



香港藥業

HONG KONG PHARMACEUTICAL HOLDINGS LIMITED

香港藥業集團有限公司*

(Provisional Liquidators Appointed)

(Incorporated in Bermuda with limited liability)

(Stock Code : 182)

Interim Report 2004

** for identification purposes only*

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004

The joint and several provisional liquidators of the Company (the “Provisional Liquidators”) of Hong Kong Pharmaceutical Holdings Limited (the “Company”) announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2004 (the “Period”), together with comparative figures for the corresponding period in 2003. The unaudited interim financial report has been reviewed by the Company’s auditors in accordance with the Statement of Auditing Standard 700 issued by the Hong Kong Institute of Certified Public Accountants.

The Provisional Liquidators were appointed on 13 October 2004 pursuant to an order of the High Court of Hong Kong and as such, do not have the same detailed knowledge of the financial affairs of the Company and its subsidiaries (the “Group”) as the directors of the Company would have, particularly in relation to the transactions entered into by the Group prior to the appointment date.

The Provisional Liquidators are responsible for the accuracy and completeness of the contents of this report and the unaudited condensed consolidated interim results of the Group for the six months ended 30 September 2004 in relation to (i) the affairs of the Group after the appointment of the Provisional Liquidators; and (ii) the preparation of the contents of this report and the unaudited condensed consolidated interim results of the Group for the six months ended 30 September 2004 on the basis of the books and records made available to the Provisional Liquidators.

The Provisional Liquidators make no representation as to the completeness of the information contained in this report.

DELAY IN PUBLICATION OF INTERIM RESULTS AND DESPATCH OF INTERIM REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 2004

Due to the fact that the audit for the year ended 31 March 2004 had not been able to be finalised as the auditors had been unable to receive the necessary information and supporting evidence required for their audit purposes, including the books and ledgers of two of the Company’s subsidiaries, namely, Guizhou Ensure Chain Pharmacy Company Limited and Guizhou Ensure Medical Company Limited (collectively the “Ensure subsidiaries”), with indirect equity interests attributable to the Company of 51% and 89.86%, respectively, various litigation against the Group and prolonged suspension of trading in the shares on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company had not been able to announce its unaudited interim results for the period ended 30 September 2004 and dispatch the Interim Reports within the due date as required by the Rules Governing the Listing of Securities (the “Listing Rules”).

The delay in publication of the Interim Results and the dispatch of the Interim Report constitute breaches of the Rules 13.48(1) and 13.49(6) of the Listing Rules by the Company.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	<i>Notes</i>	For the six months ended 30 September	
		2004 (Unaudited) <i>HK\$'000</i>	2003 (Unaudited) <i>HK\$'000</i>
TURNOVER	4	31,188	60,669
Cost of sales		<u>(15,955)</u>	<u>(39,348)</u>
Gross profit		15,233	21,321
Other revenue	4	874	2,071
Selling and distribution costs		(9,937)	(15,710)
Administrative expenses		(10,119)	(12,930)
Other operating expenses		<u>(5,118)</u>	<u>(1,213)</u>
LOSS FROM OPERATING ACTIVITIES	5	(9,067)	(6,461)
Finance costs	6	<u>(4,099)</u>	<u>(3,325)</u>
LOSS BEFORE TAX		(13,166)	(9,786)
Tax	7	<u>(1)</u>	<u>(1)</u>
LOSS BEFORE MINORITY INTERESTS		(13,167)	(9,787)
Minority interests		<u>–</u>	<u>1,455</u>
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>(13,167)</u>	<u>(8,332)</u>
LOSS PER SHARE – BASIC	9	<u>(0.94) cents</u>	<u>(0.59) cents</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		30 September 2004 (Unaudited) <i>HK\$'000</i>	31 March 2004 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
NON-CURRENT ASSETS			
Properties, plant and equipment		26,579	27,040
Investment properties		20,400	49,200
Interests in associates		–	–
Long term investments		–	–
Investments in securities	10	10,460	10,460
		57,439	86,700
CURRENT ASSETS			
Inventories		9,200	8,097
Trade receivables	11	2,850	4,346
Prepayments, deposits and other receivables		5,130	5,145
Due from intermediate holding companies	12	–	–
Short term investments		–	71
Time deposits-pledged		30,000	30,000
Cash and cash equivalents		2,363	4,624
		49,543	52,283
CURRENT LIABILITIES			
Trade payables	13	16,158	14,057
Tax payable		651	651
Other payables and accruals		66,109	61,652
Bank and other borrowings	14	108,783	134,154
Provision for long service payments		186	186
		191,887	210,700
NET CURRENT LIABILITIES		(142,344)	(158,417)
TOTAL ASSETS LESS CURRENT LIABILITIES		(84,905)	(71,717)
NON-CURRENT LIABILITIES			
Bank and other borrowings	14	11,336	11,336
Finance lease payables		32	45
Provision for long service payments		342	350
		11,710	11,731
MINORITY INTERESTS		–	–
NET LIABILITIES		(96,615)	(83,448)
CAPITAL AND RESERVES			
Issued capital	15	140,379	140,379
Reserves	16	(236,994)	(223,827)
SHAREHOLDERS' DEFICIENCY		(96,615)	(83,448)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	For the six months ended 30 September	
	2004	2003
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Total shareholders' (deficiency)/equity at 1 April	(83,448)	8,466
Net loss from ordinary activities attributable to shareholders	(13,167)	(8,332)
Total shareholders' (deficiency)/equity at 30 September	<u>(96,615)</u>	<u>134</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 September	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(1,025)	(3,960)
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	26,013	(1,297)
NET CASH (OUTFLOW)/INFLOW FROM FINANCING ACTIVITIES	<u>(27,249)</u>	<u>2,911</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(2,261)	(2,346)
Cash and cash equivalents at beginning of period	<u>4,624</u>	<u>8,844</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>2,363</u></u>	<u><u>6,498</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<u><u>2,363</u></u>	<u><u>6,498</u></u>

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 September 2004

1. BASIS OF PREPARATION

At 30 September 2004, the Group had consolidated net current liabilities of approximately HK\$142,344,000 (31 March 2004: HK\$158,417,000) and consolidated net liabilities of approximately HK\$96,615,000 (31 March 2004: HK\$83,448,000). The Group also incurred a net loss attributable to shareholders of approximately HK\$13,167,000 (2003: HK\$8,332,000) and reported a decrease in cash and cash equivalents for the Period HK\$2,261,000 (2003: HK\$2,346,000).

Up to the date of approval of these unaudited condensed consolidated interim financial statements, the Group has defaulted on the repayment of certain bank and other borrowings. Since 5 August 2004, trading in the Company's shares on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") has been suspended. On 13 October 2004, the High Court of Hong Kong (the "High Court") appointed Mr. Cosimo Borrelli and Mr. Kelvin Flynn as joint and several provisional liquidators (the "Provisional Liquidators") of the Company.

On 23 December 2004, the Provisional Liquidators entered into an escrow and exclusivity agreement (the "Exclusivity Agreement") with a preferred investor (the "Investor") regarding the implementation of a restructuring proposal for the Company (the "Restructuring Proposal").

Up to the date of approval of these unaudited condensed consolidated interim financial statements, certain fixed terms or binding agreements in respect of the Restructuring Arrangements have been agreed upon or executed as further explained below.

Pursuant to the Exclusivity Agreement, the Provisional Liquidators granted the Investor an exclusive right to negotiate a legally binding agreement (the "Restructuring Agreement") for the implementation of the Restructuring Proposal.

On 8 February 2005, the Company was notified by the Stock Exchange that the Company had been placed into the second stage of the delisting procedure in accordance with Practice Note 17 of the Rules Governing the Listing on the Stock Exchange (the "Listing Rules"). As such, the Company was required to submit a resumption proposal to the Stock Exchange within six months.

On 25 February 2005, the Company submitted a proposal to the Listing Division of the Stock Exchange (the "Listing Division"), setting out the principal terms of the proposed restructuring and requesting the Stock Exchange's conditional approval for the resumption of trading in the shares in the Company (the "Resumption Proposal"). On 15 August 2005, a final revised Resumption Proposal and supporting business plan, profit forecast memorandum and financial projections were submitted to the Listing Division, incorporating additional information, clarification and disclosures in response to queries from the Listing Division. The Resumption Proposal sets out the principal terms of the proposed restructuring.

On 7 September 2005, a restructuring agreement was entered into by the Company and the Investor for the implementation of the restructuring proposal. A subscription agreement was also entered into by the Company, the Provisional Liquidators and the Investor pursuant to which the Investor has agreed to subscribe for and the Company has agreed to issue and allot the subscription shares and the subscription preference shares.

The Proposed Restructuring, if successfully implemented, will, among other things, result in:

- (i) a restructuring of the share capital of the Company through par value reduction, share consolidation and increase in authorised share capital as contained in the capital restructuring;
- (ii) all the creditors of the Company discharging and waiving their claims against the Company by way of schemes of arrangements under section 166 of the Hong Kong Companies Ordinance and section 99 of the Bermuda Companies Act (“Schemes”);
- (iii) the entire interest of the Company in its dormant or insolvent subsidiaries being transferred to a nominee of the scheme administrators of the Schemes for a nominal consideration; and
- (iv) the resumption of trading in the new shares of the Company upon completion of the Proposed Restructuring (“Completion”) subject to sufficient public float being restored.

Having reviewed and considered the operations and affairs of the Company and its subsidiaries, the magnitude of the claims against the Company and the second stage delisting procedures, the Provisional Liquidators concluded that the proposed restructuring represents the best means available for the Company to be returned to solvency and to continue with the development and enhancement of its business. As at the date of this report, the Provisional Liquidators have received in-principle support from creditors representing more than 75% of the total indebtedness of the Company.

The Provisional Liquidators have carefully considered and analysed the commercial and other aspects of each restructuring proposal received from potential investors, including the recovery to the creditors of the Company (the “Creditors”), the returns to the shareholders of the Company (the “Shareholders”) and the time required to complete the proposal. The Provisional Liquidators are of the view that, in the absence of unforeseen circumstances and subject to Completion, the Restructuring Proposal provides more favourable terms than the other proposals and therefore represents the best option currently available to the Company, its Creditors and Shareholders as:

- (i) all liabilities will be compromised and discharged through the Schemes and/or by specific agreement;
- (ii) the pro forma consolidated net tangible asset value and revenues of the restructured Group are expected to be improved;
- (iii) the Restructured Group will have sufficient working capital for its on-going operations following Completion.

Upon Completion, the Company’s shares will resume trading on the Stock Exchange subject to the approval of the Listing Division.

In the opinion of the Provisional Liquidators, the Group and the Company would not be a going concern at the balance sheet date if the Restructuring Proposal is not successfully implemented. Should the Restructuring Proposal not be successfully implemented, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

2. ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited.

The condensed consolidated interim financial statements have been prepared under the historical cost conventions and have been prepared in accordance with accounting principles generally accepted in Hong Kong.

The accounting policies used in the preparation of the condensed consolidated interim financial statements are consistent with those used in the audited annual financial statements for the year ended 31 March 2004.

3. SEGMENT INFORMATION

The following tables present the Group’s revenue and results analysed, on a primary segment reporting basis, by business segments for the six months ended 30 September.

Business segments

	Sum yung and pharmaceutical products (Unaudited)		Biotechnological and transgenic products (Unaudited)		Property investment (Unaudited)		Corporate and others (Unaudited)		Eliminations (Unaudited)		Consolidated (Unaudited)	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:												
Sales to external customers	23,555	49,734	5,995	9,136	1,063	1,200	575	599	-	-	31,188	60,669
Intersegment sales	70	90	-	-	-	-	8	-	(78)	(90)	-	-
Other revenue	69	320	358	173	-	-	1	-	-	-	428	493
Total	23,694	50,144	6,353	9,309	1,063	1,200	584	599	(78)	(90)	31,616	61,162
Segment results	(841)	241	(694)	(3,123)	(1,714)	1,056	(6,255)	(6,213)	-	-	(9,504)	(8,039)
Interest and dividend income											445	675
Unallocated revenue and gains											-	903
Unallocated expenses											(8)	-
Loss from operating activities											(9,067)	(6,461)
Finance costs											(4,099)	(3,325)
Loss before tax											(13,166)	(9,786)
Tax											(1)	(1)
Loss before minority interests											(13,167)	(9,787)
Minority interests											-	1,455
Net loss from ordinary activities attributable to shareholders											(13,167)	(8,332)

4. TURNOVER AND OTHER REVENUE

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts; the value of services rendered; and gross rental income received and receivable from investment properties during the Period.

An analysis of turnover and other revenue is as follows:

	For the six months ended 30 September	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Turnover		
Sale of sum yung and pharmaceutical products	23,554	49,734
Sale of biotechnological and transgenic products	5,995	9,136
Property investment-gross rental income	1,063	1,200
Others	576	599
	<u>31,188</u>	<u>60,669</u>
Other revenue		
Interest income	444	598
Dividend income	1	77
Others	429	1,396
	<u>874</u>	<u>2,071</u>

5. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging/(crediting):

	For the six months ended 30 September	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of inventories sold	15,734	39,110
Depreciation	687	3,933
Amortisation of goodwill	—	557
Amortisation of know-how	—	548
Impairment loss of intangible asset	—	403
Loss on disposal of fixed assets	2,630	3
Bad debts written off	574	—
Provision for amount due from an intermediate holding company	318	—
Provision for amount due from a director	161	—
Provision for pending litigation	855	—
Unrealised gain on revaluation of short term listed investments	—	(903)
	<u>—</u>	<u>(903)</u>

6. FINANCE COSTS

	For the six months ended 30 September	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on bank loans and other borrowings wholly repayable within five years	4,086	3,311
Interest on finance leases	13	14
	<u>4,099</u>	<u>3,325</u>

7. TAX

No Hong Kong profits tax has been provided for because the Group had no significant estimated assessable profits arising in Hong Kong during the Period (2003: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

No recognition of the potential deferred tax assets relating to tax losses and other deductible temporary differences have been made as the recoverability of the deferred tax assets is uncertain.

8. INTERIM DIVIDEND

The Provisional Liquidators do not recommend the payment of an interim dividend for the six months ended 30 September 2004 (2003: Nil).

9. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the Period of approximately HK\$13,167,000 (2003: HK\$8,332,000) and the weighted average number of 1,403,796,698 (2003: 1,403,796,698) ordinary shares in issue during the Period.

Diluted loss per share amounts for the six months ended 30 September 2004 and 2003 have not been presented because the effects of the assumed conversion of the share options and convertible notes of the Company during these periods were anti-dilutive.

10. INVESTMENTS IN SECURITIES

	30 September 2004	31 March 2004
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Unlisted, investments at deconsolidated amounts	<u>10,460</u>	<u>10,460</u>

Particulars of the investments are as follows:

Name	Note	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Guizhou Ensure Chain Pharmacy Co., Ltd. (“Ensure Chain”)	(i)	Mainland China	RMB10,000,000	–	51.00%	Retail of pharmaceutical products
Guizhou Ensure Medical Company Limited	(i)	Mainland China	RMB3,000,000	–	45.82%	Retail of pharmaceutical products

Note:

- (i) Two of the Group’s subsidiaries, Guizhou Ensure Chain Pharmacy Company Limited and Guizhou Ensure Medical Company Limited (collectively the “Ensure subsidiaries”) which are held via Joinbest Investment Limited (“Joinbest”), were deconsolidated as of 31 March 2004.

The Provisional Liquidators have deconsolidated the Ensure subsidiaries in 2004 as they considered that the Group was unable to exercise its rights as a major shareholder either to control the assets and operations or to exercise significant influence over the financial and operating policy decisions of the Ensure subsidiaries. The management of the Ensure subsidiaries has not provided the Company with any financial information subsequent to the provision of unaudited management accounts for the year ended 31 March 2004, and, accordingly, deconsolidation has been made as of that date.

Subsequent to the balance sheet date, in June 2005, the Provisional Liquidators agreed to dispose of Joinbest to the minority shareholders of the Ensure subsidiaries. Consideration for the disposal consisting of cash in the amount of HK\$3,000,000 and cancellation of the Company’s convertible notes in the amount of HK\$12,254,400 was received in October 2005 following sanction of the disposal by the High Court (see also Note 20(h)).

11. TRADE RECEIVABLES

The Group’s credit terms granted to customers of Chinese and other medicines, health products and dried seafoods range between 30 and 90 days. The credit terms granted to customers of biotechnological and pharmaceutical products range between 60 and 180 days.

An aged analysis of the trade receivables as at the balance sheet date, net of provisions, is as follows:

	30 September 2004 (Unaudited) HK\$’000	31 March 2004 (Audited) HK\$’000
Within 3 months	1,787	3,193
4 to 6 months	368	854
7 to 12 months	567	148
13 to 24 months	13	128
Over 24 months	115	23
	<u>2,850</u>	<u>4,346</u>

12. DUE FROM INTERMEDIATE HOLDING COMPANIES

- (a) The amount of HK\$12,430,000 (including interest amounting to approximately HK\$1,822,000) (31 March 2004: HK\$12,110,000, including interest amounting to approximately HK\$1,184,000) due from Tin Ming Management Limited (“Tin Ming”) is unsecured, bearing interest at Hong Kong dollar prime rate plus 1% per annum. The amount of HK\$6,744,000 was originally due on 28 March 2002 and was extended to 31 March 2003 and 31 March 2004, while the amount of HK\$6,003,000 was due on 23 April 2003 and was extended to 31 March 2004. In 2004, the Company agreed to further extend the repayment date to 31 March 2005. On 21 December 2004, an amount of HK\$374,000 was advanced to Tin Ming to repay its debt due to Umbrella Finance Company Limited. This amount is unsecured and non interest bearing. The Provisional Liquidators are pursuing all available avenues to recover the amounts due from Tin Ming including legal action, if necessary. However, to be prudent, full provisions have been made for these receivables.
- (b) The amount of HK\$1,202,000 (31 March 2004: HK\$1,204,000) due from Hong Tau Investment Ltd. (“Hong Tau”) is unsecured, interest-free. The amount was originally due on 28 March 2002 and this was extended to 31 March 2004. In 2004, the Company agreed to further extend the repayment date to 31 March 2005. On 14 August 2003, Hong Tau settled approximately HK\$700,000 with the remaining balance to be settled on 31 March 2005. The Provisional Liquidators are pursuing all available avenues to recover the amounts due from Hong Tau including legal action, if necessary. However, to be prudent, full provisions have been made for these receivables.

13. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet date, based on invoice date, is as follows:

	30 September 2004 (Unaudited) HK\$'000	31 March 2004 (Audited) HK\$'000
Within 3 months	7,442	5,788
4 to 6 months	1,468	1,020
7 to 12 months	214	207
13 to 24 months	67	12
Over 24 months	6,967	7,030
	<u>16,158</u>	<u>14,057</u>

14. BANK AND OTHER BORROWINGS

	<i>Notes</i>	30 September 2004 (Unaudited) HK\$'000	31 March 2004 (Audited) HK\$'000
(a) Current portion of bank and other borrowings		108,745	134,086
Current portion of finance lease payables		38	68
		<u>108,783</u>	<u>134,154</u>
(b) Trust receipts loans, secured	<i>(i)</i>	1,779	1,781
Bank loans:			
Secured	<i>(ii), (iii)</i>	52,332	77,343
		54,111	79,124
Convertible notes:			
Bank convertible note, secured		38,000	38,000
Other convertible notes, unsecured		12,254	12,254
		50,254	50,254
Other loans, unsecured	<i>(iv), (v)</i>	15,716	16,044
		<u>120,081</u>	<u>145,422</u>
Represented by:			
Bank and trust receipts loans repayable:			
Within one year or on demand		54,111	79,124
In the second year		–	–
		54,111	79,124
Convertible notes repayable:			
Within one year or on demand		50,254	50,254
In the second year		–	–
		50,254	50,254
Other loans repayable:			
Within one year on demand		4,380	4,708
In the second year		11,336	11,336
		15,716	16,044
Total bank and other borrowings		120,081	145,422
Portion classified as current liabilities	<i>(a)</i>	<u>(108,745)</u>	<u>(134,086)</u>
Long term portion		<u>11,336</u>	<u>11,336</u>

- (i) The Group's trust receipts loans were secured by one of the Group's investment properties with a carrying value of HK\$2,700,000 (2004: HK\$2,700,000) at the balance sheet date and a corporate guarantee executed by the Company. On 14 February 2005, the said property was disposed of to an independent third party at the consideration of HK\$2,850,000. Subsequent to the disposal, the trust receipts loans were fully repaid and the corporate guarantee executed by the Company was cancelled.
- (ii) In prior year, Shanghai Hua Xin High Biotechnology Inc. ("Hua Xin") obtained bank loans amounting to approximately HK\$2,820,000 and HK\$6,580,000 respectively from the Bank of Shanghai to finance its working capital. The bank loans bear interest at 5.84% per annum and was repayable on 29 April 2004 and 27 November 2004. The bank loans are secured by a building of Hua Xin with a carrying value of approximately HK\$25,000,000 at the balance sheet date and a corporate guarantee given by Shenzhen Weiji Investment & Development Co., Ltd. ("Shenzhen Weiji"), a company in which a director of the Company, Mr. Sun Hiu Lu, is both a director and shareholder. Hua Xin defaulted on the repayment of the loans on the respective due dates. Hua Xin was deconsolidated as of 30 November 2004. (See Note 20(e) for further details).
- (iii) On 29 October 2003, Hua Xin defaulted on the full repayment of the bank loan of HK\$28,200,000 advanced by Shenzhen Development Bank Co. Ltd ("SDB"). On 31 October 2003, SDB agreed, in writing, its approval to defer the repayment to 8 May 2004. On 9 May 2004, SDB agreed in writing, its approval to further defer the repayment to 10 November 2004 and, on the same day, the Company's Hong Kong dollar time deposit of HK\$30,000,000 placed with SDB was pledged to secure the bank loan to Hua Xin. On 29 December 2004, the defaulted amount was fully settled by the Company's pledged time deposit in SDB (see Note 20(d)).
- (iv) Included in Hua Xin's unsecured other loans are amounts of approximately HK\$2,397,000 (31 March 2004: HK\$2,397,000), HK\$4,156,000 (31 March 2004: HK\$4,156,000) and HK\$3,290,000 (31 March 2004: HK\$3,290,000) due to a director of Hua Xin, Shenzhen Weiji, and a former shareholder of Hua Xin, respectively. The remaining balances of approximately HK\$5,873,000 (31 March 2004: HK\$6,201,000) were due to third parties. Of the loans due to a director of Hua Xin, HK\$470,000 is interest-free, with the remaining balances bearing interest at 7% per annum. The loans due to Shenzhen Weiji bear interest from 6% to 7% per annum while the loans due to a former shareholder of Hua Xin bear interest at 6% per annum. The other loans due to third parties bear interest ranging from 3% to 7% per annum. Further details of the loans obtained from Shenzhen Weiji are set out in Note 20(f) to the condensed consolidated interim financial statements.
- (v) On 31 March 2004, of Hua Xin's unsecured other loans, lenders of approximately HK\$329,000 of the other loan balances that fell due before 31 March 2004, together with lenders of approximately HK\$11,007,000 of the other loans that fall due on 31 December 2004, have agreed, in writing, their approval to defer the repayments to 31 December 2005. As a result of the loan extension arrangements, the total balances of approximately HK\$11,336,000 will not be repayable within one year and, accordingly, are classified as non-current liabilities in the balance sheet. The remaining loan balances of approximately HK\$4,380,000 were due were either already due or repayable within one year and accordingly, are classified as current liabilities in the balance sheet.

15. SHARE CAPITAL

Shares

	30 September 2004 (Unaudited) HK\$'000	31 March 2004 (Audited) HK\$'000
<i>Authorised</i>		
3,000,000,000 ordinary shares of HK\$0.10 each	<u>300,000</u>	<u>300,000</u>
<i>Issued and fully paid</i>		
1,403,796,698 ordinary shares of HK\$0.10 each	<u>140,379</u>	<u>140,379</u>

Share options

Details of the Company's share options schemes are included in the section "Share options" of this interim report.

16. RESERVES

	Share premium account (Unaudited) HK\$'000	Capital redemption reserve (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 April 2004	140,694	297	13,051	80,933	6	(458,808)	(223,827)
Net loss from ordinary activities attributable to shareholders	-	-	-	-	-	(13,167)	(13,167)
At 30 September 2004	<u>140,694</u>	<u>297</u>	<u>13,051</u>	<u>80,933</u>	<u>6</u>	<u>(471,975)</u>	<u>(236,994)</u>

17. PLEDGE OF ASSETS

At 30 September 2004, the following assets of the Group were pledged to secure the Group's banking facilities:

- (a) certain of the Group's investment properties with an aggregate carrying value of HK\$20,400,000 at the balance sheet date;
- (b) assignment of rentals over certain of the Group's investment properties situated in Hong Kong;
- (c) fixed and floating charges over the shares, undertakings, properties, assets and rights of certain of the Company's subsidiaries;
- (d) corporate guarantees executed by the Company and certain of its subsidiaries;
- (e) charge over the share capital of certain of the Company's subsidiaries;
- (f) a Hong Kong dollar time deposit of HK\$30,000,000; and
- (g) a building of the Group with a carrying value of approximately HK\$25,000,000 at the balance sheet date.

18. CONTINGENT LIABILITIES

At 30 September 2004, a subsidiary of the Company obtained a bank guarantee of HK\$52,000 (31 March 2004: HK\$120,000) given in lieu of rental deposits to a landlord of a property.

A full search for contingent liabilities of the Group and Company has not been conducted. However, lawsuits or winding-up petitions, if any, against the Group and the Company will be subject to a formal adjudication process, dealt with and compromised under the restructuring scheme.

Save as disclosed above, neither the Group nor the Company had any significant contingent liabilities as at 30 September 2004.

19. COMMITMENTS

At the balance sheet date, the Group had the following commitments:

(a) Capital commitments

	30 September 2004 (Unaudited) HK\$'000	31 March 2004 (Audited) HK\$'000
Authorised, but not contracted for	<u>8,420</u>	<u>8,240</u>

(b) Commitments under operating leases as lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 20 years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 September 2004 (Unaudited) HK\$'000	31 March 2004 (Audited) HK\$'000
Within one year	4,550	7,679
In the second to fifth years, inclusive	7,186	8,651
After five years	<u>–</u>	<u>10,613</u>
	<u>11,736</u>	<u>26,943</u>

20. POST BALANCE SHEET EVENTS

- (a) On 10 August 2004, judgment from a legal proceeding against the Company by Goldon Investment Limited (“Landlord”) was delivered against the Company in the amount of HK\$17,153,624.92 (the “Judgement debt”) together with (1) interest to run on HK\$2,249,142.60 at the annual rate of 1% over Hong Kong Prime from 31 March 1999 until 10 August 2004, and (2) interest to run on HK\$ 14,904,482.32 from 1 December 2000 to 10 August 2004 at an annual rate 1% over Hong Kong Prime, and (3) thereafter interest to run on the entire amount of Judgment Debt at the judgment rate until full payment. On 21 September 2004, the Petitioning Creditor filed a petition for the winding up of the Company as a result of the Company’s failure to repay amounts due to the Petitioning Creditor. The petition has been adjourned on several occasions to provide the Provisional Liquidators with further time to negotiate and implement a restructuring proposal for the Company. The latest adjournment of 8 May 2006 was granted by the Court on 9 January 2006.
- (b) As disclosed in Note 1 to the condensed consolidated interim financial statements, the Group had defaulted on the repayments of certain bank and other borrowings. On 27 September 2004, an application was filed by the Bank of China (Hong Kong) Limited for the appointment of Provisional Liquidators as trustees for Umbrella Finance Limited, which is beneficially a major creditor of the Company. On 13 October 2004, the High Court appointed Mr. Kelvin Flynn and Mr. Cosimo Borelli as joint and several provisional liquidators of the Company to, inter alia, exercise the powers of the Company’s board, to take into their custody and protect the assets of the Company and carry on and stabilize the operations of the Company and its subsidiaries, including facilitating a restructuring of the Company.
- (c) Between August 2004 and February 2005, the Group disposed of four investment properties to third parties for an aggregate consideration of HK\$28,750,000 realising a loss on disposal of approximately HK\$3,406,000. The investment properties were pledged to secure both the bank loan and the bank convertible note of the Group. HK\$27,826,000 of the consideration was used to repay the outstanding mortgage loans on the properties.
- (d) On 29 December 2004, approximately HK\$28,587,000 of the Company’s pledged time deposit of HK\$30,000,000 was seized by the SDB to settle its secured loan to Hua Xin (see Note 14(b) (iii)).
- (e) On 30 November 2004, the Provisional Liquidators considered that the Group lost control of its subsidiary, Shanghai Hua Xin High Biotechnology Inc., as they consider that the Group was unable to exercise its rights as major shareholder either to control the assets and operations or to exercise significant influence over the financial and operating policy decisions of Hua Xin. Accordingly, deconsolidation of the subsidiary, Hua Xin, has been made as of that date.

- (f) As disclosed in Note 14(b)(ii) to the condensed consolidated interim financial statements, on 29 April 2004, Hua Xin defaulted on the full repayment of its loan with Bank of Shanghai, amounting to HK\$2,820,000. The Bank of Shanghai consequently confiscated all of Hua Xin's bank balances placed with it amounting to approximately HK\$146,000 as partial repayment of the HK\$2,820,000 loan. On 7 June 2004, Bank of Shanghai filed an application for assets protection against both Hua Xin and Shenzhen Weiji to have their bank deposits amounting to HK\$2,820,000, or assets equivalent to the same amount, frozen. The local court passed a judgment on 10 June 2004, ruling in Bank of Shanghai's favour. As at the balance sheet date and up to the date of approval of these condensed consolidated interim financial statements, approximately RMB2,812,000 remained unsettled and, accordingly, are classified as current liabilities in the balance sheet together with the HK\$6,580,000 loan due in November 2004.
- (g) The Group's trust receipts loans were secured by one of the Group's investment properties with a carrying value of HK\$2,700,000 (2003: HK\$2,400,000) at the balance sheet date and a corporate guarantee executed by the Company. On 14 February 2005, the property was disposed of to an independent third party at the consideration of HK\$2,850,000. The proceeds from the disposal of the property was used to settle the trust receipts loan in full and the corporate guarantee executed by the Company was cancelled.
- (h) On 14 June 2005, the Company had, via its indirect wholly owned subsidiary, entered into an agreement to dispose of its 100% equity interest in Joinbest Investment Limited to the minority shareholders of Guizhou Ensure Chain Pharmacy Co., Ltd. realising a profit on disposal of approximately HK\$4,794,000. The terms of the disposal agreement had been sanctioned by the Court on 21 September 2005, and the disposal was completed on 5 October 2005. (see Note 10(i) above).
- (i) On 25 February 2005, the Company submitted a proposal to the Listing Division setting out the principal terms of the proposed restructuring. On 15 August 2005, a final revised Resumption Proposal was submitted to the Listing Division. On 7 September 2005, a restructuring agreement was entered into by the Company and the Investor for the implementation of the restructuring proposal (see Note 1).

21. RELATED PARTY TRANSACTIONS

- (a) As disclosed in Note 12 to the condensed consolidated interim financial statements, as at the balance sheet date, the Group advanced HK\$12,430,000 (31 March 2004: HK\$12,110,000) and HK\$1,202,000 (31 March 2004: HK\$1,204,000) to Tin Ming and Hong Tau, the intermediate holding companies, respectively.
- (b) At the balance sheet date, Shenzhen Delu Investment & Development Co., Ltd., ("Shenzhen Delu"), a company in which Mr. Sun Hiu Lu is a director, has given a corporate guarantee in respect of a bank loan amounting to RMB30,000,000 (31 March 2004: RMB30,000,000) granted to Hua Xin, a subsidiary of the Company.
- (c) At the balance sheet date, Shenzhen Weiji, a company in which Mr. Sun Hiu Lu is both a director and shareholder, gave corporate guarantees in respect of bank loans of RMB10,000,000 (31 March 2004: RMB10,000,000) granted to Hua Xin.
- (d) As at the balance sheet date, loans with total outstanding balance of RMB4,421,000 (31 March 2004: RMB4,421,000) due to Shenzhen Weiji are unsecured and repayable on 31 December 2005. All loans from Shenzhen Weiji bear interest from 6% to 7% per annum.

- (e) On 28 April 2003, Shenzhen Weiji entered into an agreement with Bank of Shanghai to give a corporate guarantee amounting to a maximum of RMB38,000,000 (31 March 2004: RMB38,000,000) for the period from 30 April 2003 to 29 April 2004, in respect of bank loans that were or will be granted to Hua Xin.
- (f) On 29 October 2003, Hua Xin defaulted on the full repayment of the loan due to SDB. On 31 October 2003, SDB agreed, in writing, its approval to defer the repayment to 8 May 2004. On 9 May 2004, the Company's Hong Kong dollar time deposits of HK\$30,000,000 placed with SDB was pledged to secure a bank loan of HK\$28,200,000 granted to Hua Xin by SDB. And on the same day, SDB agreed in writing, its approval to further defer the repayment to 10 November 2004. On 29 December 2004, the defaulted amount was fully settled by the Company's pledged time deposit in SDB.
- (g) Included in Hua Xin's unsecured other loans are amounts of approximately HK\$2,397,000 (31 March 2004: HK\$2,397,000), HK\$4,156,000 (31 March 2004: HK\$4,156,000) and HK\$3,290,000 (31 March 2004: HK\$3,290,000) due to a director of Hua Xin, Shenzhen Weiji, and a former shareholder of Hua Xin, respectively. The remaining balances of approximately HK\$5,873,000 (31 March 2004: HK\$6,201,000) were due to third parties. Of the loans due to a director of Hua Xin, HK\$470,000 is interest-free, with the remaining balances bearing interest at 7% per annum. The loans due to Shenzhen Weiji bear interest from 6% to 7% per annum while the loans due to a former shareholder of Hua Xin bear interest at 6% per annum.
- (h) On 31 March 2004, of Hua Xin's unsecured other loans, lenders of approximately HK\$329,000 of the other loan balances that fell due before 31 March 2004, together with lenders of approximately HK\$11,007,000 of the other loans that fall due on 31 December 2004, have agreed, in writing, their approval to defer the repayments to 31 December 2005. As a result of the loan extension arrangements, the total balances of approximately HK\$11,336,000 will not be repayable within one year and, accordingly, are classified as non-current liabilities in the balance sheet. The remaining loan balances of approximately HK\$4,379,000 due were either already due or repayable within one year and accordingly, are classified as current liabilities in the balance sheet.

22. APPROVAL OF THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements were approved and authorized for issue by the Provisional Liquidators on 8 February 2006.

BUSINESS REVIEW

As of 31 March 2004, certain subsidiaries of the Group, namely, Guizhou Ensure Chain Pharmacy Limited, and Guizhou Ensure Medical Company Limited have been deconsolidated. Deconsolidation of the financial results of these subsidiaries would and have resulted in significant reduction in contribution to the consolidated turnover of the Group. For the six months period ended 30 September 2004, the Group recorded a consolidated turnover of approximately HK\$31.1 million, which was mainly attributable to the Group's current principal business comprising the purchasing, processing, wholesaling and retailing of Traditional Chinese Medicine ("TCM") and other medicines, health products, dried seafood, brand named health foods and the provision of medical clinic services, an approximate reduction of 48.7% compared to approximately HK\$60.7 million in the corresponding period of last year. The net loss for the Period was approximately HK\$13.2 million compared to HK\$9.8 million in the corresponding period last year. The loss from operations was approximately HK\$9.0 million for the Period, compared with approximately HK\$6.5 million in the corresponding period last year.

The Group's financial position has stabilised with a substantial reduction in losses since the appointment of the Provisional Liquidators and advancement of working capital from the Investor. Prior to the appointment, the performance of the Group deteriorated due to, amongst other things, the Group's strategy to invest in businesses in PRC that are not integrated, do not offer any economies of scale, cost savings or create additional business opportunities for the Group. Legal disputes have also caused a strain on the Group's financial resources and distracted the attention of management. These were the main issues leading to the appointment of the Provisional Liquidators. The Company had also endured a lack of working capital to fund and expand the business. There has also been a lack of control over the PRC pharmacy operations arising from a dispute with the local joint venture partners.

PROSPECTS

With the implementation of the Restructuring Proposal and the conditional approval received from the Listing Division for the relisting of the Company's shares on the Stock Exchange of Hong Kong and subject to Completion, it is anticipated that the financial position of the Company will be substantially improved as all liabilities of the Company will be compromised and discharged through the Schemes.

The Provisional Liquidators are confident that the Group's business can be revitalised by discharging its present liabilities and injecting sufficient working capital. The Restructuring Proposal has been structured to restore the financial health of the Company. The Investor has thus far injected preliminary working capital to meet the Group's interim working capital requirements for its operations and will inject further working capital at Completion to meet the ongoing requirements of the Group.

Considering the popularity of dietary supplements and the increasing ability of the Chinese population to consume precious food items during recent years in Hong Kong, the Investor is confident in the outlook and growth potential of the Group's TCM business and seeks to take advantage of the Company's principal subsidiary's business profile and its well established reputation. The Investor has developed strategies to improve the operations and to expand the existing business, including plans to open new stores in both Hong Kong and to conduct new marketing, packaging, distribution and product sourcing activities. New product development will expand the existing range of products, sum yung, which is the hallmark product of the Group.

LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group generally finances its short term funding requirements with cash generated from operation, credit facilities from suppliers and banking facilities provided by our principal bankers.

As at 30 September 2004, the Group has total bank and other borrowings totalling approximately HK\$54.26 million. All the borrowings are denominated in Hong Kong dollar.

In view of the stability of Renminbi to the Hong Kong Dollar, management of the Group did not consider necessary to hedge against foreign exchange exposure. During the Period, the Group did not engage in the use of any other financial instruments for hedging purposes, and there is no hedging instrument outstanding as at the balance sheet date. The gearing ratio (total borrowings over total assets) for the period ended 30 September 2004 is recorded at 1.12 compared to 1.05 time recorded as at 31 March 2004.

CHARGE OF ASSETS

As at 30 September 2004, certain of the Group's investment properties with an aggregate carrying value of HK\$16,500,000 was charged to a bank to secure general banking facilities and convertible note issue to a bank, and a building of the Group with a carrying value of HK\$25,000,000 was pledged to secure banking facilities granted to the Group. The Group's trust receipts loans were secured by one of the Group's investment properties with a carrying value of HK\$2,700,000 as at 30 September 2004.

CONTINGENT LIABILITIES

The contingent liabilities of the Group have not changed materially from those disclosed in the annual report at 31 March 2004. Save as disclosed in the notes to condensed consolidated financial statements for the period under review, the Group did not have any significant contingent liabilities as at 30 September 2004.

STAFF AND REMUNERATION

As at 30 September 2004, the Group employed approximately 201 full time employees, of which 103 were in the PRC. The remuneration of employees include salary and discretionary bonus. The Group also adopted a share option scheme to provide an incentive to the employees.

The remuneration policy and package, including the share options, of the Group's employees are maintained at market level and reviewed annually by the management.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

To the best knowledge of the Provisional Liquidators, having made all reasonable enquiries, as at 30 September 2004, there is no significant change in the directors' interests in shares from the annual report for year ended 2004 and interim report for September 2003.

As at 30 September 2004, the interests of the directors in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to 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"), were as follows:

Long positions in shares and underlying shares of the Company

Name of director	Number of shares held through controlled corporation	Percentage of the Company's issue share capital	Number of equity derivative (excluding share options) held through controlled corporation
Mr. Sun Hiu Lu	943,400,000 (<i>Note i</i>)	67.2%	400,000,000 (<i>Note ii</i>)
Mr. Chu Kwan	943,400,000 (<i>Note i</i>)	67.2%	400,000,000 (<i>Note ii</i>)

Long positions in shares of associated corporation of the Company

Name of associated corporation	Relationship with the Company	Name of director	Number of shares held	Capacity and nature of interest	Percentage of the associated corporation's issued share capital
Welcome Success Worldwide Ltd. ("Welcome Success")	Company's ultimate holding company	Mr. Sun Hiu Lu	1	Directly beneficially owned	50%
		Mr. Chu Kwan	1	Directly beneficially owned	50%
Hong Tau Investment Ltd. ("Hong Tau") (<i>Note i</i>)	Company's intermediate holding company	Mr. Sun Hiu Lu	51	Interest of controlled corporation	51%
		Mr. Chu Kwan	51	Interest of controlled corporation	51%
Victory Hunter Holdings Limited ("Victory Hunter") (<i>Note i</i>)	Company's fellow subsidiaries	Mr. Sun Hiu Lu	1	Interest of controlled corporation	100%
		Mr. Chu Kwan	1	Interest of controlled corporation	100%

Name of associated corporation	Relationship with the Company	Name of director	Number of shares held	Capacity and nature of interest	Percentage of the associated corporation's issued share capital
Wai Fat International Limited ("Wai Fat") (Note i)	Company's fellow subsidiaries	Mr. Sun Hiu Lu	1	Interest of controlled corporation	100%
		Mr. Chu Kwan	1	Interest of controlled corporation	100%
Tin Ming Management Limited ("Tin Ming") (Note i)	Company's immediate holding company	Mr. Sun Hiu Lu	1	Interest of controlled corporation	100%
		Mr. Chu Kwan	1	Interest of controlled corporation	100%

Notes:

- (i) Hong Tau through its wholly owned subsidiaries, Victory (which holds 23,400,000 shares), Wai Fat (which holds 130,000,000 shares) and Tin Ming (which holds 790,000,000 shares) holds an aggregate of 943,400,000 shares.

Hong Tau is owned as to 51% by Welcome Success (which is owned equally as to 50% by each of two directors of the Company, Mr. Sun Hiu Lu and Mr. Chu Kwan), and as to 49% by H.H.K. Finance Company Limited ("HHK"). 黑龍江中盟集團有限公司 ("Heilongjiang China") owns 80% interest in HHK.

Accordingly, each of Mr. Sun Hiu Lu and Mr. Chu Kwan is deemed to be interested in the aggregate of 943,400,000 shares held by Tin Ming, Wai Fat and Victory Hunter.

- (ii) Pursuant to an option agreement dated 27 February 2000 signed by Hong Tau and a bank (the "Bank"), the Bank has agreed to grant to Hong Tau a first right of refusal for the acquisition of any shares of the Company converted under a HK\$40 million bank convertible note issued by the Company to the Bank on 27 April 2000 at the same price as the Bank has paid for them at conversion (i.e. HK\$0.10, subject to adjustment) if the Bank wishes to sell them.

Hong Tau is owned as to 51% by Welcome Success, which is owned equally as to 50% by each of two directors of the Company, Mr. Sun Hiu Lu and Mr. Chu Kwan. Accordingly, each of Mr. Sun Hiu Lu and Mr. Chu Kwan is deemed to have a long position of 400,000,000 underlying shares of the Company in respect of the bank convertible note.

Save as disclosed above, the Provisional Liquidators are not aware that, as at 30 September 2004, the Directors and their associates had any interest in the shares or underlying shares of the Company and its associate corporations, within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), which (i) were required to be notified to the Company and the Stock Exchange pursuant to section 341 of the SFO (including interests which they were deemed or taken to have under section 344 of the SFO) or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein as at 30 September 2004, or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors adopted by the Company to be notified to the Company and the Stock Exchange.

Directors' rights to acquire shares or debentures

To the best knowledge of the Provisional Liquidators having made all reasonable enquiries, as at 30 September 2004, at no time during the Period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them, or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Substantial Shareholders and other persons' interests in shares and underlying shares

To the best knowledge of the Provisional Liquidators, having made all reasonable enquiries, as at 30 September 2004, there is no significant change in the substantial shareholders from the annual report for year ended 31 March 2004. As at 30 September 2004, so far as is known to the Provisional Liquidators of the Company, the following persons (other than the directors of the Company) had the following interests of 5% or more of the issued share capital and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Number of shares held				Percentage of the Company's issued share capital	Number of equity derivatives held			
	Directly beneficially owned	Through controlled corporation	Interest of spouse	Total		Directly beneficially owned	Through controlled corporation	Interest of spouse	Total
Heilongjiang China	-	943,400,000 <i>(note i)</i>	-	943,400,000	67.2%	-	400,000,000 <i>(note ii)</i>	-	400,000,000
HHK	-	943,400,000 <i>(note i)</i>	-	943,400,000	67.2%	-	400,000,000 <i>(note ii)</i>	-	400,000,000
Welcome Success	-	943,400,000 <i>(note i)</i>	-	943,400,000	67.2%	-	400,000,000 <i>(note ii)</i>	-	400,000,000
Hong Tau	-	943,400,000 <i>(note i)</i>	-	943,400,000	67.2%	400,000,000 <i>(note ii)</i>	-	-	400,000,000
Ms. Cai Ling Ti	-	-	943,400,000 <i>(note iii)</i>	943,400,000	67.2%	-	-	427,000,000 <i>(note iii)</i>	427,000,000
Ms. Wong Yee Lan	-	-	943,400,000 <i>(note iv)</i>	943,400,000	67.2%	-	-	426,200,000 <i>(note iv)</i>	426,200,000
Tin Ming	790,000,000	-	-	790,000,000	56.3%	-	-	-	-
Wai Fat	130,000,000	-	-	130,000,000	9.3%	-	-	-	-
Mr. Xu Yao Chang	91,000,000	-	-	91,000,000	6.5%	-	-	-	-

Notes:

- (i) Hong Tau through its wholly owned subsidiaries, Victory Hunter (which holds 23,400,000 shares), Wai Fat (which holds 130,000,000 shares) and Tin Ming (which holds 790,000,000 shares) holds an aggregate of 943,400,000 shares.

Hong Tau is owned as to 51% by Welcome Success, (which is owned equally as to 50% by each of two directors of the Company, Mr. Sun Hiu Lu and Mr. Chu Kwan), and as to 49% by HHK. Heilongjiang China owns 80% interest in HHK.

Accordingly, each of Hong Tau, Welcome Success, HHK and Heilongjiang China is deemed to be interested in 943,400,000 shares held by Tin Ming, Wai Fat and Victory Hunter.

- (ii) Pursuant to an option agreement dated 27 February 2000 signed by Hong Tau and the Bank, the Bank has agreed to grant to Hong Tau a first right of refusal for the acquisition of any shares of the Company converted under the HK\$40 million bank convertible note issued by the Company to the Bank on 27 April 2000 at the same price as the Bank has paid for them at conversion (i.e. HK\$0.10, subject to adjustment) if the Bank wishes to sell them.

Hong Tau is owned as to 51% and 49% by Welcome Success and HHK, respectively. Heilongjiang China owns 80% interest in HHK. Accordingly, each of Hong Tau, Welcome Success, HHK and Heilongjiang China is deemed to have a long position of the 400,000,000 shares.

- (iii) Ms. Cai Ling Ti is the spouse of Mr. Sun Hiu Lu. She is deemed to be interested in the shares interested by Mr. Sun Hiu Lu.
- (iv) Ms. Wong Yee Lan is the spouse of Mr. Chu Kwan. She is deemed to be interested in the shares interested by Mr. Chu Kwan.

To the best knowledge of the Provisional liquidators, save as disclosed above, as at 30 September 2004, no person other than the directors of the Company whose interests are set out in the section “Director’s interests in shares and underlying shares” above, had registered an interest in the shares and underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

Share option schemes

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. The share option scheme previously adopted by the Company (the “Old Scheme”) expired on 5 November 2001. Despite that no further options shall be granted under the Old Scheme, the provisions of the Old Scheme shall remain in full force and effect in all other respects to govern all outstanding options granted prior to termination.

At the Company’s annual general meeting held on 25 September 2001 (the “Adoption Date”), a new share option scheme (the “New Scheme”) was approved and adopted and became effective on 6 November 2001 and, unless otherwise cancelled and amended, will remain in force for 10 years from that date. Eligible participants of the New Scheme include any executive director, non-executive director, employee, agent, consultant or representative of the Group who satisfies the selection criteria prescribed by the rules of the New Scheme.

The maximum number of shares which may be issued upon the exercise of all options to be granted under the New Scheme and any other share option scheme of the Company must not exceed 10% of the shares of the Company in issue as at the Adoption Date. The total number of shares issued and to be issued upon exercise of the options (whether exercised or outstanding) under the New Scheme in any 12-month period granted to each eligible participant must not exceed 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting.

Share options granted under the New Scheme to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted under the New Scheme to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company then in issue or with an aggregate value (based on The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”) closing price of the Company’s shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders’ approval in advance in a general meeting.

The offer of a grant of share options under the New Scheme may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. Options granted will entitle the holders to subscribe for shares during such period as may be determined by the directors, which shall not be more than 10 years from the date of issue of the relevant options.

The exercise price of the share options under the New Scheme is determinable by the directors, but may not be less than the higher of (i) the Hong Kong Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Hong Kong Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of a share.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding during the Period:

Name or category of participant	Number of share options			At 30 September 2004	Date of grant of share options	Exercise period of share options	Price of Company's shares**		
	At 1 April 2004	Granted during the year	Lapsed during the year				Exercise price of share options* HK\$	At grant date of options HK\$	At exercise date of options HK\$
Directors									
Ms. Huang Shuyun	25,000,000	-	-	25,000,000	16-5-2000	16-5-2000 to 15-5-2010	0.639	0.81	-
	2,000,000	-	-	2,000,000	30-10-2000	30-10-2000 to 29-10-2010	0.460	0.61	-
	<u>27,000,000</u>	<u>-</u>	<u>-</u>	<u>27,000,000</u>					<u>-</u>
Mr. Chu Kwan	25,200,000	-	-	25,200,000	16-5-2000	16-5-2000 to 15-5-2010	0.639	0.81	-
	1,000,000	-	-	1,000,000	30-10-2000	30-10-2000 to 29-10-2010	0.460	0.61	-
	<u>26,200,000</u>	<u>-</u>	<u>-</u>	<u>26,200,000</u>					<u>-</u>
Mr. Sun Hiu Lu	27,000,000	-	-	27,000,000	16-5-2000	16-5-2000 to 15-5-2010	0.639	0.81	-
Mr. Zhao Dake	27,000,000	-	-	27,000,000	16-5-2000	16-5-2000 to 15-5-2010	0.639	0.81	-
Mr. Zhang Ke, Winston	3,000,000	-	-	3,000,000	10-7-2001	10-7-2001 to 9-7-2011	1.00	1.20	-
	1,500,000	-	-	1,500,000	22-2-2002	22-2-2004 to 21-2-2012	0.88	0.88	-
	1,500,000	-	-	1,500,000	22-2-2002	22-2-2005 to 21-2-2012	0.88	0.88	-
	<u>6,000,000</u>	<u>-</u>	<u>-</u>	<u>6,000,000</u>					<u>-</u>

Name or category of participant	Number of share options				Date of grant of share options	Exercise period of share options	Price of Company's shares**		
	At 1 April 2004	Granted during the year	Lapsed during the year	At 30 September 2004			Exercise price of share options*	At grant date of options	At exercise date of options
							HK\$	HK\$	HK\$
Mr. Melvin Wong	300,000	-	-	300,000	27-5-2003	27-5-2003 to 1-5-2013	0.380	0.355	-
	1,000,000	-	-	1,000,000	1-3-2004	1-3-2004 to 28-2-2006	0.285	0.280	-
	<u>1,300,000</u>	<u>-</u>	<u>-</u>	<u>1,300,000</u>					
Mr. Ng Wing Hang	300,000	-	-	300,000	27-5-2003	27-5-2003 to 1-5-2013	0.380	0.355	-
	1,000,000	-	-	1,000,000	1-3-2004	1-3-2004 to 28-2-2006	0.285	0.280	-
	<u>1,300,000</u>	<u>-</u>	<u>-</u>	<u>1,300,000</u>					
Mr. Chu Yu Lin, David	1,000,000	-	-	1,000,000	1-3-2004	1-3-2004 to 28-2-2006	0.285	0.280	-
Other employees									
In aggregate	1,500,000	-	-	1,500,000	16-5-2000	16-5-2000 to 15-5-2010	0.639	0.81	-
	40,000	-	-	40,000	30-10-2000	30-10-2000 to 29-10-2010	0.460	0.61	-
	1,100,000	-	-	1,100,000	22-2-2002	22-2-2002 to 21-2-2012	0.88	0.88	-
	<u>2,640,000</u>	<u>-</u>	<u>-</u>	<u>2,640,000</u>					
	<u>119,440,000</u>	<u>-</u>	<u>-</u>	<u>119,440,000</u>					

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

** The price of the Company's shares disclosures as at the date of the grant of the share options is the Hong Kong Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options. The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Hong Kong Stock Exchange closing prices over all of the exercises of options within the disclosure category.

At the balance sheet date, the Company had 111,940,000 and 10,500,000 share options outstanding under the Old Scheme and the New Scheme, respectively, representing approximately 8% and 0.7% respectively of the Company's shares in issue as at the balance sheet date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 122,440,000 additional ordinary shares of the Company and additional share capital of HK\$12,244,000 and share premium of HK\$67,339,500 (before issue expenses).

The financial impact of share options granted under the share option schemes is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

The Provisional liquidators do not consider it appropriate to disclose a theoretical value of the options granted on the ground that a number of variables which are crucial for the valuation of the option value cannot be reasonably determined. Accordingly, the Provisional liquidators believe that any valuation of the share options based on a great number of speculative assumptions would not be meaningful and may be misleading to the shareholders of the Company.

Advance to entities

As at 30 September 2004, the Group advanced an aggregate sum of approximately HK\$77,600,000 plus accrued interest thereon of approximately HK\$6,262,000 to certain subsidiaries of Golden Sino (Holdings) Limited (the "Debtors"). The advances are unsecured, and bear interest at 12% per annum or at Hong Kong dollar prime rate plus 3% per annum and have been overdue since December 1998/January 1999. The Group had issued writs of summons to the Debtors in October 2000 and in November 2000, judgements were delivered against the Debtors under which the Debtors were ordered to pay to the Group the sum of approximately HK\$103,034,000 plus interest thereon. The Group made full provision against the entire loan and interest receivable thereon in the year ended 31 March 1999. As at the date of the approval of the financial statements, the amounts due from the Debtors remained outstanding.

Pledge of shares of the Company by the controlling shareholder

In accordance with the disclosure requirements of paragraph 3.7.1 of Practice Note 19 of The Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), the following disclosures are included in respect of a term loan facility of the Company, which contains covenants requiring performance obligations of the Company's holding company.

On 29 February 2000, the Bank entered into a restructuring agreement with the Company under which, among other things, the Bank agreed to grant a term loan facility of an aggregate principal amount of approximately HK\$46,000,000 to the Group. As part and parcel of the debt restructuring arrangement, the Bank entered into a loan agreement with Tin Ming on 29 March 2000 (the "Loan Agreement"). The restructuring agreement further provides that if Tin Ming's shareholdings in the Company that are charged to the Bank as security under the Loan Agreement fall below 51% of the total issued shares of the Company, an event of default will be deemed to have arisen. In such an event, the Bank may declare any sums payable under any of the restructuring documents between the Company and the Bank (the "Restructuring Documents") to have become immediately due and payable, whereupon the same shall become immediately due and payable. The aggregate level of facilities under the Restructuring Documents as at 27 April 2000 is approximately HK\$46,000,000. The maximum tenure of the facilities under the Restructuring Documents is 6 years. During the financial year ended 31 March 2004, the indebtedness owing to the Bank have been assigned by the Bank to another financial institution.

Purchase, sale or redemption of the Company's listed securities

To the best knowledge of the Provisional Liquidators, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Period.

Code of Best Practice

The Provisional Liquidators were appointed to the Company on 13 October 2004. Consequently, the Provisional Liquidators are unable to comment as to whether the Company complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the interim period.

Audit committee

To the best knowledge of the Provisional Liquidators, the Company has an audit committee which was established in accordance with the requirements of the Code for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises two independent non-executive directors of the Company.

INDEPENDENT REVIEW REPORT TO THE PROVISIONAL LIQUIDATORS OF HONG KONG PHARMACEUTICAL HOLDINGS LIMITED

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 2 to 19.

Respective responsibilities of the Provisional Liquidators and auditors

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice 25 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The condensed consolidated interim financial statements are the responsibility of, and have been approved by, the Provisional Liquidators.

It is our responsibility to form an independent conclusion, based on our review, on the condensed consolidated interim financial statements and to report our conclusion solely to you in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with Statement of Auditing Standard 700 “Engagements to review interim financial reports” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), except that the scope of our review was limited as explained below.

A review consists principally of making enquiries of the Provisional Liquidators and management and applying analytical procedures to the condensed consolidated interim financial statements and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the condensed consolidated interim financial statements.

The scope of our review was limited as set out in detail in the following paragraphs.

As more fully explained in Note 1 to the interim financial statements, dealing in the Company’s shares on The Stock Exchange of Hong Kong Limited (“the Stock Exchange”) has been suspended since 5 August 2004. On 13 October 2004 the High Court of Hong Kong (“the Court”) appointed Mr. Cosimo Borrelli and Mr. Kelvin Flynn as joint and several provisional liquidators (the “Provisional Liquidators”) of the Company. On 23 December 2004, the Provisional Liquidators, the Company and a potential investor (“the Investor”) entered into an exclusivity agreement regarding the implementation of a restructuring proposal (the “Restructuring Proposal”).

The Restructuring Proposal is subject to the approval of all relevant parties, including the regulatory authorities, creditors and shareholders. The implementation of the Restructuring Proposal is also subject to the grant of a whitewash waiver from the Executive Director of the Securities and Futures Commission under the Hong Kong Code on Takeovers and Mergers from the obligations to make a general offer for all the shares in the Company not already owned by the Investor and parties acting in concert with it.

The Rules Governing the Listing of Securities issued by the Stock Exchange require, inter alia, that companies whose shares are listed on the Stock Exchange submit interim financial statements to shareholders within 3 months of the balance sheet date. However, the review of the results of the Company and its subsidiaries for the period ended 30 September 2004 were necessarily delayed while the Restructuring Proposal was being finalised.

We were appointed auditors on 16 February 2005. The Provisional Liquidators were appointed on 13 October 2004 pursuant to an Order of the High Court. Upon the appointment of the Provisional Liquidators, the powers of the directors were suspended with regard to the affairs and business of the Company. The Provisional Liquidators have not been able to provide us with all the information that we required in relation to our review for the period ended 30 September 2004. In consequence, we were unable to carry out all of the review procedures necessary to obtain adequate assurance regarding the assets, liabilities, income and expenses appearing in the condensed consolidated interim financial statements. There were no satisfactory review procedures that we could adopt to obtain sufficient evidence regarding the accuracy and completeness of the assets, liabilities, income and expenses of the Company and the Group.

Two of the Company's subsidiaries, Guizhou Ensure Chain Pharmacy Company Limited ("Ensure Chain") and Guizhou Ensure Medical Company Limited ("Ensure Medical"), were deconsolidated as of 31 March 2004 since the Provisional Liquidators considered control to have been lost on this date. The deconsolidated assets and liabilities have been classified as an investment security and are carried forward at HK\$10,460,000, the carrying value as at 31 March 2004 and 30 September 2004 as per Note 10. However, we were unable to obtain sufficient information and there were no practical alternative review procedures that we could perform to satisfy ourselves that control was lost as of this date. If control was lost subsequent to 31 March 2004, the condensed consolidated interim financial statements would include the results of the subsidiaries up to their revised deconsolidation date during the period ended 30 September 2004. Adjustments for any additional amounts to be consolidated would affect the net loss from the ordinary activities attributable to shareholders of the Group for the period ended 30 September 2004.

One of the Company's subsidiaries, Shanghai Hua Xin High Biotechnology Inc. ("Hua Xin"), was deconsolidated as of 30 November 2004 since the Provisional Liquidators considered control to have been lost on this date. The condensed consolidated interim financial statements of the Group includes the results of the deconsolidated subsidiaries from 1 April 2004 up to 30 September 2004. The consolidated amounts relating to Hua Xin comprise turnover of HK\$5,995,000; cost of sales of HK\$1,237,000; other revenue of HK\$358,000; selling and distribution costs of HK\$1,552,000; administrative expenses of HK\$3,116,000; other operating expenses of HK\$1,143,000; finance costs of HK\$1,550,000; fixed assets of HK\$22,185,000; current assets of HK\$7,734,000; current liabilities of HK\$66,078,000 and long-term liabilities of HK\$11,336,000. In addition, we were unable to satisfy ourselves as to the amounts in respect of the opening balances of Hua Xin as at 1 April 2004. We were unable to obtain sufficient information and there were no practical alternative review procedures that we could perform to satisfy ourselves that the amounts consolidated in respect of the deconsolidated subsidiary do not require any modifications. Any modifications to the amounts consolidated would affect the net loss for the period ended 30 September 2004 and net liabilities at 30 September 2004.

In the above circumstances, we were unable to carry out all the review procedures, or obtain all the information and explanations we considered necessary.

Fundamental uncertainties relating to the basis of preparation of the condensed consolidated interim financial statements and contingent liabilities

(i) Basis of preparation of condensed consolidated interim financial statements

As more fully disclosed in Note 1 to the condensed consolidated interim financial statements, the Provisional Liquidators were only appointed on 13 October 2004 pursuant to an Order of the High Court. The Provisional Liquidators are therefore not in a position to represent that all transactions entered into in the name of the Company and its subsidiaries during the period from 1 April 2004 to 30 September 2004 have been included in the comparative condensed consolidated interim financial statements and also whether balances brought forward at 1 April 2004 are true and complete.

The condensed consolidated interim financial statements show a net deficiency of shareholders' funds of HK\$96,615,000 at 30 September 2004. As disclosed in Note 1 to the condensed consolidated interim financial statements, the condensed consolidated interim financial statements have been prepared on the going concern basis. In the opinion of the Provisional Liquidators, the Group and the Company would not be a going concern at the balance sheet date if the Restructuring Proposal is not successfully implemented.

If the Restructuring Proposal is not successfully implemented, adjustments might have to be made further to reduce the value of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify fixed assets as current assets.

(ii) Contingent liabilities

As disclosed in Note 18 to the condensed consolidated interim financial statements, the Provisional Liquidators have not conducted full searches for liabilities of the Group and the Company since a formal adjudication process will be undertaken pursuant to the Restructuring Proposal. Accordingly there is a possibility that claims exist against the Group and the Company which have not been provided for or disclosed in the notes to the condensed consolidated interim financial statements.

We consider that appropriate disclosures have been made in the condensed consolidated interim financial statements concerning the above fundamental uncertainties, but we also consider that the uncertainties surrounding the circumstances under which the condensed consolidated interim financial statements have been prepared are such that they form part of our overall inability to reach a review conclusion on the condensed consolidated interim financial statements for the six months ended 30 September 2004.

Inability to reach a review conclusion

Because of the significance of the possible effects of the various limitations in evidence available to us, as set out in the Review Work Performed section of our report above, we are unable to reach a review conclusion as to whether material modifications should be made to the condensed consolidated interim financial statements for the six months ended 30 September 2004.

Certified Public Accountants
Hong Kong

8 February 2006