LONG FAR

LONG FAR PHARMACEUTICAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2898

Combine a Healthy Life

Annual Report 2008

Contents

Corporate Information

BOARD OF DIRECTORS

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

AUDIT COMMITTEE

Mr. Lam Siu Hung	*Chairman*
Mr. Guo Guoqing	
Mr. Kwok Hok Lun	

REMUNERATION COMMITTEE

Mr. Chiu Ka Leung	*Chairman*
Ms. Yeh Shu Ping	*Vice-Chairman*
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 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.

Corporate Information

PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited
11/F, 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,
Wanchai,
Hong Kong.

WEBSITE

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 present the annual report of the Company and its subsidiaries (the "Group") for the year ended 31 March 2008.

Owing to intense competition and ongoing price wars, the Group's turnover was duly affected, totalling HK$41,371,000 by the end of the financial year. Accordingly, a net loss attributable to shareholders of the Company amounted to HK$19,226,000.

Though the environment surrounding the healthcare products market has been difficult in recent years, we remain optimistic about our ability to overcome the present trough through education and expansion. In terms of the former, we have continued to inform the general public about the importance of preventive medicine. While seminars and advertorials are part of our education strategy, the best means of reaching the masses is by offering outstanding products. To this end there is "Beauty and Healthy" (排毒美顏寶) which remains the cornerstone of our product line-up, and continues to be the main revenue driver for the Group.

Along with education, our efforts at expansion continue in earnest – whether within existing markets or across regional borders. Certainly most successful during the latest financial year has been our operations in Mainland China. In fact, our labours in the country have been rewarded with turnover which, for the first time, exceeds that of our Hong Kong business. That said, our interest in parts of South East Asia, namely, Malaysia and Singapore necessitates stepped-up effort, and our foray into Indonesia will also require further nurturing.

Undeterred by the difficult business climate we find in operating during the past 12 months, we will be approaching our upcoming 10th anniversary with renewed vigor. More committed than ever, we look to explore new markets, enhance our product offerings, bolster efficiency and consolidate the Group position as the elite of the healthcare products industry.

APPRECIATION

On behalf of the Board, I would like to express my gratitude to our business partners, stakeholders and customers for their ongoing support. I would particularly like to extend my thanks to the management and staff for their diligence and dedication over the past year.

Chiu Ka Leung
Chairman

Hong Kong, 17 July 2008

Management Discussion and Analysis

FINANCIAL RESULTS

The Group's turnover for the year ended 31 March 2008 amounted to HK$41,371,000 (2007: HK$46,563,000), representing a decline of 11.2% as compared with the corresponding period of last year. Gross profit totalling HK$19,424,000 (2007: HK$27,402,000) also decreased when compared with last year. Loss for the year attributable to ordinary equity holders was HK$19,226,000 (2007: HK$14,129,000). Basic loss per share was HK3.20 cents (2007: HK2.35 cents).

BUSINESS REVIEW

During the review period, the Group continued to experience intense competition in the healthcare products market. In particular, price pressures stemming from competing manufacturers flooding the market with cheaper products hampered the Group's financial performance.

Despite the number of challenges that the Group was confronted with, several key products among its portfolio continued to perform admirably. Representing the main revenue driver of the Group is "Beauty and Healthy" (排毒美顏寶) which accounted for over 43.3% (2007: 57.0%) of total turnover during the review period. Ranking second in position among the Group's most popular products is "Chen Xiang Lu Bai Lu Pian" (陳香露白露片), a "Yanta Pai"(雁塔牌) brand of Chinese gastrointestinal medicine, generating 19.5% (2007: 10.6%) of total turnover. The third and fourth bestsellers were "Zi Deng Jiao Nang" (紫燈膠囊) and "Pudilan Xiaoyan Pian" (蒲地藍消炎片), which accounted for 12.6% and 4.7% (2007: 0% and 3.1%) of the Group's total turnover, respectively.

In terms of sales based on geographical region, Mainland China for the first time overtook Hong Kong as the Group's main market, accounting for 51.7% of overall turnover, with Hong Kong turnover at 41.7% and others at 6.6%.

Mainland China

As aforementioned, the Group's Mainland China operation for the first time recorded turnover which exceeded that of its Hong Kong counterpart, specifically, HK$21,388,000 (2007: HK$13,944,000) compared with HK$17,232,000 (2007: HK$29,185,000), respectively. This significant milestone reflects growing public acceptance of the Group's products as well as the Group's success at continuously expanding its sales network across the country. Representing a year-on-year sales increase of 53.4%, the top three performers during the financial period under review were "Chen Xiang Lu Bai Lu Pian" (陳香露白露片), "Zi Deng Jiao Nang" (紫燈膠囊) and "Pudilan Xiaoyan Pian" (蒲地藍消炎片), which accounted for 37.8%, 24.3% and 9.2% of segment turnover, respectively.

Hong Kong

In Hong Kong, despite the re-branding program for "Beauty and Healthy" (排毒美顏寶) mounted by the Group in July 2007, an across-the-board upturn in sales has yet to materialize. This suggests that consumers require further time to accept the Group's new branding and pricing strategies; while conversely the Group must place additional efforts in educating the public about the benefits of its products, in particular, their efficacy in removing harmful toxins from the body. Accordingly, the Group has continued to conduct seminars and promotional campaigns to highlight its "Superior Series" (極品系列) product offerings and provide relevant data for the justification of their relatively higher pricing.

Overseas

With respect to the South East Asia market, the Group's performance in the period under review has remained relatively stagnant. Sales in Singapore and Malaysia were not performing as well as expected. The Group will explore various strategies to resolve the situation.

Awards

Despite the varied performance of the Group in different markets, its capability to offer quality products to consumers remains constant always. Reflecting this commitment to excellence, the Group continued to be awarded a number of honors including, for its flagship detoxification product "Beauty and Healthy" (排毒美顏寶), the "Best Detoxification Product Award" (至FIT排毒獎) for the 6th consecutive year 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 8th Healthy & Beauty 2007 Awards. In June 2007, the Group was awarded "PRC Consumer's Most Favourable Hong Kong Brands 2007 – Gold Award" (2007全國消費者最喜愛的香港名牌－金獎品牌) by China Enterprise Reputation and Credibility Association (Overseas) Limited (中華(海外)企業信譽協會).

PROSPECTS

The management believes that the Group is entering a pivotal period in its development as healthcare product markets across Asia begin a consolidation phase. As smaller scale, less qualified players leave the industry, squeezed out by increasingly tighter legislation imposed by regional governments, the Group is in an ideal position to capture a greater market share – particularly in Mainland China. Having made significant inroads during the latest financial period with the increasing popularity of its three strongest performers, the Group will look to enhancing the physical appeal of these products in the coming fiscal period. In particular, "Chen Xiang Lu Bai Lu Pian" (陳香露白露片) is expected to be a major growth driver of the Group once the difficult business conditions in Mainland China abate.

PROSPECTS (Continued)

In addition, the Group will step up efforts to educate the public on the benefits of its products through seminars and membership newsletters as well as through newspaper advertising and new television commercials. The management is therefore confident that "Beauty and Healthy" (排毒美顏寶) will become increasingly popular, especially among female consumers in Hong Kong.

With regard to South East Asia, in Malaysia and Singapore the Group will continue to focus its efforts on product promotion campaigns while in Indonesia the Group, having already commenced distribution on a small scale, will seek to expand its market share once all licensing agreements have been reached with local authorities.

The Group, in continuing efforts to extend its geographical reach, has made initiatives to enter the Taiwan market. The Group looks to using a local television shopping network for distribution of its products in Taiwan and is in the process of securing the necessary licensing to commence operations, completion of which process is expected in the first half of the coming financial year.

Apart from surveying new markets, the Group will be exploring new production options as well. Accordingly, the Group will be producing its "Superior Series" (極品系列) of healthcare products in the United States using organic lingzhi (有機靈芝) in their formula. This innovative measure will serve to attract even more consumers to the "Superior Series" (極品系列) line of products, which are already well recognized for their effectiveness in strengthening the body's immune and respiratory systems including the regulatory functions of the kidneys.

The Group is principally engaged in the manufacturing and distribution of healthcare and pharmaceutical products in Hong Kong and Mainland China. In the year under review, competition in the healthcare and pharmaceutical markets was fierce, and the Group's turnover and gross profit margin continued to decline. The Board expects this situation of intense competition to persist and, in the short term, prospects in this market to be most challenging.

The Board is of the opinion that diversification of the Group's existing businesses can broaden the Group's revenue base and reduce its overall business risk. The Board believes that the Mainland China economy will continue to expand in the medium term and provide opportunities for the Group to achieve higher growth through participation in business projects with strong development potential in Mainland China. The Board is proactively appraising various investment opportunities and exploring attractive business projects with promising prospects so as to broaden the Group's revenue base.

In the future, as always, it will be the Group's commitment and top priority to create value for its shareholders. The Group will inform the shareholders and the market in due course of its new developments.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has consistently maintained sufficient working capital. As at 31 March 2008, the Group had current assets of HK$44,223,000 (2007: HK$42,886,000) and cash and bank balances of HK$19,941,000 (2007: HK$10,739,000). The Group's current liabilities as at 31 March 2008 amounted to HK$35,132,000 (2007: HK$18,377,000).

As at 31 March 2008, total equity was HK$53,592,000 (2007: HK$69,986,000). The Group had interest-bearing bank and other borrowings of HK$33,579,000 as at 31 March 2008 (2007: HK$21,786,000). The gearing ratio as at 31 March 2008, being the ratio of total liabilities to total equity, was 92.9% (2007: 50.4%).

EMPLOYEES

As at 31 March 2008, the Group had 196 employees (2007: 263 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, with reference to the Group's results and individual performance.

CONTINGENT LIABILITIES

(a) As at 31 March 2008, the Group had 700 (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 Long Far Healthcare Promotion Centre (established by a subsidiary of the Company) at a discounted price for a period up to 31 May 2008. The coupon holders would be given discounts upon the presentation of the coupons. As at 31 March 2008, the maximum value of these outstanding coupons, subject to redemption, amounted to approximately HK$35,000 (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 will be held at the Trade Marks Registry to determine whether LFHK's objections 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 2008, the date of the trial has not been determined and the Group has not made any provision for such further legal costs subject to the occurrence of the trial.

EXCHANGE RISK

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

PLEDGE OF THE GROUP'S ASSETS

As at 31 March 2008, the Group's bank deposits of approximately HK$369,000 (2007: HK$357,000) and leasehold land and buildings with an aggregate carrying amount of approximately HK$48,820,000 (2007: HK$35,903,000) 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 44, is the founder of the Group. He is the Chairman of the Board and of the Remuneration Committee, a member of the Executive Committee and an executive director of the Company. He is also a director of various subsidiaries 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 Mainland China 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 has worked as a pharmacist in 雲南省紅十字會醫院 (Yunnan Provincial Red Cross Hospital) in Mainland China 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).

Ms. Yeh Shu Ping, aged 61, is the Vice-chairman of the Board and of the Remuneration Committee, the Chairman of the Executive Committee, the Chief Executive Officer and an executive director of the Company. She is also a director of various subsidiaries 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 has worked as a nurse in hospital and clinic in Mainland China 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. She is the mother of Mr. Han Ping, Joseph (the Vice-president of the Company).

Mr. Jiao Shaoliang, aged 34, is an executive director and a member of the Executive Committee of the Company. He is also a director of certain subsidiaries of the Company. Mr. Jiao is responsible for the business development of the Group. He was awarded a diploma in clinical medicine by 昆明醫學院 (Kunming Medical College) in Mainland China 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 Mainland China 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).

DIRECTORS (Continued)

Executive Directors (Continued)

Mr. Lan Daoying, aged 41, is an executive director and a member of the Executive Committee of the Company. He is also a director of certain subsidiaries of the Company. Mr. Lan is responsible for the production, quality control and research and development of the Group. He 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 Mainland China 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).

Independent Non-executive Directors

Mr. Lam Siu Hung, aged 49, was appointed as an independent non-executive director of the Company on 30 September 2004. He is also the Chairman of the Audit Committee and a member of the Remuneration Committee of the Company. 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. Guo Guoqing, aged 45, was appointed as an independent non-executive director of the Company on 22 August 2002. He is also a member of both the Audit Committee and the Remuneration Committee of the Company. Mr. Guo received his doctorate degree in economics from 中國人民大學 (Zhongguo Renmin University) in 1998. He 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 China Asean Resources Limited (formerly known as "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 32, was appointed as an independent non-executive director of the Company on 1 October 2006. He is also a member of both the Audit Committee and the Remuneration Committee of the Company. 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 38, 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 39, 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 2008.

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

The Company acknowledges the importance of good corporate governance practices as a core element to safeguard the interests of shareholders and to enhance corporate value and accountability. The Board sets appropriate policies and implements corporate governance practices appropriate to the conduct and growth of the Group's business.

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

In the opinion of the Board, the Company has complied with all the code provisions set out in the CG Code throughout the year ended 31 March 2008. The Board will continue to review such practices and standards regularly to ensure that they comply with the statutory and professional standards and align with the latest developments. The key corporate governance principles and practices of the Company are summarized as follows:

A. THE BOARD

A.1 Responsibilities and Delegation

The overall management and control of the Company's business is vested in the Board. The Board is responsible for establishing policies, strategies and plans, providing leadership in the attainment of the objective of creating value to shareholders and, on behalf of the shareholders, overseeing the Company's financial performance. All directors carry out their duties in good faith and in compliance with the standards of applicable laws and regulations, take decisions objectively and acts in the interests of the Company and its shareholders at all times.

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.

All directors have full and timely access to all relevant information as well as the advice and services of the senior management, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expenses, upon reasonable request made to the Board.

A. THE BOARD (Continued)

A.1 Responsibilities and Delegation (Continued)

The day-to-day management, administration and operation of the Company are led by the Executive Committee and the Chief Executive Officer of the Company. The Board has also delegated a schedule of responsibilities to the senior management of the Company, which 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 control systems. The Board has the full support of the senior management to discharge its responsibilities.

The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the foregoing officers and senior management.

A.2 Board Composition

The Board comprises the following directors:

Executive directors:

Mr. Chiu Ka Leung	*(Chairman of the Board and Chairman of the Remuneration Committee)*
Ms. Yeh Shu Ping	*(Vice-chairman, Chief Executive Officer and member of the Remuneration Committee)*
Mr. Jiao Shaoliang	
Mr. Lan Daoying	

Independent non-executive directors:

Mr. Lam Siu Hung	*(Chairman of the Audit Committee and member of the Remuneration Committee)*
Mr. Guo Guoqing	*(Member of both the Audit Committee and the Remuneration Committee)*
Mr. Kwok Hok Lun	*(Member of both the Audit Committee and the Remuneration Committee)*

The Board has at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications and accounting and related financial management expertise. The Company has also adopted the recommended best practice under the CG Code for having more than one-third of its Board members being independent non-executive directors.

The list of all directors (by category) is set out under the section headed "Corporate Information" in this annual report and is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time. The independent non-executive directors are expressly identified in all corporate communications of the Company.

The relationships among the members of the Board are disclosed under the section headed "Biographical Details of Directors and Senior Management" in this annual report.

A. THE BOARD (Continued)

A.2 Board Composition (Continued)

The Board has maintained the necessary balance of skills and experience appropriate for the business requirements and objectives of the Group and for the exercise of independent judgement. Each executive director supervises specific areas of the Group's business in accordance with his/her expertise. The independent non-executive directors bring different business and financial expertise, experiences and independent judgement to the Board and they are invited to serve on the Board committees of the Company. Through participation in Board meetings, taking the lead in managing issues involving potential conflicts of interests and serving on Board committees, the independent non-executive directors have made various contributions to the effective direction of the Company and provided adequate checks and balances to safeguard the interests of both the Group and the shareholders.

The Company has received respectively written annual confirmations from all independent non-executive directors of their independence pursuant to the requirements of the Listing Rules. The Company considers all of them independent in accordance with the independence guidelines set out in the Listing Rules.

A.3 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 Group's business. The Company fully supports that there should be a clear division of these responsibilities at the Board level to ensure a balance of power and authority, so that power is not concentrated in any one individual. Currently, Mr. Chiu Ka Leung, who is the Chairman of the Board, takes up the responsibility of the management of the Board whereas Ms. Yeh Shu Ping, the Chief Executive Officer of the Company, is responsible for the day-to-day management of the Group's business. The respective responsibilities between the Chairman of the Board and the Chief Executive Officer have been clearly established and set out in writing.

A.4 Appointment and Re-election of Directors

All directors of the Company are appointed for a specific term. Each executive director is engaged on a service contract with the Company and their current term of office is two years from 1 January 2007. The Company has also issued respective letters of appointment to its independent non-executive directors and their current term of appointment is 1 year from 1 October 2007.

The procedures and process of appointment, re-election and removal of directors are laid down in the Company's articles of association. In accordance with the articles of association, all the directors 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.

A. THE BOARD (Continued)

A.4 Appointment and Re-election of Directors (Continued)

The Company has not set up a nomination committee and the Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the succession planning of directors and assessing the independence of independent non-executive directors. 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.

During the year under review, the Board has 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, and performed the following work regarding matters relating to the Board composition:

(i) review of the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements for the business of the Group;

(ii) recommendation of the re-election of the retiring directors standing for re-election at the 2007 annual general meeting of the Company; and

(iii) assessment of the independence of all the independent non-executive directors of the Company.

A.5 Induction and Continuing Development for Directors

Each newly appointed director of the Company receives an 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 Group and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

Directors of the Company are continually updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities. In addition, the Company has sent the latest version of the "Non-statutory Guidelines on Directors' Duties" published by the Hong Kong Companies Registry to its directors and encourages them to read such Guidelines in order to acquaint themselves with the general duties of directors and the required standard of care, skill and diligence in the performance of his/her functions and exercise of his/her powers as directors.

Besides, continuing briefings and professional development to directors will be arranged whenever necessary.

A. THE BOARD (Continued)

A.6 Board Meetings

A.6.1 Board Practices and Conduct of Meetings

Schedules for regular Board meetings are normally agreed with the directors in advance in order to facilitate them to attend. In addition to the above, notice of at least 14 days is given of a regular Board meeting. For other Board meetings, reasonable notice is generally given.

Draft agenda of each Board meeting is usually sent to all directors together with the notice in order to give them an opportunity to include any other matters in the agenda for discussion in the meeting.

Board papers together with appropriate, complete and reliable information are sent to all directors at least 3 days before each Board meeting to keep the directors apprised of the latest developments and financial position of the Group and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

The Chief Executive Officer, Financial Controller, Company Secretary and other relevant senior management normally attend regular Board meetings and, where necessary, other Board meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Group.

The Company Secretary is responsible to keep minutes of all Board meetings. Draft minutes are normally circulated to directors for comments within a reasonable time after each meeting and the final version is open for directors' inspection.

According to the current Board practice, any material transaction, which involves a conflict of interest for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting. The Company's articles of association contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

A. THE BOARD (Continued)

A.6 Board Meetings (Continued)

A.6.2 Directors' Attendance Records in Board Meetings

The Board has met regularly during the year ended 31 March 2008 at approximately quarterly intervals for reviewing and discussing on the financial and operating performance of the Group and other related matters. Apart from the four regular Board meetings, the Board also held two additional Board meetings during the year. The attendance records of each director at these six Board meetings are set out below:

Name of Director	**Attendance/Number of Board Meetings**
Executive directors	
Mr. Chiu Ka Leung	6/6
Ms. Yeh Shu Ping	6/6
Mr. Jiao Shaoliang	4/6
Mr. Lan Daoying	0/6
Independent non-executive directors	
Mr. Lam Siu Hung	6/6
Mr. Guo Guoqing	1/6
Mr. Kwok Hok Lun	4/6

Though Mr. Lan Daoying has been unable to attend the Board meetings held in the year ended 31 March 2008, he has constant dialogues with the Chairman of the Board and the Chief Executive Officer on the affairs of the Group.

A.7 Model Code for Securities Transactions

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 required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules. Each director has been given a copy of the Own Code. Specific enquiry has been made of all the Company's directors and they have confirmed their compliance with the Own Code and the Model Code in respect of the year ended 31 March 2008.

The Company also has established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") for securities transactions by relevant employees who are likely to be in possession of unpublished price-sensitive information of the Company and/or its securities. No incident of non-compliance with the Employees Written Guidelines by the relevant employees was noted by the Company.

In case when the Company is aware of any restricted period for dealings in the Company's securities, the Company will notify its directors and relevant employees in advance.

B. BOARD COMMITTEES

The Board has established three Board committees, namely, the Remuneration Committee, the Audit Committee and the Executive Committee, for overseeing particular aspects of the Company's affairs. All Board committees have been established with defined written terms of reference, which are posted on the Company's website "www.longfar.com.hk" and are available to shareholders upon request. All the Board committees should report to the Board on their decisions or recommendations made.

The practices, procedures and arrangements in conducting meetings of Board committees follow in line with, so far as practicable, those of the Board meetings set out in section A.6.1 above.

All Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

B.1 Remuneration Committee

The Remuneration Committee comprises a total of five members, being two executive directors, namely, Mr. Chiu Ka Leung and Ms. Yeh Shu Ping and three independent non-executive directors, namely, Mr. Lam Siu Hung, Mr. Guo Guoqing and Mr. Kwok Hok Lun. Accordingly, a majority of the members are independent non-executive directors. The Chairman of the Remuneration Committee is Mr. Chiu Ka Leung.

The principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Company's remuneration policy and structure and the remuneration packages of directors and members of senior management. The Remuneration Committee is also responsible for 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, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

During the year ended 31 March 2008, the Remuneration Committee has met once with the presence of Ms. Yeh Shu Ping, Mr. Lam Siu Hung and Mr. Kwok Hok Lun. The members in that meeting have 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; and have also generally reviewed the remuneration packages of the directors of the Company and made relevant recommendations.

Details of the remuneration of each director of the Company for the year ended 31 March 2008 are set out in note 7 to the financial statements contained in this annual report.

B. BOARD COMMITTEES (Continued)

B.2 Audit Committee

The Audit Committee comprises a total of three members, being the three independent non-executive directors, namely Mr. Lam Siu Hung, Mr. Guo Guoqing and Mr. Kwok Hok Lun. The Chairman of the Audit Committee is Mr. Lam Siu Hung who possesses the appropriate accounting and financial management expertise as required under Rule 3.10(2) of the Listing Rules. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee are reviewing the financial information and reports of the Group and considering any significant or unusual items raised by the financial officers of the Group or external auditors before submission to the Board; reviewing the relationship with and the terms of appointment of the external auditors and making the relevant recommendation to the Board; and reviewing the Company's financial reporting system, internal control system and risk management system.

During the year ended 31 March 2008, the Audit Committee has met twice and performed the following major works:

– Review of the financial statements, results announcements and reports for the year ended 31 March 2007 and for the six months ended 30 September 2007, the accounting principles and practices adopted by the Group and the relevant audit findings;

– Review and discussion of the internal control system of the Group;

– Review and confirmation of the Company's continuing connected transaction for the year ended 31 March 2007 pursuant to the Listing Rules; and

– Discussion and recommendation of the re-appointment of the external auditors.

The external auditors were invited to attend one of the meetings to discuss with the Audit Committee members on issues arising from the audit and financial reporting matters. There is no disagreement between the Board and the Audit Committee regarding the appointment of external auditors.

The attendance records of the foregoing two Audit Committee meetings are set out as follows:

Name of Audit Committee Member	Attendance/Number of Audit Committee Meetings
Mr. Lam Siu Hung *(Chairman)*	2/2
Mr. Guo Guoqing	1/2
Mr. Kwok Hok Lun	2/2

B. BOARD COMMITTEES (Continued)

B.3 Executive Committee

The Executive Committee comprises all the executive directors of the Company with the Vice-chairman of the Board, Ms. Yeh Shu Ping, acting as the Chairman of such Committee. The Executive Committee operates as a general management committee under the direct authority of the Board to increase the efficiency for the business decision. It monitors the execution of the Company's strategic plans and operations of all business units of the Group and discusses and makes decisions on matters relating to the management and day-to-day operations of the Group.

C. DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF THE FINANCIAL STATEMENTS

The directors have acknowledged their responsibilities for preparing the financial statements of the Company for the year ended 31 March 2008.

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. The management has provided such explanation and information to the Board as necessary to enable the Board to make an informed assessment of the financial information and position of the Group put forward to the Board for approval.

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.

D. INTERNAL CONTROLS

The Board is responsible for maintaining an adequate internal control system of the Group to safeguard the interests of the Company's shareholders and assets and, with the support of the Audit Committee, for reviewing the effectiveness of such system on an annual basis.

The Board has conducted an annual review of the effectiveness of the internal control system of the Group for the year ended 31 March 2008. The senior management reviews and evaluates the control process and monitors any risk factors on a regular basis and reports to the Board and the Audit Committee on any findings and measures to address the variances and identified risks.

E. EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The statement of the external auditors of the Company about their reporting responsibilities on the Company's financial statements for the year ended 31 March 2008 is set out in the section headed "Independent Auditors' Report" in this annual report.

E. EXTERNAL AUDITORS AND AUDITORS' REMUNERATION (Continued)

A summary of audit and non-audit services provided by the external auditors for the year ended 31 March 2008 and their corresponding remuneration is as follows:

Nature of services	**Amount** (HK$'000)
Audit services	700
Non-audit services – interim review	138

F. COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Board believes that a transparent and timely disclosure of the Group's information will enable shareholders and investors to make the best investment decision and to have better understanding on the Group's business performance and strategies. It is also vital for developing and maintaining continuing investor relations with the Company's potential and existing investors.

The Company maintains a website at "www.longfar.com.hk" as a communication platform with shareholders and investors, where information and updates on the Group's business developments and operations, financial information and other information are available for public access. Shareholders and investors may write directly to the Company at its principal place of business for any inquiries. Inquiries are dealt with in an informative and timely manner.

The Board welcomes views of shareholders and encourages them to attend general meetings to raise any concerns they might have with the Board or the management directly. The Chairman of the Board as well as the chairmen and/or other members of the Audit Committee and the Remuneration Committee are normally present at the annual general meetings and other shareholders' meetings of the Company to answer questions raised.

G. SHAREHOLDERS' RIGHTS

As one of the measures to safeguard shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors, for shareholders' consideration and voting.

Besides, the rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings and shareholders' rights for proposing resolutions are contained in the Company's articles of association. Details of such rights for demanding a poll are also included in all circulars of the Company sent to shareholders and, where necessary, explained in shareholders' meetings.

Where poll voting is conducted at a shareholders' meeting, the poll voting results will be published on the websites of the Stock Exchange and of the Company shortly after the meeting.

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 2008.

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 2008 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 35 to 92.

The directors of the Company do not recommend the payment of any dividend in respect of the year (2007: Nil).

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, 25 August 2008 to Thursday, 28 August 2008 (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 Thursday, 28 August 2008, unregistered holders of shares of the Company should ensure that all transfers of shares accompanied by the relevant share certificates and the appropriate transfer forms must be lodged with the Company's Branch Share Registrar in Hong Kong, Tricor Tengis Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 22 August 2008.

Report of the Directors

SUMMARY FINANCIAL INFORMATION

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

RESULTS

	Year ended 31 March				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
REVENUE	**41,371**	46,563	57,533	77,070	60,569
(LOSS)/PROFIT BEFORE TAX	**(19,226)**	(14,129)	(9,886)	5,707	4,662
Tax	**–**	–	5	(974)	(1,350)
(LOSS)/PROFIT ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	**(19,226)**	(14,129)	(9,881)	4,733	3,312

ASSETS AND LIABILITIES

	As at 31 March				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**103,382**	105,242	122,780	105,722	102,270
TOTAL LIABILITIES	**(49,790)**	(35,256)	(40,270)	(14,303)	(15,573)
	53,592	69,986	82,510	91,419	86,697

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

Details of movements in the property, plant and equipment, and an 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.

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(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 March 2008, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to HK$27,854,000.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$1,000.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 73% of the total sales for the year and sales to the largest customer included therein amounted to approximately 20%. Purchases from the Group's five largest suppliers accounted for approximately 67% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 37%.

Mr. Chiu Ka Leung, who is a director of the Company and has an attributable interest of 62.83% in the Company's share capital, had beneficial interest in one of the five largest suppliers which accounted for approximately 6% 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

In accordance with article 87 of the Company's articles of association, Mr. Chiu Ka Leung, Mr. Jiao Shaoliang and Mr. Guo Guoqing will retire as directors of the Company by rotation at the forthcoming annual general meeting of the Company. The above retiring directors, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

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 two 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 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 forthcoming annual general meeting of the Company 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.

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 31 to the financial statements and in the section headed "Related party 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

As at 31 March 2008, the interests of the directors 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) Long position in ordinary shares of the Company

Name of director	Nature of interests	Number of ordinary shares held/interested	Percentage of the Company's issued share capital
Mr. Chiu Ka Leung	Beneficial owner	377,014,500 *(Note)*	62.83%
Ms. Yeh Shu Ping	Beneficial owner	72,985,500 *(Note)*	12.16%

Note: Subsequent to 31 March 2008, part of these shares were disposed of by Mr. Chiu Ka Leung and Ms. Yeh Shu Ping, respectively.

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

(B) Long position in underlying shares of the Company – physically settled unlisted equity derivatives

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 2008 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	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	9 September 2003 to 8 September 2012	HK$10.00 (for all)	HK$0.375 (per share)

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.

In addition to the above, Mr. Chiu Ka Leung holds one ordinary share in each of Long Far Herbal Medicine Manufacturing (Hong Kong) Limited, International Health Association (HK) Limited, Long Far Health Products Limited and Hong Kong Health Journal Limited (in all cases in trust for Long Far Pharmaceutical (BVI) Limited and all of these companies 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 and in the section headed "Share option scheme" below, as at 31 March 2008, 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 of such interests, during the year ended 31 March 2008.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share option scheme disclosure in the section below and 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 his/her 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.

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. Further details of the Scheme are disclosed in note 26 to the financial statements.

The following table shows movements of the Company's share options during the year:

	Number of share options					
Name of option holder	At 1 April 2007	Granted/ exercised/lapsed/ cancelled during the year	At 31 March 2008	Date of grant of share options	Exercise period of share options	Exercise price of share options
Mr. Jiao Shaoliang, Executive Director	1,100,000	–	1,100,000	9.9.2002	See Note 1 below	HK$0.375 per share
Mr. Lan Daoying, Executive Director	1,200,000	–	1,200,000	9.9.2002	See Note 1 below	HK$0.375 per share
Employees working under continuous contracts – in aggregate	3,200,000	–	3,200,000	9.9.2002	See Note 1 below	HK$0.375 per share
Total	5,500,000	–	5,500,000			

Notes:

1. 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 is from the date of grant until the commencement of the exercise period.

2. The number and/or exercise price of the share options may be subject to adjustment in the case of rights or bonus issues, or other changes in the Company's share capital.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 March 2008, the following interest of 5% or more of the issued share capital of the Company was 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 interested	Percentage of the Company's issued share capital
Ms. Guo Jinxiu *(Note 1)*	Interest held by spouse	377,014,500 (L) *(Note 2)*	62.83%

Notes:

1. 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".

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

Save as disclosed above, as at 31 March 2008, no person, other than the directors of the Company, 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 of the Company required to be kept pursuant to Section 336 of the SFO.

CONNECTED TRANSACTION

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

Under the manufacturing agreement entered into between Long Far Herbal Medicine Manufacturing (Hong Kong) Limited ("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 was responsible for the manufacture of Beauty and Healthy (排毒美顏寶) and the provision of various raw materials required for such manufacture (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 the People's Republic of China (the "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.

CONNECTED TRANSACTION (Continued)

Under the YPYP Transactions, YPYP charged a fee per capsule which included 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 fee is subject to revision by mutual agreement from time to time.

The maximum amounts 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 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 2008, the amount of fees paid to YPYP under the YPYP Transactions amounted to HK$921,000 which was within the above maximum amount of HK$26,668,213.

The independent non-executive directors of the Company have reviewed the YPYP Transactions for the year ended 31 March 2008 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.

Ernst & Young, the Company's auditors, have also reviewed, on a test basis, the YPYP Transactions for the year ended 31 March 2008 and provided a letter to the Board (with a copy to the Listing Division of the Stock Exchange) confirming that:

(i) the YPYP Transactions had received the approval of the Board;

(ii) the YPYP Transactions had been entered into in accordance with the relevant agreement governing the YPYP Transactions; and

(iii) 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 was considered to have an interest 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, details of which are set out below:

Mr. Chiu Ka Leung has a controlling interest in YPYP which is principally engaged in the development, manufacture and distribution of Chinese pharmaceutical products in Mainland China.

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 the 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.

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 2008, since 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, South East Asia and other Asian regions outside Mainland China, the directors consider that the operations of YPYP will not affect the Group's business.

Save as disclosed herein, the directors 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

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

ON BEHALF OF THE BOARD

Chiu Ka Leung
Chairman

Hong Kong
17 July 2008

Independent Auditors' Report

ERNST & YOUNG
安 永

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 35 to 92, which comprise the consolidated and company balance sheets as at 31 March 2008, 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.

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 2008 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
17 July 2008

Consolidated Income Statement

Year ended 31 March 2008

	Notes	2008 HK$'000	2007 HK$'000
REVENUE	4	**41,371**	46,563
Cost of sales		**(21,947)**	(19,161)
Gross profit		**19,424**	27,402
Other income and gain	4	**1,165**	2,113
Selling and distribution costs		**(12,516)**	(17,556)
Administrative expenses		**(25,304)**	(24,006)
Other expenses		**(359)**	(815)
Finance costs	6	**(1,636)**	(1,267)
LOSS BEFORE TAX	5	**(19,226)**	(14,129)
Tax	9	**–**	–
LOSS FOR THE YEAR ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	10	**(19,226)**	(14,129)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	11		
Basic		**(HK3.20 cents)**	(HK2.35 cents)
Diluted		**N/A**	N/A

Consolidated Balance Sheet

31 March 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**36,499**	39,154
Prepaid land lease payments	13	**22,420**	22,576
Investment property	14	**–**	386
Deferred tax assets	24	**240**	240
Total non-current assets		**59,159**	62,356
CURRENT ASSETS			
Inventories	16	**9,539**	11,629
Trade receivables	17	**11,757**	14,833
Prepayments, deposits and other receivables		**2,159**	1,795
Financial assets at fair value through profit or loss	18	**448**	3,533
Tax recoverable		**10**	–
Pledged deposits	19	**369**	357
Cash and cash equivalents	19	**19,941**	10,739
Total current assets		**44,223**	42,886
CURRENT LIABILITIES			
Trade payables	20	**2,240**	2,168
Other payables and accruals		**7,419**	8,959
Interest-bearing bank and other borrowings	21	**19,091**	5,077
Due to a related company	23	**109**	2,020
Due to directors	23	**6,273**	153
Total current liabilities		**35,132**	18,377
NET CURRENT ASSETS		**9,091**	24,509
TOTAL ASSETS LESS CURRENT LIABILITIES		**68,250**	86,865
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	21	**14,488**	16,709
Deferred tax liabilities	24	**170**	170
Total non-current liabilities		**14,658**	16,879
Net assets		**53,592**	69,986
EQUITY			
Issued capital	25	**30,000**	30,000
Reserves	27(a)	**23,592**	39,986
Total equity		**53,592**	69,986

Yeh Shu Ping
Director

Jiao Shaoliang
Director

Consolidated Statement of Changes in Equity

Year ended 31 March 2008

	Issued capital HK$'000	Share premium account HK$'000	Contributed surplus HK$'000 *(note 27(a))*	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total equity HK$'000
At 1 April 2006	30,000	8,720	300	1,106	42,384	82,510
Exchange realignment and total income and expense for the year recognised directly in equity	–	–	–	1,605	–	1,605
Loss for the year	–	–	–	–	(14,129)	(14,129)
At 31 March 2007 and 1 April 2007	30,000	8,720	300	2,711	28,255	69,986
Exchange realignment and total income and expense for the year recognised directly in equity	–	–	–	2,832	–	2,832
Loss for the year	–	–	–	–	(19,226)	(19,226)
At 31 March 2008	30,000	8,720*	300*	5,543*	9,029*	53,592

* These reserve accounts comprise the consolidated reserves of HK$23,592,000 (2007: HK$39,986,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 March 2008

	Notes	**2008** **HK$'000**	2007 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(19,226)**	(14,129)
Adjustments for:			
Dividend income from listed investments	4	**(20)**	(16)
Finance costs	6	**1,636**	1,267
Interest income	4	**(249)**	(566)
Fair value loss/(gain) for financial assets at fair value through profit or loss	5	**553**	(93)
Loss on disposal of financial assets at fair value through profit or loss	5	**115**	–
Depreciation	5	**4,630**	6,455
Recognition of prepaid land lease payments	5	**559**	558
(Gain)/loss on disposal of items of property, plant and equipment, net	5	**(63)**	114
Impairment of trade receivables	5	**359**	630
Write-down of inventories to net realisable value	5	**2,234**	1,179
		(9,472)	(4,601)
(Increase)/decrease in inventories		**(144)**	1,548
Decrease in trade receivables		**2,717**	2,794
(Increase)/decrease in prepayments, deposits and other receivables		**(353)**	2,087
Increase in amounts due to directors		**120**	32
Increase/(decrease) in trade payables		**72**	(2,669)
Decrease in other payables and accruals		**(1,540)**	(470)
Cash used in operations		**(8,600)**	(1,279)
Hong Kong profits tax (paid)/refunded		**(10)**	32
Net cash outflow from operating activities		**(8,610)**	(1,247)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**249**	566
Purchases of items of property, plant and equipment		**(272)**	(890)
Purchase of an investment property		**–**	(386)
(Increase)/decrease in pledged time deposits		**(12)**	4,189
Proceeds from disposal of items of property, plant and equipment		**125**	94
Proceeds from disposal of an investment property		**386**	–
Purchases of financial assets at fair value through profit or loss		**(3,099)**	(4,039)
Proceeds from disposal of financial assets at fair value through profit or loss		**5,516**	1,119
Dividend received from listed investments		**20**	16
Net cash inflow from investing activities		**2,913**	669

Consolidated Cash Flow Statement (Continued)
Year ended 31 March 2008

	Note	2008 HK$'000	2007 HK$'000
Net cash inflow from investing activities		**2,913**	669
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital element of finance lease rental payments		**(156)**	(343)
New bank loans		**16,900**	3,031
Repayment of bank loans		**(4,951)**	(6,615)
Advance from a related company		**–**	4,040
Advance from a director		**6,000**	–
Repayment of amount due to a related company		**(1,911)**	(2,020)
Interest paid		**(1,636)**	(1,267)
Net cash inflow/(outflow) from financing activities		**14,246**	(3,174)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**8,549**	(3,752)
Cash and cash equivalents at beginning of year		**10,739**	14,277
Effect of foreign exchange rate changes, net		**653**	214
CASH AND CASH EQUIVALENTS AT END OF YEAR		**19,941**	10,739
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	19	**19,846**	10,649
Non-pledged time deposits with original maturity of less than three months when acquired	19	**95**	90
		19,941	10,739

Balance Sheet

31 March 2008

	Notes	**2008 HK$'000**	2007 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	15	**6,712**	20,712
CURRENT ASSETS			
Due from subsidiaries	15	**50,937**	50,759
Other receivables		**109**	137
Cash and cash equivalents	19	**107**	258
Total current assets		**51,153**	51,154
CURRENT LIABILITIES			
Other payables and accruals		**11**	16
NET CURRENT ASSETS		**51,142**	51,138
Net assets		**57,854**	71,850
EQUITY			
Issued capital	25	**30,000**	30,000
Reserves	27(b)	**27,854**	41,850
Total equity		**57,854**	71,850

Yeh Shu Ping
Director

Jiao Shaoliang
Director

Notes to Financial Statements
31 March 2008

1. CORPORATE INFORMATION AND CORPORATE UPDATE

The Company 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 view of the operating losses incurred by the Group in the past two financial years and the current financial position of the Group, the directors of the Company have considered various fund raising alternatives in order to meet the Group's working capital and financial requirements. With the various measures undertaken by the Group and the continuing support from the Company's major shareholders, Mr. Chiu Ka Leung and Ms. Yeh Shu Ping, as well as the Group's bankers, the directors of the Company are confident that the Group is able to continue to operate as a going concern and to meet its liabilities as and when they fall due.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, 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 2008. 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 interpretations has had no material effect on these financial statements.

HKFRS 7	Financial Instruments: Disclosures
HKAS 1 Amendment	Presentation of Financial Statements – Capital Disclosures
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

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 7 *Financial Instruments: Disclosures*

This 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. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

(b) Amendment to HKAS 1 *Presentation of Financial Statements – Capital Disclosures*

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown is note 33 to the financial statements.

(c) HK(IFRIC)-Int 8 *Scope of HKFRS 2*

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Company has only issued equity instruments to the Group's employees in accordance with the Group's share option scheme, the interpretation has had no effect on these financial statements.

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

(d) HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives*

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative to be the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation has had no effect on these financial statements.

(e) HK(IFRIC)-Int 10 *Interim Financial Reporting and Impairment*

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

(f) HK(IFRIC)-Int 11 HKFRS 2 – *Group and Treasury Share Transactions*

This interpretation requires arrangements whereby an employee is granted rights to the Group's equity instruments, to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. This interpretation also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group's current policy for share-based payment transactions aligns with the requirements of the interpretation, the interpretation has no financial impact on the Group.

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.

HKFRS 2 Amendments	*Share-based Payments – Vesting Conditions and Cancellations*[1]
HKFRS 3 (Revised)	*Business Combinations*[2]
HKFRS 8	*Operating Segments*[1]
HKAS 1 (Revised)	*Presentation of Financial Statements*[1]
HKAS 23 (Revised)	*Borrowing Costs*[1]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*[3]
HKAS 32 and HKAS 1 Amendments	*Puttable Financial Instruments and Obligations Arising on Liquidation*[1]
HK(IFRIC)-Int 12	*Service Concession Arrangements*[4]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes*[5]
HK(IFRIC)-Int 14	*HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*[4]

Notes to Financial Statements
31 March 2008

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for business combinations with acquisition dates on or after the beginning of the first annual reporting period beginning on or after 1 July 2009
[3] Effective for annual periods beginning on or after 1 July 2009
[4] Effective for annual periods beginning on or after 1 January 2008
[5] Effective for annual periods beginning on or after 1 July 2008

Amendment to HKFRS 2 clarifies the definition of "vesting conditions" and specifies the accounting treatment of "cancellation" by the counterparty to a share-based arrangement. Vesting conditions are service conditions which require the counterparty to complete a specified period of service and performance conditions and specified performance targets to be met. Other features of a share-based payment are not vesting conditions. All non-vesting conditions and vesting conditions that are market conditions shall be taken into account when estimating the fair value of the equity instruments granted. The cancellation is accounted for as an acceleration of the vesting and the amount that would otherwise have been recognised over the remainder of the vesting period is recognised immediately. Any payment made to the employee on cancellation shall be accounted for as the repurchase of an equity interest, with excess over fair value of equity instruments granted recognised as an expense. If the share-based arrangement included liability components, the liability should be measured/stated at fair value at the date of cancellation and any payment made to settle the liability shall be accounted for as an extinguishment of the liability. The Group expects to adopt this amendment from 1 April 2009.

HKFRS 3 has been revised to bring more transactions into acquisition accounting as combinations by contract alone and combinations of mutual entities are brought into the scope of the standard and the definition of a business has been amended slightly. It now states that the elements are 'capable of being conducted' rather than 'conducted and managed'. It requires considerations (including contingent consideration), identifiable assets or liabilities to be measured at its acquisition-date fair value (except leases and insurance contracts), reacquired rights, indemnification assets as well as some assets and liabilities required to be measured in accordance with other HKFRSs which included income taxes, employee benefits, share-based payment and non-current assets held for sale and discontinued operations. Any non-controlling interest in an acquiree is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. The Group expects to adopt HKFRS 3 (Revised) from 1 April 2010.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

HKFRS 8, which will replace HKAS 14 Segment Reporting, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1 April 2009.

HKAS 1 has been revised to require all owner changes in equity to be presented in a statement of changes in equity. All comprehensive income is presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). It requires presenting a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when there are retrospective adjustments or reclassification adjustments. However, it does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs. The Group expects to adopt HKAS 1 (Revised) from 1 April 2009.

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs is to expense off the borrowing costs as incurred, in accordance with the transitional provisions in the revised standard, the Group shall apply the revised standard on a prospective basis to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009.

HKAS 27 has been revised to require non-controlling interests (i.e. minority interests) to be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. When control of a subsidiary is lost, the assets and liabilities and related equity components of the former subsidiary are derecognised. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost. The Group expects to adopt HKAS 27 (Revised) from 1 April 2010.

HKAS 32 has been amended to require certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. HKAS 1 has been amended to require disclosure of certain information relating to puttable instruments to be classified as equity.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. As the Group currently has no such arrangements, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 Employee Benefits, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists.

As the Group currently has no customer loyalty award credits and defined benefit scheme, HK(IFRIC)-Int 13 and HK(IFRIC)-Int 14 are not applicable to the Group and therefore are unlikely to have any financial impact on the Group.

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.

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, and the investment property), the asset's recoverable amount is estimated. An asset's recoverable amount is 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets other than goodwill (Continued)

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, but 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.

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 a member of the key management personnel of the Group or its parent;

(c) the party is a close member of the family of any individual referred to in (a) or (b);

(d) 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 (b) or (c); or

(e) 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.

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 the 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 items of 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the 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.

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. The net fair value gain or loss recognised in the income statement does not include any dividends on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

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 less any allowance for impairment. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

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. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

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 by adjusting the allowance account. 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 and other 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 and significant changes in the technological, market economic or legal environment that have an adverse effect on 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.

Notes to Financial Statements
31 March 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 that are readily convertible into known amounts of cash, 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. The related interest expense is recognised within "finance cost" in the income statement.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

- 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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:

(a) 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;

(b) rental income, on a time proportion basis over the lease terms;

(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.

Other 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 subsidiaries which operate 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. These subsidiaries are 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.

Notes to Financial Statements
31 March 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Foreigns currency transactions are initially recorded using the functional currency rates ruling at the dates 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.

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

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumption 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, is discussed below.

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

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. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying amount of deferred tax assets at 31 March 2008 was HK$240,000 (2007: HK$240,000). Further details are given in note 24.

3. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

(a) Business segment

The Group was principally engaged in the trading, manufacture and distribution of pharmaceutical products. Therefore, no further business segment analysis is presented.

(b) Geographical segments

In determining the Group's geographical segments, revenues are attributable to the segments based on the location of the customers, and assets are attributable to the segments based on the 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 2008 and 2007.

	Hong Kong		Mainland China		Elsewhere in South East Asia		Others		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
	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	**17,232**	29,185	**21,388**	13,944	**2,751**	3,327	**–**	107	**41,371**	46,563
Other segment information:										
Segment assets	**50,806**	62,873	**52,576**	42,369	**–**	–	**–**	–	**103,382**	105,242
Capital expenditure	**93**	621	**179**	693	**–**	–	**–**	–	**272**	1,314

4. REVENUE, OTHER INCOME AND GAIN

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 gain is as follows:

	2008 HK$'000	2007 HK$'000
Revenue		
Sale of goods	**41,371**	46,563
Other income		
Dividend income from listed investments	**20**	16
Interest income	**249**	566
Advertising income	**389**	927
Rental income	**29**	8
Others	**415**	596
	1,102	2,113
Gain		
Gain on disposal of items of property, plant and equipment, net*	**63**	–
	1,165	2,113

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

Notes to Financial Statements
31 March 2008

5. LOSS BEFORE TAX

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

		2008 HK$'000	2007 HK$'000
Cost of inventories sold		**20,381**	17,156
Depreciation	12	**4,630**	6,455
Recognition of prepaid land lease payments	13	**559**	558
Minimum lease payments under operating leases on land and buildings		**352**	84
Auditors' remuneration		**700**	700
Employee benefits expense (excluding directors' remuneration in note 7)			
Wages and Salaries		**13,057**	13,173
Pension Scheme contributions (defined contribution schemes)		**476**	507
		13,533	13,680
Impairment of trade receivables*	17	**359**	630
Write-down of inventories to net realisable value**		**2,234**	1,179
Foreign exchange losses, net		**55**	4
(Gain)/loss on disposal of items of property, plant and equipment, net		**(63)**	114
Fair value loss/(gain) for financial assets at fair value through profit or loss		**553**	(93)
Loss on disposal of financial assets at fair value through profit or loss		**115**	–

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

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

6. FINANCE COSTS

	Group	
	2008 HK$'000	2007 HK$'000
Interest on bank loans wholly repayable:		
Within five years	**769**	188
Over five years	**857**	1,053
Interest on finance leases	**10**	26
Total interest expenses on financial liabilities not at fair value through profit or loss	**1,636**	1,267

7. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Fees:		
Executive directors	**–**	–
Independent non-executive directors	**216**	216
	216	216
Other emoluments:		
Salaries, allowances and benefits in kind	**3,892**	3,897
Pension scheme contributions	**48**	48
	3,940	3,945
	4,156	4,161

(a) Independent non-executive directors

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

	2008	2007
	HK$'000	HK$'000
Mr. Guo Guoqing	**72**	72
Mr. Lam Siu Hung	**72**	72
Mr. Kwok Hok Lun	**72**	36
Mr. Liu Jian*	**–**	36
	216	216

* *Resigned in October 2006*

There were no other emoluments payable to the independent non-executive directors during the year (2007: Nil).

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
2008				
Executive directors:				
Mr. Chiu Ka Leung	–	**1,631**	**12**	**1,643**
Ms. Yeh Shu Ping	–	**1,377**	**12**	**1,389**
Mr. Jiao Shaoliang	–	**624**	**12**	**636**
Mr. Lan Daoying	–	**260**	**12**	**272**
	–	**3,892**	**48**	**3,940**
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

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

Notes to Financial Statements
31 March 2008

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2007: three) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the three (2007: two) non-director, highest paid employees for the year are as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**2,601**	1,273
Discretionary bonuses	**–**	143
Pension scheme contributions	**34**	24
	2,635	1,440

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

	Number of employees	
	2008	2007
Nil to HK$1,000,000	**3**	2

9. TAX

No provision for Hong Kong profits tax has been made for the years ended 31 March 2008 as the Group did not generate any assessable profits arising in Hong Kong during the year (2007: Nil). No provision for corporate income tax in the People's Republic of China (the "PRC") has been made as the Group's PRC subsidiary, Yunnan Long Far Pharmaceutical Company Limited, has available tax losses brought forward from prior years to offset the assessable profits generated during the year (2007: Nil).

9. TAX (Continued)

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

Group – 2008

	Hong Kong		Mainland China		Macau		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Loss before tax	(18,631)		(578)		(17)		(19,226)	
Tax at the statutory or applicable tax rate	(3,261)	17.5	(87)	15.0	–	–	(3,348)	17.4
Income not subject to tax	(28)	0.1	(2)	0.3	–	–	(30)	0.1
Expenses not deductible for tax	153	(0.8)	298	(51.5)	–	–	451	(2.3)
Tax losses not recognised	3,026	(16.2)	–	–	–	–	3,026	(15.7)
Tax loss utilised from previous periods	–	–	(209)	36.2	–	–	(209)	1.1
Deductible temporary difference not recognised	110	(0.6)	–	–	–	–	110	(0.6)
Tax at the Group's effective rate	–	–	–	–	–	–	–	–

Notes to Financial Statements
31 March 2008

9. TAX (Continued)

Group – 2007

	Hong Kong		Mainland China		Macau		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 difference not recognised	200	(2.4)	–	–	–	–	200	(1.4)
Tax at the Group's effective rate	–	–	–	–	–	–	–	–

10. LOSS 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 2008 includes a loss of HK$13,996,000 (2007: HK$9,194,000) 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 amount is based on the loss for the year attributable to ordinary equity holders of the Company of HK$19,226,000 (2007: HK$14,129,000) and the 600,000,000 (2007: 600,000,000) ordinary shares in issue during the year.

Diluted loss per share amounts for the years ended 31 March 2008 and 2007 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 2008

12. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Leasehold improve-ments HK$'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
31 March 2008								
Cost:								
At 1 April 2007	38,552	2,728	2,049	1,372	10,467	2,639	568	58,375
Additions	–	19	26	57	25	–	145	272
Disposal/write-off	–	–	–	–	–	(324)	–	(324)
Transfer	713	–	–	–	–	–	(713)	–
Exchange realignment	1,887	–	56	–	704	54	–	2,701
At 31 March 2008	41,152	2,747	2,131	1,429	11,196	2,369	–	61,024
Accumulated depreciation:								
At 1 April 2007	4,922	773	1,079	1,206	9,090	2,151	–	19,221
Provided during the year	2,046	548	333	119	1,314	270	–	4,630
Disposal/write-off	–	–	–	–	–	(262)	–	(262)
Exchange realignment	268	–	25	–	608	35	–	936
At 31 March 2008	7,236	1,321	1,437	1,325	11,012	2,194	–	24,525
Net book value:								
At 31 March 2008	33,916	1,426	694	104	184	175	–	36,499
At 31 March 2007	33,630	1,955	970	166	1,377	488	568	39,154

Notes to Financial Statements
31 March 2008

12. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group

	Buildings HK$'000	Leasehold improve– ments HK$'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
31 March 2007								
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

The Group's buildings with aggregate costs of HK$15,225,000 (2007: HK$15,225,000) and HK$25,927,000 (2007: HK$23,327,000) 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 2008 amounted to HK$116,000 (2007: HK$254,000).

12. PROPERTY, PLANT AND EQUIPMENT (Continued)

At 31 March 2008, certain of the Group's buildings with a carrying amount of approximately HK$28,913,000 (2007: HK$18,542,000) were pledged to secure banking facilities granted to the Group (note 21).

13. PREPAID LAND LEASE PAYMENTS

	2008 HK$'000	2007 HK$'000
Carrying amount at beginning of year	**23,135**	23,416
Recognised during the year	**(559)**	(558)
Exchange realignment	**414**	277
Carrying amount at end of year	**22,990**	23,135
Current portion included in prepayments, deposits and other receivables	**(570)**	(559)
Non-current portion	**22,420**	22,576

At 31 March 2008, the land of the Group was held under medium term leases and was situated in Hong Kong and Mainland China as to the carrying amounts of HK$17,283,000 (2007: HK$17,726,000) and HK$5,707,000 (2007: HK$5,409,000), respectively.

At 31 March 2008, certain of the Group's land with a carrying amount of approximately HK$19,907,000 (2007: HK$17,361,000) was pledged to secure certain banking facilities granted to the Group (note 21).

Notes to Financial Statements
31 March 2008

14. INVESTMENT PROPERTY

	2008 HK$'000	2007 HK$'000
Carrying amount at beginning of year	**386**	–
Addition (from acquisition)	**–**	386
Disposal	**(386)**	–
Carrying amount at end of year	**–**	386

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

In the opinion of the directors, the carrying amount of the investment property, which was a car park at 31 March 2007, approximated to the fair value, which was determined based on the average transaction price of similar car parks for the year ended 31 March 2007.

15. INVESTMENTS IN SUBSIDIARIES

	Company	
	2008 HK$'000	2007 HK$'000
Unlisted shares, at cost	**54,999**	54,999
Less: Return of capital *(Note)*	**(25,000)**	(25,000)
Less: Impairment	**(23,287)**	(9,287)
	6,712	20,712

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.

15. INVESTMENTS IN SUBSIDIARIES (Continued)

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
			2008	2007	
Long Far Pharmaceutical (BVI) Limited ("Long Far Pharmaceutical")	British Virgin Islands/ Hong Kong	US$200	**100**	100	Investment holding
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	Operation of 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")	The PRC/ Mainland China	RMB25,700,000	**100**	100	Manufacture and distribution of pharmaceutical products

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 2008	2007	Principal activities
Long Far Investment (Hong Kong) Limited	Hong Kong	HK$1	**100**	100	Property holding
Long Far Pharmaceutical (Macau) Limited	Macau	MOP25,000	**100**	100	Dormant
Long Far Mining Holdings (Hong Kong) Limited	Hong Kong	HK$1	**100**	100	Dormant
雲南龍發房地產開發有限公司**	The PRC/ Mainland China	RMB10,000,000	**100**	–	Dormant
Long Far Real Estate 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 law.

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

Notes to Financial Statements
31 March 2008

16. INVENTORIES

	Group	
	2008	2007
	HK$'000	HK$'000
Trading goods	**595**	1,543
Finished goods	**4,693**	5,549
Work in progress	**1,341**	1,572
Raw materials	**1,456**	1,664
Packaging materials	**1,454**	1,301
	9,539	11,629

17. TRADE RECEIVABLES

	Group	
	2008	2007
	HK$'000	HK$'000
Trade receivables	**11,773**	14,833
Impairment	**(16)**	–
	11,757	14,833

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. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the balance sheet date, based on the payment due date, that are not considered to be impaired is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Current (neither past due nor impaired)	**2,744**	3,987
Within 1 to 3 months overdue	**5,212**	5,109
More than 3 months overdue but less than 12 months overdue	**2,722**	3,924
Over 12 months overdue	**1,079**	1,813
	11,757	14,833

Notes to Financial Statements
31 March 2008

17. TRADE RECEIVABLES (Continued)

The movements in the provision for impairment of trade receivables are as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
At beginning of year	**–**	–
Impairment losses recognised *(note 5)*	**359**	630
Amount written off as uncollectible	**(343)**	(630)
At end of year	**16**	–

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2008	2007
	HK$'000	HK$'000
Listed equity investments in Hong Kong, at market value	**448**	1,033
Deposit with an embedded derivative, at fair value	**–**	2,500
	448	3,533

The above equity investments at 31 March 2008 were classified as held for trading.

The deposit with embedded derivative was redeemed by the bank during the year.

19. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**19,846**	10,649	**107**	258
Time deposits	**464**	447	**–**	–
	20,310	11,096	**107**	258
Less: Pledged time deposits	**(369)**	(357)	**–**	–
Cash and cash equivalents	**19,941**	10,739	**107**	258

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$13,042,000 (2007: HK$1,193,000). 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. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

Notes to Financial Statements
31 March 2008

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	
	2008	2007
	HK$'000	HK$'000
Current	**–**	130
Within 1 to 3 months overdue	**1,823**	1,368
More than 3 months overdue but less than 12 months overdue	**189**	446
Over 12 months overdue	**228**	224
	2,240	2,168

The trade payables are non-interest-bearing.

21. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	2008			2007		
	Effective Interest rate (%)	**Maturity**	**HK$'000**	Effective interest rate (%)	Maturity	HK$'000
Current						
Bank loans – secured	**4.76 – 7.23**	**2009**	**19,020**	5.25 – 5.85	2008	4,921
Finance lease payables *(Note 22)*	**2.5 – 3.5**	**2009**	**71**	2.5 – 3.5	2008	156
			19,091			5,077
Non-current						
Bank loans – secured	**4.90**	**2009 – 2015**	**14,488**	5.25	2008 – 2015	16,638
Finance lease payables *(Note 22)*	**3.50**	**2009**	**–**	3.5	2008	71
			14,488			16,709
			33,579			21,786

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

	2008	2007
	HK$'000	HK$'000
Analysed into:		
Bank loans repayable:		
Within one year	**19,020**	4,921
In the second year	**2,189**	1,992
In the third to fifth years, inclusive	**7,012**	6,641
Beyond five years	**5,287**	8,005
	33,508	21,559
Other borrowings repayable:		
Within one year	**71**	156
In the second year	**–**	71
	71	227
	33,579	21,786

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$48,820,000 (2007: HK$35,903,000) as at 31 March 2008.

(b) The Group's borrowings with a carrying amount of HK$10,900,000 (2007: HK$3,031,000) are denominated in RMB. All other borrowings are denominated in Hong Kong dollars.

(c) The carrying amounts of the Group's borrowings approximate to their fair values.

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 one year.

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 2008 HK$'000	Minimum lease payments 2007 HK$'000	Present value of minimum lease payments 2008 HK$'000	Present value of minimum lease payments 2007 HK$'000
Amounts payable:				
Within one year	**73**	166	**71**	156
In the second year	**–**	73	**–**	71
Total minimum finance lease payments	**73**	239	**71**	227
Future finance charges	**(2)**	(12)		
Total net finance lease payables	**71**	227		
Portion classified as current liabilities *(Note 21)*	**(71)**	(156)		
Non-current portion *(Note 21)*	**–**	71		

23. DUE TO A RELATED COMPANY/DIRECTORS

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

24. DEFERRED TAX

There was no movement in deferred tax liabilities and assets during the year.

Deferred tax liabilities

Group	**2008**
	Depreciation allowance in excess of related depreciation HK$'000
Gross deferred tax liabilities at 1 April 2007 and 31 March 2008	**170**

Deferred tax assets

Group	**2008**
	Fair value adjustment arising from the acquisition of a subsidiary HK$'000
Gross deferred tax assets at 1 April 2007 and 31 March 2008	**240**

Notes to Financial Statements
31 March 2008

24. DEFERRED TAX (Continued)

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 adjustment arising from the acquisition of a subsidiary HK$'000
Gross deferred tax assets at 1 April 2006 and 31 March 2007	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	41,274	24,468	361	362
Deductible temporary differences	110	200	–	–
	41,384	24,668	361	362

24. DEFERRED TAX (Continued)

Certain tax losses of HK$7,636,000 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

	2008	2007
	HK$'000	HK$'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.

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.

26. SHARE OPTION SCHEME (Continued)

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, 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. The maximum number of shares issued and issuable under share options granted to each eligible participant under 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.

Any grant of share options to a director, chief executive or substantial shareholder of the Company, or to any of their associates, is subject to approval in advance by the independent non-executive directors. In addition, any grant of share options 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, and 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, is 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, there were 54,500,000 shares available for issue under the Scheme, representing 9.08% of the total issued share capital of the Company at that date.

26. SHARE OPTION SCHEME (Continued)

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

	2008		2007	
	Weighted average exercise price HK$ per share	**Number of options**	Weighted average exercise price HK$ per share	Number of options
At beginning and end of year	**0.375**	**5,500,000**	0.375	5,500,000

No share options were exercised during the current and prior years.

The exercise prices and exercise periods of the share options outstanding as at that balance sheet date are as follows:

2008 and 2007

Number of options	**Exercise price** HK$ per share	**Exercise period***
1,100,000	0.375	9-9-2003 to 8-9-2012
1,200,000	0.375	9-9-2003 to 8-9-2012
3,200,000	0.375	9-9-2003 to 8-9-2012
5,500,000		

* 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 (i) subject to the options 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; (ii) 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; (iii) 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 (iv) no option can be exercised after 8 September 2012.

26. SHARE OPTION SCHEME (Continued)

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

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 37 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.

(b) Company

	Note	**Share premium account** HK$'000	**Contributed surplus** HK$'000	**Accumulated losses** HK$'000	**Total** HK$'000
Balance 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 and at 1 April 2007		8,720	46,999	(13,869)	41,850
Loss for the year	10	–	–	(13,996)	(13,996)
At 31 March 2008		8,720	46,999	(27,865)	27,854

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. CONTINGENT LIABILITIES

(a) As at 31 March 2008, the Group had 700 (2007: 1,086) outstanding coupons issued to the members of the International Health Association (established by a subsidiary of the Company), which entitled 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 31 May 2008. The coupon holders would be given discounts upon the presentation of the coupons. As at 31 March 2008, the maximum value of these outstanding coupons, subject to redemption, amounted to approximately HK$35,000 (2007: HK$54,000).

(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 objections 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 2008, the date of the trial has not been determined and the Group has not made any provision for such further legal costs subject to the occurrence of the trial.

(c) As at 31 March 2008, the Company provided a guarantee given to a bank in connection with the banking facilities of HK$6,000,000 (2007: HK$6,000,000) granted to the Company's subsidiary which have not been utilised (2007: Nil).

29. OPERATING LEASE ARRANGEMENTS

As lessor

In the prior year, the Group leased its investment property under an operating lease arrangement, with lease negotiated for a term of one year. The terms of the lease also required the tenants to pay security deposits.

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

	2008	2007
	HK$'000	HK$'000
Within one year	–	20

30. COMMITMENTS

At the balance sheet date, neither the Group nor the Company had any significant commitments.

Notes to Financial Statements
31 March 2008

31. RELATED PARTY TRANSACTIONS

(a) During the current and prior years, the Group outsourced the manufacture 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.

	2008 HK$'000	2007 HK$'000
Goods outsourced to YPYP for manufacturing	**921**	4,896

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

For the year ended 31 March 2007, the balance due to YPYP amounting to HK$432,000 with a credit period of 90 days was included in trade payables as at 31 March 2007.

(b) During the prior year, the Group obtained an advance of approximately HK$2,020,000 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$1,911,000 was repaid by the Group during the current year. The amount of HK$109,000 due to YLRP as at 31 March 2008 was unsecured, interest-free and had no fixed terms of repayment (note 23).

(c) During the year, the Group obtained an advance of HK$6,000,000 from Ms. Yeh Shu Ping, a director of the Company. The amount was unsecured, interest-free and had no fixed terms of repayment (note 23). The director has undertaken not to demand repayment of the amount due by the Group until such time when the Group is in a position to repay the amount without impairing its ability to continue as a going concern.

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

	2008 HK$'000	2007 HK$'000
Short term employee benefits	**6,445**	5,313
Post-employment benefits	**82**	72
Total compensation paid to key management personnel	**6,527**	5,385

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.

32. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

2008

Financial assets

	Group		
	Financial assets at fair value through profit or loss – held for trading HK$'000	Loans and receivables HK$'000	Total HK$'000
Trade receivables	–	11,757	11,757
Financial assets included in prepayments, deposits and other receivables*	–	500	500
Financial assets at fair value through profit or loss	448	–	448
Pledged deposits	–	369	369
Cash and cash equivalents	–	19,941	19,941
	448	32,567	33,015

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade payables	2,240
Financial liabilities included in other payables and accruals*	2,676
Interest-bearing bank and other borrowings	33,579
Due to a related company	109
Due to directors	6,273
	44,877

32. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

2007

Financial assets

	Group		
	Financial assets at fair value through profit or loss – held for trading HK$'000	Loans and receivables HK$'000	Total HK$'000
Trade receivables	–	14,833	14,833
Financial assets included in prepayments, deposits and other receivables*	–	422	422
Financial assets at fair value through profit or loss	3,533	–	3,533
Pledged deposits	–	357	357
Cash and cash equivalents	–	10,739	10,739
	3,533	26,351	29,884

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade payables	2,168
Financial liabilities included in other payables and accruals*	5,183
Interest-bearing bank and other borrowings	21,786
Due to a related company	2,020
Due to directors	153
	31,310

32. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Financial assets

	Company	
	2008	2007
	Loans and receivables	Loans and receivables
	HK$'000	HK$'000
Due from subsidiaries	**50,937**	50,759
Cash and cash equivalents	**107**	258
	51,044	51,017

Financial liabilities

	Company	
	2008	2007
	Financial liabilities at amortised cost	Financial liabilities at amortised cost
	HK$'000	HK$'000
Financial liabilities included in other payables and accruals*	**11**	16

* The amounts do not include prepayments, advance payments received and provisions (i.e. liabilities of uncertain timing or amount).

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, finance leases, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk and equity price risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

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 rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's loss before tax (through the impact on floating rate borrowings) and the Group's equity.

	Increase/ (decrease) in basis points	**Increase/ (decrease) in loss before tax**	**Increase/ (decrease) in equity**
		HK$'000	HK$'000
2008			
Hong Kong dollar and Renminbi	**50**	**87**	**(87)**
Hong Kong dollar and Renminbi	**(50)**	**(87)**	**87**
2007			
Hong Kong dollar and Renminbi	50	93	(93)
Hong Kong dollar and Renminbi	(50)	(93)	93

Credit risk

The carrying amount of trade receivables included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to the Group's trade receivables. The Group has a significant concentration of credit risk in relation to trade receivables as the trade receivables due from the five largest customers accounted for 67% (2007: 76%) of the Group's trade receivables at the balance sheet date.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

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

With respect to credit risk arising from the other financial assets of the Group, comprising cash and cash equivalents and other receivables, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure being equal to the carrying amounts of these instruments. There is no significant concentration of credit risk within the Group in relation to the other financial assets.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

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

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

Group	**2008**			
	On demand or within 1 year HK$'000	**2 to 5 years HK$'000**	**Over 5 years HK$'000**	**Total HK$'000**
Interest-bearing bank and other borrowings	**19,091**	**9,201**	**5,287**	**33,579**
Trade payables	**2,240**	**–**	**–**	**2,240**
Other payables	**2,676**	**–**	**–**	**2,676**
Due to a related company	**109**	**–**	**–**	**109**
Due to directors	**6,273**	**–**	**–**	**6,273**
	30,389	**9,201**	**5,287**	**44,877**

Notes to Financial Statements
31 March 2008

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

	2007			
	On demand or within 1 year HK$'000	2 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Interest-bearing bank and other borrowings	5,077	8,704	8,005	21,786
Trade payables	2,168	–	–	2,168
Other payables	5,183	–	–	5,183
Due to a related company	2,020	–	–	2,020
Due to directors	153	–	–	153
	14,601	8,704	8,005	31,310

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the values of individual securities. The Group is exposed to equity price risk arising from individual equity investments classified as trading equity investments (note 18) as at 31 March 2008. The Group's listed investments are listed on the Stock Exchange and are valued at quoted market prices at the balance sheet date.

The market equity index of the following stock exchange, at the close of business of the nearest trading day in the year to the balance sheet date, and the respective highest and lowest points during the year were as follows:

	31 March 2008	**High/low 2008**	31 March 2007	High/low 2007
Hong Kong – Hang Seng Index	**22,849**	**31,958/19,387**	19,801	20,971/15,205

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Equity price risk (Continued)

The following table demonstrates the sensitivity to a reasonably possible change in the fair values of the equity investments with all other variables held constant and before any impact on tax, based on their carrying amounts at the balance sheet date.

	Carrying amount of equity investments	**Increase/ (decrease) in fair value of equity investments**	**Increase/ (decrease) in loss before tax**	**Increase/ (decrease) in equity**
	HK$'000	%	HK$'000	HK$'000
2008				
Investment listed in:				
Hong Kong – Held-for-trading	**448**	**54.30**	**(243)**	**243**
	448	**(54.30)**	**243**	**(243)**
2007				
Investment listed in:				
Hong Kong – Held-for-trading	1,033	26.79	(277)	277
	1,033	(26.79)	277	(277)

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes during the years ended 31 March 2008 and 2007.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

The Group monitors capital using a gearing ratio, which is calculated as the total liabilities over the total equity. The gearing ratios as at the balance sheet dates were as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Total liabilities	**49,790**	35,256
Total equity	**53,592**	69,986
Gearing ratio	**92.9%**	50.4%

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 17 July 2008.