

INTERIM REPORT 2005



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**LONG FAR**

**Long Far Pharmaceutical Holdings Limited**

(Incorporated in the Cayman Islands with limited liability)

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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 2005, together with the comparative figures for the corresponding period of 2004, as follows:

## CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 September 2005

		For the six months ended 30 September	
		2005	2004
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
REVENUE			
Sale of goods	3	<b>28,831</b>	41,651
Cost of sales		<b>(9,172)</b>	(12,140)
Gross profit		<b>19,659</b>	29,511
Other income and gains	4	<b>3,901</b>	949
Selling and distribution costs		<b>(10,083)</b>	(12,855)
Administrative expenses		<b>(12,572)</b>	(12,248)
Other operating expenses, net		<b>(44)</b>	(700)
Finance costs	5	<b>(369)</b>	(16)
PROFIT BEFORE TAX	6	<b>492</b>	4,641
Tax	7	<b>(237)</b>	(1,252)
PROFIT FOR THE PERIOD		<b>255</b>	3,389
INTERIM DIVIDEND	8	<b>-</b>	-
EARNINGS PER SHARE	9		
– Basic		<b>HK0.04 cent</b>	HK0.56 cent
– Diluted		<b>HK0.04 cent</b>	HK0.56 cent

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## CONDENSED CONSOLIDATED BALANCE SHEET

30 September 2005

		At 30 September 2005 (Unaudited) HK\$'000	At 31 March 2005 (Restated) HK\$'000
	Notes		
<b>NON-CURRENT ASSETS</b>			
Fixed assets	10	<b>45,331</b>	34,376
Land lease payments		<b>23,668</b>	5,228
Goodwill		<b>1,093</b>	1,093
Deferred tax assets		<b>240</b>	240
Deposit for acquisition of fixed assets		–	3,138
Financial assets at fair value through profit or loss		<b>780</b>	–
		<b>71,112</b>	44,075
<b>CURRENT ASSETS</b>			
Inventories		<b>11,121</b>	8,754
Trade receivables	11	<b>22,368</b>	18,810
Prepayments, deposits and other receivables		<b>4,289</b>	2,871
Financial assets at fair value through profit or loss		<b>1,009</b>	–
Short term investments		–	999
Tax recoverable		–	8
Pledged deposits		<b>10,365</b>	4,412
Cash and cash equivalents		<b>19,919</b>	25,793
		<b>69,071</b>	61,647

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**CONDENSED CONSOLIDATED BALANCE SHEET** (continued)

30 September 2005

		<b>At 30 September 2005 (Unaudited) HK\$'000</b>	At 31 March 2005 (Restated) HK\$'000
	<i>Notes</i>		
<b>CURRENT LIABILITIES</b>			
Trade payables	12	<b>4,508</b>	3,363
Tax payable		<b>251</b>	22
Other payables and accruals		<b>10,602</b>	10,149
Bank loans, secured		<b>11,779</b>	–
Finance lease payables		<b>229</b>	225
Due to director		<b>621</b>	101
		<hr/> <b>27,990</b> <hr/>	<hr/> 13,860 <hr/>
<b>NET CURRENT ASSETS</b>		<hr/> <b>41,081</b> <hr/>	<hr/> 47,787 <hr/>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<hr/> <b>112,193</b> <hr/>	91,862
<b>NON-CURRENT LIABILITIES</b>			
Bank loans, secured		<b>19,491</b>	–
Finance lease payables		<b>158</b>	273
Deferred tax liabilities		<b>170</b>	170
		<hr/> <b>19,819</b> <hr/>	<hr/> 443 <hr/>
		<hr/> <b>92,374</b> <hr/>	<hr/> 91,419 <hr/>
<b>CAPITAL AND RESERVES</b>			
Issued capital	13	<b>30,000</b>	30,000
Reserves	14	<b>62,374</b>	61,419
		<hr/> <b>92,374</b> <hr/>	<hr/> 91,419 <hr/>

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## CONDENSED CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2005

	For the six months ended 30 September	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Total shareholders' equity at 1 April	91,419	86,697
Profit for the period	255	3,389
Exchange realignment	700	10
Total shareholders' equity at 30 September	<u>92,374</u>	<u>90,096</u>

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**CONDENSED CONSOLIDATED CASH FLOW STATEMENT***For the six months ended 30 September 2005*

	<b>For the six months ended 30 September</b>	
	<b>2005 (Unaudited) HK\$'000</b>	2004 (Unaudited) HK\$'000
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES	<b>(4,499)</b>	749
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	<b>(31,501)</b>	(745)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	<b>30,790</b>	(122)
NET DECREASE IN CASH AND CASH EQUIVALENTS	<b>(5,210)</b>	(118)
Cash and cash equivalents at beginning of period	<b>25,793</b>	26,608
Effect of initial adoption of HKAS 39	<b>(780)</b>	–
Effect of foreign exchange rate changes, net	<b>116</b>	–
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<b>19,919</b>	26,490
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<b>19,919</b>	18,278
Non-pledged time deposits with original maturity of less than three months when acquired	<b>–</b>	8,212
	<b>19,919</b>	26,490

## NOTES TO INTERIM FINANCIAL STATEMENTS

30 September 2005

### 1. ACCOUNTING POLICIES

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”. The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 March 2005, except in relation to the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period’s financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 1, 2, 7, 8, 10, 12, 16, 18, 19, 21, 23, 24, 27, 33, 37, 38, HKFRS 2 and HK-Int 4 has had no material impact on the accounting policies of the Group and the methods of computation in the Group’s condensed consolidated financial statements. The impact of adopting the other HKFRSs is summarised as follows:

#### (a) HKAS 17 – Leases

In prior periods, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

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## 1. ACCOUNTING POLICIES *(continued)*

### (a) HKAS 17 – Leases *(continued)*

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from fixed assets to land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment. Land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

This change in accounting policy has had no effect on the condensed consolidated income statement and retained earnings. The comparatives on the condensed consolidated balance sheet for the year ended 31 March 2005 have been restated to reflect the reclassification of leasehold land.

### (b) HKAS 32 and HKAS 39 – Financial Instruments

#### *Equity securities*

In prior periods, the Group classified its investments in equity securities as short term investments which were held for trading purposes and were stated at fair values, and bank deposits with embedded derivatives for yield enhancement were treated as bank deposits and stated at cost.

Upon the adoption of HKASs 32 and 39, these securities and bank deposits with embedded derivatives for yield enhancement are classified as financial assets at fair value through profit or loss. A financial asset at fair value through profit or loss is a financial asset which is held for trading. A financial asset is classified as trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term; part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or a derivative (except for a derivative that is a designated and effective hedging instrument).

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date.

In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.



## 1. ACCOUNTING POLICIES *(continued)*

### (c) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets

Goodwill arising on acquisitions on or after 1 January 2001 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment.

Upon the adoption of HKFRS 3 and HKAS 36, goodwill arising on acquisitions is no longer amortised but subject to an annual impairment review (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired). Any impairment loss recognised for goodwill is not reversed in a subsequent period.

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 April 2005 the carrying amounts of accumulated amortisation with a corresponding entry to the cost of goodwill.

The effects of the above changes are summarised in note 2 to the condensed consolidated interim financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

## 2. SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

The following table summarises the impact on profit after tax and earnings per share for the six months ended 30 September 2005 and 2004 upon the adoption of the new HKFRSs. As no retrospective adjustments have been made for the adoption of HKFRS 3, the amounts shown for the six months ended 30 September 2004 may not be comparable to the amounts shown for the current interim period.

Effect of new policies (Increase/(decrease))	Note	For the six months ended 30 September	
		2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
<b>Effect on profit after tax:</b>			
HKFRS 3 Discontinuation of amortisation of goodwill	1(c)	<u>137</u>	<u>–</u>
<b>Effect on earnings per share:</b>			
Basic		<u>HK0.02 cent</u>	<u>–</u>
Diluted		<u>HK0.02 cent</u>	<u>–</u>

## 3. 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.



### 3. SEGMENT INFORMATION (continued)

#### (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.

#### (b) Geographical segments

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

	Hong Kong		Mainland China		Six months ended 30 September Southeast Asia		Others		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Segment revenue:										
Sales to external customers	21,491	33,317	4,240	3,505	3,100	4,786	-	43	28,831	41,651
Other income	534	857	-	-	-	-	-	-	534	857
Total	22,025	34,174	4,240	3,505	3,100	4,786	-	43	29,365	42,508

### 4. OTHER INCOME AND GAINS

	For the six months ended 30 September	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Gain on disposal of fixed assets, net	3,226	-
Interest income	141	92
Advertising income	271	337
Rental income	142	92
Others	121	428
	<b>3,901</b>	<b>949</b>

### 5. FINANCE COSTS

	For the six months ended 30 September	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Interest on bank loans	358	-
Interest on finance leases	11	16
	<b>369</b>	<b>16</b>

## 6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	<b>For the six months ended 30 September 2005 (Unaudited) HK\$'000</b>	2004 (Unaudited) HK\$'000
Cost of inventories sold	<b>8,858</b>	12,034
Depreciation	<b>2,980</b>	2,218
Amortisation of land lease payments	<b>262</b>	53
Amortisation of goodwill	-	137
Research and development costs	-	350
Loss/(gain) on write-off/disposal of fixed assets, net	<b>(3,226)</b>	415

## 7. TAX

	<b>For the six months ended 30 September 2005 (Unaudited) HK\$'000</b>	2004 (Unaudited) HK\$'000
Current – Hong Kong	<b>237</b>	1,252

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the period.

## 8. INTERIM DIVIDEND

The Directors did not propose to declare an interim dividend for the six months ended 30 September 2005 (2004: Nil).

## 9. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to the equity holders of the Company for the period of HK\$255,000 (six months ended 30 September 2004: HK\$3,389,000) and the 600,000,000 (six months ended 30 September 2004: 600,000,000) ordinary shares in issue during the period.

The calculation of diluted earnings per share is based on the profit attributable to the equity holders of the Company for the period of HK\$255,000 (six months ended 30 September 2004: HK\$3,389,000). The weighted average number of ordinary shares used in the calculation is the 600,000,000 (six months ended 30 September 2004: 600,000,000) ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average of 508,470 (six months ended 30 September 2004: 1,269,231) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the period.

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**10. FIXED ASSETS**

	Leasehold land and buildings (Unaudited) HK\$'000	Leasehold improvements (Unaudited) HK\$'000	Plant and machinery (Unaudited) HK\$'000	Furniture, fixtures and office 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 2005								
As previously reported	32,020	2,636	9,469	1,627	2,204	1,299	-	49,255
Prior period adjustment - HKAS 17 - Leases	(5,388)	-	-	-	-	-	-	(5,388)
As restated	26,632	2,636	9,469	1,627	2,204	1,299	-	43,867
Additions	15,225	-	61	116	343	46	2,379	18,170
Write-off/disposal	(4,956)	(162)	-	-	-	-	-	(5,118)
Transfer/reclassification	107	-	-	-	-	-	(107)	-
Exchange realignment	389	-	146	6	12	-	-	553
<b>At 30 September 2005</b>	<b>37,397</b>	<b>2,474</b>	<b>9,676</b>	<b>1,749</b>	<b>2,559</b>	<b>1,345</b>	<b>2,272</b>	<b>57,472</b>
Accumulated depreciation:								
At 1 April 2005								
As previously reported	1,452	1,763	3,277	1,080	1,191	888	-	9,651
Prior period adjustment - HKAS 17 - Leases	(160)	-	-	-	-	-	-	(160)
As restated	1,292	1,763	3,277	1,080	1,191	888	-	9,491
Provided during the period	982	141	1,376	107	289	85	-	2,980
Write-off/disposal	(329)	(62)	-	-	-	-	-	(391)
Exchange realignment	16	-	39	1	5	-	-	61
<b>At 30 September 2005</b>	<b>1,961</b>	<b>1,842</b>	<b>4,692</b>	<b>1,188</b>	<b>1,485</b>	<b>973</b>	<b>-</b>	<b>12,141</b>
Net book value:								
<b>At 30 September 2005</b>	<b>35,436</b>	<b>632</b>	<b>4,984</b>	<b>561</b>	<b>1,074</b>	<b>372</b>	<b>2,272</b>	<b>45,331</b>
At 31 March 2005 (restated)	25,340	873	6,192	547	1,013	411	-	34,376

**11. TRADE RECEIVABLES**

The Group allows an average credit period ranging from 30 days to 180 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:

	<b>At 30 September 2005 (Unaudited) HK\$'000</b>	At 31 March 2005 (Audited) HK\$'000
Current	<b>13,345</b>	7,019
1 to 3 months overdue	<b>5,942</b>	9,114
More than 3 months overdue but less than 12 months overdue	<b>3,022</b>	2,226
Over 12 months overdue	<b>59</b>	451
	<b>22,368</b>	18,810

**12. TRADE PAYABLES**

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

	<b>At 30 September 2005 (Unaudited) HK\$'000</b>	At 31 March 2005 (Audited) HK\$'000
Current	<b>1,744</b>	1,331
1 to 3 months overdue	<b>2,523</b>	1,543
More than 3 months overdue but less than 12 months overdue	<b>241</b>	489
	<b>4,508</b>	3,363

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### 13. SHARE CAPITAL

	<b>30 September 2005 (Unaudited) HK\$'000</b>	31 March 2005 (Audited) HK\$'000
Authorised		
5,000,000,000 ordinary shares of HK\$0.05 each	<b>250,000</b>	250,000
Issued and fully paid		
600,000,000 ordinary shares of HK\$0.05 each	<b>30,000</b>	30,000

#### 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 2005 and 30 September 2005, 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.

### 14. RESERVES

	<b>Share premium account</b>	<b>Contributed surplus</b>	<b>Exchange fluctuation reserve</b>	<b>Retained profits</b>	<b>Total</b>
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
At 1 April 2005	8,720	300	134	52,265	61,419
Exchange realignment	–	–	700	–	700
Profit for the period	–	–	–	255	255
At 30 September 2005	<b>8,720</b>	<b>300</b>	<b>834</b>	<b>52,520</b>	<b>62,374</b>

## 15. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

The Group leased 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:

	<b>30 September 2005 (Unaudited) HK\$'000</b>	31 March 2005 (Audited) HK\$'000
Within one year	-	610
In the second to fifth years, inclusive	-	209
	<u>-</u>	<u>819</u>

### (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 two 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:

	<b>30 September 2005 (Unaudited) HK\$'000</b>	31 March 2005 (Audited) HK\$'000
Within one year	<b>902</b>	2,099
In the second to fifth years, inclusive	-	87
	<u><b>902</b></u>	<u>2,186</u>

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## 16. COMMITMENTS

In addition to the operating lease commitments detailed in note 15(b) above, the Group had the following contracted capital commitments at the balance sheet date:

	<b>30 September 2005 (Unaudited) HK\$'000</b>	31 March 2005 (Audited) HK\$'000
Acquisition of fixed assets	<u>1,303</u>	<u>28,242</u>

## 17. CONTINGENT LIABILITIES

- (a) As at 30 September 2005, the Group had 12,230 (31 March 2005: 41,406) outstanding coupons issued to the members of the International Health Association (established by a subsidiary of the Company) 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 2005, the maximum value of these outstanding coupons, subject to recoup by these retailing outlets, amounted to approximately HK\$734,000 (31 March 2005: HK\$1,833,000).
- (b) The Group had a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK\$313,000 as at 30 September 2005 (31 March 2005: HK\$240,000). The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.
- (c) On 13 January 2004, Long Far Herbal Medicine Manufacturing (Hong Kong) Limited ("LFHK"), a wholly-owned subsidiary of the Company, filed its objections to the Trade Marks Registry of the Intellectual Property Department in Hong Kong to oppose certain trade marks applications by a merchant (the "Applicant"). LFHK has filed its evidence and the statement of grounds of opposition and the Applicant has filed its counter-statements and evidence to the Trade Marks Registry. Based on the advice from LFHK's legal advisers, it is likely that a trial would be held at the Trade Marks Registry to determine whether LFHK's objections are valid, and further costs of approximately HK\$300,000 would be incurred by the Group. If LFHK loses the action, LFHK may have to pay also the Applicant's costs estimated to be approximately HK\$500,000. As at 30 September 2005, the Group has not made any provision for such further legal costs subject to the occurrence of the trial.



**18. 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"), a company in which a director of the Company, Mr. Chiu Ka Leung, holds a 51% interest.

	<b>For the six months ended 30 September</b>	
	<b>2005</b>	2004
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Goods outsourced to YPYP for manufacturing	<b>5,143</b>	8,348

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 balance due to YPYP at the balance sheet date amounting to approximately HK\$3,341,000 (31 March 2005: HK\$910,000) is included in trade payables.

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

	<b>For the six months ended 30 September</b>	
	<b>2005</b>	2004
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Short term employee benefits	<b>2,971</b>	3,017
Post-retirement benefits	<b>61</b>	72
	<b>3,032</b>	3,089

**19. PLEDGE OF ASSETS**

As at 30 September 2005, the Group's bank deposits of approximately HK\$10,365,000 (31 March 2005: HK\$4,412,000) and leasehold land and buildings with an aggregate net book value of approximately HK\$44,399,000 (31 March 2005: Nil) were pledged to secure banking facilities granted to the Group.

**20. APPROVAL OF THE INTERIM FINANCIAL REPORT**

This interim financial report was approved and authorised for issue by the board of directors on 20 December 2005.

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## INDEPENDENT AUDITORS' REVIEW REPORT

 **ERNST & YOUNG**

安永會計師事務所

### 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 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 HKAS 34 "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 2005.

### Ernst & Young

*Certified Public Accountants*

Hong Kong  
20 December 2005

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Results

The Group recorded a turnover of HK\$28,831,000 for the six months ended 30 September 2005 (2004: HK\$41,651,000), a decrease of 30.8% compared to the corresponding period of 2004. Profit for the period declined by 92.5% to HK\$255,000 (2004: HK\$3,389,000) while basic earnings per share was HK0.04 cent (2004: HK0.56 cent).

### Business Review

Hong Kong's medicinal healthcare industry has experienced unprecedented challenges during the period under review, due to continuous and severe competition between the wide range of healthcare products available in the market. The Group's operating results in Hong Kong were adversely affected by the competitive climate, and its turnover in such market fell by 35.5%. Although tighter regulatory control over licence applications in respect of healthcare products in Hong Kong unavoidably increased the Group's administrative costs, it also contributed to a more beneficial and healthy market environment.

Along with its diversification strategies, the Group allocated substantial resources for brand building and product marketing. The percentage of selling and distribution costs to turnover increased by 4.1% during the period under review.

The Group successfully broadened its revenue base by tapping into the immense pharmaceutical market in Mainland China under the "Yanta Pai" (雁塔牌) brand name. Its turnover for the period under review was HK\$4,240,000, representing 14.7% of the Group's total turnover (2004: 8.4%). Among more than 40 licensed "Yanta Pai" (雁塔牌) products, the Group's best-selling product in Mainland China was "Chen Xiang Lu Bai Lu Pian" (陳香露白露片), a Chinese gastrointestinal medicine. Pudilan Xiaoyan Pian (蒲地藍消炎片) and Qingfei Yihuo Pian (清肺抑火片) were also well accepted by the residents in Mainland China.

The Group's flagship product, "Beauty and Healthy" (排毒美顏寶), remained its best-selling product, accounting for 71.9% of total turnover during the period under review (2004: 80.3%). It has won many industry awards since its launch, and has built up and maintained its dominant position in the detoxification product market.

As the leading provider of Chinese medicinal healthcare products in Hong Kong, the Group believes that offering high-quality products is the key to success in the ever-changing medicinal healthcare industry. Over the years, the Group has introduced many innovative products to the market, and has broadened its customer base accordingly.

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## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Business Review *(continued)*

“Super Aboba” (日本血型瘦身丸), a natural functional food imported from Japan, was launched during the period under review. The innovative concept of slimming in accordance with blood type is popular in America, Europe and Japan, but relatively new to Hong Kong. Thus, there is still plenty of room to promote the market’s acceptance of the idea.

The Group’s high-quality products and outstanding performance have gained recognition among the industry and the public. The Group has been awarded “The Superbrands Award” (國際超級品牌榮譽獎項) for three consecutive years; and it also received the “Hong Kong Top Brand Award” (香港名牌) from the Chinese Manufacturers’ Association of Hong Kong in 2005.

“Beauty and Healthy” (排毒美顏寶) has won the “Fittest Detoxification Award” (至FIT排毒獎) in the Mannings Health & Beauty Awards for four consecutive years, including this year. It also received the “Best-selling Detoxification Product Award” (最暢銷排毒產品獎) for the fifth time and the “Best of the Best Award” for the fourth time in the Watson’s 6th Health & Beauty 2005 Awards.

“Whitening Nest” (白肌燕窩) won the “Beautiful Skin Award” (活膚美肌獎) in the Mannings Health & Beauty Awards 2005/06; while “SBL” (適鼻靈) won the “Best-selling Allergic Rhinitis Product – Silver Award” (最暢銷鼻敏感產品獎) in the Watson’s 6th Health & Beauty 2005 Awards.

### Future Prospects

The Group’s acquisition of new office premises in Kwai Chung on 15 April 2005 will provide it with long-term cost-reduction benefits, as well as enhance its fixed-asset base in the future.

Building on the success of its “Yanta Pai” (雁塔牌) products, the Group will continue to expand its marketing and distribution network, in order to increase its penetration in Mainland China pharmaceutical market.

Macau’s retail market has seen dynamic expansion over the past years, in tandem with the development of its tourism and entertainment industries. Following the establishment of a wholly-owned subsidiary in Macau on 19 October 2005, the Group is pro-actively seeking new business opportunities, and aims to diversify its business in Macau and other Portuguese-speaking countries.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Future Prospects *(continued)*

In the mature but competitive local healthcare market, the Group will continue to implement product diversification and market penetration operating strategies. The Group's pioneering position in the healthcare market, comprehensive distribution networks, expertise in research and development and advanced manufacturing technology have put the Group in a good position to tap business opportunities in Hong Kong and Mainland China, and, in the opinion of the Directors, will ultimately improve the Group's overall profitability.

Looking ahead, the Group will maintain its growth momentum through strategic mergers and acquisitions, and seek opportunities to cooperate with tertiary education institutions in research and development of new products, as well as importing effective healthcare and functional products. Moreover, it will remain committed to educating the public about healthier lifestyles, popularising healthcare products in every household, and striving for superior returns to shareholders.

### Employees

As at 30 September 2005, the Group had 280 employees (31 March 2005: 226 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.

### Liquidity and Financial Resources

The Group has consistently maintained sufficient working capital. As at 30 September 2005, the Group had current assets of HK\$69,071,000 (31 March 2005: HK\$61,647,000) and cash and bank balances of HK\$19,919,000 (31 March 2005: HK\$25,793,000). The Group's current liabilities as at 30 September 2005 was HK\$27,990,000 (31 March 2005: HK\$13,860,000).

As at 30 September 2005, shareholders' funds was HK\$92,374,000 (31 March 2005: HK\$91,419,000). The Group had bank borrowings and finance lease payables of HK\$31,657,000 as at 30 September 2005 (31 March 2005: HK\$498,000). The gearing ratio, being the ratio of total liabilities to shareholders' funds, was 51.8% (31 March 2005: 15.6%).



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## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Exchange Risk

The Board of Directors 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.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed 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 2005, 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 Issuers (the "Model Code"), 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 interest	Number of ordinary 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) <i>(Note 2)</i>

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.

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

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

2. The letter "L" denotes a long position in the shares.
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 2005 were as follows:

Name of Director	Nature of interest	Number of underlying ordinary shares in respect of options granted	Exercise period	Price for 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 the beginning and at the end of the interim period 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) <i>(Note)</i> ordinary shares (representing 83.781% of its entire issued share capital)
Ms. Yeh Shu Ping	Beneficial owner	16,219 (L) <i>(Note)</i> 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) <i>(Note 2)</i> 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) <i>(Note 2)</i> voting shares (representing 100% of its issued voting shares)
Ms. Yeh Shu Ping	Beneficial owner	16,219 (L) <i>(Note 2)</i> 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 interest	Number of underlying shares of LFHK in respect of options granted	Exercise period	Price for grant	Exercise price
Mr. Chiu Ka Leung	Beneficial owner	83,781 (S) (Note 2) 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) (Note 2) 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) (Note 2) 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:*

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

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

Save as disclosed above, as at 30 September 2005, none of the Directors or chief executives of the Company had registered an interest or a short position in the shares or 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, to be notified to the Company and the Stock Exchange.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 30 September 2005, the following interests of 5% or more 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) <i>(Note 3)</i>	75%
Ms. Guo Jinxiu <i>(Note 2)</i>	Interest held by spouse	450,000,000 (L) <i>(Note 3)</i>	75%

Notes:

- The above interest in the name of Oriental Chinese was also disclosed as the interest of Mr. Chiu Ka Leung in the above section headed "Directors' and chief executives' interests and short positions in shares and underlying shares".
- Ms. Guo Jinxiu is the wife of Mr. Chiu Ka Leung and such interest has been disclosed as Mr. Chiu Ka Leung's interest in the above section headed "Directors' and chief executives' interests and short positions in shares and underlying shares".
- The letter "L" denotes a long position in the shares.

Save as disclosed above, as at 30 September 2005, 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 registered 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.

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## SHARE OPTION SCHEME

The Company operates a share option scheme (the “Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Scheme include the Directors, including independent non-executive Directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group and the holders of securities of the Group. The Scheme became effective on 5 September 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

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

Name of option holder	Number of share options				At 30 September 2005	Date of grant of share options	Exercise period of share options	Exercise price of share options
	At 1 April 2005	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period				
Mr. Jiao Shaoliang, Executive Director	1,100,000	-	-	-	1,100,000	9.9.2002	See note below	HK\$0.375 per share
Mr. Lan Daoying, Executive Director	1,200,000	-	-	-	1,200,000	9.9.2002	See note below	HK\$0.375 per share
Continuous contract employees in aggregate	3,200,000	-	-	-	3,200,000	9.9.2002	See note below	HK\$0.375 per share
<b>Total</b>	<b>5,500,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,500,000</b>			

*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 options 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 share 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).

## AUDIT COMMITTEE

The audit committee of the Company (the “Audit Committee”) comprises three independent non-executive Directors, namely Mr. Lam Siu Hung (Chairman of the Audit Committee), Mr. Guo Guoqing and Mr. Liu Jian, 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 unaudited interim financial information for the six months ended 30 September 2005 set out in this interim report.

## REMUNERATION COMMITTEE

Pursuant to the Code on Corporate Governance Practices set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “CG Code”), the Company established a remuneration committee (the “Remuneration Committee”) on 8 July 2005 with specific written terms of reference in accordance with the CG Code. The Remuneration Committee comprises three independent non-executive Directors, namely Mr. Lam Siu Hung, Mr. Guo Guoqing and Mr. Liu Jian and two executive Directors, Mr. Chiu Ka Leung (Chairman of the Remuneration Committee) and Ms. Yeh Shu Ping (Vice-chairman of the Remuneration Committee).

The principal responsibilities of the Remuneration Committee include making recommendations to the Board of Directors of the Company on the Company’s policy and structure for all remuneration of Directors and senior management of the Company and on the establishment of a formal and transparent procedure for developing such policy, and reviewing the specific remuneration packages of all executive Directors and senior management of the Company by reference to corporate goals and objectives resolved by the Board of Directors of the Company from time to time.

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## EXECUTIVE COMMITTEE

The Company established an executive committee (the “Executive Committee”) on 8 July 2005 with specific written terms of reference. The Executive Committee comprises the Vice-Chairman of the Company, Ms. Yeh Shu Ping (the Chairman of the Executive Committee) and all other executive directors of the Company.

The principal responsibilities of the Executive Committee include monitoring the execution of the Company’s strategic plans and operations of all business units of the Company and discussing and making decisions on matters relating to the management and operations of the Company.

## CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance with a view to enhancing the management of the Company as well as preserving the interests of the shareholders as a whole. The Board is of the view that the Company has complied with the code provisions set out in the CG Code, except for the following deviations:

### Code provision A.2.1

This code provision stipulates that the roles of Chairman and Chief Executive Officer of a listed issuer should be separate and should not be performed by the same individual. In order to comply with the said code provision A.2.1, the Board of Directors of the Company shall propose at the next board meeting that the roles of Chairman of the Board of Directors and Chief Executive Officer of the Company shall be separate and the division of responsibilities between them shall be clearly established and set out in writing.

### Code provision E.1.2

This code provision stipulates that the Chairman of the Board of a listed issuer should attend the issuer’s annual general meeting. The Chairman of the Board of Directors of the Company did not attend the annual general meeting of the Company held on 29 August 2005 as he had another business engagement. He will try his best to comply with such code provision in the future.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors (the “Code”) on terms no less exacting than the required standard contained in the Model Code as set out in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. All Directors have confirmed, following specific enquiries by the Company, that they have fully complied with the required standard set out in Model Code and the Code throughout the period under review.

## COMPLIANCE WITH THE WRITTEN GUIDELINES FOR SECURITIES TRANSACTIONS BY THE RELEVANT EMPLOYEES OF THE COMPANY

During the six months ended 30 September 2005, the Company has established written guidelines for the relevant employees of the Company (the “Relevant Employees”) in respect of their dealings in the securities of the Company (the “Written Guidelines”) on terms no less exacting than the required standard set out in the Model Code. For this purpose, “Relevant Employee” includes any employee of the Company or a director or employee of a subsidiary or holding company of the Company who, because of such office or employment, is likely to be in possession of unpublished price sensitive information in relation to the Company or its securities. Having made specific enquiry of the Relevant Employees, the Relevant Employees confirmed that they have complied with the required standard set out in the Model Code and the Written Guidelines regarding any of their securities transactions in the Company.

### 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 2005