**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 2024

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 2024 together with the comparative figures as follows:

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*FOR THE YEAR ENDED 31 MARCH 2024*

| | Notes | 2024<br>HK$'000 | 2023<br>HK$'000 |
|---|---|---|---|
| Revenue | 3 | **59,098** | 72,577 |
| Cost of sales | | **(30,319)** | (41,434) |
| Gross profit | | **28,779** | 31,143 |
| Other income | 4 | **6,203** | 3,707 |
| Other gains and losses, net | 5 | **(138,082)** | 157,957 |
| Selling and distribution expenses | | **(13,175)** | (16,683) |
| Administrative expenses | | **(22,158)** | (25,738) |
| Share of results of an associate | | **(2,275)** | (3,849) |
| Finance costs | | **(18,801)** | (15,636) |
| (Loss)/profit before income tax | 6 | **(159,509)** | 130,901 |
| Income tax expense | 7 | **(2,131)** | (1,128) |
| **(Loss)/profit for the year** | | **(161,640)** | 129,773 |

| | Notes | **2024** | 2023 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| **Other comprehensive expense** | | | |
| *Item that may be reclassified subsequently to profit or loss* | | | |
| Exchange differences on translation of foreign operations | | **(2,431)** | (13,127) |
| Other comprehensive expense for the year | | **(2,431)** | (13,127) |
| **Total comprehensive (expense)/income for the year** | | **(164,071)** | 116,646 |
| **(Loss)/profit for the year attributable to:** | | | |
| Owners of the Company | | **(162,949)** | 129,265 |
| Non-controlling interests | | **1,309** | 508 |
| | | **(161,640)** | 129,773 |
| **Total comprehensive (expense)/income for the year attributable to:** | | | |
| Owners of the Company | | **(165,359)** | 116,069 |
| Non-controlling interests | | **1,288** | 577 |
| | | **(164,071)** | 116,646 |
| | | ***HK cents*** | *HK cents* |
| **(Loss)/earnings per share for (loss)/profit attributable to owners of the Company:** | *8* | | |
| — Basic | | **(6.82)** | 5.41 |
| — Diluted | | **(6.82)** | 4.40 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*AT 31 MARCH 2024*

| | Notes | 2024 HK$'000 | 2023 HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Investment properties | | **2,417** | 2,549 |
| Property, plant and equipment | | **116,197** | 124,785 |
| Right-of-use assets | | **9,843** | 11,759 |
| Intangible assets | | **1,807** | 1,807 |
| Financial assets at fair value through profit or loss | | **660,564** | 793,530 |
| Financial assets at fair value through other comprehensive income | | **—** | — |
| Interest in an associate | | **314,241** | 316,516 |
| Loan to an associate | | **4,609** | 15,196 |
| Deferred tax assets | | **69** | 69 |
| | | **1,109,747** | 1,266,211 |
| **CURRENT ASSETS** | | | |
| Inventories | | **7,265** | 3,018 |
| Trade and bills receivables | *10* | **4,215** | 5,797 |
| Deposits, prepayments and other receivables | | **2,946** | 4,455 |
| Amount due from an associate | | **34,459** | 36,245 |
| Loan to an associate | | **13,430** | 5,190 |
| Financial assets at fair value through profit or loss | | **661** | 1,754 |
| Pledged bank deposits | | **20,856** | 19,803 |
| Cash and bank balances | | **93,610** | 102,401 |
| | | **177,442** | 178,663 |
| **CURRENT LIABILITIES** | | | |
| Trade and bills payables | *11* | **4,657** | 6,634 |
| Accruals, other payables and contract liabilities | | **27,122** | 32,517 |
| Lease liabilities | | **1,375** | 1,316 |
| Deferred income on government grants | | **116** | 118 |
| Tax payable | | **18,102** | 16,429 |
| | | **51,372** | 57,014 |
| **NET CURRENT ASSETS** | | **126,070** | 121,649 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **1,235,817** | 1,387,860 |

| | Notes | **2024** | 2023 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| **NON-CURRENT LIABILITIES** | | | |
| Convertible bonds | | **117,124** | 98,617 |
| Lease liabilities | | **1,911** | 3,291 |
| Deferred income on government grants | | **4,171** | 4,382 |
| | | **123,206** | 106,290 |
| **NET ASSETS** | | **1,112,611** | 1,281,570 |
| **EQUITY** | | | |
| Share capital | | **23,900** | 23,900 |
| Reserves | | **1,089,225** | 1,257,822 |
| **Equity attributable to owners of the Company** | | **1,113,125** | 1,281,722 |
| **Non-controlling interests** | | **(514)** | (152) |
| **TOTAL EQUITY** | | **1,112,611** | 1,281,570 |

*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")

**New and amendments to HKFRSs that are mandatorily effective for the current year**

In the current year, the Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") for the first time, which are mandatorily effective for the annual periods beginning on 1 April 2023 for the preparation of the consolidated financial statements:

| | |
|---|---|
| HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17) | Insurance Contracts |
| Amendment to HKAS 1 and HKFRS Practice Statement 2 | Disclosure of Accounting Policies |
| Amendments to HKAS 8 | Definition of Accounting Estimates |
| Amendments to HKAS 12 | Deferred Tax Related to Assets and Liabilities arising from a Single Transaction |
| Amendments to HKAS 12 | International Tax Reform-Pillar Two Model Rules |

The nature and the impact of the new and amendments to HKFRSs that are applicable to the Group are described below:

(a) In accordance with the amendments to HKAS 1 and HKFRS Practice Statement 2, accounting policy information that is standardised information, or information that only duplicates or summarises the requirements of the HKFRSs, is considered immaterial accounting policy information and is no longer disclosed in the notes to the consolidated financial statements so as not to obscure the material accounting policy information disclosed in the notes to the consolidated financial statements.

(b) Change in accounting policy on offsetting arrangement in long service payment scheme in HKSAR. In June 2022, the HKSAR Government enacted the Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 (the "**Amendment Ordinance**") which will be effective from 1 May 2025 (the "**Transition Date**"). Under the Amendment Ordinance, any accrued benefits attributable to the employer's mandatory contributions under mandatory provident fund scheme ("**MPF Benefits**") of an entity would no longer be eligible to offset against its obligations on long service payment ("**LSP**") for the portion of the LSP accrued on or after the Transition Date. There is also a change in the calculation basis of last monthly wages for the portion of the LSP accrued before the Transition Date.

Prior to 1 January 2023, the Group applied practical expedient in HKAS 19 paragraph 93(b) (the "**Practical expedient**") to account for the offsetable MPF Benefits as deemed employee contributions to reduce the current service costs in the period in which the related services were rendered.

In July 2023, the HKICPA published "Accounting implications of the abolition of the MPFLSP offsetting mechanism in HKSAR" (the "**Guidance**") which provides clarified and detailed guidance on the accounting considerations relating to the abolition of the offsetting mechanism. The Guidance clarified that following the enactment of the Amendment Ordinance, LSP is no longer a "simple type of contributory plans" to which the Practical expedient had been intended to apply.

By following the Guidance, the Group has therefore changed its accounting policy and ceased to apply the Practical expedient and reattribute the deemed employee contributions on a straight line basis from the date when services by employees first lead to their benefits in terms of the LSP legislation in accordance with HKAS 19 paragraph 93(a). The cumulative effect of recognising these adjustments as of 31 March 2023 or for the year ended was not material and hence no adjustment was made to the beginning accumulated losses, or another component of equity.

Except as described above, the application of the other new and amendments to HKFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

**Amendments to HKFRSs in issue but not yet effective**

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

| | | Effective for annual periods beginning on or after |
|---|---|---|
| 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 HKFRS 16 | Lease Liability in a Sale and Leaseback | 1 January 2024 |
| Amendments to HKAS 1 | Non-current Liabilities with Covenants | 1 January 2024 |
| Amendments to HKAS 7 and HKFRS 7 | Supplier Finance Arrangements | 1 January 2024 |
| Amendments to HKAS 21 | Lack of Exchangeability | 1 January 2025 |

The directors of the Company anticipate that the application of all the 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:

| | **2024** | 2023 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trading of pharmaceutical products | **12** | 4 |
| Manufacturing of pharmaceutical products | **59,086** | 72,573 |
| | **59,098** | 72,577 |

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 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** | |
|---|---|---|---|---|---|---|---|---|
| | **2024** | 2023 | **2024** | 2023 | **2024** | 2023 | **2024** | 2023 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Revenue | | | | | | | | |
| Sales to external customers | **59,086** | 72,573 | **12** | 4 | **—** | — | **59,098** | 72,577 |
| Segment results | **6,759** | 2,143 | **(3,276)** | (3,354) | **(85)** | (91) | **3,398** | (1,302) |
| Unallocated other income | | | | | | | **6,203** | 3,707 |
| Unallocated other gains and losses, net | | | | | | | **(138,082)** | 157,957 |
| Corporate expenses | | | | | | | **(10,246)** | (10,069) |
| Effective interest expense on convertible bonds | | | | | | | **(18,507)** | (15,543) |
| Share of results of an associate | | | | | | | **(2,275)** | (3,849) |
| (Loss)/profit before income tax | | | | | | | **(159,509)** | 130,901 |
| Income tax expense | | | | | | | **(2,131)** | (1,128) |
| (Loss)/profit for the year | | | | | | | **(161,640)** | 129,773 |

Segment profit/(loss) represents the profit earned by/(loss from) each segment without allocation of interest income, other gains and losses, net, corporate expenses, effective interest expense on convertible bonds and share of results of an associate. This is the measure reported to the chief operating decision maker, being the Board, 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 | |
|---|---|---|---|---|---|---|---|---|
| | **2024** | 2023 | **2024** | 2023 | **2024** | 2023 | **2024** | 2023 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| **Segment assets** | | | | | | | | |
| Segment assets | **163,334** | 176,617 | **43,518** | 45,827 | **15** | 15 | **206,867** | 222,459 |
| Financial assets at fair value through profit or loss — investments in convertible bonds | | | | | | | **660,564** | 793,530 |
| Interest in an associate | | | | | | | **314,241** | 316,516 |
| Corporate and other assets | | | | | | | **105,517** | 112,369 |
| Total assets | | | | | | | **1,287,189** | 1,444,874 |
| **Segment liabilities** | | | | | | | | |
| Segment liabilities | **52,128** | 57,917 | **574** | 709 | **64** | 64 | **52,766** | 58,690 |
| Convertible bonds | | | | | | | **117,124** | 98,617 |
| Corporate and other liabilities | | | | | | | **4,688** | 5,997 |
| Total liabilities | | | | | | | **174,578** | 163,304 |

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 | |
|---|---|---|---|---|---|---|---|---|
| | **2024** | 2023 | **2024** | 2023 | **2024** | 2023 | **2024** | 2023 |
| | ***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 | **7,301** | 6,660 | **1,612** | 1,507 | **—** | — | **8,913** | 8,167 |
| Unallocated depreciation and amortisation | | | | | | | **132** | 630 |
| | | | | | | | **9,045** | 8,797 |
| Provision for impairment loss on trade receivables, net | **89** | 795 | **—** | — | **—** | — | **89** | 795 |
| Reversal of written off on other receivables | **(134)** | (787) | **—** | — | **—** | — | **(134)** | (787) |
| (Reversal of)/allowance for obsolete inventories, net | **(180)** | 115 | **—** | — | **—** | — | **(180)** | 115 |

## 4. OTHER INCOME

| | **2024** | 2023 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Bank interest income | **4,611** | 2,126 |
| Rental income | **414** | 437 |
| Government grants | **117** | 284 |
| Loan interest income from an associate | **1,061** | 860 |
| | **6,203** | 3,707 |

## 5. OTHER GAINS AND LOSSES, NET

| | 2024 | 2023 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Change in fair value on financial assets at fair value through profit or loss | | |
| — investments in convertible bonds | **(132,966)** | 158,623 |
| Change in fair value on financial assets at fair value through profit or loss | | |
| — short term investment | **33** | 41 |
| Provision for impairment loss on loan to an associate | **(3,409)** | (854) |
| (Provision for)/reversal of impairment loss on amount due from an associate | **(1,785)** | 155 |
| Reversal of written off on other receivables | **134** | 787 |
| Provision for impairment loss on trade receivables, net | **(89)** | (795) |
| | **(138,082)** | 157,957 |

## 6. (LOSS)/PROFIT BEFORE INCOME TAX

| | 2024 | 2023 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| (Loss)/profit before income tax is arrived at after charging/(crediting): | | |
| Auditor's remuneration | **800** | 800 |
| Depreciation of right-of-use assets | **1,759** | 2,151 |
| Depreciation of investment properties | **132** | 132 |
| Depreciation of property, plant and equipment | **7,154** | 6,514 |
| Cost of inventories recognised as expenses | **13,723** | 20,646 |
| Research and development cost | **194** | 881 |
| (Reversal of)/allowance for obsolete inventories, net | **(180)** | 115 |
| Staff costs (including directors' emoluments) | | |
| Salaries and allowances | **17,417** | 18,874 |
| Retirement benefit scheme contributions | **2,327** | 2,224 |

## 7. INCOME TAX EXPENSE

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

| | 2024 | 2023 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Current tax | | |
| — Hong Kong | **—** | — |
| — PRC Enterprise Income Tax | **2,131** | 1,128 |
| Income tax expense | **2,131** | 1,128 |

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 2024 and 2023, 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% (2023: 25%).

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

No provision of Hong Kong Profits Tax has been made for the year (2023: Nil).

## 8. (LOSS)/EARNINGS PER SHARE

The calculation of the basic and diluted (loss)/earnings per share for the years ended 31 March 2024 and 2023 attributable to owners of the Company is based on the following data:

| | **2024** | 2023 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **(Loss)/earnings** | | |
| (Loss)/earnings for the purpose of basic (loss)/earnings per share ((loss)/profit for the year attributable to owners of the Company) | **(162,949)** | 129,265 |
| Effect of potential ordinary shares: | | |
| Interest on convertible bonds | **—** | 15,543 |
| (Loss)/earnings for the purpose of diluted (loss)/earnings per share | **(162,949)** | 144,808 |

| | **2024** | 2023 |
|---|---|---|
| | ***'000*** | *'000* |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share | **2,390,000** | 2,390,000 |
| Effect of potential ordinary shares: | | |
| Convertible bonds | **—** | 900,000 |
| Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per share | **2,390,000** | 3,290,000 |

The computation of diluted loss per share for the year ended 31 March 2024 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 diluted loss per share is same as basis loss per share.

## 9. DIVIDENDS

No dividend was paid or declared by the Board during the year ended 31 March 2024 (2023: nil), nor has any dividend been proposed since the end of reporting period.

## 10. TRADE AND BILLS RECEIVABLES

| | **2024** | 2023 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Bills receivables | **448** | 304 |
| Trade receivables | **43,189** | 45,701 |
| Less: Provision for impairment loss on trade receivables | **(39,422)** | (40,208) |
| | **4,215** | 5,797 |

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 ageing analysis of trade and bills receivables (net of provision of impairment loss), presented based on invoice date:

| | **2024** | 2023 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 90 days | **1,794** | 2,987 |
| 91 to 180 days | **1,524** | 1,047 |
| 181 to 365 days | **897** | 1,763 |
| | **4,215** | 5,797 |

## 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:

| | **2024** | 2023 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 90 days | **2,511** | 4,568 |
| 91 to 180 days | **907** | 653 |
| 181 to 365 days | **163** | 432 |
| 1 to 2 years | **598** | 494 |
| Over 2 years | **478** | 487 |
| | **4,657** | 6,634 |

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

#### *Overall Performance Review*

Global economic growth remains slow, characterised by the uneven geographic recovery from the pandemic shocks and geopolitical strains. China's economy recorded a 5.2% full-year growth in 2023 after the nation's uplifting of the pandemic restrictions since early 2023, propelled by a rebound in consumption. Further, the Chinese economy registered a growth of 5.3% in the first quarter of 2024, supported by the nation's favorable policies to boost demand.

Despite China's operating environment has been highly challenging due to the impacts of the pandemic over years, the pharmaceutical industry has generally demonstrated a stable and positive development trend. With the nation's continuous deepening of the healthcare reform, China's pharmaceutical industry continues to improve with optimisation of centralised procurement and expanded medical insurance coverage, accelerated drug approval and strengthening of regulatory systems. The constant implementation of reforms, including the eighth round of centralised drug procurement and the update of the national drug reimbursement list, together with the regulatory changes, continue to reshape the industry landscape and promote the high-quality development of the pharmaceutical industry, spurring pharmaceutical enterprises to pursue innovative product pipelines and resulting in faster access to new drugs. Pharmaceutical enterprises, including the Group, are in the face of evolving market environment with fierce market competition.

During the year, the Group's revenue and gross profit, which were mainly contributed by the manufacturing segment operating in China were about HK$59.1 million (2023: HK$72.6 million) and HK$28.8 million (2023: HK$31.1 million) respectively, representing decreases of about HK$13.5 million in revenue and about HK$2.4 million in gross profit. The decrease in revenue was mainly due to decrease in sales quantities along with mild price cut of the Group's manufactured products while management endeavored to rationalise price reduction among intensifying market competition to capture sales from quality product demand. The decline in gross profit was in line with the drop in sales, however, the gross profit margin increased due to the lower cost of sales resulted from the Group's continuous efforts to enhance production efficiency coupled with the stabilising prices of materials benefited from mitigation of the supply chain disruptions during the year.

The Group's administrative, selling and distribution expenses in aggregate decreased to about HK$35.3 million, representing a decrease by about HK$7.1 million or 16.7% when compared to about HK$42.4 million of last year. The decrease was mainly the combined result of the reduction in marketing and promotion expenses benefiting from the management's continuing efforts in sales budgeting and relevant cost control, coupled with the reduction in staff costs and office expenses resulting from streamlining of operations, while the increase in legal and professional fees and expenses incurred for the Company's major transaction and other corporate matters was partly offset by the decrease in exchange loss.

The Group's operating loss before income tax was about HK$159.5 million, as compared to a profit of about HK$130.9 million last year. Such turnaround from profit to loss was mainly due to the combined results of non-cash items, including the fair value change (loss) of the financial assets at fair value through profit or loss (i.e. the Group's investments in convertible bonds) of about HK$133.0 million, as compared to the fair value change (gain) of the same non-cash item of about HK$158.6 million last year, while the increase in provision for impairment loss on amount due from an associate and loan to an associate in aggregate of about HK$4.5 million and increase in the interest expense on the convertible bonds of the Company of about HK$3.0 million were partly offset by the decrease in share of loss of an associate and the increase in bank interest income.

The Group's loss for the year attributable to owners of the Company was about HK$162.9 million, representing a decrease of about HK$292.2 million when compared to a profit of about HK$129.3 million last year, primarily due to the non-cash item related to the loss from fair value change of the Group's investments in convertible bonds.

## REVENUE AND OPERATING RESULTS

### Manufactured Pharmaceutical Sector

The pharmaceutical industry landscape has been reshaped by the prolonged pandemic over the past few years. Though the supply chain interruptions that impacted the Group's manufacturing operations last year have gradually relieved following the overall lifting of the pandemic-related restrictions since early 2023, reforms of the pharmaceutical industry continue to deepen, the operating environment remains highly challenging, and the market competition is intensifying.

In the face of the evolving market environment, the Group has stayed focused in improving production efficiency while implementing cost-saving measures in an effort to achieve profitability. During the year, the Group's manufacturing segment continued to contribute profits to the Group notwithstanding that segment revenue decreased by about HK$13.5 million to HK$59.1 million and gross profit decreased by HK$2.4 million to HK$28.8 million. The decreases in revenue and gross profit were primarily due to decrease in sales quantities along with mild price cut of the Group's manufactured products as management endeavored to rationalise price reduction among intensifying market competition and capture sales from demand of quality products. However, the gross profit margin increased because of lower in cost of sales, as the prices of materials stabilised following the mitigation of the supply chain disruptions, and management's continuing efforts in enhancing production efficiency. To address numerous challenges faced by the Group, the Group has been adopting flexible sales strategies and stringent cost control. With relentless efforts made by the management, segment results increased to about HK$6.8 million mainly due to increased gross profit margin facilitated by increased production efficiency and decreases in the marketing and promotion expenses of about HK$2.5 million and research and development expenses of about HK$0.7 million while the impact of decline in gross profit which was in line with drop in sales was totally offset by decrease in general administrative expenses of about HK$3.3 million resulted from cost saving measures and substantially less maintenance costs and expenses were incurred for the workplaces as compared to last year.

During the year, the Group has taken the opportune time to consolidate its control and ownership of its non-wholly owned subsidiary of the Group i.e. Changchun Extrawell Pharmaceutical Co., Ltd. ("**Changchun Extrawell**"), which operates a manufacturing plant in Changchun, through a share buy-back from the then minority shareholder, and upon completion of the share buy-back, the Group has increased its shareholding in Changchun Extrawell by 7.35% to 80.46%.

The Group believes that China's pharmaceutical manufacturing sector will continue to prosper, and as part of the Group's development strategy, the Group will stay focused on enhancing its production capability and capacity to strengthen the segment's fundamentals and continue to monitor the industry development trend under the 14th Five-Year Plan, to strive for sustainable development for the Group.

**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 potential opportunities in an effort to develop a new line of products to achieve market acceptance.

During the year, segment loss reduced to about HK$3.3 million, representing a decrease of about HK$0.1 million, and a small amount of revenue of about HK$12,000 was recorded which related to pilot sales of a new product. In view of the current difficult situation, the Group will continue to streamline the operations by exercising cost-saving measures to further reduce operating costs and expenses, in order to minimise segment loss before the segment performance can be restored.

The Group will endeavor to keep monitoring the market trends in the evolving market environment and will exert efforts in identifying 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 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. As the pandemic control measures in China had been substantially lifted from early 2023, the prolonged pandemic disruptions were expected to be gradually minimised, however, the clinical research activities were still impacted by the effect of supply-chain interruptions of the pandemic to certain extent, that it had taken longer time than expected for the manufacturer of drug samples for clinical trial to produce the new batch of drug samples as planned. Given that the drug samples for clinical trial had been produced, the patient selection and enrolment process is ongoing.

In light of the aforesaid, and based on the current information available to the Company, 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 2026.

During the year, the loss of Smart Ascent Group was about HK$7.0 million (2023: HK$13.0 million), for which the Group's share of loss amounted to about HK$2.3 million (2023: HK$3.8 million), representing a decrease of about HK$1.5 million. Such decrease mainly related to decrease in research and development expenses for the Product.

Diabetes is a chronic disease that affects the long-lasting health condition of patients and the prevalence of diabetes may increase with age. 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 ("**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 2026. 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) | 26.8% |
| Growth rate | 2.2% |
| Gross profit ratio | 56.0% |

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 2024 that may need to be impaired. Accordingly, no impairment is considered necessary as at 31 March 2024.

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 loss of about HK$131.9 million (2023: gain of HK$161.7 million), representing a decrease in gain of about HK$293.5 million, which was mainly the result of (i) a non-cash item related to loss arising from fair value change of the financial assets at fair value through profit or loss (i.e. the Group's investments in convertible bonds) of about HK$133.0 million when compared to a gain from fair value change of about HK$158.6 million last year; (ii) increase in provision for impairment loss on amount due from an associate and loan to an associate of about HK$4.5 million in aggregate; (iii) decrease in reversal of written off on other receivables of about HK$0.7 million totally offset by the decrease in provision for impairment loss on trade receivables; (iv) increase in bank interest income of about HK$2.5 million; (v) decrease in government grant of about HK$0.2 million and (vi) increase in loan interest income of about HK$0.2 million.

**Selling and Distribution Expenses**

Selling and distribution expenses decreased to about HK$13.2 million (2023: HK$16.7 million), representing a decrease of about HK$3.5 million or 21.0%. Such decrease was mainly due to reduction in marketing and promotion expenses of about HK$2.5 million as a result of the continuing efforts of management in sales budgeting and relevant cost control, and the decrease in research and development expenses of about HK$0.7 million.

**Administrative Expenses**

Administrative expenses were about HK$22.2 million (2023: HK$25.7 million), representing a decrease of about HK$3.6 million or 13.9%, which was primarily due to cost reduction in the Group's operations, including staff costs and office expenses, and substantially less maintenance costs and expenses incurred for the workplaces of the manufacturing segment, while the increase in professional fees and expenses incurred for the Company's major transaction and other corporate matters were partly offset by the decrease in exchange loss.

**OUTLOOK**

Amid complex landscape brought by continuing and new challenges, including the ongoing impacts of geopolitical tensions and escalating geoeconomic fragmentation that increase the barriers to trade and technology flows, and the headwind of interest rate hikes and inflation concerns that deter demand, major economies worldwide have demonstrated a resilient recovery at varied paces. Entering into a post-pandemic era, China's economic activities continue to recover, supported by the nation's implementation of a series of stimulus policies and measures.

Despite challenges and complexities from the external environment, China's unwavering commitment to deepening reforms and placing emphasis on innovation and technological advancement, have facilitated its economic and social development under the 14th Five-Year Plan on track, and thereby fostering the high-quality development of the pharmaceutical industry. Driven by increasing market demand arising from the increasing public awareness of health and the accelerated aging population coupled with the nation's strategic goals of building a Healthy China, the pharmaceutical industry is expected to navigate quality development through structural transformation and efficiency improvement, and will continue to upgrade and undergo changes to meet unmet medical needs.

The Group believes that both opportunities and challenges co-exist in China's ever-changing pharmaceutical market and will continue to stay vigilant in managing its businesses and be responsive to market changes. The Group will endeavor to grasp the industry trends and stay focused on enhancing its production facilities and manufacturing capability of its manufacturing segment by allocating internal resources while streamlining the production processes to maximise production efficiency with the aim of manufacturing quality products and achieving profitability. Looking ahead with cautious optimism, the Group will continue to strive 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 2024, the Group had total cash and bank balances (including pledged bank deposits) of about HK$114.5 million (2023: HK$122.2 million), representing a decrease by about HK$7.7 million or 6.3%. Such decrease in cash and bank balances included net cash used in operations, the cash utilisations for share buy-back transaction of Changchun Extrawell of about HK$4.9 million, acquisition of property, plant and equipment of about HK$1.2 million and payment of lease interests and liabilities of about HK$1.6 million, and proceeds received from disposal of short-term investment of about HK$1.1 million and an increase in bank interest income received of about HK$2.2 million.

***Accruals and Other Payables***

Accruals and other payables was about HK$21.9 million as of 31 March 2024 (2023: HK$26.0 million). Such decrease was mainly due to decreases in payables for acquisition of property, plant and equipment and other tax payables.

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$20.9 million (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 31 March 2024, none of these banking facilities was utilised (31 March 2023: nil).

The Group's total borrowing over total assets ratio as at 31 March 2024 was 0.09 (2023: 0.07), calculated based on the Group's total assets of about HK$1,287.2 million (2023: HK$1,444.9 million) and total debts of about HK$120.4 million (2023: HK$103.2 million), comprising convertible bonds of about HK$117.1 million (2023: HK$98.6 million) and lease liabilities of about HK$3.3 million (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 31 March 2024, 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***

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 2024.

***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$660.6 million as at 31 March 2024 (2023: approximately HK$793.5 million), which related to the convertible bonds issued by Innovative Pharm ("**Innovative Pharm Bonds**"). The fair value of the Innovative Pharm Bonds represented 51.3% of the Group's total assets as at 31 March 2024 (2023: 55.0%).

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.

Pursuant to the third amendment deed entered into between the Company and Innovative Pharm on 28 April 2023, which was effective on 12 July 2023, the maturity date of Innovative Pharm Bonds was further extended for two years from 28 July 2023 to 28 July 2025. 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. Details of the amendments are set out in the Company's circular dated 12 June 2023.

***Employment and Remuneration Policy***

As at 31 March 2024, the Group had 159 employees (2023: 181). Staff costs (including directors' emoluments) for the year ended 31 March 2024 amounted to approximately HK$19.7 million (2023: approximately HK$21.1 million). The decreases in number of employees and staff costs are primarily related to decrease in production workforce of the manufacturing segment and effect of cost reduction in streamlining the Group's operations.

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 ten 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 ten years expired on 28 August 2022 ("**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, the 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 31 March 2024, no share options have been granted, exercised, cancelled or lapsed under the Scheme.

## CORPORATE GOVERNANCE

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

The Company has adopted and complied with the code provisions of the Corporate Governance Code ("**Code Provisions**") as set out in Appendix C1 of the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange during the year ended 31 March 2024, except for certain deviations as set out below.

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 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 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 C3 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 2024.

## 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, 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 Audit Committee comprises three independent non-executive directors. The Group's annual results for the year ended 31 March 2024 and the accounting principles and practices adopted by the Group, have been reviewed by the Audit 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 available on the above websites and despatched to the shareholders of the Company in due course.

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

Hong Kong, 28 June 2024

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
Dr. GUO Yi

*Independent Non-executive Directors and Audit Committee:*
Mr. FANG Lin Hu
Ms. JIN Song
Dr. ZENG Li

* *For identification purpose only*