



ANNUAL REPORT

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**LONG FAR PHARMACEUTICAL  
HOLDINGS LIMITED**

(Incorporated in the Cayman Islands with limited liability)  
Stock Code: 2898

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## Corporate Information

### BOARD OF DIRECTORS

Mr. Chiu Ka Leung	<i>Chairman</i>
Ms. Yeh Shu Ping	<i>Vice-Chairman and Chief Executive Officer</i>
Mr. Jiao Shaoliang	<i>Executive Director</i>
Mr. Lan Daoying	<i>Executive Director</i>
Mr. Lam Siu Hung	<i>Independent non-executive Director</i>
Mr. Guo Guoqing	<i>Independent non-executive Director</i>
Mr. Kwok Hok Lun	<i>Independent non-executive Director</i>

### AUDIT COMMITTEE

Mr. Lam Siu Hung	<i>Chairman</i>
Mr. Guo Guoqing	
Mr. Kwok Hok Lun	

### REMUNERATION COMMITTEE

Mr. Chiu Ka Leung	<i>Chairman</i>
Ms. Yeh Shu Ping	<i>Vice-Chairman</i>
Mr. Lam Siu Hung	
Mr. Guo Guoqing	
Mr. Kwok Hok Lun	

### COMPANY SECRETARY & QUALIFIED ACCOUNTANT

Mr. Hui Pang To, *FCCA, CPA*

### REGISTERED OFFICE

Cricket Square,  
Hutchins Drive,  
P.O. Box 2681,  
Grand Cayman KY1-1111,  
Cayman Islands.

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

14th Floor,  
Tower One,  
Ever Gain Plaza,  
No. 88 Container Port Road,  
Kwai Chung,  
New Territories,  
Hong Kong.

### AUDITORS

Ernst & Young  
*Certified Public Accountants*  
18th, Two International Finance Centre,  
8 Finance Street, Central,  
Hong Kong.

### LEGAL ADVISERS

**As to Hong Kong law:**  
Arculli Fong & Ng  
*(in association with King and Wood, PRC Lawyers)*  
908, Hutchison House,  
Central,  
Hong Kong.

**As to Cayman Islands law:**  
Conyers Dill & Pearman  
Cricket Square,  
Hutchins Drive,  
P.O. Box 2681,  
Grand Cayman KY1-1111,  
Cayman Islands.

## Corporate Information

### PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited  
Ground Floor, The Center,  
99 Queen's Road Central,  
Hong Kong.

Fubon Bank (Hong Kong) Limited  
Fubon Bank Building,  
38 Des Voeux Road Central,  
Hong Kong.

The Bank of East Asia, Limited  
10 Des Voeux Road Central,  
Hong Kong.

### PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Ltd.  
Butterfield House,  
68 Fort Street,  
P.O. Box 705,  
Grand Cayman KY1-1107,  
Cayman Islands.

### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited  
26/F, Tesbury Centre,  
28 Queen's Road East,  
Hong Kong.

### WEBSITE

[www.longfar.com.hk](http://www.longfar.com.hk)

### STOCK CODE

2898

## Chairman's Statement

On behalf of the board of directors (the "Board") of Long Far Pharmaceutical Holdings Limited (the "Company"), I am pleased to present the annual report and audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 March 2007.

During the year under review, the Group continued to face tough challenges resulting from severe competition in the healthcare products market. The Group recorded a total turnover of HK\$46,563,000 and a loss for the year attributable to ordinary equity holders of HK\$14,129,000.

To cater to growing local demand for quality healthcare products and cope with keener competition in the market, the Group has been diversifying its product range. During the year, the Group introduced a series of new products, including the "Superior Series" and organic herbal tea series. Though these new products have received warm market responses, they have yet to contribute significantly to the Group's turnover and profit.

The Group's flagship product, "Beauty and Healthy" (排毒美顏寶), continued to be the top selling product and contributed 57% of the Group's total turnover. As a major detoxification brand in the market, "Beauty and Healthy" (排毒美顏寶) continued to win recognition and awards during the year, including the "Best Detoxification Product Award" (至FIT排毒獎) and the "Best-selling Detoxification Product - Diamond Award" (最暢銷排毒產品鑽石獎).

For overseas markets, the Group realigned its market strategies during the year to focus on growing the Mainland China and Southeast Asia markets and satisfactory advancements were made. The Group is confident of taking its business forward in the regions.

Looking to the future, the Group expects competition in the local healthcare product market to remain intense. However, with an established market position and valuable experience in the development and sales of healthcare products, the Group targets to boost sales of its flagship product "Beauty and Healthy" (排毒美顏寶) through a major brand revamp campaign.

Committed to promoting healthier lifestyle among the public, the Group will continue to bring high quality health products to the market. The Group will also look out for opportunities for strategic mergers and acquisitions to accelerate the growth momentum. For markets outside Hong Kong, the Group will expand sales and marketing network in existing markets and identify and seize opportunities in new ones.

### APPRECIATION

On behalf of the Board, I would like to thank the management and our staff for their dedication and unwavering efforts in the past year. I would also like to express my appreciation to our customers, suppliers, business partners and shareholders for their continuous support.

**Chiu Ka Leung**

*Chairman*

Hong Kong, 29 June 2007



# Management Discussion and Analysis

## FINANCIAL RESULTS

For the year ended 31 March 2007, the Group recorded a turnover of HK\$46,563,000 (2006: HK\$57,533,000), representing a 19% decrease year-on-year. Loss for the year attributable to ordinary equity holders was HK\$14,129,000 (2006: HK\$9,881,000). Basic loss per share was HK2.35 cents (2006: HK1.65 cents).

## BUSINESS REVIEW

During the year under review, with many new healthcare products introduced into the market, competition became more intense and players resorted to price cuts as the main combat tactic. Inevitably, the Group's business was adversely affected with turnover down by 19%.

The Group's flagship product, "Beauty and Healthy" (排毒美顏寶), remained the best seller, accounting for 57% of the Group's total turnover (2006: 64%).

In Mainland China, riding on its "Yanta Pai" (雁塔牌) brand, the Group continued to make progress in tapping into the immense pharmaceutical market of the country. Supported by an extensive sales network mainly in Yunnan Province, "Yanta Pai" (雁塔牌) products achieved a turnover of HK\$13,944,000, 7% higher than that of last year and accounting for 30% of the Group's total turnover (2006: 23%). Among the more than 40 licensed "Yanta Pai" (雁塔牌) products, "Chen Xiang Lu Bai Lu Pian" (陳香露白露片), a Chinese gastrointestinal medicine, was the best seller and achieved 37% growth in sales. The sales of "Shangke Qiwei Pian" (傷科七味片) also increased satisfactorily against last year. Other popular "Yanta Pai" (雁塔牌) products included "Pudilan Xiaoyan Pian" (蒲地藍消炎片) and "Wei Kang Ling Jia Nang" (胃康寧膠囊).

In overseas markets, "Beauty and Healthy" (排毒美顏寶) sold well in Southeast Asia as a result of successful direct marketing strategy. Sales growth was particularly evident in Malaysia and Singapore. "Beauty and Healthy" (排毒美顏寶) also sold well in Macau.

To diversify its product offerings, the Group introduced a series of new products during the year. In September 2006, it launched the "Superior Series", including "Superior Lingzhi" (極品靈芝), which enhances the body's immune system, and "Superior Cordyceps" (極品冬蟲夏草), which strengthens the respiratory system and the kidney. The Group also introduced 100% natural and organic herbal teas under the "Tea@Break" (花茶間) brand. These herbal teas included "Slim Tea" (秀身花果茶), "Eye Bright Tea" (明目藍莓茶), "Calm Lavender" (寧靜薰衣草) and "Detox Tea" (排毒美顏茶).

Over the years, the Group's high quality healthcare products have gained wide industry and consumer recognition. In the fiscal year, for the fifth consecutive year, the Group's flagship detox product, "Beauty and Healthy" (排毒美顏寶), won the "Best Detoxification Product Award" (至FIT排毒獎) in the Mannings Health & Beauty Awards and the "Best-selling Detoxification Product – Diamond Award" (最暢銷排毒產品鑽石獎) in the Watson's 7th Healthy & Beauty 2006 Awards. In addition, in the same Watson's awards, the Group's new product, "Superior Cordyceps" (極品冬蟲夏草), won the "Best-selling Cordyceps Product – Silver Award" (最暢銷冬蟲夏草保健產品銀獎). In June 2007, the Group won "PRC Consumer's Most Favourable Hong Kong Brands 2007" (2007全國消費者最喜愛的香港名牌—金獎品牌) awarded by China Enterprise Reputation and Credibility Association (Overseas) Limited.

## Management Discussion and Analysis

### OUTLOOK AND PROSPECTS

To thrive in the mature and competitive local healthcare product market, the Group plans to mount focused brand building and marketing efforts to strengthen market dominance of its flagship product "Beauty and Healthy" (排毒美顏寶). The Group will launch a major brand revamp campaign in the first half of fiscal year ending 31 March 2008, which will include new and more vibrant packaging for the product to boost its appeal to more well-educated consumers. The Group also plans to increase sales coverage by appointing experienced distributors to penetrate the local drug stores.

Furthermore, the Group will step up promotion of the detoxification effects of "Beauty and Healthy" (排毒美顏寶) confirmed in a recent study. In 2005, the Group commissioned a series of scientific studies on the product by the Hong Kong Polytechnic University. Tests conducted on animals have initially found "Beauty and Healthy" (排毒美顏寶) to be effective for reducing toxin levels after administration for 30 consecutive days. It significantly lowered the levels of mercury in the kidney, DDT and arsenic in the blood, and lead in the thighbone. The Group will conduct more studies on the product's detoxification effects.

In Mainland China, building on the success of "Yanta Pai" (雁塔牌) products, the Group intends to expand its sales and marketing network to facilitate tapping into the huge Chinese pharmaceutical market. It will explore the Macau market, as well as other Portuguese-speaking regions, through its wholly-owned subsidiary in Macau. In Southeast Asia, the Group recorded satisfactory sales and expects growth of markets in the region to continue, especially in Malaysia and Singapore. Apart from growing existing markets, the Group will look out for opportunities in other overseas markets.

To diversify its products, the Group will continue to work with tertiary institutions in new product research and development. It will also identify and import proven effective functional healthcare products from overseas to help broaden its revenue base and enhance profit margins.

Committed to promoting healthier lifestyles among the public, the Group disseminates health information through various channels. Its monthly newspaper, Hong Kong Health Journal, is widely distributed for free at hospitals, university, libraries, schools, community centres, selected private and public housing estates. The Group runs a membership club which holds seminars and other activities to promote health consciousness and the value of healthcare products among participants.

Looking ahead, the Group will continue to diversify its product portfolio and look for merger and acquisition opportunities to boost business performance. The Group will enhance its marketing activities to excel in the competitive markets in both Hong Kong and Mainland China.

### LIQUIDITY AND FINANCIAL RESOURCES

The Group has consistently maintained sufficient working capital. As at 31 March 2007, the Group had current assets of HK\$42,886,000 (2006: HK\$55,869,000) and cash and bank balances of HK\$10,739,000 (2006: HK\$14,277,000). The Group's current liabilities as at 31 March 2007 was HK\$18,377,000 (2006: HK\$21,356,000).

As at 31 March 2007, total equity was HK\$69,986,000 (2006: HK\$82,510,000). The Group had interest-bearing bank and other borrowings of HK\$21,786,000 as at 31 March 2007 (2006: HK\$25,713,000). The gearing ratio as at 31 March 2007, being the ratio of total liabilities to total equity, was 50.4% (2006: 48.8%).

# Management Discussion and Analysis

## EMPLOYEES

As at 31 March 2007, the Group had 263 employees (2006: 431 employees).

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

## CONTINGENT LIABILITIES

- (a) As at 31 March 2007, the Group had 1,086 (2006: 8,578) 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 Long Far Healthcare Promotion Centre (established by a subsidiary of the Company) at a discounted price for a period up to 30 June 2007. The coupon holders would be given discounts upon the presentation of the coupons. As at 31 March 2007, the maximum value of these outstanding coupons, subject to redemption, amounted to approximately HK\$54,000 (2006: HK\$429,000).
- (b) On 13 January 2004, Long Far Herbal Medicine Manufacturing (Hong Kong) Limited ("LFHK"), a wholly-owned subsidiary of the Company, filed its oppositions to the Trade Marks Registry of the Intellectual Property Department in Hong Kong to oppose certain trademark applications by a merchant (the "Applicant"). LFHK filed its evidence and the statement of grounds of oppositions on 15 January 2005 and 24 January 2005, respectively. The Applicant filed a counter-statement and an amended counter-statement on 13 April 2004 and 12 February 2005, respectively. The Applicant filed its evidence on 15 September 2005. Application for trial has been filed and a trial will be held at the Trade Marks Registry to determine whether LFHK's oppositions are valid, and estimated further costs of approximately HK\$300,000 will 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\$800,000. As at 31 March 2007, the date of the trial has not been fixed and the Group has not made any provision for such further legal costs subject to the occurrence of the trial.

## EXCHANGE RISK

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

## PLEDGE OF THE GROUP'S ASSETS

As at 31 March 2007, the Group's bank deposits of approximately HK\$357,000 (2006: HK\$4,546,000) and leasehold land and buildings with an aggregate net book value of approximately HK\$35,903,000 (2006: HK\$43,917,000) were pledged to secure banking facilities granted to the Group.



## Biographical Details of Directors and Senior Management

### DIRECTORS

#### Executive Directors

**Mr. Chiu Ka Leung**, aged 43, is the founder, chairman and an executive director of the Company. Mr. Chiu is responsible for the Group's strategic planning and overall management of its business operations. Mr. Chiu graduated from 雲南省楚雄衛生學校 (Yunnan Provincial Chu Xiong Medical School) in the People's Republic of China ("PRC") with a certification in pharmacy in 1985. Mr. Chiu has been engaged in pharmaceutical research for over ten years. Prior to founding the Group, Mr. Chiu worked as a pharmacist in 雲南省紅十字會醫院 (Yunnan Provincial Red Cross Hospital) in PRC for five years. Mr. Chiu was awarded a master's degree in industrial economics by 中國社會科學院研究生院 (Graduate School of Chinese Academy of Social Sciences) in 1998. Mr. Chiu obtained a doctorate degree of management from 中國人民大學 (Renmin University of China) in 2006, and he passed the examination and qualifications for Management Researcher from 雲南省中青年破格晉升高級職務評審委員會 (Evaluation Committee of Young Exceptional Promotion To Senior Positions of Yunnan Province) in the same year. Mr. Chiu is the elder brother of Mr. Jiao Shaoliang (an executive director of the Company) and the brother-in-law of Mr. Lan Daoying (an executive director of the Company). Mr. Chiu is a director and a shareholder (holding 83.781% of the issued shares) of Oriental Chinese Medicines Limited which is currently holding 75% of the issued shares of the Company.

**Ms. Yeh Shu Ping**, aged 60, is the vice-chairman, chief executive officer and an executive director of the Company. She is responsible for the sales, marketing and promotion of the Group's products as well as managing the day-to-day operation of the Group's business. Ms. Yeh worked as a nurse in hospital and clinic in PRC for about ten years. Before joining the Group in 1999, Ms. Yeh was a customer service manager of a hair-rebuild product company in Hong Kong. She has also worked in two health products companies in Hong Kong holding management positions in relation to customer services, sales, marketing and consulting prior to joining the Group. Ms. Yeh has extensive experience in sales and marketing of health supplement products. Ms. Yeh is the mother of Mr. Han Ping, Joseph (the vice-president of the Company). Ms. Yeh is a director and a shareholder (holding 16.219% of the issued shares) of Oriental Chinese Medicines Limited which is currently holding 75% of the issued shares of the Company.

**Mr. Jiao Shaoliang**, aged 33, is an executive director of the Company. Mr. Jiao is responsible for the business development of the Group. Mr. Jiao was awarded a diploma in clinical medicine by 昆明醫學院 (Kunming Medical College) in PRC in 1999 and a master's degree in business administration majoring in international business by the University of La Verne, United States in 2002. Before joining the Group in February 2002, Mr. Jiao has worked as a technician in the department of radiology of 雲南省腫瘤醫院 (Yunnan Provincial Tumor Hospital) in PRC for four years. Mr. Jiao is the younger brother of Mr. Chiu Ka Leung (the chairman of the Company) and the brother-in-law of Mr. Lan Daoying (an executive director of the Company).

**Mr. Lan Daoying**, aged 40, is an executive director of the Company. Mr. Lan is responsible for the production, quality control and research and development of the Group. Mr. Lan was awarded a master of science degree in zoology by 中國科學院昆明動物研究所 (Kunming Institute of Zoology, Chinese Academy of Sciences) in PRC in 1989 and a degree of doctor of philosophy by the University of Liverpool in the United Kingdom in 2001. Before joining the Group in February 2002, Mr. Lan was a research associate at the School of Biological Sciences of the University of Liverpool in the United Kingdom. Mr. Lan has over ten years of experience in academic and research in the field of zoology and biological sciences. Mr. Lan is the brother-in-law of both Mr. Chiu Ka Leung (the chairman of the Company) and Mr. Jiao Shaoliang (an executive director of the Company).

# Biographical Details of Directors and Senior Management

## DIRECTORS *(Continued)*

### Independent non-executive Directors

**Mr. Lam Siu Hung**, aged 48, was appointed as an independent non-executive director of the Company on 30 September 2004. Mr. Lam is presently a practising Certified Public Accountant and is a fellow member of the Association of Chartered Certified Accountants. Mr. Lam is also a member of the Hong Kong Institute of Certified Public Accountants and the Hong Kong Securities Institute. Mr. Lam has over 20 years' experience in accounting, auditing, taxation and corporate finance. With effect from 4 July 2005, Mr. Lam has been appointed as an executive director and deputy managing director of Wing Shan International Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited. On 1 April 2007, Mr. Lam was promoted as the managing director of Wing Shan International Limited.

Mr. Lam had served as an executive director of Wing Shan International Limited in August 1999 and was re-designated as a non-executive director in November 2001 until the resignation of his directorship in February 2003. Mr. Lam had also served as a non-executive director of Wing Shan International Limited in January 2004 until his retirement in May 2004.

**Mr. Guo Guoqing**, aged 44, was appointed as an independent non-executive director of the Company on 22 August 2002. Mr. Guo received his doctorate degree in economics from 中國人民大學 (Zhongguo Renmin University) in 1998. Mr. Guo is currently a professor at 中國人民大學商學院 (Commercial College of Zhongguo Renmin University) and supervisor to doctorate students at 中國人民大學中國市場營銷研究中心 (China Market Research Center of Zhongguo Renmin University). His teaching and research interests are in the areas of marketing management. Mr. Guo retired as an independent non-executive director of Medical China Limited, a company listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, in June 2006.

**Mr. Kwok Hok Lun**, aged 31, was appointed as an independent non-executive director of the Company on 1 October 2006. Mr. Kwok has been an assistant solicitor of a Hong Kong law firm (the "Law Firm") for more than 5 years. He is responsible for the Law Firm's affairs including legal, human resources, administration and communication. Mr. Kwok was admitted as a solicitor in the High Court of the Hong Kong Special Administrative Region in 2001 and is a member of the Law Society of Hong Kong. He obtained his Bachelor of Laws (with Honours) in 1998 and Postgraduate Certificate in Laws in 1999 from City University of Hong Kong. Mr. Kwok's fields of practice mainly focus on property matters, company matters and civil litigation. He has experience in giving legal advice to multinational clients in Hong Kong.

## SENIOR MANAGEMENT

**Mr. Han Ping, Joseph**, aged 37, is the vice-president of the Company. Mr. Han is in charge of marketing and promotion of the Group's products. Mr. Han holds a bachelor degree in business administration with major in finance from the City University of New York, United States. Before joining the Group in February 2001, Mr. Han has extensive experience in sales and marketing of herbal health products in Hong Kong and the United States and worked as a marketing director of a herbal health products company in Hong Kong for four years. Mr. Han is the son of Ms. Yeh Shu Ping (the vice-chairman of the Company).

**Mr. Hui Pang To**, aged 38, is the financial controller, Qualified Accountant and Company Secretary of the Company. Mr. Hui is responsible for the Group's corporate finance and accounting affairs. Mr. Hui is a fellow member of the Association of Chartered Certified Accountants in the United Kingdom and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Hui graduated from the Lingnan College with an honour diploma in Accountancy in 1994 followed by a bachelor degree with honour in business administration in 1997. Before joining the Group in February 1999, Mr. Hui has over ten years of experience in auditing, accounting and finance and worked with an international accounting firm in Hong Kong.

# Corporate Governance Report

The Board is pleased to present this Corporate Governance Report in the Company's annual report for the year ended 31 March 2007.

## **CORPORATE GOVERNANCE PRACTICES OF THE COMPANY**

The Company has always recognised the importance of high standards of corporate governance to sustain healthy growth and has taken a proactive approach in strengthening corporate governance practices in accordance with the needs of its business. The Company is committed to achieving high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability.

The Company has applied the principles as set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules").

In the opinion of the directors, the Company has complied with all the code provisions set out in the CG Code throughout the year ended 31 March 2007.

The Company will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review its corporate governance practices from time to time to ensure they comply with the CG Code and align with the latest developments.

The key corporate governance principles and practices of the Company are summarized as follows:

## **A. DIRECTORS**

### **A.1 The Board**

The Company is headed by an effective Board which assumes responsibility for leadership and control of the Group and is collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs. All directors of the Company take decisions objectively in the interests of the Company.

# Corporate Governance Report

## A. DIRECTORS *(Continued)*

### A.1 The Board *(Continued)*

	<b>Code Provisions as set out in the CG Code</b>	<b>Compliance</b>	<b>Corporate Governance Practices of the Company</b>
A.1.1	The Board should meet regularly at least 4 times a year at approximately quarterly intervals. Such regular Board meetings will normally involve active participation of a majority of directors.	Yes	<ul style="list-style-type: none"> <li>During the year ended 31 March 2007, 6 Board meetings were held, out of which 4 were regular meetings held at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.</li> <li>The directors' attendance at the meetings of the Board and the Board committees during the year ended 31 March 2007 are set out in the following table.</li> </ul>

Details of directors' attendance records at meetings of the Board and the Board committees during the year ended 31 March 2007:

<b>Name of Directors</b>	<b>Attendance/Number of Meetings</b>		
	<b>Board</b>	<b>Remuneration Committee</b>	<b>Audit Committee</b>
Mr. Chiu Ka Leung	5/6	1/1	N/A
Ms. Yeh Shu Ping	5/6	1/1	N/A
Mr. Jiao Shaoliang	4/6	N/A	N/A
Mr. Lan Daoying	0/6	N/A	N/A
Mr. Lam Siu Hung	5/6	1/1	2/2
Mr. Guo Guoqing	1/6	0/1	1/2
Mr. Liu Jian <i>(Note 1)</i>	1/2	N/A	1/1
Mr. Kwok Hok Lun <i>(Note 2)</i>	2/4	1/1	1/1

Notes:

- Mr. Liu Jian resigned as an independent non-executive director of the Company and a member of each of the Audit Committee and Remuneration Committee on 1 October 2006. Before his resignation, there were a total of 2 Board meetings, no Remuneration Committee meeting and 1 Audit Committee meeting held during the year ended 31 March 2007.
- Mr. Kwok Hok Lun was appointed as an independent non-executive director of the Company and a member of each of the Audit Committee and Remuneration Committee on 1 October 2006. Subsequent to his appointment, there were a total of 4 Board meetings, 1 Remuneration Committee meeting and 1 Audit Committee meeting held during the year ended 31 March 2007.

# Corporate Governance Report

## A. DIRECTORS *(Continued)*

### A.1 The Board *(Continued)*

	<b>Code Provisions as set out in the CG Code</b>	<b>Compliance</b>	<b>Corporate Governance Practices of the Company</b>
A.1.2	All directors should be given an opportunity to include matters in the agenda for regular Board meetings.	Yes	<ul style="list-style-type: none"> <li>Annual meeting schedules and draft agenda of each meeting are normally made available to directors in advance and they are given reasonable time to include relevant matters for discussion at the Board meetings.</li> </ul>
A.1.3	At least 14 days notice should be given for regular Board meetings.	Yes	<ul style="list-style-type: none"> <li>Notices of regular Board meetings were served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice was generally given.</li> </ul>
A.1.4	All directors should have access to the advice and services of the Company Secretary with a view to ensuring that Board procedures, and all applicable rules and regulations, are followed.	Yes	<ul style="list-style-type: none"> <li>The Board and each director have separate and independent access to the advice and services of the Company Secretary and the senior management of the Company, whenever necessary.</li> </ul>
A.1.5	Minutes of meetings should be kept by a duly appointed secretary of the meeting and open for inspection by any director.	Yes	<ul style="list-style-type: none"> <li>Minutes of all meetings of the Board and Board committees are kept by the Company Secretary and they are open for directors' inspection at reasonable time upon reasonable notice.</li> </ul>
A.1.6	Minutes should record in sufficient detail the matters considered and decisions reached. Draft and final versions of minutes should be sent to all directors for comment and records within reasonable time after the Board meeting.	Yes	<ul style="list-style-type: none"> <li>Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and the final versions were sent to all directors for records.</li> </ul>
A.1.7	The Board should have an agreed procedure to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the issuer's expense.	Yes	<ul style="list-style-type: none"> <li>Directors are able to seek independent professional advice upon reasonable request, at the Company's expense.</li> </ul>

# Corporate Governance Report

## A. DIRECTORS *(Continued)*

### A.1 The Board *(Continued)*

	<b>Code Provisions as set out in the CG Code</b>	<b>Compliance</b>	<b>Corporate Governance Practices of the Company</b>
A.1.8	Where substantial shareholder or director has conflict of interest in a matter which is considered material, such matter should not be dealt with by way of circulation but a Board meeting with presence of disinterested independent non-executive directors should be held. Any interested director shall abstain from voting and not be counted in quorum.	Yes	<ul style="list-style-type: none"> <li>Any transaction, which involves a conflict of interests for a substantial shareholder or a director and is determined by the Board to be material, will be dealt with by a duly convened Board meeting at which any director who or whose associate(s) has/have a material interest shall abstain from voting and not to be counted in the quorum at such meeting.</li> </ul>

### A.2 Chairman and Chief Executive Officer

There are two key aspects of the management of the Company - the management of the Board and the day-to-day management of the Company's business. There is a clear division of responsibilities at the Company's Board level to ensure a balance of power and authority, so that power is not concentrated in any one individual.

	<b>Code Provisions as set out in the CG Code</b>	<b>Compliance</b>	<b>Corporate Governance Practices of the Company</b>
A.2.1	Roles of Chairman and Chief Executive Officer should be separate and not be performed by the same individual. The division of responsibilities between the Chairman and Chief Executive Officer should be clearly established and set out in writing.	Yes	<ul style="list-style-type: none"> <li>The roles and duties of the Chairman and the Chief Executive Officer of the Company are carried out by different individuals and have been clearly defined in writing.</li> <li>The Chairman of the Board is Mr. Chiu Ka Leung, who provides leadership for the Board and is also responsible for chairing the Board meetings and managing the operations of the Board and ensuring that all major and appropriate issues are discussed by the Board in a timely and constructive manner. The Chief Executive Officer is Ms. Yeh Shu Ping, who is responsible for running the Company's businesses and implementing the Group's strategic plans and business goals.</li> </ul>



# Corporate Governance Report

## A. DIRECTORS *(Continued)*

### A.2 Chairman and Chief Executive Officer *(Continued)*

	<b>Code Provisions as set out in the CG Code</b>	<b>Compliance</b>	<b>Corporate Governance Practices of the Company</b>
A.2.2	The Chairman should ensure that all directors are properly briefed on issues arising at Board meetings.	Yes	<ul style="list-style-type: none"> <li>The Chairman is responsible for ensuring that the directors receive appropriate briefing on issues arising at Board meetings.</li> </ul>
A.2.3	The Chairman should be responsible for ensuring that directors receive adequate information, which must be complete and reliable, in a timely manner.	Yes	<ul style="list-style-type: none"> <li>To facilitate discussion of all key and appropriate issues by the Board in a timely manner, the Chairman co-ordinates with the senior management to supply and provide adequate, complete and reliable information to all directors for consideration and review.</li> </ul>

### A.3 Board composition

The Board has a balance of skills and experience appropriate for the requirements of the business of the Company. The Board includes a balanced composition of executive and independent non-executive directors so that there is a strong independent element on the Board, which can effectively exercise independent judgement.

	<b>Code Provisions as set out in the CG Code</b>	<b>Compliance</b>	<b>Corporate Governance Practices of the Company</b>
A.3.1	Independent non-executive directors should be expressly identified in all corporate communications that disclose the names of directors of the issuer.	Yes	<ul style="list-style-type: none"> <li>The Board currently comprises 7 members, being 4 executive directors and 3 independent non-executive directors.</li> <li>The list of all directors is set out under "Corporate Information" on page 2 in this annual report and the independent non-executive directors are expressly identified in all corporate communications pursuant to the Listing Rules.</li> </ul>

# Corporate Governance Report

## A. DIRECTORS *(Continued)*

### A.3 Board composition *(Continued)*

	<b>Code Provisions as set out in the CG Code</b>	<b>Compliance</b>	<b>Corporate Governance Practices of the Company</b>
A.3.1	Independent non-executive directors should be expressly identified in all corporate communications that disclose the names of directors of the issuer. <i>(Continued)</i>	Yes <i>(Continued)</i>	<ul style="list-style-type: none"> <li>The relationships among the members of the Board are disclosed under "Biographical Details of Directors and Senior Management" on pages 8 and 9 in this annual report.</li> <li>The Company has received written annual confirmations from the three independent non-executive directors respectively for confirming their independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive directors independent in accordance with the independence guidelines set out in the Listing Rules.</li> </ul>

### A.4 Appointments, re-election and removal

There is a formal, considered and transparent procedure for the appointment of new directors to the Board of the Company. There are also plans in place for orderly succession for appointments to the Board. All directors are subject to re-election at regular intervals.

	<b>Code Provisions as set out in the CG Code</b>	<b>Compliance</b>	<b>Corporate Governance Practices of the Company</b>
A.4.1	Non-executive directors should be appointed for a specific term, subject to re-election.	Yes	<ul style="list-style-type: none"> <li>Each of the executive directors of the Company is engaged on a service contract for a term of 2 years.</li> <li>Each of the independent non-executive directors of the Company is appointed for a fixed term of 1 year.</li> </ul>

## Corporate Governance Report

### A. DIRECTORS *(Continued)*

#### A.4 Appointments, re-election and removal *(Continued)*

	Code Provisions as set out in the CG Code	Compliance	Corporate Governance Practices of the Company
A.4.2	All directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.	Yes	<ul style="list-style-type: none"> <li>• In accordance with the Company's Articles of Association, all directors of the Company are subject to retirement by rotation at least once every three years and any new director appointed to fill a casual vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the first general meeting after appointment.</li> <li>• In accordance with the Company's Articles of Association, Mr. Lan Daoying and Mr. Lam Siu Hung shall retire by rotation at the Company's forthcoming 2007 annual general meeting; and Mr. Kwok Hok Lun, who was appointed by the Board to fill the casual vacancy left by the resignation of Mr. Liu Jian on 1 October 2006, shall also retire at the said meeting. The three retiring directors, being eligible, will offer themselves for re-election at the said meeting. The Board recommended the re-appointment of these directors standing for re-election at the said annual general meeting of the Company. The Company's circular, sent together with this annual report, contains detailed information of such directors standing for re-election.</li> <li>• The procedures and process of appointment, re-election and removal of directors are laid down in the Company's Articles of Association. Though the Company has not set up a nomination committee, the Board as a whole is responsible for reviewing the Board structure, monitoring the appointment and nomination and succession planning of directors and assessing the independence of independent non-executive directors.</li> </ul>

# Corporate Governance Report

## A. DIRECTORS *(Continued)*

### A.4 Appointments, re-election and removal *(Continued)*

	<b>Code Provisions as set out in the CG Code</b>	<b>Compliance</b>	<b>Corporate Governance Practices of the Company</b>
A.4.2	All directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. <i>(Continued)</i>	Yes <i>(Continued)</i>	<ul style="list-style-type: none"> <li>The Company has adopted Directors Nomination Procedures as written guidelines in providing formal, considered and transparent procedures to the Board for evaluating and selecting candidates for directorships. Where vacancies on the Board exist, the Board will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations.</li> <li>During the year under review and up to the date of this annual report, the Board met once, with the presence of Mr. Chiu Ka Leung, Ms. Yeh Shu Ping, Mr. Jiao Shaoliang, Mr. Lam Siu Hung and Mr. Kwok Hok Lun, for reviewing the Board structure, assessing the independence of the independent non-executive directors and recommending the re-appointment of the directors standing for re-election at the 2007 annual general meeting of the Company.</li> </ul>

# Corporate Governance Report

## A. DIRECTORS *(Continued)*

### A.5 Responsibilities of directors

Every director is required to keep abreast of his responsibilities as a director of the Company and of its conduct, business activities and development. Given the essential unitary nature of the Board, non-executive directors have the same duties of care and skill and fiduciary duties as executive directors.

	<b>Code Provisions as set out in the CG Code</b>	<b>Compliance</b>	<b>Corporate Governance Practices of the Company</b>
A.5.1	Every newly appointed director of the issuer should receive a comprehensive, formal and tailored induction on his first appointment, and subsequently such briefing and professional development as is necessary.	Yes	<ul style="list-style-type: none"> <li>• Each newly appointed director, including Mr. Kwok Hok Lun who was appointed during the year ended 31 March 2007, receives comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.</li> <li>• Continuing briefings and professional development to directors will be arranged whenever necessary.</li> </ul>
A.5.2	The functions of non-executive directors include (but not limited to): <ul style="list-style-type: none"> <li>• Participating in Board meetings to bring an independent judgement.</li> <li>• Taking the lead where potential conflicts of interests arise.</li> <li>• Serving on Board committees, if invited.</li> <li>• Scrutinising the issuer's performance in achieving agreed corporate goals and objectives, and monitoring the reporting of performance.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>• The non-executive directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through participation in Board/Board committee meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, the non-executive directors make various contributions to the effective direction of the Company.</li> </ul>

# Corporate Governance Report

## A. DIRECTORS *(Continued)*

### A.5 Responsibilities of directors *(Continued)*

	<b>Code Provisions as set out in the CG Code</b>	<b>Compliance</b>	<b>Corporate Governance Practices of the Company</b>
A.5.3	Every director should ensure that he can give sufficient time and attention to the affairs of the issuer.	Yes	<ul style="list-style-type: none"> <li>The directors are aware that they shall give sufficient time and attention to the affairs of the Company.</li> </ul>
A.5.4	<p>Directors must comply with the Model Code set out in the Listing Rules in respect of their dealings in the issuer's securities.</p> <p>The Board should establish written guidelines on no less exacting terms than the Model Code for relevant employees in respect of their dealings in the issuer's securities.</p>	Yes	<ul style="list-style-type: none"> <li>The Company has adopted its own code of conduct regarding directors' dealings in the Company's securities (the "Own Code") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Own Code and the Model Code throughout the year ended 31 March 2007.</li> <li>The Company has also established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.</li> </ul>



## Corporate Governance Report

### A. DIRECTORS *(Continued)*

#### A.6 Supply of information

Directors are provided in a timely manner with appropriate information in such form and of such quality as will enable them to make an informed decision and to discharge their duties and responsibilities as directors of the Company.

	<b>Code Provisions as set out in the CG Code</b>	<b>Compliance</b>	<b>Corporate Governance Practices of the Company</b>
A.6.1	Agenda and full board papers should be sent to all directors at least 3 days before regular Board or Board committee meeting.	Yes	<ul style="list-style-type: none"> <li>Agenda and board papers together with all appropriate, complete and reliable information have been sent to all directors/Board committee members at least 3 days before each Board meeting or committee meeting.</li> </ul>
A.6.2	Management has an obligation to supply the Board and its committees adequate, complete and reliable information in a timely manner to enable them to make informed decisions. The Board and each director should have separate and independent access to the issuer's senior management.	Yes	<ul style="list-style-type: none"> <li>The Chief Executive Officer, Qualified Accountant, and Company Secretary attend all regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.</li> <li>The Board and each director also have separate and independent access to the senior management whenever necessary.</li> </ul>
A.6.3	All directors are entitled to have access to Board papers and related materials for making an informed decision.	Yes	<ul style="list-style-type: none"> <li>Board papers, minutes and relevant materials are available for inspection by directors.</li> </ul>

# Corporate Governance Report

## B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

### B.1 The level and make-up of remuneration and disclosure

The Company should disclose information relating to directors' remuneration policy and other remuneration related matters. There is a formal and transparent procedure for setting policy on executive directors' remuneration and for fixing remuneration packages for all directors. Levels of remuneration are sufficient to attract and retain the directors needed to run the Company successfully. No director should be involved in deciding his own remuneration.

	<b>Code Provisions as set out in the CG Code</b>	<b>Compliance</b>	<b>Corporate Governance Practices of the Company</b>
B.1.1	Issuers should establish a remuneration committee with specific written terms of reference. A majority of the members should be independent non-executive directors.	Yes	<ul style="list-style-type: none"> <li>The Company has established a Remuneration Committee with specific terms of reference. The Remuneration Committee comprises 5 members, namely Mr. Chiu Ka Leung (chairman), Ms. Yeh Shu Ping (vice-chairman), Mr. Lam Siu Hung, Mr. Guo Guoqing and Mr. Kwok Hok Lun, the majority of them are independent non-executive directors.</li> </ul>
B.1.2	The remuneration committee should consult the Chairman and/or Chief Executive Officer about their proposals relating to the remuneration of other executive directors and have access to professional advice if necessary.	Yes	<ul style="list-style-type: none"> <li>The Remuneration Committee held 1 meeting during the year ended 31 March 2007, in which it has recommended the payment of an annual bonus for the year ended 31 March 2007 to the senior management and staff of the Group and has approved the conduction of an annual review by the executive directors on the senior management and staff of the Group for considering the adjustment of their remuneration by reference to their performance, time commitment and responsibilities as well as the prevailing market conditions. The Remuneration Committee has consulted the Chairman and the Chief Executive Officer of the Company about their proposals.</li> <li>The attendance records of the Remuneration Committee's meeting are set out under "Details of directors' attendance records at meetings of the Board and the Board committees during the year ended 31 March 2007" on page 11.</li> </ul>

# Corporate Governance Report

## B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

(Continued)

### B.1 The level and make-up of remuneration and disclosure (Continued)

	<b>Code Provisions as set out in the CG Code</b>	<b>Compliance</b>	<b>Corporate Governance Practices of the Company</b>
B.1.3	<p>Terms of reference of the remuneration committee should include, as a minimum, the following specific duties:</p> <ul style="list-style-type: none"> <li>• To make recommendations to the Board on the issuer's policy and structure for remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing such policy.</li> <li>• To determine the specific remuneration packages of all executive directors and senior management and make recommendations to the Board of the remuneration of non-executive directors.</li> <li>• To review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.</li> <li>• To review and approve the compensation payable to executive directors and senior management in connection with loss or termination of office or appointment.</li> <li>• To review and approve compensation arrangement relating to dismissal or removal of directors for misconduct.</li> <li>• To ensure that no director or any of his associates is involved in deciding his own remuneration.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>• The terms of reference of the Remuneration Committee of the Company adopts the specific duties as set out in code provision B.1.3 of the CG Code.</li> <li>• The roles and functions of the Remuneration Committee are set out in its terms of reference and the primary functions include: (i) making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive directors and the senior management; and (ii) establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, and to facilitate that the remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.</li> </ul>

# Corporate Governance Report

## B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

(Continued)

### B.1 The level and make-up of remuneration and disclosure (Continued)

	<b>Code Provisions as set out in the CG Code</b>	<b>Compliance</b>	<b>Corporate Governance Practices of the Company</b>
B.1.4	The remuneration committee should make available its terms of reference, explaining its role and authority.	Yes	<ul style="list-style-type: none"> <li>The terms of reference of the Remuneration Committee is available on the Company's website "www.longfar.com.hk".</li> </ul>
B.1.5	The remuneration committee should be provided with sufficient resources to discharge its duties.	Yes	<ul style="list-style-type: none"> <li>The Remuneration Committee has separate and independent access to the advice and services of the senior management of the Company, and is able to seek independent professional advice at the Company's expense upon reasonable request.</li> </ul>

## C. ACCOUNTABILITY AND AUDIT

### C.1 Financial reporting

The Board should present a balanced, clear and comprehensible assessment of the Company's performance, position and prospects.

	<b>Code Provisions as set out in the CG Code</b>	<b>Compliance</b>	<b>Corporate Governance Practices of the Company</b>
C.1.1	Management should provide such explanation and information to the Board as will enable the Board to make an informed assessment of the financial and other information put before the Board for approval.	Yes	<ul style="list-style-type: none"> <li>The senior management provides explanation and information to the Board so as to enable the Board to make an informed assessment of the financial information and position of the Company put to the Board for approval.</li> </ul>

## Corporate Governance Report

### C. ACCOUNTABILITY AND AUDIT *(Continued)*

#### C.1 Financial reporting *(Continued)*

	<b>Code Provisions as set out in the CG Code</b>	<b>Compliance</b>	<b>Corporate Governance Practices of the Company</b>												
C.1.2	The directors should acknowledge in the Corporate Governance Report their responsibility for preparing the accounts. There should be a statement by the auditors about their reporting responsibilities in the auditors' report on the financial statements.	Yes	<ul style="list-style-type: none"> <li>The directors have acknowledged their responsibility for preparing the financial statements of the Company for the year ended 31 March 2007.</li> <li>The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditors' Report" on pages 42 and 43 in this annual report.</li> <li>The remuneration paid to the Company's auditors, Messrs Ernst &amp; Young, is set out below: <table border="1" style="margin-left: 20px;"> <thead> <tr> <th style="text-align: left;"><u>Category of services</u></th> <th style="text-align: right;"><u>Fee paid/payable</u></th> </tr> </thead> <tbody> <tr> <td>Audit service for the year ended 31 March 2007</td> <td style="text-align: right;">HK\$700,000</td> </tr> <tr> <td>Non-audit service</td> <td></td> </tr> <tr> <td>– Taxation</td> <td style="text-align: right;">HK\$74,700</td> </tr> <tr> <td>– Interim review</td> <td style="text-align: right;">HK\$120,000</td> </tr> <tr> <td><b>Total</b></td> <td style="text-align: right;"><b>HK\$894,700</b></td> </tr> </tbody> </table> </li> </ul>	<u>Category of services</u>	<u>Fee paid/payable</u>	Audit service for the year ended 31 March 2007	HK\$700,000	Non-audit service		– Taxation	HK\$74,700	– Interim review	HK\$120,000	<b>Total</b>	<b>HK\$894,700</b>
<u>Category of services</u>	<u>Fee paid/payable</u>														
Audit service for the year ended 31 March 2007	HK\$700,000														
Non-audit service															
– Taxation	HK\$74,700														
– Interim review	HK\$120,000														
<b>Total</b>	<b>HK\$894,700</b>														
C.1.3	The Board's responsibility to present a balanced, clear and understandable assessment extends to annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements.	Yes	<ul style="list-style-type: none"> <li>The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.</li> </ul>												

# Corporate Governance Report

## C. ACCOUNTABILITY AND AUDIT *(Continued)*

### C.2 Internal controls

The Board should ensure that the Company maintains sound and effective internal controls to safeguard the shareholders' investment and the Company's assets.

	<b>Code Provisions as set out in the CG Code</b>	<b>Compliance</b>	<b>Corporate Governance Practices of the Company</b>
C.2.1	Directors should at least annually review the effectiveness of internal control system (including financial, operational and compliance controls and risk management functions) of the issuer and its subsidiaries and report to shareholders that they have done so in the Corporate Governance Report.	Yes	<ul style="list-style-type: none"> <li>During the year under review, the Board has conducted a review of effectiveness of the internal control system of the Company.</li> <li>The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group.</li> </ul>

### C.3 Audit Committee

The Board should establish formal and transparent arrangements for considering how it will apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the auditors. An Audit Committee has been established by the Company pursuant to the Listing Rules with clear terms of reference.

	<b>Code Provisions as set out in the CG Code</b>	<b>Compliance</b>	<b>Corporate Governance Practices of the Company</b>
C.3.1	Full minutes of meetings of the audit committee should be kept by a duly appointed secretary of the meeting and the draft and final versions of minutes should be sent to all members for comment and records within a reasonable time after the meeting.	Yes	<ul style="list-style-type: none"> <li>Draft minutes of the Audit Committee meetings of the Company were sent to all members for comment and records within a reasonable time after the meetings. Full minutes are kept by the Company Secretary.</li> </ul>



## Corporate Governance Report

### C. ACCOUNTABILITY AND AUDIT *(Continued)*

#### C.3 Audit Committee *(Continued)*

	<b>Code Provisions as set out in the CG Code</b>	<b>Compliance</b>	<b>Corporate Governance Practices of the Company</b>
C.3.2	A former partner of the issuer's existing auditing firm shall be prohibited from acting as a member of the audit committee for a period of 1 year commencing from the date of his ceasing (1) to be a partner of or (2) to have any financial interest in, that auditing firm, whichever is the later.	Yes	<ul style="list-style-type: none"> <li>The Audit Committee comprises 3 independent non-executive directors, namely Mr. Lam Siu Hung (chairman), Mr. Guo Guoqing and Mr. Kwok Hok Lun, with one independent non-executive director (Mr. Lam Siu Hung) possessing the appropriate professional qualifications and accounting and related financial management expertise. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.</li> </ul>
C.3.3	<p>Terms of reference of the audit committee should include at least the following duties:</p> <ul style="list-style-type: none"> <li>Review the relationship with external auditors including the making of recommendations to the Board on their appointment, re-appointment and removal, approving their remuneration and terms of engagement, reviewing and monitoring their independence; and developing and implementing policy on the engagement of the external auditors to supply non-audit services.</li> <li>Review of financial information of the issuer.</li> <li>Oversight of the issuer's financial reporting system and internal control procedures.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The terms of reference of the Audit Committee adopts the specific duties as set out in code provision C.3.3 of the CG Code.</li> <li>The roles and functions of the Audit Committee are set out in its terms of reference and the primary functions include: (i) reviewing the financial statements and reports and consider any significant or unusual items raised by the Qualified Accountant or external auditors before submission to the Board; (ii) reviewing the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and making recommendation to the Board on the appointment, re-appointment and removal of external auditors; and (iii) reviewing the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.</li> </ul>

## Corporate Governance Report

### C. ACCOUNTABILITY AND AUDIT *(Continued)*

#### C.3 Audit Committee *(Continued)*

	<b>Code Provisions as set out in the CG Code</b>	<b>Compliance</b>	<b>Corporate Governance Practices of the Company</b>
C.3.4	The audit committee should make available its terms of reference, explaining its role and authority.	Yes	<ul style="list-style-type: none"> <li>The terms of reference of the Audit Committee is available on the Company's website "www.longfar.com.hk".</li> </ul>
C.3.5	Where the Board disagrees with the audit committee on the selection, appointment, resignation or dismissal of the external auditors, the issuer should include in the Corporate Governance Report a statement from the audit committee explaining its recommendation and also the reason(s) why the Board has taken a different view.	Yes	<ul style="list-style-type: none"> <li>The Audit Committee held 2 meetings during the year ended 31 March 2007 and has reviewed the Group's annual results and report for the year ended 31 March 2006, interim results and report for the six months ended 30 September 2006, the financial reporting and compliance procedures, the report from the management on the Company's internal control and risk management review and processes and the re-appointment of the external auditors.</li> <li>There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.</li> <li>The attendance records of the Audit Committee's meetings are set out under "Details of directors' attendance records at meetings of the Board and the Board committees during the year ended 31 March 2007" on page 11.</li> </ul>
C.3.6	The audit committee should be provided with sufficient resources to discharge its duties.	Yes	<ul style="list-style-type: none"> <li>The Audit Committee has separate and independent access to the advice and services of the senior management of the Company, and are able to seek independent professional advice at the Company's expense upon reasonable request.</li> </ul>

# Corporate Governance Report

## D. DELEGATION BY THE BOARD

### D.1 Management functions

There is a formal schedule of matters specifically reserved to the Board for decision. Clear directions have been given by the Board to management as to the matters that must be approved by the Board before decisions are made on behalf of the Company.

	<b>Code Provisions as set out in the CG Code</b>	<b>Compliance</b>	<b>Corporate Governance Practices of the Company</b>
D.1.1	The Board should give clear directions to the management as to their powers of management, and circumstances where management should report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the issuer.	Yes	<ul style="list-style-type: none"> <li>The organization structure clearly defines the responsibilities and authority of each divisional function. The management is responsible for the day-to-day management, administration and operation of the Company, and shall report to the directors on the progress and operations regularly and obtain prior approval from the Board in respect of any significant transactions.</li> </ul>
D.1.2	An issuer should formalize functions reserved to the Board and those delegated to management, and should conduct periodic review to ensure that those arrangements remain appropriate to the needs of the issuer.	Yes	<ul style="list-style-type: none"> <li>The Board reserves for its decisions all major matters of the Company, including: the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.</li> <li>The Board has delegated a schedule of responsibilities to the senior management of the Company. These responsibilities include the implementation of decisions of the Board, the co-ordination and direction of day-to-day operation and management of the Company in accordance with the management strategies and plans approved by the Board, formulating and monitoring the production and operating plans and budgets, and supervising and monitoring the controls systems.</li> </ul>

# Corporate Governance Report

## D. DELEGATION BY THE BOARD *(Continued)*

### D.2 Board Committees

Board committees should be formed with specific written terms of reference which deal clearly with the committees' authority and duties.

	<b>Code Provisions as set out in the CG Code</b>	<b>Compliance</b>	<b>Corporate Governance Practices of the Company</b>
D.2.1	Where Board committees are established, the Board should prescribe sufficiently clear terms of reference to enable such committees to discharge their functions properly.	Yes	<ul style="list-style-type: none"> <li>The Board has established 3 committees, namely the Remuneration Committee, the Audit Committee and the Executive Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference.</li> </ul>
D.2.2	The terms of reference of Board committees should require such committees to report back to the Board on their decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements).	Yes	<ul style="list-style-type: none"> <li>All Board committees shall report to the Board on their work, findings, recommendations and decisions pursuant to their terms of reference. The terms of reference are available on the Company's website "www.longfar.com.hk".</li> </ul>

## E. COMMUNICATION WITH SHAREHOLDERS

### E.1 Effective communication

The Board should endeavour to maintain an on-going dialogue with shareholders and in particular, use annual general meeting or other general meetings to communicate with shareholders and encourage their participation.

	<b>Code Provisions as set out in the CG Code</b>	<b>Compliance</b>	<b>Corporate Governance Practices of the Company</b>
E.1.1	A separate resolution for each substantially separate issue at a general meeting should be proposed by the Chairman of that meeting.	Yes	<ul style="list-style-type: none"> <li>To safeguard the shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors.</li> </ul>

## Corporate Governance Report

### E. COMMUNICATION WITH SHAREHOLDERS *(Continued)*

#### E.1 Effective communication *(Continued)*

	<b>Code Provisions as set out in the CG Code</b>	<b>Compliance</b>	<b>Corporate Governance Practices of the Company</b>
E.1.2	The Chairman of the Board, and Chairmen of the audit, remuneration and nomination committees (as appropriate) (or in their absence, their delegates) should attend the annual general meeting. The Chairman of the independent Board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval.	Yes	<ul style="list-style-type: none"> <li>The general meetings of the Company provide a forum for communication between the Board and the shareholders.</li> <li>The Chairman of the Board as well as chairmen of the Remuneration Committee and Audit Committee attended the 2006 Annual General Meeting.</li> <li>To promote effective communication, the Company maintains a website at "www.longfar.com.hk", where information on the Company's business developments and operations, financial information and other information are available for public access. Investors may write directly to the Company's principal place of business at 14/F, Tower One, Ever Gain Plaza, No. 88 Container Port Road, Kwai Chung, New Territories, Hong Kong for any inquiries.</li> </ul>

#### E.2 Voting by Poll

The Company regularly informs the shareholders of the procedure for voting by poll and ensure compliance with the requirements about voting by poll contained in the Listing Rules and the constitutional documents of the Company.

	<b>Code Provisions as set out in the CG Code</b>	<b>Compliance</b>	<b>Corporate Governance Practices of the Company</b>
E.2.1	The procedures for and the rights of shareholders to demand a poll should be disclosed in circulars.	Yes	<ul style="list-style-type: none"> <li>The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's Articles of Association. Details of such rights to demand a poll are included in all circulars to shareholders and will be explained during the proceedings of meetings.</li> </ul>

## Corporate Governance Report

### E. COMMUNICATION WITH SHAREHOLDERS *(Continued)*

#### E.2 Voting by Poll *(Continued)*

	<b>Code Provisions as set out in the CG Code</b>	<b>Compliance</b>	<b>Corporate Governance Practices of the Company</b>
E.2.2	Except where a poll is required, the issuer should count all proxy votes and indicate to the meeting the level of proxies lodged on each resolution, and the balance for and against the resolution, after it has been dealt with on a show of hands. The issuer should ensure that votes cast are properly counted and recorded.	Yes	<ul style="list-style-type: none"> <li>• Scrutineer would be appointed to ensure all votes cast on resolutions at the shareholders' meetings are properly counted and recorded.</li> <li>• Where poll voting is conducted, the poll voting results will be posted on the websites of the Company and the Stock Exchange after the shareholders' meeting.</li> </ul>
E.2.3	The Chairman of a meeting should at the commencement of the meeting provide an explanation of the procedures for demanding a poll by shareholders and for conducting a poll.	Yes	<ul style="list-style-type: none"> <li>• Whenever voting by way of a poll is required, the detailed procedures for conducting a poll will be explained at the relevant meeting.</li> </ul>

## Report of the Directors

The directors of the Company present their report and the audited financial statements of the Company and the Group for the year ended 31 March 2007.

### **PRINCIPAL ACTIVITIES**

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 15 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

### **RESULTS AND DIVIDENDS**

The Group's loss for the year ended 31 March 2007 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 44 to 86.

The directors do not recommend the payment of any dividend in respect of the year (2006: Nil).

### **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Wednesday, 15 August 2007 to Monday, 20 August 2007 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for attending and voting at the annual general meeting of the Company to be held on Monday, 20 August 2007, unregistered holders of shares of the Company should ensure that all transfers of shares of the Company accompanied by the relevant share certificates and appropriate transfer forms must be lodged with the Company's Share Registrar in Hong Kong, Tengis Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 14 August 2007.

## Report of the Directors

### SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out below.

#### RESULTS

	Year ended 31 March				
	2007 HK\$'000	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000
REVENUE	46,563	57,533	77,070	60,569	91,195
(LOSS)/PROFIT BEFORE TAX	(14,129)	(9,886)	5,707	4,662	18,356
Tax	–	5	(974)	(1,350)	(2,805)
(LOSS)/PROFIT FOR THE YEAR ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	(14,129)	(9,881)	4,733	3,312	15,551

#### ASSETS AND LIABILITIES

	As at 31 March				
	2007 HK\$'000	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000
TOTAL ASSETS	105,242	122,780	105,722	102,270	92,821
TOTAL LIABILITIES	(35,256)	(40,270)	(14,303)	(15,573)	(7,581)
	69,986	82,510	91,419	86,697	85,240

### PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

Details of movements in the property, plant and equipment, and investment property of the Group during the year are set out in notes 12 and 14 to the financial statements, respectively.

### SHARE CAPITAL AND SHARE OPTIONS

There were no movements in the Company's authorised or issued share capital and share options during the year.



## Report of the Directors

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

### 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 year.

### RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 27 to the financial statements and in the consolidated statement of changes in equity, respectively.

### DISTRIBUTABLE RESERVES

At 31 March 2007, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to HK\$41,850,000.

### CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$38,400.

### MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 72% of the total sales for the year and sales to the largest customer included therein amounted to approximately 29%. Purchases from the Group's five largest suppliers accounted for approximately 61% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 46%.

Mr. Chiu Ka Leung, who is a director of the Company and has an attributable interest of 62.84% in the Company's share capital, had beneficial interest in one of the five largest suppliers which accounted for approximately 46% of the total purchases of the Group.

Save as disclosed above, none of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

# Report of the Directors

## DIRECTORS

The directors of the Company during the year were:

### Executive directors:

Mr. Chiu Ka Leung, *Chairman*  
Ms. Yeh Shu Ping, *Vice-Chairman and Chief Executive Officer*  
Mr. Jiao Shaoliang  
Mr. Lan Daoying

### Independent non-executive directors:

Mr. Lam Siu Hung  
Mr. Guo Guoqing  
Mr. Kwok Hok Lun *(appointed on 1 October 2006)*  
Mr. Liu Jian *(resigned on 1 October 2006)*

In accordance with article 86(3) of the Company's articles of association, Mr. Kwok Hok Lun, who was appointed by the Board during the year, will retire at the Company's forthcoming annual general meeting. In addition, pursuant to article 87 of the Company's articles of association, Mr. Lan Daoying and Mr. Lam Siu Hung will also retire as directors of the Company by rotation at the forthcoming annual general meeting. The above retiring directors, being eligible, will offer themselves for re-election at the Company's forthcoming annual general meeting.

The Company has received annual confirmations of independence from each of Mr. Lam Siu Hung, Mr. Guo Guoqing and Mr. Kwok Hok Lun and considers that they meet the requirements of the independence guidelines as set out in Rule 3.13 of the Listing Rules on the Stock Exchange.

## DIRECTORS' SERVICE CONTRACTS

Each of the executive directors of the Company has entered into a service contract with the Company for an initial term of 2 years commencing on 1 January 2007 and is subject to termination by either party giving not less than three months' prior notice in writing. The executive directors are also subject to retirement by rotation in accordance with the articles of association of the Company.

The independent non-executive directors of the Company have been appointed for a fixed term of about one year and are subject to retirement by rotation in accordance with the articles of association of the Company.

Apart from the foregoing, no director proposed for re-election at the Company's forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

## Report of the Directors

### DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

### DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 32 to the financial statements and in the section headed "Connected transactions", no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

### MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 March 2007, the interests of the directors and chief executive 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 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 were as follows:

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

Name of director	Nature of interests	Number of ordinary shares held/interested (Note 3)
Mr. Chiu Ka Leung	Interests held by a controlled corporation (Note 1)	450,000,000 (L) (Note 2)

## Report of the Directors

### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(Continued)*

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

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.
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 31 March 2007 were as follows:

Name of director	Nature of interests	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 financial year is the same.

## Report of the Directors

### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(Continued)*

#### (B) 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) 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.

Save as disclosed above, as at 31 March 2007, none of the directors or chief executive of the Company had registered an interest or 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.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share option scheme disclosure in note 26 to the financial statements, at no time during the year were there any rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were there any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## Report of the Directors

### SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

At 31 March 2007, 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:*

1. 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 executive's 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 been disclosed as Mr. Chiu Ka Leung's interest in the above section headed "Directors' and chief executive's interests and short positions in shares and underlying shares".
3. The letter "L" denotes a long position in the shares.

Save as disclosed above, as at 31 March 2007, no person, other than the directors of the Company, whose interests are set out in the section "Directors' and chief executive's 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.

### CONNECTED TRANSACTIONS

During the year under review, the Group had the following continuing connected transactions:

Under the manufacturing agreement entered into between LFHK and 雲南盤龍雲海藥業有限公司 (Yunnan Panlong Yunhai Pharmaceutical Company Limited) ("YPYP") on 9 August 2005, YPYP is responsible for the manufacturing of "Beauty and Healthy" (排毒美顏寶) and the provision of various raw materials required for such manufacturing (the "YPYP Transactions") for a term up to 31 March 2008. LFHK is a wholly-owned subsidiary of the Company and YPYP is a company incorporated with limited liabilities in PRC whose registered capital is held as to 51% by Mr. Chiu Ka Leung, the Chairman and an executive director who is also a controlling shareholder of the Company. Thus YPYP, being an associate of Mr. Chiu Ka Leung, is a connected person of the Company.

## Report of the Directors

### CONNECTED TRANSACTIONS *(Continued)*

Under the YPYP Transactions, YPYP charges a fee per capsule which is inclusive of the costs of raw material purchases, processing fees, export inspection fees and transportation fees of the finished capsules. The basis of the determination of the fee per capsule under the YPYP Transactions is with reference to the prevailing cost of production, and the fees are subject to revision by mutual agreement from time to time.

The maximum amount of fees payable to YPYP arising from the YPYP Transactions approved by the shareholders of the Company at the extraordinary general meeting of the Company held on 10 October 2005 for each of the three financial years ended/ending 31 March 2006, 2007 and 2008 were HK\$20,165,000, HK\$23,189,750 and HK\$26,668,213 respectively. For the year ended 31 March 2007, the amount of fees paid to YPYP under the YPYP Transactions amounted to HK\$4,896,000 which was within the above maximum amount of HK\$23,189,750.

The independent non-executive directors of the Company have reviewed the YPYP Transactions for the year ended 31 March 2007 and confirmed that the YPYP Transactions had been:

- a) entered into by the Group in its ordinary and usual course of business;
- b) entered into by the Group on normal commercial terms (to the extent that there were comparable transactions) or, where there were not sufficient comparable transactions to judge whether they were on normal commercial terms, on terms not less favourable to the Group than those available to or from (as appropriate) independent third parties; and
- c) entered into on terms that were fair and reasonable and in the interests of the independent shareholders of the Company as a whole.

Messrs Ernst & Young, the Company's auditors, have also reviewed, on a test basis, the YPYP Transactions for the year ended 31 March 2007 and provided a letter to the Board confirming that:

- a) the YPYP Transactions had received the approval of the Board;
- b) the YPYP Transactions had been entered into in accordance with the relevant agreement governing the YPYP Transactions; and
- c) the aggregate fee charged by YPYP under the YPYP Transactions during the year had not exceeded the limit stated above.

### DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, the following director is considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules, as set out below:

Mr. Chiu Ka Leung has controlling interests in YPYP which is principally engaged in the development, manufacture and distribution of Chinese pharmaceutical products in PRC.

One of the products of YPYP named "Health & Beauty InnerPure Capsules" (排毒養顏膠囊) was developed by YPYP which obtained approvals from the relevant authorities in PRC for its manufacture in 1995. "Health & Beauty InnerPure Capsules" (排毒養顏膠囊) is targeted to improve conditions such as constipation, hypertension, insomnia, abdominal swelling, overweight, skin pigmentation as well as to tonify the functions of the spleen and kidney.

## Report of the Directors

### **DIRECTORS' INTERESTS IN A COMPETING BUSINESS** *(Continued)*

Although containing a different medicinal formula to that of the Group's "Beauty and Healthy" (排毒美顏寶), the symptoms which are targeted by both "Beauty and Healthy" (排毒美顏寶) and "Health & Beauty InnerPure Capsules" (排毒養顏膠囊), to improve conditions such as constipation, abdominal swelling, overweight, skin pigmentation as well as to tonify the functions of the spleen and kidney, are similar. There is a possibility that "Health & Beauty InnerPure Capsules" (排毒養顏膠囊) can be used as a substitute for "Beauty and Healthy" (排毒美顏寶) for such conditions.

As at 31 March 2007, YPYP had only distributed "Health & Beauty InnerPure Capsules" (排毒養顏膠囊) in Mainland China since its launching in 1995 while the Group distributed "Beauty and Healthy" (排毒美顏寶) under the Group's brand name of 「龍發製藥」(Long Far) in Hong Kong, Southeast Asia and other Asian regions outside PRC, and the directors of the Company consider that the operations of YPYP will not affect the Group's business.

Save as disclosed herein, the directors of the Company confirm that none of the existing products of YPYP is or may be in direct or indirect competition with the Group's products.

### **PUBLIC FLOAT**

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

### **AUDITORS**

Messrs Ernst & Young will retire and a resolution for their reappointment as auditors of the Company will be proposed at the Company's forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**Chiu Ka Leung**

*Chairman*

Hong Kong  
29 June 2007



## Independent Auditors' Report



To the shareholders of  
**Long Far Pharmaceutical Holdings Limited**  
*(Incorporated in the Cayman Islands with limited liability)*

We have audited the financial statements of Long Far Pharmaceutical Holdings Limited set out on pages 44 to 86, which comprise the consolidated and company balance sheets as at 31 March 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### **DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **AUDITORS' RESPONSIBILITY**

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Independent Auditors' Report *(Continued)*

### **OPINION**

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2007 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

#### **Ernst & Young**

*Certified Public Accountants*

18th Floor, Two International Finance Centre  
8 Finance Street, Central  
Hong Kong

29 June 2007

## Consolidated Income Statement

Year ended 31 March 2007

	<i>Notes</i>	2007 HK\$'000	2006 HK\$'000
REVENUE	4	46,563	57,533
Cost of sales		(19,161)	(18,838)
Gross profit		27,402	38,695
Other income and gains	4	2,113	4,043
Selling and distribution costs		(17,556)	(24,063)
Administrative expenses		(24,006)	(26,367)
Other expenses		(815)	(1,150)
Finance costs	6	(1,267)	(1,044)
LOSS BEFORE TAX	5	(14,129)	(9,886)
Tax	9	–	5
LOSS FOR THE YEAR ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	10	(14,129)	(9,881)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	11		
Basic		(HK2.35 cents)	(HK1.65 cents)
Diluted		N/A	N/A

# Consolidated Balance Sheet

31 March 2007

	Notes	2007 HK\$'000	2006 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	12	39,154	43,775
Prepaid land lease payments	13	22,576	22,858
Investment property	14	386	–
Deferred tax assets	24	240	240
Deposit for acquisition of items of property, plant and equipment		–	38
<b>Total non-current assets</b>		<b>62,356</b>	66,911
<b>CURRENT ASSETS</b>			
Inventories	16	11,629	14,356
Trade and bills receivables	17	14,833	18,257
Prepayments, deposits and other receivables		1,795	3,881
Financial assets at fair value through profit or loss	18	3,533	520
Tax recoverable		–	32
Pledged deposits	19	357	4,546
Cash and cash equivalents	19	10,739	14,277
<b>Total current assets</b>		<b>42,886</b>	55,869
<b>CURRENT LIABILITIES</b>			
Trade payables	20	2,168	4,837
Other payables and accruals		8,959	9,429
Interest-bearing bank and other borrowings	21	5,077	6,969
Due to a related company	23	2,020	–
Due to a director	23	153	121
<b>Total current liabilities</b>		<b>18,377</b>	21,356
<b>NET CURRENT ASSETS</b>		<b>24,509</b>	34,513
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>86,865</b>	101,424
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings	21	16,709	18,744
Deferred tax liabilities	24	170	170
<b>Total non-current liabilities</b>		<b>16,879</b>	18,914
<b>Net assets</b>		<b>69,986</b>	82,510
<b>EQUITY</b>			
Issued capital	25	30,000	30,000
Reserves	27(a)	39,986	52,510
<b>Total equity</b>		<b>69,986</b>	82,510

Yeh Shu Ping  
Director

Jiao Shaoliang  
Director

## Consolidated Statement of Changes in Equity

Year ended 31 March 2007

	Issued capital HK\$'000	Share premium account HK\$'000	Contributed surplus HK\$'000 <i>(Note 27(a))</i>	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total equity HK\$'000
At 1 April 2005	30,000	8,720	300	134	52,265	91,419
Exchange realignment and total income for the year recognised directly in equity	–	–	–	972	–	972
Loss for the year	–	–	–	–	(9,881)	(9,881)
At 31 March 2006 and 1 April 2006	30,000	8,720	300	1,106	42,384	82,510
Exchange realignment and total income for the year recognised directly in equity	–	–	–	1,605	–	1,605
Loss for the year	–	–	–	–	(14,129)	(14,129)
At 31 March 2007	30,000	8,720*	300*	2,711*	28,255*	69,986

\* These reserve accounts comprise the consolidated reserves of HK\$39,986,000 (2006: HK\$52,510,000) in the consolidated balance sheet.

## Consolidated Cash Flow Statement

Year ended 31 March 2007

	Notes	2007 HK\$'000	2006 HK\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before tax		(14,129)	(9,886)
Adjustments for:			
Dividend income from listed investments	4	(16)	(59)
Finance costs	6	1,267	1,044
Interest income	4	(566)	(399)
Fair value gain for financial assets at fair value through profit or loss	5	(93)	(68)
Depreciation	5	6,455	6,189
Recognition of prepaid land lease payments	5	558	551
Loss/(gain) on disposal of items of property, plant and equipment, net	5	114	(2,713)
Goodwill impairment	5	–	1,093
Impairment of trade receivables	5	630	–
Write-down of inventories to net realisable value	5	1,179	314
		<b>(4,601)</b>	<b>(3,934)</b>
Decrease/(increase) in inventories		1,548	(5,916)
Decrease in trade and bills receivables		2,794	553
Decrease/(increase) in prepayments, deposits and other receivables		2,087	(452)
Increase in amount due to a director		32	20
Increase/(decrease) in trade payables		(2,669)	1,474
Decrease in other payables and accruals		(470)	(720)
Cash used in operations		(1,279)	(8,975)
Hong Kong profits tax refunded/(paid)		32	(41)
Net cash outflow from operating activities		<b>(1,247)</b>	<b>(9,016)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Deposit for acquisition of items of property, plant and equipment		–	(38)
Interest received		566	399
Purchases of items of property, plant and equipment		(890)	(16,692)
Purchase of investment property		(386)	–
Decrease/(increase) in pledged time deposits		4,189	(134)
Proceeds from disposal of items of property, plant and equipment		94	7,973
Prepaid land lease payments		–	(18,609)
Purchases of financial assets at fair value through profit or loss		(4,039)	(7,334)
Proceeds from disposal of financial assets at fair value through profit or loss		1,119	8,661
Dividend received from listed investments		16	59
Net cash inflow/(outflow) from investing activities		<b>669</b>	<b>(25,715)</b>

## Consolidated Cash Flow Statement *(Continued)*

Year ended 31 March 2007

	<i>Notes</i>	2007 HK\$'000	2006 HK\$'000
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Capital element of finance lease rental payments		(343)	(267)
New bank loans		3,031	32,117
Repayment of bank loans		(6,615)	(6,974)
Advance from a related company		4,040	–
Repayment of amount due to a related company		(2,020)	–
Interest paid		(1,267)	(1,044)
<b>Net cash inflow/(outflow) from financing activities</b>		<b>(3,174)</b>	23,832
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at beginning of year		14,277	25,793
Effect of initial adoption of HKAS 39		–	(780)
Effect of foreign exchange rate changes, net		214	163
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>10,739</b>	14,277
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	19	10,649	13,412
Non-pledged time deposits with original maturity of less than three months when acquired	19	90	865
		<b>10,739</b>	14,277

## Balance Sheet

31 March 2007

	<i>Notes</i>	2007 HK\$'000	2006 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Investments in subsidiaries	<i>15</i>	<b>20,712</b>	29,912
<b>CURRENT ASSETS</b>			
Due from subsidiaries	<i>15</i>	<b>50,759</b>	51,042
Other receivables		<b>137</b>	–
Cash and cash equivalents	<i>19</i>	<b>258</b>	230
Total current assets		<b>51,154</b>	51,272
<b>CURRENT LIABILITIES</b>			
Other payables and accruals		<b>16</b>	140
<b>NET CURRENT ASSETS</b>			
Net assets		<b>71,850</b>	81,044
<b>EQUITY</b>			
Issued capital	<i>25</i>	<b>30,000</b>	30,000
Reserves	<i>27(b)</i>	<b>41,850</b>	51,044
Total equity		<b>71,850</b>	81,044

Yeh Shu Ping  
Director

Jiao Shaoliang  
Director



# Notes to Financial Statements

31 March 2007

## 1. CORPORATE INFORMATION

Long Far Pharmaceutical Holdings Limited is a limited liability company incorporated in the Cayman Islands. During the year, the Group was involved in the trading, manufacture and distribution of pharmaceutical products.

In the opinion of the directors, the parent and ultimate holding company of the Company is Oriental Chinese Medicines Limited, which is incorporated in the British Virgin Islands and owned as to 83.781% and 16.219% by Mr. Chiu Ka Leung, the Chairman of the Board, and Ms. Yeh Shu Ping, Vice-Chairman of the Board, respectively.

## 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss and an investment property, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2007. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

## 2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

# Notes to Financial Statements

31 March 2007

## 2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

The principal changes in accounting policies are as follows:

### (a) HKAS 21 The Effects of Changes in Foreign Exchange Rates

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 March 2007 or 31 March 2006.

### (b) HKAS 39 Financial Instruments: Recognition and Measurement

#### (i) *Amendment for financial guarantee contracts*

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*. The adoption of this amendment has had no material impact on these financial statements.

#### (ii) *Amendment for the fair value option*

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on these financial statements.

#### (iii) *Amendment for cash flow hedge accounting of forecast intragroup transactions*

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

### (c) HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease

The Group has adopted this interpretation as of 1 April 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

## Notes to Financial Statements

31 March 2007

### 2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objectives, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group's major customers. This standard will supersede HKAS 14 *Segment Reporting*.

HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11 and HK(IFRIC)-Int 12 shall be applied for annual periods beginning on or after 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment, HKFRS 7 and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

# Notes to Financial Statements

31 March 2007

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

### Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 Segment Reporting.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

# Notes to Financial Statements

31 March 2007

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Related parties

A party is considered to be related to the Group if:

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

### Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

# Notes to Financial Statements

31 March 2007

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	5%
Leasehold improvements	Over the shorter of the lease terms and 20%
Furniture, fixtures and office equipment	20%
Computer equipment	20%
Plant and machinery	30%
Motor vehicles	30%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents factory buildings, plant and machinery and other property, plant and equipment under construction and installation, and is stated at cost less any impairment losses and is not depreciated. Cost comprises the direct costs of construction, installation and testing. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

### Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

## Notes to Financial Statements

31 March 2007

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Investment properties** *(Continued)*

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

#### **Leases**

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the leasehold land and buildings as a finance lease in property, plant and equipment.

#### **Investments and other financial assets**

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss or loans and receivables as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

# Notes to Financial Statements

31 March 2007

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Investments and other financial assets** *(Continued)*

#### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading or these financial assets are recognised in the income statement.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

#### *Fair value*

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 at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

### **Impairment of financial assets**

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

#### *Assets carried at amortised cost*

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.



## Notes to Financial Statements

31 March 2007

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### Impairment of financial assets *(Continued)*

##### *Assets carried at amortised cost (Continued)*

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

#### Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group’s continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

#### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any further costs expected to be incurred to completion and disposal.

# Notes to Financial Statements

31 March 2007

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

### Financial liabilities at amortised cost (including interest-bearing borrowings)

Financial liabilities including trade and other payables and interest-bearing borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

### Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

### Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

## Notes to Financial Statements

31 March 2007

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### Income tax *(Continued)*

- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

#### Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- rental income, on a time proportion basis over the lease terms;

# Notes to Financial Statements

31 March 2007

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Revenue recognition *(Continued)*

- (c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and
- (d) dividend income, when the shareholders' right to receive payment has been established.

### Employee benefits

#### *Pension schemes*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the participating employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiary which operates in the People's Republic of China (the "PRC" or "Mainland China") are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute a certain percentage of the payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

### Borrowing costs

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

### Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement.

# Notes to Financial Statements

31 March 2007

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Foreign currencies** *(Continued)*

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

## 2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

### **Judgements**

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

#### ***Impairment of assets***

The Group's assets other than goodwill are reviewed for impairment whenever an indication of impairment exists. The recoverable amount of an asset or a cash-generating unit is determined based on the higher of its value in use and its fair value less costs to sell. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the asset or the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Where the actual future cash flows are less than expected, an impairment loss might arise.

#### **Estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### ***Deferred tax assets***

Deferred tax assets are recognised for all deductible temporary differences, and carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised. Where the actual or expected tax positions of the relevant companies of the Group in future are different from the original estimate, such differences will have an impact on the recognition of deferred tax assets and income tax charge in the period in which such estimate has been changed. The carrying amount of deferred tax assets at 31 March 2007 was HK\$240,000 (2006: HK\$240,000). Further details are given in note 24.

## Notes to Financial Statements

31 March 2007

### 3. SEGMENT INFORMATION

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

#### (a) Business segment

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

#### (b) Geographical segments

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

The following table presents revenue, certain asset and capital expenditure information for the Group's geographical segments for the years ended 31 March 2007 and 2006.

	Hong Kong		Mainland China		Elsewhere in Southeast Asia		Others		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	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	29,185	39,836	13,944	13,023	3,327	4,477	107	197	46,563	57,533
Other segment information:										
Segment assets	62,873	74,290	42,369	48,490	-	-	-	-	105,242	122,780
Capital expenditure	621	37,878	693	900	-	-	-	-	1,314	38,778

## Notes to Financial Statements

31 March 2007

### 4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts, during the year.

An analysis of revenue, other income and gains is as follows:

	2007 HK\$'000	2006 HK\$'000
<b>Revenue</b>		
Sale of goods	46,563	57,533
<b>Other income</b>		
Dividend income from listed investments	16	59
Interest income	566	399
Advertising income	927	472
Rental income	8	152
Others	596	248
	2,113	1,330
<b>Gains</b>		
Gain on disposal of items of property, plant and equipment, net*	-	2,713
	2,113	4,043

\* This gain on disposal of items of property, plant and equipment is also disclosed in note 5 below.

## Notes to Financial Statements

31 March 2007

### 5. LOSS BEFORE TAX

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

	<i>Notes</i>	2007 HK\$'000	2006 HK\$'000
Cost of inventories sold		17,156	18,386
Depreciation	12	6,455	6,189
Recognition of prepaid land lease payments	13	558	551
Minimum lease payments under operating leases on land and buildings		84	2,079
Auditors' remuneration		700	735
Staff costs (excluding directors' remuneration in Note 7):			
Wages and salaries		13,173	13,340
Pension scheme contributions (defined contribution scheme)		507	525
		<b>13,680</b>	13,865
Impairment of trade receivables*		630	–
Write-down of inventories to net realisable value**		1,179	314
Goodwill impairment*		–	1,093
Foreign exchange losses, net		4	2
Loss/(gain) on disposal of items of property, plant and equipment, net		114	(2,713)
Fair value gain for financial assets at fair value through profit or loss		(93)	(68)

\* Included in the "Other expenses" on the face of the consolidated income statement.

\*\* Included in the "Cost of sales" on the face of the consolidated income statement.

### 6. FINANCE COSTS

	Group 2007 HK\$'000	2006 HK\$'000
Interest on bank loans wholly repayable:		
Within five years	188	211
Over five years	1,053	804
Interest on finance leases	26	29
	<b>1,267</b>	1,044



## Notes to Financial Statements

31 March 2007

### 7. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules on the Stock Exchange and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2007 HK\$'000	2006 HK\$'000
Fees:		
Executive directors	–	–
Independent non-executive directors	216	216
	216	216
Other emoluments:		
Salaries, allowances and benefits in kind	3,897	3,359
Pension scheme contributions	48	48
	3,945	3,407
	4,161	3,623

#### (a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2007 HK\$'000	2006 HK\$'000
Mr. Lam Siu Hung	72	72
Mr. Guo Guoqing	72	72
Mr. Kwok Hok Lun	36	–
Mr. Liu Jian	36	72
	216	216

There were no other emoluments payable to the independent non-executive directors during the year (2006: Nil).

## Notes to Financial Statements

31 March 2007

### 7. DIRECTORS' REMUNERATION *(Continued)*

#### (b) Executive directors

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
2007				
Executive directors:				
Mr. Chiu Ka Leung	–	1,624	12	1,636
Ms. Yeh Shu Ping	–	1,385	12	1,397
Mr. Jiao Shaoliang	–	640	12	652
Mr. Lan Daoying	–	248	12	260
	–	3,897	48	3,945
2006				
Executive directors:				
Mr. Chiu Ka Leung	–	1,359	12	1,371
Ms. Yeh Shu Ping	–	1,088	12	1,100
Mr. Jiao Shaoliang	–	652	12	664
Mr. Lan Daoying	–	260	12	272
	–	3,359	48	3,407

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

### 8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2006: three) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining two (2006: two) non-director, highest paid employees for the year are as follows:

	2007 HK\$'000	Group 2006 HK\$'000
Salaries, allowances and benefits in kind	1,273	1,226
Discretionary bonuses	143	140
Pension scheme contributions	24	24
	1,440	1,390

## Notes to Financial Statements

31 March 2007

### 8. FIVE HIGHEST PAID EMPLOYEES *(Continued)*

The number of non-director, highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2007	2006
Nil to HK\$1,000,000	2	2

### 9. TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year.

	2007 HK\$'000	2006 HK\$'000
Group:		
Current – Hong Kong		
Overprovision in prior years	–	(5)
Total tax credit for the year	–	(5)

The subsidiary, Yunnan Long Far Pharmaceutical Company Limited, is subject to a preferential tax rate of 15% as it is located in the Yunnan Province, the PRC.

A reconciliation of the tax expense applicable to loss before tax using the statutory or applicable rates for the countries in which the Company and its subsidiaries, are domiciled to the tax expense at the effective tax rates, and a reconciliation of the statutory or applicable rates to the effective tax rates, are as follows:

#### Group – 2007

	Hong Kong		Mainland China		Others		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Loss before tax	(8,257)		(5,872)		–		(14,129)	
Tax at the statutory or applicable tax rate	(1,445)	17.5	(881)	15.0	–	–	(2,326)	16.5
Income not subject to tax	(99)	1.2	–	–	–	–	(99)	0.7
Expenses not deductible for tax	–	–	125	(2.1)	–	–	125	(0.9)
Tax losses not recognised	1,344	(16.3)	756	(12.9)	–	–	2,100	(14.9)
Deductible temporary differences not recognised	200	(2.4)	–	–	–	–	200	(1.4)
Tax at the Group's effective rate	–	–	–	–	–	–	–	–

## Notes to Financial Statements

31 March 2007

### 9. TAX (Continued)

#### Group – 2006

	Hong Kong		Mainland China		Others		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Loss before tax	(4,625)		(5,255)		(6)		(9,886)	
Tax at the statutory or applicable tax rate	(809)	17.5	(788)	15.0	(1)	15.0	(1,598)	16.2
Adjustments in respect of								
current tax of previous periods	(5)	0.1	–	–	–	–	(5)	0.1
Income not subject to tax	(530)	11.5	–	–	–	–	(530)	5.4
Expenses not deductible for tax	51	(1.1)	164	(3.1)	–	–	215	(2.2)
Tax losses not recognised	1,288	(27.9)	624	(11.9)	1	(15.0)	1,913	(19.4)
Tax credit at the Group's effective rate	(5)	0.1	–	–	–	–	(5)	0.1

### 10. LOSS FOR THE YEAR ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The consolidated loss attributable to ordinary equity holders of the Company for the year ended 31 March 2007 includes a loss of HK\$9,194,000 (2006: HK\$4,785,000) which has been dealt with in the financial statements of the Company (note 27(b)).

### 11. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic loss per share amounts is based on the loss for the year attributable to ordinary equity holders of the Company of HK\$14,129,000 (2006: HK\$9,881,000) and the 600,000,000 (2006: 600,000,000) ordinary shares in issue during the year.

Diluted loss per share amounts for the years ended 31 March 2007 and 2006 have not been disclosed as the share options outstanding during these years had an anti-dilutive effect on the basic loss per share for these years.

## Notes to Financial Statements

31 March 2007

### 12 PROPERTY, PLANT AND EQUIPMENT

#### Group

31 March 2007	Leasehold buildings HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and office equipment HK\$'000	Computer equipment HK\$'000	Plant and machinery HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Cost:								
At 1 April 2006	37,548	3,339	1,912	1,359	9,874	3,023	-	57,055
Additions	-	-	129	21	210	-	568	928
Disposals/write-off	-	(611)	(18)	(8)	-	(431)	-	(1,068)
Exchange realignment	1,004	-	26	-	383	47	-	1,460
At 31 March 2007	38,552	2,728	2,049	1,372	10,467	2,639	568	58,375
Accumulated depreciation:								
At 1 April 2006	2,891	713	724	1,058	6,059	1,835	-	13,280
Provided during the year	1,935	545	356	156	2,814	649	-	6,455
Disposals/write-off	-	(485)	(10)	(8)	-	(357)	-	(860)
Exchange realignment	96	-	9	-	217	24	-	346
At 31 March 2007	4,922	773	1,079	1,206	9,090	2,151	-	19,221
Net book value:								
At 31 March 2007	33,630	1,955	970	166	1,377	488	568	39,154
At 31 March 2006	34,657	2,626	1,188	301	3,815	1,188	-	43,775
31 March 2006								
Cost:								
At 1 April 2005	26,632	2,636	1,627	1,299	9,469	2,204	-	43,867
Additions	15,225	380	404	60	203	879	3,018	20,169
Disposals/write-off	(4,956)	(2,024)	(691)	-	-	(77)	-	(7,748)
Transfer	108	2,347	563	-	-	-	(3,018)	-
Exchange realignment	539	-	9	-	202	17	-	767
At 31 March 2006	37,548	3,339	1,912	1,359	9,874	3,023	-	57,055
Accumulated depreciation:								
At 1 April 2005	1,292	1,763	1,080	888	3,277	1,191	-	9,491
Provided during the year	1,903	434	259	170	2,728	695	-	6,189
Disposals/write-off	(329)	(1,484)	(617)	-	-	(58)	-	(2,488)
Exchange realignment	25	-	2	-	54	7	-	88
At 31 March 2006	2,891	713	724	1,058	6,059	1,835	-	13,280
Net book value:								
At 31 March 2006	34,657	2,626	1,188	301	3,815	1,188	-	43,775
At 31 March 2005	25,340	873	547	411	6,192	1,013	-	34,376

## Notes to Financial Statements

31 March 2007

### 12 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Group's leasehold buildings with aggregate costs of HK\$15,225,000 (2006: HK\$15,225,000) and HK\$23,327,000 (2006: HK\$22,323,000) are situated in Hong Kong and Mainland China, respectively, and are held under medium term leases.

The net book value of the Group's property, plant and equipment held under finance leases included in the total amount of motor vehicles at 31 March 2007, amounted to HK\$254,000 (2006: HK\$667,000).

At 31 March 2007, certain of the Group's buildings with a net book value of approximately HK\$18,542,000 (2006: HK\$25,412,000) were pledged to secure banking facilities granted to the Group (note 21).

### 13. PREPAID LAND LEASE PAYMENTS

	Group	
	2007 HK\$'000	2006 HK\$'000
Carrying amount at beginning of year	23,416	5,228
Addition during the year	–	18,609
Recognised during the year	(558)	(551)
Exchange realignment	277	130
Carrying amount at end of year	23,135	23,416
Current portion included in prepayments, deposits and other receivables	(559)	(558)
Non-current portion	22,576	22,858

At 31 March 2007, the land of the Group was held under medium term leases and was situated in Hong Kong and the Mainland China as to the carrying amounts of HK\$17,726,000 (2006: HK\$18,169,000) and HK\$5,409,000 (2006: HK\$5,247,000), respectively.

At 31 March 2007, certain of the Group's land with an aggregate net book value of approximately HK\$17,361,000 (2006: HK\$18,505,000) was pledged to secure certain banking facilities granted to the Group (note 21).

## Notes to Financial Statements

31 March 2007

### 14. INVESTMENT PROPERTY

	Group	
	2007 HK\$'000	2006 HK\$'000
Carrying amount at beginning of year	–	–
Addition (from acquisition)	386	–
Carrying amount at end of year	386	–

The Group's investment property is situated in Hong Kong and is held under a medium term lease.

In the opinion of the directors, the carrying amount of the investment property, which is a carpark, approximates to the fair value, which is determined based on the average transaction price of similar carparks for the year ended 31 March 2007.

### 15. INVESTMENTS IN SUBSIDIARIES

	Company	
	2007 HK\$'000	2006 HK\$'000
Unlisted shares, at cost	54,999	54,999
Less: Return of capital ( <i>Note</i> )	(25,000)	(25,000)
Less: Impairment	(9,287)	(87)
	20,712	29,912

*Note:* The return of capital represents an interim dividend declared by a subsidiary from its profits prior to the reorganisation of the Group in 2002.

The balances with the subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2007	2006	
Long Far Pharmaceutical (BVI) Limited ("Long Far Pharmaceutical")	British Virgin Islands/Hong Kong	US\$200	100	100	Investment holding

## Notes to Financial Statements

31 March 2007

### 15. INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2007	2006	
Long Far Herbal Medicine Manufacturing (Hong Kong) Limited ("LFHK")	Hong Kong	Ordinary shares HK\$10 and non-voting deferred shares* HK\$100,000	100	100	Trading of pharmaceutical products
Hong Kong Health Journal Limited	Hong Kong	HK\$100,000	100	100	Publishing of health journals
International Health Association (HK) Limited	Hong Kong	HK\$100,000	100	100	Operating a healthcare association and the provision of healthcare consultancy services
Winlead Investment Limited	British Virgin Islands/Hong Kong	US\$1	100	100	Investment holding
Long Far Health Products Limited	Hong Kong	HK\$2	100	100	Trading of health products
雲南龍發製藥有限公司 (Yunnan Long Far Pharmaceutical Company Limited)** ("Yunnan Long Far")	PRC	RMB25,700,000	100	100	Manufacture and distribution of pharmaceutical products
Long Far Investment (Hong Kong) Limited	Hong Kong	HK\$1	100	100	Property holding
Long Far Pharmaceutical (Macau) Limited	Macau	MOP\$25,000	100	100	Dormant
Long Far Mining Holdings (Hong Kong) Limited	Hong Kong	HK\$1	100	–	Dormant

\* In accordance with the articles of association of LFHK, shareholders of non-voting deferred shares are not entitled to any dividend, any participation in the profits or assets of LFHK (unless the distribution of the net assets for the first HK\$100,000 billion is made to the ordinary shareholders), and are also not entitled to vote at any general meeting.

\*\* Registered as a wholly foreign-owned enterprise under the PRC laws.

Except for Long Far Pharmaceutical, all the above subsidiaries are indirectly held by the Company.



## Notes to Financial Statements

31 March 2007

### 16. INVENTORIES

	Group	
	2007 HK\$'000	2006 HK\$'000
Trading goods	1,543	2,896
Finished goods	5,549	6,381
Work in progress	1,572	1,590
Raw materials	1,664	1,869
Packaging materials	1,301	1,620
	<b>11,629</b>	14,356

### 17. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period generally ranges from 30 to 180 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. Trade and bills receivables are non-interest-bearing.

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

	Group	
	2007 HK\$'000	2006 HK\$'000
Current	3,987	6,511
1 to 3 months overdue	5,109	5,337
More than 3 months overdue but less than 12 months overdue	3,924	4,730
Over 12 months overdue	1,813	1,679
	<b>14,833</b>	18,257

## Notes to Financial Statements

31 March 2007

### 18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2007 HK\$'000	2006 HK\$'000
Listed equity investment in Hong Kong, at market value	1,033	520
Deposit with embedded derivative, at fair value	2,500	–
	<b>3,533</b>	520

The above equity investment and deposit with embedded derivative at 31 March 2007 were classified as held for trading.

The deposit with embedded derivative carries an effective interest rate of 8.5% per annum and was redeemed by the bank subsequent to the balance sheet date.

### 19. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Cash and bank balances	10,649	13,412	258	230
Time deposits	447	5,411	–	–
	<b>11,096</b>	18,823	<b>258</b>	230
Less: Pledged time deposits	(357)	(4,546)	–	–
Cash and cash equivalents	<b>10,739</b>	14,277	<b>258</b>	230

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$1,193,000 (2006: HK\$1,749,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates.

## Notes to Financial Statements

31 March 2007

### 20. TRADE PAYABLES

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

	Group	
	2007 HK\$'000	2006 HK\$'000
Current	130	993
1 to 3 months overdue	1,368	3,172
More than 3 months overdue but less than 12 months overdue	446	574
Over 12 months overdue	224	98
	<b>2,168</b>	<b>4,837</b>

The trade payables are non-interest-bearing.

### 21. INTEREST-BEARING BANK AND OTHER BORROWINGS

#### Group

	2007			2006		
	Effective Interest rate (%)	Maturity	HK\$'000	Effective interest rate (%)	Maturity	HK\$'000
<b>Current</b>						
Bank loans – secured	5.25 – 5.85	2008	4,921	5.3 – 5.6	2007	6,626
Finance lease payables (Note 22)	2.5 – 3.5	2008	156	2.5 – 3.5	2007	343
			<b>5,077</b>			<b>6,969</b>
<b>Non-current</b>						
Bank loans – secured	5.25	2008 – 2015	16,638	5.3	2007 – 2015	18,517
Finance lease payables (Note 22)	3.5	2008	71	2.5 – 3.5	2007 – 2008	227
			<b>16,709</b>			<b>18,744</b>
			<b>21,786</b>			<b>25,713</b>

## Notes to Financial Statements

31 March 2007

### 21. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

	2007 HK\$'000	2006 HK\$'000
Analysed into:		
Bank loans repayable:		
Within one year	4,921	6,626
In the second year	1,992	1,889
In the third to fifth years, inclusive	6,641	6,298
Beyond five years	8,005	10,330
	<b>21,559</b>	25,143
Other borrowings repayable:		
Within one year	156	343
In the second year	71	156
In the third to fifth years, inclusive	–	71
	<b>227</b>	570
	<b>21,786</b>	25,713

*Notes:*

- (a) The Group's bank loans were secured by mortgages over the Group's land and buildings with an aggregate carrying amount of approximately HK\$35,903,000 (2006: HK\$43,917,000) as at 31 March 2007.
- (b) The Group's borrowings with a carrying amount of HK\$3,031,000 (2006: HK\$4,834,000) are denominated in RMB. All other borrowings are denominated in Hong Kong dollars.

Other interest rate information:

	Group			
	2007		2006	
	Fixed rate HK\$'000	Floating rate HK\$'000	Fixed rate HK\$'000	Floating rate HK\$'000
Bank loans – secured	3,031	18,528	4,834	20,309
Finance lease payables	227	–	570	–

## Notes to Financial Statements

31 March 2007

### 22. FINANCE LEASE PAYABLES

The Group leases its motor vehicles for its business. The leases are classified as finance leases and have remaining lease terms of two years.

At the balance sheet date, the total future minimum lease payments under finance leases and their present values were as follows:

Group	Minimum lease payments 2007 HK\$'000	Minimum lease payments 2006 HK\$'000	Present value of minimum lease payments 2007 HK\$'000	Present value of minimum lease payments 2006 HK\$'000
Amounts payable:				
Within one year	166	369	156	343
In the second year	73	166	71	156
In the third to fifth years, inclusive	–	73	–	71
Total minimum finance lease payments	239	608	227	570
Future finance charges	(12)	(38)		
Total net finance lease payables	227	570		
Portion classified as current liabilities ( <i>Note 21</i> )	(156)	(343)		
Long term portion ( <i>Note 21</i> )	71	227		

### 23. DUE TO A RELATED COMPANY/DIRECTOR

The balances due to a related company and a director are unsecured, interest-free and have no fixed terms of repayment.

# Notes to Financial Statements

31 March 2007

## 24. DEFERRED TAX

The movement in deferred tax liabilities and assets during the year is as follows:

### Deferred tax liabilities

Group

2007  
Depreciation  
allowance in  
excess of  
related  
depreciation  
HK\$'000

Gross deferred tax liabilities at 1 April 2006 and 31 March 2007

170

### Deferred tax assets

Group

2007  
Fair value  
adjustments  
arising from  
the acquisition  
of a subsidiary  
HK\$'000

Gross deferred tax assets at 1 April 2006 and 31 March 2007

240

### Deferred tax liabilities

Group

2006  
Depreciation  
allowance in  
excess of  
related  
depreciation  
HK\$'000

Gross deferred tax liabilities at 1 April 2005 and 31 March 2006

170

## Notes to Financial Statements

31 March 2007

### 24. DEFERRED TAX *(Continued)*

#### Deferred tax assets

Group	2006 Fair value adjustments arising from the acquisition of a subsidiary HK\$'000
Gross deferred tax assets at 1 April 2005 and 31 March 2006	240

Deferred tax assets have not been recognised in respect of the following items:

	Group		Company	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Tax losses	24,468	11,796	362	380
Deductible temporary differences	200	–	–	–
	24,668	11,796	362	380

Certain tax losses of HK\$7,842,000 will expire between 2009 and 2012. The remaining tax losses are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

### 25. SHARE CAPITAL

#### Shares

	2007 HK\$'000	2006 HK\$'000
Authorised: 5,000,000,000 ordinary shares of HK\$0.05 each	250,000	250,000
Issued and fully paid: 600,000,000 ordinary shares of HK\$0.05 each	30,000	30,000

#### Share options

Details of the Company's share option scheme and the share options granted under the scheme are included in note 26 to the financial statements.

# Notes to Financial Statements

31 March 2007

## 26. 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 Company's 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.

The maximum number of shares which may be issued upon exercise of all options granted and to be granted under the scheme is 60,000,000 shares, representing 10% of the shares of the Company in issue as at the date of listing of the Company and as at the date of this annual report, unless approval for refreshing the 10% limit from the Company's shareholders has been obtained. The maximum number of shares issuable under share options to each eligible participant in the Scheme (including both exercised and outstanding options) within any 12-month period is limited to 1% of the shares of the Company in issue. Any grant or further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, which would result in the shares issued, to be issued upon exercise of all options already granted and to be granted to such person in the 12-month period up to and including the date of the grant in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK\$5 million, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of offer upon payment of a nominal consideration of HK\$10 in total by the grantee. The exercise period of the share options granted is determined by the directors, save that such a period shall not be more than 10 years from the date of offer of the share options subject to the provisions for early termination as set out in the Scheme. Unless otherwise determined by the directors at their sole discretion, there is no requirement of a minimum period for which an option must be held or a performance target which must be achieved before an option can be exercised.

The exercise price of the share options shall be the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of a share of the Company on the date of offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

As at the date of this report, the total number of shares available for issue under the Scheme is 54,500,000 shares, representing 9.08% of the total issued share capital of the Company at that date.



## Notes to Financial Statements

31 March 2007

### 26. SHARE OPTION SCHEME (Continued)

The following share options were outstanding under the Scheme during the year:

Name of option holder	Number of share options				At 31 March 2007	Date of grant of share options	Exercise period of share options	Exercise price of share options
	At 1 April 2006	Granted during the year	Exercised during the year	Lapsed/cancelled during the year				
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.

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).

### 27. RESERVES

#### (a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 46 of the financial statements.

The Group's contributed surplus represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation in 2002, and the nominal value of the Company's shares issued in exchange therefor.

## Notes to Financial Statements

31 March 2007

### 27. RESERVES (Continued)

#### (b) Company

	Note	Share premium account HK\$'000	Contributed surplus HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
Balance at 1 April 2005		8,720	46,999	110	55,829
Loss for the year	10	–	–	(4,785)	(4,785)
At 31 March 2006 and at 1 April 2006		8,720	46,999	(4,675)	51,044
Loss for the year	10	–	–	(9,194)	(9,194)
At 31 March 2007		8,720	46,999	(13,869)	41,850

The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group reorganisation in 2002, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Law of the Cayman Islands, a company may make distributions to its members out of its contributed surplus in certain circumstances.

### 28. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

#### Major non-cash transaction

During the year ended 31 March 2006, the Group entered into a finance lease arrangement in respect of property, plant and equipment with a capital value at the inception of the lease of HK\$339,000.

### 29. CONTINGENT LIABILITIES

- (a) As at 31 March 2007, the Group had 1,086 (2006: 8,578) 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 Long Far Healthcare Promotion Centre (established by a subsidiary of the Company) at a discounted price for a period up to 30 June 2007. The coupon holders would be given discounts upon the presentation of the coupons. As at 31 March 2007, the maximum value of these outstanding coupons, subject to redemption, amounted to approximately HK\$54,000 (2006: HK\$429,000).
- (b) On 13 January 2004, LFHK, a wholly-owned subsidiary of the Company, filed its oppositions to the Trade Marks Registry of the Intellectual Property Department in Hong Kong to oppose certain trademark applications by a merchant (the "Applicant"). LFHK filed its evidence and the statement of grounds of oppositions on 15 January 2005 and 24 January 2005, respectively. The Applicant filed a counter-statement and an amended counter-statement on 13 April 2004 and 12 February 2005, respectively. The Applicant filed its evidence on 15 September 2005. Application for trial has been filed and a trial will be held at the Trade Marks Registry to determine whether LFHK's oppositions are valid, and estimated further costs of approximately HK\$300,000 will 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\$800,000. As at 31 March 2007, the date of the trial has not been fixed and the Group has not made any provision for such further legal costs subject to the occurrence of the trial.

## Notes to Financial Statements

31 March 2007

### 29. CONTINGENT LIABILITIES *(Continued)*

- (c) As at 31 March 2007, the Company provided a guarantee given to a bank in connection with the banking facilities of HK\$6,000,000 (2006: HK\$6,000,000) granted to its subsidiary which have not been utilised (2006: HK\$20,309,000).

### 30. OPERATING LEASE ARRANGEMENTS

#### (a) As lessor

The Group leases its investment property under operating lease arrangements, with leases negotiated for a term of one year. The terms of the leases also required the tenants to pay security deposits.

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:

	2007 HK\$'000	2006 HK\$'000
Within one year	20	–

#### (b) As lessee

In the prior year, the Group leased 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:

	2007 HK\$'000	2006 HK\$'000
Within one year	–	87

### 31. COMMITMENTS

In addition to the operating lease commitments detailed in note 30(b) above, the Group had the following contracted capital commitments:

	2007 HK\$'000	2006 HK\$'000
Acquisition of items of property, plant and equipment	–	358

# Notes to Financial Statements

31 March 2007

## 32. RELATED PARTY TRANSACTIONS

- (a) During the current and prior years, 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"). YPYP is a company in which a director of the Company, Mr. Chiu Ka Leung, holds a 51% interest.

	2007 HK\$'000	2006 HK\$'000
Goods outsourced to YPYP for manufacturing	4,896	7,819

Pursuant to the manufacturing agreement with YPYP, the price is mutually agreed between the relevant parties with reference to the prevailing cost of production of YPYP.

The balance due to YPYP at the balance sheet date amounting to HK\$432,000 (2006: HK\$864,000) with a credit period of 90 days is included in trade payables as at 31 March 2007.

- (b) During the year, the Group obtained an advance of approximately HK\$4,040,000 from 雲南龍潤藥業有限公司 (Yunnan Long Run Pharmaceuticals Company Limited) ("YLRP"). 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. An amount of HK\$2,020,000 was repaid by the Group during the year. The amount of HK\$2,020,000 due to YLRP as at 31 March 2007 is unsecured, interest-free and has no fixed terms of repayment (note 23).
- (c) Compensation of key management personnel of the Group:

	2007 HK\$'000	2006 HK\$'000
Short term employee benefits	5,313	4,941
Post-employment benefits	72	72
Total compensation paid to key management personnel	5,385	5,013

Further details of directors' emoluments are included in note 7 to the financial statements.

The related party transactions in respect of item (a) above also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

## 33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

At the balance sheet date, the Group's principal financial instruments comprise cash and cash equivalents, trade and bills receivables, financial assets at fair value through profit or loss, trade payables, other receivables and payables and bank and other borrowings.

The Group does not have written risk management policies and guidelines. However, management meets periodically to analyse and formulate measures to manage the Group's exposure to financial risks, including principally interest rate risk and credit risk. Generally, the Group employs a conservative strategy regarding its risk management.

### (i) Interest rate risk

The interest rates and the terms of repayment of the Group's bank and other loans are disclosed in note 21 above. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate.

## Notes to Financial Statements

31 March 2007

### 33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

#### (ii) Foreign currency risk

The Group has no significant exposure to foreign currency risk.

#### (iii) Credit risk

The carrying amount of trade and bills receivables included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to the Group's trade and bills receivables. The Group has a significant concentration of credit risk in relation to trade and bills receivables as the trade and bills receivables due from the five largest customers accounted for 76% of the Group's trade and bills receivables at the balance sheet date.

The Group performs ongoing credit evaluations of its customers' financial conditions and requires no collateral from its customers. The allowance for doubtful debts is based upon a review of the expected collectibility of all trade and bills receivables.

The credit risk of the Group's other financial assets arises from default of the counterparty, with a maximum exposure being equal to the carrying amount of these instruments. There is no significant concentration of credit risk within the Group in relation to these other financial assets.

#### (iv) Fair values

Other than the financial assets at fair value through profit or loss which have been measured at fair value, the financial assets and liabilities which are not carried at fair value in the consolidated balance sheet are presented below:

##### (a) *Bank balances, trade and bills receivables, trade payables, other receivables and payables*

The carrying amounts of these balances approximate to their fair values because of the immediate or short term maturity of these financial instruments.

##### (b) *Bank and other borrowings*

The carrying amounts of bank and other borrowings approximate to their fair values, based on the borrowing rates currently available for bank and other borrowings with similar terms and average maturity.

#### (v) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans. In addition, banking facilities have been put in place for contingency purposes.

### 34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 June 2007.