entered into between Changchun Extrawell and a then minority shareholder (the "**Vendor**") of Changchun Extrawell for the buy-back and cancellation of the 9.14% of total issued share capital of Changchun Extrawell held by the Vendor at a cash consideration of Renminbi 4,400,000. Details of the share buy-back are disclosed in the Company's announcements dated 31 March 2023 and 19 June 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Overall Performance

During the six months ended 30 September 2023 (“**2023 Interim Period**”), pandemic-related supply chain disruptions have improved globally, however, global economic recovery remains weak as geopolitical instability and inflationary pressures continuously present challenges to global economy. China’s economy has been recovering steadily since the substantial lifting of COVID-19 restrictions, and recorded a growth rate of 5.2% year-on-year in the first three quarters of 2023. Despite facing challenges caused by the prolonged pandemic in the past years, China’s pharmaceutical industry has generally maintained its growth momentum. With the nation’s continuous deepening of healthcare reform and consistent strengthening of support for the industry, the health system has been continuously improved, facilitating access to affordable quality drugs and promoting innovation in drug research and development to address unmet medical needs. The constant regulatory changes and implementation of reforms, including the launch of the eighth round of centralised drug procurement and update of the national drug reimbursement list, continue to reshape the industry landscape. Pharmaceutical enterprises are faced with evolving market environment with fierce market competition.

During the 2023 Interim Period, the Group’s revenue, which was mainly contributed by the manufacturing segment operating in China, was about HK\$30.1 million, representing a decrease of about HK\$4.0 million when compared to revenue of about HK\$34.1 million reported in the six months ended 30 September 2022 (“**2022 Interim Period**”), primarily due to short-term decline in sales quantities amid market competition. The gross profit increased by about HK\$1.4 million to about HK\$14.9 million in the 2023 Interim Period while the gross margin increased from about 39.7% in the 2022 Interim Period to about 49.4% in the 2023 Interim Period. Such increases in gross profit and gross margin were mainly attributable to the lower in cost of sales as a result of the Group’s efforts to increase production efficiency and the stabilising materials prices following mitigation of the supply chain disruptions as the negative impacts by the COVID-19 pandemic have subsided during the 2023 Interim Period.

The Group’s administrative, selling and distribution expenses in aggregate were about HK\$18.2 million in the 2023 Interim Period, representing a decrease by about HK\$3.0 million or 14.0% when compared to about HK\$21.1 million in the 2022 Interim Period. Such decrease was mainly the combined result of reduction in marketing and promotion expenses and research and development expenses in aggregate of about HK\$2.0 million, coupled with the decrease in overall staff costs and office expenses, while the decrease in foreign exchange loss outweighed the increase in professional fees and expenses.

The Group recorded a net loss after tax of about HK\$236.9 million in the 2023 Interim Period, as compared to a profit of about HK\$45.9 million in the 2022 Interim Period. Such turnaround was mainly due to the non-cash item related to the loss arising from the fair value change of the financial asset at fair value through profit or loss (i.e. the Group’s investments in convertible bonds) of about HK\$225.9 million as compared to a gain from the fair value change of the same item of about HK\$60.8 million in

the 2022 Interim Period, while an increase in the interest expense on the convertible bonds of the Company, a non-cash item of about HK\$1.4 million was totally offset by the increase in bank interest income.

Revenue and Operating Results

Manufactured Pharmaceutical Sector

The prolonged pandemic has reshaped the landscape of the pharmaceutical industry. With the overall lifting of pandemic-related restrictions since the beginning of 2023, the supply chain interruptions that impacted the Group's manufacturing operations in the 2022 Interim Period have gradually relieved.

During the 2023 Interim Period, the Group's manufacturing segment demonstrated a stable improving trend in its operating performance and continued to achieve profitability. Though segment revenue decreased by about HK\$4.0 million to about HK\$30.1 million in the 2023 Interim Period, there was an increase in gross profit by about HK\$1.4 million as a result of an increase in gross margin due to increased production efficiency driven by optimisation of production facilities with the segment's internal resources and the stabilising materials prices. The decline in revenue was mainly due to short-term decrease in sales quantities along with mild price cut, as management endeavored to rationalise price reduction among market competition and capture sales from quality product demand. The Group has been adopting flexible sales strategies, strictly controlling the costs and improving the production efficiency, with a view to addressing numerous challenges faced by the Group in the challenging operating environment. With relentless efforts made by the management, segment results increased to about HK\$3.5 million mainly due to lower cost of sales facilitated by increased production efficiency while there were a reduction in the marketing and promotion expenses of about HK\$1.6 million, decreases in provision for impairment loss on trade receivables of about HK\$0.4 million and research and development expenses of about HK\$0.4 million.

The Group believes that China's pharmaceutical manufacturing sector will continue to prosper and has consolidated its control and ownership of Changchun Extrawell which operates a manufacturing plant in Changchun, to buy back shares from a then minority shareholder, details of which are disclosed in note 13(c) to the Interim Financial Information.

The Group will continue to strive for optimising the segment's fundamentals and actively expanding sales channels, thereby increasing its competitiveness and ensuring its sustainable development.

Imported Pharmaceutical Sector

While China's pharmaceutical industry sees both challenges and opportunities in the post-pandemic era, the Group continues to work with its business partners to pursue developing a new line of products to achieve market acceptance, and keep monitoring the market trends to identify business opportunities that may provide an income stream to the Group.

During the 2023 Interim Period, a small amount of revenue of about HK\$6,000 was recorded, which related to pilot sales of a new product. In the meantime, the Group has exercised best efforts to streamline its operations to reduce operating costs and expenses in order to further mitigate segment loss. As a result, segment loss reduced to about HK\$1.9 million, representing a decrease of about HK\$0.1 million when compared to about HK\$2.0 million in the 2022 Interim Period.

Gene Development Sector

During the 2023 Interim Period, gene development remained inactive and no revenue was recorded (2022 Interim Period: nil).

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 at 30 September 2023, the Group’s interest in an associate of about HK\$316.0 million (31 March 2023: HK\$316.5 million), accounted for about 26.2% (31 March 2023: 21.9%) of the Group’s total assets.

The Group’s share of loss from the associate for 2023 Interim Period was about HK\$0.6 million (2022 Interim Period: HK\$1.1 million), representing a decrease of about HK\$0.5 million which mainly related to decrease in research and development expenses for the Product. No dividend has been declared or received from Smart Ascent during the 2023 and 2022 Interim Periods.

As stated in the Company’s 2023 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.

The directors of the Company have performed impairment assessment on the carrying amount of the interest in the associate as at 30 September 2023. Having considered the progress of the In-process R&D, the prevailing market conditions and reasonableness of assumptions used for the cash flow projections for the purpose of impairment assessment, the directors of the Company do not identify any indication on the carrying amount of interest in the associate as at 30 September 2023 that may need to be impaired. Accordingly, no impairment is considered necessary as at 30 September 2023.

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

The Company held Innovative Pharm Bonds of approximately HK\$567.6 million as at 30 September 2023 (31 March 2023: HK\$793.5 million). The fair value of the Innovative Pharm Bonds as at 30 September 2023 represented approximately 47.1% (31 March 2023: 54.9%) of the Group's total assets. During the 2023 Interim Period, the maturity date of the Innovative Pharm Bonds was extended for a further two years from 28 July 2023 to 28 July 2025 upon completion of the Third Amendment Deed. The fair value change of the Innovative Pharm Bonds recorded an unrealised loss of about HK\$225.9 million in the 2023 Interim Period as compared to an unrealised gain of about HK\$60.8 million in the 2022 Interim Period.

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.

Other Income and Other Gains and Losses, Net

Other income and other gains and losses, net were in total a loss of about HK\$222.9 million in the 2023 Interim Period, as compared to a gain of about HK\$62.4 million in the 2022 Interim Period, which was mainly the result of the loss arising from the fair value change of the financial asset at fair value through profit or loss i.e. the Group's investments in convertible bonds of about HK\$225.9 million in the 2023 Interim Period when compared to a gain from fair value change of the same item of about HK\$60.8 million in the 2022 Interim Period, while a decrease in government grants of about HK\$0.7 million was totally offset by the increase in bank interest income of about HK\$1.8 million and a decrease in impairment provision for trade receivables of about HK\$0.4 million.

Selling and Distribution Expenses

Selling and distribution expenses decreased by about HK\$2.1 million or 23.8% from about HK\$8.8 million in the 2022 Interim Period to about HK\$6.7 million in the 2023 Interim Period. Such decrease was primarily the result of the continuing efforts of management in sales budgeting and relevant cost control.

Administrative Expenses

Administrative expenses decreased by about HK\$0.9 million or 7.1% from about HK\$12.4 million in the 2022 Interim Period to about HK\$11.5 million in the 2023 Interim Period. Such decrease was mainly due to reduction in staff costs and office expenses, while the decrease in foreign exchange loss outweighed the increase in professional fees and expenses incurred for the Company's major transaction and other corporate matters in the 2023 Interim Period.

Seasonal or Cyclical Factors

The Group's business operations were not significantly affected by any seasonal and cyclical factors, except extended statutory holidays in the PRC that may lead to lower Group's revenue and profit for the months in which these holidays are declared. There is no seasonal and cyclical factor for its borrowing requirements.

Financial Review

Liquidity and Financial Resources

The Group's funding and treasury policies and objectives are consistent with those as of 31 March 2023.

The Group generally finances its operations with internally generated cash flow and facilities granted by its principal banker in Hong Kong, Industrial and Commercial Bank of China (Asia) Limited. As at 30 September 2023, the Group had total cash and bank balances (excluding pledged bank deposits of about HK\$20.3 million (31 March 2023: HK\$19.8 million)) of about HK\$89.8 million, representing a decrease by approximately HK\$12.6 million or 12.3%. Such decrease included net cash used in operations, the cash utilisations for the share buy-back transaction of Changchun Extrawell of about HK\$4.9 million, acquisition of property, plant and equipment of about HK\$1.1 million, and payment of lease interests and liabilities in total of about HK\$0.9 million.

The Group did not have bank borrowings as at 30 September 2023 (31 March 2023: nil) but had banking facilities on trade finance of about HK\$18.0 million (31 March 2023: HK\$18.0 million), which were supported by the pledge of the Group's fixed deposits of about HK\$20.3 million (31 March 2023: HK\$19.8 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. As at 30 September 2023, none of these banking facilities have been utilised (31 March 2023: nil).

The Group's total borrowing over total assets ratio as at 30 September 2023 was 0.09 (31 March 2023: 0.07), calculated based on the Group's total assets of about HK\$1,205.0 million (31 March 2023: HK\$1,444.9 million) and total debts of about HK\$111.4 million (31 March 2023: HK\$103.2 million), comprising convertible bonds of about HK\$107.5 million (31 March 2023: HK\$98.6 million) and lease liabilities of about HK\$3.9 million (31 March 2023: HK\$4.6 million).

The Company's 20-year zero coupon convertible bonds were issued in Hong Kong dollars on 16 July 2013 with principal amount in aggregate of HK\$641,300,000 and a maturity date of 16 July 2033. As at 30 September 2023, the outstanding principal amount of the Company's convertible bonds was HK\$577,170,000 (31 March 2023: HK\$577,170,000).

Foreign Exchange Exposure

Save for certain purchases which are denominated in Euros, the Group's business transactions, assets and liabilities (including cash and bank balances) 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 obligations. No foreign currency and other hedges were made during the 2023 Interim Period but the Group will use financial instruments for hedging purpose when considered appropriate.

Material Acquisitions and Disposals

During the 2023 Interim Period, the Group did not have any significant investments, material acquisition or disposal.

Outlook

Since China's overall lifting of the pandemic-related restrictions at the beginning of 2023, economic and social activities have gradually resumed on the normal track and China's economy has been recovering steadily. Entering into a post-pandemic era, China's pharmaceutical industry has witnessed increasing demand for quality drugs due to the aging population and increasing public awareness of health while the structural reform of the industry has been further deepened to drive pharmaceutical enterprises towards high quality development and innovation. China's health system is undergoing reforms to enhance efficiency and effectiveness in line with the policy direction reflected in the 14th Five-Year Plan, while pharmaceutical enterprises are facing challenges in term of pricing pressure and fierce market competition.

Notwithstanding that various challenges brought about by the evolving market landscape in China's pharmaceutical industry, the operating environment remains challenging to the Group. The Group believes that the rising household income, accelerated aging population and increased healthcare awareness will continue to support the long-term growth of the pharmaceutical industry with the nation's advancement of "Healthy China", such that both opportunities and challenges co-exist. Over the years, the Group has reinforced focus on enhancing its production capability and capacity of its manufacturing segment by allocating its internal resources while optimising the production process to achieve production efficiency and cost reduction. The Group believes that China's pharmaceutical manufacturing sector will continue to prosper and thereby facilitating its manufacturing business performance in the long run. The Group will stay cautious in managing its businesses and adopt flexible strategies to address any changes, while looking for potential opportunities for the Group's business growth at the same time.

Despite the challenges in the ever-changing landscape, the Group will continue to grasp the development trends of China's pharmaceutical industry, strive for enhancing its operational efficiency and strengthening its core competitiveness for its sustainable development, and remains cautiously optimistic about the long-term development of the Group.

EMPLOYMENT AND REMUNERATION POLICY

As at 30 September 2023, the Group had 169 employees (30 September 2022: 172). Staff costs (including directors' emoluments) for the 2023 Interim Period amounted to approximately HK\$10.2 million (2022 Interim Period: HK\$10.5 million). The decrease in staff costs was mainly due to decreased expenses of salaries and allowances resulted from the reduction in the number of staff of the Group and partly offset by the increase in the social security contribution by the manufacturing segment as no relief was granted by the Chinese government in the 2023 Interim Period.

The Group remunerates its employees with salary, bonus and other benefits based on industry practices and provides various training opportunities to its staff members (such as on-job training) 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 share option scheme (the "**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 (the "**Old Scheme**") and no share options had been granted, exercised, cancelled or lapsed under the Old Scheme.

The Scheme will enable the Group to reward its employees, directors and other selected participants for their contribution or potential 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.

From the effective date of the Scheme to 30 September 2023, 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 its shareholders. The Group is fully committed to doing so.

In the opinion of the directors, the Company has complied with the code provisions of the Corporate Governance Code (“**Code Provisions**”) as set out in Appendix 14 of the Listing Rules throughout the 2023 Interim Period, except for certain deviations as 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 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 but 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 Company’s directors, the directors have complied with the required standards set out in the Model Code throughout the 2023 Interim Period.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the 2023 Interim Period, the Company and its subsidiaries did not purchase, redeem or sell any of the Company’s listed securities.

AUDIT COMMITTEE

The Audit Committee, which comprises three independent non-executive directors, has reviewed the unaudited condensed consolidated interim financial information of the Group for the 2023 Interim Period, and was content that the accounting principles and practices adopted by the Group were in conformity with the current practices in Hong Kong.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

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

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

Hong Kong, 29 November 2023

As at the date of this announcement, the executive directors are Dr. Xie Yi, Mr. Cheng Yong, Dr. Lou Yi and Ms. Wong Sau Kuen, and the independent non-executive directors are Mr. Fang Lin Hu, Ms. Jin Song and Dr. Guo Yi.

* *For identification purpose only*