

Interim Report 2 0 0 4



Asia Resources Holdings Limited
亞洲資源控股有限公司*

*For identification purpose only

INTERIM RESULTS

The Board of Directors (the “Board”) of Asia Resources Holdings Limited (the “Company”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively refer to as the “Group”) for the six months ended 30th September 2004 together with the comparative figures for the previous corresponding period as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th September 2004

		For the six months ended 30th September	
		2004	2003
		(unaudited)	(unaudited)
		HK\$'000	HK\$'000
	Notes		
Turnover	3	61,538	39,600
Cost of goods sold		(23,241)	(15,154)
Cost of services		–	(800)
Gross profit		38,297	23,646
Interest income		112	221
Other revenue		366	507
Selling and distribution cost		(21,896)	(18,015)
Administrative expenses		(9,895)	(8,532)
Profit (loss) from operations	4	6,984	(2,173)
Finance costs		(1,872)	(1,258)
Profit (loss) before taxation		5,112	(3,431)
Taxation	5	(2,444)	–
Profit (loss) before minority interests		2,668	(3,431)
Minority interests		402	(266)
Net profit (loss) attributed to shareholders		3,070	(3,697)
		HK cents	HK cents
Earnings (loss) per share	6		
– Basic		0.27	(0.39)
– Diluted		0.23	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

		30th September 2004 (unaudited) HK\$'000	31st March 2004 (audited) HK\$'000
	Notes		
Non-current assets			
Property, plant and equipment		119,404	71,254
Intangible asset		573	–
Deposits made on acquisition of property, plant and equipment		3,180	–
Goodwill		226,269	113,819
Deferred tax assets		2,098	2,098
		<u>351,524</u>	<u>187,171</u>
Current assets			
Inventories		17,002	12,062
Trade and other receivables	7	89,437	64,741
Bank balances and cash		224,133	30,084
		<u>330,572</u>	<u>106,887</u>
Current liabilities			
Trade and other payables	8	20,128	18,987
Taxation		925	1,268
Short-term bank loans		75,400	37,700
		<u>96,453</u>	<u>57,955</u>
Net current assets		234,119	48,932
Total assets less current liabilities		585,643	236,103
Non-current liabilities			
Bank loans due after one year		18,850	–
		<u>566,793</u>	<u>236,103</u>
Minority interests		–	15,277
Net assets		<u>566,793</u>	<u>220,826</u>
Capital and reserve			
Share capital	9	60,572	51,822
Reserve		506,221	169,004
Shareholders' funds		<u>566,793</u>	<u>220,826</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the six months ended 30th September 2004*

	PRC					Total HK\$'000
	Share Capital HK\$'000	Share Premium HK\$'000	Special Reserve HK\$'000	Statutory Reserve HK\$'000	Deficit HK\$'000	
At 1st April 2004	51,822	133,861	92,926	1,358	(59,141)	220,826
Issued of shares	8,750	341,250	–	–	–	350,000
Expenses incurred in connection with the issued of shares	–	(7,103)	–	–	–	(7,103)
Net profit attributed to shareholders	–	–	–	–	3,070	3,070
At 30th September 2004	60,572	468,008	92,926	1,358	(56,071)	566,793
At 1st April 2003	40,932	48,934	92,926	926	(154,186)	29,532
Effect of capital reduction	(34,110)	(48,934)	–	–	83,044	–
Issued of shares	45,000	135,000	–	–	–	180,000
Expenses incurred in connection with the issue of shares	–	(1,099)	–	–	–	(1,099)
Net loss attributed to shareholders	–	–	–	–	(3,697)	(3,697)
At 30th September 2003	51,822	133,901	92,926	926	(74,839)	204,736

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30th September 2004*

	For the six months ended 30th September	
	2004 (unaudited) HK\$'000	2003 (unaudited) HK\$'000
Net cash from/(used in) operating activities	(8,828)	(24,483)
Net cash from/(used in) investing activities	(144,746)	(84,874)
Net cash from/(used in) financing	347,623	105,222
Increase/(decrease) in cash and cash equivalents	194,049	(4,135)
Cash and cash equivalents at beginning of the period	30,084	16,777
Cash and cash equivalents at end of the period	224,133	12,642
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	224,133	12,642

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the disclosure requirements set out in Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and the Statement of Standard Accounting Practice (“SSAP”) 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. The accounting policies adopted are consistency with those followed in the preparation of the Group’s annual financial statements for the year ended 31st March 2004.

3. TURNOVER AND SEGMENT INFORMATION

(a) BUSINESS SEGMENTS

The Group's main business segment is the manufacture and sales of pharmaceutical products. In the previous period, the Group also engaged in the provision of transportation related services which were discontinued in March 2004 upon disposal of the relevant subsidiaries.

Analysis of the Group's business segmental information is as follows:

	For the six months ended 30th September	
	2004	2003
	HK\$'000	HK\$'000
Turnover		
Continuing operations		
– manufacture and sales of pharmaceutical products	61,538	39,159
Discontinued operations		
– transportation related services	–	441
	61,538	39,600
Results		
Continuing operations		
– manufacture and sales of pharmaceutical products	10,086	2,103
Discontinued operations		
– transportation related services	–	(792)
	10,086	1,311
Central administrative expenses	(3,102)	(3,484)
Profit (loss) from operations	6,984	(2,173)
Finance costs	(1,872)	(1,258)
Profit (loss) before taxation	5,112	(3,431)
Taxation	(2,444)	–
Profit (loss) before minority interests	2,668	(3,431)
Minority interests	402	(266)
Net profit (loss) attributable to shareholders	3,070	(3,697)

(b) GEOGRAPHICAL SEGMENTS

The Group's operation is principally carried out in the People's Republic of China (the "PRC") and Hong Kong. Accordingly, no geographical analysis of information is presented.

4. PROFIT (LOSS) FROM OPERATIONS

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

	For the six months ended 30th September	
	2004 HK\$'000	2003 HK\$'000
Depreciation and amortization of property, plant and equipment	3,986	3,461
Amortization of goodwill included in administrative expenses	4,096	2,634
Staff cost (including directors' remuneration)	4,412	4,067
	<u>4,412</u>	<u>4,067</u>

5. TAXATION

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

The charges for the period represented the PRC income tax. Pursuant to the relevant laws and regulations in the PRC, the PRC subsidiaries are entitled to exemption from PRC income tax for two years commencing from its first profit-making year of operation and thereafter it will be entitled to a 50% relief from PRC income tax for the following three years. Accordingly, PRC income tax has been provided taking into account of these tax exemptions and concessions.

6. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share is based on the following data:

	For the six months ended 30th September	
	2004 HK\$'000	2003 HK\$'000
Earnings:		
Net profit (loss) attributable to shareholders for the purposes of basic and diluted earnings (loss) per share	<u>3,070</u>	<u>(3,697)</u>
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	1,150,238,404	942,451,519
Effect of dilutive potential ordinary shares – option	<u>181,370,220</u>	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>1,331,608,624</u>	<u>N/A</u>

The calculation of the basic loss per share for previous period is based the weighted average number of 942,451,519 ordinary shares in issue during the period after taking into effect of share consolidation on the basis that every thirty issued and unissued shares was consolidated into one share on 8th April 2003.

No diluted loss per share is presented for previous period as the exercise of the potential shares outstanding would result in a decrease in the loss per share.

7. TRADE AND OTHER RECEIVABLES

	30th September 2004 (unaudited) HK\$'000	31st March 2004 (audited) HK\$'000
Trade receivables	61,659	44,828
Other receivables	27,778	19,913
	<u>89,437</u>	<u>64,741</u>

Payment terms with customers are mainly on credit. Invoices are normally settled within 90 days to 180 days of issuance, except for certain well established customers. The following is an aged analysis of trade receivables at the respective reporting date:

	30th September 2004 (unaudited) HK\$'000	31st March 2004 (audited) HK\$'000
Age		
0 to 90 days	56,254	40,640
91 to 180 days	6,950	9,212
181 to 365 days	4,411	1,182
Over 365 days	2,036	-
Less: Allowance for bad and doubtful debts	<u>(7,992)</u>	<u>(6,206)</u>
	<u>61,659</u>	<u>44,828</u>

8. TRADE AND OTHER PAYABLES

	30th September 2004 (unaudited) HK\$'000	31st March 2004 (audited) HK\$'000
Trade payables	9,446	7,558
Other payables	10,682	11,429
	<u>20,128</u>	<u>18,987</u>

The following is an aged analysis of trade payables at the reporting date:

	30th September 2004 (unaudited) HK\$'000	31st March 2004 (audited) HK\$'000
Age		
0 to 90 days	5,144	4,265
91 to 180 days	832	720
181 to 365 days	669	261
Over 365 days	2,801	2,312
	<u>9,446</u>	<u>7,558</u>

9. SHARE CAPITAL

	30th September 2004 (unaudited) HK\$'000	31st March 2004 (audited) HK\$'000
Authorized: 10,000,000,000 shares of HK\$0.05 each	<u>500,000</u>	<u>500,000</u>
	Number of ordinary shares	Amount HK\$'000
Issued and fully paid:		
At 1st April 2004	1,036,440,590	51,822
Issued of shares	175,000,000	8,750
At 30th September 2004	<u>1,211,440,590</u>	<u>60,572</u>

INTERIM DIVIDEND

The Board of directors has resolved not to declare an interim dividend for the six months ended 30th September 2004 (2003: nil).

SIGNIFICANT EVENTS AFTER BALANCE SHEET DATE

The controlling shareholder of the Company, Guardwell Investments Limited (“Guardwell”), has fully exercised the option in an aggregate amount of HK\$40,000,000 to subscribe for 200,000,000 new shares at a subscription price of HK\$0.20 per share in accordance with the Subscription and Option Agreement dated 21st February 2003 entered into between Guardwell and the Company.

MAJOR ACQUISITION

During the period, the Group acquired 100% of the issued share capital of Bright Central Investments Limited for a total cash consideration of HK\$120,000,000. This acquisition has been accounted for by the acquisition method of accounting.

The effect of the acquisition is summarized as follows:

	HK\$'000
Property, plant and equipment	51,291
Intangible asset	649
Deposit made on acquisition of property, plant and equipment	2,925
Inventories	7,621
Trade and other receivables	18,655
Bank balances and cash	5,574
Trade and other payables	(18,704)
Bank loans	(49,953)
Purchased goodwill arising on acquisition	101,942
Discharged by cash	<u>120,000</u>
Net cash outflow arising on acquisition	
Bank balances and cash acquired	5,574
Bank loans acquired	(49,953)
	<u>(44,379)</u>

PLACING OF SHARES AND USED OF PROCEEDS

Through a placing and a subscription agreement, the Company allotted 175,000,000 shares at the price HK\$2.00 per share in early of June 2004. The aggregate net proceeds from the subscription are approximately HK\$342,000,000. The Company intends to use the net proceeds for any strategic development and for general working capital including the existing business operations of the Group, acquisition or investments that the Company may decide to pursue in the future.

During the period under review, the Group used the proceeds from the subscription approximately HK\$149,500,000 for the investment in the pharmaceutical market in the PRC, which is in line with the Company's business development strategy. The details of which can refer to the section of Acquisition. The balance is for general working capital and further investments made by the Group.

ACQUISITION

- (a) The Group has acquired the remaining equity interest in two non-wholly owned subsidiaries, Value Brilliant Investments Limited ("Value Brilliant") and Siping Ju Neng Medicine Industry Co. Ltd ("SPJN"), for a total cash consideration of approximately HK\$29,500,000. After this acquisition, these two subsidiaries have become wholly owned subsidiaries of the Group.
- (b) In early of July 2004, the Group acquired the entire equity interest in Zhejiang Juneng Rosi Pharmaceutical Co., Ltd. ("Rosi") through the acquisition of 100% share capital in Bright Central Investments Limited for a total cash consideration of HK\$120,000,000. Rosi is principally engaged in the manufacturing and sales of intravenous fluid and the plastic and glass bottle that hold the fluid in the PRC. Intravenous fluid is a major category in medical products, which is the introduction of large amounts of fluids, by means of controlled drip, into the vein. It is a medical product used by hospitals and healthcare organizations on a daily basis as it is the fastest and most effective way to deliver fluids and medications throughout the body in a controlled way. Currently, Rosi has obtained approvals from the relevant authorities to manufacture six types of medicinal intravenous fluids. The production plant is located at Yueqing, Zhejiang province, the PRC and has a production capacity of 36 million bottles per annum.

BUSINESS REVIEW AND PROSPECT

During the period under review, the Group recorded a turnover of approximately HK\$61,538,000 representing an increment of approximately 55 per cent compared with the previous corresponding period. The net profit attributable to shareholders for the period amounted to approximately HK\$3,070,000. The increase in turnover and the turnaround of results were because the diminishing of the Severe Acute Respiratory Syndrome (SARS), the disposal of the loss-making transportation related services, an increase in its share of profit from non-wholly owned to wholly owned subsidiaries and the contribution from the new investment.

During the previous corresponding period, other than the patients for emergency services, the majority of the patients were not willing to undergo hospitalization due to the impact of the SARS. Consequently, the demand for the Group's products decreased and pressure was imposed on the selling prices. With the diminishing impacts of the SARS, the sales volume and prices of the Group's products roughly resumed to the normal level during the period under review. Given the keen market competition, the selling prices of partial of the products declined as compared to that of the previous corresponding period. Nonetheless, the selling prices of certain products with particularly low prices in the previous corresponding period have been raised to the normal level. Therefore, the average selling prices were managed to remain steady as a whole.

The results of SPJN, our existing subsidiary, improved as compared to that of the previous corresponding period. Since the sales amount and volume of SPJN of the previous corresponding period were below the normal level, significant growths were recorded in both aspects during the period under review. The sales amount and volume increased for over 35 per cent as compared to the previous corresponding period. Commenced from the previous year, SPJN employed a proactive approach to strengthen the promotion of products with a higher profit margin and satisfactory results were attained in the first half of the year. Besides, the selling prices for a majority of products also returned to their normal levels, coupled with the enhancement in production efficiency, the gross profit margin was slightly increased by 3 per cent from about 61 per cent in previous corresponding period to about 64 per cent during the period under review. In regard to the net profit margin before taxation, with a stringent control on the selling and administrative expenses, it was increased by approximately 13 per cent as compared to that of the previous corresponding period, while the net profit margin after taxation was merely increased by

approximately 8 per cent. The reason for such merely increases was that SPJN was required to pay the domestic income tax during the period under review, and yet the previous corresponding period was fallen into the tax-free period, therefore, SPJN was exempted from the income tax burden. As a substantial portion of the selling expenses was utilized during the first half of the year, the relevant net profit margin was still lower than that of the previous financial year, which was 32 per cent. Owing to the fact that the bases for the previous corresponding level were below normal level and the production capability of SPJN was almost saturated, the management expects that SPJN would not achieve the same level of significant growth in its annual sales amount or volume as it did in the first half of the year.

The newly-acquired subsidiary Rosi was also managed to contribute a small portion of profit to the Group. The Group has appointed a number of former management personnel of SPJN to join Rosi in the implementation of various reforms and cost-cutting exercises after the completion of the acquisition. Those reforms included an appropriate deployment of personnel with a cut in redundant staff, a refinement in Rosi's fixed assets, an improvement in production process and an enhancement in production efficiency and so on. The abovementioned measures together with Rosi's established scale of sales, resulted in a turnaround from loss to profit within a short period of time. A small portion of profit was generated in the second month since the completion of the acquisition. However, the profit level was yet to be stable. The Group is in an attempt to integrate the production mode and sales network of SPJN and Rosi so as to expand the scale of production and sales of Rosi. The Group also plans to increase the Rosi's product mix and specifications and introduce certain products with a higher profit margin, and also assist in reducing the cost of raw materials, with an ultimate aim to enhance the profitability of Rosi and increase its profit contribution to the Group.

Due to the low bases for the previous corresponding period, the extent of growth in the first half of the year cannot form the basis for the estimation of growth for the whole year. Furthermore, the results for the first half of the year only reflected the Group's normal profit level. Upon the completion of the acquisition of Rosi, the income base, product varieties and market share of the Group were expanded. Notwithstanding the remain ferocious market competition and the prices of certain raw materials face the pressure to increase, the Board is still optimistic about the Group's results in the second half and the entire year by leveraging on its excellent market strategies, remarkable management expertise and with the anticipation of Rosi to become another profit contributor to the Group.

Following the completion of placing of new shares in June and the exercise of share options in October, the proceeds has further strengthened the sound financial status of the Group. As at the end of November, the Group had a net cash position of over HK\$140 million. Apart from the development of the existing pharmaceutical business, the Group is capable of conducting proper acquisitions. As a result, the Group will actively identify and expect there will be other profitable projects for development in the near future for the purpose of enhancing the return to the shareholders.

FINANCIAL RESOURCES AND LIQUIDITY

As at 30th September 2004, the Group had total assets of HK\$682,096,000 (31st March 2004: HK\$294,058,000) which was financed by current liabilities of HK\$96,453,000 (31st March 2004: HK\$57,955,000), long-term liabilities HK\$18,850,000 (31st March 2004: HK\$nil), shareholders' equity of HK\$566,793,000 (31st March 2004: HK\$220,826,000) and the minority interests of HK\$nil (31st March 2004: HK\$15,277,000).

The Group's current ratio as at 30th September 2004 was approximately 3.43 (31st March 2004: 1.84) and gearing ratio, representing the total borrowing divided by the shareholders' equity was approximately 16.63% (31st March 2004: 17.10%).

The total outstanding borrowings of the Group as at 30th September 2004 were denominated in Renminbi with fixed interest rate.

As at 30th September 2004, the Group had pledged certain of its property, plant and equipment with an aggregate net book value of HK\$38,895,000 (31st March 2004: HK\$16,125,000) to secure the credit facilities granted to the Group.

The Group and the Company had no any material contingent liabilities and capital commitment as at 30th September 2004.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES

Most of the Group's assets, liabilities and business transactions are denominated in Hong Kong Dollars, US Dollars and Renminbi which have been relatively stable during the period. The Group was not exposed to material exchange risk and did not employ any financial instruments for hedging purposes.

DIRECTORS' INTERESTS IN SECURITIES

As at 30th September 2004, the interests and short positions of the directors or chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

(a) LONG POSITION IN ORDINARY SHARES OF HK\$0.05 EACH OF THE COMPANY

Name of director	Capacity	Number of shares held	Percentage of issued share capital of the company
Ms. Zhang Cheng	Corporate (Note)	652,000,000	53.82

Note: Ms. Zhang Cheng beneficially owns and controls Guardwell Investments Limited (Guardwell). Accordingly, Ms. Zhang Cheng is deemed to be interested in the shares held by Guardwell.

(b) LONG POSITIONS IN THE UNDERLYING SHARES OF THE COMPANY

- (i) *OPTION GRANTED ON 25TH APRIL 2003 PURSUANT TO A SUBSCRIPTION AND OPTION AGREEMENT DATED 21ST FEBRUARY 2003*

Name of director	Capacity	Number of shares to be subscribed under the option granted
Ms. Zhang Cheng	Corporate (Note)	200,000,000

Note: Ms. Zhang Cheng beneficially owns and controls Guardwell and is deemed to be interested in the option for subscribing the Company's shares during the period from 25th April 2003 to 24th October 2004 at a subscription price of HK\$0.20 per share.

- (ii) *SHARE OPTIONS SCHEME*

The Company's share options scheme (the "Scheme") adopted on 14th January 2002 for the purposes of the recognition of the contribution of and for the provision of incentives to any directors, employees (whether full-time or part-time), consultants, customers, suppliers, agents, partners or advisors to the Group or affiliate will expire on 13th January 2012. No options have been granted by the Company under the Scheme since its adoption.

Save as disclosed above, none of the directors or chief executives of the Company had, as at 30th September 2004, any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were recorded in the register required to be kept by the Company under Section 352 of the SFO.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURE

Save as disclosed above in respect of the directors' interest in securities, at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debt securities (including debentures) of, the Company or any other body corporate and none of the directors or their spouses or children under the age of 18, had any right to subscribe for securities of the Company or had exercised any such rights.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30th September 2004, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of the relevant interests and short position in the issued share capital of the Company.

Name of shareholder	Nature of interest	Number of shares	Approximate percentage of the issued share capital of the Company
Guardwell Investments Limited	Corporate	652,000,000	53.82
Ms. Zhang Cheng (Note a)	Beneficial Owner	652,000,000	53.82
China Life Trustees Limited	Corporate	100,000,000	8.25
China Life Insurance (Overseas) Co. Ltd. Hong Kong Branch (Note b)	Controller	100,000,000	8.25

Name of option holder	Nature of interest	Number of shares to be subscribed under the option granted
Guardwell Investments Limited	Corporate	200,000,000
Ms. Zhang Cheng (Note c)	Beneficial Owner	200,000,000

Notes:

- a. Ms. Zhang Cheng beneficially owns and controls Guardwell Investments Limited and is deemed to be interested in the shares held by Guardwell Investments Limited.
- b. China Life Trustees Limited is accustomed to act in accordance with directions of China Life Insurance (Overseas) Co. Ltd. Hong Kong Branch which is deemed to be interested in the shares held by China Life Trustees Limited.
- c. Ms. Zhang Cheng beneficially owns and controls Guardwell Investments Limited and is deemed to be interested in the option for subscribing shares being granted to Guardwell Investments Limited. The exercise period of the option is from 25th April 2003 to 24th October 2004. The consideration for the grant of the option is HK\$1.00 and the subscription price per share is HK\$0.20.

Save as disclosed above, the directors are not aware of any shareholder who was, directly or indirectly, interested or had short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, was, directly or indirectly, interested in 10% or more of the normal value of the issued share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group, or any options in respect of such capital as 30th September 2004.

STAFF EMPLOYMENT

As at 30th September 2004, the Group had approximately 820 employees. Remuneration packages are generally structured by reference to market terms and individual qualifications. Besides providing staff with medical benefits and mandatory provident fund, the Group also encourages continual staff development by sponsoring different types of training and further studying programs.

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

No purchase, sale or redemption of the Company's listed securities was made by the Company or any of its subsidiaries during the six months ended 30th September 2004.

CODE OF BEST PRACTICE

None of the directors is aware of any information that would reasonable indicate that the Company is not, or was not during the six months ended 30th September 2004 in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules except that non-executive directors are not appointed for a specific term but are subject to retirement by rotation in accordance with the bye-laws of the Company.

AUDIT COMMITTEE

The Company has established an audit committee in accordance with the requirements of the Code of Best Practice for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises three independent non-executive directors of the Company. The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including review of the unaudited condensed consolidated financial statements for the six months ended 30th September 2004.

By Order of the Board
Zhang Cheng
Chairman

Hong Kong, 10th December 2004