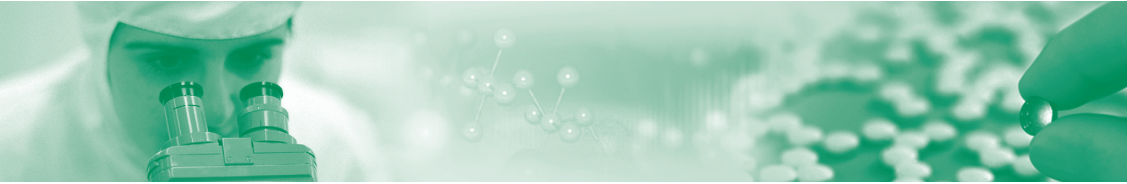
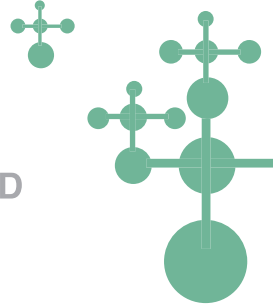


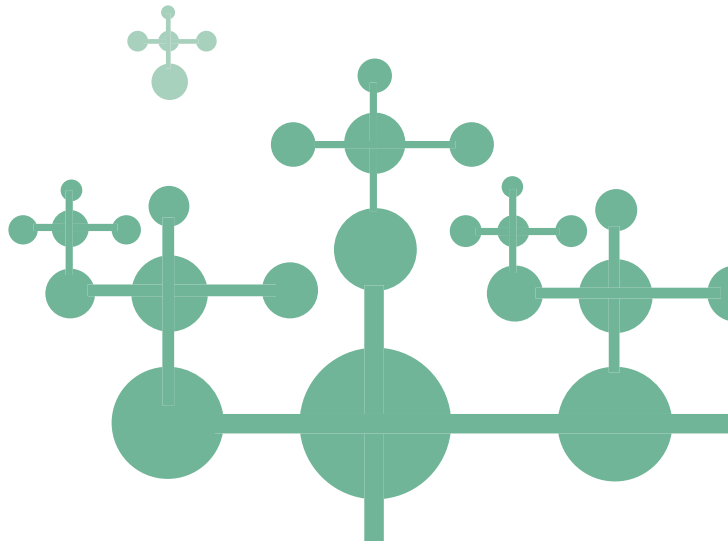


WING SHAN INTERNATIONAL LIMITED
榮山國際有限公司

(Stock Code: 00570)



Interim Report 2008



CORPORATE INFORMATION

Board of Directors	<i>Non-executive Directors</i> DU Richeng (<i>Chairman</i>) (<i>appointed on 1 January 2008</i>) HE Haochang (<i>resigned as Non-executive Director and Chairman on 1 January 2008</i>) <i>Executive Directors</i> LAM Siu Hung (<i>Director & Managing Director</i>) SITU Min (<i>Chief Financial Officer & Qualified Accountant</i>) LI Songquan (<i>Director & Deputy Managing Director</i>) <i>Independent Non-executive Directors</i> CHAN Ting Chuen, David CHEUNG Kin Piu, Valiant NG Pui Cheung, Joseph
Company Secretary	HUEN Po Wah
Audit Committee	CHAN Ting Chuen, David (<i>Chairman</i>) CHEUNG Kin Piu, Valiant NG Pui Cheung, Joseph
Remuneration Committee	CHAN Ting Chuen, David (<i>Chairman</i>) DU Richeng (<i>appointed on 1 January 2008</i>) HE Haochang (<i>resigned on 1 January 2008</i>) CHEUNG Kin Piu, Valiant NG Pui Cheung, Joseph
Registered Office	Rooms 2801-2805, China Insurance Group Building 141 Des Voeux Road Central Hong Kong
Auditors	KPMG Certified Public Accountants Hong Kong
Share Registrar and Transfer Office	Computershare Hong Kong Investor Services Limited Shop 1712-16, 17th Floor, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Principal Bankers	Bank of China (Hong Kong) Limited The Hongkong & Shanghai Banking Corporation Limited
Stock Code	00570
Website	http://www.wingshan.com.hk

INTERIM RESULTS

The board of directors (the “Board”) of Wing Shan International Limited (the “Company”, together with its subsidiaries known as the “Group”) reports that the unaudited consolidated interim results of the Group for the six months ended 30 June 2008 are as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2008 – Unaudited

(Expressed in Hong Kong dollars)

		Six months ended 30 June	
	Note	2008	2007
		\$'000	\$'000
Turnover	2	228,192	183,287
Cost of sales		(143,871)	(106,345)
Gross profit		84,321	76,942
Other revenue	3	1,299	1,127
Other net income	3	570	455
Selling and distribution costs		(33,662)	(45,404)
Administrative expenses		(21,416)	(25,367)
Profit from operations		31,112	7,753
Finance costs	4(a)	(737)	(543)
Profit before taxation	4	30,375	7,210
Income tax	5	(9,961)	948
Profit for the period		20,414	8,158
Attributable to:			
– Equity shareholders of the Company		7,871	2,317
– Minority interests		12,543	5,841
Profit for the period		20,414	8,158
Basic and diluted earnings per share	7	0.95 cents	0.28 cents

The notes on pages 6 to 19 form part of this interim financial report.

WING SHAN INTERNATIONAL LIMITED

INTERIM REPORT 2008

CONSOLIDATED BALANCE SHEET

At 30 June 2008 – Unaudited

(Expressed in Hong Kong dollars)

	Note	At 30 June 2008 \$'000	At 31 December 2007 (audited) \$'000
Non-current assets			
Fixed assets			
– Property, plant and equipment	10	142,999	141,817
– Investment property		8,327	7,963
– Interests in leasehold land held for own use under operating leases		26,666	25,349
		<u>177,992</u>	<u>175,129</u>
Construction in progress		1,131	144
Intangible assets		88,601	90,701
Goodwill		141,285	132,738
Other financial assets		3,112	3,953
		<u>412,121</u>	<u>402,665</u>
Current assets			
Inventories and consumables		72,574	72,895
Trade and other receivables	11	92,426	72,633
Restricted deposits		1,594	1,498
Cash and cash equivalents		94,565	82,364
		<u>261,159</u>	<u>229,390</u>
Current liabilities			
Trade and other payables	12	85,810	94,958
Bank loans	13	18,222	–
Tax payable		6,861	5,864
		<u>110,893</u>	<u>100,822</u>
Net current assets		<u>150,266</u>	<u>128,568</u>
Total assets less current liabilities		<u>562,387</u>	<u>531,233</u>
Non-current liabilities			
Deferred tax liabilities		33,546	33,805
Net assets		<u>528,841</u>	<u>497,428</u>
Capital and reserves			
Share capital	14	83,097	83,097
Reserves		265,220	241,068
Total equity attributable to equity shareholders of the Company		<u>348,317</u>	<u>324,165</u>
Minority interests		180,524	173,263
Total equity		<u>528,841</u>	<u>497,428</u>

The notes on pages 6 to 19 form part of this interim financial report.

WING SHAN INTERNATIONAL LIMITED

INTERIM REPORT 2008

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2008 – Unaudited
(Expressed in Hong Kong dollars)

Note	Share capital \$'000	Share premium \$'000	Capital redemption reserve \$'000	Capital reserve \$'000	Exchange reserve \$'000	Reserve fund \$'000	Fair value reserve \$'000	(Accumulated losses)/retained profits \$'000	Total equity attributable to equity shareholders of the Company \$'000	Minority interests \$'000	Total equity \$'000
At 1 January 2007	83,015	1,041,726	297	-	1,007	1,065	(304)	(833,548)	293,258	157,512	450,770
Shares issued under share option scheme	53	132	-	-	-	-	-	-	185	-	185
Profit for the period	-	-	-	-	-	-	-	2,317	2,317	5,841	8,158
Available-for-sale securities											
- changes in fair value	-	-	-	-	-	-	1,003	-	1,003	963	1,966
- to deferred tax	-	-	-	-	-	-	(266)	-	(266)	(255)	(521)
Transfer to reserve	-	-	-	-	-	5,169	-	(5,169)	-	-	-
Dividends declared by subsidiaries paid to minority interests	-	-	-	-	-	-	-	-	-	(13,978)	(13,978)
Exchange differences on translation of accounts of PRC subsidiaries	-	-	-	-	9,246	-	-	-	9,246	5,211	14,457
At 30 June 2007	83,068	1,041,858	297	-	10,253	6,234	433	(836,400)	305,743	155,294	461,037
At 1 January 2008	83,097	204,057	297	-	22,059	7,631	792	6,232	324,165	173,263	497,428
Profit for the period	-	-	-	-	-	-	-	7,871	7,871	12,543	20,414
Available-for-sale securities											
- changes in fair value	-	-	-	-	-	-	(419)	-	(419)	(402)	(821)
- to deferred tax	-	-	-	-	-	-	136	-	136	130	266
Transfer to reserve	-	-	-	-	-	9,083	-	(9,083)	-	-	-
Dividends declared by subsidiaries paid to minority interests	-	-	-	-	-	-	-	-	-	(16,062)	(16,062)
Dividends approved in respect of the previous year	-	-	-	-	-	-	-	(4,155)	(4,155)	-	(4,155)
Exchange differences on translation of accounts of PRC subsidiaries	-	-	-	-	19,864	340	25	-	20,229	11,052	31,281
Equity-settled share-based transactions	-	-	-	490	-	-	-	-	490	-	490
Release upon lapse of share options	-	-	-	(490)	-	-	-	490	-	-	-
At 30 June 2008	83,097	204,057	297	-	41,923	17,054	534	1,355	348,317	180,524	528,841

The notes on pages 6 to 19 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2008 – Unaudited

(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2008	2007
	\$'000	\$'000
Cash generated from operations	23,558	734
PRC enterprise income tax paid	(10,626)	(7,158)
Net cash generated from/(used in) operating activities	12,932	(6,424)
Net cash (used in)/generated from investing activities	(2,012)	17,528
Net cash used in financing activities	(3,258)	(40,818)
Net increase/(decrease) in cash and cash equivalents	7,662	(29,714)
Cash and cash equivalents at 1 January	82,364	89,919
Effect of foreign exchange rate changes	4,539	2,848
Cash and cash equivalents at 30 June	94,565	63,053
Analysis of balance of cash and cash equivalents		
Deposits with banks	11,114	9,647
Cash at bank and in hand	83,451	53,406
	94,565	63,053

The notes on pages 6 to 19 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

1. Basis of preparation

This interim financial report is unaudited, but has been reviewed by the audit committee of the Company and by its auditors, KPMG, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of interim financial information performed by the independent auditor of the entity” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). KPMG’s review report to the Board of Directors is included on page 20.

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim financial reporting” issued by the HKICPA. It was authorized for issuance on 12 September 2008.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

In preparing this interim financial report, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated accounts as at and for the year ended 31 December 2007.

This interim financial report contains condensed consolidated accounts and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2007 annual accounts. The condensed consolidated interim accounts and notes thereon do not include all of the information required for a full set of accounts prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable Hong Kong Financial Reporting Standards, HKASs and Interpretations.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. The Board of Directors has determined the accounting policies expected to be adopted in the preparation of the Group’s annual accounts for the year ending 31 December 2008, on the basis of HKFRSs currently in use.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in Hong Kong dollars)

1. Basis of preparation (Continued)

The HKFRSs that will be effective or available for voluntary early adoption in the annual accounts for the year ending 31 December 2008 may be affected by the issue of additional interpretation(s) or other changes announced by the HKICPA subsequent to the date of issuance of this interim financial report. Therefore the policies that will be applied in the Group's accounts for that period cannot be determined with certainty at the date of issuance of this interim financial report.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2007 annual accounts. The adoption of the new and revised HKFRSs did not have significant impact on the Group's results of operations and financial position.

The financial information relating to the financial year ended 31 December 2007 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory accounts for that financial year but is derived from those accounts. Statutory accounts for the year ended 31 December 2007 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 23 April 2008.

2. Turnover

The principal activities of the Group are manufacture and sale of pharmaceutical products in the People's Republic of China ("PRC"). Turnover represents the sales value of goods sold less returns, discounts, value added tax and sales tax.

Turnover may be analyzed as follows:

	Six months ended 30 June	
	2008	2007
	\$'000	\$'000
Sale of pharmaceutical products		
– Pills and tablets	162,982	127,686
– Medicine wine	17,412	16,624
– Paste, granules and others	47,798	38,977
	228,192	183,287

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in Hong Kong dollars)

3. Other revenue and net income

	Six months ended 30 June	
	2008	2007
	\$'000	\$'000
<hr/>		
Other revenue		
Government grants	704	591
Interest income	595	536
	<hr/>	<hr/>
	1,299	1,127
	<hr/>	<hr/>
Other net income		
Rental income	599	454
Others	(29)	1
	<hr/>	<hr/>
	570	455
	<hr/>	<hr/>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in Hong Kong dollars)

4. Profit before taxation

Profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2008	2007
	\$'000	\$'000
(a) Finance costs		
Interest on bank advances and other borrowings wholly repayable within five years	737	543
(b) Other items		
Cost of inventories	143,871	106,345
Depreciation and amortization		
– assets held for use under operating leases	144	133
– lease prepayment	307	279
– other assets	9,305	9,016
– intangible assets	7,712	7,066
Impairment losses for trade receivables	1,437	771
Operating lease charges on buildings	182	185

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in Hong Kong dollars)

5. Income tax in consolidated profit and loss account

	Six months ended 30 June	
	2008	2007
	\$'000	\$'000
<hr/>		
Current tax		
PRC enterprise income tax for the period	11,388	5,001
Under-provision in prior years	432	–
	<hr/> 11,820 <hr/>	<hr/> 5,001 <hr/>
Deferred tax		
Origination and reversal of temporary differences	(1,859)	(3,308)
Effect of change in tax rate on deferred tax	–	(2,641)
	<hr/> (1,859) <hr/>	<hr/> (5,949) <hr/>
	<hr/> 9,961 <hr/>	<hr/> (948) <hr/>

No provision has been made for Hong Kong Profits Tax as the Group sustained losses in Hong Kong for taxation purposes during the period.

Pursuant to the income tax rules and regulations of the PRC, the applicable PRC enterprise income tax of the Group's subsidiaries, Foshan Dezhong Pharmaceutical Co., Ltd. ("DZH") and Foshan Feng Liao Xing Pharmaceutical Co., Ltd. ("FLX") was 27% for the years prior to 31 December 2007.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in Hong Kong dollars)

5. Income tax in consolidated profit and loss account (Continued)

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("new tax law") which took effect on 1 January 2008. As a result of the new tax law, the income tax rate applicable to DZH and FLX changed from 27% to 25% with effect from 1 January 2008. The change in the carrying amount of the deferred tax liabilities as a result of the change in tax rate has been reflected in the annual report of the Group for the year ended 31 December 2007 and the interim report for the period ended 30 June 2007.

FLX was recognized as a new high technology enterprise pursuant to document "粵外經貿加證字458號" issued by The Department of Foreign Trade and Economic Cooperation of Guangdong Province and received approvals from the Foshan Tax Bureau for a three-year income tax reduction to 12% up to 31 December 2007. Hence, FLX was subject to PRC enterprise income tax at 12% for the period ended 30 June 2007.

Further under the new tax law, the gross amount of dividends received by the Company from its PRC subsidiaries in respect of their profits generated after 1 January 2008 is subject to withholding tax at a rate of 5%. Under the grandfathering treatments, the undistributed profits of the PRC subsidiaries as at 31 December 2007 are exempted from withholding tax.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in Hong Kong dollars)

6. Dividends

(a) Dividends attributable to the interim period

The directors do not recommend the payment of any interim dividend for the six months ended 30 June 2008 (six months ended 30 June 2007: Nil).

(b) Dividends attributable to the previous financial year, approved and paid during the interim period

	Six months ended 30 June	
	2008	2007
	\$'000	\$'000
Final dividend in respect of the financial year ended 31 December 2007, approved and paid during the following interim period, of HK0.5 cent (year ended 31 December 2006: Nil) per ordinary share	4,155	–

7. Earnings per share

(a) Basic

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of \$7,871,000 (six months ended 30 June 2007: \$2,317,000) and the 830,974,244 ordinary shares (six months ended 30 June 2007: 830,152,078) in issue during the period.

(b) Diluted

The diluted earnings per share for the six months ended 30 June 2007 and 2008 is the same as the basic earnings per share as all potential ordinary shares are anti-dilutive.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in Hong Kong dollars)

8. Material related party transactions

Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors and certain of the highest paid employees, is as follows:

	Six months ended 30 June	
	2008	2007
	\$'000	\$'000
Short-term employee benefits	1,359	1,201
Post-employment benefits	38	23
	1,397	1,224

9. Segment reporting

The Group primarily operates in one business segment – manufacture and sale of pharmaceutical products. It operates principally in one geographical segment – the PRC. Substantially all of the Group's assets were located in the PRC. Accordingly, no analysis of the segment information is presented.

10. Property, plant and equipment

Acquisitions and disposals

During the six months ended 30 June 2008, the Group acquired items of plant and machinery and furniture and fixtures with a cost of approximately \$1,348,000 and \$309,000 respectively (six months ended 30 June 2007: plant and machinery of \$687,000 and motor vehicles of \$547,000). Items of plant and equipment and motor vehicles with net book value of \$278,000 and \$138,000 respectively were disposed of during the six months ended 30 June 2008 (six months ended 30 June 2007: Nil), resulting in a loss on disposal of \$15,000 (six months ended 30 June 2007: Nil).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in Hong Kong dollars)

11. Trade and other receivables

	At 30 June 2008	At 31 December 2007 (audited)
	\$'000	\$'000
Trade and bills receivables	86,385	63,496
Less: allowance for doubtful debts	(4,005)	(2,372)
	82,380	61,124
Deposits, prepayments and other receivables	10,046	11,509
	92,426	72,633

Included in trade and other receivables are trade and bills receivables (net of allowance for doubtful debts) with the following ageing analysis as of the balance sheet date:

	At 30 June 2008	At 31 December 2007 (audited)
	\$'000	\$'000
Within 3 months of invoice date	64,867	52,110
3 to 6 months after invoice date	16,423	6,782
More than 6 months after invoice date	1,090	2,232
	82,380	61,124

Debts are due within 30 to 90 days from the date of billing. All of the trade and other receivables are expected to be recovered within one year.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in Hong Kong dollars)

12. Trade and other payables

	At 30 June 2008	At 31 December 2007 (audited)
	\$'000	\$'000
Trade creditors	21,796	20,707
Other creditors and accrued charges	62,439	69,095
Advances received from customers	1,575	5,156
	85,810	94,958

Included in trade and other payables are trade creditors with the following ageing analysis as of the balance sheet date:

	At 30 June 2008	At 31 December 2007 (audited)
	\$'000	\$'000
Due within 1 month or on demand	21,796	20,707

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in Hong Kong dollars)

13. Bank loans

At 30 June 2008, the Group's bank loans were repayable as follows:

	At 30 June 2008	At 31 December 2007 (audited)
	\$'000	\$'000
Within 1 year or on demand	18,222	–

The bank loans are unsecured, bear interest at 7.84% per annum and are repayable within one year.

14. Share capital

	At 30 June 2008		At 31 December 2007	
	Number of shares '000	Nominal value \$'000	Number of shares (audited) '000	Nominal value (audited) \$'000
<i>Authorized:</i>				
Share of \$0.10 each	3,000,000	300,000	3,000,000	300,000
<i>Issued and fully paid:</i>				
At 1 January	830,974	83,097	830,146	83,015
Shares issued under share option scheme	–	–	828	82
At 30 June 2008 / 31 December 2007	830,974	83,097	830,974	83,097

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in Hong Kong dollars)

15. Equity settled share-based transactions

The Company has a share option scheme which was adopted on 22 May 2002 whereby the directors of the Company are authorized, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options to subscribe for shares of the Company. The exercise price of options is the highest of the nominal value of the shares, the closing price of the shares on The Stock Exchange of Hong Kong Limited at the date of grant and the average closing price of the shares on The Stock Exchange of Hong Kong Limited for the five business days immediately preceding the date of grant. The options vest immediately or after six months from the date of grant and are then exercisable within a period of five years. Each option gives the holder the right to subscribe for one ordinary share in the Company.

No benefit cost or obligation is recognized at the date of grant or exercise for share options granted on 30 July 2002 as the Group has taken advantage of the transitional provisions set out in HKFRS 2 "Share-based payment", under which the recognition and measurement policies have not been applied to all options granted to employees on or before 7 November 2002. On 30 January 2008, these 8,000,000 share options in total were lapsed without exercise.

On 2 January 2008, each of the three independent non-executive directors of the Company was granted 828,000 share options (no share options were granted during the six months ended 30 June 2007) under the Company's share option scheme to subscribe for 828,000 ordinary shares. These share options vest immediately on 2 January 2008 and have an exercise period of five years. The exercise price is \$0.434 per share, being the average closing price of the shares on The Stock Exchange of Hong Kong Limited for the five business days immediately preceding the date of grant.

The fair value of the share options granted on 2 January 2008 of \$490,000 was recognized as share-based compensation expenses in profit or loss during the six months ended 30 June 2008. On 19 March 2008, these 2,484,000 share options in total were lapsed following a mandatory unconditional cash offer for the shares of the Company.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in Hong Kong dollars)

15. Equity settled share-based transactions (Continued)

- (a) The terms and conditions of the grants that existed during the six months ended 30 June 2008 are as follows, whereby all options are settled by physical delivery of shares:

Date granted	Exercise period	Exercise price	At 30 June 2008 '000
30 July 2002	30 January 2003 to 29 January 2008	\$0.35	8,000
2 January 2008	2 January 2008 to 1 January 2013	\$0.434	2,484
			10,484

All the above share options are granted to the directors.

- (b) The number and weighted average exercise prices of share options are as follows:

	2008		2007	
	Weighted average exercise price	Number of shares '000	Weighted average exercise price	Number of shares '000
At 1 January	\$0.35	8,000	\$0.36	10,328
Granted	\$0.434	2,484	-	-
Exercised	-	-	\$0.35	(828)
Lapsed and cancelled	\$0.37	(10,484)	\$0.415	(1,500)
At 30 June 2008/ 31 December 2007	-	-	\$0.35	8,000
Options vested at 30 June 2008/ 31 December 2007	-	-	\$0.35	8,000

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in Hong Kong dollars)

16. Capital commitments

Capital commitments of the Group outstanding at 30 June 2008 not provided for in the interim financial report were as follows:

	At 30 June 2008 \$'000	At 31 December 2007 (audited) \$'000
Contracted for	432	–



REVIEW REPORT TO THE BOARD OF DIRECTORS OF WING SHAN INTERNATIONAL LIMITED

INTRODUCTION

We have reviewed the interim financial report set out on pages 2 to 19 which comprises the consolidated balance sheet of Wing Shan International Limited as of 30 June 2008 and the related consolidated profit and loss account, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to express a conclusion, based on our review, on this interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making inquiries, 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 Hong Kong Standards on Auditing 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.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2008 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim financial reporting".

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

12 September 2008

MANAGEMENT DISCUSSION AND ANALYSIS

PERFORMANCE REVIEW

The Group is engaged in manufacturing and sale of Chinese medicine and pharmaceutical products in the PRC. The Group's turnover represents the sales invoiced value, net of returns, discounts, value added tax and sales tax. The turnover for the six months ended 30 June 2008 grew by 24.50% amounting to HK\$228.19 million comparing with the turnover of HK\$183.29 million for the six months ended 30 June 2007 which included the increase in sale prices and volume as well as the appreciation of Renminbi. The gross profit ratio dropped from 41.98% for the six months ended 30 June 2007 to 36.95% for the six months ended 30 June 2008. The decrease in gross profits ratio was mainly owing to the increase in costs of raw materials and wages.

For the six months ended 30 June 2008, the profit before taxation enlarged to HK\$30.38 million (six months ended 30 June 2007: HK\$7.21 million) equal to the increase of 321.36%. The primary reason of the increase in the profit before taxation was the cut down in selling and distribution costs. Because of the changes in the tax law of the PRC, the net profit for the six months ended 30 June 2008 only increased by 150.12% to HK\$20.41 million comparing with the six months ended 30 June 2007 amounted to HK\$8.16 million.

The profit for the six months ended 30 June 2008 of HK\$20.41 million comprised the profit attributable to the equity shareholders of the Company amounting to HK\$7.87 million and the profit attributable to the minority interests amounting to HK\$12.54 million. The profit attributable to the equity shareholders of the Company had been incorporated the entire administrative and operating expenses in relation to the Company.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

MARKET REVIEW

The PRC has been experiencing a continuous and steady economic growth over the years with rising personal income and spending power of the general public together with improvement in living standard. In addition, due to the aging population and increasing healthcare awareness of people in the PRC, there is huge demand for quality pharmaceutical products. Under the circumstances, the pharmaceutical market in the PRC is rapidly developing.

On the other hand, the PRC has strengthened its policy in recent years to restrict the price increasing in Chinese medicine and pharmaceutical products, such on-going medicine price reform unavoidably affected the Group's performance. Furthermore, the prices in all aspects in the PRC have been tremendously increased, especially in the last year, which included raw materials, energy, labour and rental. The Group will be reducing various costs in different aspects of operation in procurement of raw materials, production, sales, transportation and storages. In particular, various sourcing channels are used for the procurement of raw materials, packing materials and supplementary materials, so that cost of production is kept at a reasonable level.

In research and development, the Group co-operates with its research and development partners, 中山大學醫學院 (Sun Yat-San University Medical Faculty) and 北京協和醫院 (Peking Union Medical College Hospital) for enlarging the capability of its research and development teams, constantly development of high-tech, high-quality and high-value added new patented products for the market.

PROSPECTS

With the acceleration of medical reforms in the PRC, medical insurance under the current basic medical insurance system for rural and urban citizens will raise the affordability of patients and thus increase the demand for medicines. The Group focuses on technology innovation, improving the quality of products, accumulating the development of strong and stable customer relations affiliated with sales and

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

PROSPECTS (Continued)

marketing network, increasing product's market share as well as expanding sales team and improving its quality and skills. The Group will seize the opportunity actively by enlarging its market share and coverage in the urban and rural areas of the PRC. The improvements are not only giving benefits but also enhance the ability of the Group to resist risks and threats. It will also increase the overall strength and support the smooth development of the Group's operation.

In light of changes in worldwide and the PRC economic environment, the Group will carefully manage its assets and operations to achieve the principal objectives of the Group in providing quality Chinese medicine and pharmaceutical products along with maximizing shareholders value.

FINANCIAL REVIEW

Funding for the Group's operations during the period came from internally generated cash flows. In case of shortfalls, short-term bank loans were drawn down to fit such necessity.

Liquidity and financial resources

As at 30 June 2008, the Group's current assets amounted to HK\$261.16 million (31 December 2007: HK\$229.39 million). The current liabilities amounted to HK\$110.89 million (31 December 2007: HK\$100.82 million) including bank loans of HK\$18.22 million (31 December 2007: Nil). Net working capital surplus amounted to HK\$150.27 million (31 December 2007: HK\$128.57 million). The Group's current ratio expectedly and slowly increased from 2.28 to 2.36.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

FINANCIAL REVIEW (Continued)

Net assets

As at 30 June 2008, the Group's net assets value excluding minority interests amounted to HK\$348.32 million (31 December 2007: HK\$324.17 million).

Bank loans and borrowings

As at 30 June 2008, the Group had committed short-term bank loans amounting to HK\$18.22 million (31 December 2007: Nil).

Capital structure and gearing ratio

As at 30 June 2008, the Group's capital structure comprised the shareholders' equity and the short-term bank loans amounting to HK\$366.54 million (31 December 2007: HK\$324.17 million without short-term bank loans). As at 30 June 2008, the gearing ratio, being the aggregate amount of the short-term bank loans as a percentage of equity attributable to equity shareholders of the Company was 5.23%.

Charge on group assets

As at 30 June 2008, there was no charge on the Group's assets for whatsoever purposes (31 December 2007: Nil).

Contingent liabilities and capital commitments

As at 30 June 2008, the Group had no contingent liabilities but had contracted capital commitments amounting to HK0.43 million (31 December 2007: Nil).

Exchange rate risk

During the period, individual companies within the Group had limited foreign currency risk as most of the transactions are denominated in the same currency as the functional currency of the operations in which they relate. The Group is of the opinion that its exposure to foreign exchange rate fluctuations is limited so that no financial instrument has been used for the purpose of hedging exchange rate risk.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2008, the Group employed a total of 937 (31 December 2007: 951) staff, including the directors of the Company. Remuneration packages principally comprised salary, discretionary performance bonus based on individual merits and share option scheme. The Group's total employee remuneration for the six months period ended 30 June 2008 was approximately HK\$30.48 million (six months ended 30 June 2007: HK\$24.75 million).

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2008 (six months ended 30 June 2007: Nil).

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS

As at 30 June 2008, the interests or short positions of the directors and chief executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) ("SFO") as recorded in the register which were required to be kept under 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 the Model Code for Securities Transactions by Directors of Listed Issuers were as follows.

Long positions in shares and underlying shares of the Company:

Name of Director	Ordinary Shares Directly Owned	Underlying Shares Pursuant to Share Options	Total Interests	Approximate Percentage of Total Interests to Issued Share Capital (%)
NG Pui Cheung, Joseph	150,000 <i>(Note)</i>	–	150,000	0.02

Note:

150,000 ordinary shares were sold in July 2008.

Other than as disclosed above, none of the directors and chief executives of the Company had any interests or short positions in any shares and underlying shares or debentures of the Company or any of its associated corporations as recorded in the register which were required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers. None of directors or their spouses or children under the age of 18, had been granted any right to subscribe for the equity or debt securities of the Company or any of its associated corporations, or had exercised any such right during the period.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

On 1 January 2008, Hensil Investments Group Limited held 315,000,000 ordinary shares of the Company. On 4 February 2008, Hensil Investments Group Limited entered into the agreement with Madam Yip Siu Chun to acquire the entire 290,196,037 ordinary shares of the Company held by her for a consideration of HK\$66,745,088.51, representing HK\$0.23 per ordinary share. Under the acquisition of the shares, a mandatory unconditional cash offer has been made to public shareholders. Finally, Hensil Investments Group Limited had received valid acceptances in respect of 94,849 ordinary shares.

As at 30 June 2008, the interests and short positions of the shareholders, other than a director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register which were required to be kept by the Company under section 336 of the SFO were as follows.

Long positions in shares of the Company:

	Corporate Interest on Ordinary Shares	Percentage of Issued Capital (%)
Hensil Investments Group Limited	605,290,886 <i>(Note)</i>	72.84
Foshan Development Company Limited	605,290,886 <i>(Note)</i>	72.84

Note:

The 605,290,886 shares are held by Hensil Investments Group Limited, which is wholly-owned by Foshan Development Company Limited. By virtue of its interest in Hensil Investments Group Limited, Foshan Development Company Limited is deemed to be interested in such 605,290,886 shares held by Hensil Investments Group Limited.

Save as disclosed above, the register which was required to be kept under section 336 of the SFO showed that the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company as at 30 June 2008.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the “Scheme”) for any eligible employee or director of any member of the Group. The Scheme was approved by the Company’s shareholders at the Extraordinary General Meeting of the Company held on 22 May 2002 and amended by the Company’s shareholders at the Annual General Meeting on 29 May 2006. Details of the Scheme have been disclosed in the Company’s most recent published annual report. As at 30 June 2008, the following directors and chief executives had personal interests in the share options to subscribe for the shares of the Company:

Name of Directors/ Chief Executives	No. of Options Outstanding as at	Date of Grant	Period during which Options Exercisable	Exercise Price per Share HK\$	Options	Options Lapsed during the Period	Market Value	No. of Options Outstanding as at 30 June 2008
	1 January 2008				Granted during the Period		per Share at Date of Grant of Options HK\$	
HE Haochang (N)	4,200,000	30/7/2002	30/1/2003-29/1/2008	0.35	-	(4,200,000)	0.33	-
SITU Min (E)	3,800,000	30/7/2002	30/1/2003-29/1/2008	0.35	-	(3,800,000)	0.33	-
CHAN Ting Chuen, David (I)	-	02/1/2008	02/1/2008-01/1/2013	0.434	828,000	(828,000)	0.41	-
NG Pui Cheung, Joseph (I)	-	02/1/2008	02/1/2008-01/1/2013	0.434	828,000	(828,000)	0.41	-
CHEUNG Kin Piu, Valiant (I)	-	02/1/2008	02/1/2008-01/1/2013	0.434	828,000	(828,000)	0.41	-
Total	8,000,000				2,484,000	(10,484,000)		-

(N) *Non-executive director*

(E) *Executive director*

(I) *Independent non-executive director*

Notes:

- Market value per share at date of grant is the closing price at date preceding the date of options granted.
- The vesting periods of the options are from the date of the options granted until the commencement of the exercise period.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Save as disclosed in above section headed "Share Option Scheme" of this report, at no time during the period were there any rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouses or children under 18 years of age, or were there any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

CODE OF CORPORATE GOVERNANCE PRACTICES

To the knowledge of the Board, the Company has complied throughout the six months ended 30 June 2008 with the Code Provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules.

THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors' securities transactions. Specific enquiry has been made with all directors and the directors have confirmed that they have complied with the required standard set out in the Model Code throughout the period. Furthermore, senior management who are likely to be possession of unpublished price sensitive information, have been required to comply with the provisions of the Model Code.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2008, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

By Order of the Board

DU Richeng

Chairman

Hong Kong, 12 September 2008

As at the date of this report, the Board comprises of 7 directors, of whom Mr. DU Richeng is the non-executive director; Mr. LAM Siu Hung, Mr. SITU Min, Mr. LI Songquan are the executive directors; and Mr. CHAN Ting Chuen, David, Mr. NG Pui Cheung, Joseph and Mr. CHEUNG Kin Piu, Valiant are the independent non-executive directors.