



— Interim Report 08 —

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

COMPANY SECRETARY

Ms. Mak Yuen Ming, Anita

QUALIFIED ACCOUNTANT

Mr. Lao Wai Keung

PRINCIPAL BANKERS

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

AUDITORS

Deloitte Touche Tohmatsu

LEGAL ADVISERS

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

REGISTERED OFFICE

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2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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9 Wang Kwong Road
Kowloon Bay
Kowloon
Hong Kong

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE 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”, together with its subsidiaries, collectively the “Group”) does not recommend the payment of an interim dividend for the six months ended 30 September 2008 (2007: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group recorded a turnover of approximately HK\$230.7 million (2007: approximately HK\$213.9 million) for the six-month period ended 30 September 2008, posting a year-on-year growth of approximately 7.9%. Gross profit of approximately HK\$104.2 million (2007: approximately HK\$95.6 million) was reported, representing a growth of approximately 9.0%. The Group recorded a loss attributable to equity holders for the period ended 30 September 2008 of approximately HK\$174.8 million (2007: profit attributable to equity holders of approximately HK\$15.4 million). The loss was mainly attributable to the write down in value of the embedded options of the unlisted convertible bonds issued by LeRoi Holdings Limited (“LeRoi”) on 5 October 2007 with an aggregate principal amount of HK\$190 million and the share of loss attributable from an associate, LeRoi.

(1) Chinese Pharmaceutical Products

Turnover for the period under review was approximately HK\$154.8 million (2007: approximately HK\$156.4 million), representing a decrease of approximately 1.0% as compared with last year’s corresponding period. As a result of the negative impact of the global financial tsunami, a slowdown in consumer spending is expected for the second half of the financial year. Despite the challenging business conditions, we continue to place efforts in marketing and brand reinforcement activities which were aimed at driving sales and raising public awareness of the brand.

(2) Western Pharmaceutical Products

The turnover of Western pharmaceutical and health food products grew approximately 50.1% to approximately HK\$57.5 million (2007: approximately HK\$38.3 million). The growth mainly came from sales of the core product, cough syrup, in sales channels and network extending over 18 provinces in the People’s Republic of China (the “PRC”). Additional turnover of approximately HK\$11.6 million was derived from Hunan Xiangya Pharmaceutical Co. Ltd., a previous associated company, which became a consolidated subsidiary when we increased our effective equity interest from 39.2% to 52.0% on 9 November 2007, accounting for approximately 30.3% of the growth. The Group continues to focus on the sales of cough syrup and allocate resources to develop other products related to upper respiratory tract infections. In this regard, the launch of “Madame Pearl’s” BreathEasy Patch through television shows and press conferences with the support of doctors and pharmacists has been well received by the public. New business opportunities will be sought to optimise the utilisation of the strong distribution network we have already built 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"), a subsidiary with operations in Singapore, was responsible for the Group's business in the manufacturing of Chinese health food. Revenue for the period under review was approximately HK\$18.4 million (2007: approximately HK\$19.1 million), a decrease of approximately 3.7% as compared with last year's corresponding period. The drop in sales was primarily triggered by a temporary production stoppage due to the recent relocation of production facilities.

(4) Investment in LeRoi

The Group has diversified its investment portfolio by making an investment in LeRoi, whose principal businesses are the property investment and property development in Hong Kong and the PRC and retailing of fresh pork.

The market value of options embedded in the unlisted convertible bonds issued by LeRoi, is subject to, among other things, the fluctuation of the share price of LeRoi. The relevant write down had resulted in a loss of approximately HK\$147.1 million during the six months ended 30 September 2008. As a result of the fluctuation in the share price of LeRoi subsequent to 30 September 2008, further provision may be required in the financial results for the year ending 31 March 2009.

FINANCIAL REVIEW

Liquidity, Capital Structure and Gearing

(1) Placing of Shares

On 7 May 2008, the Group entered into a top-up placing and subscription arrangement with a placing agent to place approximately 335 million shares to independent investors, and to issue the same number of new shares, at a price of HK\$0.165 per share. The net proceeds of approximately HK\$53.3 million were raised, HK\$20 million of which were used for repayment of interest-bearing loans, another HK\$10 million are intended to be used for the expansion of retail network in the PRC and Hong Kong and the remaining balance for general working capital of the Group. The aforesaid top-up placing and subscription were completed on 15 May 2008 and 19 May 2008 respectively.

(2) Redemption of Convertible Loan Note

On 13 June 2008 and 18 September 2008, the Company purchased all outstanding convertible loan note with an aggregate principal amount of HK\$149 million at a discount of 2.5% to their face value. These purchases were financed by the Company's internal resources. As at the date of this report, there is no outstanding convertible loan note.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL REVIEW *(Continued)*

Liquidity, Capital Structure and Gearing *(Continued)*

As at 30 September 2008, the Group's total bank borrowings amounted to approximately HK\$75.1 million (31 March 2008: approximately HK\$48.3 million). The gearing ratio, being the ratio of total bank borrowings to equity attributable to equity holders, was approximately 9.8% (31 March 2008: approximately 5.4%).

Foreign Exchange

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

EMPLOYEES

As at 30 September 2008, the Group employed approximately 634 employees, approximately 70% of whom were located in Hong Kong. The Group has maintained a policy 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.

PROSPECTS

As a result of the slowdown in the global and the local economy which has caused significant instability in the property and stock markets, the Group has adopted a more prudent approach over its expansion programme in Chinese pharmaceutical business.

As for Western pharmaceutical products, the Group will continue to strengthen the brand position of "Madame Pearl's" as the "Respiratory Specialist". New business opportunities will be sought to optimise the utilisation of the strong distribution network we have already built in Hong Kong and the PRC.

With respect to the Chinese health food business, the Group continues to maintain the position it has held for many years as the single largest bottled bird's nest contract manufacturer in Singapore. The Group has co-operated with a strategic partner to help us expand into mainland China and overseas Chinese communities.

The Group continues to focus on the reinforcement of its brand positioning, continuing product development, expanding distribution network and upholding of quality management in order to achieve sustainable growth in our business and profitability.

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 2008, 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	Exercisable period (Note 1)	Number of underlying shares	Number of total underlying shares	Approximate percentage of the Company's total issued share capital (Note 2) %
Tang Mui Fun	3.1.2007	0.415	650,000	2.1.2008 to 1.1.2012	650,000		
	2.1.2008	0.226	650,000	2.1.2009 to 1.1.2013	650,000	1,300,000	0.06

Notes:

- The exercisable period of the above share options beneficially held by Ms. Tang Mui Fun was vested as follows:-

On 1st anniversary of the date of grant	30% vest
On 2nd anniversary of the date of grant	Further 30% vest
On 3rd anniversary of the date of grant	Remaining 40% vest
- The percentage represented the number of shares over the total issued share capital of the Company as at 30 September 2008 of 2,010,351,688 shares.

Save as disclosed above, as at 30 September 2008, 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)

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' interests and short positions in shares, underlying shares or debentures of the Company and its associated corporations" above, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors or chief executive of the Company to acquire such rights in any other body corporate.

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

As at 30 September 2008, 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 2) %
Wang On Group Limited ("Wang On") (Note 1)	474,209,324	23.59
Wang On Enterprises (BVI) Limited ("WOE") (Note 1)	474,209,324	23.59
Rich Time Strategy Limited ("Rich Time") (Note 1)	474,209,324	23.59

Notes:

- 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.
- The percentages represented the number of shares over the total issued share capital of the Company as at 30 September 2008 of 2,010,351,688 shares.

Save as disclosed above, as at 30 September 2008, there were no other persons (other than the directors or chief executive of the Company) who had any 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.

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 18 September 2013.

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

Name or category of participant	Number of share options			Date of grant	Exercise price per share HK\$	Exercisable period*
	Outstanding as at 1 April 2008	Granted, exercised and lapsed during the period	Outstanding as at 30 September 2008			
Executive Director						
Tang Mui Fun	650,000	-	650,000	3.1.2007	0.415	2.1.2008 to 1.1.2012
	650,000	-	650,000	2.1.2008	0.226	2.1.2009 to 1.1.2013
	1,300,000	-	1,300,000			
Other employees						
In aggregate	3,470,000	(200,000)**	3,270,000	3.1.2007	0.415	2.1.2008 to 1.1.2012
	5,850,000	-	5,850,000	2.1.2008	0.226	2.1.2009 to 1.1.2013
	9,320,000	(200,000)	9,120,000			
	10,620,000	(200,000)	10,420,000			

* The share options granted under the Scheme are vested as follows:

On 1st anniversary of the date of grant	30% vest
On 2nd anniversary of the date of grant	Further 30% vest
On 3rd anniversary of the date of grant	Remaining 40% vest

** 200,000 share options were lapsed in June 2008.

SHARE OPTION SCHEME (CONTINUED)

At the balance sheet date, the Company had 10,420,000 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 10,420,000 additional ordinary shares of the Company and additional share capital of HK\$104,200 and share premium of HK\$2,991,600.

During the six months ended 30 September 2008, the Board did not grant any share 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.

CORPORATE GOVERNANCE AND OTHER INFORMATION

CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, the Company has complied with the code provisions in the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules throughout the period for the six months ended 30 September 2008.

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 2008.

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 condensed consolidated financial statements for the six months ended 30 September 2008 of the Group. The audit committee comprises the four independent non-executive directors of the Company, namely Messrs. Yuen Chi Choi, Leung Wai Ho, Siu Man Ho, Simon and Cho Wing Mou, and is chaired by Mr. Yuen Chi Choi.

By Order of the Board
Tang Ching Ho
Chairman

Hong Kong, 26 November 2008

INTERIM RESULTS

The Board is pleased to announce the unaudited condensed consolidated results of the Group for the six months ended 30 September 2008, together with the comparative figures for the corresponding period in 2007. 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 2008

	Notes	For the six months ended 30 September	
		2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
REVENUE	3	230,746	213,872
Cost of sales		(126,574)	(118,314)
Gross profit		104,172	95,558
Other income	5	9,021	12,808
Selling and distribution costs		(75,217)	(68,754)
Administrative expenses		(38,294)	(39,028)
Finance costs	6	(3,980)	(3,116)
Impairment loss recognised in respect of goodwill		(199)	–
Gain on disposal of a subsidiary		2,636	–
Change in fair value of options embedded in an unlisted note		(147,083)	–
Change in fair value on financial assets at fair value through profit or loss		(9,078)	10,257
Share of results of associates		(16,183)	(372)
Gain on disposal of interest in an associate		–	9,577
(LOSS) PROFIT BEFORE TAXATION	7	(174,205)	16,930
Income tax expense	8	(546)	(1,509)
(LOSS) PROFIT FOR THE PERIOD		(174,751)	15,421
ATTRIBUTABLE TO:			
Equity holders of the Company		(174,761)	15,416
Minority interests		10	5
		(174,751)	15,421
(LOSS) EARNINGS PER SHARE	9		
Basic (Cents)		(9.09)	1.00
Diluted (Cents)		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 September 2008

	Notes	30 September 2008 (Unaudited) HK\$'000	31 March 2008 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	60,171	56,314
Prepaid lease payments		95,046	96,277
Goodwill		25,271	25,271
Interests in associates	12	194,597	209,043
Derivative financial instruments		191,408	333,270
Other intangible assets		4,216	4,604
Investments in unlisted notes	15	170,483	168,363
Prepayment for acquisition of interest in an associate		–	1,200
Deposit for acquisition of property, plant and equipment		–	910
Deferred tax assets		378	378
		741,570	895,630
CURRENT ASSETS			
Inventories		108,230	97,277
Trade and other receivables	14	102,679	80,333
Prepaid lease payments		2,762	2,762
Amounts due from associates	13	5,074	5,280
Tax recoverable		170	309
Investments in unlisted notes	15	3,889	3,889
Financial assets at fair value through profit or loss		6,327	16,644
Pledged deposit		353	1,599
Bank balances and cash		20,469	100,019
		249,953	308,112
CURRENT LIABILITIES			
Trade and other payables	16	83,463	69,924
Tax payable		2,284	2,289
Obligations under finance leases		12	13
Bank borrowings	17	21,371	12,948
Derivative financial instruments		57	832
Deferred franchise income		115	113
Loan from a shareholder		5,000	–
Advances from minority shareholders of a subsidiary		3,096	3,030
		115,398	89,149

CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

As at 30 September 2008

	<i>Notes</i>	30 September 2008 (Unaudited) HK\$'000	31 March 2008 (Audited) HK\$'000
NET CURRENT ASSETS		134,555	218,963
TOTAL ASSETS LESS CURRENT LIABILITIES		876,125	1,114,593
NON-CURRENT LIABILITIES			
Obligations under finance leases		3	9
Derivative financial instruments		50,016	44,795
Convertible loan note	18	–	138,022
Bank borrowings	17	53,750	35,385
Deferred tax liabilities		1,115	1,115
		104,884	219,326
NET ASSETS		771,241	895,267
CAPITAL AND RESERVES			
Share capital	19	20,104	16,754
Reserves		744,278	872,247
Equity attributable to equity holders of the Company		764,382	889,001
Minority interests		6,859	6,266
TOTAL EQUITY		771,241	895,267

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2008

	Attributable to equity holders of the Company										
	Share capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Special reserve (Unaudited) HK\$'000 (Note a)	Share option reserve (Unaudited) HK\$'000	General reserve (Unaudited) HK\$'000 (Note b)	Translation reserve (Unaudited) HK\$'000	Convertible loan note reserve (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000	Sub-total (Unaudited) HK\$'000	Minority interests (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 April 2007 (audited)	13,964	551,881	(27,150)	52	218,508	2,096	-	(101,760)	657,591	107	657,698
Exchange differences arising on translation of foreign operations	-	-	-	-	-	1,071	-	-	1,071	125	1,196
Share of translation reserve of associates	-	-	-	-	-	3,404	-	-	3,404	-	3,404
Net income recognised directly in equity	-	-	-	-	-	4,475	-	-	4,475	125	4,600
Profit for the year	-	-	-	-	-	-	-	83,767	83,767	(385)	83,382
Total recognised income for the year	-	-	-	-	-	4,475	-	83,767	88,242	(260)	87,982
Issue of shares	2,790	125,550	-	-	-	-	-	-	128,340	-	128,340
Share issue expenses	-	(3,717)	-	-	-	-	-	-	(3,717)	-	(3,717)
Recognition of share based payment	-	-	-	277	-	-	-	-	277	-	277
Recognition of equity component of convertible loan note	-	-	-	-	-	-	23,026	-	23,026	-	23,026
Partial early redemption of convertible loan note	-	-	-	-	-	-	(9,302)	4,544	(4,758)	-	(4,758)
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	6,429	6,429
Dividends paid	-	-	-	-	-	-	-	-	-	(10)	(10)
At 31 March 2008 (audited)	16,754	673,714	(27,150)	329	218,508	6,571	13,724	(13,449)	889,001	6,266	895,267

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 September 2008

	Attributable to equity holders of the Company										
	Share capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Special reserve (Unaudited) HK\$'000 (Note a)	Share option reserve (Unaudited) HK\$'000	General reserve (Unaudited) HK\$'000 (Note b)	Translation reserve (Unaudited) HK\$'000	Convertible loan note reserve (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000	Sub-total (Unaudited) HK\$'000	Minority interests (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Exchange differences arising on translation of foreign operations	-	-	-	-	-	(132)	-	-	(132)	138	6
Share of translation reserve of associates	-	-	-	-	-	1,942	-	-	1,942	-	1,942
Net income recognised directly in equity	-	-	-	-	-	1,810	-	-	1,810	138	1,948
Loss for the period	-	-	-	-	-	-	-	(174,761)	(174,761)	10	(174,751)
Total recognised income (expense) for the period	-	-	-	-	-	1,810	-	(174,761)	(172,951)	148	(172,803)
Issue of shares	3,350	51,926	-	-	-	-	-	-	55,276	-	55,276
Share issue expenses	-	(1,681)	-	-	-	-	-	-	(1,681)	-	(1,681)
Recognition of share based payment	-	-	-	227	-	-	-	-	227	-	227
Release upon disposal of a subsidiary	-	-	-	-	-	(439)	-	-	(439)	(19)	(458)
Early redemption of convertible loan note	-	-	-	-	-	-	(13,724)	8,673	(5,051)	-	(5,051)
Capital contribution from a minority shareholder of a subsidiary	-	-	-	-	-	-	-	-	-	464	464
At 30 September 2008	20,104	723,959	(27,150)	556	218,508	7,942	-	(179,537)	764,382	6,859	771,241

Notes :

- (a) The special reserve of the Group represents the difference between the nominal value of ordinary share issued by the Company and the aggregate nominal value of the issued ordinary share capital of the subsidiaries acquired pursuant to a group reorganisation in 1995.
- (b) 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 2008

	For the six months ended 30 September	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Net cash used in operating activities	(8,505)	(10,695)
Net cash(used in) generated from investing activities	(8,452)	762
Net cash (used in) generated from financing activities	(61,411)	361,115
(Decrease) increase in cash and cash equivalents	(78,368)	351,182
Cash and cash equivalents at the beginning of the period	100,019	236,625
Effect of foreign exchange rate changes	(1,182)	–
Cash and cash equivalents at the end of the period, represented by bank balances and cash	20,469	587,807

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

The unaudited interim condensed consolidated 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 unaudited interim condensed consolidated 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 unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2008 and in accordance with Hong Kong Financial Reporting Standard (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, HKASs and interpretations) issued by HKICPA, except that the Group in the current period has applied, for the first time, the following new HKFRSs which are effective for the Group’s financial year beginning on 1 April 2008.

HKAS 39 and HKFRS 7 Amendments	Reclassification of Financial Assets
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of these new HKFRSs had no significant impact on the Group’s unaudited interim condensed consolidated financial statements.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective, in the unaudited interim condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Principal accounting policies (Continued)

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ³
HKAS 32 & HKAS 1	Puttable Financial Instruments and Obligations Arising on Liquidation ¹
HKAS 39 Amendments	Cash Flow Hedge Accounting of Forecast Intergroup Transaction ³
HKAS 39 Amendments	The Fair Value Option ³
HKFRS 2 Amendments	Share-based Payment – Vesting Conditions and Cancellations ¹
HKFRS 3 (Revised)	Business Combinations ³
HKFRS 8	Operating Segments ¹
HK(IFRIC) – Int 13	Customer Loyalty Programmes ²
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate ¹
HK(IFRIC) – Int 16	Hedges to a Net Investment in a Foreign Operation ⁴

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

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

³ Effective for annual periods beginning on or after 1 July 2009

⁴ Effective for annual periods beginning on or after 1 October 2008

The Groups expects that while the adoption of the HKAS 1 and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs will not have any significant impact on the Group's financial statements in the period of initial applications.

3. Revenue

	For the six months ended 30 September	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Revenue comprises:		
Sales of goods	230,088	212,376
Management, advertising and promotion fees	658	1,496
	230,746	213,872

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 and 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		Eliminations		Total	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
REVENUE										
External sales	154,813	156,426	57,505	38,339	18,428	19,107	-	-	230,746	213,872
Inter segment sales*	1,320	3,396	-	42	11,734	12,659	(13,054)	(16,097)	-	-
	156,133	159,822	57,505	38,381	30,162	31,766	(13,054)	(16,097)	230,746	213,872
RESULTS										
Segment results, excluding impairment loss recognised in respect of goodwill	(1,098)	669	4,532	3,981	1,276	1,386			4,710	6,036
Impairment loss recognised in respect of goodwill	(199)	-	-	-	-	-			(199)	-
	(1,297)	669	4,532	3,981	1,276	1,386			4,511	6,036
Other income									9,021	12,808
Unallocated corporate expenses									(14,049)	(18,260)
Finance costs									(3,980)	(3,116)
Gain on disposal of a subsidiary									2,636	-
Gain on disposal of interest in an associate									-	9,577
Change in fair value of options embedded in an unlisted note									(147,083)	-
Change in fair value on financial assets at fair value through profit or loss									(9,078)	10,257
Share of results of associates									(16,183)	(372)
(Loss) profit before taxation									(174,205)	16,930
Income tax expense									(546)	(1,509)
(Loss) profit for the period									(174,751)	15,421

* 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 operations are located in Hong Kong, other regions in the People's Republic of China (the "PRC") and Singapore.

The following is an analysis of the Group's revenue by geographical market based on location of customers, irrespective of the origin of the goods and services:

	For the six months ended 30 September	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Hong Kong	157,723	156,061
The PRC, other than Hong Kong	48,517	33,076
Singapore	13,369	13,941
Others	11,137	10,794
	230,746	213,872

5. Other income

	For the six months ended 30 September	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Interest income on investments in unlisted notes	5,078	504
Interest income on bank deposits	465	7,295
Other interest income	–	792
Franchise income	60	128
Rental income	1,198	–
Dividend income	543	40
Compensation income	–	430
Processing fee income	753	460
Sundry income	774	1,064
Recognition of deferred income on disposal of a subsidiary	150	150
Gain on disposal of convertible notes	–	1,945
	9,021	12,808

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. Finance costs

	For the six months ended 30 September	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	598	355
Bank borrowings not wholly repayable within five years	629	1,215
Effective interest expenses on convertible loan note	2,628	1,543
Finance leases	1	3
Loan from a shareholder	19	–
Others	105	–
	3,980	3,116

7. (Loss) profit before taxation

	For the six months ended 30 September	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
(Loss) profit before taxation has been arrived at after charging (crediting):		
(Reversal of) Allowance for trade and other receivables	(189)	2,808
Allowance for obsolete stock	1,111	3,466
Amortisation of other intangible assets, included in administrative expenses	388	77
Depreciation of property, plant and equipment	8,194	7,046
Amortisation of prepaid lease payments	1,231	1,250
Management fee paid to a shareholder	48	48

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. Income tax expense

	For the six months ended 30 September	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
The charge comprises:		
Current tax		
Hong Kong Profits Tax	179	628
Other jurisdictions	367	820
	546	1,448
Underprovision in prior years		
Hong Kong Profits Tax	–	61
	546	1,509

Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) on the estimated assessable profit for the period.

Singapore Income Tax is calculated at 18% (2007: 18%) on the estimated assessable profit for the period.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. (Loss) earnings per share

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

	For the six months ended 30 September	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
(Loss) profit for the period attributable to the equity holders of the Company for the purpose of basic (loss) earnings per share	(174,761)	15,416
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	1,922,481,786	1,539,659,163

The computation of diluted loss per share for the six months ended 30 September 2008 (2007: diluted earnings per share) does not assume the exercise of the outstanding share 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 and convertible loan note of the Company, the exercise of which would result in a decrease in net loss (2007: an increase in basic earnings) per share.

10. Property, plant and equipment

During the six months ended 30 September 2008, the Group acquired property, plant and equipment for an amount of approximately HK\$11,077,000 (six months ended 30 September 2007: HK\$4,856,000).

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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 2008 (Unaudited) HK\$'000	31 March 2008 (Audited) HK\$'000
Prepaid lease payments	95,242	96,479
Buildings	1,008	1,021
Bank deposits	353	1,599
	96,603	99,099

12. Interests in associates

	30 September 2008 (Unaudited) HK\$'000	31 March 2008 (Audited) HK\$'000
Cost of investment in associates		
– Listed in Hong Kong	217,028	211,682
– Unlisted	3,350	3,650
Share of post-acquisition reserves, net of dividends received	(25,781)	(6,289)
	194,597	209,043
Market value of listed share	507,131	783,700

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13. Amounts due from associates

	30 September 2008 (Unaudited) HK\$'000	31 March 2008 (Audited) HK\$'000
Amounts due from associates — within one year	5,074	5,280
Less: Impairment loss recognised	—	—
	5,074	5,280

The amounts represent trade receivables which are unsecured, interest-free and the Group allows a credit period of 90 days.

14. Trade and other receivables

	30 September 2008 (Unaudited) HK\$'000	31 March 2008 (Audited) HK\$'000
Trade receivables	71,440	55,638
Less: accumulated impairment loss	(8,902)	(9,471)
	62,538	46,167
Other receivables and prepayments	40,141	34,166
	102,679	80,333

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 2008 (Unaudited) HK\$'000	31 March 2008 (Audited) HK\$'000
0 – 30 days	20,502	17,787
31 – 60 days	14,935	5,232
61 – 120 days	14,135	17,187
Over 120 days	12,966	5,961
	62,538	46,167

15. Investments in unlisted notes

	30 September 2008 (Unaudited) HK\$'000	31 March 2008 (Audited) HK\$'000
The amounts comprise:		
– unlisted convertible note due from an associate (<i>note a</i>)	170,483	168,363
– unlisted bank note (<i>note b</i>)	3,889	3,889
	174,372	172,252
Carrying amount analysed for reporting purposes as:		
Non-current	170,483	168,363
Current	3,889	3,889
	174,372	172,252

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15. Investments in unlisted notes (Continued)

Notes:

- (a) Unlisted convertible note with principal amount of HK\$190,000,000 was issued on 5 October 2007 by LeRoi ("LeRoi Note"). LeRoi Note bears interest at a contractual interest rate of 3% per annum and is due for redemption on 4 October 2012. The Group is entitled at any time after the date of issue up to the maturity date to convert the LeRoi Note into ordinary share of LeRoi at an initial conversion price (subject to adjustment) of HK\$0.12 per share.

At the issue date, LeRoi Note comprised of a liability component and embedded derivatives being the conversion option and the issuer's redemption option. The net fair value at 30 September 2008 of the derivatives embedded in LeRoi Note amounted to HK\$141,392,000 (31 March 2008: HK\$288,475,000) representing the fair value of the conversion option of HK\$191,408,000 (31 March 2008: HK\$333,270,000) less the fair value of the issuer's redemption option of HK\$50,016,000 (31 March 2008: HK\$44,795,000), which are carried in the consolidated balance sheet as derivative financial instruments under non-current asset and non-current liabilities, respectively.

- (b) The amount represents note issued by a financial institution. Details of the terms of the bank note are as follows:-

Notional amount	Maturity date	Effective interest rate
US\$500,000	11 December 2008	5.125%

16. Trade and other payables

Included in trade and other payables are trade payables of approximately 38,620,000 (31 March 2008: HK\$26,684,000) and their aged analysis is as follows:

	30 September 2008 (Unaudited) HK\$'000	31 March 2008 (Audited) HK\$'000
0 – 30 days	14,997	11,512
31 – 60 days	12,613	12,134
61 – 120 days	9,715	1,126
Over 120 days	1,295	1,912
	38,620	26,684
Other payables	44,843	43,240
	83,463	69,924

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. Bank borrowings

During the period, the Group obtained new borrowings amounting to HK\$47,003,000 and repaid HK\$20,215,000. The loans bear interest at market rates from 3.14% to 7.25%. The proceeds were used to finance the operation.

18. Convertible loan note

	30 September 2008 (Unaudited) HK\$'000	31 March 2008 (Audited) HK\$'000
Convertible loan note	–	138,022

On 14 August 2007, the Company placed convertible loan note through Kingston Securities Limited ("Kingston") for a principal amount of HK\$250,000,000 to independent third parties. The convertible loan note provides the holders option rights to convert the principal amount into ordinary share of HK\$0.01 each of the Company on any business day prior to the maturity of the convertible loan note at a conversion price of HK\$0.58 per share.

The equity element is presented in equity under the heading convertible loan note reserve. The effective interest rate of the liability component is 5.67% per annum. On 11 March 2008, 40.4% of the principal amount, representing HK\$101,000,000 was redeemed by the Company, at a discount amounting to HK\$98,475,000. The remaining principal amounts of HK\$101,000,000 and HK\$48,000,000 were redeemed by the Company at a discount amounting to HK\$98,475,000 and HK\$46,800,000 on 13 June 2008 and 18 September 2008 respectively.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19. Share capital

	Number of shares	Amount (Unaudited) HK\$'000
Authorised:		
At 31 March 2008 & 30 September 2008: ordinary shares of HK\$0.01 each	60,000,000,000	600,000
Issued and fully paid:		
At 31 March 2008 and 1 April 2008: ordinary shares of HK\$0.01 each	1,675,347,688	16,754
Issue of share (<i>Note</i>)	335,004,000	3,350
At 30 September 2008: ordinary shares of HK\$0.01 each	2,010,351,688	20,104

Note:

On 7 May 2008, the Company, Rich Time, a wholly-owned subsidiary of Wang On and the substantial shareholder of the Company, and Kingston entered into the placing and subscription agreement pursuant to which (i) Rich Time agreed to place, through Kingston, on a best effort basis, 335,004,000 shares of the Company to independent placees at a price of HK\$0.165 per share; and (ii) Rich Time conditionally agreed to subscribe for an aggregate of 335,004,000 shares at a price of HK\$0.165 per share, as detailed in the Company's announcement dated 9 May 2008. Such transactions were completed on 19 May 2008.

Share option

Details of the Company's share option scheme are set out in the section "Share Option Scheme" of the interim report 2008.

20. Capital commitments

	30 September 2008 (Unaudited) HK\$'000	31 March 2008 (Audited) HK\$'000
At the balance sheet date, the Group had contracted for but not provided in the financial statements in respect of acquisition of:		
– property, plant and equipment	1,219	2,076

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21. Operating leases

The Group as lessee:

The Group made minimum lease payments of approximately HK\$29,073,000 (2007: HK\$24,360,000) under operating leases during the period in respect of its office properties and retail shops.

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 2008 (Unaudited) HK\$'000	31 March 2008 (Audited) HK\$'000
Within one year	50,697	46,769
In the second to fifth years inclusive	70,813	72,676
Over five years	59,220	52,640
	180,730	172,085

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 10 years. Certain lease rentals are based on turnover of the relevant retail shops.

The Group as lessor:

Property rental income earned during the period was approximately HK\$1,198,000 (2007: HK\$993,000). At the balance sheet date, the Group had contracted with tenants for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	30 September 2008 (Unaudited) HK\$'000	31 March 2008 (Audited) HK\$'000
Within one year	1,800	1,920
In the second to fifth years inclusive	90	480
	1,890	2,400

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

22. 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	
		2008 (Unaudited) HK\$'000	2007 (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	1,140	330
	Rental received by the Group	960	960
	Rental paid by the associate of the Group	360	360
	Interest on term loans paid by the Group	19	–
(ii) Related parties other than connected parties			
Associates	Sales of Chinese pharmaceutical products by the Group	7,632	13,267
	Rental received by the Group	238	–
	Management, advertising and promotion fee received by the Group	601	1,105
	Facilities granted by the Group	45,000	45,000
	Interest income received by the Group	–	742

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

22. 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	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Short-term benefits	2,103	1,028
Post-employment benefits	30	14
Share-based payment	29	17
	2,162	1,059

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

23. Post balance sheet event

- (a) The value of the embedded option of LeRoi Note is subject to, among other things, the fluctuation of the share price of LeRoi. The closing market price of shares in LeRoi has dropped from HK\$0.22 at the balance sheet date to HK\$0.12 as at the trading date immediately before the date of approval of these financial statements which resulted in substantial decrease in fair value of the embedded option subsequent to the balance sheet date.
- (b) On 2 October 2008 Wang On Group provided a loan facility of HK\$5 million with maturity date on 1 October 2009 to the Group and the total amount of HK\$5 million was drawn down on the same date. On 3 November 2008 Wang On Group provided another loan facility of HK\$30 million with maturity date on 2 November 2009 to the Group, in which HK\$5 million of the loan facility was drawn down on the same date. The loan carries interest at the Hong Kong prime rate as quoted by The Hongkong and Shanghai Banking Corporation Limited.

24. Approval of the unaudited condensed consolidated financial statements

The unaudited condensed consolidated financial statements were approved by the Board on 26 November 2008.