



Wai Yuen Tong

Medicine Holdings Limited

(Incorporated in Bermuda with limited liability)

Interim Report 2004





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 2004 together with the comparative figures for the corresponding period in 2003 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th September 2004

		Six months ended 30th September	
		2004	2003
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
Turnover	3	139,824	157,042
Cost of sales		(63,145)	(92,229)
Gross profit		76,679	64,813
Other operating income		1,960	2,559
Distribution costs		(42,181)	(38,533)
Administrative expenses		(42,238)	(41,290)
Loss from operations	4	(5,780)	(12,451)
Finance costs		(1,052)	(4,893)
Share of results of associates		(502)	(187)
Amortisation of goodwill of an associate		(1,796)	–
Loss before taxation		(9,130)	(17,531)
Taxation	5	(1,172)	(461)
Loss before minority interests		(10,302)	(17,992)
Minority interests		(248)	(4)
Loss for the period		(10,550)	(17,996)
Loss per ordinary share	6		
Basic		(0.6 cents)	(7.8 cents)
Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

		30th September 2004 (Unaudited) HK\$'000	31st March 2004 (Audited) HK\$'000
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment	7	125,121	18,194
Goodwill/negative goodwill	8	289,839	293,779
Interests in associates	9	24,936	30,575
Trademarks		786	791
Other deposits		14,778	—
		<hr/> 455,460	<hr/> 343,339
Current assets			
Inventories		61,408	33,158
Amounts due from associates	9	16,301	11,976
Trade and other receivables and deposits	10	83,977	48,303
Bank balances and cash		100,254	32,580
		<hr/> 261,940	<hr/> 126,017
Current liabilities			
Trade and other payables	11	42,957	29,536
Bank and other borrowings		19,781	12,964
Bank overdrafts		2,316	—
Obligations under finance leases		120	—
Deferred franchise income		293	364
Convertible loan stock		8	6
Tax payable		3,110	1,914
		<hr/> 68,585	<hr/> 44,784
Net current assets		<hr/> 193,355	<hr/> 81,233



CONDENSED CONSOLIDATED BALANCE SHEET *(Continued)*

		30th September 2004 (Unaudited) HK\$'000	31st March 2004 (Audited) HK\$'000
	<i>Notes</i>		
Non-current liabilities			
Convertible notes	12	–	56,500
Loan from a shareholder	13	–	7,000
Bank and other borrowings		49,564	6,457
Obligations under finance leases		160	–
Deferred franchise income		153	355
Deferred taxation		477	355
		<hr/> 50,354 <hr/>	<hr/> 70,667 <hr/>
Minority interests		110	212
		<hr/> 598,351 <hr/>	<hr/> 353,693 <hr/>
Capital and reserves			
Share capital	14	27,639	55,277
Reserves		570,712	298,416
		<hr/> 598,351 <hr/>	<hr/> 353,693 <hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the six months ended 30th September 2004*

	Share capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Special reserve (Unaudited) HK\$'000 (Note)	General reserve (Unaudited) HK\$'000	Accu- mulated losses (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1st April 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	-	609	(27,150)	54,589	(117,909)	195,263
Issue of new shares	42,065	133,775	-	-	-	-	175,840
Reduction in share capital	(271,912)	-	-	-	127,569	144,343	-
Share issue expenses	-	(4,791)	-	-	-	-	(4,791)
Realised on disposal of subsidiaries	-	-	(609)	-	-	-	(609)
Net loss for the period	-	-	-	-	-	(12,010)	(12,010)

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY** (Continued)

For the six months ended 30th September 2004

	Share capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Special reserve (Unaudited) HK\$'000 (Note)	General reserve (Unaudited) HK\$'000	Accu- mulated losses (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 31st March 2004	55,277	128,984	-	(27,150)	182,158	14,424	353,693
Reduction in share capital	(49,749)	-	-	-	41,877	7,872	-
Issue of rights shares	16,583	248,748	-	-	-	-	265,331
Issue of bonus shares	5,528	-	-	-	(5,528)	-	-
Issue of share expenses	-	(10,123)	-	-	-	-	(10,123)
Loss for the period	-	-	-	-	-	(10,550)	(10,550)
At 30th September 2004	<u>27,639</u>	<u>367,609</u>	<u>-</u>	<u>(27,150)</u>	<u>218,507</u>	<u>11,746</u>	<u>598,351</u>

Note:

The special reserve of the Group represents the difference between the nominal value of ordinary shares issued by the Company and the aggregate nominal value of the issued ordinary share capital of the subsidiaries acquired pursuant to a group reorganization in 1995.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30th September 2004*

	30th September	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
NET CASH USED IN OPERATING ACTIVITIES	(36,948)	(3,682)
NET CASH USED IN INVESTING ACTIVITIES	(117,308)	(2,342)
NET CASH FROM/(USED IN) FINANCING ACTIVITIES	219,614	(1,258)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	65,358	(7,282)
Cash and cash equivalents at beginning of period	32,580	21,508
CASH AND CASH EQUIVALENTS AT END OF PERIOD	97,938	14,226
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	100,254	14,226
Bank overdrafts	(2,316)	-
	97,938	14,226



NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

The unaudited condensed consolidated 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 Institute of Certified Public Accountants ("HKICPA").

2. Principal accounting policies

The unaudited condensed consolidated 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 2004.

3. Segment information

(a) Business segments

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

By principal activity


Six months ended 30th September 2004	Chinese pharmaceutical and health products business (Unaudited) HK\$'000	Western pharmaceutical and health products business (Unaudited) HK\$'000	Others (Unaudited) HK\$'000	Eliminations (Unaudited) HK\$'000	Consolidated Total (Unaudited) HK\$'000
Turnover					
Sales to external customers	105,531	33,705	588	–	139,824
Intersegment sales	–	–	1,020	(1,020)	–
Total	<u>105,531</u>	<u>33,705</u>	<u>1,608</u>	<u>(1,020)</u>	<u>139,824</u>
Contribution to profit (loss) from operation	<u>2,246</u>	<u>4,765</u>	<u>(441)</u>	<u>–</u>	<u>6,570</u>
Amortisation of goodwill					(8,888)
Amortisation of negative goodwill					55
Unallocated corporate expenses					<u>(3,517)</u>
Loss from operation					(5,780)
Finance costs					(1,052)
Share of profits and loss of associates (including amortisation of goodwill)					<u>(2,298)</u>
Loss before taxation					(9,130)
Taxation					<u>(1,172)</u>
Loss before minority interests					(10,302)
Minority interests					<u>(248)</u>
Loss for the period					<u>(10,550)</u>

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	Continuing operations		Discontinued operations				Consolidated Total (Unaudited) HK\$'000
	Chinese pharmaceutical and health products business (Unaudited) HK\$'000	Western pharmaceutical and health products business (Unaudited) HK\$'000	Assembly of watches and manufacture of cases (Unaudited) HK\$'000	Retail of complete watches and bags (Unaudited) HK\$'000	Others (Unaudited) HK\$'000	Eliminations (Unaudited) HK\$'000	
Six months ended 30th September 2003							
Turnover							
Sales to external customers	62,283	5,639	53,067	35,987	66	-	157,042
Intersegment sales	-	-	15,466	135	108	(15,709)	-
Turnover	<u>62,283</u>	<u>5,639</u>	<u>68,533</u>	<u>36,122</u>	<u>174</u>	<u>(15,709)</u>	<u>157,042</u>
Contribution to profit (loss) from operation	<u>494</u>	<u>2,310</u>	<u>546</u>	<u>(3,848)</u>	<u>(128)</u>	<u>-</u>	<u>(626)</u>
Amortisation of goodwill							(5,710)
Amortisation of negative goodwill							-
Unallocated corporate expenses							<u>(6,115)</u>
Loss from operation							(12,451)
Finance costs							(4,893)
Share of profits and loss of associates							<u>(187)</u>
Loss before taxation							(17,531)
Taxation							<u>(461)</u>
Loss before minority interests							(17,992)
Minority interests							<u>(4)</u>
Loss for the period							<u>(17,996)</u>



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(b) Geographical segments

An analysis of the Group's turnover by geographical segments is as follows:

	<u>Turnover</u>	
	Six months ended	
	30th September	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Hong Kong	99,494	68,242
People's Republic of China ("PRC"), other than Hong Kong	29,661	42,452
United States	1,448	24,199
Singapore	3,633	—
Others	5,588	22,149
	<hr/> 139,824 <hr/>	<hr/> 157,042 <hr/>

No contribution to operating profit from any of the above geographical segment is substantially out of line with the normal ratio of profit to turnover.

4. Loss from operations

	Six months ended	
	30th September	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Loss from operations has been arrived after charging:		
Amortisation of goodwill, included in administrative expenses	8,833	5,710
Depreciation and amortisation of trademarks, property, plant and equipment	3,013	4,097
Interest income	(45)	(19)
	<hr/> (45) <hr/>	<hr/> (19) <hr/>



5. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong for the period.

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

Taxation arising in other jurisdictions is calculated at rates prevailing in the relevant jurisdictions.

6. Loss per ordinary share

The calculation of basic loss per ordinary share is based on the loss for the period of HK\$10,550,000 (2003: HK\$17,996,000) and the weighted average of 1,779,370,169 (2003 restated: 230,914,207) ordinary shares in issue during the period as adjusted to reflect the rights issue, bonus issue and share consolidation during the period.

The diluted earnings per share for the period ended 30th September 2004 and 30th September 2003 have not been disclosed as no dilutive events existed during the periods.

7. Property, plant and equipment

During the period, the addition of property, plant and equipment, construction in progress were amounting to approximately HK\$24,827,000.

As at 30th September 2004, the Group's land and building were pledged to secure certain of the Group's general banking facilities.

8. Goodwill/Negative Goodwill

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

	Goodwill arising on acquisition of associate (Note 9) (Unaudited) HK\$'000	Goodwill arising on acquisition of subsidiaries (Unaudited) HK\$'000	Negative Goodwill arising on acquisition of subsidiaries (Unaudited) HK\$'000
Cost:			
At 1st April 2004	14,371	314,285	–
Acquisition during the period	–	5,224	(331)
At 30th September 2004	14,371	319,509	(331)
Accumulated amortisation:			
At 1st April 2004	–	(20,506)	–
Amortisation provided during the period	(1,796)	(8,888)	55
At 30th September 2004	(1,796)	(29,394)	55
Net book value:			
At 30th September 2004	12,575	290,115	(276)
At 31st March 2004	14,371	293,779	–

**9. Interest in associates/Amount due from associates**

	Six months ended	
	30th September 2004 (Unaudited) HK\$'000	31st March 2004 (Audited) HK\$'000
Share of net assets	9,361	9,204
Goodwill on acquisition (<i>Note 8</i>)	12,575	14,371
	<hr/>	<hr/>
	21,936	23,575
Amount due from an associate after one year	3,000	7,000
	<hr/>	<hr/>
	24,936	30,575
	<hr/>	<hr/>
Amounts due from associates within one year	16,301	11,976
	<hr/>	<hr/>

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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 2004 %	31st March 2004 %	
Basewin Limited	Corporate	Hong Kong	33.00%	33.00%	Retailing of Chinese pharmaceutical products
Chinese Leading Limited	Corporate	Hong Kong	50.00%	50.00%	Retailing of Chinese pharmaceutical products
Creation Sino Limited	Corporate	Hong Kong	50.00%	50.00%	Retailing of Chinese pharmaceutical products
Global Winner Holdings Limited	Corporate	Hong Kong	40.00%	40.00%	Retailing of Chinese pharmaceutical products
Hunan Xiangya Pharmaceutical Co., Ltd	Corporate	China	39.20%	39.20%	Sales and production of pharmaceutical products
Long Richly Limited	Corporate	Hong Kong	50.00%	50.00%	Retailing of Chinese pharmaceutical products
Lucky Planning Limited	Corporate	Hong Kong	50.00%	50.00%	Retailing of Chinese pharmaceutical products
Venko Limited	Corporate	Hong Kong	40.00%	40.00%	Retailing of Chinese pharmaceutical products
Winning Forever Limited	Corporate	Hong Kong	50.00%	50.00%	Retailing of Chinese pharmaceutical products



10. Trade and other receivables and deposits

The Group allows an average credit period of 60 days to 120 days to its trade customers. The following is an aging analysis of trade receivables at the balance sheet date:

	30th September 2004 (Unaudited) HK\$'000	31st March 2004 (Audited) HK\$'000
0-30 days	28,374	20,996
31-60 days	21,112	7,406
61-120 days	11,812	7,703
Over 120 days	3,854	729
	<hr/>	<hr/>
	65,152	36,834
Other receivables and deposits	18,825	11,469
	<hr/>	<hr/>
	83,977	48,303

11. Trade and other payables

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

	30th September 2004 (Unaudited) HK\$'000	31st March 2004 (Audited) HK\$'000
0-30 days	8,018	6,665
31-60 days	2,806	3,340
61-120 days	1,670	2,425
Over 120 days	90	-
	<hr/>	<hr/>
	12,584	12,430
Other payables	30,373	17,106
	<hr/>	<hr/>
	42,957	29,536

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12. Convertible notes

	(Unaudited) HK\$'000
At 1st April 2004	56,500
Redemption during the period	(56,500)
	<hr/>
As at 30th September 2004	–
	<hr/>

13. Loan from a shareholder

The amounts were unsecured, interest-bearing at 2% per annum and repaid during the period.

14. Share capital

	30th September 2004 (Unaudited) HK\$'000	31st March 2004 (Audited) HK\$'000
<i>Authorised:</i>		
60,000,000,000 (31st March 2004: 6,000,000,000) ordinary shares of HK\$0.01 (31st March 2004: HK\$0.10) each (<i>Note 1</i>)	<hr/> 600,000	<hr/> 600,000
<i>Issued and fully paid:</i>		
2,763,869,225 (31st March 2004: 552,773,845) ordinary shares of HK\$0.01 (31st March 2004: HK\$0.10) each	<hr/> 27,639	<hr/> 55,277

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 2004	552,773,845	55,277
Cancellation of nominal value of paid-up capital (<i>Note 1</i>)	–	(49,749)
Rights issues (<i>Note 2</i>)	1,658,321,535	16,583
Bonus issue (<i>Note 2</i>)	552,773,845	5,528
	<hr/>	<hr/>
At 30th September 2004	2,763,869,225	27,639
	<hr/>	<hr/>



Notes:

1. Pursuant to a capital reorganization effective on 28th June 2004, the Company:
 - (i) reduced the par value of the issued ordinary shares from HK\$0.10 each into HK\$0.01 each; and
 - (ii) cancelled the unissued ordinary shares of HK\$0.10 and restored to its original amount by the creation of requisite number under the rights issue and bonus issue.
 - (iii) transferred the credits of HK\$41,877,000 and HK\$7,872,000 arisen from the reduction of the par value of the issued ordinary shares as stated in (i) above to the accounts of general reserve and retained earnings respectively.
2. Pursuant to a special resolution passed on 4th June 2004, 1,658,321,535 ordinary shares and 552,773,845 ordinary shares both of HK\$0.01 each were issued by rights issues and by bonus issues respectively. The rights issue was issued on the basis of three rights issue shares for every share held on the record date. One bonus share was issued on the basis of one bonus for every three fully paid rights shares. The rights issue and bonus issue were completed on 28th June 2004.

15. Acquisition of subsidiaries

(a) Acquisition of WOD Investments Limited

On 8th April 2004, Source Millennium Limited, a wholly owned subsidiary of the Group, entered into a conditional sales and purchase agreement with Wang On Enterprises (BVI) Limited, a wholly owned subsidiary of Wang On Group (“WOG”), to acquire the entire interest in WOD Investments Limited (“WOD”) for a consideration of approximately HK\$64,456,000, subject to adjustments. WOD is engaged in property holding, with its principal assets being certain leasehold land and building situated in Hong Kong valued by HK\$85,000,000 by Vigers Appraisal & Consulting Limited, an independent firm of professional valuers. The transaction was completed on 30th June 2004. The final consideration paid by the Company to WOE was approximately HK\$65,354,000. The cash inflow from the bank balances at the acquisition was approximately HK\$913,000.

(b) Acquisition of CNT Health Food Pte Limited

Pursuant to an agreement signed between independent third party and the Company dated 16th July 2004, the Company agreed to acquire the entire interest of CNT by a cash consideration of Singapore Dollars \$3,220,000 subject to various adjustment with reference to the 2004 to 2006 net asset value and aggregate net profit after tax of CNT. The acquisition was completed on 21st July, 2004. The goodwill arising from the acquisition and cash inflow from the bank balances at the acquisition of CNT were approximately HK\$5,224,000 and HK\$417,000 respectively.

16. Operating lease arrangements

The Group as lessor

Property rental income earned during the period was approximately HK\$588,000 (2003: Nil).

At 30th September 2004, the Group had contracted with tenants for the following future minimum lease payments:

	30th September 2004 (Unaudited) HK\$'000	31st March 2004 (Audited) HK\$'000
Within one year	1,764	–
In the second to fifth years, inclusive	<u>–</u>	<u>–</u>
	<u>1,764</u>	<u>–</u>

The Group as lessee

The Group made minimum lease payments of approximately HK\$7,971,000 (2003: HK\$4,787,000) under operating lease during the period in respect of office properties and retail shops.

At 30th September 2004, the Group had outstanding commitments under non-cancelling operating leases, which fall due as follows:

	30th September 2004 (Unaudited) HK\$'000	31st March 2004 (Audited) HK\$'000
Within one year	24,644	22,498
In the second to fifth years, inclusive	<u>26,274</u>	<u>22,650</u>
	<u>50,918</u>	<u>45,148</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.



17. Contingent liabilities

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

	30th September 2004 (Unaudited) HK\$'000	31st March 2004 (Audited) HK\$'000
Bills discounted with recourse	1,352	–
Guarantees given to bankers in respect of banking facilities granted to a third party	–	2,096
	<u>1,352</u>	<u>2,096</u>

18. Post balance sheet events

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

- (a) Pursuant to an agreement between an independent third party vendor and the Group dated 27th August 2004, the Group acquired 72.86% of the issued shares of April Full Limited, which holds a 70% interest in Hu Zhou Longai Biomedicament Co Ltd (“HZLB”). The total consideration for the acquisition of HK\$29,000,000 would be payable in three instalments of HK\$13,000,000, HK\$13,000,000 and HK\$3,000,000 respectively.

On 27th August 2004, the Group paid to the vendor the first instalment of HK\$13,000,000. Upon completion of the above transaction on 26th October 2004, the Group paid the second instalment of HK\$13,000,000, with the remaining instalment of HK\$3,000,000 to be payable upon the issuance of a new drug certification. Pursuant to the terms of the agreement, following completion of the assets of HZLB have been transferred to the Huzhou Wai Yuen Tong Biological Medicine Co., Ltd, in which the Group holds an effective 51% interest.

- (b) On 7th September 2004, the Group entered into four provisional sale and purchase agreements with an independent third party to acquire four investment properties at an aggregate consideration of approximately HK\$35,600,000, of which approximately HK\$1,800,000 had been paid as a deposit by the Group prior to the balance sheet date. The outstanding balance of approximately HK\$33,800,000 was included in the amount of capital commitments contracted, but not provided for, in note 19 to the financial statements. The directors expect the acquisition will be completed on or before 10th March 2005.

19. Capital Commitments

At 30th September 2004, the Group had capital commitments of approximately HK\$40,123,000 (2003: HK\$2,193,000) in respect of acquisition of properties (as disclosed in note 18(b)), plant and machinery contracted for but not provided in the financial statements.

20. 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	
			2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
(1) CONNECTED PARTIES				
Wang On Group Limited and its subsidiaries (the "Wang On Group")	Interest on term loans paid by the Group	(Note iii)	34	2,764
	Interest on convertible notes paid by the Group	(Note iv)	485	1,315
	Management fee paid by the Group	(Note v)	504	–
	Rental and building management fee paid by the Group	(Note v)	2,355	1,904
	Rental income received by the Group	(Note v)	588	–
Town Health International Holdings Company Limited and its subsidiaries (the "Town Health Group") (Note i)	Acquisition of a subsidiary	(Note vi)	65,354	133,178
	Sales of pharmaceutical products by the Group	(Note vii)	–	1,030
	Management fee received by the Group	(Note vii)	–	56
	Advertising and promotion fee received by the Group	(Note vii)	–	37
Leung Wai Ho (Note ii)	Computer maintenance fee received by the Group	(Note vii)	–	6
	Interest on a term loan paid by the Group	(Note iii)	–	308
(2) RELATED PARTIES OTHER THAN CONNECTED PARTIES				
Associates	Sales of Chinese pharmaceutical products by the Group	(Note viii)	31,611	–
	Management, advertising and promotion fees received by the Group	(Note viii)	2,350	–
	Facilities granted by the Group	(Note ix)	10,000	–



Notes:

- (i) Town Health Group was a substantial shareholder of the Company for the year ended 31st March 2003 and it ceased to be a substantial shareholder of the Company in November 2003.
- (ii) Leung Wai Ho is a non-executive director of the Company.
- (iii) Interest is calculated at 2% per annum in 2004 and 2% above prime rate per annum in 2003.
- (iv) Interest was calculated at the respective rates in accordance with the relevant convertible notes.
- (v) The transactions were based on terms mutually agreed between both parties.
- (vi) The entire interests of WOD Investments Limited was acquired by the Group at a consideration of HK\$65.4 million. The consideration was based on mutually agreed between both parties.
- (vii) The transactions were entered with Town Health Group in accordance with the relevant franchise agreement.
- (viii) The transactions were entered in accordance with the relevant franchise agreements.
- (ix) On 12th March 2004, the Company had granted general facilities of HK\$10.0 million to China Field Enterprises Limited ("China Field"). China Field is an associate company of the Company. China Field had utilized the facilities of HK\$0.952 million as at 30th September 2004.

21. Approval of the unaudited condensed consolidated financial statements

The unaudited condensed consolidated financial statements were approved by the Board of Directors on 17th December 2004.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30th September 2004 (2003: Nil).

BUSINESS REVIEW

The Directors are pleased to announce that the Group's Chinese and western pharmaceutical and health products business have continued to grow satisfactorily. The total turnover and total contribution attributable to the Group's profit from this business (including its operations) for the 6 months ended 30th September 2004 under review increased to HK\$139.2 million (2003: HK\$67.9 million) and HK\$7.0 million (2003: HK\$2.8 million) respectively. The Group's consolidated turnover and net loss for the 6 months ended 30th September 2004 was HK\$139.8 million (2003: HK\$157.0 million) and HK\$10.6 million (2003: HK\$18.0 million) respectively.

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

The rebound of Hong Kong's economy, coupled with the Individual Visit Scheme which allows travellers from China to visit Hong Kong on an individual basis, and further supported by our successful brand building and marketing campaigns, contributed to Wai Yuen Tong's continual growth in Hong Kong.

Turnover for the period under review reached a record high of HK\$99.5 million (2003: HK\$62.3 million), representing an increase of 59.7% as compared to the same six month period last year.



As at 30th September 2004, the total number of Wai Yuen Tong retail outlets was 46, out of which 9 were in China and the total outlets represented an increase of 24% as compared to the figure as at 31st March 2004.

The diversification of Wai Yuen Tong's products continues and the following new products were launched during the review period:

Prophylactic Series – Health products such as Ganoderma Lucidum Spores Powder, Ganoderma Cordycep Tea, Lung Fortifying Granule.

Metro Series – Products designed to assist in the relief of various metro diseases such as Stress Away Capsules, Green Tea Capsules and Essence of Chicken with Ganoderma Lucidum Spore.

Beauty and Slimming Series – Products designed for beauty and slim such as Bird's Nest Moisturizing Mask, Pearl Whitening Mask and Ganoderma Lucidum Anti-Wrinkle Mask.

To celebrate its 108th anniversary and to further its brand building campaign, Wai Yuen Tong will sponsor 7 Cantonese operas to be performed by Koi Ming Fai of Ming Chee Sing Chinese Opera during the Lunar New Year.

Luxembourg Medicine Company Limited (“Luxembourg”)

Luxembourg's business has continued to grow. Turnover for the period under review increased to HK\$33.7 million (2003: approximately HK\$24.2 million), representing an increase of over 39% as compared to the same six month period last year.

The sale of cough syrup under the brand name of “Madame Pearl's” has continued to grow satisfactorily. Diversification to other brand names and products has also brought satisfactory results. At present, Luxembourg has the following 5 product series with a total of over 50 products which are sold in various chain-stores and drug stores.

Madame Pearl's – Medical products such as cough syrup, cold and flu, analgesic, anti-dia and rug cream.

Health Concept – Nutritional products such as milk calcium candy, OPC and DHA.

Natural Plus – Health food products such as Trimpower, Bio-fiberact and Extra Slimming Tea.

Natural Spa – Personal health-care products such as anti-mosquito shower gel, anti-oxidant shower gel and bath set.

Pearl's – Household hygiene products such as disinfectant liquid, fabric softener and laundry detergent.

CNT Health Food Pte Ltd

With a view to expand its overseas business and to strengthen its production base and sourcing arm, the Group acquired CNT Health Pte Ltd in July 2004, which is principally engaged in manufacturing bottled bird's nest drinks, herbal essence, health tonics and other Chinese proprietary medicines and in selling bottled bird's nest drinks, dried bird's nest and other herbs, herbal essence, health tonics, health products and Chinese proprietary medicines at the wholesale and retail level.

Huzhou Wai Yuen Tong Biological Medicine Co., Ltd. ("Huzhou WYT")

During the review period, the Group acquired an effective controlling interest in Huzhou Longhai Biomedicament, the assets of which have been transferred to Huzhou Wai Yuen Tong Biological Medicine Co., Ltd, a PRC enterprise in which the Group holds an effective 51% interest.

The Directors plan to use Huzhou WYT as Wai Yuen Tong's principal production base in China, which will not only reduce its production costs, but also support the business expansion and develop the sales channels of Wai Yuen Tong in Mainland China by manufacturing and selling its Wai Yuen Tong products in Mainland China domestically.



CAPITAL REORGANIZATION

As stated in a notice to shareholders dated 12th May 2004, the Directors proposed a capital reorganization for the Company whereby the nominal value of each of the issued share would be reduced from HK\$0.10 each to HK\$0.01 each by the cancellation of HK\$0.09 paid up on each share, the authorised but unissued share capital of the Company would be cancelled and then restored and the credit of approximately HK\$49.7 million resulting from the cancellation of HK\$0.09 of the paid up capital for each issued share would be applied to general reserve and to set off against the accumulated loss of the Company. The capital reorganization was completed on 28th June 2004.

LIQUIDITY AND FINANCIAL RESOURCES

As stated in a notice to the shareholders dated 12th May 2004, the Directors proposed to raise approximately HK\$265.3 million, before expenses, by issuing not less than 1,658,321,535 rights shares at a price of HK\$0.16 per right share by way of rights issue on the basis of three rights shares for every share held on 4th June 2004. The Directors also proposed to issue bonus share on the basis of one bonus share for every three fully paid rights shares. The rights issue and bonus issue were completed on 28th June 2004.

During the period, the Group has redeemed all non-current convertible notes of HK\$56.5 million and loans from a shareholder of HK\$7.0 million.

As at 30th September 2004, the Group's total borrowings amounted to HK\$71.9 million which included bank borrowings of HK\$69.3 million, bank overdrafts HK\$2.3 million and finance lease obligations of HK\$0.3 million.

The gearing ratio, defined as the ratio of the total borrowings to capital and reserves, as at 30th September 2004, was approximately 12%. The Group's investment properties and fixed assets with an aggregate net book value of HK\$84.5 million were pledged to banks to secure the Group's general banking facilities, approximately HK\$20.3 million of which was utilized at 30th September 2004.

The Group's contingent liabilities as at 30th September 2004 amounted to approximately HK\$1.3 million (31st March 2004: HK\$2.1 million).

MANAGEMENT AND STAFF

As at 30th September 2004, the Group had over 480 employees, around 84% 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 recovery of Hong Kong and worldwide economy and increasing contribution from the Group's pharmaceutical and health products, the Directors are optimistic about the Group's long term prospects.



SHARE OPTION SCHEME

The Company operates a share option scheme ("2004 Scheme") for the primary purpose of providing incentives to selected eligible persons as incentives or rewards for their contribution or potential contribution to the Company or its subsidiaries.

At the balance sheet date, the Board of Directors has not granted any options under 2004 Scheme to the directors and eligible employees of the Company or its subsidiaries to subscribe for shares in the Company and no outstanding share options was to be exercised.

The following table details the movement for the period ended 30th September 2004 in the Company's old share option scheme ("1997 Scheme") which was terminated on 18th September, 2003 but all share options granted prior to the termination of 1997 Scheme will remain in full force and effect:

Name or category of participant	Options held at 1st April 2004	Cancelled during the period	Options held at 30th September 2004	Date of grant of share options	Exercise period of share options	Exercise price of share options HK\$
1997 Scheme						
Other employees						
In aggregate	37,600	(37,600)	–	9-12-1999	9-12-1999 to 8-12-2009	28.50
	20,000	(20,000)	–	3-3-2000	3-3-2000 to 2-3-2010	82.00
	<u>57,600</u>	<u>(57,600)</u>	<u>–</u>			
Total	<u>57,600</u>	<u>(57,600)</u>	<u>–</u>			

At the balance sheet date, all outstanding share options granted under 1997 Scheme were cancelled in August 2004.

DIRECTORS' INTERESTS IN SHARES

As at 30th September 2004, none of the Directors had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Model Code for Securities Transactions by Directors of Listed Companies.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 30th September 2004, the following interests and short positions of 5% or more of the issued capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

Long positions:

Name of Shareholder	Note	Number of Shares	Percentage
Rich Time Strategy Limited	1	822,323,315	29.75%
Wang On Enterprises (BVI) Limited ("WOE")	1	822,323,315	29.75%
Wang On Group Limited ("Wang On")	1	822,323,315	29.75%
Overarchiver Limited	2	323,010,960	11.69%
Kingsway Lion Spur Technology Ltd	2	323,010,960	11.69%
Festival Developments Limited	2	323,010,960	11.69%
Kingsway China Holdings Limited	2	323,010,960	11.69%
SW Kingsway Capital Holdings Limited	2	323,010,960	11.69%
World Developments Limited	2	323,010,960	11.69%
Innovation Assets Limited	2	323,010,960	11.69%
Kingsway International Holdings Limited	2	323,010,960	11.69%
Kwan Wing Kum, Janice	2	323,010,960	11.69%
Choi Koon Shum Jonathan	2	323,010,960	11.69%
Lam William Ka Chung	3	323,010,960	11.69%
Lam Wong Yuk Sin Mary	3	323,010,960	11.69%



Notes:

1. Rich Time Strategy Limited is wholly owned by WOE, which is wholly owned by Wang On, a company with limited liability and the shares of which are listed on the Hong Kong Stock Exchange. WOE and Wang On are deemed to be interested in 822,323,315 shares held by Rich Time Strategy Limited.
2. Both Overachiever Limited ("OL") and Kingsway Lion Spur Technology Limited ("KLSTL") are the wholly-owned subsidiaries of Festival Development Limited ("FDL"). Out of these 323,010,960 shares, 247,610,960 shares and 75,400,000 shares are held by OL and KLSTL respectively. FDL is a wholly-owned subsidiary of Kingsway China Holdings Limited ("KCHL"). KCHL is a wholly-owned subsidiary of SW Kingsway Capital Holdings Limited ("SWKCHL"). SWKCHL is a company with limited liability and the shares of which are listed on the Stock Exchange and is approximately 72% owned by World Developments Limited ("WDL"), which is a wholly owned subsidiary of Innovation Assets Limited ("IAL"). IAL is a wholly owned subsidiary of Kingsway International Holdings Limited ("KIHL"), which is approximately 47% owned by Choi Koon Shum Jonathan ("Mr. Choi"). Kwan Wing Kum Janice ("Madam Kwan") is the spouse of Mr. Choi. Accordingly, each of OL, KLSTL, FDL, KCHL, SWKCHL, WDL, IAL, KIHL, Mr. Choi and Madam Kwan is deemed to be interested in these shares.
3. Mr. Lam William Ka Chung and his spouse, Lam Wong Yuk Sin Mary, beneficially own or control 31,932,317 common shares (approximately 40%) of the issued share capital of KIHL and deemed (by virtue of the SFO) to be interested in the shares or debenture of the subsidiaries of KIHL.

Save as disclosed above, as at 30th September 2004, no other interests or short positions in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30th September 2004, there was no purchase, sale or redemption of the Company's listed shares by the Company or any its subsidiaries.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code of Best Practice as set out in Appendix 14 of the Listing Rules, comprising 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

In the opinion of the Directors, the Company complied throughout the period ended 30th September 2004 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, 17th December 2004

As at the date of this report, the Board comprises two executive Directors, namely Mr. Tang Ching Ho and Mr. Chan Chun Hong, Thomas, a non-executive Director, namely Mr. Leung Wai Ho, and three independent non-executive Directors, namely Mr. Siu Man Ho, Simon, Mr. Yuen Chi Choi and Mr. Cho Wing Mou.