Listed Company Information

EXTRAWELL PHAR<00858> - Results Announcement

Extrawell Pharmaceutical Holdings Limited announced on 19/07/2006:
(stock code: 00858)
Year end date: 31/03/2006
Currency: HKD
Auditors' Report: Qualified

	Note	(Audited) Current Period from 01/04/2005 to 31/03/2006 ('000)	(Audited) Last Corresponding Period from 01/04/2004 to 31/03/2005 ('000)
Turnover	:	178,265	169,766
Profit/(Loss) from Operations	:	7,605	(85,632)
Finance cost	:	(908)	(2,203)
Share of Profit/(Loss) of Associates	:	N/A	N/A
Share of Profit/(Loss) of Jointly Controlled Entities	:	N/A	N/A
Profit/(Loss) after Tax & MI	:	4,669	(75,823)
% Change over Last Period	:	N/A %	
EPS/(LPS)-Basic (in dollars)	:	0.002	(0.0331)
-Diluted (in dollars)	:	N/A	N/A
Extraordinary (ETD) Gain/(Loss)	:	N/A	N/A
Profit/(Loss) after ETD Items	:	4,669	(75,823)
Final Dividend per Share	:	NIL	NIL
(Specify if with other options)	:	N/A	N/A
B/C Dates for Final Dividend	:	N/A	
Payable Date	:	N/A	
B/C Dates for Annual General Meeting	:	25/08/2006	to 29/08/2006 bdi.
Other Distribution for Current Period	:	N/A	
B/C Dates for Other Distribution	:	N/A	

Remarks:

1. Basis of preparation and presentation

The Company was listed on main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 10 March 1999.

The consolidated financial statements of Extrawell Pharmaceutical Holdings Limited have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which is a collective term that includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs"), and Interpretations ("Int") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and applicable disclosure provisions of The Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The consolidated financial statements have been prepared under historical cost convention. The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. These financial statements have been audited by the Company's auditors and reviewed by the Company's Audit Committee.

In 2006, the Group adopted the new and revised standards and interpretations of HKFRSs below, which are relevant to its operations. The 2005 comparatives have been amended as required, in accordance with the relevant requirements. A summary of the new and revised HKFRSs is set out as below:

HKAS 1 Presentation of Financial Statements

HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events After the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transitional and Initial Recognition of Financial Assets and Financial Liabilities
HKAS - Int 15	Operating Leases - Incentives
HKFRS 3	Business Combinations

The adoption of new and revised HKASs 1, 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 23, 24, 27, 28, 33, 37 and HKAS - Int 15 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation of minority interests, share of net after-tax results of associates and other disclosures. In the consolidated balance sheet, minority interests are now shown within total equity. In the consolidated income statement, minority interests are presented as an allocation of the total profit or loss for the year.
- HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 23, 27, 28, 33, 37 and HKAS - Int 15 had no material effect on the Group's policies.
- HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.
- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the land use rights are expensed in the income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the income statement. A lease of land and building is split into a lease of land and a lease of building in proportion to the relative fair values of the leasehold interests in land element and the building element of the lease at the inception of the lease. The lease of land is stated at cost and amortised over the period of the lease whereas the building is stated at cost less accumulated depreciation. In prior years, land use rights was classified under property, plant and equipment at cost less impairment.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy for recognition, measurement, derecognition and disclosure of financial instruments.

HKAS 32 requires retrospective application and the adoption of HKAS 32 has had no material effect on how the results for the current or prior accounting years are prepared. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current and prior accounting years. The principal effects resulting from the implementation of HKAS 39 are summarised as follows:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

From 1 April 2005 onwards, the Group has classified and measured its financial assets and financial liabilities in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held to-maturity financial assets". Financial liabilities are generally classified as " financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition. The Group had applied the relevant transitional provisions in HKAS 39. However, there has been no material impact on how the results for the current accounting period are presented.

Under HKAS 39, long-term receivables are recognised initially at cost and subsequently measured at amortised cost using the effective interest method, less provision for impairment with changes in carrying value to be recognised in the income statement. All non-hedging derivative financial instruments entered are stated at fair value with changes recognised in the income statement. In prior years, equity investments for long-term purpose were disclosed as long-term investments and stated at cost less impairment through profit or loss. Listed equity securities held for trading purpose were disclosed as investments in securities and were stated at market value with changes to such value accounted through profit or loss. Short-term receivables were stated at cost less impairment which, if any, was accounted through profit or loss. Derivative financial instruments entered were recognised on a cash basis. Prospective application is required for adoption of HKAS 39 by way of adjustments to the opening balance of retained profits as at 1 April 2005. Comparative amounts have not been restated.

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for positive goodwill and negative goodwill and prospective application is required. Until 31 March 2005:

- positive goodwill was capitalised and amortised on a straight-line basis over its useful economic life of 10 years and was subject to impairment testing when there were indications of impairment; and
- negative goodwill was amortised over the weighted average useful life of 10 years of the non-monetary assets acquired, except to the extent it related to identified expected future losses as at the date of acquisition. In such cases it was recognised in the income statement as those expected losses were incurred.

In accordance with the provisions of HKFRS 3:
- the Group ceased amortisation of goodwill from 1 April 2005;
- accumulated amortisation as at 31 March 2005 has been eliminated with a corresponding decrease in the cost of goodwill;
- from the year ended 31 March 2006 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment; and
- in accordance with the transitional provision in HKFRS 3, all negative goodwill was derecognised as 1 April 2005 with a corresponding increase in retained earnings.

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

- HKAS 16 - the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;
- HKAS 21 - prospective accounting for goodwill and fair value adjustments as part of foreign operations;
- HKAS 39 - does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous Statement of Standard Accounting Practice ("SSAP") 24 "Accounting for investments in securities" to investments in securities and also to hedge relationships for the 2005 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1 April 2005.
- HKFRS 3 - prospectively after 1 April 2005.

The effect on the adoption of the new accounting policies in consolidated balance sheet and consolidated income statement were summarised as follow:

Consolidated Balanced Sheet
As at 31 March 2006

	HKAS 17 HK$'000	HKAS 38 HK$'000	HKAS 39 HK$'000	Total HK$'000
Property, plant and equipment	(13,850)	-	-	(13,850)
Land use rights	13,850	-	-	13,850
Goodwill	-	(5,171)	-	(5,171)
Trade receivables	-	-	(635)	(635)
Prepayments, deposits and other receivables			(1,011)	(1,011)
	-	(5,171)	(1,646)	(6,817)
Reserve	-	(5,171)	(1,646)	(6,817)

Consolidated Income Statement
For the year ended 31 March 2006

	HKAS 17 HK$'000	HKAS 38 HK$'000	HKAS 39 HK$'000	Total HK$'000
Decrease in depreciation	(561)	-	-	(561)
Increase in amortisation of land use rights	561	-	-	561
Increase in impairment loss on goodwill	-	5,171	-	5,171
Increase in change in fair value of financial assets through profit or loss	-	-	1,646	1,646
	-	5,171	1,646	6,817
Decrease in earnings per shares	-	HK$ 0.002	HK$ 0.001	HK$ 0.003

Consolidated Balanced Sheet
As at 31 March 2005

	HKAS 17 HK$'000	HKAS 38 HK$'000	HKAS 39 HK$'000	Total HK$'000
Property, plant and equipment	(18,470)	-	-	(18,470)
Land use rights	18,470	-	-	18,470
	-	-	-	-
Reserve	-	-	-	-

Consolidated Income Statement
For the year ended 31 March 2005

	HKAS 17 HK$'000	HKAS 38 HK$'000	HKAS 39 HK$'000	Total HK$'000
Decrease in depreciation	(566)	-	-	(566)
Increase in amortisation of land use rights	566	-	-	566
	-	-	-	-

There was no impact on earnings per share from the adoption of HKAS 17 for the year ended 31 March 2005.

Following the adoption of new HKASs and HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified and/or restated to conform with the current year's presentation and accounting treatments.

2. Turnover

The Group's turnover comprised of the followings:

	2006 HK$'000	2005 HK$'000
Manufacturing of pharmaceutical products	51,714	39,033
Trading of pharmaceutical products	126,551	129,740
Gene development	-	993
	178,265	169,766

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Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts. All significant transactions among the companies comprising the Group have been eliminated on consolidation.

3. Profit/(loss) from operations

Profit/(loss) from operations is arrived at after charging:

	2006 HK$'000	2005 HK$'000 (Restated)
Impairment loss on intangible assets	-	79,958
Impairment loss on goodwill	5,171	6,600
Impairment loss on property, plant, equipment and land use rights	10,723	-
Depreciation	4,530	5,830
Amortisation of intangible assets	732	7,317
Amortisation of goodwill	-	3,526
Amortisation of land use rights	561	566
Impairment loss on trade receivables	8,090	-
Change in fair value of financial assets through profit or loss	1,646	-
Research and development costs	466	1,432

4. Earnings/(loss) per share

The calculation of the basic earnings/(loss) per share is based on the profit/(loss) attributable to the Company's equity holders of HK$4,669,000 (2005: net loss of HK$75,823,000) and on 2,290,000,000 (2005: 2,290,000,000) shares in issue during the year.

There were no potential shares in existence for the year ended 31 March 2006 and 2005 and accordingly, no diluted earnings/(loss) per share has been presented.

5. Extract from the auditors' report

The auditors' report was qualified as to:

Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants, except that the scope of our work was limited as explained below.

An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

The corresponding figures in the current year's financial statements are derived from the financial statements for the year ended 31 March 2005 which were audited by another auditors whose report dated 26 July 2005 contained a disclaimer audit opinion. We are unable to carry out audit procedures necessary to obtain adequate assurance on the preceding year's figures in respect of the limitation of audit works on whether the gain on disposal of subsidiaries, interest in an associate and interest in a jointly-controlled entity (the "Disposed Group") was fairly stated in the financial statements for the year ended 31 March 2005, we are unable to determine whether adjustments to the results of operations might be necessary for the year ended 31 March 2005. Accordingly, our auditors' report is hereby modified in respect of the results of operations for the year ended 31 March 2005 included as the corresponding figures in the current year's financial statements.

Fundamental Uncertainty - Recoverability of Intangible Assets and Other Receivables

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the carrying amount of technical know-how (the "Know-how") in relation to an oral insulin product (the "Product") and the exclusive right for the commercialisation of the Product owned by the Group of HK$284 million as at 31 March 2006. The Know-how is held by Fosse Bio-Engineering Development Limited ("Fosse Bio "), a subsidiary acquired by the Group in the preceding year through the acquisition of Smart Ascent Limited ("Smart Ascent"), which owns 51% equity interest in Fosse Bio, from two vendors (the "Vendors"). We have also considered the adequacy of the disclosure made in the financial statements concerning the recoverability of the third and fourth installments receivable (the "Receivable") of the Know-how amounted to HK$31,780,000 owed by one of the Vendors to the Group. The Receivable is secured on the remaining 49% equity interest in Smart Ascent.

As further explained in the financial statements, the Phase II clinical trial of the Product has completed and the result has submitted to the State Food and Drug Administration of the People's Republic of China for approval, which are currently ongoing. The recoverability of the carrying amount of the Know-how and the Receivable with the pledged 49% equity interest in Smart Ascent depends upon the results and completion of the clinical trials, the issuance of the new product licence and the successful launching of the Product, the outcome of which is currently uncertain.

The financial statements do not include any adjustments that may be necessary should the implementation of such measures be unsuccessful. We consider that appropriate disclosures have been made in the financial statements and our opinion is not qualified in this respect.

Qualified Opinion Arising From Limitation of Audit Scope for the Corresponding Figures

In our opinion, except for the effect on the corresponding figures for the year ended 31 March 2005 of the adjustments, if any, that might have been found to be necessary had we been able to obtain sufficient evidence concerning the gain on disposal of the Disposed Group as mentioned under the basis of opinion section, the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2006 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.