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香港藥業

**Hong Kong Pharmaceutical
Holdings Limited**
**香港藥業集團
有限公司***

(Provisional Liquidators Appointed)
(Incorporated in Bermuda with limited liability)
(Stock code: 182)

**GAIN ALPHA
FINANCE LIMITED**
(Incorporated in the BVI with limited liability)

**PROPOSED RESTRUCTURING OF HONG KONG PHARMACEUTICAL
HOLDINGS LIMITED
(PROVISIONAL LIQUIDATORS APPOINTED) INVOLVING, INTER
ALIA, THE CAPITAL RESTRUCTURING, THE DEBT
RESTRUCTURING,
THE SUBSCRIPTION FOR NEW SHARES AND PREFERENCE
SHARES, THE GROUP REORGANISATION AND THE WHITEWASH
WAIVER
AND
DELAY IN THE PUBLICATION OF THE ANNUAL RESULTS AND
DESPATCH OF THE ANNUAL REPORTS FOR THE TWO YEARS
ENDED 31 MARCH 2005
AND PUBLICATION OF THE INTERIM RESULTS AND DESPATCH OF
THE INTERIM REPORT FOR THE SIX MONTHS ENDED 30
SEPTEMBER 2004**

Provisional Liquidators

Kelvin Edward Flynn and Cosimo Borrelli of



ALVAREZ & MARSAL ASIA LIMITED

安邁顧問有限公司

**Financial adviser to Hong Kong Pharmaceutical Holdings Limited
(Provisional Liquidators Appointed)**



Quam Capital Limited

The Provisional Liquidators are pleased to announce that the Company, the Provisional Liquidators, the Investor and the Escrow Agent entered into the Restructuring Agreement on 7 September 2005 for the implementation of the Restructuring Proposal which involves, *inter alia*, the Capital Restructuring, the Debt Restructuring, the Subscription and the Group Reorganisation. As an integral part of the Restructuring Proposal, the Company, the Provisional Liquidators and the Investor also entered into the Subscription Agreement on the same date, 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.

Upon Completion, the Investor will be interested in approximately 85.2% of the Company's enlarged issued ordinary share capital. It is proposed that subject to Completion and prior to resumption of trading of the New Shares on the Stock Exchange, the Investor would enter into agreements to effect the Placement in order to restore the 25% public float as required under the Listing Rules. As the Restructuring Proposal is subject to fulfilment (or waiver) of various conditions precedent, no terms of the Placement have been finalised as at the date of this announcement. It is contemplated that after completion of the Placement, the Investor will hold approximately 74.7% of the Company's enlarged issued ordinary share capital and the public float will be approximately 25.3%.

Upon Completion but before the Placement and conversion of any Subscription Preference Shares, the Investor and its Concert Parties will be interested in an aggregate of approximately 85.2% of the enlarged issued ordinary share capital of the Company. Accordingly, the Investor and its Concert Parties will be required to make an unconditional mandatory general offer for all the New Shares other than those already owned or agreed to be acquired by the Investor or its Concert Parties. The Investor will apply to the Executive for the Whitewash Waiver which, if granted, will be subject to the approval of the Independent Shareholders by way of poll at the SGM.

Trading in the Shares has been suspended at the request of the Company since 5 August 2004. The primary objectives of the Restructuring Proposal are to inject working capital into the Group, to restructure the Group's business operations with a particular emphasis on Nam Pei Hong and to compromise and discharge the Group's unaudited indebtedness of approximately HK\$203.2 million based on the Group's management accounts as at 30 September 2004. The Provisional Liquidators are of the view that the Restructuring Proposal provides more favourable terms for all of the Company's stakeholders than other proposals received from other potential investors and therefore represents the best option currently available to the Company and its stakeholders. If the Restructuring Proposal is not successfully implemented, the Provisional Liquidators consider it unlikely that the Company will receive a viable alternative restructuring proposal. In those circumstances there is a strong likelihood that the Company will be wound up. The successful implementation of the Restructuring Proposal is likely to be the only means by which the Company's stakeholders will recover any return from their investment in the Company.

Quam Capital Limited has been retained as financial adviser to the Company. No independent board committee will be formed to advise the Independent Shareholders as the powers of the Directors have been suspended since the appointment of the Provisional Liquidators on 13 October 2004 but Altus Capital Limited has been appointed as the independent financial adviser to advise the Independent Shareholders in relation to the Restructuring Agreement, the Subscription Agreement, the Whitewash Waiver and the transactions contemplated thereunder.

Due to the difficulties in accessing the financial information of Ensure, the disagreement on the settlement of the outstanding audit fee with the former auditors of the Company and the financial difficulties suffered by the Group, the Company has not been able to publish and despatch (i) the annual results and annual report for the six months ended 31 March 2004; (ii) the interim results and interim report for the six months ended 30 September 2004; and (iii) the annual results and annual report for the year ended 31 March 2005 and has therefore breached Rules 13.46(1), 13.48(1), 13.49(1), 13.49(3)(i) and 13.49(6) of the Listing Rules.

Resolutions to be put to the Shareholders at the SGM will also include the granting of a general mandate to the Board to issue additional New Shares not exceeding 20% of the issued ordinary share capital and the granting of a repurchase mandate to the Board to repurchase New Shares up to a maximum of 10% of the issued ordinary share capital of the Company as at the date of the SGM. The passing of the Shareholders' resolutions concerning such general mandate and repurchase mandate or otherwise will not affect Completion.

The Document will be despatched to the Shareholders as soon as practicable in accordance with the provisions under the Takeovers Code and the Listing Rules. The annual results and reports of the Company for the two years ended 31 March 2005 and the interim results and report for the six months ended 30 September 2004 will be published and despatched on or before the date of despatch of the Document.

The release of this announcement does not necessarily indicate that the Restructuring Proposal will be successfully implemented and completed as the conditions precedent to the Restructuring Proposal may not be fulfilled or otherwise waived. Trading in the Shares has been suspended since 5 August 2004 and will continue to be suspended while the Provisional Liquidators remain appointed to the Company.

INTRODUCTION

Reference is made to the announcement of the Company dated 14 October 2004, which referred to the appointment of the Provisional Liquidators made pursuant to the Order. Pursuant to the Order, the Provisional Liquidators may, *inter alia*, exercise the powers of the Board, take into their custody and protect the assets of the Company and carry on and stabilise the operations of the Group, including facilitating a restructuring of the Company.

The Provisional Liquidators are pleased to announce that the Company, the Provisional Liquidators, the Investor and the Escrow Agent entered into the Restructuring Agreement on 7 September 2005 for the implementation of the Restructuring Proposal. As an integral part of the Restructuring Proposal, the Company, the Provisional Liquidators and the Investor also entered into the Subscription Agreement on the same date, 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.

REASONS FOR THE RESTRUCTURING PROPOSAL

The Group has been suffering losses and running at net operating cash outflow position in recent years and has been relying on loans and borrowings to finance its business operations. As disclosed in the interim report of the Company for the six months ended 30 September 2003 despatched on 16 January 2004, the net losses of the Group for the six months ended 30 September 2003 amounted to approximately HK\$59.3 million. Based on the Group's management accounts, the unaudited consolidated net tangible liabilities of the Group were approximately HK\$131.4 million as at 30 September 2004.

The Petition against the Company was filed by Goldon Investment Limited, a creditor of the Company, on 21 September 2004. On 27 September 2004, an application for the appointment of provisional liquidators was filed by the trustee for Umbrella. On 13 October 2004, the Provisional Liquidators were appointed by the High Court of Hong Kong pursuant to the Order.

Since their appointment, the Provisional Liquidators have had discussions with a number of potential investors interested in facilitating a restructuring for the Company. The Provisional Liquidators are of the view that, after taking into consideration the current financial position of the Group and alternative restructuring proposals received from potential investors, the Restructuring Proposal represents the best option available to the Company and its various stakeholders.

The primary objectives of the Restructuring Proposal are to inject working capital into the Group, to restructure the Group's business operations with a particular emphasis on Nam Pei Hong and to compromise and discharge the Group's unaudited indebtedness of approximately HK\$203.2 million based on the Group's management accounts as at 30 September 2004. The Provisional Liquidators are of the view that the Restructuring Proposal provides more favourable terms for all of the Company's stakeholders than other proposals received by the Provisional Liquidators from other potential investors and therefore represents the best option currently available to the Company and its stakeholders. If the Restructuring Proposal is not successfully implemented, the Provisional Liquidators consider it unlikely that the Company will receive a viable alternative restructuring proposal. In those circumstances there is a strong likelihood that the Company will be wound up. The successful implementation of the Restructuring Proposal is likely to be the only means by which the Company's stakeholders will recover any return from their investment in the Company.

Trading in the New Shares will be resumed subject to the fulfilment of certain conditions, including, among other matters, the passing of the relevant resolutions on the Capital Restructuring, the Subscription, the removal and appointment of directors under the Restructuring Proposal by the Shareholders at the SGM, the withdrawal of all winding petitions, if any, filed against any member of the Restructured Group, the restoration of public float and the issue of this announcement.

THE RESTRUCTURING PROPOSAL

The Restructuring Proposal involves, *inter alia*, the Capital Restructuring, the Debt Restructuring, the Subscription and the Group Reorganisation.

The Capital Restructuring

The existing authorised share capital of the Company is HK\$300,000,000 divided into 3,000,000,000 Shares, of which 1,403,796,698 Shares are issued and credited as fully paid up as at the date of this announcement.

Under the Capital Restructuring, the share capital of the Company will be restructured in the following manner:

1. Capital Reduction

The par value of every issued Share will be reduced from HK\$0.10 to HK\$0.001 and the credit of approximately HK\$139.0 million arising from such reduction will be applied to eliminate the accumulated losses of the Company.

2. Share Consolidation

Immediately upon the Capital Reduction becoming effective, every 10 issued shares of HK\$0.001 each will be consolidated into one New Share. As a result, 1,403,796,698 issued shares of HK\$0.001 each will be consolidated into 140,379,669 New Shares of HK\$0.01 each.

3. Capital Cancellation

The unissued share capital in the authorised share capital of HK\$300,000,000 will, after the Capital Reduction and the Share Consolidation, be cancelled and diminished resulting in an authorised and issued share capital of the Company becoming HK\$1,403,796.69.

4. Authorised Share Capital Increase

Immediately upon the Capital Cancellation becoming effective, the Company's authorised share capital will be increased from HK\$1,403,796.69 to HK\$60,000,000 divided into 3,500,000,000 New Shares of HK\$0.01 each and 2,500,000,000 Preference Shares of HK\$0.01 each.

The existing board lot size of the Shares is 2,000 each and the New Shares will be traded in board lots of 100,000 each. Details of board lot size, trading arrangement and arrangement for any fractional shares which may arise after the Capital Restructuring becoming effective will be set out in the further announcement of the Company and the Document.

The Debt Restructuring

Based on the management accounts of the Group as at 30 September 2004, the unaudited total indebtedness owed by the Group to its Creditors amounted to approximately HK\$203.2 million, of which approximately HK\$78.5 million was owed by the Company and the balance of approximately HK\$124.7 million was owed by its subsidiaries. The unaudited indebtedness of the Company of approximately HK\$78.5 million as at 30 September 2004 comprises the Umbrella Convertible Note amounted to HK\$38 million owing to Umbrella, the GH Convertible Notes amounted to approximately HK\$12.3 million owing to the GH Noteholders and the balance of approximately HK\$28.2 million owing to other Creditors.

In respect of the GH Convertible Notes, the Ensure Settlement Agreement was signed on 14 June 2005 by, among others, the Company and the GH Noteholders. The terms of the Ensure Settlement Agreement discharge the Company from its obligations to the GH Noteholders. Other major terms of the Ensure Settlement Agreement include:

- (a) the Company will return its 51% shareholding interest in Ensure originally acquired from the GH Noteholders in August 2001 to the GH Noteholders by transferring the shares in Joinbest Investment Limited, a wholly-owned subsidiary of the Company and the intermediate holding company of the Company's 51% shareholding interests in Ensure, to the GH Noteholders or their nominees; and
- (b) the GH Noteholders will pay HK\$3 million cash to the Company.

The Ensure Settlement Agreement was sanctioned by the High Court on 21 September 2005.

When implemented, the Ensure Settlement will constitute a major and connected transaction for the Company and is therefore subject to the announcement, reporting and independent shareholders' approval requirements under the Listing Rules. An announcement on the outcome of the hearing and further details of the Ensure Settlement will be issued by the Company in accordance with Chapters 14 and 14A of the Listing Rules in due course. Details of the Ensure Settlement will be included in the Document.

All other outstanding liabilities of the Company will be compromised and discharged in full through the Schemes, pursuant to which the Scheme Administrators will receive HK\$45.5 million for distribution to the Creditors and to cover restructuring costs pursuant to the terms of the Schemes.

The majority of the remaining debts of the Group (other than the Company) of approximately HK\$124.7 million as at 30 September 2004 relates to subsidiaries of the Company including Ensure, Hua Xin and Nam Pei Hong. Other than the fixed deposit pledged to secure a loan of Hua Xin's from Shenzhen Development Bank of approximately HK\$28.2 million, which was settled in December 2004, none of the debts of the Company's subsidiaries are guaranteed by the Company as at the date of this announcement. As detailed in the paragraph headed "The Group Reorganisation" below, Ensure, Hua Xin and the Other Subsidiaries, will be excluded from the Restructured Group under the Restructuring Proposal. This leaves the Restructured Group with no liability at the Company level and Nam Pei Hong, NPH Sino-Meditech and Poo Yuk Loong with manageable and serviceable trade debt.

The Schemes will have the effect of compromising and discharging each of the Company's liabilities other than the liabilities of the Investor which will be excluded from the Schemes. They will become effective and binding on all the Creditors if, amongst other things, more than 50% in number representing more than 75% in value of the indebtedness of all the Creditors who attend and vote in person or by proxy vote in favour of the Schemes at the relevant Creditors' meeting(s). As at the date of this announcement, the Provisional Liquidators have already received indications from Creditors representing over 75% of the total indebtedness of the Company that they are favourable to the terms of the Restructuring Proposal.

The Subscription

After the implementation of the Capital Restructuring and on the date of Completion, the Investor will subscribe for 810,000,000 New Shares at HK0.027 each and 2,160,000,000 Preference Shares at HK\$0.027 each in accordance with the terms of the Subscription Agreement. The Subscription Shares represent approximately 85.2% of the issued ordinary share capital of the Company at Completion. If the Subscription Preference Shares are converted immediately upon Completion, the Subscription Shares and the New Shares to be issued and allotted upon full conversion of the Subscription Preference Shares will represent approximately 95.5% of the issued ordinary share capital of the Company.

The total cash consideration for the Subscription payable by the Investor of HK\$80.19 million has been determined after arm's length negotiation between the Provisional Liquidators and the Investor with reference to the present financial position of the Group and shall be satisfied fully in cash.

The aggregate cash proceeds from the Subscription will be applied as follows:

- HK\$45.5 million to be distributed in accordance with the Schemes; and
- the balance of HK\$34.69 million as working capital for the Restructured Group.

A further amount of up to HK\$7.5 million will be paid by the Investor in accordance with the Restructuring Agreement for payment of costs and expenses in relation to the implementation of the Restructuring Proposal.

Upon Completion, the Investor will be interested in approximately 85.2% of the Company's enlarged issued ordinary share capital. It is proposed that subject to Completion and prior to resumption of trading of the New Shares on the Stock Exchange, the Investor will enter into agreements to effect the Placement in order to restore the 25% public float as required under the Listing Rules. As the Restructuring Proposal is subject to fulfilment (or waiver) of various conditions precedent, no terms of the Placement have been finalised as at the date of this announcement. It is contemplated that after completion of the Placement, the Investor will hold approximately 74.7% of the Company's enlarged issued ordinary share capital and the public float will be approximately 25.3%.

Pursuant to the Subscription Agreement, the Subscription Preference Shares shall entitle their holders the right to convert their Preference Shares into New Shares, credited as fully paid, at any time after the date of issuance of such Preference Share but before the fifth anniversary thereof at the initial conversion price of HK\$0.027 per New Share (subject to adjustments). Each Preference Share shall be converted into such number of New Shares to be determined by the issue price of such Preference Share divided by the then effective applicable conversion price on the fifth anniversary of the date of issuance of the Preference Shares. Holders of the Preference Shares shall be entitled to receive dividends at the rate of 5% per annum at the issue price but shall not have any voting rights.

In any event, holders of Preference Shares may not exercise any conversion rights attaching to the Preference Shares if, as a result of such exercise, the number of Ordinary Shares which are in public hands (within the meaning of the Listing Rules) is reduced to below 25% of all ordinary shares of the Company in issue immediately following such exercise or such other minimum percentage applicable to the Company for the time being as prescribed by the Stock Exchange.

Other terms of the Preference Shares will be included in the Document.

The Group Reorganisation

Immediately following Completion, the Restructured Group will principally comprise Nam Pei Hong, the Group's principal operating subsidiary, NPH Sino-Meditech, which operates a Chinese medicine clinic, and Poo Yuk Loong, which holds the lease of a number of Nam Pei Hong's retail outlets.

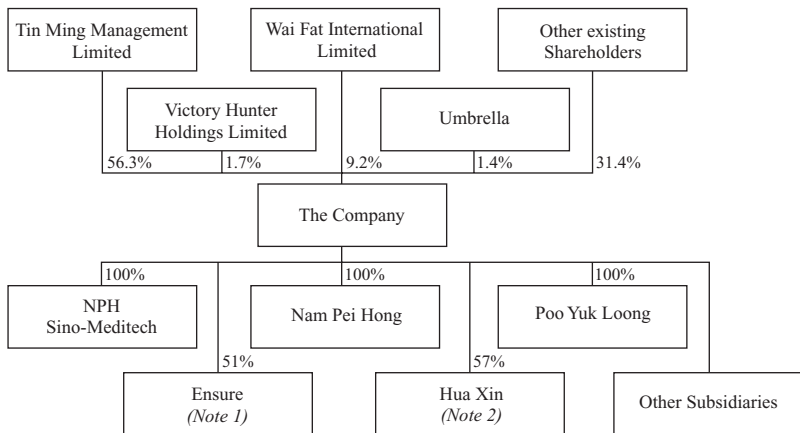
As detailed in the paragraph headed "The Debt Restructuring" above, the Company's interest in Ensure will be transferred to the GH Noteholders in consideration of a cash payment of HK\$3 million to the Company and the GH Noteholders will release all claims against the Company (including any claim for repayment under the GH Convertible Notes pursuant to the Ensure Settlement Agreement).

In addition, it is proposed that Hua Xin, a 57% owned subsidiary of the Company, will be disposed of in an open market sale process. The Provisional Liquidators are presently in discussions with an independent third party in relation to the disposal of the Company's 57% shareholding interests in Hua Xin.

The issued share capital of the Other Subsidiaries (including Ensure and Hua Xin if sale agreements have not yet been concluded) will be transferred to a nominee of the Scheme Administrators for the benefit of the Creditors at a nominal consideration of HK\$1 under the Schemes.

Set out below are the simplified group charts of the existing Group and the Restructured Group immediately after Completion and after completion of the Placement:

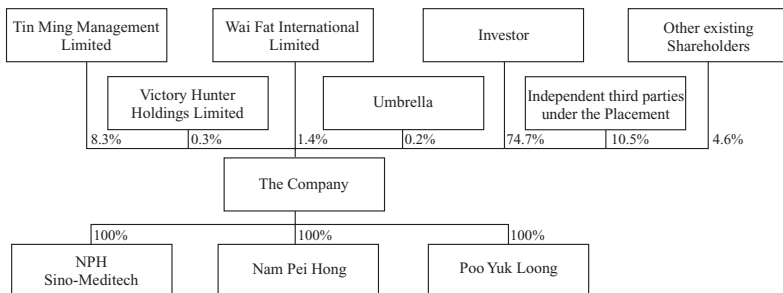
Existing Group:



Notes:

1. The remaining 49% equity interest in Ensure is owned by Guizhou Heding.
2. The remaining 43% equity interest in Hua Xin is owned by four independent third parties.

The Restructured Group immediately after Completion and after completion of the Placement:



Conditions precedent to the Restructuring Agreement

Completion will be subject to, *inter alia*, the satisfaction or waiver (as the case may be) of the following major conditions precedent:

- (a) the Hong Kong and the Bermuda Courts' sanction of the Schemes;
- (b) resolutions being passed by the Shareholders at the SGM approving, among other matters:
 - (i) the Capital Restructuring;
 - (ii) the Subscription Agreement and the issue of the Subscription Shares and the Subscription Preference Shares;
 - (iii) all transactions contemplated under the Restructuring Agreement;
 - (iv) the Whitewash Waiver to be granted by the SFC;
 - (v) removal of all Directors from the Board (to the extent legally possible);
 - (vi) appointment of new Directors, to be nominated by the Investor, to the Board; and
 - (vii) the adoption of new bye-laws of the Company;
- (c) execution of the Subscription Agreement;
- (d) if required, consent of the Bermuda Monetary Authority to the issue of the New Shares and the Preference Shares (including the Subscription Shares, the Subscription Preference Shares and any New Shares issued upon conversion of the Subscription Preference Shares) and the free transferability of the New Shares and the Preference Shares;
- (e) withdrawal of the Petition and the discharge of the Provisional Liquidators conditional only on closing of the Schemes;
- (f) either
 - (i) conditional confirmation from the Stock Exchange that it approves resumption of the trading in the Shares and the commencement of trading in the New Shares; or
 - (ii) confirmation from the Stock Exchange that it approves the Company's draft announcement in respect of, *inter alia*, the resumption of trading in the Shares and the commencement of trading in the New Shares;
- (g) the Listing Committee of the Stock Exchange has granted the listing of, and permission to deal in, the New Shares in issue on Completion and to be issued pursuant to the Restructuring Agreement and the Subscription Agreement;
- (h) confirmation that the Executive has granted the Whitewash Waiver (subject to conditions to which the Investor does not object) to the Investor pursuant to Note 1 on Dispensations from Rule 26 of the Takeovers Code;
- (i) an opinion of Bermuda counsel in form and substance reasonably satisfactory to the Parties that the documents necessary to implement the Restructuring Proposal will, on closing of the Schemes, be valid and effective under Bermuda law; and
- (j) completion of the Group Reorganisation.

Unless a poll is demanded, all resolutions put to vote under condition precedent (b) above shall be decided on a show of hands by the Shareholders except that the resolutions in relation to the approval of the Whitewash Waiver and the Subscription Agreement shall be voted by the Independent Shareholders by poll in accordance with the requirement under the Takeovers Code.

The Company, the Provisional Liquidators and the Investor may agree in writing to amend or waive any of the conditions precedent, to the extent that such conditions precedent are capable of being waived or amended either unconditionally or subject to any further terms. Completion is conditional on each of the conditions precedent having been satisfied and remaining satisfied up to the business day on which the Provisional Liquidators issue a closing notice. In the event that Completion does not occur on or before the Long Stop Date, either the Provisional Liquidators or the Investor may terminate the Restructuring Agreement subject to and in accordance with its terms.

CHANGES IN SHAREHOLDING AND MAINTENANCE OF THE LISTING OF THE COMPANY

The following table shows the estimated changes in the shareholding of the Company upon Completion:

	Existing		Immediately upon Completion but before the Placement and conversion of any of the Subscription Preference Shares		Upon Completion and after the Placement but before conversion of any of the Subscription Preference Shares		Upon Completion, the Placement and full conversion of the Subscription Preference Shares (Note 3)	
	No. of Shares	%	No. of New Shares	%	No. of New Shares	%	No. of New Shares	%
Investor	–	–	810,000,000	85.2	710,000,000	74.7	2,870,000,000	92.3
Tin Ming Management Limited (Note 1)	790,000,000	56.3	79,000,000	8.3	79,000,000	8.3	79,000,000	2.5
Victory Hunter Holdings Limited (Note 1)	23,400,000	1.7	2,340,000	0.3	2,340,000	0.3	2,340,000	0.1
Wai Fat International Limited (Note 1)	130,000,000	9.2	13,000,000	1.4	13,000,000	1.4	13,000,000	0.4
Subtotal	943,400,000	67.2	94,340,000	10.0	94,340,000	10.0	94,340,000	3.0
Umbrella	20,000,000	1.4	2,000,000	0.2	2,000,000	0.2	2,000,000	0.1
Other existing Shareholders Independent third parties under the Placement	440,396,698	31.4	44,039,670	4.6	44,039,670	4.6	44,039,670	1.4
	–	–	–	–	100,000,000	10.5	100,000,000	3.2
Total	1,403,796,698	100	950,379,670	100	950,379,670	100	3,110,379,670	100

Notes:

- (1) Tin Ming Management Limited, Victory Hunter Holdings Limited and Wai Fat International Limited are wholly-owned by Hong Tau Investment Ltd.. Hong Tau Investment Ltd. is owned as to 51% by Welcome Success Worldwide Ltd. and as to 49% by 黑龍江中盟集團有限公司 (Heilongjiang China United Group Company Limited*). Welcome Success Worldwide Ltd. is owned equally as to 50% by each of Mr. Sun Hui Lu and Mr. Chu Kwan, both existing executive Director. According to the Ministry of Commerce of the PRC, 黑龍江中盟集團有限公司 (Heilongjiang China United Group Company Limited*) is a state-owned enterprise in the PRC.
- (2) All existing Shareholders will be classified as public after Completion under the Listing Rules.
- (3) Holders of the Preference Shares are precluded from exercising the conversion rights attaching to the Preference Shares if such conversion would result in less than 25% of the Company's issued share capital being in public hands.

As at the date of this announcement, the Company has 119,440,000 outstanding share options granted to certain directors and employees of the Group, of which not less than 113,800,000 share options were held by existing Directors and employees of the Other Subsidiaries. The share options will be cancelled or lapsed pursuant to the terms of the relevant share option scheme of the Company. Exercise prices of these share options range from HK\$0.38 to HK\$1.06 per Share. As the last closing price of the Shares before the trading in the Shares was suspended on 5 August 2004 was HK\$0.194, all the outstanding share options of the Company are out of money.

Save for the Umbrella Convertible Note, the GH Convertible Notes and the abovementioned share options, the Company has no outstanding warrants, convertible securities or other derivatives convertible into Shares as at the date of this announcement.

Resumption of the trading in the New Shares is subject to, amongst others, the restoration of the public float of 25% of the enlarged issued ordinary share capital of the Company. The Investor will undertake to the Company and the Stock Exchange that it will also use its best endeavours and take appropriate steps to ensure that an adequate number of the New Shares will be placed to independent third parties to maintain the public float of not less than 25% of the enlarged issued ordinary share capital of the Company in order to meet the minimum public float requirement under Rule 8.08 of the Listing Rules. The Investor is also precluded from exercising any conversion rights attaching to the Preference Shares pursuant to the terms of the Preference Shares if, as a result of such exercise, the number of New Shares which are in public hands (within the meaning of the Listing Rules) is reduced to below 25% of all ordinary shares of the Company in issue immediately following such exercise or such other minimum percentage applicable to the Company for the time being as prescribed by the Stock Exchange.

The Stock Exchange has stated that if less than 25 % of the issued New Shares are in public hands following Completion or if the Stock Exchange believes that:

- a false market exists or may exist in the trading of the New Shares; or
- there are insufficient New Shares in public hands to maintain an orderly market,

it will consider exercising its discretion to suspend or continue to suspend the trading in the New Shares until a sufficient level of public float is attained.

The Stock Exchange has further stated that, as long as the Company remains listed on the Stock Exchange, any acquisitions or disposals of assets by the Company will be subject to the provisions of the Listing Rules. Pursuant to the Listing Rules, the Stock Exchange has the discretion to require the Company to issue an announcement and/or a circular to the Shareholders irrespective of the size of the proposed transactions particularly when such proposed transaction represents a departure from the principal activities of the Group following Completion. The Stock Exchange also has the power to aggregate a series of acquisitions or disposals of the Company and any such transactions may result in the Company being treated as if it were a new applicant and subject to the requirements for new applicants as set out in the Listing Rules.

THE WHITEWASH WAIVER

Upon Completion but before the Placement and conversion of any Subscription Preference Shares, the Investor and its Concert Parties will be interested in an aggregate of approximately 85.2% of the enlarged issued ordinary share capital of the Company. Accordingly, the Investor and its Concert Parties will be required to make an unconditional mandatory general offer for all the New Shares other than those already owned or agreed to be acquired by the Investor or its Concert Parties. The Investor will apply to the Executive for the Whitewash Waiver which, if granted, will be subject to the approval of the Independent Shareholders by way of poll at the SGM.

Completion is conditional upon, among other things, the granting of the Whitewash Waiver by the Executive and the approval of the Whitewash Waiver by the Independent Shareholders at the SGM. The Investor has no intention to waive this condition precedent and Completion will not take place and the Restructuring Proposal will not be implemented if the Whitewash Waiver is not granted by the Executive and approved by the Independent Shareholders before the closing of the Schemes.

The shareholding of the Investor together with its Concert Parties will exceed 50% of the ordinary share capital of the Company upon Completion and therefore the creper provisions of the Takeovers Code will not be applicable and they will be free to acquire further voting rights in the Company without triggering a general offer obligation.

The Investor and its Concert Parties do not own any shares, warrants, options, convertible securities, derivatives or of interest in the Company as at the date of this announcement and have not dealt in any shares, warrants, options, convertible securities or derivatives of the Company for the period of six months prior to the date of this announcement. They have also undertaken not to deal in the securities of the Company before the SGM to be convened to consider, *inter alia*, the Restructuring Proposal and the Whitewash Waiver.

BACKGROUND INFORMATION ON THE INVESTOR

The Investor is a company incorporated in the BVI with limited liability and wholly-owned by Mr. Ko Chun Shun, Johnson. The principal business of the Investor is investment holding. It has not undertaken any other business activities other than entering into the Restructuring Agreement and the Subscription Agreement and matters relating thereto described in this announcement.

Mr. Ko Chun Shun, Johnson is the chairman and controlling shareholder of Universal Holdings Limited (Stock code: 0419), the chairman and a substantial shareholder of DVN (Holdings) Limited (Stock code: 0500) and the co-chairman and a substantial shareholder of Varitronix International Limited (Stock code: 0710), the securities of these companies being listed on the Stock Exchange. Mr. Ko has more than 30 years of experience in international trade and investment, in particular, in manufacturing and distribution of electronic products and in the media and technology industries.

The Investor and its Concert Parties are not connected persons (as defined in the Listing Rules) or Concert Parties with any of the directors, chief executive and substantial shareholders of the Company or any of the subsidiaries of the Company or their respective associates (as defined in the Listing Rules).

FUTURE INTENTIONS OF THE INVESTOR REGARDING THE RESTRUCTURED GROUP

Business plan

It is the intention of the Investor that the Company will remain focused on the Group's core business of retail sale of TCM and other medicines, health products and dried seafood. Other than as stated in this announcement, the Investor has no other intention or plans for any further capital injection into the Company. In view of 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 seeks to take advantage of Nam Pei Hong's business profile and its well established reputation to further expand the Group's TCM business in Hong Kong. The Investor has developed strategies to improve the operations of Nam Pei Hong and to expand the existing business, including plans to open new stores in Hong Kong and to conduct new marketing, packaging, distribution and product sourcing activities.

The Investor considers that one of the reasons for the continued loss of the Group is the underperformance of the Group's PRC subsidiaries, including the businesses of Ensure and Hua Xin which have been a significant drain on the Group's resources. Accordingly, both Ensure and Hua Xin will be excluded from the Restructured Group under the Restructuring Proposal to strengthen the financial position of the Restructured Group and to focus on the development of Nam Pei Hong's business.

Directors and management

The current Board comprises five executive directors and three independent non-executive directors. The powers of these Directors have been suspended since the appointment of the Provisional Liquidators. It is one of the conditions precedent that all the existing Directors will be removed from the Board and new Directors, to be nominated by the Investor, will be appointed. Particulars of the proposed new Directors, including Mr. Ko, will be set out in the Document.

DELAY IN THE PUBLICATION AND DESPATCH OF FINANCIAL RESULTS AND REPORTS

Reference is made to the announcements of the Company dated 30 July and 28 October 2004. Due to the difficulties in accessing the financial information of Ensure, the disagreement on the settlement of the outstanding audit fee with the former auditors of the Company and the financial difficulties suffered by the Group, the Company has not been able to publish and despatch (i) the annual results and annual report for the year ended 31 March 2004; (ii) the interim results and interim report for the six months ended 30 September 2004; and (iii) the annual results and annual report for the year ended 31 March 2005.

The delay in the publication and despatch of the abovementioned financial results announcements and reports constitute breaches of Rules 13.46(1), 13.48(1), 13.49(1), 13.49(3)(i) and 13.49(6) of the Listing Rules.

The interim results of the Group for the six months ended 30 September 2004 will be reviewed by the Group's auditors. The annual results and reports for the two years ended 31 March 2005 and the interim results and report for the six months ended 30 September 2004 will be published and despatched on or before the date of despatch of the Document.

OTHER INFORMATION

The Company will submit an application for the listing of, and permission to deal in, the Subscription Shares and the New Shares falling to be issued on conversion of the Subscription Preference Shares.

Quam Capital Limited has been retained as financial adviser to the Company. Since the powers of the Directors have been suspended since the appointment of the Provisional Liquidators on 13 October 2004, no independent board committee will be formed but Altus Capital Limited has been appointed as the independent financial adviser to advise the Independent Shareholders in relation to the Restructuring Agreement, the Subscription Agreement, the Whitewash Waiver and the transactions contemplated thereunder.

Resolutions to be put to the Shareholders at the SGM will also include the granting of a general mandate to the Board to issue additional New Shares not exceeding 20% of the issued ordinary share capital and the granting of a repurchase mandate to the Board to repurchase New Shares up to a maximum of 10% of the issued ordinary share capital of the Company as at the date of the SGM. The passing of the Shareholders' resolutions concerning such general mandate and repurchase mandate or otherwise will not affect Completion.

The Document containing, *inter alia*, details of the Restructuring Proposal, the Whitewash Waiver, the advice of Altus Capital Limited and a notice of the SGM will be despatched to the Shareholders as soon as practicable in accordance with the provisions under the Takeovers Code and the Listing Rules. As none of the existing Shareholders were involved in the negotiation of or are interested in the Restructuring Agreement, the Subscription Agreement, the Schemes and Whitewash Waiver, no Shareholder shall be required to abstain from voting at the SGM.

As at the date of this announcement, the Board comprises five executive Directors, namely, Mr. Sun Hiu Lu, Ms. Huang Shuyun, Mr. Chu Kwan, Mr. Zhao Dake and Mr. Zhang Ke, Winston, and three independent non-executive Directors, namely, Mr. Ng Wing Hang, Dr. Melvin Wong and Mr. Chu Yu Lin, David. However, the powers of the Directors have been exercised by the Provisional Liquidators since their appointment pursuant to the Order.

The release of this announcement does not necessarily indicate that the Restructuring Proposal will be successfully implemented and completed as the conditions precedent to the Restructuring Proposal may not be fulfilled or otherwise waived. Trading of the Shares has been suspended since 5 August 2004 and will continue to be suspended while the Provisional Liquidators remain appointed to the Company.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings: –

“Authorised Share Capital Increase”	the increase in the authorised share capital of the Company upon the Capital Cancellation becoming effective from HK\$1,403,796.69 to HK\$60,000,000 divided into 3,500,000,000 New Shares and 2,500,000,000 Preference Shares;
“Bermuda Court”	the Supreme Court of Bermuda;
“Bermuda Scheme”	the proposed scheme of arrangement between the Company and its Creditors pursuant to section 99 of the Companies Act 1981 of Bermuda (as amended);
“Board”	the board of Directors;
“BVI”	British Virgin Islands;
“Capital Cancellation”	the cancellation of the unissued share capital in the authorised share capital of the Company of HK\$300,000,000 upon the Capital Reduction and the Share Consolidation becoming effective, resulting in an authorised and issued share capital of the Company becoming HK\$1,403,796.69;
“Capital Reduction”	the reduction of the nominal value of each issued Share from HK\$0.10 to HK\$0.001;
“Capital Restructuring”	the proposed restructuring of the capital of the Company comprising the Capital Reduction, the Share Consolidation, the Capital Cancellation and the Authorised Share Capital Increase;
“Company”	Hong Kong Pharmaceutical Holdings Limited (Provisional Liquidators Appointed), a company incorporated in Bermuda with limited liability and the securities of which are listed on the Stock Exchange;
“Completion”	completion of the Restructuring Agreement;
“Concert Party(ies)”	has the meaning ascribed to the term “parties acting in concert” including those presumed to be acting in concert, in the Takeovers Code;
“Creditor”	any person (other than a person with a preferential claim, to the extent of its preferential claim amount or a person with a secured claim to the extent of its secured claim amount) with the benefit of a claim against the Company that arose on or before the date of Completion;
“Debt Restructuring”	the proposed restructuring of the Company’s indebtedness and liabilities under the Restructuring Agreement involving the Schemes;
“Director(s)”	director(s) of the Company;
“Document”	the document containing, <i>inter alia</i> , details of the Restructuring Proposal, the Whitewash Waiver, the Ensure Settlement, the advice of Altus Capital Limited and a notice of the SGM to be despatched to the Shareholders in accordance with the provisions under the Takeovers Code and the Listing Rules;

“Ensure”	貴州一樹連鎖藥業有限公司 (Guizhou Ensure Chain Pharmacy Company Limited*), a company established in the PRC with limited liability and a 51% owned subsidiary of the Company;
“Ensure Settlement”	the transfer of Joinbest Investment Limited, a wholly-owned subsidiary of the Company and the intermediate holding company of the Company’s 51% interest in Ensure, to the GH Noteholders in consideration of HK\$3 million and the release of all claims against the Company including any claim for the repayment of the GH Convertible Notes;
“Ensure Settlement Agreement”	the settlement agreement dated 14 June 2005 entered into between the Company, HK Pharmaceutical (PRC) Distribution Limited and the GH Noteholders, being seven PRC individuals, in relation to the Ensure Settlement;
“Escrow Agent”	Alvarez & Marsal Asia Limited, a company incorporated in Hong Kong which will hold the deposit for the proceeds of the Subscription paid by the Investor as stakeholder in accordance with the terms of the Restructuring Agreement;
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director;
“Group”	the Company and its subsidiaries prior to the Restructuring Proposal becoming effective;
“Group Reorganisation”	the disposals of Ensure and Hua Xin and the transfer of all the Other Subsidiaries to the Scheme Administrators at a nominal consideration of HK\$1 under the Schemes for the benefits of the Creditors;
“GH Convertible Notes”	the outstanding convertible notes amounted to approximately HK\$12.3 million issued by the Company as consideration for the acquisition of the 51% interest in Ensure in 2001;
“GH Noteholders”	holders of the GH Convertible Notes, being seven individuals in the PRC and the beneficial owners of Guizhou Heding which in turn owns the remaining 49% of the shareholding interest in Ensure;
“Guizhou Heding”	中國貴州合鼎實業有限公司 (China Guizhou Heding Enterprise Company Limited*), the owner of the 49% equity interest in Ensure;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Hong Kong Scheme”	the proposed scheme of arrangement between the Company and its Creditors pursuant to section 166 of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong);
“Hua Xin”	上海華新生物高技術有限公司 (Hua Xin High Biotechnology Company Limited*), a company established in the PRC and a 57% owned subsidiary of the Company;
“Independent Shareholders”	Shareholders who were not involved in the negotiation of or are interested in the Restructuring Agreement, the Subscription Agreement, the Schemes and the Whitewash Waiver;
“Investor”	Gain Alpha Finance Limited, a company incorporated in the BVI with limited liability and wholly-owned by Mr. Ko Chun Shun, Johnson;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Long Stop Date”	the long stop date for the Completion, being 180 days after the date of the publication of this announcement or such other date as the Provisional Liquidators and the Investor may agree in writing;
“Nam Pei Hong”	Nam Pei Hong Sum Yung Drugs Company Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company;

“NPH Sino-Meditech”	NPH Sino-Meditech Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company;
“New Share(s)”	ordinary share(s) of the Company of HK\$0.01 in the share capital of the Company upon the Capital Reduction and Share Consolidation becoming effective;
“Other Subsidiaries”	the current direct and indirect subsidiaries of the Company other than Nam Pei Hong, NPH Sino-Meditech, Poo Yuk Loong, Ensure and Hua Xin;
“Order”	the order of the High Court of Hong Kong dated 13 October 2004 to, inter alia, exercise the powers of the Board, take into their custody and protect the assets of the Company and carry on and stabilise the operations of the Group, including facilitating a restructuring of the Company;
“Petition”	the petition to wind-up the Company filed by Goldon Investment Limited in Companies (Winding-Up) No. 1018 of 2004 of the Hong Kong Court;
“Placement”	the proposed placement of 100,000,000 New Shares by the Investor to not less than two independent third parties who are not connected and not acting in concert with the Investor after Completion;
“Poo Yuk Loong”	Poo Yuk Loong Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company;
“PRC”	People’s Republic of China, but for the purposes of this announcement only excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan;
“Preference Shares”	the non-redeemable and convertible preference shares of HK\$0.01 each in the share capital of the Company which are convertible into New Shares at the initial conversion price of HK\$0.027 per New Share (subject to adjustments);
“Provisional Liquidators”	Messrs. Kelvin Edward Flynn and Cosimo Borrelli of Alvarez & Marsal Asia Limited in their capacity as joint and several provisional liquidators of the Company appointed by the High Court of Hong Kong;
“Restructuring Agreement”	the conditional agreement dated 7 September 2005 entered into among the Company, the Provisional Liquidators, the Investor and the Escrow Agent for the implementation of the Restructuring Proposal;
“Restructured Group”	the group that after Completion, comprises principally the Company, Nam Pei Hong, NPH Sino-Meditech and Poo Yuk Loong;
“Restructuring Proposal”	the restructuring proposal of the Group under the Restructuring Agreement involving, inter alia, the Capital Restructuring, the Debt Restructuring, the Subscription and the Group Reorganisation;
“Schemes”	collectively, the Bermuda Scheme and the Hong Kong Scheme;
“Scheme Administrators”	such persons who are appointed as scheme administrators pursuant to the terms of the Schemes;
“SFC”	Securities and Futures Commission;
“SGM”	the special general meeting of the Company to be held for the purposes of passing the relevant resolutions pursuant to the Restructuring Agreement;
“Shareholder(s)”	holder(s) of the Share(s);
“Shares”	ordinary shares of HK\$0.10 each in the issued share capital of the Company;

“Share Consolidation”	the consolidation of every 10 issued shares of the Company of HK\$0.001 each immediately upon the Capital Reduction becoming effective into one New Share;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Subscription”	the subscription for the Subscription Shares and the Subscription Preference Shares by the Investor pursuant to the Subscription Agreement;
“Subscription Agreement”	the conditional agreement dated 7 September 2005 entered into the Company, the Provisional Liquidators and the Investor in relation to the Subscription;
“Subscription Preference Shares”	2,160,000,000 Preference Shares to be allotted and issued to the Investor under the Subscription;
“Subscription Shares”	810,000,000 New Shares to be allotted and issued to the Investor under the Subscription;
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers;
“TCM”	acronym for traditional Chinese medicine;
“Umbrella”	Umbrella Finance Company Limited, a wholly-owned subsidiary of Citigroup Inc.;
“Umbrella Convertible Note”	the outstanding convertible note amounted to HK\$38 million issued by the Company pursuant to a subscription agreement dated 27 April 2000;
“Whitewash Waiver”	a waiver by the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code from the obligation of the Investor and its Concert Parties to make a mandatory general offer for all the New Shares not already or agreed to be acquired by them upon Completion;
“HK\$” and “cents”	Hong Kong dollars and cents, the lawful currency of Hong Kong; and
“%”	per cent.

For and on behalf of
HONG KONG PHARMACEUTICAL HOLDINGS LIMITED
(Provisional Liquidators Appointed)
Kelvin Edward Flynn
Cosimo Borrelli

By order of the board of
GAIN ALPHA FINANCE LIMITED
Ko Chun Shun, Johnson
Sole director

Provisional Liquidators of the Company without personal liability
Hong Kong, 26 September 2005

* *for identification purposes only*

The Provisional Liquidators jointly and severally accept full responsibility for the accuracy of the information contained in this announcement other than that relating to Gain Alpha Finance Limited and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this announcement have been arrived at after due and careful consideration and there are no other facts not contained in this announcement, the omission of which would make any statement in this announcement other than those relating to the Investor or its sole director misleading.

The Investor and its sole director jointly and severally accept full responsibility for the accuracy of the information contained in this announcement other than that relating to the Group or the Provisional Liquidators and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this announcement have been arrived at after due and careful consideration and there are no other facts not contained in this announcement, the omission of which would make any statement in this announcement other than those relating to the Group or the Provisional Liquidators misleading.

Please also refer to the published version of this announcement in China Daily.