

## Chairman Statement, Management Discussion and Analysis

On behalf of the Board of Directors (the “Board”) of Asia Resources Holdings Limited (the “Company”), I am pleased to present to our shareholders the report and the audited results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31st March, 2005.

### RESULTS

For the year ended 31st March, 2005, the Group’s turnover amounted to HK\$124,191,000, an increase of 36% compared to the previous year. Profit attributable to shareholders rose by 64% from the previous year to HK\$20,389,000. The basic earnings per share for the year ended 31st March, 2005 was HK\$1.61 cents, compared with HK\$1.26 cents for the year ended 31st March, 2004.

The Board did not recommend the payment of any dividend for the year (2004: HK\$ nil).

### PLACING OF SHARES AND USE OF PROCEEDS

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

During the review period and up to April 2005, the Group used approximately HK\$179,500,000 of the proceeds from the subscription for investments in the pharmaceutical market in the PRC, which is in line with the Group’s business development strategy. Details of the acquisitions can be referred to in the section headed “Acquisitions” below. The balance is for general working capital purposes and further investments of the Group.

### CAPITAL STRUCTURE

In October 2004, the controlling shareholder of the Company, Guardwell Investments Limited (“Guardwell”), exercised in full the option granted to it with 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 new share in accordance with the Subscription and Option Agreement dated 21st February, 2003 entered into between Guardwell and the Company.

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### ACQUISITIONS

- (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 the acquisition, the two companies have become wholly-owned subsidiaries of the Group.
- (b) In July 2004, the Group acquired the entire equity interest in Zhejiang Juneng Rosi Pharmaceutical Co., Ltd. (“Rosi”) through the acquisition of 100% interest in Bright Central Investments Limited for a total cash consideration of HK\$120,000,000. Rosi is principally engaged in the business of manufacture and sales of intravenous fluids and the plastic and glass bottles that hold the fluid which are the Group’s existing products in the PRC. Currently, Rosi has obtained approvals from the relevant authorities to manufacture nine types of medicinal intravenous fluids. The production plant is located at Yueqing, Zhejiang Province, the PRC and has an annual production capacity of 36 million bottles.
- (c) In March 2005, the Group entered into an agreement to acquire the entire interest in Siping Yatai Medicine Industry Co., Ltd. (“Siping Yatai”) through the acquisition of 100% interest in Silver Epoch Investments Limited for a total cash consideration of HK\$30,000,000. Siping Yatai is also principally engaged in the production and sale of intravenous fluids and the plastic bottles that hold the fluid which are existing products of the Group in the PRC. Details of the acquisition are set out in the circular of the Company dated 7th April, 2005. The acquisition was completed in April 2005.

### BUSINESS REVIEW

During the year, the Group recorded a turnover of HK\$124,191,000 (2004: HK\$91,346,000), which represented an increase of about 36% as compared to the previous year. The net profit attributable to shareholders amounted to HK\$20,389,000 (2004: HK\$12,433,000), which represented an increase of about 64% as compared to the previous year. The increase in profit and turnover were mainly contributed from the cease of amortization of goodwill that helped lower the cost and Rosi, the newly-acquired subsidiary.

The business condition for the financial year 2005 was relatively challenging especially in the second half of the year. An overall increase in both sales volume and amount of SPJN, the original subsidiary of the Group, were recorded which was attributed to the continuous endeavor of the staff, the strengthening of marketing effort, and the adjustment in the selling prices of certain products, notwithstanding the ferocious market competition. The sales volume and amount increased by about 13% and about 6% respectively compared with last year. However, the gross profit margin decreased from about 62% in the previous year to about 58% this year because of the pricing pressure. Besides, selling and marketing expenses of SPJN

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increased by about 9% in this year to consolidate its market share and to support its future business growth. Furthermore, SPJN was required to pay the domestic income tax after entitlement of 50% relief for the whole year while tax payments were made for only three months in the previous year. As a result of the impact of lower gross profit, increase in selling expenses and income tax burden, the net profit margin of SPJN narrowed from about 32% in the previous year to about 22% this year and net profit after taxation declined by about 29% compared to last year. In order to raise its profitability, SPJN has already employed a proactive approach in strengthening the promotion of products with higher profit margin to overcome the constraints of almost saturated production capacity and the income tax burden. Given the keen market competition and pricing pressure, the profit level of SPJN can only be expected to maintain steady in the following year.

The newly-acquired subsidiary Rosi has made a positive contribution to both the Group's turnover and profit. The Group has appointed a number of former management personnel of SPJN to join Rosi to carry out various reforms and cost-cutting exercises after the completion of the acquisition. Those reforms included the cutting of redundant staff and maintaining an appropriate level of headcount, rationalization of the company's fixed assets, improvement in production process and enhancement of production efficiency and so on. The above mentioned measures together with Rosi's established scale of sales resulted in a turnaround from loss to profit within a short period of time. Due to the expectation of the continuing rise of Rosi's production and sales volumes, its turnover and profit will also grow accordingly.

### PROSPECTS

After the several acquisitions made since 2002, the Group currently has three production plants in the PRC with total production capacity of about 96,000,000 bottles per year. Such scale of operation enables the Group secure a stable source of income. One of important tasks of the Group in the following year is to integrate the production mode, sales network, sourcing and manufacturing of the three production plants so as to achieve synergies in operation. To improve the profitability of the pharmaceutical business, the Group has promoted the sale of products with higher profit margins, develop new products, as well as widen customer base. In addition, the acquisitions of Rosi and Siping Yatai will expand the income base, product mix and market share of the Group. It is believed that the pharmaceutical business of the Group will further grow in the next year.

Following the completion of placing of new shares in June 2004 and the exercise of share option in October 2004, the proceeds has further strengthened the sound financial position of the Group. Apart from the development of the existing pharmaceutical business, the Group is now capable of making suitable acquisitions when opportunities arise. Therefore, the Group will actively identify and expect to include any other profitable projects for development in the near future and bring forth better return to the shareholders.

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### FINANCIAL RESOURCES AND LIQUIDITY

As at 31st March, 2005, the Group had total assets of HK\$742,024,000 (2004: HK\$294,058,000) which was financed by current liabilities of HK\$99,239,000 (2004: HK\$57,955,000), long term liability of HK\$18,850,000 (2004: HK\$ nil), shareholders' equity of HK\$623,935,000 (2004: HK\$220,826,000) and the minority interests of HK\$ nil (2004: HK\$15,277,000).

The Group's current ratio as at 31st March, 2005 was approximately 3.85 (2004: 1.84) and gearing ratio, representing the total borrowings divided by the shareholders' equity was approximately 14.8% (2004: 17.1%). The significant rise in current ratio and the lowering in gearing ratio are attributed to the proceeds from the placing of shares in June 2004 and the exercise of share option in October 2004.

The total outstanding borrowings of the Group as at 31st March, 2005 were denominated in Renminbi with fixed interest rate.

As at 31st March, 2005, certain property, plant and equipment, with an aggregate net book value of approximately HK\$47,516,000 (2004: HK\$16,125,000), had been pledged to secure banking facilities granted to the Group.

Except for the capital commitment of acquisitions of new subsidiaries and non-current assets amounting to HK\$27,600,000 and HK\$5,750,000 respectively, the Group and the Company had no other material capital commitment and contingent liabilities as at 31st March, 2005.

### EXPOSURE TO FLUCTUATION IN EXCHANGE RATES

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

### EMPLOYEE AND REMUNERATION POLICY

The Group has a total of approximately 820 employees in Hong Kong and the PRC as at 31st March, 2005. Remuneration packages are generally structured according to market situations and individual performance. Apart from the mandatory provident fund and statutory retirement benefits, the Group also provided medical benefits and sponsored employees in different training and continuous education programs.

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### APPRECIATION

On behalf of the Board, I would like to take this opportunity to thank our shareholders and business associates for their ongoing support and extend our appreciation to our management team and staff members for their contributions to our achievements in the year.

By order of the Board

**Zhang Cheng**

*Chairman*

Hong Kong, 15th July, 2005