香港葯業

HONG KONG PHARMACEUTICAL HOLDINGS LIMITED

香 港 葯 業 集 團 有 限 公 司 *

(Provisional Liquidators Appointed)

(Incorporated in Bermuda with limited liability)

(Stock Code : 182)

Interim Report 2005

* *for identification purposes only*

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

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 2005 (the "Period"), together with comparative figures for the corresponding period in 2004. 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 2005 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 2005 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 2005

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 three of the Company's subsidiaries, namely, Shanghai Hua Xin Biotechnology Inc. ("Hua Xin"), 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 57%, 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 2005 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

	Notes	For the six months ended 30 September **2005** **(Unaudited)** ***HK$'000***	2004 (Unaudited) *HK$'000*
TURNOVER	*4*	**21,573**	31,188
Cost of sales		**(13,325)**	(15,955)
Gross profit		**8,248**	15,233
Other revenue and gains	*4*	**4,328**	874
Selling and distribution costs		**(6,910)**	(9,937)
Administrative expenses		**(1,913)**	(10,119)
Other operating expenses		**(543)**	(5,118)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	*5*	**3,210**	(9,067)
Finance costs	*6*	**(2,544)**	(4,099)
PROFIT/(LOSS) BEFORE TAX		**666**	(13,166)
Tax	*7*	**–**	(1)
PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS FOR THE PERIOD		**666**	(13,167)
PROFIT/(LOSS) PER SHARE – BASIC	*9*	**0.05 cents**	(0.94) cents

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	**30 September 2005 (Unaudited) *HK$'000***	31 March 2005 (Audited) *HK$'000*
NON-CURRENT ASSETS			
Properties, plant and equipment		**365**	623
Investment properties		**835**	835
Investments in securities	*10*	**–**	10,460
		1,200	11,918
CURRENT ASSETS			
Inventories		**5,401**	5,486
Trade receivables	*11*	**818**	1,274
Prepayments, deposits and other receivables	*12*	**4,879**	4,424
Investment disposal receivable		**15,254**	–
Due from intermediate holding companies	*13*	**–**	–
Cash and cash equivalents		**2,263**	3,174
		28,615	14,358
CURRENT LIABILITIES			
Trade payables	*14*	**11,247**	10,500
Tax payable		**651**	651
Other payables and accruals		**49,665**	47,499
Bank and other borrowings	*15*	**54,263**	54,268
Provision for long service payments		**186**	186
		116,012	113,104
NET CURRENT LIABILITIES		**(87,397)**	(98,746)
TOTAL ASSETS LESS CURRENT LIABILITIES		**(86,197)**	(86,828)
NON-CURRENT LIABILITIES			
Finance lease payables		**–**	1
Provision for long service payments		**308**	342
		308	343
NET LIABILITIES		**(86,505)**	(87,171)
DEFICIENCY ATTRIBUTABLE TO COMPANY'S SHAREHOLDERS			
Issued capital	*16*	**140,379**	140,379
Reserves	*17*	**(226,884)**	(227,550)
		(86,505)	(87,171)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	For the six months ended 30 September	
	2005	2004
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Total shareholders' deficiency at 1 April	**(87,171)**	(83,448)
Net profit/(loss) from ordinary activities attributable to shareholders	**666**	(13,167)
Total shareholders' deficiency at 30 September	**(86,505)**	(96,615)

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 September	
	2005	2004
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	**(879)**	(1,018)
NET CASH (OUTFLOW)/INFLOW FROM INVESTING ACTIVITIES	**(16)**	26,006
NET CASH OUTFLOW FROM FINANCING ACTIVITIES	**(16)**	(27,249)
DECREASE IN CASH AND CASH EQUIVALENTS	**(911)**	(2,261)
Cash and cash equivalents at beginning of period	**3,174**	4,624
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**2,263**	2,363
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**2,263**	2,363

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 September 2005

1. BASIS OF PREPARATION

At 30 September 2005, the Group had consolidated net current liabilities of approximately HK$87,397,000 (31 March 2005: HK$98,746,000) and consolidated net liabilities of approximately HK$86,505,000 (31 March 2005: HK$87,171,000). The Group also incurred a net profit attributable to shareholders for the Period of approximately HK$666,000 (2004: net loss attributable to shareholders of HK$13,167,000) and reported a decrease in cash and cash equivalents for the Period of HK$911,000 (2004: HK$2,261,000).

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 of Hong Kong Limited (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 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financing Reporting", issued by the Hong Kong Institute of Certified Public Accountants, and the applicable disclosure requirements of Appendix 16 to Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). 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 and basis of preparation adopted in the preparation of the interim financial statements are consistent with those used in the annual financial statements for the year ended 31 March 2005, except in relation to a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period's financial statements.

The new and revised HKFRSs effective for accounting periods commencing 1 January 2005 are:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK(SIC)-Int 21	Income Taxes – Recovery of Revalued Non-depreciable Assets
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of the new HKFRSs, except those new HKFRSs mentioned below, had no material impact on the accounting policies of the Group and the methods of computation in the Group's unconsolidated interim condensed consolidated financial statements. The impact of adopting the following new HKFRSs is summarised as follows:

(a) Presentation of financial statements

In prior years, minority interests at balance sheet date were presented separately in the consolidated balance sheet. With the adoption of HKAS 1 "Presentation of Financial statements" and HKAS 27 "Consolidated and Separate Financial Statements", minority interests at the balance sheet date are presented within the Group's equity, separately from the capital and reserves attributable to the equity holders of the Company.

(b) Investment Property

In prior years, the Group's investment property is stated at its open market value on the basis of annual valuation. Any surplus or deficit on revaluation is taken to the investment property revaluation reserve unless the total of this reserve is insufficient to cover a deficit, in which case the amount by which the deficit exceeds the amount in the reserve is charged to the profit and loss account. Following the adoption of HKAS 40, changes in fair value of the investment property are included in the profit and loss account. The change in accounting policy has been applied retrospectively. There was no impact on opening retained profits from the adoption of HKAS 40.

(c) Share-based Payment

In prior years, no amounts were recognized when employees (which term includes directors) were granted share options over shares in the company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from 1 January 2005, in order to comply with HKFRS 2, the Group recognizes the fair value of such share options as an expense in the income statement, or as an asset, if the cost qualifies for recognition as an asset under the Group's accounting policies. A corresponding increase is recognised in a capital reserve with equity.

Where the employees are required to meet vesting conditions before they become entitled to the options, the Group recognises the fair value of the options granted over the vesting period. Otherwise, the Group recognises the fair value in the period in which the options are granted.

If an employee chooses to exercise options, the related capital reserve is transferred to share capital and share premium, together with the exercise price. If the options lapse unexercised the related capital reserve is transferred directly to retained earnings.

However, the adoption of the HKFRS had no effect on the results for current nor prior accounting periods as the Company has taken advantage of the exemptions from applying the Standard to share options which had vested before the effective date.

(d) Goodwill

Goodwill represents the excess of the cost of an acquisition and the fair value of the Group's share of the net identifiable assets of the acquired subsidiary company, associated company or jointly controlled entity at the effective date of acquisition, and, in respect of an increase in holding in a subsidiary company, the excess of the cost of acquisition and the carrying amount of the proportion of the minority interests acquired. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

If the cost of acquisition is less than the fair value of the net assets acquired or the carrying amount of the proportion of the minority interests acquired, the difference is recongised directly in the profit and loss account. Goodwill on acquisitions of subsidiary companies is included in intangible assets. Goodwill on acquisitions of associated companies and jointly controlled entities is included in investment in associated companies and jointly controlled entities. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

In previous years, goodwill was amortised using the straight line method over its estimated useful life of not more than fifteen years. Where the fair values ascribed to the net assets exceed the purchase consideration, such differences were recognised as income in the year of acquisition or over the weighted average useful life of the acquired non-monetary assets. The carrying amount of goodwill was reviewed annually and provision was only made where, in the opinion of the Directors, there was impairment in value other than temporary in nature. This accounting policy has been changed to conform with HKFRS 3 "Business combinations" and this change does not have any financial impact to the Group.

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)	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	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	**20,956**	23,555	**–**	5,995	**–**	1,063	**723**	575	**(106)**	–	**21,573**	31,188
Intersegment sales	**–**	70	**–**	–	**–**	–	**–**	8	**–**	(78)	**–**	–
Other revenue	**36**	69	**–**	358	**–**	–	**3,941**	1	**–**	–	**3,977**	428
Total	**20,992**	23,694	**–**	6,353	**–**	1,063	**4,664**	584	**(106)**	(78)	**25,550**	31,616
Segment results	**(2)**	(841)	**–**	(694)	**(6)**	(1,714)	**2,867**	(6,255)	**–**	–	**2,859**	(9,504)
Interest and dividend income											**351**	445
Unallocated revenue and gains											**–**	–
Unallocated expenses											**–**	(8)
Profit/(Loss) from operating activities											**3,210**	(9,067)
Finance costs											**(2,544)**	(4,099)
Profit/(Loss) before tax											**666**	(13,166)
Tax											**–**	(1)
Profit/(Loss) before minority interests											**666**	(13,167)
Minority Interests											**–**	–
Net profit/(loss) from ordinary activities attributable to shareholders											**666**	(13,167)

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	
	2005	2004
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Turnover		
Sale of sum yung and pharmaceutical products	**21,573**	23,554
Sale of biotechnological and transgenic products	**–**	5,995
Property investment-gross rental income	**–**	1,063
Others	**–**	576
	21,573	31,188
Other revenue and gains		
Interest income	**351**	444
Dividend income	**–**	1
Gain on disposal of investment	**3,941**	–
Others	**36**	429
	4,328	874

5. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	For the six months ended 30 September	
	2005	2004
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cost of inventories sold	**13,160**	15,734
Depreciation	**268**	687
Bad debts written off	**–**	574
Loss on disposal of fixed assets	**6**	2,630
Write back of provision for obsolete and slow moving stock	**(946)**	–
Provision for amount due from a director	**–**	161
Provision for amount due from an intermediate holding company	**351**	318
Provision for bad and doubtful debts	**18**	–
Provision for pending litigation	**–**	855

6. FINANCE COSTS

	For the six months ended 30 September	
	2005	2004
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on bank loans and other borrowings wholly repayable within five years	**2,542**	4,086
Interest on finance leases	**2**	13
	2,544	4,099

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 (2004: 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 lossess 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 2005 (2004: Nil).

9. PROFIT/(LOSS) PER SHARE

The calculation of basic profit/(loss) per share is based on the net profit/(loss) from ordinary activities attributable to shareholders for the Period of approximately HK$666,000 (2004: net loss of HK$13,167,000) and the weighted average number of 1,403,796,698 (2004: 1,403,796,698) ordinary shares in issue during the Period.

Diluted profit/(loss) per share amounts for the six months ended 30 September 2005 and 2004 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	31 March
	2005	2005
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Unlisted, investments at deconsolidated amounts	**–**	10,460

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
Shanghai Hua Xin High Biotechnology Inc.	*(ii)*	Mainland China	USD9,620,000	–	57.00%	Production and sale of biotechnological products

Notes:

(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 this 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 on 21 September 2005 (see also Note 21(c)).

(ii) One of the Group's subsidiaries, Shanghai Hua Xin Biotechnology Inc. ("Hua Xin") is a Sino-foreign co-operative joint venture company established in Mainland China and acquired by the Group in 2001, with an operating period of 45 years commencing from 19 January 1993, was deconsolidated as of 30 November 2004.

The Provisional Liquidators have deconsolidated Hua Xin in 2004 as they considered 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. The management of Hua Xin have not provided the Company with any financial information subsequent to the provision of unaudited management accounts for the period from 1 April 2004 to 30 November 2004, and, accordingly, deconsolidation has been made as of that date.

The deconsolidated assets and liabilities as at 30 November 2004 and stated at nil carrying value at 31 March 2005. Subsequent to the balance sheet date, the Provisional Liquidators have agreed to dispose of the Group's interest in Hua Xin (see also Note 21(c)).

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 2005 (Unaudited) ***HK$'000***	31 March 2005 (Audited) *HK$'000*
Within 3 months	**792**	1,206
4 to 6 months	**1**	–
7 to 12 months	**–**	2
13 to 24 months	**–**	48
Over 24 months	**25**	18
	818	1,274

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Included in the Group's and Company's prepayments, deposits and other receivables were the balance of working capital facility advanced by the investor and funds arising from realisation of assets being kept in escrow by the Provisional Liquidators of approximately HK$648,000 (2005: HK$1,183,000) and HK$2,333,000 respectively (2005: HK$785,000).

13. DUE FROM INTERMEDIATE HOLDING COMPANIES

(a) The amount of HK$13,472,000 (including interest amounting to approximately HK$2,490,000) (31 March 2005: HK$13,120,000, including interest amounting to approximately HK$2,139,000) 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 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 2005: HK$1,202,000) 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 pursing 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.

14. TRADE PAYABLES

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

	30 September 2005 (Unaudited)	31 March 2005 (Audited)
	HK$'000	*HK$'000*
Within 3 months	**4,587**	3,670
4 to 6 months	**238**	285
7 to 12 months	**1**	8
13 to 24 months	**6**	42
Over 24 months	**6,415**	6,495
	11,247	10,500

15. BANK AND OTHER BORROWINGS

		30 September 2005 (Unaudited)	31 March 2005 (Audited)
	Note	***HK$'000***	*HK$'000*
Current portion of bank and other borrowings		**54,254**	54,254
Current portion of finance lease payables		**9**	14
		54,263	54,268
Convertible notes:			
Bank convertible note, secured		**38,000**	38,000
Other convertible notes, unsecured		**12,254**	12,254
		50,254	50,254
Other loans, secured	*(i)*	**4,000**	4,000
		54,254	54,254

	Note	**30 September 2005 (Unaudited) *HK$'000***	31 March 2005 (Audited) *HK$'000*
Represented by:			
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	*(i)*	**4,000**	4,000
In the second year		**–**	–
		4,000	4,000
Total other borrowings		**54,254**	54,254
Portion classified as current liabilities		**(54,254)**	(54,254)
Long term portion		**–**	–

(i) On 28 January 2005, one of the Company's subsidiaries entered into an agreement with Gain Alpha Finance Limited ("Gain Alpha"), being a potential investor of the Company. Pursuant to the agreement, Gain Alpha agreed to provide a loan facility of up to HK$8,000,000 to the Company's subsidiary for working capital. The loan facility is guaranteed by Umbrella Finance Company Limited (Umbrella), a major creditor of the Company. Umbrella is secured by way of fixed and floating charges over the shares, undertakings, properties, assets and rights of certain of the Company's subsidiaries. The facility bears interest at 5% per annum. As at 31 March 2005, an amount of HK$4,000,000 was drawn down by the subsidiary. The repayment date of this amount was on 30 June 2005, however on 28 September 2005, Gain Alpha agreed to extend the repayment date to 31 January 2006.

Save as disclosed above, there are no other material changes in the balances, the repayment dates and the status of other borrowings as disclosed in the annual report for the year ended 31 March 2005.

16. SHARE CAPITAL

Shares

	30 September 2005 (Unaudited) *HK$'000*	31 March 2005 (Audited) *HK$'000*
Authorised		
3,000,000,000 ordinary shares of HK$0.10 each	300,000	300,000
Issued and fully paid		
1,403,796,698 ordinary shares of HK$0.10 each	140,379	140,379

Share options

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

17. 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 2005	140,694	297	13,051	80,933	6	(462,531)	(227,550)
Net profit from ordinary activities attributable to shareholders	–	–	–	–	–	666	666
At 30 September 2005	140,694	297	13,051	80,933	6	(461,865)	(226,884)

18. PLEDGE OF ASSETS

At 30 September 2005, the following assets of the Group were pledged to secure the Group's banking facilities:

(a) fixed and floating charges over the shares, undertakings, properties, assets and rights of certain of the Company's subsidiaries;

(b) Corporate guarantees executed by the Company and certain of its subsidiaries;

(c) charge over the share capital of certain of the Company's subsidiaries.

19. CONTINGENT LIABILITIES

A full search for contingent liabilities of the Group and Company has not been conducted. However, suits 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 2005.

20. COMMITMENTS

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

(a) Capital commitments

	30 September 2005 (Unaudited)	31 March 2005 (Audited)
	HK$'000	*HK$'000*
Authorised, but not contracted for	**8,420**	8,240

(b) Commitments under operating leases as lessee

The Group leases certain of its office and retail 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 2005 (Unaudited)	31 March 2005 (Audited)
	HK$'000	*HK$'000*
Within one year	**4,065**	4,397
In the second to fifth years, inclusive	**3,121**	5,005
After five years	**–**	–
	7,186	9,402

21. 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) 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.

(c) Subsequent to the balance sheet, on 15 November 2005, the Provisional Liquidators agreed to dispose of the Group's 57% equity interest in Hua Xin for a consideration of HK$15 million realising a gain on disposal of approximately HK$15.2 million. The disposal of Hua Xin also involves an assignment of debts to a third party of approximately (i) HK$0.6 million owing by Hua Xin to its fellow subsidiary, and (ii) HK$36.1 million owing by Hua Xin's immediate holding company to a fellow subsidiary.

22. RELATED PARTY TRANSACTIONS

(a) As disclosed in Note 13 to the financial statements, as at the balance sheet date, the Group advanced HK$13,472,000 (31 March 2005: HK$13,121,000) and HK$1,202,000 (31 March 2005: HK$1,202,000) to Tin Ming and Hong Tau, the intermediate holding companies, respectively.

(b) In a previous year, 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 2005: RMB10,000,000) granted to Hua Xin, which was deconsolidated as of 30 November 2004.

(c) In a previous year, loans advanced by Shenzhen Weiji to Hua Xin with total outstanding balance of RMB4,421,000 (31 March 2005: RMB4,421,000) are unsecured and repayable on 31 December 2005.

(d) 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 2005: 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, which was deconsolidated as of 30 November 2004.

23. 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

On 13 October 2004, the High Court appointed Mr. Kelvin Flynn and Mr. Cosimo Borelli, both of Alvarez & Marsal Asia Limited, 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.

In the previous financial years ended 31 March 2004 and 2005, certain subsidiaries of the Group, namely, Guizhou Ensure Chain Pharmacy Limited, Guizhou Ensure Medical Company Limited and Shanghai Hua Xin Biotechnology Inc. have been deconsolidated respectively. The deconsolidation of the financial results of these subsidiaries has resulted in significant reduction in contribution to the consolidated turnover of the Group. For the six months period ended 30 September 2005, the Group recorded a consolidated turnover of approximately HK$21.6 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 8 % compared to approximately HK$23.5 million of the same segment of operation in the corresponding period of last year. The net profit for the Period was approximately HK$0.7 million compared to net loss of HK$13.1 million in the corresponding period last year. The loss from operations was approximately HK$0.7 million for the Period, compared with approximately HK$9.0 million in the corresponding period last year.

The Group's financial position has stabilized 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 Investor is 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 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 2005, the Group has total bank and other borrowings totalling approximately HK54.26 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 2005 is recorded at 1.82 compared to 2.06 time recorded as at 31 March 2005.

CHARGE OF ASSETS

As at 30 September 2005, pursuant to the terms of the debenture, one of the Company's subsidiaries charged in favour of Umbrella Finance Company limited to secure the payment and discharge of the secured obligations, by way of fixed and floating charges over the shares, undertakings, properties, assets and rights of the Company's subsidiary.

CONTINGENT LIABILITIES

The contingent liabilities of the Group have not changed materially from those disclosed in the annual report at 31 March 2005. 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 2005.

STAFF AND REMUNERATION

As at 30 September 2005, the Group employed approximately 79 full time employees, of which 5 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 2005, there is no significant change in the directors' interests in shares from the annual report for year ended 31 March 2005 and interim report for September 2004.

As at 30 September 2005, 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 *(Note i)*	67.2%	400,000,000 *(Note ii)*
Mr. Chu Kwan	943,400,000 *(Note i)*	67.2%	400,000,000 *(Note ii)*

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") *(Note 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%

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
Victory Hunter Holdings Limited ("Victory Hunter") *(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%
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 2005, 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 2005, 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 2005, 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 2005, there is no significant change in the substantial shareholders from the annual report for year ended 31 March 2005. As at 30 September 2005, 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:

	Number of shares held					Number of equity derivatives held			
Name	Directly beneficially owned	Through controlled corporation	Interest of spouse	Total	Percentage of the Company's issued share capital	Directly beneficially owned	Through controlled corporation	Interest of spouse	Total
Heilongjiang China	–	943,400,000 *(note i)*	–	943,400,000	67.2%	–	400,000,000 *(note ii)*	–	400,000,000
HHK	–	943,400,000 *(note i)*	–	943,400,000	67.2%	–	400,000,000 *(note ii)*	–	400,000,000
Welcome Success	–	943,400,000 *(note i)*	–	943,400,000	67.2%	–	400,000,000 *(note ii)*	–	400,000,000
Hong Tau	–	943,400,000 *(note i)*	–	943,400,000	67.2%	400,000,000 *(note ii)*	–	–	400,000,000
Ms. Cai Ling Ti	–	–	943,400,000 *(note iii)*	943,400,000	67.2%	–	–	427,000,000 *(note iii)*	427,000,000
Ms. Wong Yee Lan	–	–	943,400,000 *(note iv)*	943,400,000	67.2%	–	–	426,200,000 *(note iv)*	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 2005, 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:

	Number of share options						Price of Company's shares**		
Name or category of participant	**At 1 April 2004**	**Granted during the year**	**Lapsed during the year**	**At 30 September 2004**	**Date of grant of share options**	**Exercise period of share options**	**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	–
	27,000,000	–	–	27,000,000					–
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	–
	26,200,000	–	–	26,200,000					–
Mr. Sun Hiu Lu	27,000,000	–	–	27,000,000	16-5-2000	16-5-2000 to 15-5-2010	0.639	0.81	–

Name or category of participant	Number of share options: At 1 April 2004	Granted during the year	Lapsed during the year	At 30 September 2004	Date of grant of share options	Exercise period of share options	Price of Company's shares**: Exercise price of share options* *HK$*	At grant date of options *HK$*	At exercise date of options *HK$*
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	–
	6, 000,000	–	–	6, 000,000					–
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	–
	1,300,000	–	–	1,300,000					
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	–
	1,300,000	–	–	1,300,000					
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	–
	2,640,000	–	–	2,640,000					
	119,440,000	–	–	119,440,000					

* 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 2005, 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.

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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 Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The consolidated condensed 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 consolidated condensed 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 condensed consolidated 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 2005 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 2005. 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.

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 consolidated condensed 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 and 1 April 2005 are true and complete.

The condensed consolidated interim financial statements show a net deficiency of shareholders' funds of HK$86,505,000 at 30 September 2005. As disclosed in Note 1 to the consolidated condensed 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.

(ii) Contingent liabilities

As disclosed in Note 19 to the consolidated condensed 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 consolidated condensed interim financial statements.

We consider that appropriate disclosures have been made in the consolidated condensed interim financial statements concerning the above fundamental uncertainties, but we also consider that the uncertainties surrounding the circumstances under which the consolidated condensed interim financial statements have been prepared are such that they form part of our overall inability to reach a review conclusion on the consolidated condensed interim financial statements for the six months ended 30 September 2005.

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 consolidated condensed interim financial statements for the six months ended 30 September 2005.

Certified Public Accountants
Hong Kong

8 February 2006