

**ORCHID CAPITAL LIMITED
(ABN 30 073 099 171)**

HALF-YEAR FINANCIAL REPORT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

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CORPORATE DIRECTORY

DIRECTORS

C McKee
J Sandt
A Tan
R Lambe

COMPANY SECRETARY

R Lambe

REGISTERED OFFICE

Level 1, 1 Havelock Street
West Perth, Western Australia, 6005
Telephone: +618 9209 2902
Facsimile: +618 9209 3973
Email: info@orchidcapital.net
Website: www.orchidcapital.net

AUDITORS

Stantons International
Level 1, 1 Havelock Street
West Perth, Western Australia, 6005

SHARE REGISTRY

Advanced Share Registry Services Pty Ltd
110 Stirling Highway
Nedlands, Western Australia, 6909
Telephone: +618 9389 8033
Facsimile: +618 9389 7871

STOCK EXCHANGE LISTING

The Company is listed on the Australian Securities Exchange Limited and Deutsche Borse AG.
Home Exchange – Perth, Australia

ASX Code - ORC
WKN Code - 924249

AUSTRALIAN COMPANY NUMBER AND AUSTRALIAN BUSINESS NUMBER

A C N 073 099 171
A B N 30 073 099 171

DIRECTORS' REPORT

Your directors submit their report for the half-year ended 31 December 2007.

DIRECTORS

The names of the company's directors in office during the half year and until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated.

Clive McKee (Chairman)
Julian Sandt (Chief Executive Officer)
Alvin Tan (Non-Executive Director)
Richard Lambe (Finance Director and Company Secretary)

REVIEW AND RESULTS OF OPERATIONS

After recording the first-ever profit in its history for the financial year ending on 30 June 2007, Orchid Capital was unfortunately affected by the global market turmoil since July 2007.

Whilst the operational development of our portfolio of companies continues to be satisfactory, Orchid Capital, as an investment company, has to value its investments based on market prices. The most important factor causing a loss in the period July - December 2007 was the falling market price of our biggest investment, a stake of nearly 10% in China's leading producer of woodworking machines, Gongyou Machines Ltd.

The actual market valuation of Chinese small caps lies significantly below historical averages. Chinese small caps have on average been valued at Price-Earning Ratios in the double digit range. Currently, many Chinese small caps are valued at low single-digit Price-Earning Ratios, even if they continue to show healthy double digit growth. Most analysts consider the fundamentals of the Chinese economy to remain strong and the impact of the credit crisis to be limited, especially on companies like Gongyou, which sell mostly in the Chinese market and export mainly to other emerging market countries.

Our Asian Portfolio

Orchid was the lead investor in the pre-IPO-investment round in Gongyou Machines Ltd. ("Gongyou"), based in Weihai (China). Gongyou was the first-ever Chinese company with a primary listing in Germany, an event extensively covered by German media. The current market valuation of Gongyou reflects a Price-Earnings Ratio of less than 4 times, based on the profit in the last financial year of about 33 Eurocents per share. Gongyou expects to increase its profit in the current financial year, which will end on 30 June 2008.

Gongyou is a sizable group with more than 1300 staff and with outstanding competitive advantages: Low production costs, significant economies of scale based on an annual output of about half a million machines, and a product range of more than 200 machine types, developed by an R&D team of 150 engineers. This enables Gongyou to penetrate more and more export markets, mainly emerging markets like ASEAN, Russia and Latin America. These are regions with booming furniture- and construction industries, which are considered to be not overly affected by the problems of the property or financial industry of the USA and other Western nations.

Gongyou has been profitable for many years and recorded a net profit of more than AU\$ 5 million in the financial year which ended on 30 June 2006. The proceeds from the placement in Germany have enabled Gongyou to significantly expand its production capacity and therefore benefit for growing domestic and international demand. More information on Gongyou can be found on www.gongyoumachines.com.

Our second Pre-IPO investment in RGM Entertainment Pte. Ltd., a Singapore-based Asian media group (www.rgm.com.sg) was concluded in July 2007. The Australian subsidiary of RGM started as a successful talent agency in 1982. Currently, RGM is the executive producer of several movies with a high calibre international talent. We are looking forward to the premiere of these movies in the current year. RGM is expected to list on an international stock exchange by mid-2008.

Xing Ling International Pte. Ltd, a pharma distributor majority-owned by Orchid, recorded a small loss in the reporting period. Several products are still undergoing the approval process. However, the revenue is on an upward trend, and based on recent monthly figures, we anticipate that Xing Ling should reach break-even in the financial year ended 30 June 2008. This increase in revenue is supported by several contracts with

chain stores being successfully completed, together with an expectation of a significant number of new products being launched later in the year.

Orchid is constantly evaluating and negotiating investment opportunities in Asia, seeking to offer its shareholders the best possible return.

The directors take this opportunity to thank our loyal and patient shareholders.

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the half year ended 31 December 2007 has been received and is set out on page 13.

Signed in accordance with a resolution of the Directors



Richard Philip Lambe, Director
Perth, 29 February 2008

**INCOME STATEMENT
FOR THE HALF YEAR ENDED 31 DECEMBER 2007**

		Consolidated	
		31-Dec-07	31-Dec-06
	Note	\$	\$
Revenue from continuing operations			
Investment revenue		39,796	40,501
Net realised gain on disposal of investments		27,158	41,172
Recovery of written down investments		147,315	-
Foreign exchange gains		-	13,878
Other income	3(a)	105,923	96,540
Total Revenue		<u>320,192</u>	<u>192,091</u>
Cost of goods sold		(47,428)	(2,764)
Employee benefits expense		(47,552)	(101,825)
Share based payments		(52,000)	-
Depreciation expense		(5,071)	(8,137)
Consultancy and other professional fees		(183,168)	(246,500)
Computer and office expenses		(94,697)	(87,016)
Travelling and entertainment expenses		(17,249)	(37,238)
Share of Net unrealised losses from held for trading investments		(1,992,808)	(5,809)
Foreign exchange losses		(256,035)	-
Other expenses	3(b)	(38,986)	(45,945)
(Loss) before income tax expense		<u>(2,414,802)</u>	<u>(343,143)</u>
Income tax expense		-	-
Net (loss) after tax		<u>(2,414,802)</u>	<u>(343,143)</u>
Attributable to:			
Minority interest		-	(9,993)
Net (loss) attributable to members of the parent entity		<u>(2,414,802)</u>	<u>(333,150)</u>
Basic earnings per share (cents per share)		(1.36)	(0.19)

* Diluted earnings per share have not been included because it results in a more favourable earnings per share figure than basic earnings per share.

The accompanying condensed notes form part of these financial statements.

**BALANCE SHEET
AS AT 31 DECEMBER 2007**

	Note	Consolidated	
		31-Dec-07	30-Jun-07
		\$	\$
CURRENT ASSETS			
Cash and cash equivalents	4	744,074	899,275
Trade and other receivables		86,958	416,734
Inventories (finished goods)		24,289	27,718
Other financial assets		3,881,824	5,920,651
TOTAL CURRENT ASSETS		4,737,145	7,264,378
NON CURRENT ASSETS			
Other financial assets		766,640	290,040
Property, plant and equipment		11,588	16,612
TOTAL NON-CURRENT ASSETS		778,228	306,652
TOTAL ASSETS		5,515,373	7,571,030
CURRENT LIABILITIES			
Trade and other payables		287,886	291,772
Short-term provisions		27,132	88,000
TOTAL CURRENT LIABILITIES		315,018	379,772
TOTAL LIABILITIES		315,018	379,772
NET ASSETS		5,200,355	7,191,258
EQUITY			
Issued capital		31,848,559	31,708,559
Reserves		476,208	192,309
Accumulated losses		(27,124,412)	(24,709,610)
Total equity attributable to members of the parent entity		5,200,355	7,191,258
Minority interests		-	-
TOTAL EQUITY		5,200,355	7,191,258

The accompanying condensed notes form part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2007**

	Ordinary Shares	Translation Reserve	Option Reserve	Accumulated Losses	Total Attributable to Members	Minority interest	Total
	\$	\$	\$	\$	\$	\$	\$
Consolidated							
Balance at 1 July 2006	31,612,407	49,574	564,678	(27,011,935)	5,214,724	43,288	5,258,012
Prior year adjustment				(92,000)	(92,000)		(92,000)
Adjusted balance at 1 July 2006	<u>31,612,407</u>	<u>49,574</u>	<u>564,678</u>	<u>(27,103,935)</u>	<u>5,122,724</u>	<u>43,288</u>	<u>5,166,012</u>
Movement in translation reserve	-	(223,252)	-	-	(223,252)	-	(223,252)
Options issued during the half year	-	-	88,046	-	88,046	-	88,046
Transaction costs	-	-	(10,354)	-	(10,354)	-	(10,354)
Exercise of options	4,152	-	-	-	4,152	-	4,152
Loss for the half year	-	-	-	(333,150)	(333,150)	-	(333,150)
Minority interest	-	-	-	-	-	(11,257)	(11,257)
Balance at 31 December 2006	<u>31,616,559</u>	<u>(173,678)</u>	<u>642,370</u>	<u>(27,437,085)</u>	<u>4,648,166</u>	<u>32,031</u>	<u>4,680,197</u>
Balance at 1 July 2007	31,708,559	(451,022)	643,331	(24,709,610)	7,191,258	-	7,191,258
Movement in translation reserve	-	283,900	-	-	283,900	-	283,900
Shares issued in respect of share-based payments	140,000	-	-	-	140,000	-	140,000
Loss for the half year	-	-	-	(2,414,802)	(2,414,802)	-	(2,414,802)
Minority interest	-	-	-	-	-	-	-
Balance at 31 December 2007	<u>31,848,559</u>	<u>(167,123)</u>	<u>643,331</u>	<u>(27,124,412)</u>	<u>5,200,355</u>	<u>-</u>	<u>5,200,355</u>

The accompanying condensed notes form part of these financial statements.

**CASH FLOW STATEMENT
FOR THE HALF YEAR ENDED 31 DECEMBER 2007**

	Note	Consolidated	
		31-Dec-07	31-Dec-06
		\$	\$
Cash flows from operating activities			
Cash receipts from customers		105,207	193,639
Cash paid to suppliers and employees		(438,440)	(650,451)
Interest received		30,250	39,394
Interest paid		(93)	-
Sundry income		2,824	(34,239)
Net cash (used in) operating activities		(300,252)	(451,657)
Cash flows from investing activities			
Payments for investments		(798,570)	-
Proceeds from the sale of investments		918,359	701,718
Dividends received		9,546	570
Net cash provided by investing activities		129,335	702,288
Cash flows from financing activities			
Proceeds from share and option issues		-	81,843
Net cash provided by financing activities		-	81,843
Net increase/(decrease) in cash and cash equivalents		(170,917)	332,474
Cash and cash equivalents at 1 July 2007		899,275	607,760
Effect of exchange rate fluctuations on cash held in foreign currencies		15,716	(16,167)
Cash and cash equivalents 31 December 2007	4	744,074	924,067

The accompanying condensed notes form part of these financial statements.

**CONDENSED NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2007****NOTE 1: BASIS OF PREPARATION AND ACCOUNTING POLICIES****Basis of preparation**

This general purpose financial report for the half year ended 31 December 2007 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

It is recommended that the half-year financial report be read in conjunction with the annual report for the year ended 30 June 2007 and considered together with any public announcements made by Orchid Capital Limited during the half year ended 31 December 2007 in accordance with the continuous disclosure obligations of the *ASX listing rules*.

Apart from the adoption of new Accounting Standards and Interpretations noted below, the accounting policies and methods of computation are the same as those adopted in the most recent annual financial report.

Since 1 July 2007 the Group has adopted the following Australian Accounting Standards and Interpretations mandatory for annual periods beginning on or after 1 January 2007. Adoption of these Standards and Interpretations did not have any effect on the financial performance or position of the Group.

- AASB 7 Financial Instruments: Disclosures
- AASB 2005-10 Amendments to Australian Accounting Standards (AASB 132, 101, 114, 117, 133, 139, 1, 4, 1023 and 1038)
- AASB 2007-04 Amendments to Australian Accounting Standards arising from ED 151 and other amendments
- AASB 2007-7 Amendments to Australian Accounting Standards (AASB 1, 2, 4, 5, 107 and 108)

NOTE 2: SEGMENT INFORMATION

The primary reporting format for the group is business segments.

Business segment

The following table presents revenue and profit information for business segments for the half years ended 31 December 2007 and 31 December 2006.

	Investment Activities	Pharmaceutical Sales	Total Operations
Half year ended 31 December 2007			
Revenue			
Realised gain on investments	174,473	-	174,473
Pharmaceutical sales	-	103,099	103,099
Interest	30,250	-	30,250
Dividends	9,546	-	9,546
Other revenue	2,482	342	2,824
Total segment revenue	<u>216,751</u>	<u>103,441</u>	<u>320,192</u>
Total consolidated revenue			<u><u>320,192</u></u>
Result			
Segment result	<u>(2,380,063)</u>	<u>(34,739)</u>	<u>(2,414,802)</u>
Minority interest (pharmaceutical products)			-
Net loss before income tax			<u><u>(2,414,802)</u></u>
	Investment Activities	Pharmaceutical Sales	Total
Half year ended 31 December 2006			
Revenue			
Realised gain on investments	41,172	-	41,172
Pharmaceutical sales	-	96,007	96,007
Interest	39,261	133	39,394
Dividends	570	-	570
Foreign exchange gain	13,878	-	13,878
Other revenue	1,070	-	1,070
Total segment revenue	<u>95,951</u>	<u>96,140</u>	<u>192,091</u>
Total consolidated revenue			<u><u>192,091</u></u>
Result			
Segment result	<u>(322,749)</u>	<u>(20,394)</u>	<u>(343,143)</u>
Minority interest (pharmaceutical products)			<u>(9,993)</u>
Net loss before income tax			<u><u>(333,150)</u></u>

NOTE 3: INCOME AND EXPENSES

	Consolidated	
	31-Dec-07	31-Dec-06
	\$	\$
(a) Other Income		
Pharmaceutical Sales	103,442	96,007
Sundry Income	2,481	533
	<u>105,923</u>	<u>96,540</u>
(b) Other Expenses		
Advertising	633	-
ASX fees	16,894	13,323
ASIC fees	-	2,010
Bank charges	13,825	1,554
Electricity	1,386	2,155
General expenses	1,051	15,782
Office relocation	-	1,862
Insurance	-	761
Interest payable	93	124
Postage, freight & courier	383	173
Repairs & maintenance	693	651
Share registry services	3,128	5,618
Storage rental	900	-
Loss on sale of fixed assets	-	1,932
	<u>38,986</u>	<u>45,945</u>

NOTE 4: CASH AND CASH EQUIVALENTS

For the purpose of the half-year cash flow statement, cash and cash equivalents are comprised of the following:

	Consolidated	
	31-Dec-07	31-Dec-06
	\$	\$
Cash at bank and in hand	459,729	864,067
Short-term bank deposits	284,345	60,000
	<u>744,074</u>	<u>924,067</u>

NOTE 5: DIVIDENDS PAID

No dividends were paid during the period.

NOTE 6: COMMITMENTS AND CONTINGENCIES

There has been no change to the commitments and contingencies disclosed in the most recent annual financial report.

NOTE 7: EVENTS AFTER THE BALANCE SHEET DATE

There has not been, in the interval between 31 December 2007 and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the economic entity, the results of those operations, or the state of affairs in the economic entity in future years.

As at the date of this report the fair value of shares held in Gongyou Machines Ltd was \$2,066,836 which represents a decrease of \$366,799 since 31 December 2007.

NOTE 8: COMPARATIVES

Comparatives have been restated where appropriate to ensure consistency in disclosure with the current period.

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Orchid Capital Limited, I state that:

In the opinion of the directors:

- a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position as at 31 December 2007 and the performance for the half year ended on that date of the consolidated entity; and
 - (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
- b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board,



Richard Philip Lambe, Director
Perth, 29 February 2008

29 February 2008

Board of Directors
Orchid Capital Limited
Unit 6, 32 Hines Rd
O'CONNOR WA 6163

Dear Sirs

RE: ORCHID CAPITAL LIMITED

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Orchid Capital Limited.

As Audit Director for the review of the financial statements of Orchid Capital Limited for the period ended 31 December 2007, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

STANTONS INTERNATIONAL
(Authorised Audit Company)



K G Lingard
Director

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF ORCHID CAPITAL LIMITED

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Orchid Capital Limited, which comprises the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and its performance for the half year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Orchid Capital Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review

procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, has been provided to the directors of Orchid Capital Limited on 29 February 2008.

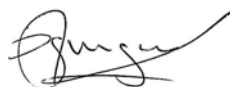
Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Orchid Capital Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

STANTONS INTERNATIONAL (Authorised Audit Company)

Stantons International



K G Lingard
Director

West Perth, Western Australia
29 February 2008