

Report of the Provisional Liquidators

The joint and several provisional liquidators of the Company (the “Provisional Liquidators”) present their report and the audited financial statements for the year ended 31 March 2006.

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 audited financial statements for the year ended 31 March 2006 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 audited financial statements for the year ended 31 March 2006 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.

PRINCIPAL ACTIVITIES

The Company is an investment holding company.

Details of the principal activities of the principal subsidiaries as at 31 March 2006 are set out in Note 17 to the financial statements.

RESULTS

The results of the Group are set out in the Consolidated Income Statement on page 14 of the annual report and in the accompanying notes to the financial statements.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 63 of the annual report. This summary does not form part of the audited financial statements.

BUSINESS REVIEW

The Group’s principal business comprises the purchasing, processing, wholesaling and retailing of Traditional Chinese Medicine (“TCM”) and other medicines, health products, dried seafood, brand name health foods and the provision of medical clinic services.

For the financial year ended 31 March 2006, the Group recorded a consolidated turnover of approximately HK\$49.3 million which was mainly attributable to the sale of the principal subsidiary’s products amounting to approximately HK\$47.6 million. The net profit for the year was approximately HK\$9.4 million compared to HK\$3.7 million net loss in the year 2005. The profit from operations was approximately HK\$15.3 million for the year, compared with an operating loss of approximately HK\$13.3 million in the year 2005.

Report of the Provisional Liquidators (Continued)

BUSINESS REVIEW (Continued)

The Group's financial position has stabilised with a substantial increase in profits since the appointment of the Provisional Liquidators and advancement of working capital from the Investor. An additional flagship store was established in Tsim Sha Tsui in December 2005. Prior to their appointment, the performance of the Group deteriorated due to, among other things, the Group's strategy to invest in businesses in PRC that were not integrated, did not offer any economies of scale, cost savings or create additional business opportunities for the Group. These include the Ensure and Hua Xin businesses, which have not contributed to the viability of the Group and have been a significant drain on the Group's resources. Accordingly, to strengthen the financial position of the Group and to focus on the development of the Nam Pei Hong business, in line with the business plan of the Investor, the interests in Ensure and Hua Xin have been successfully disposed of.

All legal disputes which previously caused a strain on the Group's financial resources and distracted the attention of management have been resolved.

RESTRUCTURING OF THE GROUP

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").

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, 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 of the Company (the "Resumption Proposal"). On 25 August 2005, the Stock Exchange confirmed in writing its conditional approval of the resumption of trading in the shares of the Company.

In relation thereto, 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.

Report of the Provisional Liquidators (Continued)

RESTRUCTURING OF THE GROUP (Continued)

On 14 March 2006, a Special General Meeting (“SGM”) was held proposing resolutions in relation to the Restructuring Proposal and the Whitewash Waiver. All the ordinary resolutions were passed but all the special resolutions were voted down by the Independent Shareholders. The Provisional Liquidators are of the view that there are a number of issues arising from the SGM that require investigation and careful consideration, including the validity of the votes that were cast and the status of the shareholders who were present and voted at the SGM.

On 15 March 2006, the explanatory statements and Schemes of Arrangement for creditors of the Company in Hong Kong and Bermuda (the “Schemes”) were distributed to the creditors together with notices for the Scheme Meeting. The resolutions for passing the Schemes were approved with 100% creditors’ support (which includes attending creditors and creditors’ proxies) at the meeting held on 6 April 2006, conditional upon a minimum return of 40% to unsecured creditors.

On 28 March 2006, the shareholders approved the consolidated financial statements and the Provisional Liquidators’ and auditors’ reports of the accounts for the years ended 31 March 2004 and 2005 at the Annual General Meeting (“AGM”).

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 and remains the best means available for the Company to be returned to solvency and to continue with the development and enhancement of its business.

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 is 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.

PROSPECTS

With conditional approval received from the Listing Division 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 on-going requirements of the Group. The Investor has also played a role in the new flagship store opening in Tsim Sha Tsui, thus demonstrating commitment to improve the Group’s business going forward.

Report of the Provisional Liquidators (Continued)

PROSPECTS (Continued)

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 remains 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 more new stores in Hong Kong and to conduct new marketing, packaging, distribution and product sourcing activities. New product development to expand its existing range of products, sum yung, which is the hallmark product of the Group will be conducted to meet the current trends of consumers.

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of turnover attributable to the Group's five largest customers combined accounted for less than 6% and the percentage of purchases attributable to the Group's five largest suppliers combined accounted for approximately 65% whereby purchases from the largest supplier included therein amounted to approximately 21%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the Provisional Liquidators, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

SEGMENT INFORMATION

Details of the segment information are set out in Note 5 to the financial statements.

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets of the Group and the Company during the year are set out in Notes 15 and 16 to the financial statements.

PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 March 2006 are set out in Note 17 to the financial statements.

SHARE CAPITAL

Details of the Company's share capital are set out in Note 29 of the financial statements.

POST BALANCE SHEET EVENTS

Details of the Group's post balance sheet events are set out in Note 40 to the financial statements.

Report of the Provisional Liquidators (Continued)

BORROWINGS

Details of the Group's and the Company's borrowings as at 31 March 2006 are set out in Notes 25 and 26 to the financial statements.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in Note 32 to the financial statements.

DIVIDENDS

The Provisional Liquidators do not recommend the payment of any dividend for the year.

SUSPENSION OF TRADING

Trading in the securities of the Company has been suspended since 5 August 2004 and will remain suspended until further notice.

PROVISIONAL LIQUIDATORS

Cosimo Borrelli and Kelvin Edward Flynn were appointed as Joint and Several Provisional Liquidators of the Company pursuant to an Order of the High Court of Hong Kong Special Administrative Region dated 13 October 2004.

DIRECTORS

The directors of the Company (the "Directors") during the year and up to the date of this report were:

Executive Directors

Mr Sun Hiu Lu
Ms Huang Shuyun
Mr Chu Kwan
Mr Zhao Dake
Mr Zhang Ke, Winston

Independent Non-Executive Directors

Mr Ng Wing Hang
Dr Melvin Wong
Mr Chu Yu Lin, David

Report of the Provisional Liquidators (Continued)

DIRECTORS (Continued)

In accordance with article 86(2) of the Company's bye-laws, Mr Zhang Ke, Winston, Dr Melvin Wong and Mr Chu Yu Lin, David will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

In accordance with article 87 of the Company's bye-laws, Mr Zhao Dake and Mr Ng Wing Hang will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The independent non-executive directors do not have specific terms of appointment but are subject to retirement on the same basis as the executive directors as required by the Company's bye-laws.

However, in view of the Restructuring Proposal, and in the absence of specific resignations, it is proposed that the directors be removed from office by way of special resolution in the forthcoming special general meeting upon Completion. New directors will be appointed in their place.

DIRECTORS' SERVICE CONTRACTS

Mr Zhang Ke, Winston has a service contract with a subsidiary of the Company commencing on 9 July 2001 which is subject to termination by either party giving not less than 3 months' written notice. Apart from the foregoing, no director has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

The powers of the Directors have been suspended since the appointment of the Provisional Liquidators.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in Note 39 to the financial statements, the Provisional Liquidators are not aware of any material interest in any contract of significance to the business of the Group to which the Company or any of its holding companies and subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

To the best knowledge of the Provisional Liquidators, having made all reasonable enquiries, as at 31 March 2006, there is no significant change in the Directors' interests in shares from the annual report for year 2005 and interim report for September 2005.

The interests of the Directors in the share options of the Company are separately disclosed in Note 31 to the financial statements.

Save as disclosed above, the Provisional Liquidators are not aware that 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 31 March 2006, 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.

Report of the Provisional Liquidators (Continued)

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

To the best knowledge of the Provisional Liquidators, the Provisional Liquidators are not aware of any contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or any time during the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in Note 31 to the financial statements, to the best knowledge of the Provisional Liquidators having made all reasonable enquiries, as at 31 March 2006, at no time during the year 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

To the best knowledge of the Provisional Liquidators, having made all reasonable enquiries, as at 31 March 2006, there is no significant change in the substantial shareholders from the annual report for year 2005.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

CORPORATE GOVERNANCE

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 financial year.

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 of Best Practice, 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.

Report of the Provisional Liquidators (Continued)

AUDITORS

Moore Stephens have been appointed as auditors of the Company. Moore Stephens will retire and a resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

For and on behalf of
Hong Kong Pharmaceutical Holdings Limited
(Provisional Liquidators Appointed)

Kelvin Flynn
Cosimo Borrelli
Joint and Several Provisional Liquidators
without personal liability

Hong Kong
17 August 2006