



**LONG FAR**

**LONG FAR PHARMACEUTICAL  
HOLDINGS LIMITED**

**龍發製藥集團有限公司**

(Incorporated in the Cayman Islands with limited liability)

Interim Report 2002

The Board of Directors (the "Board") of Long Far Pharmaceutical Holdings Limited (the "Company") is pleased to present the first unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2002 (the "Period") together with the comparative figures for the corresponding period of 2001, as follows:

## CONSOLIDATED INCOME STATEMENT (UNAUDITED)

for the six months ended 30 September 2002

		<b>Six months ended 30 September</b>	
	Note	<b>2002 HK\$</b>	2001 HK\$
<b>Turnover</b>	2	<b>59,729,034</b>	42,636,098
Cost of sales		<b>(15,437,648)</b>	(11,964,223)
		<b>44,291,386</b>	30,671,875
Other revenue		<b>922,807</b>	352,144
Other net (loss)/income		<b>(103,728)</b>	42,802
Distribution costs		<b>(14,074,275)</b>	(7,906,245)
General and administrative expenses		<b>(12,035,631)</b>	(6,580,828)
<b>Profit from operations</b>	2	<b>19,000,559</b>	16,579,748
Finance costs	3	<b>(202,690)</b>	(58,215)
<b>Profit from ordinary activities before taxation</b>	3	<b>18,797,869</b>	16,521,533
Taxation	4	<b>(3,024,324)</b>	(2,643,445)
<b>Profit attributable to shareholders</b>		<b>15,773,545</b>	13,878,088
<b>Interim dividend</b>	5	<b>6,000,000</b>	4,000,000
<b>Earnings per share</b>	6		
Basic		<b>3.34 cents</b>	3.08 cents
Diluted		<b>3.34 cents</b>	-

No separate consolidated statement of changes in equity has been prepared as the net profit for the Period would be the only component of this statement.

The notes on pages 4 to 18 form part of this interim financial report.

**CONSOLIDATED BALANCE SHEET (UNAUDITED)**

at 30 September 2002

		<b>At 30 September 2002</b>	At 31 March 2002 (Audited)
	<i>Note</i>	<b>HK\$</b>	HK\$
<b>Non-current assets</b>			
Fixed assets	7	<b>2,565,919</b>	3,558,061
<b>Current assets</b>			
Inventories	8	<b>10,134,107</b>	3,712,899
Trade and other receivables	9	<b>25,101,303</b>	23,880,626
Amounts due from directors	10, 11	–	18,626,805
Pledged deposits at bank	12	<b>4,408,269</b>	4,488,583
Cash and cash equivalents		<b>67,753,038</b>	11,322,812
		<b>107,396,717</b>	62,031,725
<b>Current liabilities</b>			
Obligations under finance leases	13	–	544,524
Trade and other payables	14	<b>11,789,979</b>	5,527,088
Taxation		<b>6,657,635</b>	3,633,311
		<b>18,447,614</b>	9,704,923
<b>Net current assets</b>		<b>88,949,103</b>	52,326,802
<b>Total assets less current liabilities</b>		<b>91,515,022</b>	55,884,863
<b>Non-current liabilities</b>			
Obligations under finance leases	13	–	1,116,378
<b>NET ASSETS</b>		<b>91,515,022</b>	54,768,485
<b>CAPITAL AND RESERVES</b>			
<b>Share capital</b>	15	<b>30,000,000</b>	100,000
<b>Reserves</b>	16	<b>61,515,022</b>	54,668,485
		<b>91,515,022</b>	54,768,485

The notes on pages 4 to 18 form part of this interim financial report.

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

for the six months ended 30 September 2002

	<b>Six months ended 30 September</b>	
	<b>2002 HK\$</b>	2001 HK\$
<b>Net cash inflow from operating activities</b>	<b>36,853,668</b>	2,502,433
<b>Net cash inflow/(outflow) from investing activities</b>	<b>467,158</b>	(4,090,992)
<b>Net cash inflow/(outflow) before financing activities</b>	<b>37,320,826</b>	(1,588,559)
<b>Net cash inflow/(outflow) in financing activities</b>	<b>19,109,400</b>	(167,965)
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>56,430,226</b>	(1,756,524)
<b>Cash and cash equivalents at 1 April</b>	<b>11,322,812</b>	14,245,130
<b>Cash and cash equivalents at 30 September</b>	<b>67,753,038</b>	12,488,606
<b>Analysis of the balances of cash and cash equivalents</b>		
Cash at bank and in hand	<b>3,387,508</b>	11,331,378
Deposits with banks and other financial institutions maturing within three months from the date of the deposits	<b>64,365,530</b>	1,157,228
	<b>67,753,038</b>	12,488,606

The notes on pages 4 to 18 form part of this interim financial report.

## NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

### 1. Basis of presentation

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports", issued by the Hong Kong Society of Accountants (the "HKSA"). KPMG's independent review report to the Board is included on page 19. In addition, this interim financial report has been reviewed by the Company's Audit Committee.

The interim financial report has been prepared in accordance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), including compliance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the HKSA.

The Company was incorporated in the Cayman Islands on 17 May 2002 as an exempted company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 5 September 2002 (the "Listing Date"). The Company became the holding company of the Group on 22 August 2002 through a reorganisation of the Group (the "Reorganisation"). Particulars of the Reorganisation are set out in the Prospectus of the Company dated 27 August 2002 (the "Prospectus").

The Group resulting from the Reorganisation is regarded as a continuing group. Accordingly, the interim financial report has been prepared on the basis of merger accounting, under which the Company was the holding company of the Group for both periods presented, rather than from 22 August 2002. Under these circumstances, the results of the Group for the six months ended 30 September 2001 and 2002 include the results of the Company and its subsidiaries with effect from 1 April 2001 or since their respective dates of incorporation, whichever is a shorter period. The consolidated balance sheet at 31 March 2002 is a combination of the balance sheets of the Company and its subsidiaries at 31 March 2002. In the opinion of the Directors, the resulting interim financial report gives a more meaningful view of the results and state of affairs of the Group as a whole.

**1. Basis of presentation** *(continued)*

The same accounting policies adopted in the accountants' report (the "Accountants' Report") as disclosed in the Prospectus have been applied to the interim financial report, with the exception of changes in presentation of cash flow statement to comply with revised SSAP issued by the HKSA, which is mandatory for accounting periods beginning on or after 1 January 2002. On adoption of SSAP 15 (revised) "Cash flow statements", presentation of cash flow statement has been changed to conform with the requirements of this revised SSAP.

The notes on the interim financial report 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 Accountants' Report.

**2. Segment information**

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group in making operating and financial decisions.

*(a) Business segment*

Throughout the Period, the Group has been operating in a single business segment, i.e. the trading of Chinese herbal medicines.

*(b) Geographical segments*

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

**2. Segment information** (continued)

(b) *Geographical segments* (continued)

The Group's business is managed in Hong Kong, customers are mainly from Hong Kong, Japan and South East Asia.

	Six months ended 30 September						Consolidated	
	Hong Kong		Japan		South East Asia		2002	2001
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Revenue from external customers	41,480,274	30,078,028	14,616,000	-	3,632,760	12,558,070	59,729,034	42,636,098
Other revenue from external customers	714,641	195,211	-	-	-	-	714,641	195,211
Total	<b>42,194,915</b>	<b>30,273,239</b>	<b>14,616,000</b>	<b>-</b>	<b>3,632,760</b>	<b>12,558,070</b>	<b>60,443,675</b>	<b>42,831,309</b>
Contribution from operations	<b>33,703,811</b>	24,762,579	<b>9,764,638</b>	-	<b>1,537,579</b>	6,104,507	<b>45,006,028</b>	30,867,086
Unallocated operating income and expenses							<b>(26,005,469)</b>	(14,287,238)
Profit from operations							<b>19,000,559</b>	16,579,748
Finance costs							<b>(202,690)</b>	(58,215)
Taxation							<b>(3,024,324)</b>	(2,643,445)
Profit attributable to shareholders							<b>15,773,545</b>	13,878,088
Depreciation and amortisation for the period							<b>709,988</b>	585,455

All segment assets and capital expenditures are in Hong Kong.

### 3. Profit from ordinary activities before taxation

Profit from ordinary activities before taxation is arrived at after charging/ (crediting):

		<b>Six months ended 30 September</b>	
		<b>2002 HK\$</b>	2001 HK\$
(a)	Finance costs:		
	Finance charges on obligations under finance leases	<b>138,687</b>	32,924
	Other borrowing costs	<b>64,003</b>	25,291
		<b>202,690</b>	58,215
(b)	Other items:		
	Staff costs (including retirement costs of HK\$165,479 (2001: HK\$143,272))	<b>5,305,923</b>	4,087,404
	Research and development costs	<b>2,800,000</b>	–
	Net loss/(gain) on disposal of fixed assets	<b>103,476</b>	(42,802)
	Depreciation		
	– assets under finance leases	–	136,085
	– other assets	<b>709,988</b>	449,370
	Operating lease charges for properties	<b>1,105,773</b>	960,557

### 4. Taxation

		<b>Six months ended 30 September</b>	
		<b>2002 HK\$</b>	2001 HK\$
	Hong Kong taxation	<b>3,024,324</b>	2,643,445

The provision for Hong Kong Profits Tax is calculated at 16% (2001: 16%) of the estimated assessable profits for the six months ended 30 September 2002.

No provision for deferred tax has been made as the tax effect of all timing differences is immaterial.



**5. Dividends**

(a) *Dividend attributable to the interim period*

	<b>2002 HK\$</b>	2001 HK\$
Interim dividend declared after the interim period of HK1 cent per share (2001: HK\$40 per share)	<b><u>6,000,000</u></b>	<u>4,000,000</u>

The interim dividend declared after the interim period end has not been recognised as a liability at the interim period end date.

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

	<b>2002 HK\$</b>	2001 HK\$
Final dividend in respect of the year ended 31 March 2001 approved and paid during the interim period	<b>6,000,000</b>	-
Interim and final dividends in respect of the year ended 31 March 2002 approved and paid during the interim period	<b><u>12,000,000</u></b>	-
	<b><u>18,000,000</u></b>	-

**6. Earnings per share**

(a) *Basic earnings per share*

The calculation of basic earnings per share of the Company for the six months ended 30 September 2002 is based on the profit attributable to shareholders of the Company of HK\$15,773,545 (2001: HK\$13,878,088) and the weighted average of 472,131,147 (2001: 450,000,000) shares in issue during the period, being the shares that would have been in issue throughout the period on the assumption that the Reorganisation as set out in the section headed "Written resolutions of the sole shareholder of the Company passed on 22 August 2002" in Appendix IV to the Prospectus was completed on 1 April 2001.

**6. Earnings per share** (continued)

(b) *Diluted earnings per share*

The calculation of diluted earnings per share for the period ended 30 September 2002 is based on the profit attributable to shareholders of HK\$15,773,545 and the weighted average number of ordinary shares of 472,461,288 shares after adjusting for the effects of all dilutive potential ordinary shares.

Diluted earnings per share for the period ended 30 September 2001 is not shown as there is no potential dilutive ordinary shares in existence.

**7. Fixed assets**

	At 30 September 2002			At 31 March 2002 (Audited)		
	Accumulated	Net book		Accumulated	Net book	
	Cost	depreciation	value	Cost	depreciation	value
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Leasehold improvements	1,572,352	(808,427)	763,925	1,172,317	(675,947)	496,370
Furniture, fixtures and office equipment	1,189,733	(527,017)	662,716	805,767	(426,752)	379,015
Computer equipment	967,286	(438,469)	528,817	783,565	(379,592)	403,973
Plant and machinery	1,044,740	(653,594)	391,146	596,740	(528,866)	67,874
Motor vehicles	845,934	(626,619)	219,315	3,406,337	(1,195,508)	2,210,829
	<b>5,620,045</b>	<b>(3,054,126)</b>	<b>2,565,919</b>	<b>6,764,726</b>	<b>(3,206,665)</b>	<b>3,558,061</b>

The Group repaid all finance lease obligations on certain motor vehicles in June 2002. Upon the repayment of the respective finance lease obligations, the ownership of the motor vehicles was transferred to the Group.

At 30 September 2002, the net book value of motor vehicles held under finance leases of the Group was HK\$nil (31 March 2002: HK\$1,879,733).

**8. Inventories**

	<b>At 30 September 2002</b>	At 31 March 2002 (Audited)
	<b>HK\$</b>	HK\$
Finished goods	<b>10,134,107</b>	1,984,899
Goods in transit	–	1,728,000
	<b><u>10,134,107</u></b>	<b><u>3,712,899</u></b>

All inventories are finished goods and stated at cost.

**9. Trade and other receivables**

Included in trade and other receivables are debtors with the following ageing analysis:

	<b>At 30 September 2002</b>	At 31 March 2002 (Audited)
	<b>HK\$</b>	HK\$
Current	<b>18,866,030</b>	15,980,879
1 to 3 months overdue	<b>936,320</b>	4,678,650
More than 3 months overdue but less than 12 months overdue	<b>17,485</b>	58,358
Over 12 months overdue	<b>78,221</b>	619,036
Total trade receivables	<b><u>19,898,056</u></b>	<u>21,336,923</u>
Deposits, prepayments and other receivables	<b><u>5,203,247</u></b>	<u>2,543,703</u>
	<b><u>25,101,303</u></b>	<b><u>23,880,626</u></b>

Credit terms granted by the Group to customers generally range from 20 days to 3 months. The credit terms given to customers vary and are generally based on the financial strength of individual customers and the length of the business relationship with the Group. In order to effectively manage the credit risk associated with accounts receivable, credit evaluations of customers are performed periodically.

**10 Amounts due from directors**

The balances were unsecured, interest free and had no fixed terms of repayment.

**11 Loans to officers**

Details of loans to officers of the Group are as follows:

Name of borrower	Position	At 30 September 2002	At 31 March 2002 (Audited)
		HK\$	HK\$
Chiu Ka Leung	Director	-	8,584,373
Han Chin Lu	Director (resigned on 28 February 2002)	-	9,302,432
Yeh Shu Ping	Director (appointed on 28 February 2002)	-	740,000
		<u>-</u>	<u>18,626,805</u>

**Maximum balance  
outstanding during  
the period/year ended**

Name of borrower	Position	30 September 2002	31 March 2002 (Audited)
		HK\$	HK\$
Chiu Ka Leung	Director	<b>15,080,580</b>	11,907,284
Han Chin Lu	Director (resigned on 28 February 2002)	<b>9,302,432</b>	10,179,592
Yeh Shu Ping	Director (appointed on 28 February 2002)	<b>2,919,420</b>	740,000
		<u><b>27,302,432</b></u>	<u>12,826,876</u>

The balances were unsecured, interest free and had no fixed terms of repayment.

**12. Pledged deposits at bank**

The Group has pledged deposits totalling HK\$4,408,269 (31 March 2002: HK\$4,488,583) to banks to secure banking facilities granted to the Group.

**13. Obligations under finance leases**

As at 30 September 2002, all finance lease obligations on certain motor vehicles were repaid by the Group with details as follows:

	At 30 September 2002			At 31 March 2002 (Audited)		
	Present value of the minimum lease payments HK\$	Interest expense relating to future periods HK\$	Total minimum lease payments HK\$	Present value of the minimum lease payments HK\$	Interest expense relating to future periods HK\$	Total minimum lease payments HK\$
Within 1 year	-	-	-	544,524	113,451	657,975
After 1 year but within 2 years	-	-	-	448,711	66,680	515,391
After 2 years but within 5 years	-	-	-	667,667	50,440	718,107
	-	-	-	1,116,378	117,120	1,233,498
	-	-	-	1,660,902	230,571	1,891,473

Upon full repayment of the finance lease obligations, the ownership of the motor vehicles was transferred to the Group.

**14. Trade and other payables**

Included in trade and other payables are trade creditors and bills payable with the following ageing analysis:

	<b>At 30 September 2002</b>	At 31 March 2002 (Audited)
	<b>HK\$</b>	HK\$
Current	<b>2,751,353</b>	2,827,598
Total creditors and bills payable	<b>2,751,353</b>	2,827,598
Other payables and accrued charges	<b>9,038,626</b>	2,699,490
	<b><u>11,789,979</u></b>	<b><u>5,527,088</u></b>

The credit terms obtained by the Group range from one to three months.

**15. Share capital**

	<b>At 30 September 2002</b>		At 31 March 2002 (Audited)	
	No. of shares	Amount HK\$	No. of shares	Amount HK\$
<i>Authorised:</i>				
Ordinary shares of HK\$0.05 each	<b><u>5,000,000,000</u></b>	<b><u>250,000,000</u></b>	-	-
Ordinary shares of HK\$1 each	-	-	<u>100,000</u>	<u>100,000</u>
<i>Issued and fully paid:</i>				
At beginning of the period/year	100,000	100,000	100,000	100,000
Issuance of shares for the acquisition of subsidiaries	1,000	50	-	-
Shares issued under the Reorganisation	449,999,000	22,499,950	-	-
Shares issued under the Placing and Public Offer	150,000,000	7,500,000	-	-
Capital elimination on combination	(100,000)	(100,000)	-	-
At end of the period/year	<b><u>600,000,000</u></b>	<b><u>30,000,000</u></b>	<u>100,000</u>	<u>100,000</u>

**15. Share capital** *(continued)**Notes:*

- (i) The share capital as at 31 March 2002 represented the combined issued share capital of the companies comprising the Group as at 31 March 2002 on the basis set out in note 1.
- (ii) The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands on 17 May 2002 with an authorised share capital of HK\$350,000 divided into 7,000,000 shares of HK\$0.05 each and issued share capital of 1 share.
- (iii) Pursuant to a resolution in writing of the sole shareholder of the Company passed on 22 August 2002, the authorised share capital of the Company was increased from HK\$350,000 to HK\$250,000,000 by the creation of an additional 4,993,000,000 shares of HK\$0.05 each.
- (iv) The Company became the holding company of the Group on 22 August 2002 pursuant to the Reorganisation on 22 August 2002 under which 999 shares of HK\$0.05 each were allotted and issued, credited as fully paid, to Oriental Chinese Medicines Limited ("Oriental Chinese"), the Company's shareholder, as consideration for the acquisition by the Company of, and in exchange for the 200 shares of US\$1.00 each in Long Far Pharmaceutical (BVI) Limited, representing its then entire issued share capital.
- (v) Pursuant to the written resolutions of the sole shareholder of the Company passed on 22 August 2002, conditional on the share premium account of the Company being credited as a result of the share offer, an amount of HK\$22,499,950 standing to the credit of the Company's share premium account was applied in paying up in full at par 449,999,000 shares of HK\$0.05 each for allotment and issue to holders of shares whose names appeared on the register of shareholders of the Company at the close of business on 22 August 2002 (or as they might direct) in proportion as nearly as might be without involving fractions to their then existing shareholdings in the Company.
- (vi) On 5 September 2002, an aggregate of 150,000,000 shares of HK\$0.05 each were issued and offered for subscription at a price of HK\$0.34 per share upon the listing of the Company's shares on the Stock Exchange. The Group raised HK\$38,804,000 (including interest income) net of related expenses from the share offer.

**15. Share capital** *(continued)*

- (vii) All the shares issued by the Company rank *pari passu* and do not carry pre-emptive rights.
  
- (viii) On 22 August 2002, a share option scheme was approved by the sole shareholder of the Company under which the Directors may, at their discretion, offer to any employee (including any director) of the Company or any subsidiary of the Company and other eligible participants as referred to in the rules of the share option scheme to take up options to subscribe for shares in the Company subject to the terms and conditions stipulated in the scheme.

The exercise price for shares under the share option scheme must be the highest of:

- (a) the nominal value of a share on the date of grant;
- (b) the closing price of a share as stated in the daily quotations sheet of the Stock Exchange on the date of grant, which must be a business day; and
- (c) the average closing price of a share as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant.

The maximum number of shares which may be issued upon exercise of all options granted under the share option scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the shares in issue as at the Listing Date (excluding any options which have lapsed).

Pursuant to the board resolutions dated 9 September 2002 and 6 December 2002 respectively, the Company granted options to certain of its directors and employees for subscribing a total of 11,300,000 ordinary shares of the Company at a price of HK\$0.375 per share during the period from 9 September 2003 to 8 September 2012, both dates inclusive. As at 30 September 2002, the number of shares under options outstanding is 11,300,000. In October 2002, 5,800,000 share options lapsed as a result of the resignation of an option holder.



**16. Reserves**

	Share premium (note (b)) HK\$	Contributed surplus (notes (a) & (b)) HK\$	Retained profits HK\$	Total HK\$
At 1 April 2002	-	-	54,668,485	54,668,485
Reorganisation adjustment	-	299,968	-	299,968
Profit for the period	-	-	15,773,545	15,773,545
Share premium from issuance of shares	43,500,000	-	-	43,500,000
Capitalisation issue	(22,499,950)	-	-	(22,499,950)
Issuing expenses	(12,227,026)	-	-	(12,227,026)
Dividends	-	-	(18,000,000)	(18,000,000)
	<u>8,773,024</u>	<u>299,968</u>	<u>52,442,030</u>	<u>61,515,022</u>
At 30 September 2002	<u>8,773,024</u>	<u>299,968</u>	<u>52,442,030</u>	<u>61,515,022</u>

**Notes:**

- (a) The excess of the consolidated net assets represented by the shares acquired over the nominal value of the shares issued by the Company in exchange under the Reorganisation during the Period was transferred to contributed surplus.
- (b) Under the Companies Law of the Cayman Islands, the funds in the contributed surplus account and share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

**17. Commitments**

The Group leases a number of properties under operating leases. The leases typically run for an initial period of 1 to 3 years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

**17. Commitments** (continued)

As at 30 September 2002, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	<b>At 30 September 2002</b>	At 31 March 2002 (Audited)
	<b>HK\$</b>	HK\$
Within one year	<b>1,880,857</b>	1,829,850
After one year but within five years	<b>181,070</b>	692,727
	<b><u>2,061,927</u></b>	<u>2,522,577</u>

**18. Material related party transactions**

During the six months ended 30 September 2002, the Group had the following significant recurring related party transaction:

During the six months ended 30 September 2002, the Group outsourced the manufacturing of goods to Yunnan Panlong Yunhai Pharmaceutical Company Limited ("YPYP"), in which a director of the Group, Mr. Chiu Ka Leung has beneficial interests.

	<b>Six months ended 30 September</b>	
	<b>2002</b>	2001
	<b>HK\$</b>	HK\$
Amount of goods outsourced	<b><u>16,502,400</u></b>	<u>11,232,000</u>

Pursuant to the outsourcing agreement with YPYP, the outsourcing cost is determined based on the market price of similar services prevailing at the beginning of each year and the actual purchase costs of raw materials and other costs incurred during the manufacturing process of the goods.

The Directors of the Group are of the opinion that the above related party transaction was conducted on normal commercial terms and in the ordinary course of business of the Group.

**19. Contingent liabilities**

In June 2002, one of the subsidiaries of the Company, Long Far Herbal Medicine Manufacturing (HK) Limited (the "Defendant") was involved in the High Court action HCA 2265 of 2002 in relation to a claim by Mr Joseph Koo (the "Plaintiff") who claimed for permanent injunction and damages, including exemplary (or aggravated) damages, under the Defendant's alleged breach of confidence and defamation. As at 30 September 2002, the Plaintiff has filed his reply to the Defendant's defence. Based on the information currently available, the Directors are of the opinion that the claim for damages cannot be estimated reliably and is not anticipated to have a material adverse effect on the Group's financial position, operational results, or cash flows. In this regard, no provision for such claim has been included in the interim financial report.

**20. Ultimate holding company**

The Directors consider the ultimate holding company of the Group to be Oriental Chinese, a company incorporated in the British Virgin Islands.

**21. Comparative figures**

Comparative figures have been restated and reclassified based on the adoption of SSAP 15 (revised) as set out in note 1 in the interim financial report.

**22. Approval of interim financial report**

The interim financial report was approved by the Board on 25 November 2002.

## INDEPENDENT REVIEW REPORT



TO THE BOARD OF DIRECTORS OF  
**LONG FAR PHARMACEUTICAL HOLDINGS LIMITED**  
*(Incorporated in the Cayman Islands with limited liability)*

### INTRODUCTION

We have been instructed by the Company to review the interim financial report set out on pages 1 to 18.

### DIRECTORS' RESPONSIBILITIES

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 Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants. The interim financial report is the responsibility of, and has been approved by, the Directors.

### REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

### REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 September 2002.

**KPMG**  
*Certified Public Accountants*

Hong Kong, 25 November 2002

## **INTERIM DIVIDEND**

The Board has declared an interim dividend of HK1 cent per share for the Period (2001: HK\$40 per share) payable to the shareholders (“Eligible Shareholders”) whose names appear on the Register of Members of the Company on Friday, 20 December 2002. Dividend warrants will be despatched to the Eligible Shareholders on or before Monday, 20 January 2003.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from Tuesday, 17 December 2002 to Friday, 20 December 2002, both days inclusive, during which period no transfers of shares of the Company will be effected. In order to qualify for entitlement to the interim dividend, all transfers documents together with the relevant share certificates must be lodged with the Company’s Share Registrars in Hong Kong, Tengis Limited at 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong for registration not later than 4:00 p.m. on Monday, 16 December 2002.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **SUCCESSFUL LISTING**

The successful listing of the Company’s shares on the Main Board of the Stock Exchange on the Listing Date was a major milestone for the Group. The Group has successfully established its brandname 「龍發製藥」(Long Far), and its flagship product, Beauty and Healthy (排毒美顏寶), a popular product in Hong Kong, South East Asia and Japan. The Group will strive to develop more products to increase its market shares and profitability.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### RESULTS

For the Period, the Group's turnover amounted to HK\$59,729,034 (2001: HK\$42,636,098) and was derived principally from the sales of Beauty and Healthy (排毒美顏寶) and a new product, namely Female Essence (補氣養血寶) that was launched in Hong Kong in May 2002 under the Group's brand name of 「龍發製藥」 (Long Far). There was an increase in turnover of approximately 40.1% as compared with the corresponding period in 2001. The growth was mainly due to the increase in sales of Beauty and Healthy (排毒美顏寶) in Hong Kong and Japan, a new market established in March 2002.

The Group's gross profit margin improved from 71.9% to 74.2% in the Period as compared with the corresponding period in 2001. This was mainly due to the increase in sales of Beauty and Healthy (排毒美顏寶) in Japan which achieved a comparatively higher profit margin than that of South East Asia, although the increase was partially offset by a slight reduction in profit margin in Hong Kong.

The Group recorded a profit attributable to shareholders of HK\$15,773,545 for the Period (2001: HK\$13,878,088), representing an increase of approximately 13.7% as compared with the same period in 2001.

### BUSINESS REVIEW

During the Period, the satisfactory achievement in turnover and profit was attributable to the successful market expansion, well-established distribution market, popularity of brandname of 「龍發製藥」 (Long Far), as well as effective sales and marketing strategies for the Group's products.

#### Hong Kong

Hong Kong is the core market of the Group's products and turnover in Hong Kong accounted for approximately 69.4% of the Group's turnover for the Period (2001: 70.5%).

Sales in Hong Kong for the Period amounted to HK\$41,480,274, representing an increase of approximately 37.9% as compared with the corresponding period in 2001.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### **Hong Kong** *(continued)*

The growth was mainly due to the continuous increase in sales of the Group's flagship product, Beauty and Healthy (排毒美顏寶), which was resulting from the successful marketing strategies with HK\$12,922,917 spent on advertising, marketing and promotional campaigns during the Period.

### **South East Asia and Japan**

The distribution network for Beauty and Healthy (排毒美顏寶) under the Group's brandname of 「龍發製藥」(Long Far) extends to Malaysia, Singapore, Indonesia, Thailand and Japan. Turnover in overseas markets accounted for approximately 30.6% of the Group's turnover for the Period (2001: 29.5%).

Sales in South East Asia for the Period amounted to HK\$3,632,760, representing a decrease of approximately 71.1% as compared with the corresponding period in 2001. Such decrease was due to the fact that the Group's overseas distributor for Malaysia, Singapore, Thailand and Indonesia decided to terminate its agreements with some local distributors with unsatisfied performance. The Group will work hand in hand with its overseas distributor to reorganise a better managed distribution network in these areas with reputable local distribution agents. The Directors are confident that sales in these areas will be improved in the future.

Sales in Japan for the Period amounted to HK\$14,616,000, representing an increase of 100% as compared with the corresponding period in 2001. The growth was mainly due to the increasing popularity of Beauty and Healthy (排毒美顏寶) in Japan since the Group introduced its product to Japan in March 2002.

## **MANAGEMENT DISCUSSION AND ANALYSIS** *(continued)*

### **Research and development**

During the Period, the Group identified suitable potential products for research and development.

On 16 September 2002, the Group entered into two research and development agreements with Yunnan Provincial Chinese Medicine Research Institute (雲南省中醫中藥研究所), an independent third party for developing the medicinal formulae for two new products with a total contract sum of HK\$5,850,000. One of the products is developed specifically to strengthen and regulate the functions of kidney and liver. Another product is developed specifically to regulate sleeping disorder, nourish heart and spleen, calm nerve and help relaxation. HK\$2,800,000 of research and development expenses were incurred during the Period. Such research and development activities enable the Group to diversify its product line and to keep abreast of the research and development techniques applied in the development of the Chinese medicinal formulae as well as the latest development in the field of Chinese medicines.

### **Advertising and Promotion**

The Group incurred HK\$12,922,917 (2001: HK\$7,174,763) for advertising and marketing activities mainly through providing sponsorship on television programmes and publication of more advertisement on newspapers and magazines, with a view to strengthening the Group's leading position in the pharmaceutical industry and generating more demand for the Group's products. The other major factor for the increase in the advertising and promotion expenses was the launch of Female Essence (補氣養血寶) in May 2002.

According to a survey conducted by AC Nielson in May 2002 on the public acceptance of the Group's flagship product, Beauty and Healthy (排毒美顏寶), it showed that Beauty and Healthy (排毒美顏寶) is one of the most popular pharmaceutical products with toxin discharging function and the survey revealed that 40% of the people participating in the survey are currently taking or had previously used this product.



## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### PROSPECTS

The Directors anticipate that the competition in the modernised Chinese medicine market in both Hong Kong and overseas will become very keen and may affect the prospects as well as the earnings of the Group in the foreseeable future. In order to maintain the competitiveness in the proprietary Chinese medicine market and to sustain a steady growth in the Group's business, the Group's management team will make every effort to further enhance the Group's research and development capabilities and to strengthen the existing distribution channels as well as to explore new markets.

The major strategies and plans for the future development of the Group are summarized below:

#### Research and development of new products

The Group will continue to put great effort on research and development to improve the quality of its existing products as well as to expand its product line to cover health assurance in all aspects.

As disclosed in the Prospectus, the development of the medicinal formula for Super Vitality (填精生力寶), which has the properties of improving conditions such as fatigue, insomnia and dreamful sleep, decreased libido, waist soreness, knee flaccidity, dizziness and tinnitus, was completed. The product was just launched in Hong Kong in late October of 2002. Another new product, namely Vasopure (活血降脂寶), is made from Chinese natural herbs and principally focus on purifying and promoting blood circulation, lowering the level of blood lipid contains in human body, and regulating metabolism. The Group plans to launch this new product early next year.

As previously mentioned in the paragraph headed "Research and Development" above, two more new products are now under development. These products are expected to launch in Hong Kong by the end of 2003.

The Directors believe that in the light of the Group's goodwill and its well-established brandname of 「龍發製藥」(Long Far), these new products are expected to gain favourable market acceptance.

## **MANAGEMENT DISCUSSION AND ANALYSIS** *(continued)*

### **Expanding the Group's local and overseas distribution networks**

The Directors believe that the Group's well-established brandname of 「龍發製藥」(Long Far), experienced management team, strong marketing capability and extensive distribution channels have provided the Group competitive advantages over its competitors.

In order to facilitate the increasing demand of the Group's flagship product, Beauty and Healthy (排毒美顏寶) in local and overseas markets especially Japan, the Group will continuously strengthen and expand its cooperation with its distributors especially for Hong Kong and Japan so as to enhance the market share in Hong Kong and to further penetrate into the market in Japan. The Group also intends to explore the market in South Korea for Beauty and Healthy (排毒美顏寶) by appointing new exclusive distributors for this market.

With regard to the Group's new products, Female Essence (補氣養血寶) and Super Vitality (填精生力寶), the Group intends to launch the two new products to overseas markets through its existing overseas distribution networks of Beauty and Healthy (排毒美顏寶).

### **Establishing Chinese herbal raw material production base in the People's Republic of China (the "PRC")**

As disclosed in the Prospectus, it is the Group's intention to develop a Chinese herbal raw material production base in the PRC. The Group is currently in the process of identifying a location with suitable natural conditions for establishing such production base.

The Directors are of the view that this production base will be able to satisfy most of the Group's demand for Chinese herbal raw materials.

### **The Hong Kong based Chinese medicinal service centres**

The Group plans to establish two Chinese medicinal service centres in Hong Kong by the end of 2003 as mentioned in the Prospectus.

## **MANAGEMENT DISCUSSION AND ANALYSIS** *(continued)*

### **Expansion through mergers, acquisitions, cooperative arrangements, strategic alliances and joint ventures**

The Group is currently in the process of identifying acquisition opportunities in the PRC to strengthen its business operations in the areas of research and development, production, marketing and distribution of natural Chinese herbal medicine.

### **LIQUIDITY AND FINANCIAL RESOURCES**

The Group has consistently maintained strong working capital. As at 30 September 2002, the Group had current assets of HK\$107,396,717 (31 March 2002: HK\$62,031,725) and cash and bank balances of HK\$67,753,038 (31 March 2002: HK\$11,322,812) of which all balances were denominated in Hong Kong dollar.

As at 30 September 2002, the current liabilities of the Group were HK\$18,447,614 (31 March 2002: HK\$9,704,923) whilst the Group had no outstanding borrowings (31 March 2002: HK\$1,660,902).

Gearing ratio, being total liabilities as a percentage of shareholders' fund, was 20.2% (31 March 2002: 19.8%).

### **EXCHANGE RISK**

The Directors are of the opinion that the impact of foreign exchange exposure of the Group is minimal because its sales and purchases are conducted in Hong Kong dollar.

## **MANAGEMENT DISCUSSION AND ANALYSIS** *(continued)*

### **CONTINGENT LIABILITIES**

As at 30 September 2002, the Group did not have any contingent liabilities except as disclosed in note 19 of this interim financial report.

### **EMPLOYMENT AND REMUNERATION POLICY**

As at 30 September 2002, the Group had a total of 38 employees (31 March 2002: 35 employees).

In order to maintain competitiveness, the employees are remunerated in accordance with their work performance and professional experience with reference to the prevailing industry practice and market environment. In addition to basic salaries, the Group also offers discretionary bonus, contribution to statutory retirement scheme and share options scheme for its employees.

### **CHARGE ON GROUP ASSETS**

As at 30 September 2002, the Group did not have any charges on any of the Group's assets.

### **USE OF PROCEEDS**

The total net proceeds from the Initial Public Offering amounted to HK\$38,804,000. Since the Listing Date, the Group paid HK\$5,850,000 on research and development of new products. The remaining net proceeds which have not been used up have been deposited with licensed banks in Hong Kong. The use of proceeds was in line with the disclosure made in the Prospectus.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Period.

## DIRECTORS' INTERESTS IN SHARES

As at 30 September 2002, the interests of the Directors and their respective associates (as defined in the Listing Rules) in shares of the Company or any of its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance of Hong Kong (the "SDI Ordinance")) as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance were as follows:

### (i) Interests in the Company

<b>Name of director</b>	<b>Nature of interest</b>	<b>Number of shares</b>
Mr. Chiu Ka Leung ( <i>Note</i> )	Corporate	450,000,000

*Note:* These shares which represent 75% of the issued share capital of the Company are beneficially owned by Oriental Chinese Medicines Limited ("Oriental Chinese"). Oriental Chinese is a company incorporated in the British Virgin Islands with limited liability and owned as to 83.781% and 16.219% by Mr. Chiu Ka Leung and Ms. Yeh Shu Ping respectively.

The interests of the Directors in the share options of the Company are separately disclosed in the paragraph headed "Share Option Scheme" below.

**DIRECTORS' INTERESTS IN SHARES** *(continued)***(ii) Interests in the associated corporations of the Company****(a) Oriental Chinese (holding company of the Company)**

<b>Name of director</b>	<b>Nature of interest</b>	<b>Number and class of shares held in Oriental Chinese</b>
Mr. Chiu Ka Leung	Personal	83,781 ordinary shares (representing 83.781% of its entire issued share capital)
Ms. Yeh Shu Ping	Personal	16,219 ordinary shares (representing 16.219% of its entire issued share capital)

**(b) Long Far Herbal Medicine Manufacturing (Hong Kong) Limited ("LFHK") (indirect wholly-owned subsidiary of the Company)**

<b>Name of director</b>	<b>Nature of interest</b>	<b>Number and class of shares held in LFHK</b>
Mr. Chiu Ka Leung	Personal	83,781 non-voting deferred shares (representing 83.781% of its issued non-voting deferred shares)
Ms. Yeh Shu Ping	Personal	16,219 non-voting deferred shares (representing 16.219% of its issued non-voting deferred shares)

In addition to the above, Mr. Chiu Ka Leung holds one ordinary share in each of International Health Association (HK) Limited and Hong Kong Health Journal Limited (in both cases on trust for Long Far Pharmaceutical (BVI) Limited and both of which are indirect wholly-owned subsidiaries of the Company) in a non-beneficial capacity, solely for the purpose of complying with the minimum company membership requirement.

## **DIRECTORS' INTERESTS IN SHARES** *(continued)*

Save as disclosed above, none of the Directors or their associates had any personal, family, corporate or other beneficial interests in the share capital of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) as recorded in the register required to be kept under Section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

## **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

Save as disclosed under the paragraph headed "Share Option Scheme" below, at no time during the Period were the rights to acquire benefits by means of acquisition of shares in or debentures of the Company granted to any Directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

## **SHARE OPTION SCHEME**

The Company operates a Share Option Scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants for their contribution to the Group. Eligible participants of the Scheme include the Company's Directors and other employees of the Group.

The exercise price of the options shall be the highest of (a) the nominal value of a share of the Company on the date of grant; (b) the closing price of a share of the Company as stated in the daily quotations sheet of the Stock Exchange on the date of grant, which must be a business day; and (c) the average closing price of a share of the Company as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant. The Scheme was conditionally adopted on 22 August 2002 and, unless otherwise cancelled or altered, will continue in force for 10 years from the date on which it became unconditional, namely 5 September 2002.

As at 30 September 2002, the Company has granted options to subscribe for 11,300,000 shares in the Company under the Scheme. The share options are not recognized in the financial report until they are exercised.

**SHARE OPTION SCHEME** (continued)

Details of the share options under the Scheme were as follows:

Name	Outstand- ing as at 01.04.2002	Granted during the Period	Date of Grant	Exercise Period	Exercise Price HK\$	Closing Price before date of grant HK\$	Exercised during the Period	Lapsed/ cancelled during the Period	Outstand- ing as at 30.9.2002
<b>(i) Directors</b>									
Mr. Jiao Shaoliang	-	1,100,000	9.9.2002	See Note below	0.375	0.365	-	-	1,100,000
Mr. Lan Daoying	-	1,200,000	9.9.2002	See Note below	0.375	0.365	-	-	1,200,000
<b>(ii) Continuous contract employees in aggregate</b>	-	9,000,000	9.9.2002	See Note below	0.375	0.365	-	-	9,000,000
Total		<u>11,300,000</u>							<u>11,300,000</u>

*Note:* Exercise Period is 9 Years from 9 September 2003 to 8 September 2012 (a "Year" shall mean the period from 9 September to 8 September of the next year) provided that subject to the option that the grantee is entitled to exercise but not yet exercised and the shares of the Company that may be subscribed by the grantee in respect of such unexercised option in the previous relevant Year(s), no more than 10% of the total number of shares under the options granted (the "Total Number") may be subscribed in each Year; that the remaining 10% of the Total Number may be subscribed at any time during the period commencing on 9 September 2007 to 8 September 2012; that where any part of the option has not been exercised during the relevant Year(s), the part of the option which the grantee is entitled to exercise but not yet exercised may be carried forward and that no option can be exercised after 8 September 2012.

The Directors do not consider it appropriate to disclose a theoretical value of the share options granted during the Period because the Directors opine that the values of share options calculated using theoretical models are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of the assumptions of expected future performance input to the model, and certain inherent limitations of the model itself. The Directors consider that such disclosure does not give additional value in view of the above mentioned limitations surrounding these models.



## SUBSTANTIAL SHAREHOLDER

As at 30 September 2002, the following interest of 10% or more of the issued share capital of the Company was recorded in the register of interests kept by the Company under Section 16(1) of the SDI Ordinance:

<b>Name of shareholder</b>	<b>Number of shares of the Company held</b>	<b>Percentage of the Company's issued shares</b>
Oriental Chinese	450,000,000	75%

The above interest in the name of Oriental Chinese was also disclosed as the interest of Mr. Chiu Ka Leung in the above paragraph headed "Directors' interests in shares".

Save as disclosed above, no person, other than the Director of the Company, whose interest is set out in the paragraph headed "Directors' interests in shares" above, had registered as being interested in 10% or more in the share capital of the Company as at 30 September 2002 that was required to be recorded under Section 16(1) of the SDI Ordinance.

## AUDIT COMMITTEE

In compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules, the Board established an audit committee on 22 August 2002 and has adopted the terms of reference governing the authority and duties of the audit committee. The members of the audit committee of the Company comprise two independent non-executive directors of the Company. The audit committee has reviewed with management and external auditors the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the unaudited interim financial statements for the Period.

## COMPLIANCE WITH THE CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the Period, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.

On behalf of the Board  
**Chiu Ka Leung**  
*Chairman*

Hong Kong, 25 November 2002