

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

Stock Code: 899

## 2006 - 2007 Interim Report



\* For identification purpose only

## INTERIM RESULTS

The Board of Directors (the "Board") of Asia Resources Holdings Limited (the "Company") announces the unaudited interim results of the Company and its subsidiaries (collectively refer to as the "Group") for the six months ended 30th September 2006 together with the comparative figures for the previous corresponding period as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th September 2006

		<b>For the six months ended 30th September</b>	
		<b>2006 (unaudited) HK\$'000</b>	2005 (unaudited) HK\$'000
	Notes		
Revenue	3	<b>62,997</b>	61,477
Cost of goods sold		<b>(38,100)</b>	(33,800)
Gross profit		<b>24,897</b>	27,677
Other income		<b>2,359</b>	2,826
Distribution and selling expenses		<b>(25,822)</b>	(11,649)
Administrative expenses		<b>(11,625)</b>	(8,901)
(Loss) profit from operations		<b>(10,191)</b>	9,953
Share of loss of associates		<b>(6,425)</b>	–
Finance costs		<b>(5,342)</b>	(4,613)
(Loss) profit before tax	4	<b>(21,958)</b>	5,340
Income tax charge	5	<b>(220)</b>	(1,233)
(Loss) profit for the period		<b>(22,178)</b>	4,107
Attributable to:			
Equity holders of the Company		<b>(22,178)</b>	4,107
		<b>HK cents</b>	HK cents
Basic (loss) earnings per share	6	<b>(1.57)</b>	0.29

## CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30th September 2006 (unaudited) HK\$'000	31st March 2006 (audited) HK\$'000
Non-current assets			
Investment properties		36,779	–
Property, plant and equipment		170,645	172,325
Prepaid lease payments		9,762	9,747
Intangible assets		582	736
Goodwill		114,493	114,493
Interests in associates		110,300	116,725
Deposits for acquisition of property, plant and equipment and intangible assets		460	3,040
Deferred tax assets		4,319	4,240
		<b>447,340</b>	421,306
2 Current assets			
Inventories		22,289	21,344
Trade and other receivables	7	88,076	96,453
Loans to an associate		38,681	37,825
Bank balances and cash		28,107	57,796
		<b>177,153</b>	213,418
Current liabilities			
Trade and other payables	8	37,999	33,929
Tax liabilities		–	251
Bank loans		72,906	71,567
		<b>110,905</b>	105,747
Net current assets		<b>66,248</b>	107,671
Total assets less current liabilities		<b>513,588</b>	528,977
Capital and reserves			
Share capital	9	70,572	70,572
Reserves		355,331	374,266
Total equity		<b>425,903</b>	444,838
Non-current liability			
Bank loans		87,685	84,139
		<b>513,588</b>	528,977

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September 2006 (unaudited)

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	PRC statutory reserve HK\$'000	Translation reserve HK\$'000	Acc- umulated losses HK\$'000	Total HK\$'000
At 1st April 2005	70,572	497,831	92,926	1,812	–	(39,206)	623,935
Profit for the period	–	–	–	–	–	4,107	4,107
Exchange differences arising on translation of foreign operations recognized directly in equity	–	–	–	–	2,630	–	2,630
At 30th September 2005	<u>70,572</u>	<u>497,831</u>	<u>92,926</u>	<u>1,812</u>	<u>2,630</u>	<u>(35,099)</u>	<u>630,672</u>
At 1st April 2006	<b>70,572</b>	<b>497,831</b>	<b>92,926</b>	<b>2,116</b>	<b>3,589</b>	<b>(222,196)</b>	<b>444,838</b>
Loss for the period	–	–	–	–	–	(22,178)	(22,178)
Exchange differences arising on translation of foreign operations recognized directly in equity	–	–	–	–	3,243	–	3,243
At 30th September 2006	<u><b>70,572</b></u>	<u><b>497,831</b></u>	<u><b>92,926</b></u>	<u><b>2,116</b></u>	<u><b>6,832</b></u>	<u><b>(244,374)</b></u>	<u><b>425,903</b></u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th September 2006

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	<b>For the six months ended 30th September</b>	
	<b>2006 (unaudited) HK\$'000</b>	2005 (unaudited) HK\$'000
Net cash from/(used in) operating activities	<b>4,642</b>	(29,743)
Net cash used in investing activities	<b>(36,225)</b>	(55,253)
Net cash from/(used in) financing activities	<b>1,970</b>	(13,319)
Net decrease in cash and cash equivalents	<b>(29,613)</b>	(98,315)
Cash and cash equivalents at the beginning of the period	<b>57,796</b>	278,243
Effect of foreign exchange rate changes	<b>(76)</b>	–
Cash and cash equivalents at the end of the period	<b>28,107</b>	179,928
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	<b>28,107</b>	179,928

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable 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 with Hong Kong Accounting Standard 34 ("HKAS 34") "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

### 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention except for investment properties, which are measured at fair values, as appropriate. 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 2006 except that the Group has adopted the following accounting standard for the period:

In the current period, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the HKICPA, which are effective for accounting periods beginning on or after 1st December 2005, 1st January 2006 or 1st March 2006 respectively. The adoption of the new HKFRSs has no material effect on how the Group's results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

At the date of authorization of these interim financial statements, the HKICPA has issued a number of new/revised HKFRS that are not yet effective and the Group has not early adopted. The directors anticipate that the adoption of these new/revised HKFRS in the future accounting periods will have no significant impact on the result of the Group.

### 3. REVENUE AND SEGMENT INFORMATION

The Group is engaged in the manufacture and sales of pharmaceutical products and holding of investment properties in the People's Republic of China (the "PRC"). Accordingly, no geographical analysis of information is presented. No business segment information is presented as the revenue derived from and the assets of the properties investment segment are less than 10% of the Group's total revenue and total assets respectively.

## 4. (LOSS) PROFIT BEFORE TAX

(Loss) profit before tax has been arrived at after charging (crediting):

**For the six months  
ended 30th September**

	<b>2006</b>	2005
	<b>(unaudited)</b>	(unaudited)
	<b>HK\$'000</b>	HK\$'000
Depreciation of property, plant and equipment	<b>9,227</b>	7,859
Amortization of intangible assets	<b>169</b>	346
Prepaid lease payments	<b>165</b>	159
Staff cost (including directors' remuneration)	<b>6,938</b>	5,255
Interest income on loans to associate	<b>(1,295)</b>	—

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## 5. INCOME TAX CHARGE

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group's operation in Hong Kong 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 these subsidiaries 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 exemption and concessions.

## 6. (LOSS) EARNINGS PER SHARE

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

	<b>For the six months ended 30th September</b>	
	<b>2006 (unaudited) HK\$'000</b>	2005 (unaudited) HK\$'000
(Loss) earnings:		
(Loss) profit attributable to shareholders for the purposes of basic (loss) earnings per share	<b>(22,178)</b>	4,107
	<hr/>	<hr/>
Number of shares:		
Number of ordinary shares for the purpose of basic (loss) earnings per share	<b>1,411,440,590</b>	1,411,440,590
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## 7. TRADE AND OTHER RECEIVABLES

	<b>30th September 2006 (unaudited) HK\$'000</b>	31st March 2006 (audited) HK\$'000
Trade receivables	<b>66,566</b>	71,945
Other receivables	<b>21,185</b>	24,189
Prepaid lease payments	<b>325</b>	319
	<hr/>	<hr/>
	<b>88,076</b>	96,453
	<hr/>	<hr/>



## 7. TRADE AND OTHER RECEIVABLES (CONTINUED)

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, net of allowances, at the respective reporting date:

	<b>30th September 2006 (unaudited) HK\$'000</b>	31st March 2006 (audited) HK\$'000
0 to 90 days	<b>50,720</b>	51,299
91 to 180 days	<b>11,956</b>	14,812
181 to 365 days	<b>3,890</b>	5,834
	<b>66,566</b>	71,945

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## 8. TRADE AND OTHER PAYABLES

	<b>30th September 2006 (unaudited) HK\$'000</b>	31st March 2006 (audited) HK\$'000
Trade payables	<b>23,598</b>	15,418
Other payables	<b>14,401</b>	18,511
	<b>37,999</b>	33,929

## 8. TRADE AND OTHER PAYABLES (CONTINUED)

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

	<b>30th September 2006 (unaudited) HK\$'000</b>	31st March 2006 (audited) HK\$'000
0 to 90 days	<b>11,993</b>	8,603
91 to 180 days	<b>3,777</b>	3,112
181 to 365 days	<b>1,627</b>	1,282
Over 365 days	<b>6,201</b>	2,421
	<b>23,598</b>	15,418

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## 9. SHARE CAPITAL

	<b>30th September 2006 HK\$'000</b>	31st March 2006 HK\$'000
Authorized: 10,000,000,000 shares of HK\$0.05 each	<b>500,000</b>	500,000
	<b>Number of ordinary shares</b>	<b>Amount HK\$'000</b>
Issued and fully paid: At 31st March 2006 and 30th September 2006	<b>1,411,440,590</b>	<b>70,572</b>

## 10. RELATED PARTY TRANSACTIONS

The Group has the following significant transactions with related parties during the period:

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	<b>For the six months ended 30th September</b>	
	<b>2006 (unaudited) HK\$'000</b>	2005 (unaudited) HK\$'000
Key management compensation		
Salaries and other benefits	<b>1,146</b>	1,150
Retirement benefits scheme contributions	<b>12</b>	12
	<b>1,158</b>	1,162
Interest income on loans to an associate	<b>1,295</b>	—

## 11. CONTINGENT LIABILITIES

	<b>30th September 2006 (unaudited) HK\$'000</b>	31st March 2006 (audited) HK\$'000
Guarantee for a loan facility granted to an associate	<b>16,380</b>	—

## INTERIM DIVIDEND

The Board of directors has resolved not to declare an interim dividend for the six months ended 30th September 2006 (2005: Nil).

## BUSINESS REVIEW AND PROSPECT

For the six months ended 30th September 2006, the Group's turnover amounted to approximately HK\$62,997,000, an increase of 2% when compared with the corresponding period last year of approximately HK\$61,477,000. The net loss attributable to shareholders amounted to approximately HK\$22,178,000.

The market competition for the six months during the period under review remains intense. Given the continuous downward move of the selling prices and the rising of raw materials prices, the production cost and gross profit of the Group have been severely affected. The sales volume and turnover of the Group maintained a steady growth as the Group continued to strengthen the supervision and controls on its business operation, promote integration of internal resources and actively expand the market for its principal operation. The sales volume recorded an increase of approximately 19%, yet overall sales only increased by approximately 2% as a result of the lowering of unit sales prices. With the rising of raw materials costs, the profit margin of the products was pushed down to approximately 40% during the period from approximately 45% of the corresponding period last year.

During the period, the distribution and selling expenses increased by approximately HK\$14,173,000, an increase of approximately 122%, primarily attributable to a greater marketing efforts for the sales and the substantial increase in promotion activities and point-of-sales expenses during the period. However, under the strict monitoring of the management, it is expected that the growth rate of selling expenses will be slowing down in the remaining of the year. In addition, staff cost has increased when compared with the corresponding period of last year as a result of addition expenses incurred in relation to rationalization of sales and management model.

## BUSINESS REVIEW AND PROSPECT (CONTINUED)

The commercial/residential projects at Hangzhou, Zhejiang Province developed by the Group's associate which acquired on October 2005 are under construction. As at 30th September 2006, its accumulated pre-sales amounted to approximately RMB285,000,000. During the period, a number of the macro control measures against properties market have been issued which have the effects of cooling down domestic properties investment, turning prospective properties owners and investors to take more conservative views and slightly lowering down the sale progress of the properties. During the period, the Group shared loss of associates of approximately HK\$6,425,000, a major part of which were related to daily operation expenses such as administrative, selling and interest expenses of the properties.

During the period, the Group spent approximately RMB37,331,000 on the acquisition of investment properties which are located in Beijing, the PRC. The acquired office properties have a gross floor area of about 1,900 square meters. Except for a small portion of less than 3% of the total area retained for own use, the remaining portion has been leased out.

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For the period under review, the State has taken certain measures to improve and rationalize the sourcing management, prices and sourcing of medicines for the medicines used by hospitals, as the results of which the pace of the implementation of health system reform has been picking up, and the concentration and transparency of the market have been increased. As the Group has already established various predominant sales network and developed well-known brand names, the reform of industries and the acceleration of the consolidation would directly promote the healthy development of the intravenous fluid industry, which by leveraging on its substantial experience in the industry, size of production and rigorous production management, it is expected that the Group will be beneficial from improvement in operation environment.

Also, it is anticipated that the commercial/residential projects at Hangzhou, Zhejiang Province developed by the associate of the Group to be completed in 2007 will generate reasonable returns to the Group.

## FINANCIAL RESOURCES AND LIQUIDITY

As at 30th September 2006, the Group had total assets of HK\$624,493,000 (31st March 2006: HK\$634,724,000) which was financed by current liabilities of HK\$110,905,000 (31st March 2006: HK\$105,747,000), long-term liabilities of HK\$87,685,000 (31st March 2006: HK\$84,139,000) and shareholder's equity of HK\$425,903,000 (31st March 2006: HK\$444,838,000).

The Group's current ratio as at 30th September 2006 was approximately 1.60 (31st March 2006: 2.02) and gearing ratio, representing the total borrowings divided by the shareholders equity was approximately 37.71% (31st March 2006: 35.0%). The total outstanding borrowings of the Group as at 30th September 2006 were denominated in Renminbi with fixed interest rate.

As at 30th September 2006, certain property, plant and equipment, with an aggregate net book value of approximately HK\$54,821,000 (31st March 2006: HK\$56,613,000), had been pledged to secure banking facilities granted to the Group.

Except for a guarantee to the extent of approximately HK\$16,380,000 to a bank to secure the loan facility granted to its associate, the Group and the Company had no other material capital commitment and contingent liabilities as at 30th September 2006.

## 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 had not employed any financial instruments for hedging purposes.

## EMPLOYEE AND REMUNERATION POLICY

As at 30th September 2006, the Group has approximately 870 employees in Hong Kong and the PRC. Remuneration packages are generally structured accordingly 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.

## DIRECTORS' INTERESTS IN SECURITIES

Save as disclosed in the substantial shareholders' interests regarding Ms. Zhang Cheng's (an executive director of the Company) and her associate's interest in the issued share capital of the Company, none of the directors, chief executives or their respective associates of the Company had, as at 30th September 2006, 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 Securities and Futures Ordinance ("SFO") which were 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 (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code")

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The Company's share options scheme (the "Scheme") adopted on 14th January 2002 for the purposes of the recognition of the significant contribution of and for the provisions 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 13 January 2012. No options have been granted by the Company under the Scheme since its adoption.

## DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURE

Save as disclosed above in respect of the directors' interest in securities regarding the Company's share option scheme, at no time during the period was the Company, its holding company or any of its subsidiaries or fellow 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.

## SUBSTANTIAL SHAREHOLDERS

As at 30th September 2006, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that the following shareholders had notified the Company that they were interested in 5% or more of the issued share capital of the Company.

### Long position in ordinary shares of HK\$0.05 each of the Company

Name of shareholder	Capacity	Number of issued ordinary shares held	Approximate percentage of the issued share capital of the Company
Mr. Wu Yong (Note 1)	Held by controlled corporation	852,000,000	60.36%
Ms. Zhang Cheng (Note 1)	Interest of spouse	852,000,000	60.36%
Guardwell Investments Limited (Note 1)	Beneficial owner	420,000,000	29.75%
Eagle Asia Investments Limited (Note 1)	Beneficial owner	232,000,000	16.44%
Eagle China Investments Limited (Note 1)	Beneficial owner	200,000,000	14.17%
Ms. Wang Jin Song (Note 2)	Held by controlled corporation	129,380,827	9.17%
Ankeen Enterprises Limited (Note 2)	Held by controlled corporation	129,380,827	9.17%
Shenzhen Neptunus Group Co., Ltd. (Note 2)	Held by controlled corporation	129,380,827	9.17%
Shenzhen Neptunus Health Drugstore Co., Ltd. (Note 2)	Held by controlled corporation	129,380,827	9.17%
Hong Kong Neptunus Health Drugstore Limited (Note 2)	Held by controlled corporation	129,380,827	9.17%
Advance Year Company Inc. (Note 2)	Held by controlled corporation	129,380,827	9.17%
Landstar Investments Limited (Note 2)	Beneficial owner	129,380,827	9.17%
Industrial Bank Co., Ltd. Shenzhen Bagualing Sub-branch ("Industrial Bank") (Note 3)	Held by controlled corporation	129,380,827	9.17%
China Life Trustees Limited (Note 4)	Trustee	100,000,000	7.08%
China Life Insurance (Overseas) Co. Ltd., Hong Kong Branch (Note 4)	Held by controlled corporation	100,000,000	7.08%



## SUBSTANTIAL SHAREHOLDERS (CONTINUED)

Notes:

1. Mr. Wu Yong beneficially owns and controls Guardwell Investments Limited ("Guardwell"), Eagle Asia Investments Limited ("Eagle Asia") and Eagle China Investments Limited ("Eagle China"). Ms. Zhang Cheng, the chairman and executive director of the Company, is the wife of Mr. Wu Yong. Accordingly, Mr. Wu Yong and Ms. Zhang Cheng are deemed to be interested in the shares through Guardwell, Eagle Asia and Eagle China.
2. Ms. Wang Jin Song ("Ms. Wang") beneficially owns 85% interests in Ankeen Enterprises Limited ("AEL"). AEL beneficially owns 41.93% interests in Shenzhen Neptunus Group Co., Ltd. ("SNGCL"). SNGCL beneficially owns 86% interests in Shenzhen Neptunus Health Drugstore Co., Ltd. ("SNHDCL"). SNHDCL beneficially owns 100% interests in Hong Kong Neptunus Health Drugstore Limited ("HKNHDL"). HKNHDL beneficially owns 100% interest in Advance Year Company Inc. ("AYCI"). AYCI beneficially owns 100% interests in Landstar Investments Limited ("LIL") which owns 129,380,827 ordinary shares of the Company.

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Accordingly, Ms. Wang, AEL, SNGCL, SNHDCL, HKNHDL and AYCI are deemed to be interested in the 9.17% shares held by LIL.

3. Industrial Bank is deemed to be interested in the 129,380,827 shares as LIL has pledged its shares to Industrial Bank.
4. 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.

Save as disclosed above, the directors were not aware of any other person who had an interest or short position in the shares or underlying shares of the Company as at 30th September 2006, which would fall to be disclosed under Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

## 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 2006.

## DISCLOSURES PURSUANT TO RULES 13.20 AND 13.22 OF THE LISTING RULES

In accordance with the disclosure requirements of Rules 13.20 and 13.22 of the Listing Rules, the following disclosures are included in respect of financial assistance and guarantees to affiliated companies. As at 30th September 2006, the Group had provided to affiliated companies financial assistance and guarantees amounting, in aggregated, to approximately HK\$55,061,000 which exceeded 8% of the total assets of the Company. Further details of such financial assistance and guarantees are disclosed in the announcement of the Company dated 17th July 2006.

As at 30th September 2006, the pro forma combined balance sheet of these affiliated companies is set out as follows:

	HK\$'000
Non-current assets	1,435
Current assets	1,020,457
Current liabilities	(356,149)
	<hr/>
Net current assets	664,308
Total assets less current liabilities	665,743
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Capital and reserves	367,666
Non-current liabilities	298,077
	<hr/>
Total equity	665,743
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As at 30th September 2006, the Group's consolidated attributable interests in these affiliated companies amounted to HK\$110,300,000.

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Board considers that the Group was in full compliance with the requirements of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules during the period, except for the followings:

- (i) The chairman of the Board was not able to attend the 2005/2006 annual general meeting in person, but has already delegated to one of the executive directors of the Company to chair the meeting on her behalf;
- (ii) None of the independent non-executive directors were appointed for a specific term, but they are subject to the retirement by rotation and re-election for every three years at the annual general meeting pursuant to the Bye-law of the Company.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. All directors have confirmed, following specific enquiry of all directors, that they have fully complied with the required standards set out in the Model Code throughout the six months ended 30th September 2006.

## AUDIT COMMITTEE

The Company's audit committee comprises the three independent non-executive directors of the Company. The Audit Committee has reviewed with management the accounting standards 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 2006.

By Order of the Board

**Zhang Cheng**

Chairman

Hong Kong, 15th December 2006