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EXTRAWELL PHARMACEUTICAL HOLDINGS LIMITED

精優藥業控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00858)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2022

The board of directors (the “**Board**”) of Extrawell Pharmaceutical Holdings Limited (the “**Company**”) announces the unaudited consolidated results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 September 2022 together with the comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	At 30 September 2022 (Unaudited) <i>Notes</i> HK\$’000	At 31 March 2022 (Audited) HK\$’000
Non-current assets		
Investment properties	2,615	2,681
Property, plant and equipment	125,506	138,250
Right-of-use assets	8,209	10,140
Intangible assets	1,807	1,807
Financial assets at fair value through profit or loss	—	634,907
Financial assets at fair value through other comprehensive income	—	—
Interest in an associate	319,240	320,365
Loan to an associate	12,274	14,500
Deferred tax assets	69	69
	469,720	1,122,719
Current assets		
Inventories	4,112	8,465
Trade and bills receivables	7,773	7,813
Deposits, prepayments and other receivables	6,336	6,491
Amount due from an associate	36,089	36,089
Loan to an associate	5,080	—
Financial assets at fair value through profit or loss	697,461	1,905
Pledged bank deposits	21,814	21,738
Cash and bank balances	98,854	111,881
	877,519	194,382
Total assets	1,347,239	1,317,101

		At 30 September 2022 (Unaudited) HK\$'000	At 31 March 2022 (Audited) HK\$'000
	<i>Notes</i>		
Equity			
Share capital		23,900	23,900
Reserves		<u>1,174,871</u>	<u>1,141,753</u>
Equity attributable to owners of the Company		1,198,771	1,165,653
Non-controlling interests		<u>(697)</u>	<u>(729)</u>
Total equity		1,198,074	1,164,924
Non-current liabilities			
Convertible bonds		90,533	83,074
Lease liabilities		—	39
Deferred income on government grants		<u>4,442</u>	<u>5,001</u>
		94,975	88,114
Current liabilities			
Trade and bills payables	4	5,688	6,456
Accruals, other payables and contract liabilities		31,485	38,078
Lease liabilities		1,282	2,194
Deferred income on government grants		118	131
Tax payable		<u>15,617</u>	<u>17,204</u>
		<u>54,190</u>	<u>64,063</u>
Total equity and liabilities		<u>1,347,239</u>	<u>1,317,101</u>
Net current assets		<u>823,329</u>	<u>130,319</u>
Total assets less current liabilities		<u>1,293,049</u>	<u>1,253,038</u>

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

	<i>Notes</i>	For the six months ended	
		2022	2021
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
Revenue	5	34,095	43,462
Cost of sales		<u>(20,563)</u>	<u>(19,655)</u>
Gross profit		13,532	23,807
Other income	6	2,028	599
Other gains and losses, net	7	60,348	102,213
Selling and distribution expenses		(8,770)	(15,616)
Administrative expenses		(12,367)	(11,899)
Share of results of an associate		(1,125)	(2,111)
Finance costs		<u>(7,498)</u>	<u>(6,361)</u>
Profit before income tax	8	46,148	90,632
Income tax expense	9	<u>(208)</u>	<u>(1,129)</u>
Profit for the period		45,940	89,503
Other comprehensive income/(expense)			
Item that may be reclassified subsequently to profit or loss			
— Exchange differences arising on translation of foreign operations		<u>(12,790)</u>	<u>(40)</u>
Total comprehensive income for the period		<u>33,150</u>	<u>89,463</u>
Profit for the period attributable to			
Owners of the Company		45,821	88,592
Non-controlling interests		<u>119</u>	<u>911</u>
		<u>45,940</u>	<u>89,503</u>

		For the six months ended	
		30 September	
		2022	2021
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
Total comprehensive income for			
the period attributable to			
Owners of the Company		33,118	88,573
Non-controlling interests		<u>32</u>	<u>890</u>
		<u>33,150</u>	<u>89,463</u>
		(Unaudited)	(Unaudited)
		HK cents	HK cents
Earnings per share for profit attributable to			
owners of the Company			
	<i>11</i>		
— Basic		<u>1.92</u>	<u>3.71</u>
— Diluted		<u>1.62</u>	<u>2.88</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. GENERAL INFORMATION

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

This unaudited condensed consolidated interim financial information of the Group (the “**Interim Financial Information**”) was approved for issue by the Board on 29 November 2022.

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES

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

This Interim Financial Information should be read in conjunction with the Group’s audited financial statements for the year ended 31 March 2022 (the “**2022 Audited Financial Statements**”) as prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”). Other than changes as described below, the accounting policies adopted in this Interim Financial Information are consistent with the 2022 Audited Financial Statements.

The Group has adopted the new and amended standards to HKFRSs as issued by the HKICPA that are first effective for the current interim period and considered that there was no significant impact on the Group’s results and financial position:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020 cycle

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. TRADE AND BILLS RECEIVABLES

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

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

	At 30 September 2022 (Unaudited) <i>HK\$'000</i>	At 31 March 2022 (Audited) <i>HK\$'000</i>
Within 90 days	4,512	4,161
91–180 days	2,024	1,980
181–365 days	<u>1,237</u>	<u>1,672</u>
	<u><u>7,773</u></u>	<u><u>7,813</u></u>

4. 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 aging analysis of trade and bills payables, based on invoice dates is as follows:

	At 30 September 2022 (Unaudited) <i>HK\$'000</i>	At 31 March 2022 (Audited) <i>HK\$'000</i>
Within 90 days	4,166	3,239
91–180 days	286	2,341
181–365 days	536	58
1–2 years	212	276
Over 2 years	<u>488</u>	<u>542</u>
	<u><u>5,688</u></u>	<u><u>6,456</u></u>

5. REVENUE AND SEGMENT INFORMATION

The Group's revenue comprises the following:

	For the six months ended	
	30 September	
	2022	2021
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Manufacturing of pharmaceutical products	34,095	43,462
Trading of pharmaceutical products	—	—
	<u>34,095</u>	<u>43,462</u>

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

- (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**”).

The following is an analysis of the Group's revenue and results from operation by reportable and operating segment for the six months ended 30 September 2022:

	Unaudited — For the six months ended 30 September							
	Manufacturing		Trading		Gene Development		Total	
	2022	2021	2022	2021	2022	2021	2022	2021
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue								
Sales to external customers	<u>34,095</u>	<u>43,462</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>34,095</u>	<u>43,462</u>
Segment results	<u>237</u>	<u>4,120</u>	<u>(2,022)</u>	<u>(2,136)</u>	<u>(48)</u>	<u>(41)</u>	<u>(1,833)</u>	<u>1,943</u>
Unallocated other income							1,125	599
Unallocated other gains and losses, net							60,817	101,975
Administrative expenses							(5,377)	(5,490)
Interest expense on convertible bonds							(7,459)	(6,284)
Share of results of an associate							<u>(1,125)</u>	<u>(2,111)</u>
Profit before income tax							46,148	90,632
Income tax expense							<u>(208)</u>	<u>(1,129)</u>
Profit for the period							<u>45,940</u>	<u>89,503</u>

6. OTHER INCOME

	For the six months ended	
	30 September	
	2022	2021
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Bank interest income	603	166
Rental income	229	—
Government grants	792	64
Loan interest income from an associate	<u>404</u>	<u>369</u>
	<u>2,028</u>	<u>599</u>

7. OTHER GAINS AND LOSSES, NET

	For the six months ended	
	30 September	
	2022	2021
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Reversal of impairment loss on other receivables	58	21
(Provision for)/Reversal of impairment loss on trade receivables, net	(550)	190
Change in fair value on financial assets at fair value through profit or loss ("FVTPL") — investments in convertible bonds	60,817	101,975
Change in fair value on financial assets at FVTPL — short term investment	23	27
	<u>60,348</u>	<u>102,213</u>

8. PROFIT BEFORE INCOME TAX

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

	For the six months ended	
	30 September	
	2022	2021
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation of right-of-use assets	1,100	1,084
Depreciation of investment properties	66	30
Depreciation of property, plant and equipment	3,059	3,085
Cost of inventories recognised as expenses (<i>note</i>)	10,720	12,972
Provision for/(Reversal of) impairment loss on inventories, net (included in cost of sales)	233	(190)
Staff costs (including directors' emoluments)		
Salaries, bonus and allowances	9,506	9,938
Retirement benefit scheme contributions	985	1,346
	<u>985</u>	<u>1,346</u>

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

9. INCOME TAX

	For the six months ended	
	30 September	
	2022	2021
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current tax:		
Hong Kong	—	—
PRC Enterprise Income Tax	<u>208</u>	<u>1,129</u>
Income tax expense	<u><u>208</u></u>	<u><u>1,129</u></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%. Hong Kong Profits Tax of the qualified entity of the Group is calculated in accordance with the two-tiered profits tax rates regime for the periods ended 30 September 2022 and 2021. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Under the Law of the People's Republic of China (the "PRC" or "China") on Enterprise Income Tax (the "EIT") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards (2021: 25%).

10. INTERIM DIVIDENDS

The directors do not recommend the payment of an interim dividend in respect of the six months ended 30 September 2022 (six months ended 30 September 2021: HK\$ Nil).

11. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to owners of the Company of HK\$45,821,000 (2021: HK\$88,592,000) and 2,390,000,000 (2021: 2,390,000,000) ordinary shares in issue.

The calculation of the diluted earnings per share is based on adjusted profit of HK\$53,280,000 (2021: HK\$94,876,000) for effective interest expense on convertible bonds of HK\$7,459,000 (2021: HK\$6,284,000) and the weighted average number of 3,290,000,000 (2021: 3,290,000,000) ordinary shares outstanding.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Overall Performance

During the six months ended 30 September 2022 (“**2022 Interim Period**”), the world economy continued to suffer from impacts of lingering COVID-19 pandemic, rising geopolitical tensions and escalating inflationary pressures. Resurgency of sporadic spikes in COVID-19 cases in China, particularly during March to May 2022, caused widespread lockdowns to its major cities to contain transmission of the COVID-19 variants, and hindered China’s economic growth which slowed from 4.8% registered in the first quarter of 2022 to 0.4% in the second quarter, the lowest rate since China’s economy contracted by 6.8% in the first quarter of 2020. The pandemic situation lowered the pharmaceutical industry’s growth pace as the impact of citywide lockdowns caused short-term disruptions to supply chains, including pharmaceutical manufacturing and distribution in China. However, the nation’s timely implementation of the pandemic containment measures and controls, together with a series of policies and reforms on stabilising the economy and advancing the research and development of innovative drugs, have facilitated the industry to continuously develop in a sustainable development pace. In the meantime, China continued to advance its healthcare reforms to enhance its health systems and improve accessibility to quality drugs; in particular, the launch of the expanded scope of centralised drug procurement and the adjustments of the national drug reimbursement list have become normalised, which continuously create pricing pressure to pharmaceutical enterprises, intensifying market competition whilst driving the transformation and upgrading of the industry in the long run.

During the 2022 Interim Period, the Group’s revenue and gross profit which were contributed by the manufacturing segment decreased to about HK\$34.1 million and HK\$13.5 million, representing an decrease in revenue and gross profit of about HK\$9.4 million and HK\$10.3 million respectively when compared to revenue of about HK\$43.5 million and gross profit of about HK\$23.8 million as reported in the six months ended 30 September 2021 (“**2021 Interim Period**”). The decrease in gross profit is due to the decrease in revenue, while gross margin dropped from 54.8% to 39.7%. In addition to the sales mix factor, such decreases were mainly due to the multiple effects arising from the government-mandated factory lockdown imposed on Changchun city during March to May 2022, including the Group’s manufacturing plants, that resulted in lower production outputs, and the stringent lockdowns measures to curb the spread of the COVID-19 transmission in various parts of China to preserve safety and health of its residents, which affected logistics and distribution network due to transport constraints and movement restrictions that increased the cost of sales and disrupted sales activities. Such short-term impacts have affected the performance of the Group’s operating segments during the 2022 Interim Period, however, the Group believes that the improvement in operating performance has been facilitated in the second half of the financial year as the nation’s pandemic measures and controls have been stabilised and the Group has further strengthened its internal management to address these challenges.

The Group’s administrative, selling and distribution expenses in aggregate decreased to about HK\$21.1 million in the 2022 Interim Period, representing a decrease by about HK\$6.4 million or 23.2 % when compared to about HK\$27.5 million in the 2021 Interim Period. Such decrease was the combined result of reduction in the marketing and promotion expenses of about HK\$6.7 million while an increase in foreign exchange loss was partially offset by the decrease in professional fees and expenses.

The Group's profit for the period was about HK\$45.9 million in the 2022 Interim Period, representing a decrease of about HK\$43.6 million when compared to the profit of about HK\$89.5 million in the 2021 Interim Period. Such decrease was mainly due to a non-cash item, a decrease in gain of about HK\$41.2 million 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.

Revenue and Operating Results

Manufactured Pharmaceutical Sector

The unexpected COVID-19 outbreaks across China since March 2022 that extended into the second quarter of 2022, had led to citywide lockdowns of major cities in China, and presented significant challenges to manufacturing operations nationwide. During the 2022 Interim Period, in accordance with the requirements of pandemic prevention and control measures, the Group observed the imposition of mandated factory lockdown by the Chinese authorities during April and May 2022 to temporarily halt production operations of its manufacturing plants in Changchun, to safeguard the safety and health of the Group's personnel and the general public as a whole. Following the lifting of the strict lockdown measures in phase, the Group's manufacturing plants gradually resumed its normal production in late May 2022 and have been operating safely with the Group's deployment of reinforced health measures for its personnel at the workplaces.

While the Group has been agile in responding to the challenges and changes brought by the continuously deepening healthcare reform policies, the temporary impacts of the lower in production volumes due to the production halt, together with the rising cost in production attributable to lower production volumes and the increase in materials cost caused by supply chain interruptions in the near term, weighed on the revenue and profitability of the segment during the 2022 Interim Period. As a result of the aforesaid complicated operating environment, segment revenue decreased to about HK\$34.1 million, representing a decrease of about HK\$9.4 million or 21.6% when compared to revenue of about HK\$43.5 million in the 2021 Interim Period. Such decrease was mainly due to decrease in sales of the Group's products that was in line with the lower in production outputs. Gross margin decreased from 54.8% to 39.7% mainly due to the lower production volumes and increase in material costs while the gross profit decreased by about HK\$10.3 million to about HK\$13.5 million when compared to about HK\$23.8 million in the 2021 Interim Period. Segment results declined to about HK\$0.2 million mainly due to decreases in revenue and gross margin while there were a significant reduction in the marketing and promotion expenses of about HK\$6.7 million, and an increase in government grants of about HK\$0.7 million which was offset by the increase in provision for impairment loss on trade receivables of about HK\$0.7 million, as compared to the 2021 Interim Period.

Amid the complicated operating environment, the Group believes that the rigid demand for quality pharmaceuticals will remain robust, such that the Group will endeavour to strengthen its development potentials by enhancing its production capability and capacity so as to cope with the market demand in the competitive landscape, and sustain a long-term development path.

Imported Pharmaceutical Sector

During the 2022 Interim Period, no revenue was recorded by the segment as it continued to be impacted by the issues of sales suspension of the segment's major revenue contributor, the imported skin treatment product and the import license renewal, which were disclosed in the 2022 Annual Report. In light of the difficult situation exacerbated by the evolving pandemic, management continued to exercise stringent cost control measures to minimise staff costs and operating costs. As a result, segment loss reduced to about HK\$2.0 million, representing a decrease of about HK\$0.1 million or 5.3% when compared to about HK\$2.1 million in the 2021 Interim Period.

While continuing efforts will be made with the manufacturer in developing a new line of products, the Group will keep monitoring the market trends to identify business opportunities that may provide an income stream to the Group, making an effort to restore the performance of the segment.

Gene Development Sector

During the 2022 Interim Period, gene development remained inactive and no revenue was recorded.

Interest in an Associate

As stated in the 2022 Annual Report, the COVID-19 pandemic since early 2020 had disrupted the normal operations of participating hospitals for the clinical trial of an oral insulin product (“**Product**”), that the clinical trial in the process of selection and enrolment of patients was temporarily suspended pending improvement in the pandemic situation, for the safety of patients and clinical researchers. As the pandemic situation in China had gradually improved, during the third quarter of 2020, the enrolment of patients had commenced, and though the pandemic situation in China was largely under control, the preventive and control measures associated with the prolonged pandemic situation have been continuously implemented causing certain delay in patient selection and enrolment, and the timeline for commercialisation of the Product by Smart Ascent Group was expected to be in around mid of 2023. However, 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 recently caused regional and citywide lockdowns in many parts of China, those had restricted patient flows and impacted on clinical research activities. As such, the patient selection and enrolment process experienced certain delay, and was still ongoing. Subject to the pandemic situation in China, the timeline for commercialisation of the Product had been reassessed by Smart Ascent Group and is expected to be in around mid of 2024.

During the 2022 Interim Period, the Group's share of loss decreased from about HK\$2.1 million in the 2021 Interim Period by about HK\$1.0 million to about HK\$1.1 million. Such decrease mainly related to decrease in research and development expenses for the Product.

The directors of the Company have performed impairment assessment on the carrying amount of the interest in the associate as at 30 September 2022. Having considered the progress of the In-process R&D, the prevailing market conditions and reasonableness of assumptions used for the cash flow projections for the purpose of impairment assessment, the directors of the Company do not identify any indication on the carrying amount of interest in the associate as at 30 September 2022 that may need to be impaired. Accordingly, no impairment is considered necessary as at 30 September 2022.

Other Income and Gains and Losses, Net

Other income and gains and losses, net were in total a gain of about HK\$62.4 million in the 2022 Interim Period, which decreased by about HK\$40.4 million as compared to about HK\$102.8 million in the 2021 Interim Period. Such decrease was mainly the result of the decrease in a gain of about HK\$41.2 million arising from the fair value change of the financial assets at fair value through profit or loss i.e. the Group's investments in convertible bonds, the increases in bank interest income, government grants and rental income in aggregate of about HK\$1.4 million, and an impairment provision made for trade receivables of about HK\$0.6 million in the 2022 Interim Period while there was a write-back of provision for trade receivables of about HK\$0.2 million in the 2021 Interim Period.

Selling and Distribution Expenses

Selling and distribution expenses decreased by about HK\$6.8 million or 43.8% from about HK\$15.6 million in the 2021 Interim Period to about HK\$8.8 million in the 2022 Interim Period. Such decrease was primarily due to substantially lower marketing and sales activities caused by the disruptions of regional and citywide lockdowns in China during the 2022 Interim Period.

Administrative Expenses

Administrative expenses increased by about HK\$0.5 million or 3.9% from about HK\$11.9 million in the 2021 Interim Period to about HK\$12.4 million in the 2022 Interim Period. Such increase was mainly due to increases in foreign exchange loss and maintenance expenses to the Group's workplaces that outweighed a decrease in professional fees and expenses.

Seasonal or Cyclical Factors

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

Financial Review

The Group generally finances its operations with internally generated cash flow and facilities granted by its principal banker in Hong Kong, Industrial and Commercial Bank of China (Asia) Limited. As at 30 September 2022, the Group had total cash and bank balances (excluding pledged bank deposits of about HK\$21.8 million (31 March 2022: HK\$21.7 million)) of about HK\$98.9 million (31 March 2022: HK\$111.9 million), representing a decrease by approximately HK\$13.0 million or 11.6%. Such decrease included net cash used in operations, provision of a shareholder's loan of HK\$2.45 million to Smart Ascent Limited, and the cash utilisations for acquisition of property, plant and equipment of about HK\$4.0 million, and payment of lease interests and liabilities in total of about HK\$1.0 million.

The Group did not have bank borrowings as at 30 September 2022 (31 March 2022: HK\$ Nil) but had banking facilities on trade finance, which were supported by the pledge of the Group's fixed deposits of about HK\$21.8 million (31 March 2022: HK\$21.7 million) and corporate guarantees from the Company and certain subsidiaries of the Company. In general, there is no significant seasonality fluctuation on trade finance requirement of the Group.

The Group's total borrowing over total assets ratio as at 30 September 2022 was 0.068 (31 March 2022: 0.065), calculated based on the Group's total assets of about HK\$1,347.2 million (31 March 2022: HK\$1,317.1 million) and total debts of about HK\$91.8 million (31 March 2022: HK\$85.3 million), comprising convertible bonds of about HK\$90.5 million (31 March 2022: HK\$83.1 million) and lease liabilities of about HK\$1.3 million (31 March 2022: HK\$2.2 million).

The Company's 20-year zero coupon convertible bonds was issued in Hong Kong dollars on 16 July 2013 with principal amount in aggregate of HK\$641,300,000 and a maturity date of 16 July 2033. As at 30 September 2022, there was principal amount of HK\$577,170,000 outstanding.

Foreign Exchange Exposure

Save for certain purchases are denominated in Euros, 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 foreign currency and other hedges were made during the 2022 Interim Period but the Group will use financial instruments for hedging purpose when considered appropriate.

Material Acquisitions and Disposals

During the 2022 Interim Period, the Group did not have any significant investments, material acquisition or disposal.

Outlook

In the context of global volatility and geopolitical complexity, the world economy is facing economic downward pressure, and the COVID-19 pandemic shockwaves and inflationary risks continue to add to the uncertainties surrounding the economic outlook. Amid the tough environment, China has always demonstrated its resilience to stabilise its economy and exhibited signs of gradual recovery through implementing an array of policies against the destabilising forces, and leveraging its dual circulation economic strategy.

In accordance with the Fourteenth Five-Year Plan (2021–2025), China’s pharmaceutical industry is expected to continuously undergo transformation and thereby developing in a sustainable path while the health systems will continuously be enhanced to cater for building of Healthy China. With the advancement of the healthcare reforms, the pharmaceutical industry has been fueled by intensifying market competition and innovation-led development while witnessing large domestic demand for quality pharmaceuticals due to the accelerated aging population and the increasing health awareness and medical expenditure of its residents. Grasping the development trends of the pharmaceutical industry, the Group has been focusing on enhancing its production capability and capacity of its manufacturing segment by allocating its internal resources, with the aim of developing quality products to meet market demand and enhancing its core competitiveness while staying vigilant in cost control to enhance overall operational efficiency, and in the meantime, the Group has further strengthened its internal management to ensure agility in facing new operational challenges ahead. The Group remains resolute with its long-term development strategy and expects that operating performance will be steadily improved with management’s relentless efforts in response to market changes.

While the operating environment will remain challenging, the Group believes that reform of China’s pharmaceutical industry will continue with government initiatives and incentives that new opportunities will emerge amid the high-quality development of the industry. Buttressed upon its sound financial position, the Group will endeavor to capture the growing market opportunity while remaining cautiously optimistic in striving for a sustainable development path for the Group.

EMPLOYMENT AND REMUNERATION POLICY

As at 30 September 2022, the Group had 172 employees (30 September 2021: 169). Staff costs (including directors’ emoluments) for the six months ended 30 September 2022 amounted to approximately HK\$10.5 million (six months ended 30 September 2021: approximately HK\$11.3 million). The decrease was mainly due to relief for social security contributions by the Chinese government and the decreased expenses of wages and salaries of the manufacturing segment.

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

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

The New Scheme will enable the Group to reward the employees, 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. Details of the New Scheme are disclosed in the Company’s circular dated 29 July 2022.

From the effective date of the New Scheme to 30 September 2022, no share options have been granted under the New Scheme.

CORPORATE GOVERNANCE

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

In the opinion of the directors, the Company has complied with the code provisions of the Corporate Governance Code (“**Code Provisions**”) as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 September 2022, except for certain deviations as below:

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

Code Provision B.2.2 stipulates that every director should be subject to retirement by rotation at least once every three years. According to the bye-laws of the Company, one third of the directors shall retire from office by rotation and the Chairman, Deputy Chairman or Managing Director shall not be subject to retirement by rotation. The Company’s bye-laws deviate from the Code Provision. The Company considers that the continuity of the Chairman/Deputy Chairman/Managing Director and their leadership are essential for the stability of the business and key management. The rotation methodology ensures a reasonable continuity of directorship which is to the best interest of the Company’s shareholders.

Code Provision F.1.1 stipulates that the Company should have a policy on payment of dividends. The Company has not established a dividend policy as the Company considers it more appropriate to determine a dividend payment after taking into account those factors including the Company's then financial performance, operating and capital requirements and market conditions, to enable the Company be in a better position to cope with its future development, which is to the best interest of the Company and its shareholders as a whole.

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as the Company's code of conduct for dealings in securities of the Company by the directors. Based on specific enquiry of the Company's directors, the directors have complied with the required standards set out in the Model Code throughout the 2022 Interim Period.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the 2022 Interim Period, the Company and its subsidiaries did not purchase, redeem or sell any of the Company's listed securities.

AUDIT COMMITTEE

The Company has established an Audit Committee with terms of reference, in compliance with the Listing Rules and Corporate Governance Code. The Audit Committee, which comprises three independent non-executive directors, has reviewed the unaudited condensed consolidated interim financial information of the Group for the six months ended 30 September 2022, and was content that the accounting principles and practices adopted by the Group were in conformity with the current practices in Hong Kong.

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM 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 interim report will be despatched to the shareholders of the Company and available on the above websites in due course.

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

Hong Kong, 29 November 2022

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

* *For identification purpose only*