



Wai Yuen Tong Medicine Holdings Limited

位元堂藥業控股有限公司

(Incorporated in Bermuda with limited liability)

(於百慕達註冊成立之有限公司)



2003 Interim Report

INTERIM RESULTS

The Board of Directors (the "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 2003 together with the comparative figures for the corresponding period in 2002 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th September 2003

		Six months ended	
		30th September	
		2003	2002
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
Turnover	3	157,042	115,456
Cost of sales		(92,229)	(68,694)
Gross profit		64,813	46,762
Distribution costs		(38,533)	(21,021)
Administrative expenses		(41,290)	(38,823)
Other operating income		2,559	1,475
Loss from operation	4	(12,451)	(11,607)
Finance costs		(4,893)	(3,688)
Share of losses of associates		(187)	(137)
Loss before taxation		(17,531)	(15,432)
Taxation	5	(461)	(559)
Loss before minority interests		(17,992)	(15,991)
Minority interest		(4)	(6)
Loss for the period		(17,996)	(15,997)
Loss per ordinary share	6		
Basic		(0.10 cents)	(0.25 cents)
Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

		30th September 2003 (Unaudited) HK\$'000	31st March 2003 (Audited) HK\$'000
	<i>Notes</i>		
Non-current assets			
Investment properties	7	3,600	3,600
Property, plant and equipment	8	31,201	30,001
Goodwill	9	298,905	179,630
Interests in associates	10	2,203	1,968
Loan receivables		808	808
Trademarks		703	503
		<hr/> 337,420 <hr/>	<hr/> 216,510 <hr/>
Current assets			
Inventories		51,820	47,979
Trade and other receivables	11	59,199	31,668
Amount due from associates	10	7,591	1,855
Loan receivables		129	129
Taxation recoverable		36	36
Bank balances and cash		14,226	21,508
		<hr/> 133,001 <hr/>	<hr/> 103,175 <hr/>
Current liabilities			
Trade and other payables	12	87,794	55,999
Loan from and interest payable to a director	13	10,089	9,780
Loan from and interest payable to a shareholder	13	19,591	17,318
Obligations under finance leases		601	614
Bank and other borrowings		15,585	13,947
Deferred franchise income		349	240
Convertible loan stock		6	6
Taxation payable		2,922	1,832
		<hr/> 136,937 <hr/>	<hr/> 99,736 <hr/>
Net current assets (liabilities)		<hr/> (3,936) <hr/>	<hr/> 3,439 <hr/>
		<hr/> 333,484 <hr/>	<hr/> 219,949 <hr/>

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

		30th September 2003 (Unaudited) HK\$'000	31st March 2003 (Audited) HK\$'000
	<i>Notes</i>		
Capital and reserves			
Share capital	14	285,124	157,899
Reserves		(89,861)	(71,865)
		<hr/> 195,263	<hr/> 86,034
Minority Interests			
		<hr/> 98	<hr/> 94
Non-current liabilities			
Convertible notes	15	66,500	64,000
Loan from a shareholder	16	64,850	64,850
Obligations under finance leases		698	887
Bank and other borrowings		5,413	3,332
Deferred franchise income		445	535
Deferred taxation		217	217
		<hr/> 138,123	<hr/> 133,821
		<hr/> 333,484	<hr/> 219,949

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the six months ended 30th September 2003*

	Share capital	Share premium	Capital reserve	Special reserve	General reserve	Accu- mulated losses	Total
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
At 1st April 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	137,899	15,393	609	(27,150)	54,589	(102,357)	78,983
Issue of new shares for conversion of convertible notes	20,000	-	-	-	-	-	20,000
Net loss for the period	-	-	-	-	-	(12,949)	(12,949)
At 31st March 2003	157,899	15,393	609	(27,150)	54,589	(115,306)	86,034
Issue of new shares for acquisition of subsidiaries	59,725	-	-	-	-	-	59,725
Share premium reduction	-	(15,393)	-	-	-	15,393	-
Issue of new shares for conversion of convertible notes	67,500	-	-	-	-	-	67,500
Net loss for the period	-	-	-	-	-	(17,996)	(17,996)
At 30th September 2003	285,124	0	609	(27,150)	54,589	(117,909)	195,263

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30th September*

	30th September	
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
NET CASH USED IN OPERATING ACTIVITIES	(3,682)	(2,007)
NET CASH USED IN INVESTING ACTIVITIES	(2,342)	(1,675)
NET CASH USED IN FROM FINANCING ACTIVITIES	(1,258)	12,123
	<hr/>	<hr/>
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(7,282)	8,441
Cash and cash equivalents at beginning of period	21,508	6,837
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF PERIOD		
– REPRESENTING BANK BALANCES AND CASH	14,226	15,278
	<hr/>	<hr/>

NOTES TO CONDENSED CONSOLIDATED 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 (the "Listing Rules") 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 2003, except as described below:

Income Taxes

In the current interim period, the Group has adopted SSAP 12 (Revised) Income Taxes. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The adoption of this SSAP has had no material effects on the results for the current or prior accounting periods.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS*(continued)***4. Loss from operation**

	Six months ended 30th September	
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Loss from operation has been arrived after charging:		
Amortisation of goodwill	<u>5,710</u>	<u>2,334</u>
Amortisation of issue cost of convertible loan stock	<u>-</u>	<u>31</u>
Depreciation and amortisation of trademarks, property, plant and equipment	<u>4,097</u>	<u>3,779</u>

5. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong for 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\$17,996,000 (2002: HK\$15,997,000) and the weighted average of 17,813,381,708 (2002: 6,423,261,503) ordinary shares in issue during the period.

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 2003, 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 2003 do not differ significantly from the open market value of those properties as at 31st March 2003.

Consequently, no revaluation surplus or deficit has been recognised in the current period.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS*(continued)***8. Property, plant and equipment**

During the period, the Group acquired property, plant and equipment amounting to approximately HK\$4,932,000.

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
	<i>HK\$'000</i>
Cost:	
At 1st April 2003	186,632
Acquisition during the period	124,985
	<hr/>
At 30th September 2003	311,617
	<hr/>
Accumulated amortisation and impairment:	
At the beginning of year	(7,002)
Amortisation provided during the period	(5,710)
	<hr/>
At 30th September 2003	(12,712)
	<hr/>
Net book value	
At 30th September 2003	298,905
	<hr/>
At 31st March 2003	179,630
	<hr/>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS*(continued)***10. Interests in associates**

	30th September 2003 (Unaudited) HK\$'000	31st March 2003 (Audited) HK\$'000
Share of net assets	2,203	1,968
Due from associates	7,591	1,855
	9,794	3,823

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
			30th September 2003 %	31st March 2003 %	
Creation Sino Limited	Corporate	Hong Kong	50.00	50.00	Retailing of Chinese pharmaceutical products
Winning Forever Limited	Corporate	Hong Kong	50.00	50.00	Retailing of Chinese pharmaceutical products
Basewin Limited	Corporate	Hong Kong	33.33	-	Retailing of Chinese pharmaceutical products
Chinese Leading Limited	Corporate	Hong Kong	50.00	-	Retailing of Chinese pharmaceutical products
Lucky Planning Limited	Corporate	Hong Kong	50.00	-	Retailing of Chinese pharmaceutical products
Global Winner Holdings Limited	Corporate	Hong Kong	40.00	-	Retailing of Chinese pharmaceutical products

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS*(continued)***11. Trade and other receivables**

The Group allows an average credit period of 60 days to its trade customers. The following is an aging analysis of trade receivable at the balance sheet date:

	30th September 2003 (Unaudited) HK\$'000	31st March 2003 (Audited) HK\$'000
0-30 days	22,854	13,337
31-60 days	13,359	7,363
61-120 days	8,723	2,915
Over 120 days	1,875	91
	<hr/> 46,821	<hr/> 23,706
Other receivables	12,378	7,962
	<hr/> 59,199	<hr/> 31,668

12. Trade and other payables

The following is an aging analysis of trade payables at the balance sheet date:

	30th September 2003 (Unaudited) HK\$'000	31st March 2003 (Audited) HK\$'000
0-30 days	17,736	7,751
31-60 days	7,712	4,971
61-120 days	9,811	5,827
Over 120 days	1,473	5,790
	<hr/> 36,732	<hr/> 24,339
Other payables	51,062	31,660
	<hr/> 87,794	<hr/> 55,999

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS*(continued)***13. Loans from and interest payable to a director/a shareholder**

The loans are unsecured, interest-bearing at prime rate plus 2% annum and are repayable on demand.

14. Share capital

	30th September 2003 (Unaudited) HK\$'000	31st March 2003 (Audited) HK\$'000
<i>Authorised:</i>		
60,000,000,000 (31st March 2003: 60,000,000,000) ordinary shares of HK\$0.01 (31st March 2003: HK\$0.01) each	600,000	600,000
<i>Issued and fully paid:</i>		
28,512,384,564 (31st March 2003: 15,789,919,864) ordinary shares of HK\$0.01 (31st March 2003: HK\$0.01) each	285,124	157,899

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

	Number of shares issued	Amount HK\$'000
At 1st April 2003	15,789,919,864	157,899
Issue of 5,972,464,700 shares to acquire subsidiaries (<i>Note 1</i>)	5,972,464,700	59,725
Issue upon conversion of convertible notes (<i>Note 2</i>)	6,750,000,000	67,500
At 30th September 2003	28,512,384,564	285,124

Notes:

- Pursuant to a special resolution passed on 19th August 2003, 5,972,464,700 ordinary shares of HK\$0.01 each were issued on 20th August 2003 as part of the consideration for the acquisition of an effective interest of approximately 99.79% in Luxembourg Medicine Company Limited ("LMC").
- During the period, 6,750,000,000 ordinary shares of HK\$0.01 each were issued upon the exercise of the conversion rights by the holders of the convertible notes.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS*(continued)***15. Convertible notes**

	<i>HK\$'000</i>
As at 1st April 2003	64,000
Issued during the period	70,000
Converted during the period	(67,500)
	<hr/>
Balance as at 30th September 2003	66,500
	<hr/>

On 20th August 2003, the Company issued convertible notes of HK\$70 million in satisfaction of, partially, the consideration for the acquisition of approximately 99.79% interest in LMC. The convertible notes carry interest 2% per annum and are redeemable on 19th August 2006 unless it was previously converted or redeemed. The holders of the convertible notes have the option to convert the convertible notes into ordinary shares of the Company of HK\$0.01 (subject to adjust) each at any time during the period from 20th August 2003 to 19th August 2006.

During the period, the company issued and allotted a total of 6,750,000,000 ordinary shares of HK\$0.01 each were issued and allotted upon the exercise of the conversion rights by certain holders of the convertible notes.

At 30th September 2003, the convertible notes of HK\$64 million carry interest 3.8% per annum and HK\$2.5 million carry interest 2% were held by Rich Time Strategy Limited, a substantial shareholder of the Company.

16. Loans from a shareholder

The amounts are unsecured, carry interest at prime rate plus 2% per annum and are repayable in July 2005.

17. Acquisition of subsidiaries

On 20th August 2003, the Company acquired an effective interest of approximately 99.79% in LMC from Wang On Group Limited ("Wang On") through the acquisition of the entire issued share capital of Biomore Investments Limited and Bio Chapter Limited for an aggregate consideration of approximately HK\$129.7 million (the "Consideration").

The Consideration was satisfied as to approximately (a) HK\$59.7 million by the issue of 5,972,464,700 ordinary shares of the Company at HK\$0.01 per share and (b) HK\$70 million by the issue of HK\$70 million convertible notes to Wang On.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS*(continued)***17. Acquisition of subsidiaries** *(continued)*

Wang On had guaranteed that the audited consolidated net profits of LMC and its subsidiaries (the "LMC Group") for the year ending 31st March 2004 will not be less than HK\$11.5 million (the "Guaranteed Profit"). In the event that the audited consolidated profit of the LMC Group for the year ending 31st March 2004 is less than the Guaranteed Profit, Wang On will pay to the Company a cash sum determined by the formulas as set out in the section headed "Guarantee Profit" of the circular dated 30th July 2003.

Goodwill arising from the acquisition of subsidiaries amounted to approximately HK\$124,985,000.

The LMC Group is principally engaged in sale of cough syrup under the brand name "Madame Pearl's" and other healthcare products.

The net cash inflow of cash and cash equivalents in connection with the acquisition of subsidiaries was approximately HK\$2,768,000.

The subsidiaries acquired during the period contributed HK\$5.6 million to the Group's turnover, and HK\$2.3 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\$4,787,000 (HK\$1,435,000 for the six months ended 30th September 2002) under operating leases during the period in respect of office properties and retail shops.

At 30th September 2003, the Group had outstanding commitments under non-cancelling operating leases, which fall due as follows:

	30th September 2003 (Unaudited) HK\$'000	31st March 2003 (Audited) HK\$'000
Within one year	15,211	8,935
In the second to fifth years, inclusive	15,591	9,970
	30,802	18,905

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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS*(continued)***19. Contingent Liabilities**

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

	30th September 2003 (Unaudited) HK\$'000	31st March 2003 (Audited) HK\$'000
Bills discounted with recourse	2,998	1,370
Bank guarantee give in lieu of rental deposit	1,767	1,489
	<u>4,765</u>	<u>2,859</u>

20. Post Balance Sheet Events

Subsequent to the balance sheet date, the following significant events took place:

- (a) On 2nd October 2003 and 6th October 2003, a total of 1,700,000,000 ordinary shares of HK\$0.01 each were issued and allotted upon exercise of the conversion rights by certain holders of the convertible notes.
- (b) Pursuant to a capital reorganisation effective on 20th October 2003, the Company:
 - (i) consolidated every 100 issued and unissued, ordinary shares of HK\$0.01 each into 1 ordinary share of HK\$1.00 each;
 - (ii) reduced the par value of the issued ordinary shares from HK\$1.00 each to HK\$0.10 each;
 - (iii) split the unissued ordinary shares of HK\$1.00 each into 10 ordinary shares of HK\$0.10 each; and
 - (iv) transferred a credit of HK\$271,911,461.14 arisen from the reduction of the par value of the issued company shares as stated in ii) above to the contributed surplus account of the Company.
- (c) On 12th November 2003, a top-up placement of 60,000,000 ordinary shares of HK\$0.1 each was made at an issue price of HK\$0.8 each. Such placement was completed on 26th November 2003 and a sum of about HK\$46 million was raised.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS*(continued)***21. Related party transactions**

The Group had the following transactions with related parties during the period:

Name of related party	Transactions	Six months ended 30th September	
		2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Wang On Group Limited and its subsidiaries (the "Wang On Group")	Interest on term loans paid by the Group <i>(Note iii)</i>	2,764	2,396
	Interest on convertible notes paid by the Group <i>(Note iv)</i>	1,315	560
	Management fee paid by the Group <i>(Note v)</i>	–	480
	Rental paid by the Group <i>(Note vi)</i>	1,904	–
Town Health International Holdings Company Limited and its subsidiaries (the "Town Health Group") <i>(Note i)</i>	Interest on convertible notes paid by the Group <i>(Note iii)</i>	–	175
	Sales of pharmaceutical products by the Group <i>(Note vii)</i>	1,030	2,503
	Management fee received by the Group <i>(Note vii)</i>	56	–
	Advertising and promotion fee received by the Group <i>(Note vii)</i>	37	–
	Computer maintenance fee received by the Group <i>(Note vii)</i>	6	–
Leung Wai Ho <i>(Note ii)</i>	Interest on a terms loan paid by the Group <i>(Note iii)</i>	308	313

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS*(continued)***21. Related party transactions** *(continued)**Notes:*

- (i) Town Health International Holdings Company Limited is a substantial shareholder of the Company.
- (ii) Leung Wai Ho is a director of the Company.
- (iii) Interest is calculated at 2% above prime rate per annum.
- (iv) Interest is calculated at 3.8% and 2% per annum in respect of the convertible note issued on 9th July 2002 and 20th August 2003 respectively.
- (v) Management fee is mutually agreed and determined by the relevant parties.
- (vi) These transactions were entered with Wang On Group in accordance with the relevant tenancy agreement.
- (vii) These transactions were entered with Town Health Group in accordance with the relevant franchise agreement.

22. Approval of the unaudited condensed consolidated financial statements

The unaudited condensed consolidated financial statements were approved by the Board of Directors on 19th December 2003.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30th September 2003 (2002: Nil).

BUSINESS REVIEW

The Group is undergoing a period of transformation and rejuvenation. Apart from the continual expansion of its Chinese pharmaceutical business under the brand name of "Wai Yuen Tong", it also diversified into the western pharmaceutical business under the brand name of "Madame Pearl's" through the acquisition of LMC. The pharmaceutical business accounted for over 43% of the Group's turnover for the six months under review and this is expected to grow further. The Directors expect that the pharmaceutical business will account for over 50% of the Group's turnover for the year ending 31st March 2004, outweighing those contributed by the Group's business in assembly of watches and manufacture of cases ("OEM Business") and the retail of watches and bags in Mainland China ("PRC retail business").

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

The business of Wai Yuen Tong continues to expand rapidly. The number of retail outlets has now increased to 25, as compared with 16 when we announced our annual results for the year ended 31st March 2003 in June. Over 30 new products were launched, and sales reached a record high during the period under review.

Madame Pearl's

As detailed in a circular to shareholders dated 30th July 2003, the Group acquired an effective interest of approximately 99.79% in LMC. LMC is principally engaged in the sale of cough syrup and other healthcare products in the form of tablets and capsules under the brand name "Madame Pearl's", in both Hong Kong and Mainland China. Sales in the period, in particular sales to Mainland China was promising and the Directors are optimistic that LMC will generate satisfactory profit contribution to the Group for the year ending 31st March 2004. Apart from the increase in sales of its existing products, LMC will also extend its product line via the launch of new pharmaceutical products under the brand name "Madame Pearl's" and household hygiene products under the new brand name "Pearl's".

OEM Business

Continued keen market competition coupled with the outbreak of Severe Acute Respiratory Syndrome ("SARS") adversely affected the sales performance of OEM Business. The "prohibition" of Hong Kong watch manufacturers from participating in the Basel International Watch and Clock Fair in Switzerland in early April this year also had a negative impact on the OEM Business.

PRC Retail Business

For the period under review, despite the outbreak of SARS, the turnover of the PRC Retail Business increased by approximately 9.4% compared to the corresponding period last year. This was mainly attributable to the continuing expansion of the retail network from major cities to secondary cities.

The operating loss was also reduced. The Group will continue to closely monitor this area of business with a view to turnaround its results to a positive contribution.

Capital Reorganization

As stated in a circular to the shareholders dated 21st August 2003 with further details provided in an announcement dated 23rd September 2003, every 100 of the Company's ordinary shares of HK\$0.01 each were proposed to be consolidated into one new ordinary share (the "Consolidation"). The par value of the new ordinary share was then reduced from HK\$1.00 each to HK\$0.10 each (the "Reduction"). The Consolidation and Reduction were approved in the Company's special general meeting held on 18th September 2003 and became on 20th October 2003.

LIQUIDITY AND FINANCIAL RESOURCES

During the period from 1st April 2003 to now, convertible note holders have exercised their rights to convert convertible notes in the aggregate amount of HK\$84.5 million into ordinary shares of the Company, which has resulted in a reduction of the Group's debt level and an improvement in the Company's equity level.

In November 2003, approximately HK\$46 million was raised through a top-up placing of 60,000,000 new ordinary shares at HK\$0.80 per share.

As at 30th September 2003, the Group's total borrowings amounted to HK\$183.3 million which included bank borrowings of HK\$21.0 million, finance lease obligations of HK\$1.3 million, loan and interest due to a director of HK\$10.1 million, long term loans of HK\$64.8 million and short term advances of HK\$19.6 million, inclusive of interest, due to a shareholder, and convertible notes of HK\$64 million and HK\$2.5 million due in July 2005 and August 2006, respectively.

The gearing ratio, defined as the ratio of the total borrowings to capital and reserves, as at 30th September 2003, was approximately 94%. The Group's investment properties and fixed assets with an aggregate book value of HK\$10.9 million were pledged to banks to secure the Group's general banking facilities, approximately HK\$6.9 million of which was utilized at 30th September 2003.

The Group's contingent liabilities as at 30th September 2003 amounted to approximately HK\$4.8 million (2002: HK\$2.9 million).

MANAGEMENT AND STAFF

As at 30th September 2003, the Group had over 900 employees, around 35% of whom were located in Hong Kong. Staff requirement is regularly monitored with reference to the actual needs of the Group. Remuneration packages, which comprise salaries, provident fund contributions and medical benefits, are periodically reviewed based on market trends, performance appraisals, working experience and industry practice and then approved by the executive directors.

PROSPECTS

With the improvement in the worldwide economy and increasing contribution from the Group's pharmaceutical business, the Directors are optimistic about the Group's long term prospects.

SHARE OPTION SCHEME

The Company has adopted a new share option scheme and terminated the old share option scheme (the "Old Scheme") with effect from 18th September 2003. Despite the fact that no further options may be granted under the Old Option Scheme, all other provisions of that scheme will remain in force to govern the exercise of all the options previously granted. No option has yet been granted under the new scheme. The following table details movement in the Company's share options during the period:

Name or category of participant	Options held at 1st April 2003	Options cancelled during the period	Options held at 30th September 2003	Date of grant of share options	Exercise period of share options	Exercise price of share options HK\$
Old Scheme						
<i>Other employees</i>						
In aggregate	3,980,000	220,000	3,760,000	9-12-1999	9-12-1999 to 8-12-2009	0.285
	2,000,000	-	2,000,000	3-3-2000	3-3-2000 to 2-3-2010	0.82
	<hr/>	<hr/>	<hr/>			
Total	<u>5,980,000</u>	<u>220,000</u>	<u>5,760,000</u>			

Upon exercise of the share options, the shares to be issued will be recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares will be recorded by the Company in the share premium account.

DIRECTORS' INTERESTS IN SHARES

As at 30th September 2003, the interests and short positions of each Director or chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the Securities and Future Ordinance ("SFO")) as recorded in the register maintained under section 352 of the SFO were as follows:

Interests in shares of associated corporations of the Company

Mr. Leung Wai Ho, a director of the Company who held 17,265 non-voting deferred shares in Dailywin Watch Products Mfg. Limited, a wholly owned subsidiary of the Company.

Save as disclosed above, none of the Directors or chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) which were recorded in the register under section 352 of the SFO.

SUBSTANTIAL SHAREHOLDERS

As at 30th September 2003, the following persons (other than a Director or chief-executive of the Company) had, or were deemed or taken to have, interests of short positions in the shares or underlying shares of the Company as recorded in the register maintained under section 336 of the SFO:

Interests in shares of the Company

Name of Shareholder	Number of Shares <i>(Note 1)</i>	Percentage
Rich Time Strategy Limited ("Rich Time") <i>(Note 2)</i>	17,496,466,305 (L) 6,450,000,000 (S)	49.76% 18.34%
Wang On Enterprises (BVI) Limited ("WOE") <i>(Note 2)</i>	17,496,466,305 (L) 6,450,000,000 (S)	49.76% 18.34%
Wang On <i>(Note 2)</i>	17,496,466,305 (L) 6,450,000,000 (S)	49.76% 18.34%
Choi Chee Ming	7,100,000,000 (L)	20.19%
Town Health Traditional Chinese Medicine Services Limited ("Town Health TCM") <i>(Note 3)</i>	4,711,944,395 (L)	16.53%
Town Health (BVI) Limited ("Town Health (BVI)") <i>(Note 3)</i>	4,711,944,395 (L)	16.53%
Town Health International Holdings Company Limited ("Town Health International") <i>(Note 3)</i>	4,711,944,395 (L)	16.53%

SUBSTANTIAL SHAREHOLDERS (continued)

Notes:

1. The letter "L" denotes a long position in the shares of the Company and the letter "S" denotes a short position in the shares of the Company.
2. Rich Time is wholly owned by WOE, which is wholly owned by Wang On. WOE and Wang On are deemed to be interested in 17,496,466,305 shares held by Rich Time. Out of 17,496,466,305 shares, 6,650,000,000 shares are the shares issuable upon conversion of the convertible notes held by Rich Time.
3. Town Health TCM is wholly owned by Town Health (BVI), which is wholly owned by Town Health International. Town Health (BVI) and Town Health International are deemed to be interested in the 4,711,944,395 shares held by Town Health TCM.

Save as disclosed above, as at 30th September 2003, no other interests or short positions in the shares or underlying shares of the Company were recorded in the register maintained under section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30th September 2003, there was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries.

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.

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 2003 in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

By order of the Board
Tang Ching Ho
Chairman

Hong Kong, 19th December 2003