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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)

ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2021

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 2021 together with the comparative figures as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2021

		2021	2020
	Notes	HK\$'000	HK\$'000
Revenue	3	78,802	77,584
Cost of sales		<u>(36,236)</u>	<u>(34,668)</u>
Gross profit		42,566	42,916
Other income	4	6,205	12,932
Other gains and losses, net	5	(100,879)	93,153
Selling and distribution expenses		(29,544)	(24,552)
Administrative expenses		(23,890)	(26,445)
Share of results of an associate		(2,879)	(3,165)
Finance costs		<u>(11,242)</u>	<u>(9,348)</u>
(Loss)/Profit before income tax	6	(119,663)	85,491
Income tax credit	7	<u>—</u>	<u>90</u>
(Loss)/Profit for the year		<u>(119,663)</u>	<u>85,581</u>

	<i>Notes</i>	2021 HK\$'000	2020 HK\$'000
Other comprehensive income/(expense)			
<i>Item that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translation of foreign operations		<u>9,109</u>	<u>(7,304)</u>
Other comprehensive income/(expense) for the year		<u>9,109</u>	<u>(7,304)</u>
Total comprehensive (expense)/income for the year		<u>(110,554)</u>	<u>78,277</u>
(Loss)/Profit for the year attributable to:			
Owners of the Company		(121,098)	83,280
Non-controlling interests		<u>1,435</u>	<u>2,301</u>
		<u>(119,663)</u>	<u>85,581</u>
Total comprehensive (expense)/income for the year attributable to:			
Owners of the Company		(111,990)	75,843
Non-controlling interests		<u>1,436</u>	<u>2,434</u>
		<u>(110,554)</u>	<u>78,277</u>
		HK cents	HK cents
(Loss)/Earnings per share for (loss)/profit attributable to owners of the Company:			
— Basic	8	<u>(5.07)</u>	<u>3.48</u>
— Diluted		<u>(5.07)</u>	<u>2.81</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 MARCH 2021

		2021	2020
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
NON-CURRENT ASSETS			
Investment properties		1,260	1,319
Property, plant and equipment		131,075	126,070
Right-of-use assets		12,488	14,005
Intangible assets		1,807	1,807
Financial assets at fair value through profit or loss	<i>10</i>	466,322	571,065
Financial assets at fair value through other comprehensive income		—	—
Interest in an associate		324,018	326,897
Loan to an associate		16,118	15,383
Deferred tax assets		69	69
		953,157	1,056,615
CURRENT ASSETS			
Inventories		7,558	5,865
Trade and bills receivables	<i>11</i>	9,130	10,484
Deposits, prepayments and other receivables		2,263	4,787
Amount due from an associate		41,947	38,377
Financial assets at fair value through profit or loss		1,786	1,652
Pledged bank deposits		21,688	21,493
Cash and bank balances		126,710	126,437
		211,082	209,095
CURRENT LIABILITIES			
Trade and bills payables	<i>12</i>	6,692	6,239
Accruals, other payables and contract liabilities		33,893	36,052
Lease liabilities		1,771	1,692
Deferred income on government grants		127	117
Tax payable		15,410	14,232
		57,893	58,332
NET CURRENT ASSETS		153,189	150,763
TOTAL ASSETS LESS CURRENT LIABILITIES		1,106,346	1,207,378

	<i>Notes</i>	2021 HK\$'000	2020 <i>HK\$'000</i>
NON-CURRENT LIABILITIES			
Convertible bonds		69,980	58,950
Lease liabilities		2,123	3,894
Deferred income on government grants		<u>4,949</u>	<u>4,686</u>
		<u>77,052</u>	<u>67,530</u>
NET ASSETS		<u>1,029,294</u>	<u>1,139,848</u>
EQUITY			
Share capital		23,900	23,900
Reserves		<u>1,006,605</u>	<u>1,118,595</u>
Equity attributable to owners of the Company		1,030,505	1,142,495
Non-controlling interests		<u>(1,211)</u>	<u>(2,647)</u>
TOTAL EQUITY		<u>1,029,294</u>	<u>1,139,848</u>

Notes:

1. GENERAL INFORMATION

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

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

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

(a) Adoption of new/revised HKFRSs — effective 1 April 2020

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

Amendments to HKFRS 3	Definition of a business
Amendments to HKAS 1 and HKAS 8	Definition of material
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest rate benchmark reform

The application of the new/revised HKFRSs and amendment to HKFRSs in the current year has had no material impact on the Group’s accounting policies.

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

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

Amendments to HKFRS 16	COVID-19 — Related Rent Concessions ¹
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2 ²
Amendments to HKFRS 16	COVID-19 — Related Rent Concessions beyond 30 June 2021 ³
Amendments to HKAS 37	Onerous contracts — Cost of fulfilling a contract ⁴
Annual improvements to HKFRSs	Annual improvements to HKFRSs 2018–2020 cycle ⁴
Amendments to HKAS 16	Property, plant and equipment: Proceeds before intended use ⁴
Amendments to HKFRS 3	Reference to the conceptual framework ⁴
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ⁵
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁶
HKFRS 17	Insurance Contracts and the related Amendments ⁵
Amendment to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies ⁵
Amendment to HKAS 8	Definition of Accounting Estimates ⁵

- ¹ Effective for annual periods beginning on or after 1 June 2020.
- ² Effective for annual periods beginning on or after 1 January 2021.
- ³ Effective for annual periods beginning on or after 30 June 2021.
- ⁴ Effective for annual periods beginning on or after 1 January 2022.
- ⁵ Effective for annual periods beginning on or after 1 January 2023.
- ⁶ Effective for annual periods beginning date to be determined.

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:

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Manufacturing of pharmaceutical products	<u>78,802</u>	<u>77,584</u>

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

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

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

Segment revenue and results

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

	Manufacturing		Trading		Gene Development		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue								
Sales to external customers	<u>78,802</u>	<u>77,584</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>78,802</u>	<u>77,584</u>
Segment results	<u>4,027</u>	<u>6,453</u>	<u>(4,416)</u>	<u>(14,919)</u>	<u>(96)</u>	<u>(86)</u>	<u>(485)</u>	<u>(8,552)</u>
Unallocated other income							6,205	12,932
Unallocated other gains and losses, net							(104,743)	101,328
Corporate expenses							(6,731)	(7,737)
Effective interest expense on convertible bonds							(11,030)	(9,315)
Share of results of an associate							<u>(2,879)</u>	<u>(3,165)</u>
(Loss)/Profit before income tax							(119,663)	85,491
Income tax credit							<u>—</u>	<u>90</u>
(Loss)/Profit for the year							<u>(119,663)</u>	<u>85,581</u>

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

Segment assets and liabilities

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

	Manufacturing		Trading		Gene Development		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets								
Segment assets	182,186	163,379	69,338	71,677	7	7	251,531	235,063
Financial assets at fair value through profit or loss — investments in convertible bonds							466,322	571,065
Interest in an associate							324,018	326,897
Corporate and other assets							122,368	132,685
Total assets							1,164,239	1,265,710
Segment liabilities								
Segment liabilities	58,561	54,109	5,092	11,666	64	72	63,717	65,847
Convertible bonds							69,980	58,950
Corporate and other liabilities							1,248	1,065
Total liabilities							134,945	125,862

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	
	2021	2020	2021	2020	2021	2020	2021	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts included in the measure of segment profit or loss:								
Depreciation and amortisation	5,982	5,910	2,010	320	—	—	7,992	6,230
Unallocated depreciation and amortisation							132	131
							<u>8,124</u>	<u>6,361</u>
Provision for/(Reversal of) impairment loss on trade receivables, net	241	1,567	(2,971)	4,354	—	—	(2,730)	5,921
Bad debts recovered from trade receivables previously written off	—	(2,127)	—	—	—	—	—	(2,127)
Gain on disposal of property, plant and equipment	—	(85)	—	—	—	—	—	(85)
(Reversal of)/Provision for impairment loss on other receivables	(151)	2,921	(943)	1,596	—	—	(1,094)	4,517
(Reversal of)/Provision for impairment loss on inventories, net	<u>(60)</u>	<u>253</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(60)</u>	<u>253</u>

4. OTHER INCOME

	2021	2020
	HK\$'000	HK\$'000
Bank interest income	860	3,264
Sundry income	—	2
Government grants	1,040	121
Imputed interest income from amount due from an associate	3,570	8,989
Loan interest income from an associate	<u>735</u>	<u>556</u>
	<u>6,205</u>	<u>12,932</u>

5. OTHER GAINS AND LOSSES, NET

	2021 HK\$'000	2020 HK\$'000
Gain on disposal of property, plant and equipment	—	85
Change in fair value on financial assets at fair value through profit or loss — investments in convertible bonds	(104,743)	101,328
Change in fair value on financial assets at fair value through profit or loss — short term investment	40	51
Reversal of/(Provision for) impairment loss on other receivables	1,094	(4,517)
Reversal of/(Provision for) impairment loss on trade receivables, net	2,730	(5,921)
Bad debts recovered from trade receivables previously written off	—	2,127
	<u>(100,879)</u>	<u>93,153</u>

6. (LOSS)/PROFIT BEFORE INCOME TAX

	2021 HK\$'000	2020 HK\$'000
(Loss)/Profit before income tax is arrived at after charging/(crediting):		
Auditor's remuneration	760	730
Depreciation of right-of-use assets	2,159	467
Depreciation of investment properties	59	59
Depreciation of property, plant and equipment	5,906	5,835
Cost of inventories recognised as expenses	36,236	34,668
Expenses relating to short term lease payment	—	1,601
(Reversal of)/Provision for impairment loss on inventories, net	(60)	253
Staff costs (including directors' emoluments)		
Salaries, bonus and allowances	19,549	20,395
Retirement benefits scheme contributions	<u>1,221</u>	<u>2,056</u>

7. INCOME TAX CREDIT

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

	2021 HK\$'000	2020 HK\$'000
Current tax		
— Hong Kong	—	—
— PRC Enterprise Income Tax	—	—
— Other jurisdictions	—	—
	<u>—</u>	<u>—</u>
Overprovision in prior years		
— Hong Kong	—	(50)
— Other jurisdictions	—	(40)
	<u>—</u>	<u>(90)</u>
Income tax credit	<u>—</u>	<u>(90)</u>

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 2021 and 2020, 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% (2020: 25%).

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

8. (LOSS)/EARNINGS PER SHARE

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

	2021 HK\$'000	2020 HK\$'000
(Loss)/Earnings		
(Loss)/Earnings for the purpose of basic earnings per share		
((Loss)/Profit for the year attributable to owners of the Company)	(121,098)	83,280
Effect of potential ordinary shares:		
Interest on convertible bonds	—	9,315
(Loss)/Earnings for the purpose of diluted earnings per share	<u>(121,098)</u>	<u>92,595</u>
	2021 '000	2020 '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	<u>2,390,000</u>	<u>3,290,000</u>

The computation of diluted loss per share for the year ended 31 March 2021 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.

9. DIVIDENDS

No dividend was paid or declared by the board of directors during the year ended 31 March 2021 (2020: nil), nor has any dividend been proposed since the end of reporting period.

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

On 28 July 2014, the Group completed the disposal of 51% equity interest in Smart Ascent Limited and received consideration with fair value of HK\$435,193,000 comprising (i) cash payment of HK\$65,000,000; and (ii) convertible bonds issued by Innovative Pharmaceutical Biotech Limited (“**Innovative Pharm**”) on 28 July 2014 with principal amount of HK\$715,000,000 (the “**Innovative Pharm Bonds**”) and fair value of HK\$370,193,000.

The Innovative Pharm Bonds bear interest at 3.5% per annum payable in arrears annually with maturity on the 7th anniversary of the date of issue of the Innovative Pharm Bonds i.e. 28 July 2021 (the “**Original Maturity Date**”). The Group has the right to convert the Innovative Pharm Bonds into shares of Innovative Pharm at any time from the date of issue to the Original Maturity Date at an initial conversion price of HK\$2.5 per share.

On 26 July 2019, the Company and Innovative Pharm entered into a deed of amendments to amend the terms and conditions of the Innovative Pharm Bonds (the “**First Amendment Deed**”). Pursuant to the First Amendment Deed, (i) the interest payment dates for the interest of 3.5% originally due on 28 July 2019 and 2020 were extended to 28 July 2021; and (ii) the additional interest of HK\$11,261,250, representing 15% per annum on the annual interest multiply by three, was charged for the extension for payment of interests stated in (i) and shall be paid on 28 July 2021. The First Amendment Deed was effective on 28 October 2019. Details of the amendments of the terms and conditions of Innovative Pharm Bonds were set out in the Company’s circular dated 16 September 2019 and the Company’s announcement dated 28 October 2019. Accordingly, no interest was received for the year ended 31 March 2021 (2020: Nil) from the Innovative Pharm Bonds.

On 12 May 2021, the Company and Innovative Pharm entered into, amongst others, the deed of amendment to amend and vary certain terms and conditions in the Innovative Pharm Bonds (the “**Second Amendment Deed**”), whereby the Original Maturity Date will be extended for 2 years to 28 July 2023 (“**New Maturity Date**”) and the Innovative Pharm Bonds will be amended to the date falling on the ninth anniversary of the date of issue of the Innovative Pharm Bonds.

Regardless of whether the Second Amendment Deed was approved by the shareholders of the Company, the Innovative Pharm Bonds were classified as non-current assets because, in the opinion of the directors of the Company, the Company expected the Innovative Pharm Bonds to be recovered or settled more than twelve months after the reporting period. In assessing the presentation of the Innovative Pharm Bonds as current and non-current, the directors of the Company have taken into accounts the financial position of Innovative Pharm and the reasonable timing of the settlement of the Innovative Pharm Bonds.

The fair values of the Innovative Pharm Bonds components on initial recognition, and as at 31 March 2021 with the assumption of two-year extension to the New Maturity Date, are determined based on the valuation conducted by an independent qualified valuer. The movement of the Innovative Pharm Bonds are set out as below:

	<i>HK\$’000</i>
At 1 April 2019	469,737
Change in fair value	<u>101,328</u>
At 31 March 2020 and 1 April 2020	571,065
Change in fair value	<u>(104,743)</u>
At 31 March 2021	<u><u>466,322</u></u>

11. TRADE AND BILLS RECEIVABLES

	2021	2020
	<i>HK\$’000</i>	<i>HK\$’000</i>
Bills receivables	1,127	827
Trade receivables	50,538	53,063
Less: Provision for impairment loss on trade receivables	<u>(42,535)</u>	<u>(43,406)</u>
	<u><u>9,130</u></u>	<u><u>10,484</u></u>

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

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

	2021 HK\$'000	2020 HK\$'000
Within 90 days	6,134	3,707
91 to 180 days	1,257	4,238
181 to 365 days	<u>1,739</u>	<u>2,539</u>
	<u>9,130</u>	<u>10,484</u>

12. 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:

	2021 HK\$'000	2020 HK\$'000
Within 90 days	4,290	3,255
91 to 180 days	1,613	981
181 to 365 days	26	3
1 to 2 years	240	1,517
Over 2 years	<u>523</u>	<u>483</u>
	<u>6,692</u>	<u>6,239</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Overall Performance Review

Global economy in 2020 was severely impacted by the COVID-19 outbreak. The stringent lockdown measures and cross-border travel restrictions imposed by most countries in the first half of 2020 to contain and manage the widespread of COVID-19 delivered a heavy blow on economic activities, which contracted dramatically on a global scale. Although the stabilisation of pandemic situation and gradual easing of restrictive measures in the second half of 2020 improved the economic environments, global economy plunged into worst recession since the Great Depression of the 1930s. Despite the pandemic and global economic headwinds, China's economy has demonstrated its strong resilience to swiftly recover as a result of the Chinese government's proactive and decisive containment measures, including stringent lockdown at the outset of the pandemic, nationwide population testing, tracking campaigns to prevent further outbreaks. Backed by the government-led stimulus policies to stabilise employment and promote the orderly resumption of work and production, China's economy steadily recovered after the 6.8% historic contraction in the first quarter of 2020 and resumed positive growth in the remaining three quarters, reaching a peak of 6.5% in the fourth quarter and contributed to a full-year growth of 2.3% in 2020. The growth marks a successful conclusion of the Thirteenth Five-Year Plan in the establishment of China's healthcare system with more than 1.3 billion people covered by basic health insurance and the reform of the pharmaceutical industry to develop in an innovative and quality-oriented direction. Against the backdrop of effective pandemic control and the ongoing vaccination rollouts in the early 2021, China continued its robust recovery and recorded 18.3% growth in the first quarter of 2021, which marked a good beginning of the Fourteenth Five-Year Plan (2021–2025) towards the goal of building a modern socialist country. Although the outbreak of COVID-19 had brought upon unprecedented challenges and had a significant impact on China's economic development, the pharmaceutical industry maintained its growth momentum in the direction of high-quality and innovation-driven development.

Notwithstanding the COVID-19 pandemic and the economic challenges, the Chinese government has accelerated its pace of healthcare reforms to drive the transformation of the industry. During the year, the continuous rollout of expanded scope of policies including the advancement of consistent quality and efficacy evaluation of generic drugs, speeding up the approval and launch of innovative products, inclusion of newly-approved innovative drugs in National Reimbursement Drug List, and extension to nationwide centralised drug procurement have led to industry concentration and encouraged product upgrading and innovation. With the support of the government's policies to broaden market access for high-quality generic and innovative products, competitors with strong research and development capabilities have caused the shift of market competitive dynamics and more intense competition in price, quality and innovation, which have a far-reaching impact on the industry and have posed tremendous pressure to the Group.

During the year, the Group's revenue and gross profit, which were contributed by the manufacturing segment, maintained at HK\$78.8 million (2020: HK\$77.6 million) and HK\$42.6 million (2020: HK\$42.9 million) respectively, representing an increase of about HK\$1.2 million or 1.6% in revenue and a decrease of about HK\$0.3 million in gross profit. Gross margin slightly dropped from 55.3% to 54.0%, primarily due to change in sales mix. Such stable performance reflects management's efforts and commitments in managing the Group's business amid challenging and complex operating environment.

The Group's operating performance remained steady, when excluding the fair value loss of about HK\$104.7 million (2020: gain of HK\$101.3 million) arising from the Group's investments in convertible bonds which is a non-cash item, where loss recorded from operating segments reduced from HK\$8.6 million to HK\$0.5 million, and combined with a decrease in corporate expenses of about HK\$1.0 million largely offset the negative impact of respective decreases in bank interest income of about HK\$2.4 million and imputed interest income from an associate of about HK\$5.4 million and an increase in effective interest expense on convertible bonds of about HK\$1.7 million.

The Group's loss for the year attributable to owners of the Company was about HK\$121.1 million, representing a decrease of about HK\$204.4 million when compared to profit of about HK\$83.3 million of 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 COVID-19 outbreak in early 2020 had led to the temporary closure of the Group's plants in Changchun after the Lunar New Year holidays until mid-February 2020 in response to the nationwide containment measures. To restore the production to normalcy, management has been agile and promptly implemented all necessary precautionary and preventive measures to safeguard the health and safety of the staff in the workplace under the guidelines and announcements of the Chinese authorities; including but not limited to compulsory body temperature checking, mandatory wearing masks, encouraging and organising employees' vaccination. With intense management efforts, the production plants have been operating safely without any significant impact on productivity and cost efficiency.

During the year, management maintained a strong commitment to executing diligently the strategic initiatives adopted since the year 2018 to expand its market coverage through collaboration with distributors with extensive distribution networks with the aim of promoting the Group's product awareness in rural areas and communities. The improved performances delivered by the segment over the past years reflect the benefits of the strategic initiatives to strengthen the competitive position, secure market share, and capture new growth opportunities. Building on the solid foundation laid by these strategic initiatives, the segment though facing a tough operating environment under the influence of the COVID-19 pandemic and the advancement of further healthcare reform, achieved a similar level of revenue at about HK\$78.8 million (2020: HK\$77.6 million), representing an increase of about HK\$1.2 million or 1.6%. Such increase was primarily due to an increase in demand for the Group's

product specialised in improving the immunity system of the human body against diseases. The gross margin, however, decreased slightly by 1.3% to about 54.0% when compared to last year, which was primarily due to change in sales mix.

As a result of the positive contribution of stable revenue and gross profit, the segment recorded a profit of about HK\$4.0 million (2020: HK\$6.5 million), representing a reduction of about HK\$2.5 million. However, when taking into account the research and development expenses of about HK\$3.0 million (2020: HK\$0.6 million) incurred this year to enhance the competitiveness of the Group's products and the last year's write-back of provision for marketing and promotion expenses of about HK\$3.7 million, the segment results demonstrated further improvement.

Imported Pharmaceutical Sector

During the year, no revenue was generated by the trading segment as it continued to be adversely affected by the sales suspension of products arising from the manufacturing practice issues, in particular, the imported skin treatment product which was previously the segment's major revenue contributor. Although the Group and the manufacturer had been working vigorously, the work to rectify the issues was disrupted and delayed as authorities around the world implemented lockdown measures to fight the COVID-19 pandemic. Given the long-standing difficulties to resolve the issues, the manufacturer and the Group's business partners have opted to develop new products that can potentially overcome the entry barriers and capture the market opportunities in order for the Group to build up a new sales platform as soon as practicable.

Notwithstanding the above, the segment recorded a loss of about HK\$4.4 million (2020: HK\$14.9 million), representing a decrease in loss of about HK\$10.5 million or 70.5%, which is a better financial result when compared to that of last year. Such decrease was mainly attributable to a reduction of staff costs by about HK\$0.5 million and the write-back of impairment provision for trade and other receivables in aggregate of about HK\$3.9 million as compared to a provision of about HK\$6.0 million made in last year. Meanwhile, the Group will continue taking measures to rationalise its operations with the aim of further reducing the operating cost necessary to maintain its ongoing operations.

Given the above, the operating conditions will remain difficult under the pressure of operating cost and no revenue. However, the Group is convinced that through collaboration with its business partners to explore a new range of products, building up a new sales platform to capture market opportunities would help restore the performance of the segment in the future.

Gene Development Sector

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

Interest in an Associate

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

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

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

During the year, the loss of Smart Ascent Group was about HK\$10.1 million (2020: HK\$13.1 million), for which the Group’s share of loss amounted to about HK\$2.9 million (2020: HK\$3.2 million) representing a decrease of about HK\$0.3 million. Such decrease mainly related to decrease in research and development expenses for the Product.

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

In making the assessment as to the recoverability of the In-process R&D and the fair value of the interest in the associate, the Group has engaged an independent qualified valuer, Roma Appraisals Limited (“**Valuer**”) in conducting a valuation. The asset-based valuation approach has been consistently adopted in the valuation and the recoverable amount of the In-process R&D was determined based on fair value calculation using cash flow projections, which the estimated cash inflows derived from budgeted sales and gross margin were based on the expectation for the market development, and which included the regulatory approvals from the relevant government bodies and launching of the Product in around mid of 2023. The recoverable amount of the interest in the associate was determined based on share of the estimated fair value of the In-process R&D after taking into account the lack of control discount.

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

Discount rate (post-tax)	24.67%
Growth rate	2%
Gross profit ratio	64.66%

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 2021 that may need to be impaired. Accordingly, no impairment is considered necessary as at 31 March 2021.

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

Other income and gains and losses, net

Other income and gains and losses, net were in total a loss of about HK\$94.7 million (2020: gain of HK\$106.1 million), which decreased by about HK\$200.8 million. The decrease was mainly the result of (i) a decrease in a gain of a non-cash item by about HK\$206.0 million arising from fair value change of the Group’s investments in convertible bonds, (ii) reversal of impairment provision for trade and other receivables of about HK\$2.7 million and HK\$1.1 million when compared to the respective provisions

of about HK\$5.9 million and HK\$4.5 million made last year, (iii) net decrease in loan and imputed interest income from an associate of about HK\$5.2 million, (iv) decrease in bad debt recovery of about HK\$2.1 million, (v) decrease in bank interest income of about HK\$2.4 million, and (v) increase in subsidies from governments of about HK\$0.9 million.

Change in fair value of investments in convertible bonds

As stated in the Company's profit alert announcement dated 11 June 2021, based on a preliminary assessment by the directors on the Group's consolidated management accounts for the year ended 31 March 2021, there was an increase in gain arising from the fair value change of the Group's investments in convertible bonds (issued by Innovative Pharm "**Innovative Pharm Bonds**") of about HK\$71 million. The aforesaid increase in gain which is subject to audit and further review by the auditor, was based on the investments in convertible bonds being classified as current assets according to their existing maturity term due to mature within one year.

However, in the course of finalising the annual results of the Group for the year ended 31 March 2021, when further discussing with the auditor and considered the factors, including but not limited to, the financial position of Innovative Pharm and the timing of the settlement of the Innovative Pharm Bonds under the circumstance that the Company and Innovative Pharm entered into the second deed of amendment ("**Second Amendment Deed**") to the Innovative Pharm Bonds on 12 May 2021, pursuant to which the Company and Innovative Pharm agreed to extend the maturity date of the Innovative Pharm Bonds for two years, the directors are of the view that it is more appropriate that the Group's investments in convertible bonds be classified as non-current assets, and as a result, the fair value of the Innovative Pharm Bonds as at 31 March 2021 with the assumption that the Innovative Pharm Bonds would be extended for two years, decreased by about HK\$104.7 million when compared to 31 March 2020.

Selling and Distribution Expenses

Selling and distribution expenses of the Group increased to about HK\$29.5 million (2020: HK\$24.6 million), representing an increase of about HK\$4.9 million or 20.3%. However, when excluding the last year's write-back of provision for marketing and promotion expenses of about HK\$3.7 million, there was only slight increase of about HK\$1.2 million. Such increase was mainly the results of decrease in expenses for selling, promotion and symposium activities of about HK\$1.0 million as a result of the pandemic, which was largely offset by an increase in research and development expenses of about HK\$2.4 million to enhance the quality and efficacy of the Group's self-manufactured products.

Administrative Expenses

Administrative expenses were at about HK\$23.9 million (2020: HK\$26.4 million), representing a decrease of about HK\$2.5 million or 9.7%. Excluding the foreign exchange gain of about HK\$0.3 million, the decrease was mainly due to reduction in staff costs of about HK\$1.1 million, which largely related to the retirement of an executive director of the Company and a senior management of the Group.

Outlook

As mass COVID-19 vaccination and vaccine production ramp up, the magnitude and extent of disruptions of global economic activities have generally decreased. However, the prospects of global recovery remain highly uncertain as new virus mutations have forced many countries to re-impose lockdowns and travel restrictions. Amid the COVID-19 pandemic and tensions between China and most western countries, the Chinese economy has shown a steady improvement after the robust recovery in the first quarter of 2021 as a result of continued supports by various government relief measures and strict virus containment policies. Although these challenges and uncertainties overshadow the overall growth of the China's pharmaceutical industry in the near term, the Group believes that the industry will continue to benefit from the positive long-term trend of economic developments under the Fourteenth Five-Year Plan towards building a modern socialist country and a "Healthy China". Against this backdrop, the Chinese authorities have stepped up the healthcare reforms with policies focusing, *inter alias*, on the pursuit of innovation-driven development. It is anticipated that the industry will be facing significant changes as driven by these policies, which have far-reaching and cascading impacts on pharmaceutical companies, in which competition will be escalating to a new level of intensity to quality and innovation.

In light of rapidly evolving market and competitive environment, the Group will continue its focus on the development of its manufacturing segment, through the execution of the strategic initiatives to enhance the distribution networks and to adjust flexibly the marketing strategy in response to the challenges, and in addition, leveraging its core competitiveness by investing in the development of its own products and enhancing its production capacity as well as operational efficiency in order to drive the sustainable growth and profitability of the segment. Taking into account the positive progress in recent years, the Group believes that the manufacturing segment is well-positioned to seize the growth opportunities under the Fourteenth Five-Year Plan, while the Group will continue deploying resources and collaborating with its business partners to capture market opportunities and restore the performance of its trading segment.

Although the operating conditions in the year ahead will continue to be complex and challenging, the Group believes that its sound financial position coupled with management's relentless efforts in improving the business performance of the Group and strengthening its core competitiveness will build a solid foundation for the Group's long term growth and profitability.

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 2021, the Group had total cash and bank balances (including pledged bank deposits) of about HK\$148.4 million (2020: HK\$147.9 million), representing an increase by about HK\$0.5 million or 0.3%. Such a slight increase in cash and bank balances reflects the Group's efforts on monitoring the business performance and working capital management.

Accruals and Other Payables

Accruals and other payables decreased by about HK\$3.3 million to HK\$28.9 million as of 31 March 2021 (2020: HK\$32.2 million). Such decrease was mainly due to settlement of payables of about HK\$2.6 million in relation to acquisition of property, plant and equipment.

The Group did not have bank borrowings during the year but had banking facilities on trade finance, which were supported by the pledge of the Group's fixed deposits of about HK\$21.7 million (2020: HK\$21.5 million) and corporate guarantees from the Company and certain subsidiaries of the Company. In general, there is no significant seasonality fluctuation on trade finance requirement of the Group.

The Group's total borrowing over total assets ratio as at 31 March 2021 was 0.063 (2020: 0.051), calculated based on the Group's total assets of about HK\$1,164.2 million (2020: HK\$1,265.7 million) and total debts of about HK\$73.9 million (2020: HK\$64.5 million), comprising convertible bonds of about HK\$70.0 million (2020: HK\$59.0 million) and lease liabilities of about HK\$3.9 million (2020: HK\$5.6 million).

Foreign Exchange Exposure

The Group's business transactions, assets and liabilities are principally denominated in Hong Kong dollars, United States dollars and Renminbi. The Group manages the foreign currency exposure by closely monitoring the foreign currency movements and may purchase foreign currencies at spot rate, when and where appropriate for meeting its payment obligation. No hedge on foreign currencies was made during the year but the Group will use financial instruments for hedging purpose when considered appropriate.

Material Acquisitions and Disposals

There is no material acquisition or disposal of subsidiaries, associates and investments in financial instruments during the year ended 31 March 2021.

Employment and Remuneration Policy

As at 31 March 2021, the Group had 171 employees (2020: 169). Staff costs (including directors' emoluments) for the year ended 31 March 2021 amounted to approximately HK\$20.8 million (2020: approximately HK\$22.5 million), which was mainly due to government relief for social security contributions and the retirement of an executive director of the Company and a senior management of the Group.

The Group remunerates its employees based on industry practices. Its staff benefits, welfare and statutory contributions, if any, are made in accordance with prevailing labour laws of its operating entities.

On 24 August 2012, shareholders of the Company had approved the adoption of a share option scheme (the “**Scheme**”), which became effective on 29 August 2012 after obtaining approval from the Listing Committee of The Stock Exchange of Hong Kong Limited and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

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

From the effective date of the Scheme to 31 March 2021, no share option has been granted under the Scheme.

Events after the Reporting Period

On 12 May 2021, the Company as the bondholder and Innovative Pharm as the issuer of the HK\$715,000,000 convertible bonds due on 28 July 2021 (“**Innovative Pharm Bonds**”), entered into, the second deed of amendment (“**Second Amendment Deed**”) to further amend certain terms and conditions of the Innovative Pharm Bonds in respect of the extension on the maturity date and the payment of the interest of the Innovative Pharm Bonds (“**Second Amendments**”), and the second deed of waiver pursuant to which the Company granted to Innovative Pharm a waiver in respect of obligation of Innovative Pharm to the extent necessary and solely to effect the Second Amendments. The transaction contemplated under the Second Amendment Deed in respect of the Second Amendments constitutes a major transaction for the Company which is subject to the reporting, announcement and shareholders’ approval requirements under Chapter 14 of the Listing Rules. Please refer to the Company’s announcement dated 12 May 2021 for further details.

Save as disclosed above, there is no other material subsequent event occurred after 31 March 2021 and up to the date of this announcement.

CORPORATE GOVERNANCE

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

In the opinion of the directors, the Company has complied with the code provisions of the Corporate Governance Code and Corporate Governance Report (“**Code Provisions**”) as set out in Appendix 14 of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). During the year ended 31 March 2021, the Company had adopted and applied the Code Provisions, except for certain deviations as set out below.

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

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

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

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

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

Code provision E.1.2 stipulates that the Chairman of the Board should attend the annual general meeting of the Company. Due to other important engagement, Dr. Xie Yi was unable to attend the annual general meeting of the Company held on 28 August 2020. Ms. Wong Sau Kuen, an executive director of the Company, was appointed to chair the annual general meeting in accordance with the provisions of the Company’s bye-laws and answered questions from shareholders of the Company.

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

The Company will continue to review and monitor the situation as stated above, and to improve the practices as and when the circumstances demand.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as the Company's code of conduct for dealings in securities of the Company by the directors. Based on specific enquiry of the directors, the directors have complied with the required standard set out in the Model Code throughout the year ended 31 March 2021.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

AUDIT COMMITTEE

The Company has established an Audit Committee (the “**Committee**”), with written terms of reference, in compliance with Rule 3.21 of the Listing Rules, for the purpose of reviewing and providing supervision over the financial reporting process and risk management and internal control systems of the Group. The Committee comprises three INEDs. The Group's financial statements for the year ended 31 March 2021 have been reviewed by the Committee. The Committee is of the opinion that such financial statements comply with the applicable accounting standards, and Stock Exchange's and legal requirements, and that adequate disclosures have been made.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

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

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

Hong Kong, 29 June 2021

List of Directors as at the date of this announcement:

Executive Directors:

Dr. XIE Yi

Mr. CHENG Yong

Dr. LOU Yi

Ms. WONG Sau Kuen

Mr. LIU Kwok Wah

Independent Non-executive Directors and Audit Committee:

Mr. FANG Lin Hu

Mr. XUE Jing Lun

Ms. JIN Song

* *For identification purpose only*