



LONG FAR

Interim Report 2003

PHARMACEUTICAL HOLDINGS LIMITED



Incorporated in the Cayman Islands with limited liability

1

The Board of Directors (the "Board") of Long Far Pharmaceutical Holdings Limited (the "Company") announces the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2003 together with the comparative figures for the corresponding period of 2002, as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 September 2003

		For the six months ended 30 September	
	<i>Notes</i>	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
TURNOVER	2	31,230	59,729
Cost of sales		(8,420)	(15,438)
Gross profit		22,810	44,291
Other revenue and gains	3	845	923
Distribution costs		(8,052)	(14,074)
General and administrative expenses		(10,196)	(12,035)
Other operating expenses, net		(54)	(104)
PROFIT FROM OPERATING ACTIVITIES	4	5,353	19,001
Finance costs	5	–	(203)
PROFIT BEFORE TAX		5,353	18,798
Tax	6	(1,207)	(3,024)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		4,146	15,774
INTERIM DIVIDEND	8	–	6,000
EARNINGS PER SHARE	7		
– Basic		HK0.69 cent	HK3.34 cents
– Diluted		HK0.69 cent	HK3.34 cents

2

CONDENSED CONSOLIDATED BALANCE SHEET

30 September 2003

	<i>Notes</i>	30 September 2003 (Unaudited) HK\$'000	31 March 2003 (Audited) HK\$'000
NON-CURRENT ASSETS			
Fixed assets	9	7,875	2,399
CURRENT ASSETS			
Inventories		4,807	8,914
Trade receivables	10	17,386	15,200
Tax recoverable		1,194	1,430
Prepayments, deposits and other receivables		2,252	1,696
Due from prior shareholders	11	–	500
Due from a director	18(b)	143	–
Pledged deposits		4,375	4,350
Cash and cash equivalents		57,380	58,332
		87,537	90,422
CURRENT LIABILITIES			
Trade payables	12	2,342	2,098
Other payables and accruals		5,514	5,483
		7,856	7,581
NET CURRENT ASSETS			
		79,681	82,841
TOTAL ASSETS LESS CURRENT LIABILITIES			
		87,556	85,240
NON-CURRENT LIABILITIES			
Deferred tax liabilities	13	170	–
		87,386	85,240
CAPITAL AND RESERVES			
Issued capital	14	30,000	30,000
Reserves	15	57,386	55,240
		87,386	85,240

CONDENSED CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY*For the six months ended 30 September 2003*

	For the six months ended 30 September	
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Total shareholders' equity at 1 April	85,240	54,768
Issue of shares, including share premium	–	51,000
Share issue expenses	–	(12,227)
Contributed surplus arising from the excess of the shares acquired over the shares issued under group reorganisation	–	300
Capital elimination on combination	–	(100)
Net profit for the period attributable to shareholders	4,146	15,774
Dividends	(2,000)	(18,000)
Total shareholders' equity at 30 September	87,386	91,515

4

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2003

	For the six months ended 30 September	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	6,999	36,854
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	(5,951)	467
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	(2,000)	19,109
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(952)	56,430
Cash and cash equivalents at beginning of period	58,332	11,323
CASH AND CASH EQUIVALENTS AT END OF PERIOD	57,380	67,753
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	28,188	3,387
Non-pledged time deposits with original maturity of less than three months when acquired	29,192	64,366
	57,380	67,753

NOTES TO INTERIM FINANCIAL STATEMENTS

1. *Basis of preparation and accounting policies*

The unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants.

The accounting policies and basis of preparation used in the preparation of these interim financial statements are the same as those used in the Group's audited financial statements for the year ended 31 March 2003, except for the following revised/new SSAPs which have been adopted for the first time in the preparation of the current period's condensed consolidated interim financial statements:

- SSAP 12 (Revised) : "Income taxes"
- SSAP 35 : "Accounting for government grants and disclosure of government assistance"

A summary of their major effects is as follows:

SSAP 12 (Revised) principally prescribes the accounting treatment and disclosures for deferred tax. In prior years, deferred tax is provided using the income statement liability method on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt. SSAP 12 (Revised) requires the adoption of the balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The adoption of SSAP 12 (Revised) has had no material effect on the results for the current or prior accounting periods.

SSAP 35 prescribes the accounting treatment and disclosures for government grants and disclosures for other forms of government assistance. This SSAP has not had any material impact on these condensed consolidated interim financial statements.

The Company was incorporated in the Cayman Islands on 17 May 2002 as an exempted company with limited liability under the Companies Law, Chapter 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 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").

6

1. Basis of preparation and accounting policies (continued)

In the opinion of the Board, the Group resulting from the Reorganisation is regarded as a continuing group. Accordingly, the interim financial report for the prior period had been prepared on the basis of merger accounting, under which the Company had been treated as the holding company of the Group for the prior period presented, rather than from 22 August 2002. In the circumstances, the results of the Group for the six months ended 30 September 2002 included the results of the Company and its subsidiaries with effect from 1 April 2002 or since their respective dates of incorporation, whichever is a shorter period. In the opinion of the Board, the interim financial report for the prior period prepared on the abovementioned basis presents more fairly the results of the Group as a whole.

2. Segment information

Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

(a) Business segment

The Group has only one business segment, which is the trading of proprietary Chinese medicines, and therefore, no business segment information is presented.

(b) Geographical segments

The following table presents the revenue of the Group's geographical segments.

	Six months ended 30 September							
	Hong Kong		Japan		Southeast Asia		Consolidated	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Segment revenue:								
Sales to external customers	25,205	41,480	-	14,616	6,025	3,633	31,230	59,729
Other revenue and gains	643	715	-	-	-	-	643	715
Total	25,848	42,195	-	14,616	6,025	3,633	31,873	60,444

3. *Other revenue and gains*

	For the six months ended 30 September	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Interest income	202	208
Advertising income	182	184
Others	461	531
	<hr/>	<hr/>
	845	923

4. *Profit from operating activities*

The Group's profit from operating activities is arrived at after charging:

	For the six months ended 30 September	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Depreciation	651	710
Loss on disposal of fixed assets, net	-	103
Research and development costs	250	2,800
	<hr/>	<hr/>

5. *Finance costs*

	For the six months ended 30 September	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Interest on finance leases	-	139
Other borrowing costs	-	64
	<hr/>	<hr/>
	-	203

6. Tax

	For the six months ended 30 September	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Group:		
Current – Hong Kong	931	3,024
Underprovision in prior year	106	–
Deferred (note 13)	170	–
Total tax charge for the period	1,207	3,024

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the period.

7. Earnings per share

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the period of HK\$4,146,000 (30 September 2002: HK\$15,774,000) and the 600,000,000 (30 September 2002: weighted average of 472,131,147) ordinary shares in issue during the period.

The calculation of diluted earnings per share is based on the net profit from ordinary activities attributable to shareholders for the period of HK\$4,146,000 (30 September 2002: HK\$15,774,000). The weighted average number of ordinary shares used in the calculation is the 600,000,000 (30 September 2002: weighted average of 472,131,147) ordinary shares in issue during the period, as used in the basic earnings per share calculation and the weighted average of 1,560,172 (30 September 2002: 330,141) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the period.

8. Interim dividend

	2003 HK\$'000	2002 HK\$'000
Interim – Nil (2002: HK1 cent) per ordinary share	–	6,000

The Board did not propose to declare an interim dividend for the six months ended 30 September 2003 (30 September 2002: HK1 cent per ordinary share).

9

9. Fixed assets

	Leasehold land and buildings (Unaudited) <i>HK\$'000</i>	Leasehold improvements (Unaudited) <i>HK\$'000</i>	Plant and machinery (Unaudited) <i>HK\$'000</i>	Furniture, fixtures and office equipment (Unaudited) <i>HK\$'000</i>	Motor vehicles (Unaudited) <i>HK\$'000</i>	Computer equipment (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
Cost:							
At 1 April 2003	–	1,645	1,045	1,195	846	1,102	5,833
Additions	4,956	899	23	38	–	211	6,127
At 30 September 2003	4,956	2,544	1,068	1,233	846	1,313	11,960
Accumulated depreciation:							
At 1 April 2003	–	967	715	612	643	497	3,434
Provided during the period	47	240	72	121	52	119	651
At 30 September 2003	47	1,207	787	733	695	616	4,085
Net book value:							
At 30 September 2003	4,909	1,337	281	500	151	697	7,875
At 31 March 2003	–	678	330	583	203	605	2,399

10. Trade receivables

The Group allows an average credit period ranging from 20 to 90 days to its customers. An aged analysis of the trade receivables as at the balance sheet date, based on payment due date, net of provisions for doubtful debts, is as follows:

	30 September 2003 (Unaudited) <i>HK\$'000</i>	31 March 2003 (Audited) <i>HK\$'000</i>
Current	7,901	11,179
1 to 3 months overdue	8,270	3,968
More than 3 months overdue but less than 12 months overdue	1,163	–
Over 12 months overdue	52	53
	17,386	15,200

11. Due from prior shareholders

The amounts at 31 March 2003 represented receivables from prior shareholders of the Group under a tax indemnity in respect of the years of assessment prior to the listing of the Group and were settled during the current period.

12. Trade payables

An aged analysis of the trade payables at the balance sheet date, based on payment due date, is as follows:

	30 September 2003 (Unaudited) HK\$'000	31 March 2003 (Audited) HK\$'000
Current	1,094	2,098
1 to 3 months overdue	999	–
More than 3 months overdue but less than 12 months overdue	249	–
	2,342	2,098

13. Deferred tax liabilities

The movement in deferred tax liabilities during the period is as follows:

	Accelerated tax depreciation (Unaudited) HK\$'000
At 1 April 2002, 31 March 2003 and 1 April 2003	–
Deferred tax charged to the profit and loss account during the period (<i>note 6</i>)	170
At 30 September 2003	170

14. Share capital

	30 September 2003 (Unaudited) HK\$'000	31 March 2003 (Audited) HK\$'000
<i>Authorised</i>		
5,000,000,000 ordinary shares of HK\$0.05 each	250,000	250,000
<i>Issued and fully paid</i>		
600,000,000 ordinary shares of HK\$0.05 each	30,000	30,000

Share options

On 22 August 2002, a share option scheme was approved by the sole shareholder of the Company under which the Board may, at its 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 share option scheme.

As at 1 April 2003 and 30 September 2003, the Company had 5,500,000 share options outstanding under the share option scheme with an exercise price of HK\$0.375 per share and an exercise period from 9 September 2003 to 8 September 2012. There was no movement in the share options outstanding during the period.

15. Reserves

	Share premium (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 April 2003	8,720	300	46,220	55,240
Profit for the period	–	–	4,146	4,146
Dividend	–	–	(2,000)	(2,000)
At 30 September 2003	8,720	300	48,366	57,386

16. Commitments*(a) Operating lease commitments*

The Group leases its office and warehouse properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years, with an option to renew the lease when the terms are renegotiated.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 September 2003 (Unaudited) HK\$'000	31 March 2003 (Audited) HK\$'000
Within one year	1,834	1,404
In the second to fifth years, inclusive	696	381
	2,530	1,785

(b) Capital commitments

At the balance sheet date, the Group had the following contracted capital commitments:

	30 September 2003 (Unaudited) HK\$'000	31 March 2003 (Audited) HK\$'000
Acquisition of a subsidiary (<i>note 18(c)</i>)	13,500	-
Acquisition of fixed assets	978	-
Research and development project	750	-
	15,228	-

17. Contingent liabilities

As at 30 September 2003, the Group had 392,978 (31 March 2003: 459,030) outstanding coupons issued to the members of an association established by a subsidiary of the Group, which entitle the coupon holders to purchase a product of the Group from certain retailing outlets in Hong Kong at a discount of HK\$30 per bottle for a period up to 31 October 2005. These retailing outlets would be entitled to recoup from the Group the amount of discounts given to the coupon holders upon the presentation of the coupons received. As at 30 September 2003, the maximum value of these outstanding coupons, subject to recoup by these retailing outlets, amounted to approximately HK\$11,789,000 (31 March 2003: HK\$13,771,000).

18. Related party transactions

- (a) During the period, the Group outsourced the manufacturing of certain goods to Yunnan Panlong Yunhai Pharmaceutical Company Limited ("YPYP"), and purchased certain goods from Yunnan Long Run Pharmaceuticals Company Limited ("YLRP"). YPYP is a company in which a director of the Company, Mr. Chiu Ka Leung, has beneficial interests. YLRP is a wholly owned subsidiary of a company which is beneficially owned as to 90% and 10% by Mr. Chiu Ka Leung and Mr. Jiao Shaoliang, directors of the Company, respectively.

	For the six months ended 30 September	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Amount of goods outsourced to YPYP	2,074	16,502
Purchases of goods from YLRP	834	–

The balances due to YPYP and YLRP at the balance sheet date amounting to HK\$1,344,000 (31 March 2003: HK\$2,097,000) and HK\$632,000 (31 March 2003: Nil), respectively, are included in trade payables.

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 purchases of goods from YLRP are determined at prices mutually agreed between the Group and YLRP.

18. Related party transactions (continued)

- (b) During the period, the Group made advances aggregating approximately HK\$1,136,000 to Mr. Chiu Ka Leung and Ms. Yeh Shu Ping, directors of the Company. The advances are unsecured, interest-free and have no fixed terms of repayment. The outstanding amount as at 30 September 2003 and the maximum outstanding amount during the period were approximately HK\$143,000 and HK\$1,136,000, respectively. As at the date of approval of these interim financial statements, all outstanding amount had been repaid by the directors.
- (c) On 5 August 2003, Winlead Investment Limited ("Winlead"), a wholly-owned subsidiary of the Company, entered into an acquisition agreement with YLRP pursuant to which Winlead has conditionally agreed to purchase and YLRP has conditionally agreed to sell the entire equity interest in 楚雄雁塔藥業有限責任公司 (Chuxiong Yanta Pharmaceutical Company Limited) ("Yanta Pharmaceutical") at a total consideration of HK\$13,500,000 in cash (the "Acquisition"). Yanta Pharmaceutical is a company incorporated in the People's Republic of China (the "PRC") with limited liability and its principal activities include the provision of research, development, manufacture and distribution of pharmaceutical products in the PRC. The Acquisition constituted a discloseable and connected transaction for the Company under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and was approved by the independent shareholders of the Company at an extraordinary general meeting held on 22 September 2003. The Acquisition was completed, subsequent to the balance sheet date, on 8 October 2003.

19. Approval of the interim financial report

This interim financial report was approved and authorised for issue by the Board on 9 December 2003.

INDEPENDENT AUDITORS' 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 14.

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 SSAP 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants ("HKSA") and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the 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.

Review work performed

We conducted our review in accordance with SAS 700 "Engagements to review interim financial reports" issued by the HKSA. A review consists principally of making enquiries of Group 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 2003.

Ernst & Young
Certified Public Accountants

Hong Kong, 9 December 2003

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

For the six months period ended 30 September 2003, the Group's turnover was HK\$31,230,000 (2002: HK\$59,729,000), representing a decrease of 47.7% as compared with that of the same period of 2002. Net profit from ordinary activities attributable to shareholders was HK\$4,146,000 (2002: HK\$15,774,000), representing a decrease of 73.7% as compared with that of the same period of 2002.

BUSINESS REVIEW

Products

The Group's flagship product Beauty and Healthy「排毒美顏寶」, which contributed as 81.6% of the Group's turnover, recorded a decrease of 47.7% in turnover as compared with that of the same period of 2002. The decrease in turnover was due to the sudden outbreak of the Severe Acute Respiratory Syndrome ("SARS"). With the effect of SARS faded during the period, the sales of Beauty and Healthy「排毒美顏寶」gradually picked up. The three new products launched last year, Female Essence「補氣養血寶」, Super Vitality「填精生力寶」and B&H-24's「輕盈版排毒美顏寶」, contributed as 10.5% of the Group's turnover.

Leveraging on its established reputation and extensive distribution networks, the Group launched six new products, Flu Reliever「感冒靈丹」, Lung Essence「清肺良方」, Vasopure「血之清」, Kidney Essence「補腎良方」, Superior Lingzhi「極品靈芝」and Slim Factor「餐餐1/2」during the period. Flu Reliever「感冒靈丹」, Vasopure「血之清」and Superior Lingzhi「極品靈芝」were under the Scientific Chinese Medicine Series「科學中藥系列」. Lung Essence「清肺良方」and Kidney Essence「補腎良方」were under Essence Series「良方系列」. Slim Factor「餐餐1/2」was under Health Food Series「健康食品系列」. These new products contributed as 7.9% of the Group's turnover during the period.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)**BUSINESS REVIEW** (continued)**Geographical Segments***Hong Kong*

Hong Kong is the core market for the Group's products. The turnover in Hong Kong market accounted for 80.7% of the Group's turnover for the period (2002: 69.4%).

The turnover in Hong Kong market for the period was HK\$25,205,000 (2002: HK\$41,480,000), representing a decrease of 39.2% as compared with that of the same period of 2002.

The Group's business performance in Hong Kong market largely reflected the retail market conditions as territory trembled under the shadow of SARS. The sales of the Group's flagship product Beauty and Healthy「排毒美顏寶」was inevitably affected. However, the Group's sales have gradually picked up as the epidemic retreated. The Board regards this impact as purely circumstantial and remain positive to the Group's long term prospects.

The Group received "The Best Selling Detoxification Product Awards in 2003", "至FIT排毒獎" and "The Best of the Best Health Category Awards in 2003" from two leading chain store groups during the period, testifying the Group's leading position in the local pharmaceutical industry.

Southeast Asia

The Group's presence in Southeast Asian markets continued to grow. The turnover in Southeast Asian markets for the period was HK\$6,025,000 (2002: HK\$3,633,000), representing an increase of 65.8% as compared with that of the same period of 2002. The turnover in these markets accounted for 19.3% of the Group's turnover for the period (2002: 6.1%). The turnover in Southeast Asian markets increased significantly as the Group successfully reorganised its distribution network with reputable local distribution agents in this region.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)**BUSINESS REVIEW** (continued)**Geographical Segments** (continued)*Japan*

Last year, certain proprietary Chinese medicines manufactured in the PRC led to the incident of death of Japanese people. This has aroused the public concern over proprietary Chinese medicines and created an unfavourable market environment. In view of this, the Group decided to withdraw temporarily from the Japanese market. Therefore, no turnover was recorded in this market during the period under review (2002: HK\$14,616,000).

Advertising and Promotion

During the six months period ended 30 September 2003, the Group allocated HK\$7,122,000 (2002: HK\$14,074,000) to advertising and marketing activities through placing advertisements on television, newspapers and magazines to maintain the Group's leading position in the pharmaceutical industry and promote the new products launched during the period. These advertising and marketing activities were considered essential despite the weak sentiment during the period, and the Board was generally satisfied with the results from these activities.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

BUSINESS REVIEW *(continued)*

Corporate Development

To pave the way for future growth, the Group entered into an agreement to acquire Yanta Pharmaceutical in August 2003 at a consideration of HK\$13,500,000. This acquisition was completed in October 2003. Yanta Pharmaceutical is principally engaged in the research, development, manufacture and distribution of pharmaceutical products in the PRC under the brand name 「雁塔牌」 (Yanta Pai). The major products manufactured and marketed by Yanta Pharmaceutical include 陳香露白露片 (Chen Xiang Lu Bai Lu Pian), 虎杖礬石搽劑 (Hu Zhang Fan Shi Cha Ji), 胃康靈膠囊 (Wei Kang Ling Jiao Nang) and 強力枇杷露 (Qiang Li Pi Pa Lu). In addition, it owns a total of 156 pharmaceutical production permits (藥品生產批准文號). With these important assets, the acquisition of Yanta Pharmaceutical will provide the Group with an excellent opportunity to vertically integrate into operations of manufacturing pharmaceutical product as well as to broaden its product mix. In addition, the established marketing and distribution networks of Yanta Pharmaceutical will form a readily available platform for the Group's products for entering into the PRC pharmaceutical market. The acquisition of Yanta Pharmaceutical is expected to have a positive effect on the earnings of the Group.

In May 2003, as part of an ongoing strategy to renew its strengths in research and development, the Group entered into an agreement with the Institute of Chinese Medicine ("ICM"), The Chinese University of Hong Kong, which conducts research and development of an allergic rhinitis-relieving Chinese medicinal formula. Under this agreement, ICM will carry out clinical and non-clinical researches to prove the effectiveness of an innovative Chinese medicinal formula. In collaboration with ICM, the Group is striving to develop an effective Chinese medicinal formula for relieving symptoms of allergic rhinitis including seasonal and perennial rhinitis. Given huge market potential, together with the input of ICM's expertise, the Board is confident that the collaboration will reap promising returns in the future.

During the period, the Group set up its first Longfar Healthcare Promotion Centre in Hong Kong. The aim is to raise the Group's profile as a pioneer in the local Chinese pharmaceutical industry. It also serves as an additional distribution channel for the Group's products.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)***FUTURE PROSPECTS**

The recent influx of tourists from the PRC has boosted the local retail market. As such, we are beginning to see signs of recovery in certain business sectors. In addition, the Group anticipates that competition in the proprietary Chinese medicinal market will continue to be intense. Therefore, the management will make every effort to enhance the Group's competitive edge by boosting sales and exercising stringent cost controls in order to bring to the shareholders a higher investment value.

The Group's business strategy is to sustain steady business growth by boosting the sale of existing products through effective advertising and promotion activities, improvement of the formulae for the existing products and diversification of the product mix. Besides, the Group understands that keeping up with market demand at all times is vital for future business development. Therefore, the Group will continue to launch new products to meet the market's needs. The Group has planned to launch a new series of products, Herbal Tea Series which will include two products: Detox Tea and Stimulean Tea, in the second half of the financial year. The Group expects that this strategy will increase the Group's revenues and provide customers with top quality products and fulfill the daily needs of the customers.

The Group has already sold its products in Canada through an importer in Canada. Although the immediate contribution from this diversification may not be significant, the Group regards this as a strategic step in broadening its presence for future progress. Besides, the Group will continue to seek opportunities to expand its distribution network in other overseas markets.

Finally, with the Group's extensive knowledge in Chinese medicines, effective sales and marketing strategies, well-established local and overseas distribution networks and research and development capabilities as well as its reputable brand name「龍發製藥」(Long Far), the Board is confident that the Group is on the right track to achieve business growth. The management remains committed to delivering the best returns to its shareholders.

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

As at 30 September 2003, the Group had 69 employees (31 March 2003: 50 employees).

The remuneration policy and package for the Group's employees are reviewed and approved by the Board on a periodical basis. The Group remunerates its employees based on industry practice and performance of individual employees. The Group also offers discretionary bonuses to and makes available a share option scheme for its employees.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has consistently maintained sufficient working capital. As at 30 September 2003, the Group had current assets of HK\$87,537,000 (31 March 2003: HK\$90,422,000) and cash and bank balances of HK\$57,380,000 (31 March 2003: HK\$58,332,000). The Group's current liabilities as at 30 September 2003 was HK\$7,856,000 (31 March 2003: HK\$7,581,000).

As at 30 September 2003, shareholders' funds was HK\$87,386,000 (31 March 2003: HK\$85,240,000). The Group had no outstanding borrowings as at 30 September 2003 (31 March 2003: Nil). The gearing ratio, being the ratio of total liabilities to shareholders' funds, was 9.0% (31 March 2003: 8.9%).

CONTINGENT LIABILITIES

As at 30 September 2003, the Group had 392,978 (31 March 2003: 459,030) outstanding coupons issued to the members of an association established by a subsidiary of the Group, which entitle the coupon holders to purchase a product of the Group from certain retailing outlets in Hong Kong at a discount of HK\$30 per bottle for a period up to 31 October 2005. These retailing outlets would be entitled to recoup from the Group the amount of discounts given to the coupon holders upon the presentation of the coupons received. As at 30 September 2003, the maximum value of these outstanding coupons, subject to recoup by these retailing outlets, amounted to approximately HK\$11,789,000 (31 March 2003: HK\$13,771,000).

MANAGEMENT DISCUSSION AND ANALYSIS (continued)**EXCHANGE RISK**

The Board is of the opinion that the impact of foreign exchange exposure on the Group is minimal because its sales and purchases are mainly conducted in Hong Kong dollars. The Group does not engage in any hedging contracts.

CHARGE ON GROUP'S ASSETS

As at 30 September 2003, the Group did not have any charges on any of the Group's assets (31 March 2003: Nil).

USE OF PROCEEDS

Up to 30 September 2003, the net proceeds from the Share Offer (as defined in the Prospectus) ("Net Proceeds") of approximately HK\$40,000,000 had been utilised in line with the terms stipulated in the Prospectus, particulars of which are set out as follows:

	Proposed application of the Net Proceeds as extracted from the Prospectus	Actual amount used up to 30 September 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Research and development	10,000	6,433
Expansion of distribution network	4,000	– (Note 1)
Establishment of a Chinese herbal raw material production base in PRC	4,000	– (Note 1)
Establishment of Chinese medicinal service centre	4,000	4,000 (Note 2)
Expansion of the business of the Group	18,000	13,500

As at 30 September 2003, the unused amount of Net Proceeds of approximately HK\$16,067,000 was deposited in various licensed banks in Hong Kong.

USE OF PROCEEDS *(continued)**Notes:*

- (1) The Company did not utilise the Net Proceeds as mentioned in the Prospectus regarding expansion of distribution network and establishment of a Chinese herbal raw material production base in PRC. However, the Company will utilise the Net Proceeds in accordance with the plan as described in the Prospectus.
- (2) The total cost for the establishment of a Chinese medicinal service centre was HK\$4,800,000 of which HK\$4,000,000 was from the Net Proceeds as mentioned in the Prospectus and the remaining HK\$800,000 was from the internal fund of the Group.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares during the six months ended 30 September 2003.

DIRECTORS' INTERESTS IN SHARES

As at 30 September 2003, the interests of the directors of the Company in the shares and underlying shares of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was deemed or taken to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange were as follows:

(A) (i) Interests in shares of the Company

Name of director	Nature of interests	Number of shares held <i>(Note 3)</i>
Mr. Chiu Ka Leung	Interests held by a controlled corporation <i>(Note 1)</i>	450,000,000 (L)

Notes:

- 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 letter "L" denotes a long position in the shares.
- As defined in section 331 of the SFO, a reference to interests in shares comprised in the share capital of a listed corporation includes a reference to interests in shares so comprised, which are the underlying shares of equity derivatives (as defined in the SFO). The 450,000,000 shares do not include underlying shares of equity derivatives which are separately disclosed below.

DIRECTORS' INTERESTS IN SHARES (continued)**(ii) Interests in equity derivatives (as defined in the SFO) of the Company**

Certain directors were granted share options under the share option scheme dated 22 August 2002. The share options granted to directors to subscribe for ordinary shares of the Company which were outstanding at 30 September 2003 were as follows:

Name of director	Nature of interests	Number of underlying shares in respect of options granted	Exercise period	Price for grant	Exercise price
Mr. Jiao Shaoliang	Beneficial owner	1,100,000 (L)	9 September 2003 to 8 September 2012	HK\$10.00 (for all)	HK\$0.375 (per share)
Mr. Lan Daoying	Beneficial owner	1,200,000 (L)	9 September 2003 to 8 September 2012	HK\$10.00 (for all)	HK\$0.375 (per share)

Note: The letter "L" denotes a long position in the underlying shares.

(B) (i) Interests in shares of associated corporations of the Company**(a) Oriental Chinese (holding company of the Company)**

Name of director	Nature of interest	Number and class of shares held
Mr. Chiu Ka Leung	Beneficial owner	83.781 (L) ordinary shares (representing 83.781% of its entire issued share capital)
Ms. Yeh Shu Ping	Beneficial owner	16.219 (L) ordinary shares (representing 16.219% of its entire issued share capital)

Note: The letter "L" denotes a long position in the shares.

DIRECTORS' INTERESTS IN SHARES (continued)**(B) (i) Interests in shares of associated corporations of the Company**
(continued)

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

Name of director	Nature of interest	Number and class of shares held (Note 1)
Mr. Chiu Ka Leung	Beneficial owner	83,781 (L) non-voting deferred shares (representing 83.781% of its issued non-voting deferred shares)
	Interest held by controlled corporations (Note 3)	10 (L) voting shares (representing 100% of its issued voting shares)
Ms. Yeh Shu Ping	Beneficial owner	16,219 (L) non-voting deferred shares (representing 16.219% of its issued non-voting deferred shares)

Notes:

- These interests in shares do not include interests or short positions in the underlying shares of equity derivatives which are separately disclosed below.
- The letter "L" denotes a long position in the shares.
- These interests in shares are held through controlled corporations, namely, Oriental Chinese, the Company and Long Far Pharmaceutical (BVI) Limited.

DIRECTORS' INTERESTS IN SHARES (continued)**(B) (i) Interests in shares of associated corporations of the Company**
(continued)

(c) In addition to the above, Mr. Chiu Ka Leung holds one ordinary share in each of LFHK, International Health Association (HK) Limited and Hong Kong Health Journal Limited (in all cases on trust for Long Far Pharmaceutical (BVI) Limited and all 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.

(ii) Interests in equity derivatives (as defined in the SFO) of associated corporations of the Company

Each of Mr. Chiu Ka Leung and Ms. Yeh Shu Ping granted an option to Long Far Pharmaceutical (BVI) Limited to acquire from them the non-voting deferred shares of LFHK.

Name of director	Nature of interests	Number of underlying shares in respect of options granted	Exercise period	Price for grant	Exercise price
Mr. Chiu Ka Leung	Beneficial owner	83,781 (S) non-voting deferred shares (representing 83.781% of its issued non-voting deferred shares)	22 August 2002 to 21 August 2023	HK\$10.00 (for all)	HK\$1.00 (for all)
	Interests held by controlled corporations (Note 1)	83,781 (L) non-voting deferred shares (representing 83.781% of its issued non-voting deferred shares)	22 August 2002 to 21 August 2023	HK\$10.00 (for all)	HK\$1.00 (for all)

DIRECTORS' INTERESTS IN SHARES (continued)**(ii) Interests in equity derivatives (as defined in the SFO) of associated corporations of the Company** (continued)

Name of director	Nature of interests	Number of underlying shares in respect of options granted	Exercise period	Price for grant	Exercise price
Ms. Yeh Shu Ping	Beneficial owner	16,219 (S) non-voting deferred shares (representing 16.219% of its issued non-voting deferred shares)	22 August 2002 to 21 August 2023	HK\$10.00 (for all)	HK\$1.00 (for all)

Notes:

1. These interests in the shares are held through controlled corporations, namely, Oriental Chinese, the Company and Long Far Pharmaceutical (BVI) Limited.
2. The letter "L" denotes a long position in the shares. The letter "S" denotes a short position in the shares.

Save as disclosed herein, as at 30 September 2003, none of the directors or chief executive of the Company had any interest in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was deemed or taken to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange.

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 there any 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 there any such rights exercised by them, or was the Company or 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 and/or to enable the Group to recruit and retain high calibre employees and attract human resources that are valuable to the Group and any entity in which the Company or any of its subsidiaries holds any equity interest (the "Invested Entity"). Eligible participants of the Scheme include any employee, director (including executive and non-executive director of the Group), shareholder, supplier, customer, consultant, adviser, other service provider, joint venture partner and business or strategic alliance partner of the Group or any Invested Entity or any discretionary trust whose discretionary objects may be any of the above persons.

SHARE OPTION SCHEME (continued)

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

Name	Outstanding	Granted	Date of grant	Exercise period	Exercise price per share HK\$	Exercised during the period	Lapsed/	Outstanding as at 30 September 2003
	as at 1 April 2003	during the period					cancelled during the period	
Directors								
Mr Jiao Shaoling	1,100,000	-	9.9.2002	See note below	0.375	-	-	1,100,000
Mr Lan Daoying	1,200,000	-	9.9.2002	See note below	0.375	-	-	1,200,000
Continuous contract employees in aggregate	3,200,000	-	9.9.2002	See note below	0.375	-	-	3,200,000
Total	5,500,000	-				-	-	5,500,000

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.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2003, so far as the directors are aware, the following persons, not being a director or chief executive of the Company, had an interest in the shares of the Company, as recorded in the register required to be kept under section 336 of the SFO:

Name of shareholder	Nature of Interests	Number of shares of the Company held	Percentage of the Company's issued shares
Oriental Chinese (<i>Note 1</i>)	Beneficial owner	450,000,000 (L)	75%
Ms. Guo Jinxiu (<i>Note 2</i>)	Interest held by spouse	450,000,000 (L)	75%

Notes:

1. These interests have also been disclosed as the deemed interests of Mr. Chiu Ka Leung in the sub-paragraph headed "Interest in shares of the Company" above.
2. Ms. Guo Jinxiu is the wife of Mr. Chiu Ka Leung and these interests have also been disclosed as Mr. Chiu Ka Leung's interests in the sub-paragraph headed "Interests in shares of the Company" above.
3. The letter "L" denotes a long position in the shares.

Save as disclosed herein, as at 30 September 2003, no person, other than the directors of the Company whose interests are set out in the section headed "Directors' interests in shares" above, had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

AUDIT COMMITTEE

The audit committee comprises two independent non-executive directors of the Company and reports to the Board. The audit committee discusses with the Group's senior management and external auditors regularly to review the effectiveness of the internal control systems, the financial reporting processes and the interim report of the Group.

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 six months ended 30 September 2003, 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, 9 December 2003