



祥泰行集團有限公司*

CHEUNG TAI HONG HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 199)

**ANNOUNCEMENT
OF RESULTS FOR THE YEAR ENDED 31ST MARCH, 2005**

RESULTS

The board of directors (the “Board”) of Cheung Tai Hong Holdings Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31st March, 2005, together with the comparative figures for the previous year, as follows:

	Notes	For the year ended 31st March,	
		2005 HK\$'000	2004 HK\$'000
Turnover	2	379,396	63,514
Cost of sales		(259,478)	(55,429)
Allowance for properties held for sale		–	(6,006)
Gross profit		119,918	2,079
Other operating income		2,139	7,267
Gain (loss) on disposal of investments in securities		30	(13,059)
Doubtful debts (provided) recovered		(1,729)	20
Distribution costs		(57,942)	–
Administrative expenses		(34,215)	(11,383)
Other operating expenses		(567)	–
Amortisation of goodwill		(1,051)	–
Unrealised holding (loss) gain on other investments		(4,226)	1,640
Loss on disposal of investment properties		(3,217)	–
Deficit arising on revaluation of investment properties		–	(8,800)
Profit (loss) from operations	3	19,140	(22,236)
Finance costs		(7,379)	(15,585)
Gain on disposal of subsidiaries		–	30
Profit (loss) before taxation		11,761	(37,791)
Taxation	4	(1,823)	–
Profit (loss) before minority interests		9,938	(37,791)
Minority interests		–	8,179
Profit (loss) for the year		9,938	(29,612)
Earnings (loss) per share	5		
Basic		6.2 cents	(25.0 cents)
Diluted		5.0 cents	N/A

* For identification purpose only

The Consolidated Balance Sheet as at 31st March, 2005 is as follows:

	2005 HK\$'000	2004 HK\$'000
NON-CURRENT ASSETS		
Investment properties	–	8,200
Property, plant and equipment	65,748	380
Intangible assets	2,015	–
Goodwill	21,885	–
	<u>89,648</u>	<u>8,580</u>
CURRENT ASSETS		
Inventories	59,280	–
Properties held for sale	58,536	116,846
Investments in securities	10,289	16,388
Loan receivables	31,500	–
Debtors, deposits and prepayments	38,280	10,311
Pledged bank deposits	3,000	–
Bank balances and cash	187,980	80,136
	<u>388,865</u>	<u>223,681</u>
CURRENT LIABILITIES		
Creditors and accrued charges	62,952	7,641
Tax payable	1,041	–
Obligations under a finance lease – due within one year	23	–
Promissory note payables	13,000	–
Bank and other borrowings due within one year	62,146	94,444
	<u>139,162</u>	<u>102,085</u>
NET CURRENT ASSETS	<u>249,703</u>	<u>121,596</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>339,351</u>	<u>130,176</u>
NON-CURRENT LIABILITIES		
Obligations under a finance lease – due after one year	119	–
Bank and other borrowings – due after one year	5,625	–
Convertible note payables	90,000	–
	<u>95,744</u>	<u>–</u>
NET ASSETS	<u>243,607</u>	<u>130,176</u>
CAPITAL AND RESERVES		
Share capital	3,610	1,277
Reserves	239,997	128,899
	<u>243,607</u>	<u>130,176</u>

Notes

1. BASIS OF PREPARATION AND POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties and certain investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong.

In 2004, the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (“HKFRSs”) (herein collectively referred to as “new HKFRSs”) which are effective for accounting periods beginning on or after 1st January, 2005 except for HKFRS 3 “Business Combinations”. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st March, 2005.

HKFRS 3 is applicable to business combinations for which the agreement date is on or after 1st January, 2005. The Group has not entered into any business combination for which the agreement date is on or after 1st January, 2005. Therefore HKFRS 3 did not have any impact on the Group for the year ended 31st March, 2005.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position of the Group are prepared and presented.

2. SEGMENTAL INFORMATION

Business segments:

Analyses of the Group's turnover and contribution to profit (loss) from operations by business segments are as follows:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Turnover		
Medicine and health food	275,952	–
Property	91,707	47,650
Motorcycles	11,737	15,864
	<u>379,396</u>	<u>63,514</u>
Contribution to profit (loss) from operations		
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Medicine and health food	2,888	–
Property	27,160	(9,641)
Motorcycles	542	664
	<u>30,590</u>	<u>(8,977)</u>
Unallocated corporate expenses	(11,450)	(13,259)
Profit (loss) from operations	<u>19,140</u>	<u>(22,236)</u>

Geographical segments:

Analysis of the Group's turnover by geographical markets is as follows: –

	Turnover	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Hong Kong	288,326	63,514
PRC	60,687	–
Other countries	30,383	–
	<u>379,396</u>	<u>63,514</u>

3. PROFIT (LOSS) FROM OPERATIONS

Profit (loss) from operations has been arrived at after charging:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Depreciation and amortization of property, plant and equipment		
Assets owned by the Group	8,810	183
Assets held under a finance lease	26	–
Amortisation of intangible assets	71	–
	<u>9,107</u>	<u>183</u>

4. TAXATION

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Current tax:		
Hong Kong Profits Tax	5	–
Taxation in other jurisdictions	1,818	–
	<u>1,823</u>	<u>–</u>

Hong Kong Profits Tax is calculated at the rate of 17.5% on the estimated assessable profits for the year.

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

During the year ended 31st March, 2004, no provision for Hong Kong Profits Tax had been made for the Group as the Company and its subsidiaries had no assessable profit for that year.

5. EARNINGS (LOSS) PER SHARE

The calculation of the earnings (loss) per share for the year is based on the following data:

	2005 HK\$'000	2004 HK\$'000
Earnings:		
Profit (loss) for the year and earnings (loss) for the purposes of basic earnings (loss) per share	9,938	(29,612)
Effect of dilutive potential ordinary shares – Interest on convertible notes	304	
Earnings (loss) for the purposes of diluted earnings (loss) per share	<u>10,242</u>	
Number of shares:		
Weighted average number of shares for the purposes of basic earnings (loss) per share	160,809,612	118,228,175
Effect of dilutive potential ordinary shares		
– Share options	26,804	
– Convertible notes	42,356,597	
	<u>203,193,013</u>	

No diluted loss per share was presented for the year ended 31st March, 2004 because the exercise of the share options would result in a decrease of net loss per share.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group's turnover for the year ended 31st March, 2005 was approximately HK\$379.4 million, representing a significant increase of approximately 500% as compared to the last corresponding year of HK\$63.5 million. In addition, the Group has achieved a turn-around and resulted in a profit of HK\$9.9 million for current year as compared with a loss of HK\$29.6 million in 2004. The substantial increase in turnover was mainly due to the newly acquired medicine business in May 2004 and improved bottom line was due to the increase in sale of properties benefiting from the strong recovery in the property market in Hong Kong.

Property Development

During the year, there were further sales of 16 residential units and 2 commercial units at Talon Tower on Connaught Road West, which recorded a turnover of HK\$91.7 million with a gross profit of HK\$29.2 million. As at 31st March, 2005, there remain unsold units of 24 residential units and 1 commercial unit.

Medicine retailing and manufacturing

Subsequent to the acquisition of the interest in the Chinese medicine retailer, "Tung Fong Hung", and the western pharmaceutical manufacturer, Jean-Marie Pharmacal Company Limited ("Jean-Marie"), the Group has diversified into the medicine business and owned a reputable medicine brand name and a chain of retail stores spanning across Hong Kong, the Mainland China, Macau, Canada, Taiwan and Singapore. The division currently operates a total number of approximately 70 retail outlets in these regions and generated a total turnover of HK\$276.0 million for the period under review. By taking advantage of the progressively economic recovery in Hong Kong and the continued robust economic growth in the Mainland China in particular, the business achieved a rebound in sales from last year.

The western pharmaceutical manufacturer, Jean-Marie, is putting efforts in expanding its distribution network and enhancing its production efficiency. Sales to the local government are a new stream of business since Jean-Marie was licensed with the GMP (Good Manufacturing Practice) standard. The Group is also devoting resources to obtain licenses of its products in Hong Kong and potential markets aiming for a sale breakthrough. As Jean-Marie is still in transition of rationalizing its business, it recorded an operating loss for the period under review.

Financial Review, Liquidity and Capital Resources

As at 31st March, 2005, the net asset value of the Group was HK\$243.6 million, which showed an increase of 87% as the capital base has been enlarged by the issue of approximately 175 million and 57.1 million ordinary shares upon placement and conversion of convertible notes respectively making an aggregate proceed of HK\$105.2 million.

The Group adopts a prudent funding and treasury policy with regard to its overall business operations. A variety of credit facilities is maintained so as to meet its working capital requirements. As at the year end, promissory note payables, bank and other borrowings in aggregate amounted to HK\$80.8 million of which some HK\$13.0 million of the outstanding amount was used to finance the acquisition of the medicine business during the year and the remaining HK\$67.8 million was for working capital. Some HK\$75.2 million of the outstanding borrowing is repayable within 1 year while the remaining HK\$5.6 million is repayable after one year. In addition, during the year, the Company has issued convertible notes in the amount of HK\$100 million, which are convertible into shares in the Company at an initial conversion price of HK\$0.42 per share, interest is charged at 2% per annum and repayable at the third anniversary from the issue date. Before the year end, convertible notes in an aggregate principal amount of HK\$10 million were converted into ordinary shares at the conversion price of HK\$0.42 per share. The balance in an aggregate principal amount of HK\$90 million will be redeemed on 23rd February, 2008 (or the next following business day if it is not a business day) unless they are previously converted, redeemed or purchased and cancelled.

At 31st March, 2005, the Group maintained bank and cash balances of approximately HK\$191.0 million and is in a net cash position. After the enlargement of the capital base, the gearing ratio of the Group, calculated with reference to the total of promissory note payables, bank and other borrowings of HK\$80.8 million and the Group's shareholders' funds of HK\$243.6 million, substantially reduced to 0.3 as compared with 0.7 as at 31st March, 2004.

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

NUMBER OF EMPLOYEES, REMUNERATION POLICIES AND SHARE OPTION SCHEME

As a result of the acquisition of the medicine business, the number of employees increased to 515 persons as at 31st March, 2005 (2004: 11 persons). Employees are remunerated according to qualifications and experience, job nature and performance, with pay scale aligned with market conditions. During the year, the Group also provided other benefits such as medical, insurance cover and retirement schemes to the employees.

Outlook

Continued prosperity in the Hong Kong property market is expected for the coming year. Leveraging on the Group's extensive experience in the property business, the Group will further explore investment opportunities in high quality residential and commercial buildings with a view to expand and enhance its property investment portfolio. During the year, through the placement of shares and issue of convertible notes, the Group has raised approximately HK\$180 million. The Group has further proceeded to raise another HK\$1,000 million through the issue of 5-year convertible notes, which completion is expected to be around end of July 2005. Having abundant resources, the Group is actively and cautiously exploring suitable investment opportunities, with its primary focus on the property markets in Hong Kong, the Mainland China and Macau, for its future growth.

PLEDGE OF ASSETS

As at 31st March, 2005, the Group's property held for sale with an aggregate value of approximately HK\$58.5 million, bank balance of HK\$3.0 million and property, plant and equipment of certain subsidiaries of the Company of approximately HK\$12.0 million have been pledged to banks and financial institutions to secure general credit facilities granted to the Group.

CONTINGENT LIABILITIES

As at the year end, the Group has contingent liabilities in respect of a tax indemnity given on disposal of a subsidiary in prior year of HK\$60 million.

MATERIAL ACQUISITIONS

During the year, the Group acquired the entire issued share capital of Tung Fong Hung Investment Limited ("Tung Fong Hung") and the remaining 50% of the issued share capital of Pacific Wins Development Ltd., not being held by Tung Fong Hung for considerations of HK\$42 million and HK\$28 million respectively. As a result of the acquisition, the Group commences to engage in the manufacturing and retailing of medicine and health food.

POST BALANCE SHEET EVENT

Subsequent to 31st March, 2005, the Group has the following significant post balance sheet events:

- (a) Pursuant to the announcement on 20th April, 2005 and the circular dated 23rd May, 2005, on 8th April, 2005, the Company entered into seven subscription agreements with each of the subscribers. On 20th April, 2005, the Company entered into another two subscription agreements and a placing agreement with each of the subscribers and a placing agent, respectively. Each of the subscription agreements and the placing agreement are not inter-conditional on each other.

Kopola Investment Company Limited ("Kopola") is one of the nine subscribers, which has conditionally agreed to subscribe by cash for an amount of HK\$150 million out of the total HK\$956 million zero coupon convertible notes due 2010 (the "Subscription Convertible Notes") (the "Subscription"). Kopola is 50% held by Mr. Ho Hau Chong, Norman ("Mr. Ho"), the deputy chairman and independent non-executive director of the Company, and therefore an associate of Mr. Ho. As Mr. Ho is a connected person of the Company under Rule 14A.11 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"). Therefore, the subscription of the Subscription Convertible Notes by Kopola constitutes a connected transaction of the Company under the Listing Rules.

Pursuant to the placing agreement, the placing agent will procure, on a best effort basis, no less than six placees to subscribe by cash for the HK\$44 million zero coupon convertible notes due 2010 proposed to be issued by the Company (the "Placing Convertible Notes") with a principal amount of HK\$44 million (the "Placing"). None of the placees will be a subscriber.

Upon full conversion of the Subscription Convertible Notes at initial conversion price of HK\$0.44 per share (subject to adjustment), a total of 2,172,727,272 new ordinary shares will be issued.

Assuming all the HK\$44 million Placing Convertible Notes are successfully placed by the placing agent, upon full conversion of the Placing Convertible Notes at the initial conversion price of HK\$0.44 per share (subject to adjustment), a total of 100,000,000 new ordinary shares will be issued.

The total gross proceeds from the Subscription and the Placing are in the amount of HK\$956 million and HK\$44 million, respectively. Therefore, the maximum total gross proceeds from the Subscription and the Placing amount to HK\$1,000 million. Net proceeds of approximately HK\$996 million will be used to finance the expansion of the investment property portfolio of the Company.

- (b) Pursuant to the announcement on 3rd June, 2005, a subsidiary of the Company and an independent third party (the "Vendor") signed a non-binding letter of intent with a view to negotiating with the Vendor a possible acquisition from the Vendor 50% of its ownership and interest in certain land located in Macau (the "Acquisition"), which initially is intended for redevelopment purposes, at the initial consideration of HK\$495 million. Up to the date of this announcement, no formal agreement in respect of the Acquisition has been entered into.

REVIEW OF AUDITED FINANCIAL STATEMENTS

The Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31st March, 2005.

ANNUAL GENERAL MEETING

The annual general meeting ("AGM") of the Company will be held at 11:00 a.m. on Friday, 9th September, 2005 at 33/F Sonata, Rosedale on the Park, 8 Shelter Street, Causeway Bay, Hong Kong.

CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the year ended 31st March, 2005, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules on the Stock Exchange which was in force prior to 1st January, 2005, except that the independent non-executive directors of the Company are not appointed for a specific term but they are subject to retirement by rotation and re-election at the AGM of the Company in accordance with the Company's Bye-laws.

PROPOSED AMENDMENTS TO THE BYE-LAWS

In order to ensure compliance with the Code on Corporate Governance Practices as contained in current Appendix 14 to the Listing Rules, it is proposed that certain amendments to be made to the Company's Bye-laws. A special resolution to give effect to the proposed amendments to the Company's Bye-laws will be proposed at the forthcoming AGM of the Company. Details of the proposed amendments to the Company's Bye-laws will be set out in the circular and the notice of the forthcoming AGM to be despatched to the shareholders of the Company.

SECURITIES IN ISSUE

During the year, there were the following movements in the issued share capital of the Company:

- (a) placement of 25,000,000 and 150,000,000 shares at HK\$0.81 and HK\$0.40 each respectively;
- (b) issue of 33,333,331 and 23,809,520 shares upon conversion of convertible notes at conversion prices of HK\$0.45 and HK\$0.42 per share respectively; and
- (c) issue of 1,155,000 shares at HK\$0.207 each upon exercise of share options.

As at the year end, there were 360,995,507 shares in issue. Save as disclosed above, there was no movement in the issued share capital during the period.

FINAL DIVIDEND

The Board does not recommend a payment of final dividend for the year ended 31st March, 2005 (2004: Nil).

BOOK CLOSE FOR ANNUAL GENERAL MEETING

The Company's register of members will be closed from 7th September, 2005 to 9th September, 2005, both dates inclusive, on which period no share transfers shall be effected. In order to qualify for attending and voting at the forthcoming AGM of the Company, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's share registrars in Hong Kong, Secretaries Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration by no later than 4:00 p.m. on 6th September, 2005.

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

During the year ended 31st March, 2005, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

APPRECIATION

I would like to take this opportunity to express my appreciation to the shareholders for their support, to the management and staff for their dedicated efforts and to our client, consultants and partners for all their valuable assistance offered during this past year.

PUBLICATION OF RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE

A detailed results announcement of the Group for the year ended 31st March, 2005 containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 to the Listing Rules will be published on the website of the Stock Exchange 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. Lo Lin Shing, Simon as non-executive director, Mr. Ho Hau Chong, Norman (*Deputy Chairman*), Mr. Wong Chi Keung, Alvin, Mr. Kwok Ka Lap, Alva and Mr. Zhang Shichen as independent non-executive directors.

On behalf of the Board
Cheung Hon Kit
Chairman

Hong Kong, 25th July, 2005

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