



Interim Report 07

WAI YUEN TONG MEDICINE HOLDINGS LIMITED
(Incorporated in Bermuda with Limited Liability)

Stock Code : 897



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Tang Ching Ho, *Chairman*
Mr. Chan Chun Hong, Thomas,
Managing Director
Ms. Tang Mui Fun

Independent Non-executive Directors

Mr. Leung Wai Ho
Mr. Yuen Chi Choi
Mr. Siu Man Ho, Simon
Mr. Cho Wing Mou

AUDIT COMMITTEE

Mr. Yuen Chi Choi, *Chairman*
Mr. Leung Wai Ho
Mr. Siu Man Ho, Simon
Mr. Cho Wing Mou

REMUNERATION COMMITTEE

Mr. Siu Man Ho, Simon, *Chairman*
Mr. Leung Wai Ho
Mr. Yuen Chi Choi
Mr. Cho Wing Mou
Mr. Tang Ching Ho
Mr. Chan Chun Hong, Thomas

NOMINATION COMMITTEE

Mr. Leung Wai Ho, *Chairman*
Mr. Siu Man Ho, Simon
Mr. Yuen Chi Choi
Mr. Cho Wing Mou
Mr. Tang Ching Ho
Mr. Chan Chun Hong, Thomas

COMPANY SECRETARY

Mr. Chan Chun Hong, Thomas

QUALIFIED ACCOUNTANT

Mr. Lao Wai Keung

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited
DBS Bank (Hong Kong) Limited
Bank of China (Hong Kong) Limited

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

5/F., Wai Yuen Tong Medicine Building
9 Wang Kwong Road
Kowloon Bay
Kowloon
Hong Kong

AUDITORS

Deloitte Touche Tohmatsu

LEGAL ADVISERS

Kirkpatrick & Lockhart Preston Gates Ellis
Mallesons Stephen Jaques
Gallant Y.T. Ho & Co.

BRANCH REGISTRAR IN HONG KONG

Tricor Secretaries Limited
26/F, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

HOMEPAGE

<http://www.wyth.net>

STOCK CODE

897

INTERIM DIVIDEND

The board of directors (the “Board”) of Wai Yuen Tong Medicine Holdings Limited (the “Company”) does not recommend the payment of an interim dividend for the six months ended 30 September 2007 (2006: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Company and its subsidiaries (the “Group”) recorded a turnover of HK\$213.9 million (2006: HK\$172.5 million) for the six months ended 30 September 2007, posting a year-on-year growth of approximately 24.0%. Gross profit of HK\$95.6 million (2006: HK\$79.1 million) was reported, representing a growth of approximately 20.9%. The booming economy plus the timely strategic expansion program launched in 2006 enabled the Group to continue to increase its market penetration in Hong Kong, mainland China and other overseas markets. The Group’s operations turned around and recorded a profit attributable to equity holders for the six months ended 30 September 2007 of HK\$15.4 million (2006: loss attributable to equity holders of HK\$5.3 million).

(1) Chinese Pharmaceutical Products

Turnover for the period under review was a record high of HK\$156.4 million (2006: HK\$122.8 million), representing an increase of approximately 27.4% as compared with last year’s corresponding period. The rejuvenation of the “Wai Yuen Tong” brand in the fourth quarter of 2006 proved to be very successful in capturing increased public awareness of the brand. The growing number of brand marketing activities and promotions had uplifted our public image as the No. 1 Chinese herbal medicine retail chain, Chinese medical practitioners network, and provider of the best quality traditional Chinese medicine products. During the period under review, the Group continued to expand its retail network by increasing 14 retail outlets in Hong Kong and the People’s Republic of China (the “PRC”), bringing the total number of retail outlets to 94.

(2) Western Pharmaceutical Products

The turnover of Western pharmaceutical and health products grew approximately 20.4% to HK\$38.3 million (2006: HK\$31.8 million). The growth mainly came from the sale of the core product, cough syrup, through the sales channels and network spread over 18 provinces in the PRC. The Group will continue to focus on the sale of cough syrup but will also allocate resources to develop other products related to upper respiratory tract infections. New business opportunities will be sought to optimise the utilisation of the strong distribution network in Hong Kong and the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

BUSINESS REVIEW *(Continued)*

(3) Chinese Health Food Business

CNT Health Food Pte Limited (“CNT”), our subsidiary with principal operations in Singapore, is responsible for the Group’s manufacturing of Chinese health food. The revenue for the period under review was HK\$19.1 million (2006: HK\$17.9 million), representing an increase of approximately 6.7% as compared with last year’s corresponding period. The enhanced production efficiency continued to allow it to show a remarkable improvement in gross profit margin.

(4) Investment in LeRoi Holdings Limited

LeRoi Holdings Limited (“LeRoi”) is engaged in the trading of fashion apparel, the sale of fresh pork meat and related products, property holding and property development in Vietnam and the PRC.

In July 2007, the Group disposed of HK\$10 million in principal amount of our holding of convertible notes issued by LeRoi and recorded a profit of HK\$1.9 million from this sale.

On 6 August 2007, the Group entered into a subscription agreement with LeRoi to subscribe for (i) 2,100,000,000 new shares in LeRoi at the subscription price of HK\$0.10 per share; and (ii) the convertible bonds with a principal amount of HK\$190 million which are convertible into 1,583,333,333 shares of LeRoi at the conversion price of HK\$0.12 per share. Completion took place on 5 October 2007. As at the date of this report, the shareholding of the Company in LeRoi stands at 29.97%.

FINANCIAL REVIEW

Liquidity, Capital Structure and Gearing

On 11 June 2007, the Company entered into a placing agreement with a placing agent to place, on a fully underwritten basis, 279 million shares to independent investors at the price of HK\$0.46 per share. The share placement was completed on 29 June 2007. The net proceeds of approximately HK\$124.1 million are intended to be used for the expansion of the Group’s “Wai Yuen Tong” retail network in the PRC and Hong Kong and as general working capital of the Group.

On 11 June 2007, the Company entered into a separate placing agreement with the same placing agent to place, on a fully underwritten basis, up to an aggregate principal amount of HK\$250 million of convertible notes to be issued by the Company, which are convertible into new shares of the Company at a conversion price of HK\$0.58 per share. The convertible notes placement was completed on 14 August 2007. The net proceeds of approximately HK\$245.5 million are intended to be used as to approximately HK\$180 million for potential acquisitions and the remaining balance as general working capital of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL REVIEW *(Continued)*

Liquidity, Capital Structure and Gearing *(Continued)*

Overall speaking, the Group has consistently maintained a sufficient working capital level which enables the Group to actively looking for potential business opportunities available in the market. As at 30 September 2007, the Group had current assets of HK\$827.6 million (31 March 2007: HK\$411.3 million), with current ratio at 7.7 (31 March 2007: 4.6). The current assets mainly comprised inventories of HK\$97.8 million (31 March 2007: HK\$67.1 million), trade and other receivables of HK\$76.1 million (31 March 2007: HK\$69.3 million), and bank balances and cash of HK\$596.0 million (31 March 2007: HK\$236.6 million). The Group reported total assets of HK\$1,191.9 million (31 March 2007: HK\$792.9 million), current liabilities of HK\$107.3 million (31 March 2007: HK\$89.3 million), non-current liabilities of HK\$264.1 million (31 March 2007: HK\$45.9 million) and equity attributable to equity holders of HK\$820.4 million (31 March 2007: HK\$657.7 million).

As at 30 September 2007, the Group's total borrowings amounted to HK\$51.7 million (31 March 2007: HK\$59.3 million). The gearing ratio, being the ratio of total borrowings to equity attributable to equity holders, was approximately 6.3% (31 March 2007: 9.0%).

Foreign Exchange

The Board is of the opinion that the Group has no material foreign exchange exposure. All bank borrowings are denominated in Hong Kong and Singapore dollars. The revenue of the Group, being mostly denominated in Hong Kong and Singapore dollars, matched the currency requirement of the Group's operating expenses. Accordingly, the Group does not engage in any hedging contracts.

EMPLOYEES

As at 30 September 2007, the Group had approximately 560 employees, of whom approximately 88% were located in Hong Kong. The Group's policy is to ensure that the pay levels of its employees are competitive and employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system. The Group also makes available a share option scheme to its employees.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

PROSPECTS

The Group expects the respective growth momentum in the Chinese pharmaceutical products and is targeting to maintain overall turnover growth similar to the first half of the financial year. Encouraged by the robust comparable-store-sales growth and continuous retail profitability improvement, we will accelerate our retail network expansion, particularly in mainland China. The Group is now working on a model in mainland China which will provide a platform for the future expansion.

In the fourth quarter of 2007, the Group invested approximately HK\$5 million in a series of advertising campaigns targeting to re-energise the classic brand of "Madame Pearl's". Along with the advertising events, the Group will move into the ethical drugs markets, with the launch of Madame Pearl's Mucolytic products in hospital and private clinics in Hong Kong and Macau. The success of the launch will not only uplift its classic brand image to professional image, but will help strengthen the brand position of Madame Pearl's as the "Respiratory Specialist" and open channels for continued development in more professional products.

As for the Chinese health food business, the Group has been the single largest bottled bird's nest contract manufacturer in Singapore for three consecutive years and will continue to secure its top position through the provision of OEM services. The Group sets out strategies aiming at becoming the world's leading manufacturer of health foods, developing its dried bird's nest wholesale business and seeking to expand into the mainland China and overseas Chinese communities.

Brand positioning, product development, distribution network and quality management are the essentials to drive the long-term growth in our business. The Group has sufficient cash on hand and keeps actively looking for acquisition targets that have synergy to our existing businesses. Given the crystal clear expansion strategies and good track record in the first half year results, the Group is confident in continuing to maximise returns to the shareholders.

DISCLOSURE OF INTERESTS

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 September 2007, the interests and short positions of the directors and chief executive of the Company and/or any of their respective associates in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Part XV of the SFO or the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Long positions in underlying shares of share options of the Company:

Name of director	Date of grant of share options	Exercise price per share HK\$	Number of share options outstanding	Number of total underlying shares	Approximate percentage of the Company's total issued share capital %
Tang Mui Fun	3 Jan 2007	0.415	650,000	650,000	0.04

Note: The exercisable period of the above share options beneficially held by Ms. Tang Mui Fun was vested as detailed under the section headed "Share Option Scheme".

Save as disclosed above, as at 30 September 2007, none of the directors and chief executive of the Company and/or any of their respective associates had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the Model Code.

DISCLOSURE OF INTERESTS (CONTINUED)

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES OR UNDERLYING SHARES

As at 30 September 2007, the following persons (other than the directors or chief executive of the Company) had, or were deemed or taken to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO:

Long positions in ordinary shares of the Company:

Name of shareholder	Number of shares	Approximate percentage of
		the Company's total issued share capital (Note 1) %
Wang On Group Limited ("Wang On") (Note 2)	474,209,324	28.31
Wang On Enterprises (BVI) Limited ("WOE") (Note 2)	474,209,324	28.31
Rich Time Strategy Limited ("Rich Time") (Note 2)	474,209,324	28.31

Notes:

1. The percentage represented the number of shares over the total of the issued share capital of the Company as at 30 September 2007 of 1,675,347,688 shares.
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 474,209,324 shares held by Rich Time.

Save as disclosed above, as at 30 September 2007, there were no other persons (other than the directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

DISCLOSURE OF INTERESTS (CONTINUED)

SHARE OPTION SCHEME

On 18 September 2003, the Company adopted a share option scheme (the "Scheme") for the primary purpose of providing incentives to selected eligible persons as incentives or rewards for their contribution or potential contribution to the Group. The Scheme will expire on 17 September 2014.

The movement in the share options under the Scheme during the period under review was as follows:

Name or category of participant	At 1 April 2007	Number of share options granted or exercised	At 30 September 2007	Date of grant	Exercise price per share HK\$	Exercisable period*
Executive Director						
Tang Mui Fun	650,000	–	650,000	3.1.2007	0.415	2.1.2008 to 1.1.2012
Other employees						
In aggregate	3,470,000	–	3,470,000	3.1.2007	0.415	2.1.2008 to 1.1.2012
	4,120,000	–	4,120,000			

* The options granted under the Scheme were vested as follows:

On 2nd anniversary of the date of grant	30% vest
On 3rd anniversary of the date of grant	Further 30% vest
On 4th anniversary of the date of grant	Remaining 40% vest

The options will be expired upon the day before of 5th anniversary of the date of grant.

As at the balance sheet date, the Company had 4,120,000 share options outstanding under the Scheme. Upon expiry of the vest periods, the exercise in full of these share options would, under the present capital structure of the Company, result in the issue of 4,120,000 additional ordinary shares of the Company and additional share capital of HK\$41,200 and share premium of HK\$1,668,600 (before issue expenses).

During the six months ended 30 September 2007, the Board had not granted any option under the Scheme to the directors or eligible employees of the Group to subscribe for shares in the Company and no outstanding share options was exercised during the period under review.

OTHER INFORMATION

CORPORATE GOVERNANCE

In the opinion of the directors, the Company has complied with the code provisions in the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules throughout the period for the six months ended 30 September 2007.

The Group will continue to seek to improve its management and raise its control level to enhance the Company's competitiveness and operating efficiency, to ensure its sustainable development and to generate greater returns for the shareholders of the Company.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the six months ended 30 September 2007.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by directors of the Company. Having made specific enquiry of all directors of the Company, all directors confirmed that they had complied with the required standard set out in the Model Code adopted by the Company throughout the period under review.

AUDIT COMMITTEE

The Company has established an audit committee in compliance with Rule 3.21 of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee has reviewed the unaudited financial statements for the six months ended 30 September 2007 of the Group. The audit committee comprises four independent non-executive directors of the Company.

By Order of the Board
Tang Ching Ho
Chairman

Hong Kong, 12 December 2007

INTERIM RESULTS

The Board of the Company is pleased to announce the unaudited consolidated results of the Group for the six months ended 30 September 2007, together with the comparative figures for the corresponding period in 2006. These condensed consolidated financial statements were not audited, but have been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2007

	Notes	For the six months ended 30 September	
		2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
REVENUE	3	213,872	172,499
Cost of Sales		(118,314)	(93,430)
Gross Profit		95,558	79,069
Other income	5	23,065	7,627
Distribution costs		(68,754)	(57,367)
Administrative expenses		(39,028)	(30,717)
Finance costs	6	(3,116)	(3,505)
Impairment loss recognised in respect of goodwill		–	(161)
Decrease in fair value of investment property		–	(150)
Gain on disposal of interest in an associate		9,577	–
Share of results of associates		(372)	90
PROFIT (LOSS) BEFORE TAXATION	7	16,930	(5,114)
Income tax expense	8	(1,509)	(196)
PROFIT (LOSS) FOR THE PERIOD		15,421	(5,310)
ATTRIBUTABLE TO:			
Equity holders of the Company		15,416	(5,314)
Minority interests		5	4
		15,421	(5,310)
EARNINGS (LOSS) PER SHARE	9		
Basic		1.0 HK cents	(0.4) HK cents
Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 September 2007

	Notes	30 September 2007 (Unaudited) HK\$'000	31 March 2007 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	34,928	37,229
Prepaid lease payments		96,253	97,503
Goodwill		206,064	206,064
Interests in associates	12	14,220	4,872
Amounts due from associates	13	–	20,000
Trademarks		1,066	1,100
Long-term bank deposits		7,813	7,813
Investments in unlisted notes	16	3,901	6,956
Deferred tax assets		57	57
		364,302	381,594
CURRENT ASSETS			
Inventories		97,771	67,059
Trade and other receivables	14	76,145	69,346
Prepaid lease payments		2,500	2,500
Amounts due from associates	13	29,198	9,525
Deposits paid for investments	15	–	9,378
Tax recoverable		321	435
Investments in unlisted notes	16	–	1,974
Investments held-for-trading		25,608	14,475
Derivative financial instruments		74	–
Pledged deposits		8,167	–
Bank balances and cash		587,807	236,625
		827,591	411,317
CURRENT LIABILITIES			
Trade and other payables	17	91,212	73,228
Tax payable		1,532	426
Obligations under finance leases		31	29
Bank borrowings	18	14,338	15,368
Deferred franchise income		158	223
Convertible loan stock		8	8
		107,279	89,282

CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

As at 30 September 2007

	<i>Notes</i>	30 September 2007 (Unaudited) HK\$'000	31 March 2007 (Audited) HK\$'000
NET CURRENT ASSETS		720,312	322,035
TOTAL ASSETS LESS CURRENT LIABILITIES		1,084,614	703,629
NON-CURRENT LIABILITIES			
Obligations under finance leases		–	22
Bank borrowings	18	37,341	43,855
Convertible notes	19	224,689	–
Deferred tax liabilities		2,054	2,054
		264,084	45,931
NET ASSETS		820,530	657,698
CAPITAL AND RESERVES			
Share capital	20	16,753	13,964
Reserves		803,665	643,627
Equity attributable to equity holders of the Company		820,418	657,591
Minority interests		112	107
TOTAL EQUITY		820,530	657,698

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2007

	Attributable to the equity holders of the Company										
	Share Capital	Share premium	Special Reserve	General Reserve	Share Option reserve	Translation Reserve	Convertible Notes Reserve	Accumulated (losses) Profits	Sub-total	Minority Interests	Total
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(note a)	(note b)							
At 1 April 2006	13,964	551,881	(27,150)	218,508	-	1,164	-	(111,655)	646,712	79	646,791
Exchange difference arising on translation of foreign operations	-	-	-	-	-	864	-	-	864	-	864
Share of translation reserve of associates	-	-	-	-	-	68	-	-	68	-	68
Net income recognised directly in equity	-	-	-	-	-	932	-	-	932	-	932
Profit for the year	-	-	-	-	-	-	-	9,895	9,895	28	9,923
Total recognised income for the year	-	-	-	-	-	932	-	9,895	10,827	28	10,855
Issue of share options	-	-	-	-	52	-	-	-	52	-	52
At 31 March 2007	13,964	551,881	(27,150)	218,508	52	2,096	-	(101,760)	657,591	107	657,698
Profit for the period	-	-	-	-	-	-	-	15,416	15,416	5	15,421
Issue of new shares	2,789	125,550	-	-	-	-	-	-	128,339	-	128,339
Share issue expenses	-	(3,718)	-	-	-	-	-	-	(3,718)	-	(3,718)
Issue of share options	-	-	-	-	110	-	-	-	110	-	110
Recognition of equity component of convertible notes	-	-	-	-	-	-	22,680	-	22,680	-	22,680
At 30 September 2007	16,753	673,713	(27,150)	218,508	162	2,096	22,680	(86,344)	820,418	112	820,530

Notes:

- The special reserve of the Group represents the difference between the nominal value of the ordinary shares issued by the Company and the aggregate nominal value of the issued ordinary share capital of the subsidiaries acquired pursuant to the group reorganisation in 1995.
- The general reserve represents the credits arising from the capital reduction effected by the Company less the amount utilised for the purpose of bonus issue of shares by the Company.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2007

	For the six months ended 30 September	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Net cash used in operating activities	(10,695)	(1,162)
Net cash from investing activities	762	3,986
Net cash from (used in) financing activities	361,115	(22,229)
Increase (decrease) in cash and cash equivalents	351,182	(19,405)
Cash and cash equivalents at the beginning of the period	236,625	108,008
Effect of foreign exchange rate changes	–	201
Cash and cash equivalents at the end of the period	587,807	88,804
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	587,807	90,702
Bank overdrafts	–	(1,898)
	587,807	88,804

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 Listing Rules and with Hong Kong Accounting Standards (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

2. Principal accounting policies

The condensed financial statements have been prepared under the historical cost basis except for financial instruments, which are measured at fair values.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2007.

In the current period, the Group has applied, for the first time, the following new standard, amendment and interpretations (“new HKFRSs”) issued by the HKICPA, which are effective for the Group’s financial year beginning on 1 April 2007.

HKAS 1 (Amendment)	Capital disclosures ¹
HKFRS 7	Financial instruments: Disclosures ¹
HK(IFRIC) – Int 8	Scope of HKFRS 2 ²
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives ³
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment ⁴
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions ⁵

¹ Effective for annual periods beginning on or after 1 January 2007

² Effective for annual periods beginning on or after 1 May 2006

³ Effective for annual periods beginning on or after 1 June 2006

⁴ Effective for annual periods beginning on or after 1 November 2006

⁵ Effective for annual periods beginning on or after 1 March 2007

The adoption of the new HKFRSs had no material effect on the results and financial position for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards and interpretations will have no material impact on the results and the financial position of the Group.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Principal accounting policies (Continued)

HKAS 23 (Revised)	Borrowing Costs ¹
HKFRS 8	Operating Segments ¹
HK(IFRIC) – Int 12	Service Concession Arrangements ²
HK(IFRIC) – Int 13	Customer loyalty programmes ³
HK(IFRIC) – Int 14	HKAS19 – The limit on a defined benefit asset, minimum funding requirements and their interaction ²

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 January 2008

³ Effective for annual periods beginning on or after 1 July 2008

3. Revenue

	For the six months ended 30 September	
	2007 (Unaudited) HK\$'000	2006 (Unaudited and restated) HK\$'000
Revenue comprises :		
Sales of goods	212,376	170,415
Management, advertising and promotion fees	1,496	2,084
	213,872	172,499

4. Business and geographical segments

(a) Business segments

For management purposes, the Group is currently organised into the following major divisions: (i) production and sale of Chinese pharmaceutical and health food products; (ii) production and sale of Western pharmaceutical and health food products; and (iii) production and sale of bottled birds' nest drinks and herbal essence products. These divisions are the basis on which the Group reports its primary segment information.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Business and geographical segments (Continued)

(a) Business segments (Continued)

An analysis of the Group's revenue, contribution to operating results by business segments is presented as follows:

Unaudited Condensed Consolidated Income Statement

For the six months ended 30 September

	Production and sale of Chinese pharmaceutical and health food products		Production and sale of Western pharmaceutical and health food products		Production and sale of bottled birds' nest drinks and herbal essence products		Elimination		Total	
	2007 HK\$'000	2006 HK\$'000 (Restated)	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
REVENUE										
External	156,426	122,793	38,339	31,833	19,107	17,873	-	-	213,872	172,499
Inter segment sales*	3,396	3,712	42	-	12,659	14,300	(16,097)	(18,012)	-	-
	159,822	126,505	38,381	31,833	31,766	32,173	(16,097)	(18,012)	213,872	172,499
RESULTS										
Segment results, excluding impairment loss recognised in respect of goodwill	669	99	3,981	2,657	1,386	161	-	-	6,036	2,917
Impairment loss recognised in respect of goodwill	-	(161)	-	-	-	-	-	-	-	(161)
	669	(62)	3,981	2,657	1,386	161			6,036	2,756
Other income									23,065	7,627
Unallocated corporate expenses									(18,260)	(12,082)
Finance costs									(3,116)	(3,505)
Gain on disposal of interest in an associate									9,577	-
Share of results of associates									(372)	90
Profit (loss) before taxation									16,930	(5,114)
Income tax expense									(1,509)	(196)
Profit (loss) for the period									15,421	(5,310)

* Inter segment sales are charged on terms determined and agreed between group companies.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Business and geographical segments (Continued)

(b) Geographical segments

The Group's operation are located in Hong Kong, the PRC and Singapore.

The following is an analysis of the Group's revenue by geographical markets, irrespective of the origin of the goods and services:

	For the six months ended 30 September	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Hong Kong	156,061	126,939
PRC, other than Hong Kong	33,076	22,103
Singapore	13,941	11,649
Others	10,794	11,808
	213,872	172,499

5. Other income

	For the six months ended 30 September	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Interest income on investments in unlisted notes	504	-
Interest income on bank deposits	7,295	3,420
Other interest income	792	366
Franchise income	128	205
Gain on disposal of investment held-for-trading	2,737	2,625
Fair value gain on investments held-for-trading	7,520	50
Gain on disposal of convertible notes	1,945	-
Gain on recognition of derivative financial instruments	74	-
Recognition of deferred income on disposal of a subsidiary	150	-
Dividend income	40	108
Compensation income	430	-
Processing fee income	460	420
Sundry income	990	433
	23,065	7,627

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. Finance costs

	For the six months ended 30 September	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	355	1,446
Bank borrowings not wholly repayable within five years	1,215	2,033
Finance leases	3	26
Effective interest expenses on convertible notes	1,543	–
	3,116	3,505

7. Profit (loss) before taxation

	For the six months ended 30 September	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Profit (loss) before taxation has been arrived after charging:		
Allowance for inventories	3,466	–
Allowance for trade receivables	2,808	26
Amortisation of trademarks, included in administrative expenses	77	77
Depreciation of property, plant and equipment	7,046	7,826
Amortisation of prepaid lease payments	1,250	1,756
Management fee paid to a shareholder	48	48
and after crediting:		
Written back on allowance for inventories	–	204

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. Income tax expense

	For the six months ended 30 September	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Current tax		
Hong Kong Profits Tax	628	–
Other jurisdictions	820	351
	1,448	351
Under (over) provision in prior years		
Hong Kong Profits Tax	61	–
Other jurisdictions	–	(129)
Deferred taxation		
Current year	–	(26)
	1,509	196

Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) on the estimated assessable profit for the period.

Singapore Income Tax is calculated at 18% (2006: 20%) on the estimated assessable profit for the period.

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

9. Earnings (loss) per share

The calculation of the basic and diluted earnings per share is based on the following data:

	For the six months ended 30 September	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Profit (loss) for the period attributable to the equity holders of the Company for the purpose of basic earnings per share	15,416	(5,314)
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	1,539,659,163	1,396,347,688

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. Earnings (loss) per share (Continued)

The computation of diluted earnings per share for the six months ended 30 September 2007 does not assume the exercise of the outstanding options of the Company as the exercise price of those options is higher than the average market price of the shares of the Company on the Stock Exchange nor the conversion of the outstanding convertible loan stock of the Company which would result in an increase in basic earnings per share.

The computation of diluted loss per share for the six months ended 30 September 2006 does not assume the conversion of the outstanding convertible loan stock of the Company since their exercise would result in a decrease in net loss per share.

10. Property, plant and equipment

During the six months ended 30 September 2007, the Group acquired property, plant and equipment for an amount of approximately HK\$4,856,000 (six months ended 30 September 2006: HK\$4,622,000).

11. Pledge of assets

The Group had pledged the following assets to banks and financial institutions to secure general banking facilities granted to the Group and derivative financial instruments acquired by the Group respectively.

	30 September 2007 (Unaudited) HK\$'000	31 March 2007 (Audited) HK\$'000
Prepaid lease payments	97,715	98,952
Buildings	1,035	1,048
Bank deposits	8,167	–
	106,917	100,000

12. Interests in associates

	30 September 2007 (Unaudited) HK\$'000	31 March 2007 (Audited) HK\$'000
Cost of investments in associates		
– Listed in Hong Kong	1,682	1,682
– Unlisted	10,821	10,821
Share of post-acquisition reserves, net of dividends receivable	1,717	(7,631)
	14,220	4,872
Market value of listed share	102,500	24,600

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13. Amounts due from associates

	30 September 2007 (Unaudited) HK\$'000	31 March 2007 (Audited) HK\$'000
Amounts due from associates – due after one year	10,900	30,900
Less: Impairment loss recognised	(10,900)	(10,900)
	–	20,000
Amounts due from associates – due within one year	29,687	10,014
Less: Impairment loss recognised	(489)	(489)
	29,198	9,525

At 30 September 2007, the amounts due from associates were unsecured, interest-free and are repayable on demand, except for an amount of approximately HK\$34,252,000 (31 March 2007: HK\$31,825,000) which carries interest at 4% to 6.5% (31 March 2007: 4% to 6.5%) per annum and is repayable from 31 March 2007 to 29 January 2010 (31 March 2007: repayable from 31 March 2007 to 29 January 2010).

14. Trade and other receivables

	30 September 2007 (Unaudited) HK\$'000	31 March 2007 (Audited) HK\$'000
Trade receivables	50,226	50,478
Less: accumulated impairment	(3,710)	(902)
	46,516	49,576
Other receivables and prepayment	29,629	19,770
	76,145	69,346

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14. Trade and other receivables (Continued)

The Group allows an average credit period of 60 days to 120 days to its trade customers. The following is an aged analysis of trade receivables (net of impairment loss) at the balance sheet date:

	30 September 2007 (Unaudited) HK\$'000	31 March 2007 (Audited) HK\$'000
0 – 30 days	21,565	18,360
31 – 60 days	12,895	18,718
61 – 120 days	10,472	9,418
Over 120 days	1,584	3,080
	46,516	49,576

The fair value of the Group's trade and other receivables at 30 September 2007 approximates to the corresponding carrying amount.

15. Deposits paid for investments

On 15 September 2005, the Group entered into a sale and purchase agreement (the "Acquisition Agreement") with an independent third party (the "Vendor") for the acquisition of an 8% equity interest in Dongguan Senox Industrial Co., Ltd., Dongguan Senox Agricultural Products Co. Ltd. and Dongguan Senox Logistics Co., Ltd. (hereinafter collectively referred to as the "Senox Group") for an aggregate consideration of HK\$24,000,000. The Senox Group is principally engaged in the investment and management and provision of logistics services in PRC. A deposit of HK\$12,000,000 was paid upon entering into the conditional agreements.

During the year ended 31 March 2007, the Senox Group paid dividends amounting to RMB30,000,000 and the Group was entitled to RMB2,400,000, approximately HK\$2,371,000.

On 21 February 2007, the Group entered into a termination agreement with the Vendor for the termination of the Acquisition Agreement. Details of the termination are set out in the Company's announcement dated 23 February 2007. The completion took place in May 2007 and a profit of HK\$422,000 was recorded.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16. Investments in unlisted notes

	30 September 2007 (Unaudited) HK\$'000	31 March 2007 (Audited) HK\$'000
The amount comprise of :		
– unlisted bank notes from financial institutions (<i>note a</i>)	3,901	5,875
– unlisted convertible note due from an associate (<i>note b</i>)	–	3,055
	3,901	8,930
Carrying amount analysed for reporting purposes as:		
Non-current	3,901	6,956
Current	–	1,974
	3,901	8,930

Notes :

- (a) The amounts represented notes issued by financial institutions. Details of the term of the bank notes are as follows :

Notional amount	Maturity date	Effective interest rate
<i>At 30 September 2007</i>		
US\$500,000	11 December 2008	5.125%
<i>At 31 March 2007</i>		
US\$500,000	11 December 2008	5.125%
HK\$2,000,000	8 June 2007	3.6%

- (b) The amounts represented the unlisted convertible note with principal amount of HK\$3,000,000 issued by LeRoi (“LeRoi Note”). LeRoi Note bears interest at a contractual interest rate of 6.5% per annum and is due for redemption on 23 January 2010. The Group is entitled at any time after the date of issue of the LeRoi Note and up to the maturity date to convert the LeRoi Note into ordinary share of LeRoi at an initial conversion price of HK\$0.2 per share (subject to adjustment). The effective interest rate for the year was 8.45%. The amount included the debt portion of investments in unlisted notes of HK\$2,848,000 and the fair value of conversion option right embedded in convertible note of HK\$207,000. The fair value of conversion option right embedded in convertible note is determined by the directors of the Group with reference to the valuation performed by Sallmanns (Far East) Limited, a firm of independent valuers.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. Trade and other payables

Include in trade and other payables are trade payables of approximately HK\$48,118,000 (31 March 2007: HK\$40,724,000) and their aged analysis is as follows:

	30 September 2007 (Unaudited) HK\$'000	31 March 2007 (Audited) HK\$'000
0 – 30 days	38,007	18,816
31 – 60 days	8,202	13,709
61 – 120 days	523	5,576
Over 120 days	1,386	2,623
	48,118	40,724
Other payables	43,094	32,504
	91,212	73,228

The fair value of the Group's trade and other payables at 30 September 2007 approximates to the carrying amount.

18. Bank borrowings

During the period, the Group obtained new borrowings amounting to HK\$16,116,000 and repaid HK\$23,660,000. The loans bear interest at market rates from 5.21% to 7.25%. The proceeds were used to finance the operation.

19. Convertible notes

During the period, the Company issued convertible notes of HK\$250 million with a conversion price of HK\$0.58 per share. The convertible notes carried interest at 1% per annum payable half yearly in arrears and are redeemable on 13 August 2009. The notes entitle the holders to convert them into ordinary shares of HK\$0.01 per share of the Company.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

20. Share capital

	30 September 2007 (Unaudited) HK\$'000	31 March 2007 (Audited) HK\$'000
Authorised: 60,000,000,000 (31 March 2007: 60,000,000,000) ordinary shares of HK\$0.01 (31 March 2007: HK\$0.01) each	600,000	600,000
Issued and fully paid: 1,675,347,688 (31 March 2007: 1,396,347,688) ordinary shares of HK\$0.01 (31 March 2007: HK\$0.01) each (Note)	16,753	13,964

Note: On 11 June 2007, Rich Time, the substantial shareholder of the Company and an investment holding company, entered into a placing agreement and a top-up subscription agreement with an independent placing agent and the Company respectively, under which Rich Time agreed to place, through the placing agent, an aggregate of 279 million shares in the Company at a price of HK\$0.46 per share and to subscribe for an aggregate of 279 million new shares of the Company at a price of HK\$0.46 per share, the gross proceeds of which are approximately HK\$128.3 million. Completion of such share placement took place on 29 June 2007.

Shares options

Details of the Company's share option scheme are set out in the section "Share Option Scheme" of the interim report 2007.

21. Capital commitments

At 30 September 2007, the Group had capital commitments of approximately HK\$953,000 (31 March 2007: HK\$1,324,000) in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements.

22. Operating leases

The Group as lessee:

The Group made minimum lease payments of approximately HK\$24,360,000 (2006: HK\$15,194,000) under operating leases during the period in respect of its office properties and retail shops.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

22. Operating leases (Continued)

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	30 September 2007 (Unaudited) HK\$'000	31 March 2007 (Audited) HK\$'000
Within one year	49,261	40,519
In the second to fifth years inclusive	76,563	69,100
Over five years	59,220	65,800
	185,044	175,419

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 2 to 3 years. Certain lease rentals are based on revenue of the relevant retail shops.

23. Post balance sheet events

On 6 August 2007, the Group entered into the Subscription Agreement with LeRoi to subscribe for 2,100,000,000 new shares of HK\$0.01 each per share at the subscription price of HK\$0.10 per share, totalling HK\$210 million. Pursuant to the same agreement, the Group also agreed to subscribe for the convertible bonds with an aggregate principal amount of HK\$190 million which can be exercised and converted into 1,583,333,333 shares of HK\$0.01 each per share at a conversion price of HK\$0.12 per share. Both transactions were completed on 5 October 2007.

On 9 November 2007, the Group acquired an additional 32% interest of the issued share capital of the then associated corporation, China Field Enterprises Limited ("China Field"), at a consideration of HK\$3,872,000. China Field became a subsidiary of the Company afterwards. China Field is an investment holding company and it disposed of 15.8% equity interest in a non wholly-owned subsidiary, Hunan Xiangya Pharmaceutical Co., Ltd. ("Hunan Xiangya") at a consideration of HK\$2,000,000. After completion of the above transactions, the effective shareholdings of the Group in Hunan Xiangya changed from 39% to 52%. Hunan Xiangya is engaged in the production of pharmaceutical products.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

24. Connected and related party disclosures

During the period, the Group had significant transactions and balances with related parties, some of which are also deemed to be connected parties pursuant to the Listing Rules. Besides, transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. The significant transactions with these companies during the period, and balances with them at the balance sheet date, are as follows:

Name of related party	Transactions	For the six months ended 30 September	
		2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
(i) Connected parties			
Wang On and its subsidiaries (the "Wang On Group")	Management fee paid by the Group	48	48
	Rental paid by the Group	330	150
	Rental received by the Group	960	885
	Rental paid by the associate of the Group	360	234
(ii) Related parties other than connected parties			
Associates	Sales of Chinese pharmaceutical products by the Group	13,267	15,781
	Management, advertising and promotion fee received by the Group	1,105	1,137
	Facilities granted by the Group	45,000	10,000
	Interest income received by the Group	742	329

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

24. Connected and related party disclosures *(Continued)*

- (iii) Compensation of key management personnel

The remuneration of directors and other members of key management during the period was as follows:

	For the six months ended 30 September	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Short-term benefits	1,028	836
Post-employment benefits	14	12
	1,042	848

The above remuneration is determined by the remuneration committee having regard to the performance of individuals and market trends.

25. Approval of the unaudited condensed consolidated financial statements

The unaudited condensed consolidated financial statements were approved by the Board on 12 December 2007.