



LONG FAR PHARMACEUTICAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 2898)



INTERIM REPORT 2007

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,
Hong Kong.

AUDITORS

Ernst & Young
Certified Public Accountants
18th Floor, 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.

PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited
11th 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

Butterfield Fund Services (Cayman) Limited
Butterfield House,
68 Fort Street,
P.O. Box 705,
Grand Cayman KY1-1107,
Cayman Islands.

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

WEBSITE

www.longfar.com.hk

The directors (the "Directors") of Long Far Pharmaceutical Holdings Limited (the "Company") announce the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2007, together with the comparative figures for the corresponding period of 2006 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2007

	Notes	For the six months ended 30 September	
		2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
REVENUE	2	16,425	24,361
Cost of sales		(8,539)	(8,178)
Gross profit		7,886	16,183
Other income and gains	3	1,083	1,026
Selling and distribution costs		(6,915)	(11,194)
Administrative expenses		(11,930)	(11,984)
Other expenses, net		(12)	(198)
Finance costs	4	(752)	(656)
LOSS BEFORE TAX	5	(10,640)	(6,823)
Tax	6	-	(180)
LOSS FOR THE PERIOD ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY		(10,640)	(7,003)
INTERIM DIVIDEND	7	-	-
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	8		
- Basic		(HK1.77 cents)	(HK1.17 cents)
- Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

30 September 2007

	Notes	30 September 2007 (Unaudited) HK\$'000	31 March 2007 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	37,125	39,154
Investment property		386	386
Prepaid land lease payments	10	22,416	22,576
Deferred tax assets		240	240
Total non-current assets		60,167	62,356
CURRENT ASSETS			
Inventories		12,464	11,629
Trade and bills receivables	11	10,252	14,833
Prepayments, deposits and other receivables		3,137	1,795
Financial assets at fair value through profit or loss		1,397	3,533
Pledged deposits		361	357
Cash and cash equivalents		11,662	10,739
Total current assets		39,273	42,886
CURRENT LIABILITIES			
Trade payables	12	1,661	2,168
Other payables and accruals		8,465	8,959
Interest-bearing bank and other borrowings		13,419	5,077
Due to a related company	17(b)	103	2,020
Due to a director	17(c)	184	153
Total current liabilities		23,832	18,377
NET CURRENT ASSETS		15,441	24,509
TOTAL ASSETS LESS CURRENT LIABILITIES		75,608	86,865
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		15,650	16,709
Deferred tax liabilities		170	170
Total non-current liabilities		15,820	16,879
Net assets		59,788	69,986
EQUITY			
Issued capital	13	30,000	30,000
Reserves	14	29,788	39,986
Total equity		59,788	69,986

CONDENSED CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2007

	For the six months ended 30 September	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Total equity at 1 April	69,986	82,510
Loss for the period	(10,640)	(7,003)
Exchange realignment	442	855
Total equity at 30 September	59,788	76,362

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2007

	For the six months ended 30 September	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(6,159)	(911)
NET CASH INFLOW FROM INVESTING ACTIVITIES	1,940	3,425
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	5,366	(1,610)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,147	904
Cash and cash equivalents at beginning of period	10,739	14,277
Effect of foreign exchange rate changes, net	(224)	381
CASH AND CASH EQUIVALENTS AT END OF PERIOD	11,662	15,562
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	11,569	13,661
Non-pledged time deposits with original maturity of less than three months when acquired	93	1,901
	11,662	15,562

NOTES TO INTERIM FINANCIAL INFORMATION

30 September 2007

I. ACCOUNTING POLICIES

The condensed interim financial information is prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". The accounting policies and basis of preparation adopted in the preparation of the interim financial information are the same as those used in the annual financial statements for the year ended 31 March 2007, except in relation to the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period's financial information:

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 <i>Financial Reporting in Hyperinflationary Economies</i>
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

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The adoption of the above new and revised HKFRSs has had no material impact on the accounting policies of the Group and the methods of computation in the Group's condensed interim financial information.

2. SEGMENT INFORMATION

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

(a) **Business segment**

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

2. SEGMENT INFORMATION (Continued)

(b) Geographical segments

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

	Six months ended 30 September									
	Hong Kong		Mainland China		Southeast Asia		Others		Consolidated	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000								
Segment revenue:										
Sales to external customers	7,569	16,607	8,577	6,042	279	1,604	-	108	16,425	24,261
Other income	433	714	480	10	-	-	-	-	913	724
Total	8,002	17,321	9,057	6,052	279	1,604	-	108	17,338	25,085

3. OTHER INCOME AND GAINS

	For the six months ended 30 September	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Interest income	170	302
Advertising income	486	520
Rental income	11	-
Others	416	204
Total	1,083	1,026

4. FINANCE COSTS

	For the six months ended 30 September	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Interest on bank loans	746	640
Interest on finance leases	6	16
Total	752	656

5. LOSS BEFORE TAX

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

	For the six months ended 30 September	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Cost of inventories sold	8,376	7,942
Depreciation	2,736	3,252
Amortisation of land lease payments	283	277
Loss/(gain) on write-off/disposal of items of property, plant and equipment, net	(3)	125

6. TAX

	For the six months ended 30 September	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Deferred	-	180

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 current and prior periods.

Deferred tax asset has not been recognised in respect of the tax losses of certain subsidiaries of the Company as it is uncertain whether taxable profits will be available against which the tax losses will be utilised.

7. INTERIM DIVIDEND

The Directors did not propose to declare an interim dividend for the six months ended 30 September 2007 (2006: Nil).

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

The calculation of basic loss per share amount is based on the loss for the period attributable to ordinary equity holders of the Company of HK\$10,640,000 (six months ended 30 September 2006: HK\$7,003,000) and the 600,000,000 (six months ended 30 September 2006: 600,000,000) ordinary shares in issue during the period.

Diluted loss per share amounts for the period ended 30 September 2007 and 2006 have not been disclosed as the share options outstanding during these periods had an anti-dilutive effect on the basic loss per share for these periods.

9. PROPERTY, PLANT AND EQUIPMENT

	Leasehold buildings (Unaudited) HK\$'000	Leasehold improvements (Unaudited) HK\$'000	Plant and machinery (Unaudited) HK\$'000	Furniture, fixtures and office equipment (Unaudited) HK\$'000	Motor vehicles (Unaudited) HK\$'000	Computer equipment (Unaudited) HK\$'000	Construction in progress (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Cost:								
At 1 April 2007	38,552	2,728	10,467	2,049	2,639	1,372	568	58,375
Additions	-	19	-	17	-	57	137	230
Transfers	719	-	-	-	-	-	(719)	-
Disposal	-	-	-	-	(153)	-	-	(153)
Exchange realignment	559	-	213	17	16	-	14	819
At 30 September 2007	39,830	2,747	10,680	2,083	2,502	1,429	-	59,271
Accumulated depreciation:								
At 1 April 2007	4,922	773	9,090	1,079	2,151	1,206	-	19,221
Provided during the period	981	274	1,099	167	145	70	-	2,736
Disposal	-	-	-	-	(94)	-	-	(94)
Exchange realignment	81	-	184	8	10	-	-	283
At 30 September 2007	5,984	1,047	10,373	1,254	2,212	1,276	-	22,146
Net book value:								
At 30 September 2007	33,846	1,700	307	829	290	153	-	37,125
At 31 March 2007	33,630	1,955	1,377	970	488	166	568	39,154

10. PREPAID LAND LEASE PAYMENTS

(Unaudited)

HK\$'000

Carrying amount at 1 April 2007	23,135
Recognised during the period	(283)
Exchange realignment	130
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Carrying amount at 30 September 2007	22,982
Current portion included in prepayments, deposits and other receivables	(566)
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Non-current portion	22,416
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Carrying amount at 1 April 2007	23,135
Current portion included in prepayments, deposits and other receivables	(559)
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Non-current portion	22,576
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10 11. TRADE AND BILLS RECEIVABLES

The Group allows an average credit period ranging from 30 days to 180 days to its customers. An aged analysis of the trade receivables as at the balance sheet date, based on payment due date, net of provisions for doubtful debts, is as follows:

	30 September 2007 (Unaudited) HK\$'000	31 March 2007 (Audited) HK\$'000
Current	3,014	3,987
1 to 3 months overdue	3,655	5,109
More than 3 months overdue but less than 12 months overdue	2,471	3,924
Over 12 months overdue	1,112	1,813
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	10,252	14,833
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12. TRADE PAYABLES

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

	30 September 2007 (Unaudited) HK\$'000	31 March 2007 (Audited) HK\$'000
Current	–	130
1 to 3 months overdue	1,363	1,368
More than 3 months overdue but less than 12 months overdue	124	446
Over 12 months overdue	174	224
	1,661	2,168

13. SHARE CAPITAL

	30 September 2007 (Unaudited) HK\$'000	31 March 2007 (Audited) 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

On 22 August 2002, a share option scheme was adopted by the Company under which the Directors may, at their discretion, offer to any employee (including any director) of the Company or any subsidiary of the Company and other eligible participants as referred to in the rules of the share option scheme to take up options to subscribe for shares in the Company subject to the terms and conditions stipulated in the share option scheme.

As at 1 April 2007 and 30 September 2007, the Company had 5,500,000 share options outstanding under the share option scheme with an exercise price of HK\$0.375 per share and an exercise period from 9 September 2003 to 8 September 2012. There was no movement in the share options outstanding during the period.

14. RESERVES

	Share premium account (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 April 2007	8,720	300	2,711	28,255	39,986
Exchange realignment	-	-	442	-	442
Loss for the period	-	-	-	(10,640)	(10,640)
At 30 September 2007	8,720	300	3,153	17,615	29,788
At 1 April 2006	8,720	300	1,106	42,384	52,510
Exchange realignment	-	-	855	-	855
Loss for the period	-	-	-	(7,003)	(7,003)
At 30 September 2006	8,720	300	1,961	35,381	46,362

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15. 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:

	30 September 2007 (Unaudited) HK\$'000	31 March 2007 (Audited) HK\$'000
Within one year	9	20

15. OPERATING LEASE ARRANGEMENTS (Continued)

(b) As lessee

The Group leases certain of its office properties under operating lease arrangement. Lease for the property is negotiated for a term of two years.

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

	30 September 2007 (Unaudited) HK\$'000	31 March 2007 (Audited) HK\$'000
Within one year	626	–
In the second to fifth years, inclusive	435	–
	1,061	–

16. CONTINGENT LIABILITIES

(a) As at 30 September 2007, the Group had 1,034 (31 March 2007: 1,086) outstanding coupons issued to the members of the International Health Association (established by a subsidiary of the Company) which entitle the coupon holders to purchase products of the Group from certain retailing outlets in Hong Kong at a discounted price. These retailing outlets would be entitled to recoup from the Group the amount of discounts given to the coupon holders upon presentation of the coupons received. As at 30 September 2007, the maximum value of these outstanding coupons, subject to recoup by these retailing outlets, amounted to approximately HK\$52,000 (31 March 2007: HK\$54,000).

(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 would 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 30 September 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.

17. RELATED PARTY TRANSACTIONS

- (a) During the period, the Group outsourced the manufacturing of certain goods to 雲南盤龍雲海藥業有限公司 (Yunnan Panlong Yunhai Pharmaceutical Company Limited) ("YPYP"), a company in which a director of the Company, Mr. Chiu Ka Leung, holds a 51% interest.

	For the six months ended 30 September	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Goods outsourced to YPYP for manufacturing	912	2,736

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 31 March 2007 amounting to approximately HK\$432,000 was included in trade payables.

- 14 (b) In the prior 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\$1,917,000 (31 March 2007: HK\$2,020,000) was repaid by the Group during the period. The amount of HK\$103,000 (31 March 2007: HK\$2,020,000) due to YLRP as at 30 September 2007 is unsecured, interest-free and has no fixed terms of repayment.
- (c) The amount due to a director is unsecured, interest-free and has no fixed terms of repayment.

17. RELATED PARTY TRANSACTIONS *(Continued)*

- (d) Compensation of key management personnel of the Group

	For the six months ended 30 September	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Short term employee benefits	4,275	3,475
Post-retirement benefits	75	66
	4,350	3,541

18. PLEDGE OF ASSETS

As at 30 September 2007, the Group's bank deposits of approximately HK\$361,000 (31 March 2007: HK\$357,000) and leasehold land and buildings with an aggregate net book value of approximately HK\$48,942,000 (31 March 2007: HK\$35,903,000) were pledged to secure banking facilities granted to the Group.

19. APPROVAL OF THE INTERIM FINANCIAL INFORMATION

This interim financial information was approved and authorised for issue by the board of directors (the "Board of Directors") of the Company on 19 December 2007.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

The logo for Ernst & Young, featuring a stylized 'EY' symbol followed by the company name in a bold, serif font.

安永會計師事務所

To the board of directors of
Long Far Pharmaceutical Holdings Limited

Introduction

We have reviewed the interim financial information set out on pages 2 to 15 which comprises the condensed consolidated balance sheet of Long Far Pharmaceutical Holdings Limited as of 30 September 2007 and the related condensed consolidated statements of income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants.

The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young

Certified Public Accountants

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

19 December 2007

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

For the six months ended 30 September 2007, the Group recorded a turnover of HK\$16,425,000 (2006: HK\$24,361,000), a decrease of 32.6% compared with the corresponding period last year. The Group also recorded a loss of HK\$10,640,000 for the period under review (2006: loss of HK\$7,003,000). The basic loss per share was HK1.77 cents (2006: basic loss per share of HK1.17 cents).

Business Review

The healthcare products market remained intensely competitive during the review period as a large number of market players and a decline in consumption directly impacted on the Group's sales performance.

“Beauty and Healthy” (排毒美顏寶) once again represented the Group's main revenue driver, with the product accounting for over 41.7% of total turnover during the review period (2006: 57.8%). Coming in second was “Yanta Pai” (雁塔牌) which, bolstered by its top product, “Chen Xiang Lu Bai Lu Pian” (陳香露白露片) (this product achieved a turnover of HK\$3,460,000 (2006: HK\$1,801,000), equivalent to around 21.1% (2006: 7.4%) of the Group's total revenue). Moreover, “Pudilan Xiaoyan Pian” (蒲地藍消炎片), “Zi Deng Jiao Nang” (紫燈膠囊) and the Superior Series, which includes “Superior Lingzhi” (極品靈芝) and “Superior Cordyceps” (極品冬蟲夏草), ranked third, fourth and fifth respectively as revenue drivers for the Group. It is worth noting that “Zi Deng Jiao Nang” (紫燈膠囊) holds particular promise for the Group as the product was only introduced in June of this year.

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Geographically, Hong Kong, Mainland China and others accounted for 46.1%, 52.2% and 1.7% of overall turnover respectively.

Hong Kong

Since July of this year, the Group has implemented a re-branding programme aiming to elevate its profile among Hong Kong consumers. Consistent with such efforts, the Group has sought to educate the public about the significance of preventive medicine, in particular, the ability for “Beauty and Healthy” (排毒美顏寶) to reduce harmful toxins found in the body. Accordingly, the Hong Kong Polytechnic University (“HKPU”) was commissioned to survey over 1,000 people aged from 30 to 60 to determine their level of understanding towards environmental contamination and poisonous substances as well as symptoms related with exposure to such pollutants. As part of the study, HKPU conducted tests on “Beauty and Healthy” (排毒美顏寶), and since 2005, the tests have found the product capable of lowering mercury levels in the kidney, DDT and arsenic in the blood, and lead in the tibia of animals.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Business Review *(Continued)*

Hong Kong (Continued)

In addition to raising public awareness of the benefits associated with “Beauty and Healthy” (排毒美顏寶), the Group has appointed a brand name drugstore chain with over 100 outlets to distribute its products. The combination of both efforts will form the basis for the Group’s drive to profitability.

Mainland China

Mainland China remains a vital market for the Group, not only because this region accounts for the largest portion of the Group’s total turnover, but also it is where the Group was able to achieve double-digit increase of 42% during the review period. While price wars continue to be waged among market players, the Group was up to the challenge, bolstered by the successful transfer of production back to its own premises as opposed to contracting out to a secondary party as had been previously the case. Accordingly, the Group was able to greatly enhance its gross profit margin. To further bolster efficiency, the Group took steps to consolidate its marketing team, ensuring that optimal manpower was directed towards key markets.

Others

The Group’s operations in other parts of Asia remain trying, as several markets that it operates in presented their own distinct challenges. In Macau, slowing demand triggered the Group’s decision to locate a new distributor for enhancing sales. In Singapore, a product re-launch programme has been implemented, but due to the recentness of its introduction, has yet to have any appreciable effect. Both Singapore and Malaysia will continue to employ direct marketing as the preferred means for capturing consumer demand.

During the review period, the Group was able to further strengthen its reputation among the industry and consumers, earning several accolades including the “Diamond Award” in HWB Award from Watsons and the “Best Detoxification Product Award” in Health & Beauty Award 2007-08 from Mannings.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Prospects

The Group is fully determined to enhance its position in all of the markets it operates in, and elevate its profile among the general public. In Hong Kong, its two-year re-branding programme will encompass a full range of activities including efforts to educate the public on the dangers of food contamination and the detoxifying properties of “Beauty and Healthy” (排毒美顏寶). It is the Group’s firm belief that by raising public awareness about issues relating to environmental contamination, which at present, only around 20% of Hong Kong people are aware of, the Group will play a positive role in raising the prominence of the healthcare products market.

Across the border, in Mainland China, the Group is committed to strengthening its presence in the country by leveraging the popularity of the “Yanta Pai” (雁塔牌) brand. With widespread acceptance of “Chen Xiang Lu Bai Lu Pian” (陳香露白露片) gastrointestinal medicine, during the period, the Group has repackaged the product, along with raised prices, and will evaluate market response.

While Malaysia and Singapore will continue to be of particular focus among Southeast Asian countries, the Group is on the threshold of entering a new market: Indonesia. Having reached final stages of discussion with local authorities, the Group is confident of its ability to capitalize on the numerous benefits offered by the Indonesian market in order to contribute to the Group’s revenue.

In addition to strengthening its position in strategic markets, the Group will seek to develop and import new products for distribution. Moreover, it will continue to conduct research with the support of tertiary institutions to determine and elevate the beneficial properties of the Group’s products, and at the same time disseminate such information to the general public so that they become familiar with the importance of consuming healthcare products. Better understanding of healthcare and the Group’s brands, and strengthened association between the two in the public mind will facilitate the Group to capture a greater market share and create better returns for stakeholders.

Liquidity and Financial Resources

The Group has consistently maintained sufficient working capital. As at 30 September 2007, the Group had current assets of HK\$39,273,000 (31 March 2007: HK\$42,886,000) and cash and bank balances of HK\$11,662,000 (31 March 2007: HK\$10,739,000). The Group’s current liabilities as at 30 September 2007 amounted to HK\$23,832,000 (31 March 2007: HK\$18,377,000).

As at 30 September 2007, the Group’s total equity was HK\$59,788,000 (31 March 2007: HK\$69,986,000). The Group had interest-bearing bank and other borrowings of HK\$29,069,000 as at 30 September 2007 (31 March 2007: HK\$21,786,000). The gearing ratio as at 30 September 2007, being the ratio of total liabilities to total equity, was 66.3% (31 March 2007: 50.4%).

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Employees

As at 30 September 2007, the Group had 209 employees (31 March 2007: 263 employees).

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

Exchange Risk

The Group's revenues and costs are mainly denominated in Hong Kong dollars and Renminbi. Since Hong Kong dollars remain pegged to the US dollars and Renminbi has been pegged to a basket of currencies, the Group does not foresee substantial risks from exposure to US dollars and Renminbi in this regard.

Pledge of the Group's Assets

As at 30 September 2007, the Group's bank deposits of approximately HK\$361,000 (31 March 2007: HK\$357,000) and leasehold land and buildings with an aggregate net book value of approximately HK\$48,942,000 (31 March 2007: HK\$35,903,000) were pledged to secure banking facilities granted to the Group.

Contingent Liabilities

Details of the Group's contingent liabilities are set out in note 16 to the interim financial information.

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

As at 30 September 2007, the interests of the Directors in the shares and underlying shares of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was deemed or taken to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), to be notified to the Company and the Stock Exchange were as follows:

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

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

Notes:

- These shares which represented 75% of the issued share capital of the Company were beneficially owned by Oriental Chinese Medicines Limited ("Oriental Chinese") as at 30 September 2007. 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. These shares held by Oriental Chinese were transferred to Mr. Chiu Ka Leung and Ms. Yeh Shu Ping respectively subsequent to 30 September 2007, the end of this interim period.
- The letter "L" denotes a long position in the shares.
- As defined in Section 331 of the SFO, a reference to interests in shares comprised in the share capital of a listed corporation includes a reference to interests in shares so comprised, which are the underlying shares of equity derivatives (as defined in the SFO). The 450,000,000 shares had not included underlying shares of equity derivatives which are separately disclosed below.

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

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

Certain Directors were granted share options under the share option scheme of the Company dated 22 August 2002. The share options granted to Directors to subscribe for ordinary shares of the Company which were outstanding at 30 September 2007 were as follows:

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

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

The date of grant of such options is 9 September 2002 and the number of outstanding share options at the beginning and at the end of the interim period is the same.

DIRECTORS' AND CHIEF 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) *(Note 1)*

Name of Director	Nature of interest	Number and class of shares held/interested
Mr. Chiu Ka Leung	Beneficial owner	83.781 (L) <i>(Note 2)</i> ordinary shares (representing 83.781% of its entire issued share capital)
Ms. Yeh Shu Ping	Beneficial owner	16.219 (L) <i>(Note 2)</i> ordinary shares (representing 16.219% of its entire issued share capital)

Note:

- Subsequent to 30 September 2007, the end of this interim period, Oriental Chinese ceased to be the Company's holding company and, accordingly, was no longer an associated corporation of the Company.
- The letter "L" denotes a long position in the shares.

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- (b) In addition to the above, as at 30 September 2007, Mr. Chiu Ka Leung held one ordinary share (in trust for the Group) in each of LFHK, International Health Association (HK) Limited, Long Far Health Products Limited and Hong Kong Health Journal Limited (all of which were indirect wholly-owned subsidiaries of the Company) in a non-beneficial capacity, solely for the purpose of complying with the previous minimum company membership requirement.

Save as disclosed above, as at 30 September 2007, none of the Directors or chief executive of the Company had registered an interest or a short position in the shares or underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was deemed or taken to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange; nor had there been any grant or exercise of rights during the six months ended 30 September 2007.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 30 September 2007, the following parties had interests of exceeding 5% of the issued share capital of the Company as 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 (Note 1)	Beneficial owner	450,000,000 (L) (Note 3)	75%
Ms. Guo Jinxiu (Note 2)	Interest held by spouse	450,000,000 (L) (Note 3)	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". Subsequent to 30 September 2007, the end of this interim period, Oriental Chinese transferred all these 450,000,000 shares to Mr. Chiu Ka Leung and Ms. Yeh Shu Ping, respectively.
2. Ms. Guo Jinxiu is the wife of Mr. Chiu Ka Leung and such interest had 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 30 September 2007, no person, other than the Directors whose interests are set out in the section headed "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.

SHARE OPTION SCHEME

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

SHARE OPTION SCHEME *(Continued)*

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

Name or category of option holder	Number of share options					Date of grant of share options	Exercise period of share options	Exercise price of share options
	At 1 April 2007	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period	At 30 September 2007			
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
Employees working under continuous contracts – in aggregate	3,200,000	–	–	–	3,200,000	9.9.2002	See note below	HK\$0.375 per share
Total	5,500,000	–	–	–	5,500,000			

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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. The vesting period of the share options was from the date of grant until the commencement of the exercise period.

At 30 September 2007, the Company had 5,500,000 share options outstanding under the Scheme. The exercise in full of all the outstanding 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 an additional share capital of HK\$275,000 and a share premium of HK\$1,787,500 (before issue expenses).

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 six months ended 30 September 2007.

AUDIT COMMITTEE

The audit committee of the Company has reviewed with management the interim financial information for the six months ended 30 September 2007, including accounting principles and practices adopted by the Group, and discussed internal controls and financial reporting matters.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance with a view to enhancing the management of the Company as well as preserving the interests of the shareholders as a whole. The Board of Directors is of the view that the Company has met the code provisions set out in the Code on Corporate Governance Practices contained in Appendix I4 to the Rules Governing the Listing of Securities on the Stock Exchange (“Listing Rules”).

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

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

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

By Order of the Board
Chiu Ka Leung
Chairman