

INTERIM RESULTS

The board of directors of Wai Yuen Tong Medicine Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th September 2002 together with the comparative figures for the corresponding period in 2001 are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the six months ended 30th September 2002

	Notes	For the six months ended 30th September	
		2002 HK\$'000	2001 HK\$'000
Turnover	3	115,456	129,661
Cost of sales		(68,694)	(92,400)
Gross profit		46,762	37,261
Distribution costs		(21,021)	(14,655)
Administrative expenses		(38,823)	(37,232)
Other operating income		1,475	1,807
Loss from operation	4	(11,607)	(12,819)
Finance costs		(3,688)	(2,654)
Share of losses of associates		(137)	–
Loss before taxation		(15,432)	(15,473)
Taxation	5	(559)	(6)
Loss before minority interests		(15,991)	(15,479)
Minority interests		(6)	–
Loss for the period		(15,997)	(15,479)
Loss per ordinary share	6		
– Basic		(0.25 cent)	(11.7 cents)
– Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30th September 2002 (Unaudited) HK\$'000	31st March 2002 (Audited) HK\$'000
Non-current assets			
Investment properties	7	4,000	4,000
Property, plant and equipment	8	30,746	22,544
Goodwill	9	184,298	–
Interests in associates	10	2,196	–
Loan receivables		842	–
Trademarks		351	28
		<u>222,433</u>	<u>26,572</u>
Current assets			
Inventories		38,538	27,848
Trade receivables	11	36,308	17,442
Other receivables		9,181	4,725
Amount due from associates	10	1,904	–
Taxation recoverable		35	36
Bank balances and cash		15,278	6,837
		<u>101,244</u>	<u>56,888</u>
Current liabilities			
Trade payables	12	31,232	20,966
Other payables		37,577	27,212
Loan from a director	13	8,774	8,774
Loan from a shareholder	13	6,900	900
Amount due to a related company		–	223
Bank and other borrowings		6,376	5,545
Obligations under finance leases			
– due within one year		408	479
Taxation payable		2,849	131
Deferred income		192	–
Convertible loan stock		6	290
		<u>94,314</u>	<u>64,520</u>
Net current assets (liabilities)		<u>6,930</u>	<u>(7,632)</u>
		<u>229,363</u>	<u>18,940</u>

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

	Notes	30th September 2002 (Unaudited) HK\$'000	31st March 2002 (Audited) HK\$'000
Capital and reserves			
Share capital	14	137,899	13,190
Reserves		(58,916)	(60,012)
		<u>78,983</u>	<u>(46,822)</u>
Minority Interests		<u>81</u>	<u>–</u>
Non-current liabilities			
Loan from a shareholder	15	64,850	64,850
Convertible notes	16	84,000	–
Obligations under finance leases			
– due after one year		607	912
Deferred income		625	–
Deferred taxation		217	–
		<u>150,299</u>	<u>65,762</u>
		<u>229,363</u>	<u>18,940</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September 2002

	Share capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Special reserve (Unaudited) HK\$'000	General reserve (Unaudited) HK\$'000	Acc- umulated losses (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1st April 2001	13,190	15,393	609	(27,150)	54,589	(69,901)	(13,270)
Net loss for the period	—	—	—	—	—	(15,479)	(15,479)
At 30th September 2001	13,190	15,393	609	(27,150)	54,589	(85,380)	(28,749)
Net loss for the period	—	—	—	—	—	(18,073)	(18,073)
At 31st March 2002	13,190	15,393	609	(27,150)	54,589	(103,453)	(46,822)
Placement of shares	5,802	—	—	—	—	—	5,802
Reduction of share capital	(17,093)	—	—	—	—	17,093	—
Issue of new shares for acquisition of subsidiaries	136,000	—	—	—	—	—	136,000
Net loss for the period	—	—	—	—	—	(15,997)	(15,997)
At 30th September 2002	<u>137,899</u>	<u>15,393</u>	<u>609</u>	<u>(27,150)</u>	<u>54,589</u>	<u>(102,357)</u>	<u>78,983</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six months ended 30th September

	30th September	
	2002	2001
	HK\$'000	HK\$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(2,007)	(24,205)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(1,675)	(2,476)
NET CASH INFLOW FROM FINANCING ACTIVITIES	12,123	31,973
INCREASE IN CASH AND CASH EQUIVALENTS	8,441	5,292
Cash and cash equivalents at beginning of period	6,837	154
CASH AND CASH EQUIVALENTS AT END OF PERIOD – REPRESENTING BANK BALANCES AND CASH	15,278	5,446

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Statement of Standard Accounting Practice ("SSAP") No. 25 Interim Financial Reporting issued by the Hong Kong Society of Accountants.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st March 2002, except as described below.

In the current period, the Group has adopted, for the first time, a number of new and revised SSAPs issued by the Hong Kong Society of Accountants, which has resulted in the adoption of the following new and revised accounting policies. The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity, but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Cash flow statements

In the current period, the Group has adopted SSAP 15 (Revised) Cash Flow Statements. Under SSAP 15 (Revised), cash flows are classified under three headings - operating, investing and financing, rather than the previous five headings. Interest which was previously presented under a separate heading, are classified as operating cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. Cash flows of subsidiaries outside Hong Kong have been re-translated at the rates prevailing at the dates of the cash flows rather than the rate of exchange ruling on the balance sheet date. The adoption of this revised SSAP has resulted in the change of format of presentation and no material effect on the results for the current period or prior accounting period.

Employee benefits

In the current period, the Group has adopted SSAP 34 Employee Benefits, which introduces measurement rules for employee benefits, including retirement benefit plans. The principal effect of the implementation of SSAP 34 is in connection with the recognition of costs for the Group's defined benefit retirement benefit plan. The adoption of this SSAP has not had any material effect on the results for the current period or prior accounting period.

3. SEGMENT INFORMATION

Business segments

An analysis of the Group's turnover and operating results by business segments is as follows:

By principal activity

For the six months ended 30th September	Assembly of watches and manufacture of cases		Retail of complete watches and bags		Property investment and property holdings		Pharmaceutical		Eliminations		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	Unaudited HK\$'000	(Unaudited) HK\$'000	Unaudited HK\$'000	(Unaudited) HK\$'000	Unaudited HK\$'000	(Unaudited) HK\$'000	Unaudited HK\$'000	(Unaudited) HK\$'000	Unaudited HK\$'000	(Unaudited) HK\$'000	Unaudited HK\$'000	(Unaudited) HK\$'000
Turnover												
Sales to external customers	59,080	91,979	32,888	37,613	37	69	23,451	-	-	-	115,456	129,661
Intersegment sales	12,239	18,528	10,812	13,676	108	108	-	-	(23,159)	(32,312)	-	-
Total	71,319	110,507	43,700	51,289	145	177	23,451	-	(23,159)	(32,312)	115,456	129,661
Contribution to profit (loss) from operation	202	4,103	(4,788)	(11,858)	(142)	(513)	3,421	-	-	-	(1,307)	(8,268)
Central administrative expenses											(10,300)	(4,551)
Loss from operation											(11,607)	(12,819)
Finance costs											(3,688)	(2,654)
Share of losses of associates											(137)	-
Loss before taxation											(15,432)	(15,473)
Taxation											(559)	(6)
Loss before minority interests											(15,991)	(15,479)
Minority interests											(6)	-
Loss for the period											(15,997)	(15,479)

4. LOSS FROM OPERATION

	For the six months ended 30th September	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Loss from operation has been arrived at after charging:		
Amortisation of goodwill	<u>2,334</u>	<u>–</u>
Amortisation of issue cost of convertible loan stock	<u>31</u>	<u>221</u>
Depreciation and amortisation of trademarks, property, plant and equipment	<u>3,779</u>	<u>7,069</u>

5. TAXATION

Hong Kong profits tax has been provided at the rate of 16% (2001:16%) on the estimated assessable profits arising in Hong Kong for the period. The Group did not have any significant unprovided deferred tax in respect of the period.

No provision for PRC income tax has been made as there was no assessable profit subject to PRC income tax for the period.

6. LOSS PER ORDINARY SHARE

The calculation of basic loss per ordinary share is based on the loss for the period of HK\$15,997,000 (2001: HK\$15,479,000) and the weighted average of 6,423,261,503 (2001: 131,899,864) ordinary shares in issue during the period.

6. LOSS PER ORDINARY SHARE (continued)

No diluted loss per ordinary share is presented as the exercise price of the share options was higher than the market price of the Company's ordinary share and the conversion of the convertible notes would result in a decrease in the loss per ordinary share for both periods.

7. INVESTMENT PROPERTIES

At 30th September 2002, the directors have considered the carrying amounts of the Group's investment properties carried at the revalued amounts and have estimated that the carrying amounts as at 30th September 2002 do not differ significantly from the open market value of those properties as at 31st March 2002. Consequently, no revaluation surplus or deficit has been recognised in the current period.

8. PROPERTY, PLANT AND EQUIPMENT

The Group has acquired property, plant and equipment amounting to approximately HK\$2,619,000 during the period.

The directors of the Company during the period reviewed the carrying value of the Group's property, plant and equipment with reference to their estimated future cash flows using a discount rate of 6% to estimate the present value of the future cash flows. As a result, impairment losses of approximately HK\$3 million were identified and charged to the condensed consolidated income statement.

9. GOODWILL

Details and movement of the amounts of the goodwill capitalised as an asset in the consolidated balance sheets, arising from the acquisition of subsidiaries are as follows:

	Goodwill arising on acquisition of subsidiaries (Unaudited) HK\$'000
Cost:	
Additions during the period and balance at 30th September 2002 (Note 17)	186,632
Accumulated amortisation:	
Provided during the period and balance at 30th September 2002	<u>(2,334)</u>
Net book value	
At 30th September 2002	<u><u>184,298</u></u>

10. INTERESTS IN ASSOCIATES

	30th September 2002 (Unaudited) HK\$'000	31st March 2002 (Audited) HK\$'000
Share of net assets	2,196	—
Due from associates	<u>1,904</u>	<u>—</u>
	<u><u>4,100</u></u>	<u><u>—</u></u>

10. INTERESTS IN ASSOCIATES (continued)

Particulars of the principal associates at the balance sheet date are as follows

Name	Business structure	Place of incorporation/operation	Percentage of ownership interest attributable to the Group		Principal activities
			2002 %	2001 %	
Creation Sino Limited	Corporate	Hong Kong	50.00	–	Retailing of Chinese pharmaceutical products
Winning Forever Limited	Corporate	Hong Kong	50.00	–	Retailing of Chinese pharmaceutical products

11. TRADE RECEIVABLES

The Group normally allows an average credit period of around 60 days to its trade customers. An aging analysis of trade receivables is as follows:

	30th September 2002 (Unaudited) HK\$'000	31st March 2002 (Audited) HK\$'000
0 - 30 days	24,446	13,068
31 - 60 days	6,186	3,686
61 - 120 days	3,441	331
Over 120 days	2,235	357
	<u>36,308</u>	<u>17,442</u>

12. TRADE PAYABLES

An aging analysis of the trade payables is as follows:

	30th September 2002 (Unaudited) HK\$'000	31st March 2002 (Audited) HK\$'000
0 - 30 days	13,326	6,524
31 - 60 days	7,761	2,538
61 - 120 days	8,896	8,381
Over 120 days	1,249	3,523
	<hr/>	<hr/>
	31,232	20,966
	<hr/> <hr/>	<hr/> <hr/>

13. LOANS FROM A DIRECTOR/A SHAREHOLDER

The amounts are unsecured, carry interest at Hong Kong dollar prime rate plus 2% per annum and are repayable on demand. A shareholder of the Company has further advanced HK\$6 million to the Company. The amounts carries interest rates at Hong Kong dollar prime rate plus 2% per annum and are repayable within one year.

14.SHARE CAPITAL

	30th September 2002 (Unaudited) HK\$'000	31st March 2002 (Audited) HK\$'000
Authorised:		
60,000,000,000 (31st March 2002: 800,000,000) ordinary shares of HK\$0.01 (31st March 2002: HK\$0.1) each	<u>600,000</u>	<u>80,000</u>
Issued and fully paid:		
13,789,919,864 (31st March 2002: 131,899,864) ordinary shares of HK\$0.01 (31st March 2002: HK\$0.1) each	<u>137,899</u>	<u>13,190</u>

A summary of the transactions during the period with reference to the above movement of the Company's ordinary share capital is as follows:

	Number of shares issued	Share capital HK\$'000
At 1st April 2001, 30th September 2001 and 1st April 2002	131,899,864	13,190
Issue by private placements (note 1)	58,020,000	5,802
Reduction of share capital (note 2)	—	(17,093)
Issued of 13,600,000,000 shares of HK\$0.01 each (note 3)	<u>13,600,000,000</u>	<u>136,000</u>
At 30th September 2002	<u>13,789,919,864</u>	<u>137,899</u>

14.SHARE CAPITAL (continued)

Notes:

1. On 15th April 2002 and 13th May 2002, private placements of 26,370,000 and 31,650,000 ordinary shares of HK\$0.10 each were issued at an issue price of HK\$0.10 each respectively. The net proceeds were used for general working capital.
2. Pursuant to a special resolution passed on 17th May 2002, the nominal value of shares in then issue were reduced from HK\$0.10 each to HK\$0.01 each by cancelling the issued share capital to the extent of HK\$0.09 paid up on each of the issued shares and that all of the authorised but unissued share capital of the Company were cancelled and subsequently increased to the original authorised share capital of HK\$80,000,000 by the creation of such number of shares of HK\$0.01 each. The credit arised as a result of the capital reduction was applied towards partial elimination of the accumulated losses of the Company.
3. Pursuant to a special resolution passed on 3rd July 2002, 13,600,000,000 ordinary shares of HK\$0.01 each were issued on 9th July 2002 as part of the consideration for the acquisition of an effective interest of approximately 99.79% in Wai Yuen Tong Medicine Company Limited.

15.LOANS FROM A SHAREHOLDER

The amounts are unsecured, carry interest at Hong Kong dollar prime rate plus 2% per annum and are repayable in one lump sum in July 2005.

16.CONVERTIBLE NOTES

On 9th July 2002, the Group issued convertible notes of HK\$84,000,000 as part of its consideration to acquire an effective interest of approximately 99.79% in Wai Yuen Tong Medicine Company Limited. The convertible notes carry interest at 3.8% per annum with a right to convert into ordinary shares of the Company at an initial conversion price of HK\$0.01 per share during the period from 9th July 2002 to 8th July 2005.

17. ACQUISITION OF SUBSIDIARIES

On 9th July 2002, the Company acquired an effective interest of approximately 99.79% in Wai Yuen Tong Medicine Company Limited ("Wai Yuen Tong") from Wang On Group Limited ("Wang On") and Town Health International Holdings Company Limited ("Town Health") through the acquisition of the entire issued share capital of Reliance City Investments Limited and Plenty Time Investments Limited for an aggregate consideration of HK\$220 million.

The aggregate consideration was satisfied (a) as to HK\$136 million by the issue of 10,308,888,666 and 3,291,111,334 ordinary shares ("Consideration Shares") of the Company at HK\$0.01 per share to Wang On and Town Health respectively, (b) as to HK\$84 million by the issue of HK\$64 million and HK\$20 million convertible notes to Wang On and Town Health respectively.

In the opinion of the directors, the consideration of HK\$220 million was considered to be fair and reasonable and was arrived at after arm's length negotiations between the relevant parties to the agreements entered on 22nd May 2002 by reference to the followings:

- (a) The historical net profits of Wai Yuen Tong and its subsidiaries (the "WYT Group"):- For the year ended 31st December, 1999, the fifteen months ended 31st March 2001 and the year ended 31st March, 2002, the WYT Group recorded an audited net profit for the year/period of approximately HK\$9,136,000, HK\$12,413,000 and HK\$14,913,000 respectively;
- (b) The guaranteed profit of HK\$18 million ("Guaranteed Profit") as stated in the circular ("Circular") dated 17th June 2002 issued by the Company:- In the event that the audited profit of the WYT Group for the year ending 31st March 2003 is less than the Guaranteed Profit, Wang On and Town Health will pay to the Company a cash sum determined by the formulae as set out in the section "Guaranteed Profit" of the Circular; and

17.ACQUISITION OF SUBSIDIARIES (continued)

(c) The expected future growth potential of the WYT Group after taking into account the WYT Group's well-known and established brand name of "Wai Yuen Tong", the established distribution and retailing network of the WYT Group and the increased popularity of traditional Chinese medicines and herbs.

Based on the Guaranteed Profit, the aggregate consideration of HK\$220 million represents a price-earnings ratio of approximately 12.248 times (being (HK\$220 million/99.79%*)/HK\$18 million).

* the shareholding in Wai Yuen Tong acquired by the Company

The issued share capital of the Company prior to the issue of the Consideration Shares was comprised of 189,919,864 shares and the Consideration Shares represented 70.6 times the shares of the Company in issue prior to completion of the transaction and 98.6% of the enlarged issued share capital. The published closing price of the Company's shares on The Stock Exchange of Hong Kong Limited on 9th July 2002 (date of acquisition) of HK\$0.042 ("Published Price") is not considered to be the fair value of the Consideration Shares on the ground that the share capital before the transaction represented only 1.4% of the enlarged share capital. Accordingly, the market price of these shares could not reflect the fair value of the WYT Group for the purpose of its acquisition.

If the Published Price were to be used to determine the fair value for the purpose of the consideration of the acquisition of the WYT Group, the fair value would have to be increased by approximately HK\$435 million.

Goodwill arising from the acquisition of subsidiaries amounted to approximately HK\$186,632,000.

WYT group is engaged in the manufacturing, processing, retailing and sale of traditional Chinese medicine.

17. ACQUISITION OF SUBSIDIARIES (continued)

The net cash inflow of cash and cash equivalents in connection with the acquisition of subsidiaries was approximately HK\$987,000.

The subsidiaries acquired during the period contributed HK\$23.5 million to the Group's turnover, and HK\$3.4 million to the Group's profit from operations.

18. OPERATING LEASE ARRANGEMENTS

The Group as lessee

The Group made minimum lease payments of approximately HK\$1,435,000 (HK\$315,000 for the six months ended 30th September 2001) under operating leases during the period in respect of office properties and retail shops.

At 30th September 2002, the Group had outstanding commitments under non-cancelling operating leases, which fall due as follows:

	30th September 2002 (Unaudited) HK\$'000	31st March 2002 (Audited) HK\$'000
Within one year	8,241	502
In the second to fifth years, inclusive	12,000	142
	<u>20,241</u>	<u>644</u>

Operating lease payments represent rentals payable by the Group for certain of its office properties and retail shops. Leases are negotiated for a term ranging from 1 to 3 years. Certain lease rentals are based on turnover of the relevant retail shops.

19. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	30th September 2002 (Unaudited) HK\$'000	31st March 2002 (Audited) HK\$'000
Bills discounted with recourse	2,783	905
Bank guarantee give in lieu of rental deposit	489	–
	<u>3,272</u>	<u>905</u>

20. RELATED PARTY TRANSACTIONS

During the period, the Group has the following transactions with the related parties:

- (a) Interest expenses amounting to approximately HK\$313,000 (2001: HK\$62,000) and HK\$2,396,000 (2001: HK\$149,000) were incurred for the term loans advanced to the Group by Mr. Leung Wai Ho ("Mr. Leung") and Rich Time Strategy Limited ("Rich Time") respectively. Mr. Leung is a director of the Company and Rich Time is a substantial shareholder of the Company.
- (b) Management fee amounting to HK\$480,000 (2001: HK\$80,000) was paid to Wang On Group Limited, a holding company of Rich Time.
- (c) Convertible notes interest expenses amounting to approximately HK\$560,000 and HK\$175,000 were incurred for convertible notes to Rich Time and Town Health Traditional Chinese Medicine Services Limited, a shareholder of the Company respectively.
- (d) Sales of chinese pharmaceutical products amounting to HK\$2,503,000 was received from Charter Most Limited, a wholly-owned subsidiary of Town Health International Holdings Company Limited.

21. APPROVAL OF THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The unaudited condensed consolidated financial statements were approved by the board of directors on 13th December 2002.

INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30th September 2002 (2001: Nil).

BUSINESS REVIEW

The Group's unaudited consolidated turnover and net loss attributable to shareholders for the six months ended 30th September 2002 were approximately HK\$115.5 million (2001: HK\$129.7 million) and HK\$16.0 million (2001: HK\$15.5 million), respectively.

The decrease in turnover was mainly due to the approximately 30% drop in the Group's "traditional business" of assembly of watches and manufacture of watch cases ("OEM" business) and retail sales of watches and bags in the PRC, partially compensated by the contribution of the Group's new Chinese pharmaceutical business acquired in July 2002 under the brand name Wai Yuen Tong.

Wai Yuen Tong Medicine Company Limited ("Wai Yuen Tong")

The acquisition of Wai Yuen Tong has proved to be a good investment decision. The post acquisition turnover and profit contribution to the Group since its acquisition in early July 2002 to 30th September 2002 were approximately HK\$23.5 million and HK\$3.4 million, respectively, which partially offset the drop in turnover and loss incurred by the Group's OEM and retail sale business.

In the past one year, the product range of Wai Yuen Tong has increased from around 40 to over 60. Recent new products such as Bird's Nest Pak Fung Pills (燕窩白鳳丸), Youth Pak Fung Pills (青春白鳳丸), Ganoderma Lucidum Spores (Completely Wall-broken) capsules (仙草靈芝孢子膠囊), Tibetan Wild Cordyceps capsules (珍品冬蟲草膠囊) and Cornu Cervi Pantotrichum Extract (御品鹿茸飲劑) are all well accepted. Further new products are to be launched in the new future. The number of retail shops was increased from 5 a year before to 12 at present, with further new shops to be opened in the coming year.

BUSINESS REVIEW (continued)

With a view to further enhance its brand name, a Wai Yuen Tong visa card has also been recently introduced.

With the renowned brand name of Wai Yuen Tong coupled with its strong marketing campaign, the directors are optimistic of the future prospects of this business.

OEM Business

The turnover of the Group's OEM business for the period under review was approximately HK\$59.0 million, representing a decrease of approximately 36% (2001: HK\$92.0 million). This was mainly due to a drop in sales to the US market.

Faced with declining turnover and price-cutting pressure from customers, this division achieved only an operating profit of approximately HK\$0.2 million (2001: approximately HK\$ 4.1 million) for the period ended 30th September 2002. In view of the current difficult situation, the Group will continue to closely monitor the operating expenditure, particularly the purchase price of materials and staff expenses.

Retail of Watches and Bags in the PRC

For the period under review, the turnover of this division was approximately HK\$32.9 million, decreasing by approximately 13% as compared to last year's corresponding period's turnover of approximately HK\$37.6 million. The decline was largely due to the restructuring of our brand portfolio.

Despite the drop in sales for the first half of the financial year, the operating loss of this division was reduced substantially from approximately HK\$11.9 million for the corresponding period last year, to approximately HK\$4.8 million for the current period under review. The reduction was mainly attributable to the improvement in gross profit margin as a result of reduction of discounts offered and more effective control on operating expenses.

BUSINESS REVIEW (continued)

In order to achieve an effective retail network, during the period under review, 31 new TimeZone outlets were opened and 13 outlets were closed and 10 new Q.Bags outlets were opened and 11 outlets were closed. As at 30th September 2002, the Group operated a total of 130 TimeZone outlets and 36 Q.Bags outlets, covering more than 20 cities in the PRC.

Change of Name

With a view to better present the Group's long term business strategy and focus on the Chinese pharmaceutical business, the Company's name was changed from "Dailywin Group Limited" to "Wai Yuen Tong Medicine Holdings Limited" on 23rd August 2002.

LIQUIDITY AND FINANCIAL RESOURCES

During the period under review, two placements of new shares, which together raised net proceeds of approximately HK\$5.2 million, were made by the Company on 15th April and 13th May 2002.

As at 30th September 2002, the Group's total borrowings amounted to HK\$172 million which included bank borrowings of HK\$6.4 million, finance leases obligations of HK\$1.0 million, HK\$8.8 million due to a director, long term loans of HK\$64.9 million and short term advance of HK\$6.9 million due to Rich Time Strategy Limited, a wholly owned subsidiary of Wang On Group Limited, and convertible loan stock of HK\$84 million due in July 2005.

The gearing ratio, defined as the ratio of the total borrowings to total assets of the Group, as at 30th September 2002 was approximately 53% (31st March 2002: 98%). The Group's investment properties and fixed assets with an aggregate value of approximately HK\$11.5 million were pledged to a bank to secure the Group's general banking facilities, approximately HK\$6.4 million of which was utilized at 30th September 2002.

LIQUIDITY AND FINANCIAL RESOURCES (continued)

The Group's contingent liabilities as at 30th September 2002 amounted to HK\$3.3 million (31st March 2002: HK\$0.9 million).

FUTURE PROSPECTS

With the increasing popularity of traditional Chinese medicines and herbs, the directors are optimistic of the future growth potential of Wai Yuen Tong's business. Meanwhile, efforts will also be made to exercise further stringent cost control of the Group's OEM business and PRC retail business with a view to further trimming its loss.

DIRECTORS' INTERESTS IN SECURITIES

At 30th September 2002, Mr. Leung Wai Ho, a director of the Company, held 17,625 non-voting deferred shares of a wholly owned subsidiary of the Company.

Other than disclosed above, none of the directors, chief executive or their associates had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations as defined in the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") which is required to be recorded in the register maintained under Section 29 of the SDI Ordinance or 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 in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

SHARE OPTIONS

Pursuant to the share option scheme approved and adopted by the Company on 16th October 1997 (the "Scheme") share options were granted to subscribe for shares in the Company in accordance with the terms of the Scheme.

SHARE OPTIONS (continued)

The following table discloses movements in the Company's share options during the period:

	Date of grant	Exercise price (HK\$)	Number of shares subject to options outstanding as at 1-4-2002 and 30-9-2002	Exercisable period
Employees	3-3-2000	0.820	2,000,000	3-3-2000 to 2-3-2010
	9-12-1999	0.285	3,980,000	9-12-1999 to 8-12-2009
			5,980,000	

No share options were granted or exercised during the six months ended 30th September 2002.

Save as disclosed herein, at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate and none of the directors, or their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the six months ended 30th September 2002 was the Company or any of its subsidiaries a party to any arrangement enabling the directors of the Company to acquire benefits by means of the acquisition (including debentures) of, the Company or any other body corporate and none of the directors, or their spouses or children under the age of 18, held any rights to subscribe for securities of the Company, or had exercised any such rights.

SUBSTANTIAL SHAREHOLDERS

As at 30th September 2002, the following interest of 10% of more in the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name of shareholder	Number of ordinary shares held	Approximate shareholding percentage
Rich Time Strategy Limited ("Rich Time") (Note 1)	5,847,388,666	42.40%
Wang On Group Limited ("Wang On") (Note 1)	5,847,388,666	42.40%
Town Health Traditional Chinese Medicine Services Limited ("Town Health TCM") (Note 2)	1,791,111,334	12.99%
Town Health (BVI) Limited ("Town Health (BVI)") (Note 2)	1,791,111,334	12.99%
Town Health International Holdings Company Limited ("Town Health International") (Note 2)	1,791,111,334	12.99%

Notes:

1. Rich Time was wholly owned by Wang On. Wang On was deemed to be interested in the 5,847,388,666 shares held by Rich Time.
2. Town Health TCM was wholly owned by Town Health (BVI), which was wholly owned by Town Health International. Town Health (BVI) and Town Health International were deemed to be interested in the 1,791,111,334 shares held by Town Health TCM.

Save as disclosed above, no person had registered an interest in the issued share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance as at 30th September 2002.

AUDIT COMMITTEE

The Company has set up an audit committee which is comprised of three independent non-executive directors of the Company. The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters, including the review of the unaudited condensed financial statements.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30th September 2002, there was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries.

COMPLIANCE WITH CODE OF BEST PRACTICE

Save that the independent non-executive directors of the Company are not appointed for specific terms, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's bye-laws, none of the directors is aware of any information that would reasonably indicate that the Company is not, or was not, for any part of the six months ended 30th September 2002, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

By order of the Board
Tang Ching Ho
Chairman

Hong Kong, 13th December 2002