



祥泰行集團有限公司*

CHEUNG TAI HONG HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 199)

**INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2005**

RESULTS

The board of directors (the “**Board**”) of Cheung Tai Hong Holdings Limited (the “**Company**”) announces the unaudited condensed consolidated results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30th September, 2005, together with the comparative figures for the corresponding period in 2004. The interim results for the six months ended 30th September, 2005 are not audited, but have been reviewed by the auditors, Deloitte Touche Tohmatsu, in accordance with the Statement of Auditing Standards 700 “Engagements to Review Interim Financial Reports” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) and the Audit Committee of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2005

		Six months ended	
		30.9.2005	30.9.2004
		(unaudited)	(unaudited)
	<i>NOTES</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	3	426,380	175,398
Cost of sales		(370,651)	(125,505)
Gross profit		55,729	49,893
Other income		6,830	289
Distribution costs		(33,043)	(24,733)
Administrative expenses		(20,099)	(13,651)
Other expenses		(304)	–
Gain arising from change in fair value of financial assets at fair value through profit or loss		216	–
Gain on disposal of investment in securities		–	53
Amortisation of goodwill arising on acquisition of subsidiaries		–	(478)
Impairment loss recognised in respect of goodwill arising from acquisition of subsidiaries		(11,000)	–
Loss on disposal of investment properties		–	(3,217)
Unrealised holding loss of investments held for trading/other investments		(5,330)	(4,696)
Finance costs	4	(9,940)	(4,011)
Loss before taxation	5	(16,941)	(551)
Taxation	6	(819)	(466)
Loss for the period attributable to equity holders of the parent		(17,760)	(1,017)
Loss per share	7		
– Basic		(4.4 cents)	(0.8 cents)
– Diluted		N/A	N/A

* For identification purpose only

CONDENSED CONSOLIDATED BALANCE SHEET
AT 30TH SEPTEMBER, 2005

	30.9.2005 (unaudited) HK\$'000	31.3.2005 (restated) HK\$'000
Non-current assets		
Property, plant and equipment	62,666	64,353
Prepaid lease payments	1,350	1,365
Intangible assets	3,043	2,015
Goodwill	10,885	21,885
	<u>77,944</u>	<u>89,618</u>
Current assets		
Inventories	73,377	59,280
Debtors, deposits and prepayments	429,610	38,280
Loan receivables	49,814	31,500
Prepaid lease payments	30	30
Properties held for sale	58,547	58,536
Investments in securities	–	10,289
Investments held for trading	53,052	–
Financial assets at fair value through profit or loss	26,840	–
Pledged bank deposits	3,000	3,000
Bank balances and cash	669,511	187,980
	<u>1,363,781</u>	<u>388,895</u>
Current liabilities		
Creditors and accrued charges	77,145	62,772
Tax payable	62	1,041
Obligations under a finance lease – due within one year	33	23
Promissory note payables	–	13,000
Convertible note payables	353	180
Bank and other borrowings – due within one year	49,053	62,146
	<u>126,646</u>	<u>139,162</u>
Net current assets	<u>1,237,135</u>	<u>249,733</u>
Total assets less current liabilities	<u>1,315,079</u>	<u>339,351</u>
Non-current liabilities		
Obligations under a finance lease – due after one year	91	119
Bank and other borrowings – due after one year	1,875	5,625
Convertible note payables	901,333	84,803
	<u>903,299</u>	<u>90,547</u>
Net assets	<u>411,780</u>	<u>248,804</u>
Capital and reserves		
Share capital	4,086	3,610
Reserves	406,770	245,194
Equity attributable to equity holders of the parent	<u>410,856</u>	<u>248,804</u>
Minority interests	924	–
Total equity	<u>411,780</u>	<u>248,804</u>

Notes:

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and with Hong Kong Accounting Standard (“**HKAS(s)**”) 34 “Interim Financial Reporting” issued by the HKICPA.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31st March, 2005 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (“**HKFRS(s)**”), HKASs and Interpretations (hereinafter collectively referred to as “**new HKFRSs**”) issued by the HKICPA that are effective for the accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group’s accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented:

- (i) HKFRS 2 “Share-based Payment”
- (ii) HKFRS 3 “Business Combinations”
- (iii) HKAS 17 “Leases”
- (iv) HKAS 32 “Financial Instruments: Disclosure and Presentation”
- (v) HKAS 39 “Financial Instruments: Recognition and Measurement”

Summary of the effects of the changes in accounting policies

The effects of the changes in the accounting policies described above on the results for the current and prior periods are as follows:

		Six months ended	
	Effect of adopting	30.9.2005 HK\$’000	30.9.2004 HK\$’000
Increase in impairment loss recognised in respect of goodwill arising from acquisition of subsidiaries	HKFRS 3	(573)	–
Decrease in amortisation of goodwill	HKFRS 3	573	–
Increase in interest on the liability component of convertible notes	HKAS 32	(7,443)	–
Gain arising from changes in fair value of financial assets at fair value through profit or loss	HKAS 39	216	–
Increase in loss for the period		<u>(7,227)</u>	<u>–</u>

The cumulative effects of the application of the new HKFRSs as at 31st March, 2005 and 1st April, 2005 are summarised below:

	As at 31st March, 2005 (originally stated) <i>HK\$'000</i>	Effect of HKAS 17 <i>HK\$'000</i>	Effect of HKAS 32 <i>HK\$'000</i>	As at 31st March, 2005 (restated) <i>HK\$'000</i>	Effect of HKAS 39 <i>HK\$'000</i>	As at 1st April, 2005 (restated) <i>HK\$'000</i>
Balance sheet items						
Property, plant and equipment	65,748	(1,395)	–	64,353	–	64,353
Prepaid lease payment	–	1,395	–	1,395	–	1,395
Investments in securities	10,289	–	–	10,289	(10,289)	–
Investments held for trading	–	–	–	–	10,289	10,289
Creditors and accrued charges	(62,952)	–	180	(62,772)	–	(62,772)
Convertible note payables						
– current portion	–	–	(180)	(180)	–	(180)
– non-current portion	(90,000)	–	5,197	(84,803)	–	(84,803)
Total effects on assets and liabilities	<u>(76,915)</u>	<u>–</u>	<u>5,197</u>	<u>(71,718)</u>	<u>–</u>	<u>(71,718)</u>
Share premium	102,604	–	(247)	102,357	–	102,357
Accumulated profits	112,720	–	2,324	115,044	–	115,044
Capital reserve – equity component of convertible notes	–	–	3,120	3,120	–	3,120
Total effects on equity	<u>215,324</u>	<u>–</u>	<u>5,197</u>	<u>220,521</u>	<u>–</u>	<u>220,521</u>

3. SEGMENT INFORMATION

For management purposes, the Group is currently organised into four main operating segments – manufacturing and trading of medicine and health food, motorcycles, property development and securities investment. These divisions are the bases on which the Group reports its primary segment information.

Six months ended 30th September, 2005

	Medicine and health food <i>HK\$'000</i>	Motorcycles <i>HK\$'000</i>	Property <i>HK\$'000</i>	Securities investment <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER					
External sales	<u>138,427</u>	<u>5,547</u>	<u>–</u>	<u>282,406</u>	<u>426,380</u>
SEGMENT RESULTS					
	<u>5,878</u>	<u>186</u>	<u>259</u>	<u>(1,190)</u>	<u>5,133</u>
Unallocated corporate income					5,313
Unallocated corporate expenses					(6,447)
Impairment loss recognised in respect of goodwill arising from acquisition of subsidiaries	(11,000)	–	–	–	(11,000)
Finance costs					(9,940)
Loss before taxation					(16,941)
Taxation					(819)
Loss for the period					<u>(17,760)</u>

Six months ended 30th September, 2004

	Medicine and health food <i>HK\$'000</i>	Motorcycles <i>HK\$'000</i>	Property <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER				
External sales	107,080	7,673	60,645	175,398
SEGMENT RESULTS	601	253	9,611	10,465
Unallocated corporate expenses				(7,005)
Finance costs				(4,011)
Loss before taxation				(551)
Taxation				(466)
Loss for the period				(1,017)

4. FINANCE COSTS

	Six months ended	
	30.9.2005	30.9.2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on:		
Bank and other borrowings wholly repayable within five years	1,555	2,719
Promissory notes	210	290
Convertible notes	8,175	122
Loan arrangement fees	–	880
	9,940	4,011

5. LOSS BEFORE TAXATION

	Six months ended	
	30.9.2005	30.9.2004
	<i>HK\$'000</i>	(restated) <i>HK\$'000</i>
Loss before taxation has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	4,923	4,209
Amortisation of prepaid lease payments	15	12
Amortisation of intangible assets included in administrative expenses	29	4
Loss on disposal of property, plant and equipment	260	53
Bad debts recovered	–	(1)
	4,923	4,209

6. TAXATION

The taxation represents provision for income tax in the People's Republic of China.

No provision for Hong Kong Profits Tax has been made as the Company and its subsidiaries had no assessable profit for both periods.

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

7. LOSS PER SHARE

The calculation of the basic loss per share attributable to the equity holders of the parent is based on the following data:

	Six months ended	
	30.9.2005	30.9.2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss for the period	17,760	1,017
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purpose of basic loss per share	403,150,067	128,739,049

No diluted loss per share has been presented because the exercise of the share options and the conversion of convertible notes would result in a decrease in loss per share.

8. COMPARATIVE FIGURES

Certain comparative figures presented in these unaudited condensed consolidated financial statements have been restated to comply with the relevant new HKFRSs as set out in Note 2.

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend in respect of the six months ended 30th September, 2005 (six months ended 30th September, 2004: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group's turnover for the six months ended 30th September, 2005 was approximately HK\$426.4 million, representing an increase of 143% as compared with the comparative period of HK\$175.4 million. This substantial increase is mainly due to the expansion in the activity of securities investment, being part of the Group's strategy in short term treasury management, which contributed HK\$282.4 million to the Group's turnover during the period under review.

During the period, an impairment loss for goodwill of HK\$11.0 million has been charged to the income statement. In addition, due to the adoption of new accounting standard, there was an increase in interest expense of HK\$7.4 million on the liability component of convertible notes. As a result, the Group incurred a loss for the period of HK\$17.8 million as compared with that of the comparative period of HK\$1.0 million. The loss per share for the current period was 4.4 cents.

Property Investment

During the period, the Group has been actively looking for investment opportunities in properties. As stated in the announcement made by the Company on 26th October, 2005, the Group has proceeded to a more advanced stage in relation to negotiation for a possible acquisition of property interest in Macau. In addition, the Group has been in discussions in respect of possible acquisitions of property interests and sporting facilities in the People's Republic of China (the "PRC") and Hong Kong. Further announcements will be made by the Company as and when appropriate.

There are 24 residential units and 1 commercial unit at Talon Tower on Connaught Road West remain unsold.

Securities Investment

During the period, the Group has expanded its activity in securities investment with an aim to maximise the short term yield from the surplus cash balances. There was a realised gain of HK\$4.1 million recognised for the period. Due to the short term market fluctuation, there was an unrealised loss of HK\$5.3 million which was calculated with reference to the market price at the period end and a net loss of HK\$1.2 million was reported for this segment. At the period end, the Group held investments in securities in aggregate of HK\$79.9 million, which mainly represents shares or equity linked notes in renowned companies listed in Hong Kong, the United States and Japan.

Medicine Retailing and Manufacturing

Since Tung Fong Hung Investment Limited and Jean-Marie Pharmacal Company Limited (collectively the "Medicine Business") were acquired by the Group around end of April 2004, their results for five months ended 30th September, 2004 had been accounted for by the Group in the comparative period. After taking into account this factor, the performance of the Medicine Business for the current period shows a moderate growth as compared with the comparative period. The segment turnover and profit achieved for the period were HK\$138.4 million (2004: HK\$107.1 million) and HK\$5.9 million (2004: HK\$0.6 million) respectively.

FINANCIAL REVIEW

During the period, an aggregate amount of HK\$20 million of the 3-year convertible notes was converted into approximately 47.6 million shares in the Company and the outstanding amount of the 3-year convertible notes at the period end was HK\$70 million. To strengthen its resources for expanding the activity in property investment, the Group has further issued 5-year convertible notes in August 2005 to raise HK\$1,000 million, which can be converted into shares of the Company at an initial conversion

price of HK\$0.44 per share and repayable at the fifth anniversary from the issue date (or the next following business day if it is not a business day) unless they are previously converted, redeemed or purchased and cancelled, and be redeemed at 110 percent of their principal amount. In accordance with the new accounting standard adopted by the Group during the period, an amount of HK\$160.9 million representing the estimated equity component of the 5-year convertible notes was recorded to increase the capital reserve of the Group. As a result, after offset by the loss of HK\$17.8 million incurred for the period, the net asset value of the Group was increased by 66% from HK\$248.8 million at 31st March, 2005 to HK\$411.8 million at the period end.

The Group adopts a prudent funding and treasury policy with regard to its overall business operations. In addition to the above convertible note payables in aggregate of HK\$1,070 million outstanding at the period end, a variety of credit facilities is maintained so as to meet its working capital requirements of the Group. At the end of the period, total bank borrowings amounted to HK\$50.9 million, of which HK\$49.0 million is repayable within one year and the remaining HK\$1.9 million is repayable after one year.

The net gearing ratio of the Group, calculated with reference to the total of bank loans of HK\$50.9 million and the fair value of the liability component of convertible note payables of HK\$901.7 million, setoff with the bank and cash balances of HK\$672.5 million, and the Group's shareholders' funds of HK\$410.9 million, was 0.7 at 30th September, 2005.

All the bank borrowings were interest-bearing with reference to Hong Kong inter-bank offer rate, London inter-bank offer rate or prime rate. The management believes that interest remains stable in the capital market and therefore no hedge is to be made against interest rate fluctuation. Most of the assets and liabilities of the Group were denominated in Hong Kong dollars, and hence the Board considers that the Group was not subject to any material exchange rate exposure.

NUMBER OF EMPLOYEES, REMUNERATION POLICIES AND SHARE OPTION SCHEME

As at 30th September, 2005, the number of employees was 527 (31st March, 2004: 515). Employees are remunerated according to their qualifications and experience, job nature and performance, under the pay scales aligned with market conditions. During the period, the Group had also provided other benefits such as medical, insurance cover and retirement schemes to the employees.

OUTLOOK

Continued prosperity in the Hong Kong property is expected for the coming year though there may be some short term adjustments due to the rising interest rate and the unpredictable outbreak of avian flu. The strong economy of the surrounding areas, in particular Macau becomes a hot spot for vacation, will definitely accelerate their demand for high quality residential and commercial buildings. The Group is actively and cautiously exploring suitable investment opportunities, with its primarily focus on the property markets in Hong Kong, the PRC and Macau, for its future growth.

PLEDGE OF ASSETS

As at 30th September, 2005, the Group's property held for sale in an aggregate value of approximately HK\$58.5 million, bank balance of HK\$3.0 million, and certain property, plant and equipment of a subsidiary of the Company of approximately HK\$11.6 million had been pledged to banks and financial institutions to secure general credit facilities granted to the Group.

CONTINGENT LIABILITIES

As at the period end, the Group had contingent liabilities in respect of a tax indemnity given upon disposal of a subsidiary at HK\$60 million.

SECURITIES IN ISSUE

During the period, the Company had issued 47,619,046 ordinary shares upon conversion of convertible notes at the conversion price of HK\$0.42 per share. In addition, share options of 27,300 shares were cancelled and there were no share options granted and outstanding at the period end.

As at 30th September, 2005, there were 408,614,553 shares in issue. Save as disclosed above, there was no movement in the issued share capital during the period.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30th September, 2005.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has, throughout the period ended 30th September, 2005, complied with the code provisions and, where applicable, the recommended best practices of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules on the Stock Exchange except for the following deviation from code provision A.4.2 of the Code:

Under code provision A.4.2 of the Code, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The rotation of directors at the annual general meeting of the Company held on 9th September, 2005 was in accordance with the Company's previous bye-laws which stipulate, inter alia, that one-third of the directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not greater than one-third) shall retire from office by rotation provided that notwithstanding anything therein, the Chairman of the Board and/or the Managing Director of the Company shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year. This deviated from the requirements of code provision A.4.2.

To fully comply with code provision A.4.2, relevant amendments to the Company's bye-laws were proposed and approved by the shareholders at the same annual general meeting of the Company, pursuant to which every director shall be subject to retirement by rotation at least once every three years at the annual general meeting in future.

PUBLICATION OF RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE

The interim results of the Group for the six months ended 30th September, 2005 containing all the information required by paragraph 46 of Appendix 16 to the Listing Rules will be published on the Stock Exchange's website in due course.

GENERAL

As at the date of this announcement, the Board comprises Mr. Cheung Hon Kit (*Chairman*), Mr. Chan Fut Yan (*Managing Director*) and Mr. Tse Cho Tseung as executive directors, Mr. Ho Hau Chong, Norman (*Deputy Chairman*) and Mr. Lo Lin Shing, Simon as non-executive directors and Mr. Wong Chi Keung, Alvin, Mr. Kwok Ka Lap, Alva and Mr. Chui Sai Cheong as independent non-executive directors.

On behalf of the Board
Cheung Hon Kit
Chairman

Hong Kong, 19th December, 2005

The full version of this announcement can also be accessed on the Company's website: <http://www.cheungth.com.hk>.

"Please also refer to the published version of this announcement in The Standard."