



2004 Interim Report



LONG FAR

LONG FAR PHARMACEUTICAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

The directors (the "Directors") of Long Far Pharmaceutical Holdings Limited (the "Company") (Stock Code: 2898) announce the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2004, together with the comparative figures for the corresponding period of 2003, as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 September 2004

		For the six months ended 30 September	
		2004	2003
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
TURNOVER	2	41,651	31,230
Cost of sales		(12,140)	(8,420)
Gross profit		29,511	22,810
Other revenue and gains	3	949	845
Selling and distribution costs		(12,855)	(8,606)
Administrative expenses		(12,248)	(9,392)
Other operating expenses, net		(700)	(304)
PROFIT FROM OPERATING ACTIVITIES	4	4,657	5,353
Finance costs	5	(16)	–
PROFIT BEFORE TAX		4,641	5,353
Tax	6	(1,252)	(1,207)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		3,389	4,146
INTERIM DIVIDEND	7	–	–
EARNINGS PER SHARE	8		
– Basic		HK0.56 cent	HK0.69 cent
– Diluted		HK0.56 cent	HK0.69 cent

CONDENSED CONSOLIDATED BALANCE SHEET

30 September 2004

	<i>Notes</i>	30 September 2004 (Unaudited) HK\$'000	31 March 2004 (Audited) HK\$'000
NON-CURRENT ASSETS			
Fixed assets	9	41,219	42,761
Goodwill		1,229	1,366
Deferred tax assets		240	240
		42,688	44,367
CURRENT ASSETS			
Inventories		9,187	6,768
Trade receivables	10	19,727	16,085
Prepayments, deposits and other receivables		2,088	1,913
Tax recoverable		891	2,141
Pledged deposits		4,397	4,388
Cash and cash equivalents		26,490	26,608
		62,780	57,903
CURRENT LIABILITIES			
Trade payables	11	4,820	4,536
Other payables and accruals		9,775	10,154
Finance lease payables		220	215
		14,815	14,905
NET CURRENT ASSETS		47,965	42,998
TOTAL ASSETS LESS CURRENT LIABILITIES		90,653	87,365
NON-CURRENT LIABILITIES			
Finance lease payables		387	498
Deferred tax liabilities		170	170
		557	668
		90,096	86,697
CAPITAL AND RESERVES			
Issued capital	12	30,000	30,000
Reserves	13	60,096	56,697
		90,096	86,697

CONDENSED CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2004

	For the six months ended 30 September	
	2004	2003
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Total shareholders' equity at 1 April	86,697	85,240
Net profit for the period attributable to shareholders	3,389	4,146
Final 2003 dividend declared	–	(2,000)
Exchange realignment	10	–
Total shareholders' equity at 30 September	90,096	87,386

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2004

	For the six months ended 30 September	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	749	6,999
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(745)	(5,951)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES	(122)	(2,000)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(118)	(952)
Cash and cash equivalents at beginning of period	26,608	58,332
CASH AND CASH EQUIVALENTS AT END OF PERIOD	26,490	57,380
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	18,278	28,188
Non-pledged time deposits with original maturity of less than three months when acquired	8,212	29,192
	26,490	57,380

NOTES TO INTERIM FINANCIAL STATEMENTS

30 September 2004

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 Institute of Certified Public 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 2004.

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's internal financial reporting.

(a) Business segment

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

2. SEGMENT INFORMATION *(continued)*

(b) Geographical segments

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

	For the six months ended 30 September									
	Hong Kong		Mainland China		Southeast Asia		Others		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales to external customers	33,317	25,205	3,505	-	4,786	6,025	43	-	41,651	31,230
Other revenue and gains	857	643	-	-	-	-	-	-	857	643
Total	34,174	25,848	3,505	-	4,786	6,025	43	-	42,508	31,873

3. OTHER REVENUE AND GAINS

	For the six months ended 30 September	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest income	92	202
Advertising income	337	182
Others	520	461
	949	845

4. PROFIT FROM OPERATING ACTIVITIES

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

	For the six months ended 30 September	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Cost of inventories sold	12,034	8,348
Depreciation	2,218	651
Amortisation of goodwill	137	–
Loss on write-off of fixed assets	415	–
Research and development costs	350	250

5. FINANCE COSTS

	For the six months ended 30 September	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Interest on finance leases	16	–

6. TAX

	For the six months ended 30 September	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Group:		
Current – Hong Kong	1,252	931
Underprovision in prior year	–	106
Deferred	–	170
Total tax charge for the period	1,252	1,207

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the period.

7. INTERIM DIVIDEND

The Directors did not propose to declare an interim dividend for the six months ended 30 September 2004 (2003: Nil).

8. 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\$3,389,000 (2003: HK\$4,146,000) and the 600,000,000 (2003: 600,000,000) 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\$3,389,000 (2003: HK\$4,146,000). The weighted average number of ordinary shares used in the calculation is the 600,000,000 (2003: 600,000,000) ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average of 1,269,231 (2003: 1,560,172) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the period.

9. FIXED ASSETS

	Leasehold land and buildings (Unaudited) HK\$'000	Leasehold improve- ments (Unaudited) HK\$'000	Plant and machinery (Unaudited) HK\$'000	Furniture, and office fixtures equipment (Unaudited) HK\$'000	Motor vehicles (Unaudited) HK\$'000	Computer equipment (Unaudited) HK\$'000	Construction in progress (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Cost:								
At 1 April 2004	30,235	2,549	9,194	1,558	2,168	1,316	592	47,612
Additions	68	83	154	29	-	16	832	1,182
Write-off	-	-	(204)	(3)	-	-	(255)	(462)
Transfer/reclassification	894	-	(166)	-	-	-	(828)	(100)*
Exchange realignment	7	-	2	-	-	-	-	9
At 30 September 2004	31,204	2,632	8,980	1,584	2,168	1,332	341	48,241
Accumulated depreciation:								
At 1 April 2004	219	1,420	1,064	866	535	747	-	4,851
Provided during the period	575	174	950	112	302	105	-	2,218
Write-off	-	-	(46)	(1)	-	-	-	(47)
At 30 September 2004	794	1,594	1,968	977	837	852	-	7,022
Net book value:								
At 30 September 2004	30,410	1,038	7,012	607	1,331	480	341	41,219
At 31 March 2004	30,016	1,129	8,130	692	1,633	569	592	42,761

* *Reclassification to inventories.*

10. TRADE RECEIVABLES

The Group allows an average credit period ranging from 20 days to 3 months 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 2004 (Unaudited) HK\$'000	31 March 2004 (Audited) HK\$'000
Current	9,644	8,417
1 to 3 months overdue	7,199	5,228
More than 3 months overdue but less than 12 months overdue	2,793	2,363
Over 12 months overdue	91	77
	19,727	16,085

11. TRADE PAYABLES

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

	30 September 2004 (Unaudited) HK\$'000	31 March 2004 (Audited) HK\$'000
Current	1,423	237
1 to 3 months overdue	3,284	4,086
More than 3 months overdue but less than 12 months overdue	113	213
	4,820	4,536

12. SHARE CAPITAL

	30 September 2004 (Unaudited) HK\$'000	31 March 2004 (Audited) HK\$'000
<i>Authorised:</i>		
5,000,000,000 ordinary shares of HK\$0.05 each	<u>250,000</u>	<u>250,000</u>
<i>Issued and fully paid:</i>		
600,000,000 ordinary shares of HK\$0.05 each	<u>30,000</u>	<u>30,000</u>

Share options

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 share option scheme.

As at 1 April 2004 and 30 September 2004, 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.

13. RESERVES

	Share premium (Unaudited) <i>HK\$'000</i>	Contributed surplus (Unaudited) <i>HK\$'000</i>	Exchange fluctuation reserve (Unaudited) <i>HK\$'000</i>	Retained profits (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
At 1 April 2004	8,720	300	145	47,532	56,697
Net profit for the period	–	–	–	3,389	3,389
Exchange realignment	–	–	10	–	10
At 30 September 2004	8,720	300	155	50,921	60,096

14. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its retail shops under operating lease arrangements, with leases negotiated for a term of two years. The terms of the leases also require the tenants to pay security deposit.

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

	30 September 2004 (Unaudited) <i>HK\$'000</i>	31 March 2004 (Audited) <i>HK\$'000</i>
Within one year	610	–
In the second to fifth years, inclusive	514	–
	1,124	–

14. OPERATING LEASE ARRANGEMENTS *(continued)*

(b) As lessee

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 expire and 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 2004 (Unaudited) HK\$'000	31 March 2004 (Audited) HK\$'000
Within one year	1,625	2,172
In the second to fifth years, inclusive	137	676
	1,762	2,848

15. COMMITMENTS

In addition to the operating lease commitments detailed in note 14(b) above, the Group had the following contracted capital commitments at the balance sheet date:

	30 September 2004 (Unaudited) HK\$'000	31 March 2004 (Audited) HK\$'000
Acquisition of fixed assets	–	581
Research and development project	150	500
	150	1,081

16. CONTINGENT LIABILITIES

As at 30 September 2004, the Group had 243,981 (31 March 2004: 348,151) outstanding coupons issued to the members of the International Health Association, established by a subsidiary of the Group, which entitle the coupon holders to purchase products of the Group from certain retailing outlets in Hong Kong at a discounted price. These retailing outlets would be entitled to recoup from the Group for the amount of discounts given to the coupon holders upon the presentation of the coupons received. As at 30 September 2004, the maximum value of these outstanding coupons, subject to recoup by these retailing outlets, amounted to approximately HK\$7,221,000 (31 March 2004: HK\$9,226,000).

17. RELATED PARTY TRANSACTIONS

- (a) During the period, the Group outsourced the manufacturing of certain goods to 雲南盤龍雲海藥業有限公司 (Yunnan Panlong Yunhai Pharmaceutical Company Limited) ("YPYP"), and during the prior period, the Group purchased certain goods from 雲南龍潤藥業有限公司 (Yunnan Long Run Pharmaceuticals Company Limited) ("YLRP"). YPYP is a company in which a director of the Company, Mr. Chiu Ka Leung, holds a 51% interest. YLRP is a wholly-owned subsidiary of Long Run Pharmaceuticals Group Limited, 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	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Goods outsourced to YPYP for manufacturing	8,348	2,074
Purchases of goods from YLRP	—	834

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.

17. RELATED PARTY TRANSACTIONS *(continued)*

The balances due to YPPY and YLRP at the balance sheet date amounting to approximately HK\$3,715,000 (31 March 2004: HK\$3,456,000) and nil (31 March 2004: HK\$148,000), respectively, are included in trade payables.

- (b) During the current period, the Group made advances aggregating approximately HK\$353,000 to Mr. Jiao Shaoliang, a director of the Company. The advances are unsecured, interest-free and have no fixed terms of repayment. The outstanding amount as at 30 September 2004 and the maximum outstanding amount during the current period were nil and approximately HK\$353,000, respectively.

During the prior 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 were unsecured, interest-free and had no fixed terms of repayment. The outstanding amount as at 30 September 2003 and the maximum outstanding amount during the prior period were approximately HK\$143,000 and HK\$1,136,000, respectively.

- (c) During the prior period, 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), now known as 雲南龍發製藥有限公司 (Yunnan Long Far Pharmaceutical Company Limited) ("Yunnan Long Far") at a total consideration of HK\$13,500,000 in cash (the "Acquisition"). Yunnan Long Far is a company incorporated in the People's Republic of China (the "PRC") with limited liability and its principal activities include 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 of Hong Kong Limited and was approved by the independent shareholders of the Company at an extraordinary general meeting held on 22 September 2003. The Acquisition was completed on 8 October 2003.

18. APPROVAL OF THE INTERIM FINANCIAL REPORT

This interim financial report was approved and authorised for issue by the Board on 20 December 2004.

INDEPENDENT AUDITORS' REVIEW REPORT



To the board of directors

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 15.

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 Institute of Certified Public Accountants ("HKICPA") 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 HKICPA. 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 2004.

Ernst & Young

Certified Public Accountants

Hong Kong
20 December 2004

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

For the six months ended 30 September 2004, the Group recorded turnover of HK\$41,651,000 (2003: HK\$31,230,000), representing an increase of 33% over that of the same period in 2003. Net profit from ordinary activities attributable to shareholders was reported at HK\$3,389,000 (2003: HK\$4,146,000) whilst the basic earnings per share was HK0.56 cent (2003: HK0.69 cent).

Business Review

With market sentiment continuing to pick up, and customers being more willing to spend, the local consumer market was on the track of recovery in the first half of the current financial year. Although competition in the health product market in Hong Kong remained keen, the Group's consistent promotional efforts to boost sales helped sustaining stable business development. In the first half of current financial year, the Group began to consolidate the accounts of Yunnan Long Far Pharmaceutical Company Limited ("Yunnan Long Far"), its newly acquired wholly owned subsidiary in Mainland China. Yunnan Long Far started selling its products and led to the increased turnover of the Group during the period under review. However, at the beginning of the period under review, the overall performance of the Group was under pressure from the costs incurred in running the newly established plant of Yunnan Long Far in compliance with the Good Manufacturing Practice ("GMP") standard.

Yunnan Long Far is principally engaged in the research, development, manufacture and distribution of pharmaceutical products in Mainland China under the brand name 「雁塔牌」 (Yanta Pai). With a long operational history, Yunnan Long Far possesses a complete distribution network and enjoys widespread brand recognition and hence shares synergies with the Group's operations.

During the period under review, the Group's flagship product Beauty and Healthy 「排毒美顏寶」 remained as the key revenue contributor, accounting for 80.3% of the total turnover. Amounting to HK\$33,440,000, its sales surged 31.3% over the same period last year, mirroring the resumption of purchasing confidence after the SARS outbreak in 2003. At the same time, sales of the six new products launched in the first half of the previous financial year, namely Superior Lingzhi 「極品靈芝」, Flu Reliever 「感冒靈丹」, Vasopure 「血之清」, Kidney Essence 「補腎良方」, Lung Essence 「清肺良方」 and Slim Factor 「餐餐1/2」, also grew steadily, which helped further enriching the Group's product portfolio.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Business Review *(continued)*

With solid market presence, Hong Kong continued to be the Group's major market and accounted for 80.0% (2003: 80.7%) of its total turnover. To enhance the Group's penetration of different segments in the local market, more new products, namely SBL 「適鼻靈」, Stomach Essence 「養胃良方」, Whitening Nest 「白肌燕窩」, Detox Tea 「排毒美顏茶」, Stimulean Tea 「秀身花果茶」 and Soup Series 「湯包系列」 were introduced during the second half of the last financial year and the period under review. Though having been launched for a relatively short period, they received encouraging responses and accounted for 3.9% of the Group's total turnover. As for the Southeast Asian market, there was a steady development which was attributed to the Group's continued efforts to sustain the sales level of its products. Sales from this market accounted for 11.5% (2003: 19.3%) of the Group's total turnover.

The Group received “至FIT 排毒獎” from a leading chain store group during the period under review. Besides, the Group also received “The Superbrands Awards” from a worldwide organisation during the period. These awards testified the Group's leading position in the local pharmaceutical industry.

The Yunnan Long Far plant commenced production soon after it obtained the GMP certificate in February 2004. Of all the pharmaceutical production permits it possesses, approximately 20 products were selected for production and sale in Mainland China under its well-established “Yanta Pai” brand name. Though having been launched for just a few months, they have brought in turnover to the Group. Among all the products sold under “Yanta Pai” brand name, Chen Xiang Lu Bai Lu Pian 「陳香露白露片」 enjoys particularly remarkable customer recognition. During the period under review, the Mainland China market accounted for 8.4% (2003: 0%) of the Group's total turnover.

Future Prospects

Being a GMP compliant pharmaceutical plant in Mainland China, Yunnan Long Far is an important asset of the Group especially in helping it to achieve vertical integration of its manufacturing operation. The Group expects to assign the production of more of its products to Yunnan Long Far in the future, which will help to increase operational flexibility and allow the Group to benefit from economies of scale from the gradually enlarging production scale of Yunnan Long Far. The Group is also actively exploring opportunities to expand the pharmaceutical product manufacturing business of Yunnan Long Far in Mainland China.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Future Prospects *(continued)*

To pave way for further business growth, the Group began to sell products of Yunnan Long Far in Mainland China through a number of outlets in the major cities. It is also actively exploring opportunities to expand its marketing and distribution network, thereby enhancing its penetration of Mainland China pharmaceutical market. Yunnan Long Far has become a base for business growth of the Group in Mainland China.

To maintain the competitiveness of its products in the fast-changing and highly competitive market, the Group has continuously conducted research to further study its existing products, including Beauty and Healthy 「排毒美顏寶」, and develop new products to diversify its product mix and sustain steady business growth.

SBL「適鼻靈」, the new product jointly developed by the Group and the CUCAMED Company Limited, was launched during the period under review. As mentioned in Clinical Reviews in Allergy and Immunology (Volume 22) published in February 2002, the countries/regions with the highest incidence rate of allergic rhinitis, in descending order, are: Australia, Hong Kong, Korea, Taiwan, Thailand, Canada, United Kingdom and United States. According to a survey on allergic rhinitis conducted by The University of Hong Kong, 47% of the 2,000 respondents believed that they had allergic rhinitis. Academics responsible for the survey estimated that about 20% of the Hong Kong population (approximately 1.3 million people) is suffering from allergic rhinitis. Given this high market potential, the Group is confident of the prospects of SBL and believes that it will bring satisfactory returns to the Group in the future.

Looking ahead, the Group expects keen competition to continue in the proprietary Chinese medicinal market and the overall health product market. However, with Long Far's reputable brand name, well-established distribution networks and endeavours in enriching its product portfolio, the management remains positive about the Group's prospects and will continue its commitment in striving for the best returns for its shareholders.

Employees

As at 30 September 2004, the Group had 226 employees (31 March 2004: 189 employees).

The remuneration policy and package for the Group's employees are reviewed and approved by the Directors 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.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Liquidity and Financial Resources

The Group has consistently maintained sufficient working capital. As at 30 September 2004, the Group had current assets of HK\$62,780,000 (31 March 2004: HK\$57,903,000) and cash and bank balances of HK\$26,490,000 (31 March 2004: HK\$26,608,000). The Group's current liabilities as at 30 September 2004 was HK\$14,815,000 (31 March 2004: HK\$14,905,000).

As at 30 September 2004, shareholders' funds was HK\$90,096,000 (31 March 2004: HK\$86,697,000). The Group had outstanding borrowings of HK\$607,000 as at 30 September 2004 (31 March 2004: HK\$713,000). The gearing ratio, being the ratio of total liabilities to shareholders' funds, was 17.1% (31 March 2004: 18.0%).

Contingent Liabilities

As at 30 September 2004, the Group had 243,981 (31 March 2004: 348,151) outstanding coupons issued to the members of the International Health Association, established by a subsidiary of the Group, which entitle the coupon holders to purchase products of the Group from certain retailing outlets in Hong Kong at a discounted price. These retailing outlets would be entitled to recoup from the Group for the amount of discounts given to the coupon holders upon the presentation of the coupons received. As at 30 September 2004, the maximum value of these outstanding coupons, subject to recoup by these retailing outlets, amounted to approximately HK\$7,221,000 (31 March 2004: HK\$9,226,000).

Exchange Risk

The Directors are 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 the Group's Assets

As at 30 September 2004, certain of the Group's time deposits totalling HK\$4,397,000 (31 March 2004: HK\$4,388,000) were pledged to the banks as security for the banking facilities granted to the Group. An amount of HK\$558,000 (31 March 2004: HK\$480,000) of these banking facilities was utilized by the Group as at 30 September 2004.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period under review.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 September 2004, the interests of the Directors and chief executives of the Company in the shares and underlying shares of the Company or its associated corporations (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 of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she 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/interested <i>(Note 3)</i>
Mr. Chiu Ka Leung	Interests held by a controlled corporation <i>(Note 1)</i>	450,000,000 (L)

Notes:

1. 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.
2. The letter "L" denotes a long position in the shares.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(continued)*

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

3. 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.

(ii) Interests in the underlying shares of the Company through unlisted and physically settled equity derivatives (as defined in the SFO)

Certain Directors were granted share options under the share option scheme of the Company dated 22 August 2002. The share options granted to Directors to subscribe for ordinary shares of the Company which were outstanding at 30 September 2004 were as follows:

Name of Director	Nature of interests	Number of underlying shares in respect of options granted	Exercise period	Price of grant	Exercise price
Mr. Jiao Shaoliang	Beneficial owner	1,100,000 (L) <i>(Note)</i>	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) <i>(Note)</i>	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.

The date of grant of such options is 9 September 2002 and the number of outstanding share options at 1 April 2004 and 30 September 2004 is the same.

**DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS
IN SHARES AND UNDERLYING SHARES** *(continued)*

(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/interested
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.

*(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/interested <i>(Note 1)</i>
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 <i>(Note 3)</i>	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)

**DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS
IN SHARES AND UNDERLYING 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)
(continued)*

Notes:

1. These interests in shares do not include interests or short positions in the underlying shares of equity derivatives which are separately disclosed below.
 2. The letter "L" denotes a long position in the shares.
 3. These interests in shares are held through controlled corporations, namely, Oriental Chinese, the Company and Long Far Pharmaceutical (BVI) Limited.
- (c) In addition to the above, Mr. Chiu Ka Leung holds one ordinary share in each of LFHK, International Health Association (HK) Limited, Long Far Health Products 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 then minimum company membership requirement.*

**DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS
IN SHARES AND UNDERLYING SHARES** *(continued)*

(B) (ii) Interests and short positions in the underlying shares of an associated corporation of the Company through unlisted and physically settled equity derivatives (as defined in the SFO)

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)
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)

**DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS
IN SHARES AND UNDERLYING SHARES** *(continued)*

(B) (ii) Interests and short positions in the underlying shares of an associated corporation of the Company through unlisted and physically settled equity derivatives (as defined in the SFO) *(continued)*

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 above, as at 30 September 2004, none of the Directors and chief executives of the Company had registered any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) 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/she 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.

SHARE OPTION SCHEME

The Company operates a Share Option Scheme (the "Scheme") for the purpose of providing incentives or 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.

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

Name of option holder	Number of share option at 1 April 2004	Date of grant of share option	Exercise period of share option	Exercise price of share option	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period	Number of share option at 30 September 2004
Mr. Jiao Shaoliang, Executive Director	1,100,000	9.9.2002	See note below	HK\$0.375 per share	-	-	-	1,100,000
Mr. Lan Daoying, Executive Director	1,200,000	9.9.2002	See note below	HK\$0.375 per share	-	-	-	1,200,000
Continuous contract employees in aggregate	3,200,000	9.9.2002	See note below	HK\$0.375 per share	-	-	-	3,200,000
Total	5,500,000				-	-	-	5,500,000

Note: The 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 has 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 has not yet exercised may be carried forward and that no option can be exercised after 8 September 2012.

SHARE OPTION SCHEME *(continued)*

At the balance sheet date, the Company had 5,500,000 shares subject to options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 5,500,000 additional ordinary shares of the Company and additional share capital of HK\$275,000 and share premium of HK\$1,787,500 (before issue expenses).

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

At 30 September 2004, the following interests of over 5% of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Nature of interest	Number of ordinary shares of the Company held/interested	Percentage of the Company's issued share capital
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. The above interest in the name of Oriental Chinese was also disclosed as deemed interests of Mr. Chiu Ka Leung in the above section headed "Directors' and chief executives' interests and short positions in shares and underlying shares".
2. Ms. Guo Jinxiu is the wife of Mr. Chiu Ka Leung and such interest has also been disclosed as Mr. Chiu Ka Leung's interest in the sub-paragraph headed "Interests in shares of the Company" above.
3. The letter "L" denotes a long position in the shares.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES *(continued)*

Save as disclosed above, as at 30 September 2004, no person, other than the Directors, whose interests are set out in the section "Directors' and chief executives' interests and short positions in shares and underlying shares" above, had an interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO.

AUDIT COMMITTEE

The audit committee comprises three independent non-executive Directors and reports to the Board of Directors. 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 accounting principles and practices adopted by the Group. The audit committee has reviewed the interim financial statements of the Company for the six months ended 30 September 2004.

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 2004, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.

DIRECTORS

As at the date of this report, Mr. Chiu Ka Leung, Ms. Yeh Shu Ping, Mr. Jiao Shaoliang and Mr. Lan Daoying are the executive Directors and Mr. Guo Guoqing, Mr. Liu Jian and Mr. Lam Siu Hung are the independent non-executive Directors.

On behalf of the Board

Chiu Ka Leung

Chairman

Hong Kong, 20 December 2004