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, 2004

GROUP RESULTS

The board of directors of the Company (the "Board") announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th September, 2004 as follows:

Condensed Consolidated Income Statement

Six months ended 30th September, 2004

		Six months ended	
		30.9.2004	30.9.2003
	Notes	***HK$'000***	*HK$'000*
Turnover	*3*	**175,398**	29,465
Cost of sales		**(125,505)**	(28,283)
Allowance for properties held for sale		**–**	(6,006)
Gross profit (loss)		**49,893**	(4,824)
Investment income		**34**	2,930
Other operating income		**255**	1,506
Distribution costs		**(24,733)**	–
Administrative expenses		**(13,651)**	(5,336)
Gain (loss) on disposal of investments in securities		**53**	(7,509)
Amortisation of goodwill arising on acquisition of subsidiaries		**(478)**	–
Loss on disposal of investment properties		**(3,217)**	–
Unrealised holding (loss) gain of other investments		**(4,696)**	1,675
Profit (loss) from operations	*4*	**3,460**	(11,558)
Finance costs	*5*	**(4,011)**	(9,576)
Profit on disposal of a subsidiary		**–**	20
Loss before taxation		**(551)**	(21,114)
Taxation	*6*	**(466)**	–
Loss before minority interests		**(1,017)**	(21,114)
Minority interests		**–**	6,453
Loss for the period		**(1,017)**	(14,661)
Loss per share (basic)	*7*	**(0.8 cents)**	(12.5 cents)

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 on The Stock Exchange of Hong Kong Limited and with Statement of Standard Accounting Practice 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

2. **PRINCIPAL ACCOUNTING POLICIES**

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

   The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st March, 2004, except that the Group has adopted certain new accounting policies following its acquisition of subsidiaries, as described below.

   Inventories

   Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

   Intangible assets

   An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life.

   Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

   Expenditure on research activities is recognised as an expense in the period in which it is incurred.

* *for identification purpose only*

3. **SEGMENT INFORMATION**

In May 2004, the business of manufacturing, distribution and retailing of medicine and health food was acquired upon acquisition of subsidiaries.

An analysis of the Group's turnover and profit (loss) from operations by business segment, the primary segment, is as follows:

Six months ended 30th September, 2004

	Medicine and health food	Motorcycles	Property	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE				
External sales	**107,080**	**7,673**	**60,645**	**175,398**
SEGMENT RESULTS	**601**	**253**	**9,611**	**10,465**
Unallocated corporate expenses				**(7,005)**
Profit from operations				**3,460**
Finance costs				**(4,011)**
Loss before taxation				**(551)**
Taxation				**(466)**
Loss before minority interests				**(1,017)**
Minority interests				**–**
Loss for the period				**(1,017)**

Six months ended 30th September, 2003

	Motorcycles	Property	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
REVENUE			
External sales	9,860	19,605	29,465
SEGMENT RESULTS	557	(5,575)	(5,018)
Unallocated corporate expenses			(6,540)
Loss from operations			(11,558)
Finance costs			(9,576)
Profit on disposal of a subsidiary			20
Loss before taxation			(21,114)
Taxation			–
Loss before minority interests			(21,114)
Minority interests			6,453
Loss for the period			(14,661)

4. **PROFIT (LOSS) FROM OPERATIONS**

	Six months ended	
	30.9.2004	30.9.2003
	HK$'000	*HK$'000*
Profit (loss) from operations for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**4,221**	100
Amortisation of intangible assets included in administrative expenses	**4**	–
Loss (gain) on disposal of property, plant and equipment	**53**	(1,473)
Bad debts recovered	**(1)**	(21)

5. **FINANCE COSTS**

	Six months ended	
	30.9.2004	30.9.2003
	HK$'000	*HK$'000*
Interest on:		
Bank and other borrowings wholly repayable within five years	**2,719**	9,576
Promissory notes	**290**	–
Convertible note	**122**	–
Loan arrangement fees	**880**	–
	4,011	9,576

6. **TAXATION**

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

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profit for the period.

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 is based on the following data:

	Six months ended	
	30.9.2004	30.9.2003
	HK$'000	*HK$'000*
Loss for the period	**1,017**	14,661
	Number of shares	Number of shares
Weighted average number of shares for the purpose of basic loss per share	**128,739,049**	117,187,656

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

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend in respect of the six months ended 30th September, 2004 (six months ended 30th September, 2003: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group's turnover for the six months ended 30th September, 2004 was approximately HK$175,398,000, representing a significant increase of nearly 500% of that of last year. Alongside, the Group has managed to reduce the loss for the period to HK$1,017,000 (six months ended 30th September, 2003: HK$14,661,000). The increase in turnover and improved bottom line was contributed by the operating result of the newly acquired medicine and health food business in May, 2004 and a general result of picking up of consumers' confidence in the property market in Hong Kong following the economic recovery.

Property Development

The Group was gradually making sales of its 13 residential units and a commercial unit at Talon Tower at Connaught Road West and recorded a turnover of HK$60,546,000 with a gross profit of HK$13,878,000 during the period. Profitability improvement is steadily seen in the property sales caused by the rising market prices. At the end of the period, there remain unsold units of 27 residential units and 2 commercial units.

Medicine retailing and manufacturing

Since 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 its operation into the medicine and health food business and has become a famous medicine brand owner and retailer in Hong Kong, the Mainland China, Canada, Taiwan and Macau. The division currently operates a total number of 69 retail outlets in these regions with a turnover of HK$107,080,000 since its inception. Taking advantage of the progressively recovering economy in Hong Kong and the continuing strong economic growth in the Mainland China in particular, the business achieved a rebound in sales from last year, consisting of a respective growth of 23% and 31% in sales in these two regions.

The western pharmaceutical manufacturer, Jean-Marie is putting efforts in expanding its distribution network and enhancing 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 to prepare for a sale break through. As Jean-Marie is still in transit in turning around, it sustained an operating loss during the period. This is, however, compensated by the profit of the Chinese medicine operation leading to a small profit of HK$601,000 during the period.

Financial Review

As at 30th September, 2004, the net asset value of the Group was HK$130,042,000, which showed a decrease of 0.1% from that of last year caused by the loss reported for the period. The Group maintained bank and cash balances of approximately HK$64,025,000, and the bank and other borrowings of HK$149,449,000. The bank borrowings of HK$70,451,000 comprised mainly a project loan relating to the construction of the property units at Talon Tower, a term loan for financing the construction of the plant in Tai Po for western pharmaceutical production, and documentary credits for trade settlements to suppliers. Other borrowings of HK$78,998,000 comprised a HK$15 million convertible note and HK$13 million promissory notes payable to vendors for outstanding consideration for the acquisition of the medicine and health food business. As effected by acquisition of the medicine and health food business that is operating on a comparatively higher gearing level, the gearing ratio of the Group (the ratio of total liabilities over total assets) increased to 62% (31st March, 2004: 44%). Given the improving profitability of the Group foreseen in the coming year, the directors believe that the leverage position will be reduced.

Most of these 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.

Rewards For Employees

As a result of the acquisition of the medicine and health food business, the number of employees increased to 502 (30th September, 2003: 8) persons as at 30th September, 2004. The total personnel expenses amounted to approximately HK$18,805,000 (six months ended 30th September, 2003: HK$2,053,000). Employees are remunerated according to qualifications and experience, job nature and performance, with pay scale aligned with market conditions. The Group also provides other benefits such as medical, dental insurance cover and retirement schemes to the employees.

Prospects
Driven by the envisaged continuing growing numbers of travelers and the continuing recovery of local consumption sentiment, the retail environment in Hong Kong will be characterized by steady growth in the coming years. Should environmental factors be consistent, the same uprising trend is also expected in the property sector that will lead to further improvement in the Group's performance in the coming years.

The Group is keen to collaborate with well-established medicine and health food distributors through which distribution networks are expanded. During the period, we streamlined the retail management by transferring the retail operation in Singapore to a subsidiary of PSC Corporation Limited, a renowned consumer product distributor and a listed company in Singapore, that becomes our licensed operator of "Tung Fong Hung" medical stores in Singapore and other countries in the South East Asia. The company is also appointed the sole distributor of our products in that territories. In addition, active work programs are currently in place with a business partner in the Mainland China for the licensing and distribution of products of Jean-Marie and Tung Fong Hung there. The directors are entrusted with a stronger operating base to leap forward to a better year in 2005.

Subsequent to the interim reporting date on 15th December, 2004, the Company entered into two conditional agreements for the placing of new shares and convertible notes (the "Placing") raising a gross proceed of HK$160 million. The directors believe that the Placing will strengthen the Group's financial position and provide sufficient resources for its future business development.

CORPORATE GOVERNANCE
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 six months ended 30th September, 2004, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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 period.

AUDIT COMMITTEE
The Company has established an audit committee comprising Mr. Wong Chi Keung, Alvin, Mr. Kwok Ka Lap, Alva and Mr. Zhang Shichen, all are independent non-executive directors.

The unaudited interim financial statements of the Group for the six months ended 30th September, 2004 have been reviewed by audit committee and the external auditors of the Company.

PUBLICATION OF RESULTS ON THE STOCK EXCHANGE'S WEBSITE
All the information required by paragraph 46(1) to 46(6) inclusive of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited will be published on the Stock Exchange's website in due course (http://www.hkex.com.hk).

As at the date hereof, the Board comprises Mr. Lo Lin Shing, Simon (Chairman), Mr. Tse Cho Tseung and Ms. Cheung Sze Man as executive directors and 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.

By Order of the Board
Tse Cho Tseung
Executive Director

Hong Kong, 17th December, 2004

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