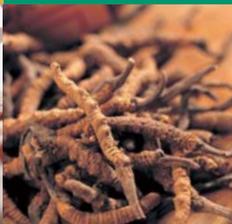




Hong Kong Pharmaceutical Holdings Limited

香港藥業集團有限公司

Stock Code 股份代號: 0182



Interim Report

2006

## **UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006**

The Board of Directors (the "Directors") 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 2006 (the "Period"), together with comparative figures for the corresponding period in 2005. The unaudited interim financial report has been reviewed by the Company's audit committee.

**CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT**

|   |       | For the six months<br>ended 30 September |             |
|---|-------|--|-------------|
|   |       | 2006                                     | 2005        |
|   |       | (Unaudited)                              | (Unaudited) |
|   |       | HK\$'000                                 | HK\$'000    |
|   | Notes |  |             |
| <b>TURNOVER</b>   | 4     | <b>22,553</b>                            | 21,573      |
| Cost of sales   |       | <b>(14,211)</b>                          | (13,325)    |
|   |       |  |             |
| Gross profit  |       | <b>8,342</b>                             | 8,248       |
| Other revenue and gains   | 4     | <b>646</b>                               | 4,328       |
| Selling and distribution costs  |       | <b>(8,378)</b>                           | (6,910)     |
| Administrative expenses   |       | <b>(1,538)</b>                           | (1,913)     |
| Other operating expenses  |       | <b>(37,539)</b>                          | (543)       |
|   |       |  |             |
| <b>(LOSS)/PROFIT FROM<br/>OPERATING ACTIVITIES</b>                              | 5     | <b>(38,467)</b>                          | 3,210       |
| Finance costs   | 6     | <b>(978)</b>                             | (2,544)     |
|   |       |  |             |
| <b>(LOSS)/PROFIT BEFORE TAX</b>   |       | <b>(39,445)</b>                          | 666         |
| Tax   | 7     | —  | —           |
|   |       |  |             |
| <b>(LOSS)/PROFIT ATTRIBUTABLE TO<br/>EQUITY SHAREHOLDERS<br/>FOR THE PERIOD</b> |       | <b>(39,445)</b>                          | 666         |
|   |       |  |             |
| <b>(LOSS)/EARNINGS PER SHARE — BASIC</b>  | 9     | <b>(2.81) cents</b>                      | 0.05 cents  |
|   |       |  |             |

**CONDENSED CONSOLIDATED BALANCE SHEET**

|  |              | <b>30 September<br/>2006</b> | 31 March<br>2006 |
|--|--------------|------------------------------|------------------|
|  |              | <b>(Unaudited)</b>           | (Audited)        |
|  | <i>Notes</i> | <b>HK\$'000</b>              | <b>HK\$'000</b>  |
| <b>Non-current assets</b>                      |              |                              |                  |
| Property, plant and equipment                  |              | <b>1,206</b>                 | 716              |
| Investment property                            |              | —                            | 835              |
|  |              | <b>1,206</b>                 | 1,551            |
| <b>Current assets</b>                          |              |                              |                  |
| Inventories                                    |              | <b>6,848</b>                 | 5,810            |
| Trade receivables                              | 10           | <b>462</b>                   | 368              |
| Prepayments, deposits and<br>other receivables | 11           | <b>22,145</b>                | 22,695           |
| Due from intermediate holding<br>companies     | 12           | —                            | —                |
| Cash and cash equivalents                      |              | <b>1,245</b>                 | 751              |
|  |              | <b>30,700</b>                | 29,624           |
| <b>Current Liabilities</b>                     |              |                              |                  |
| Trade payables                                 | 13           | <b>5,762</b>                 | 9,771            |
| Tax payable                                    |              | —                            | 651              |
| Other payables and accruals                    |              | <b>99,502</b>                | 55,714           |
| Bank and other borrowings                      | 14           | <b>43,400</b>                | 42,401           |
| Provision for long service payments            |              | <b>152</b>                   | 88               |
|  |              | <b>148,816</b>               | 108,625          |
| <b>Net current liabilities</b>                 |              | <b>(118,116)</b>             | (79,001)         |

|  |              | <b>30 September<br/>2006</b> | 31 March<br>2006 |
|--|--------------|------------------------------|------------------|
|  |              | <b>(Unaudited)</b>           | (Audited)        |
|  | <i>Notes</i> | <b>HK\$'000</b>              | <i>HK\$'000</i>  |
| <b>Total assets less current liabilities</b>             |              | <b>(116,910)</b>             | (77,450)         |
| <b>Non-current liabilities</b>                           |              |                              |                  |
| Provision for long service payments                      |              | <b>293</b>                   | 308              |
|  |              | <b>293</b>                   | 308              |
| <b>Net liabilities</b>                                   |              | <b>(117,203)</b>             | (77,758)         |
| <b>Capital and reserves</b>                              |              |                              |                  |
| Issued capital   | 15           | <b>140,379</b>               | 140,379          |
| Reserves   | 16           | <b>(257,582)</b>             | (218,137)        |
| Deficit attributable to equity<br>holders of the Company |              | <b>(117,203)</b>             | (77,758)         |
| Minority interests                                       |              | —                            | —                |
| Total deficit  |              | <b>(117,203)</b>             | (77,758)         |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

|   | For the six months<br>ended 30 September |             |
|---|--|-------------|
|   | 2006                                     | 2005        |
|   | (Unaudited)                              | (Unaudited) |
|   | HK\$'000                                 | HK\$'000    |
| Total shareholders' deficiency at 1 April   | <b>(77,758)</b>                          | (87,171)    |
| Net (loss)/profit from ordinary activities<br>attributable to equity shareholders | <b>(39,445)</b>                          | 666         |
| Total shareholders' deficiency at 30 September                                    | <b>(117,203)</b>                         | (86,505)    |

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

|  | For the six months<br>ended 30 September |                                |
|--|--|--------------------------------|
|  | 2006                                     | 2005                           |
|  | (Unaudited)<br><i>HK\$'000</i>           | (Unaudited)<br><i>HK\$'000</i> |
| <b>NET CASH INFLOW/(OUTFLOW) FROM<br/>OPERATING ACTIVITIES</b> | <b>281</b>                               | (879)                          |
| <b>NET CASH OUTFLOW FROM<br/>INVESTING ACTIVITIES</b>          | <b>(785)</b>                             | (16)                           |
| <b>NET CASH INFLOW/(OUTFLOW) FROM<br/>FINANCING ACTIVITIES</b> | <b>998</b>                               | (16)                           |
| <b>INCREASE/(DECREASE) IN CASH AND CASH<br/>EQUIVALENTS</b>    | <b>494</b>                               | (911)                          |
| Cash and cash equivalents at beginning<br>of period            | <b>751</b>                               | 3,174                          |
| <b>CASH AND CASH EQUIVALENTS AT END<br/>OF PERIOD</b>          | <b>1,245</b>                             | 2,263                          |
| <b>ANALYSIS OF BALANCES OF CASH AND<br/>CASH EQUIVALENTS</b>   |  |                                |
| Cash and bank balances   | <b>1,245</b>                             | 2,263                          |

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

*For the six months ended 30 September 2006*

### 1. Basis of Preparation

As at the balance sheet date, 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.

**1. Basis of Preparation** *(Continued)*

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.

Pursuant to the agreement for the implementation of a Restructuring Proposal dated on 7 September 2005, the Investor will pay fees, costs and expenses relating to the implementation of the Restructuring Proposal in the amount of HK\$7.5 million. All fees and costs in excess of HK\$7.5 million, whether arising before or after the completion of the restructuring shall not be borne by the Company.

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.

1. **Basis of Preparation** (Continued)

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.

At 30 September 2006, the Group had consolidated net current liabilities of approximately HK\$118,116,000 (31 March 2006: HK\$79,001,000) and consolidated net liabilities of approximately HK\$117,203,000 (31 March 2006: HK\$77,758,000). The Group also incurred a net loss attributable to equity shareholders for the Period of approximately HK\$39,445,000 (2005: net profit attributable to equity shareholders of HK\$666,000) and reported an increase in cash and cash equivalents for the Period of HK\$494,000 (2005: decrease in cash and cash equivalents of HK\$911,000).

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.

The Bermuda Court and the Hong Kong Court sanctioned the relevant Schemes under the Restructuring Proposal on 3 November 2006 and 21 November 2006 respectively. Subject to and upon fulfilment of the conditions precedent, the Proposed Restructuring was completed on 6 December 2006.

## 2. Principal Accounting Policies

The condensed consolidated interim financial statements for the six months ended 30 September 2006 have been prepared in accordance with the disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") and Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants.

The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 March 2006.

The accounting policies and basis of preparation adopted in the preparation of these condensed consolidated interim financial statements are consistent with those used in the Group's audited financial statements for the year ended 31 March 2006, except in relation to the following new/revised Hong Kong Financial Reporting Standards ("HKFRSs"), HKASs and Interpretations (hereinafter collectively referred to as the "new/revised HKFRSs"), which have become effective for accounting periods beginning on or after 1 January 2006, that are adopted for the first time for the Period's financial statements:

|                               |  |
|-------------------------------|--|
| HKAS 19 (Amendment)           | Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures                                |
| HKAS 21 (Amendment)           | The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation                   |
| HKAS 39 (Amendment)           | Cash Flow Hedge Accounting of Forecast Intragroup Transactions   |
| HKAS 39 (Amendment)           | The Fair Value Option  |
| HKAS 39 & HKFRS 4 (Amendment) | Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts |
| HK(IFRIC) – Int 4             | Determining whether an Arrangement contains a Lease  |

The adoption of the above new/revised HKFRSs has no material impact on the accounting policies of the Group and the methods of computation in the Group's condensed consolidated interim financial statements.

The following new/revised HKFRSs relevant to the Group's operations have been issued but are not effective for 2006 and have not been early adopted:

|                    |  |
|--------------------|--|
| HKAS 1 (Amendment) | Capital Disclosures  |
| HKFRS 7            | Financial Instruments: Disclosures   |
| HK(IFRIC) – Int 7  | Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies |
| HK(IFRIC) – Int 8  | Scope of HKFRS 2   |
| HK(IFRIC) – Int 9  | Reassessment of Embedded Derivatives   |

### 3. Segment Information

The following table presents 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) |               | Property investment (Unaudited) |          | Corporate and others (Unaudited) |              | Eliminations (Unaudited) |              | Consolidated (Unaudited) |               |
|--|--|---------------|---------------------------------|----------|----------------------------------|--------------|--------------------------|--------------|--------------------------|---------------|
|  | 2006   | 2005          | 2006                            | 2005     | 2006                             | 2005         | 2006                     | 2005         | 2006                     | 2005          |
|  | 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  | 21,683   | 20,956        | 47                              | —        | 823                              | 723          | —                        | (106)        | 22,553                   | 21,573        |
| Intersegment sales   | 148  | —             | —                               | —        | —                                | —            | (148)                    | —            | —                        | —             |
| Other revenue  | —  | 36            | —                               | —        | —                                | 3,941        | —                        | —            | —                        | 3,977         |
| <b>Total</b>   | <b>21,831</b>                                    | <b>20,992</b> | <b>47</b>                       | <b>—</b> | <b>823</b>                       | <b>4,664</b> | <b>(148)</b>             | <b>(106)</b> | <b>22,553</b>            | <b>25,550</b> |
| Segment results  | (1,830)  | (2)           | (107)                           | (6)      | (37,176)                         | 2,867        |                          |              | (39,113)                 | 2,859         |
| Interest and dividend income   |  |               |                                 |          |                                  |              |                          |              | 597                      | 351           |
| Unallocated revenue and gains  |  |               |                                 |          |                                  |              |                          |              | 49                       | —             |
| Unallocated expenses   |  |               |                                 |          |                                  |              |                          |              | —                        | —             |
| (Loss)/profit from operating activities                                    |  |               |                                 |          |                                  |              |                          |              | (38,467)                 | 3,210         |
| Finance costs  |  |               |                                 |          |                                  |              |                          |              | (978)                    | (2,544)       |
| (Loss)/profit before tax   |  |               |                                 |          |                                  |              |                          |              | (39,445)                 | 666           |
| Tax  |  |               |                                 |          |                                  |              |                          |              | —                        | —             |
| (Loss)/profit from ordinary activities attributable to equity shareholders |  |               |                                 |          |                                  |              |                          |              | (39,445)                 | 666           |

**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 property during the Period.

An analysis of turnover and other revenue is as follows:

|  | <b>For the six months<br/>ended 30 September</b> |             |
|--|--|-------------|
|  | <b>2006</b>                                      | 2005        |
|  | <b>(Unaudited)</b>                               | (Unaudited) |
|  | <b>HK\$'000</b>                                  | HK\$'000    |
| <b>Turnover</b>                              |  |             |
| Sale of sum yung and pharmaceutical products | <b>22,506</b>                                    | 21,573      |
| Property investment-gross rental income      | <b>47</b>  | —           |
|  | <b>22,553</b>                                    | 21,573      |
| <b>Other revenue and gains</b>               |  |             |
| Interest income                              | <b>596</b>                                       | 351         |
| Gain on disposal of investment               | —  | 3,941       |
| Bad debts recovered                          | <b>1</b>   | —           |
| Others                                       | <b>49</b>  | 36          |
|  | <b>646</b>                                       | 4,328       |

## 5. (Loss)/Profit from Operating Activities

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

|  | For the six months<br>ended 30 September |                         |
|--|--|-------------------------|
|  | 2006                                     | 2005                    |
|  | (Unaudited)<br>HK\$'000                  | (Unaudited)<br>HK\$'000 |
| Cost of inventories sold   | 14,052                                   | 13,160                  |
| Depreciation   | 265                                      | 268                     |
| Loss on deemed disposal of subsidiaries                          | 32,554                                   | —                       |
| Loss on disposal of fixed assets                                 | 1  | 6                       |
| Write back of provision for obsolete and<br>slow moving stock    | —  | (946)                   |
| Provision for amount due from an<br>intermediate holding company | 596                                      | 351                     |
| Provision for bad and doubtful debts                             | 3,977                                    | 18                      |
| Provision for prepayments and other receivable                   | 47                                       | —                       |
| Provision for pending litigation                                 | 312                                      | —                       |

## 6. Finance Costs

|   | For the six months<br>ended 30 September |                         |
|---|--|-------------------------|
|   | 2006                                     | 2005                    |
|   | (Unaudited)<br>HK\$'000                  | (Unaudited)<br>HK\$'000 |
| Interest on bank loans and other borrowings<br>wholly repayable within five years | 977                                      | 2,542                   |
| Interest on finance leases  | 1  | 2                       |
|   | 978                                      | 2,544                   |

**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 (2005: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

**8. Interim Dividend**

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2006 (2005: Nil).

**9. (Loss)/Earnings per Share**

The calculation of basic (loss)/earnings per share is based on the net loss from ordinary activities attributable to equity shareholders for the Period of approximately HK\$39,445,000 (2005: net profit of HK\$666,000) and the weighted average number of 1,403,796,698 (2005: 1,403,796,698) ordinary shares in issue during the Period.

Diluted (loss)/earnings per share amounts for the six months ended 30 September 2006 and 2005 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. 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.

**10. Trade Receivables (Continued)**

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

|                 | <b>30 September<br/>2006</b> | 31 March<br>2006 |
|-----------------|------------------------------|------------------|
|                 | <b>(Unaudited)</b>           | (Audited)        |
|                 | <b>HK\$'000</b>              | HK\$'000         |
| Within 3 months | <b>441</b>                   | 325              |
| 4 to 6 months   | —                            | 23               |
| 7 to 12 months  | <b>1</b>                     | —                |
| 13 to 24 months | —                            | —                |
| Over 24 months  | <b>20</b>                    | 20               |
|                 | <b>462</b>                   | 368              |

**11. Prepayments, Deposits and Other Receivables**

Included in the Group'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\$647,000 (2006: HK\$1,017,000) and HK\$18,677,000 respectively (2006: HK\$18,680,000).

**12. Due from Intermediate Holding Companies**

- (a) The amount of HK\$14,051,000 (including interest amounting to approximately HK\$3,443,000) (31 March 2006: HK\$13,454,000, including interest amounting to approximately HK\$2,847,000) 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\$7,421,000 was originally due on 28 March 2002 and was extended to 31 March 2003 and 31 March 2004, while the amount of HK\$6,630,000 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. The Directors 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.

**12. Due from Intermediate Holding Companies** (Continued)

- (b) The amount of HK\$1,202,000 (31 March 2006: 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 Directors are pursuing all available avenues to recover the amounts due from Hong Tau including legal action, if necessary. However, to be prudent, full provisions have been made for these receivables.

**13. Trade Payables**

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

|                 | <b>30 September<br/>2006</b> | 31 March<br>2006 |
|-----------------|------------------------------|------------------|
|                 | <b>(Unaudited)</b>           | (Audited)        |
|                 | <b>HK\$'000</b>              | HK\$'000         |
| Within 3 months | <b>5,269</b>                 | 2,924            |
| 4 to 6 months   | <b>202</b>                   | 420              |
| 7 to 12 months  | <b>105</b>                   | 6                |
| 13 to 24 months | <b>—</b>                     | —                |
| Over 24 months  | <b>186</b>                   | 6,421            |
|                 | <b>5,762</b>                 | 9,771            |

14. Bank and Other Borrowings

|  |      | 30 September<br>2006 | 31 March<br>2006 |
|--|------|----------------------|------------------|
|  |      | (Unaudited)          | (Audited)        |
|  | Note | HK\$'000             | HK\$'000         |
| Current portion of bank and other borrowings |      | 43,400               | 42,400           |
| Current portion of finance lease payables    |      | —                    | 1                |
|  |      | <b>43,400</b>        | 42,401           |
| Convertible notes:                           |      |                      |                  |
| Bank convertible note, secured               |      | 38,000               | 38,000           |
| Other loans, secured                         | (i)  | 5,400                | 4,400            |
|  |      | <b>43,400</b>        | 42,400           |
| Represented by:                              |      |                      |                  |
| Convertible notes repayable:                 |      |                      |                  |
| Within one year or on demand                 |      | 38,000               | 38,000           |
| Other loans repayable:                       |      |                      |                  |
| Within one year or on demand                 | (i)  | 5,400                | 4,400            |
| Total other borrowings                       |      | 43,400               | 42,400           |
| Portion classified as current liabilities    |      | (43,400)             | (42,400)         |
| Long term portion                            |      | —                    | —                |

**14. Bank and Other Borrowings** *(Continued)*

- (i) On 28 January 2005, one of the Company's subsidiaries entered into an agreement with Gain Alpha Finance Limited ("Gain Alpha"), then 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 30 September 2006, a total amount of HK\$5,400,000 has been drawn down by the subsidiary. The original repayment date of the loan was on 30 June 2005, however, several extensions have been given by Gain Alpha and the latest repayment date was extended to 26 December 2006. On 2 November 2006, a further amount of HK\$610,000 was drawn down by the subsidiary for working capital needs. On 8 December 2006, the whole amount of the loan plus interest were repaid in full.

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 2006.

**15. Share Capital**

**Shares**

|  | <b>30 September<br/>2006</b> | 31 March<br>2006 |
|--|------------------------------|------------------|
|  | <b>(Unaudited)</b>           | (Audited)        |
|  | <b>HK\$'000</b>              | HK\$'000         |
| <i>Authorised</i>                              |                              |                  |
| 3,000,000,000 ordinary shares of HK\$0.10 each | <b>300,000</b>               | 300,000          |
| <i>Issued and fully paid</i>                   |                              |                  |
| 1,403,796,698 ordinary shares of HK\$0.10 each | <b>140,379</b>               | 140,379          |

**Share options**

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

**16. Reserves**

|   | Share<br>premium<br>account | Capital<br>redemption<br>reserve | Capital<br>reserve      | Contributed<br>surplus  | Exchange<br>fluctuation<br>reserve | Accumulated<br>losses   | Total                   |
|---|-----------------------------|----------------------------------|-------------------------|-------------------------|------------------------------------|-------------------------|-------------------------|
|   | (Unaudited)<br>HK\$'000     | (Unaudited)<br>HK\$'000          | (Unaudited)<br>HK\$'000 | (Unaudited)<br>HK\$'000 | (Unaudited)<br>HK\$'000            | (Unaudited)<br>HK\$'000 | (Unaudited)<br>HK\$'000 |
| At 1 April 2006   | 140,694                     | 297                              | 13,051                  | 80,933                  | 6                                  | (453,118)               | (218,137)               |
| Net loss from ordinary<br>activities attributable<br>to equity shareholders   | —                           | —                                | —                       | —                       | —                                  | (39,445)                | (39,445)                |
| At 30 September 2006  | 140,694                     | 297                              | 13,051                  | 80,933                  | 6                                  | (492,563)               | (257,582)               |
| At 1 April 2005   | 140,694                     | 297                              | 13,051                  | 80,933                  | 6                                  | (462,531)               | (227,550)               |
| Net profit from ordinary<br>activities attributable<br>to equity shareholders | —                           | —                                | —                       | —                       | —                                  | 666                     | 666                     |
| At 30 September 2005  | 140,694                     | 297                              | 13,051                  | 80,933                  | 6                                  | (461,865)               | (226,884)               |

**17. Pledge of Assets**

At 30 September 2006, the following assets of the Group were pledged to secure the Group's banking facilities:

- fixed and floating charges over the shares, undertakings, properties, assets and rights of certain of the Company's subsidiaries;
- Corporate guarantees executed by the Company and certain of its subsidiaries;
- charge over the share capital of certain of the Company's subsidiaries.

**18. 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 2006.

**19. Commitments**

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

**(a) Capital commitments**

|                                    | <b>30 September<br/>2006</b> | 31 March<br>2006 |
|------------------------------------|------------------------------|------------------|
|                                    | <b>(Unaudited)</b>           | (Audited)        |
|                                    | <b>HK\$'000</b>              | HK\$'000         |
| Authorised, but not contracted for | <b>8,420</b>                 | 8,420            |

**(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:

|   | <b>30 September<br/>2006</b> | 31 March<br>2006 |
|---|------------------------------|------------------|
|   | <b>(Unaudited)</b>           | (Audited)        |
|   | <b>HK\$'000</b>              | HK\$'000         |
| Within one year                         | <b>6,131</b>                 | 6,029            |
| In the second to fifth years, inclusive | <b>2,459</b>                 | 4,220            |
| After five years                        | —                            | —                |
|   | <b>8,590</b>                 | 10,249           |

**20. Related Party Transactions**

As disclosed in Note 12 to the condensed consolidated interim financial statements, as at the balance sheet date, the Group advanced HK\$14,051,000 (31 March 2006: HK\$13,454,000) and HK\$1,202,000 (31 March 2006: HK\$1,202,000) to Tin Ming and Hong Tau, the intermediate holding companies, respectively.

## 21. Post Balance Sheet Events

### ***Completion of the Restructuring Agreement***

The Bermuda Court sanctioned the proposed scheme of arrangement between the Company and its creditor pursuant to section 99 of the Companies Act 1981 of Bermuda ("Bermuda Scheme") at the court hearing on 3 November 2006 in Bermuda. The Hong Kong court sanctioned a scheme pursuant to section 166 of the Companies Ordinance (Chapter 32 Laws of Hong Kong) in exactly the same terms as the Bermuda Scheme at the court hearing held on 21 November 2006.

Upon the fulfillment of the conditions precedent, the restructuring scheme of the Company was completed on the 6 December 2006 ("Completion").

### ***Change of Directors***

Each of the Provisional Liquidators was released and discharged as joint and several provisional liquidators of the Company with effect from Completion pursuant to the orders of the Courts and the winding petitions filed against the Company were withdrawn on that date.

Following the passing of the relevant resolutions proposed at the new Special General Meeting, held on 21 August 2006, the five then executive directors, namely, Mr. Sun Hiu Lu, Ms. Huang Shuyun, Mr. Chu Kwan, Mr. Zhao Dake and Mr. Zhang Ke, Winston, and three existing independent non-executive directors, namely, Mr. Ng Wing Hang, Dr. Melvin Wong, and Mr. Chu Yu Lin, David have been removed from the Board, and the appointment of the new directors (the "Directors") nominated by the Investor became effective (in each case) with effect from 6 December 2006. As of 6 December 2006, the new Board of Directors comprises Mr. Ko Chun Shun, Johnson (executive director), Mr. Tsoi Tong Hoo, Tony (executive director), Mr. Chan Kam Kwan, Jason (executive director), Mr. Wong Fan, Frank (executive director), Mr. Yeung Heung Yeung (executive director), Mr. Kelvin Edward Flynn (non-executive director), Mr. Ho Tak Man, Billy (independent non-executive director), Mr. Yap Fat Suan (independent non-executive director), Dr. Wong Yau Kar, David (independent non-executive director).

### ***Resumption of trading in the New Shares of the Company***

Prior to Completion, trading in the shares of the Company has been suspended since 5 August 2004. An application was made by the Company to the Stock Exchange for the listing of, permission to deal in and the resumption of trading in the New Shares, issued pursuant to the Restructuring Agreement and the Subscription Agreement, on the Stock Exchange upon Completion. Trading in the New Shares was resumed on the 7 December 2006.

## 22. Approval of the Unaudited Condensed Consolidated Interim Financial Statements

The unaudited condensed consolidated interim financial statements were approved and authorized for issue by the Directors on 21 December 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, 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.

The trading and financial performance for the six months period ended 30 September 2006 recorded a consolidated turnover of approximately HK\$22.6 million, representing approximately 5% increase over that of the corresponding period last year. The consolidated turnover for the Period under review continues to be 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. A new flagship store was opened in Tsim Sha Tsui in December 2005, accounting for the slight increase in the consolidated turnover for the Period. In the ensuing years, the Group will continue to rationalise its existing retail distribution network and to seek suitable locations for expansion.

The level of gross profit margin attained this year remains stable at 37% compared to that of last year at 38%.

Selling and distribution costs increased by 21% compared to that of the corresponding period of last year. The increase has been mainly attributable to rental renewal increases of some of our existing retail shops as well as, increase in rent and staff costs as a result of opening new shop and recruitment of more retail staffs in connection with the Group's plan of retail network expansion. In line with the Group's restructuring plan, administrative expenses continues to decline as the Group continues to tighten its cost control measures.

The increase in the loss from operating activities reported by the Group for the interim period is mainly attributable to the significant increase in the level of other operating expenses. The significant increase is a direct result of the integral part of the Groups' Restructuring Scheme to rationalize its current group structure, and to dispose of companies that are non-strategic to the Group's current and future corporate objectives. The deemed disposal of these subsidiaries gave rise to a net loss of approximately HK\$32.6 million, being the main factor for the rise of the level of other operating expenses for the Period.

The management expects that the financial performance of the Group would significantly improve when the level of these expenditure is reduced and be restored to a more cost efficient level when the benefits of a structured, expanded and strategic retail distribution networks and economies of scale are achieved.

## PROSPECTS

Since the new board of directors was appointed upon the completion of the Restructuring Agreement on 6 December 2006, the new directors have reviewed the operation of the remaining business of the Group, namely the retail operation of Sum Yung and the sale and distribution of Chinese medicine under the trade name "Nam Pei Hong".

The performance of Nam Pei Hong was adversely affected by the high rental expenses of the retail outlets in Hong Kong. Although it is the intention of the management to continue to seek new outlet locations to strengthen our retail network and to take advantage of economy of scale, the current high rental market has created constraints to the expansion in finding suitable yet affordable locations.

Looking into the China market, the management sees great opportunities to build on the prestigious and well-known brand name of Nam Pei Hong. The management is preparing marketing and distribution plan to bring Nam Pei Hong's products to China soon.

Certainly this will be an expansion year for Nam Pei Hong, through the opening of more outlets in Hong Kong and through the increase in distribution channels in China, and the diversification and development of new product lines.

Besides building on the brand name of Nam Pei Hong, the directors will also look for new business opportunities so as to broaden the revenue stream and to substantiate the market capitalization of the Group. Furthermore, the directors will seek way to strengthen our capital base for future expansion needs.

## **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 the balance sheet date, the Group has total bank and other borrowing amounted to approximately HK43.4 million, all of which are secured and due within one year. All of the borrowings are denominated in Hong Kong dollars. 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 30 September 2006.

The liquidity position of the Group as at the balance sheet date has not changed materially from that reported in the annual report for the year ended 31 March 2006. Current ratio measured at 0.21 time as at the balance sheet date for the Period under review as compared to 0.27 time as at 31 March 2006. Similarly, the gearing ratio (Total borrowings over total assets) for the Period under review measured at 1.36 time, same as that recorded as at 31 March 2006.

The restructuring scheme is structured to improve and restore the Group's financial health. Upon the successful completion of the restructuring scheme, all liabilities will be compromised and discharged through the Schemes and/or by specific agreement; the gearing and liquidity ratios, consolidated net tangible asset value and revenues of the restructured group is expected to be improved.

## **CHARGE OF ASSETS**

As at 30 September 2006, the shares, undertakings, properties, assets and rights of the certain subsidiaries of the Company were secured by way of fixed and floating charges to a bank to secure general banking facilities and convertible note issued to a bank, and to the Investor for a loan facility granted to a subsidiary of the Company.

## **CONTINGENT LIABILITIES**

The contingent liabilities of the Group have not changed materially from those disclosed in the annual report at 31 March 2006. Save as disclosed in the notes to the condensed consolidated interim financial statements for the Period, the Group had no other significant contingent liabilities as at 30 September 2006.

## **STAFF AND REMUNERATION**

As at 30 September 2006, the Group employed approximately 91 full time employees, of which approximately 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, include 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 Directors, having made all reasonable enquiries, as at 30 September 2006, there is no significant change in the then directors' interests in shares from the annual report for year ended 31 March 2006 and interim report for September 2005.

As at 30 September 2006, the interests of the then 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 as at 30 September 2006 | 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<br><i>(Note i)</i>                       | 67.2%   | 400,000,000<br><i>(Note ii)</i>   |
| Mr. Chu Kwan                             | 943,400,000<br><i>(Note i)</i>                       | 67.2%   | 400,000,000<br><i>(Note ii)</i>   |

**Long positions in shares of associated corporation of the Company**

| <b>Name of associated corporation</b>                       | <b>Relationship with the Company</b>   | <b>Name of director</b> | <b>Number of shares held</b> | <b>Capacity and nature of interest</b> | <b>Percentage of the associated corporation's issued share capital</b> |
|---|--|-------------------------|------------------------------|--|--|
| 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%  |
| Victory Hunter Holdings Limited ("Victory Hunter") (Note i) | Company's fellow subsidiary            | 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 subsidiary            | 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 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 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 Directors are not aware that, as at 30 September 2006, the then 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 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.

#### **Directors’ rights to acquire shares or debentures**

To the best knowledge of the Directors having made all reasonable enquiries, as at 30 September 2006, 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 of the then 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 Directors, having made all reasonable enquiries, as at 30 September 2006, there is no significant change in the substantial shareholders from the annual report for year ended 31 March 2006. As at 30 September 2006, so far as is known to the Directors of the Company, the following persons (other than the then directors of the Company) had the following interests of 5% or more of the issued share capital and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

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

Notes:

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

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

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

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

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

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

To the best knowledge of the Directors, save as disclosed above, as at 30 September 2006, no person other than the then directors of the Company whose interests are set out in the section "Director's interests in shares and underlying shares" above, had registered an interest in the shares and underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## SHARE OPTION SCHEMES

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

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

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

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

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

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

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

The following share options were outstanding during the Period:

| Name or category of participant | Number of share options |                           |                          |                      | Date of grant of share options | Exercise period of share options | Price of Company's shares**      |                          |                             |
|---------------------------------|-------------------------|---------------------------|--------------------------|----------------------|--------------------------------|----------------------------------|----------------------------------|--------------------------|-----------------------------|
|                                 | At 1 April 2006         | Granted during the period | Lapsed during the period | At 30 September 2006 |                                |                                  | Exercise price of share options* | At grant date of options | At exercise date of options |
|                                 |                         |                           |                          |                      |                                |                                  | HK\$                             | HK\$                     | HK\$                        |
| <b>Directors</b>                |                         |                           |                          |                      |                                |                                  |                                  |                          |                             |
| 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                     | —                           |
| Mr. Zhao Dake                   | 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 |                           |                          |                      | Date of grant of share options | Exercise period of share options | Price of Company's shares**      |                          |                             |
|---------------------------------|-------------------------|---------------------------|--------------------------|----------------------|--------------------------------|----------------------------------|----------------------------------|--------------------------|-----------------------------|
|                                 | At 1 April 2006         | Granted during the period | Lapsed during the period | At 30 September 2006 |                                |                                  | Exercise price of share options* | At grant date of options | At exercise date of options |
|                                 |                         |                           |                          |                      |                                |                                  | HK\$                             | HK\$                     | HK\$                        |
| 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                    | —                           |
| Mr. Ng Wing Hang                | 300,000                 | —                         | —                        | 300,000              | 27-5-2003                      | 27-5-2003 to 1-5-2013            | 0.380                            | 0.355                    | —                           |

| Name or category of participant | Number of share options |                           |                          | Date of grant of share options | Exercise period of share options | Price of Company's shares** |                                  |                          |                             |
|---------------------------------|-------------------------|---------------------------|--------------------------|--------------------------------|----------------------------------|-----------------------------|----------------------------------|--------------------------|-----------------------------|
|                                 | At 1 April 2006         | Granted during the period | Lapsed during the period |                                |                                  | At 30 September 2006        | Exercise price of share options* | At grant date of options | At exercise date of options |
|                                 |                         |                           |                          |                                |                                  |                             | HK\$                             | HK\$                     | HK\$                        |
| <b>Other employees</b>          |                         |                           |                          |                                |                                  |                             |                                  |                          |                             |
| 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                      |                                  |                             |                                  |                          |                             |
|                                 | 116,440,000             | —                         | —                        | 116,440,000                    |                                  |                             |                                  |                          |                             |

\* 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.

No Share options were granted by the Company under the New Scheme during the year and up to the date of approval of these condensed consolidated interim financial statements. All outstanding options of the Company vested prior to 1 January 2005. The Company has taken the advantage of the transitional provisions in HKFRS 2 and not recognised the fair value of the outstanding options within equity.

## **PLEDGE OF SHARES OF THE COMPANY BY THE CONTROLLING SHAREHOLDER**

In accordance with the disclosure requirements of paragraph 13.17 of Chapter 13 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.

On 6 December 2006, upon the completion of the restructuring scheme of the Company, Tin Ming was no longer a controlling shareholder of the Company.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

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

## **COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES**

The Directors were appointed to the Company on 6 December 2006. Consequently, the Directors are unable to comment as to whether the Company complied with the code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange throughout the six months ended 30 September 2006.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Directors were appointed to the Company on 6 December 2006. Consequently the Directors are unable to comment whether the Company complied with the required standard set out in the Model Code for Securities Transaction by Directors of Listed Issuers ("Model Code") set out in the Appendix 10 to the Listing Rules as the code of conduct regarding the securities transactions by the then directors throughout the six months ended 30 September 2006.

## **AUDIT COMMITTEE**

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, comprise of the three independent non-executive Directors, Mr. Ho Tak Man, Billy, Mr. Yap Fat Suan, Dr. Wong Yau Kar, David and executive Director, Mr. Chan Kam Kwan, Jason, has reviewed with management the accounting principles and practices adopted by the Group and financial reporting matters including the review of the unaudited interim financial statements for the six months ended 30 September 2006.

The comparative figures for the six months ended 30 September 2005 have been reviewed by the auditors of the Company.

For and on behalf of  
**Hong Kong Pharmaceutical Holdings Limited**  
**Ko Chun Shun, Johnson**  
*Chairman*

Hong Kong, 21 December 2006