



**LONG FAR**  
**LONG FAR PHARMACEUTICAL**  
**HOLDINGS LIMITED**

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



INTERIM REPORT

**2008**

## CORPORATE INFORMATION

### BOARD OF DIRECTORS

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

### AUDIT COMMITTEE

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

### REMUNERATION COMMITTEE

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

### COMPANY SECRETARY & QUALIFIED ACCOUNTANT

Mr. Hui Pang To, *FCCA, CPA*

### REGISTERED OFFICE

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

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

### AUDITORS

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

### LEGAL ADVISERS

#### As to Hong Kong law:

Hastings & Co.  
5th Floor, Gloucester Tower,  
The Landmark, 11 Pedder Street,  
Central, Hong Kong.

#### As to Cayman Islands law:

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

### PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited  
11th Floor, The Center,  
99 Queen's Road Central,  
Hong Kong.

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

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

### PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

### WEBSITE

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

The directors (the "Directors") of Long Far Pharmaceutical Holdings Limited (the "Company") announce the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2008, together with the comparative figures for the corresponding period of 2007, as follow:

## CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2008

	Notes	For the six months ended 30 September	
		2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
REVENUE	2	19,154	16,425
Cost of sales		(8,028)	(8,539)
Gross profit		11,126	7,886
Other income and gains	3	84	1,083
Selling and distribution costs		(3,335)	(6,915)
Administrative expenses		(10,612)	(11,930)
Other expenses		(32)	(12)
Finance costs	4	(485)	(752)
LOSS BEFORE TAX	5	(3,254)	(10,640)
Tax	6	–	–
LOSS FOR THE PERIOD ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY		(3,254)	(10,640)
INTERIM DIVIDEND	7	–	–
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	8		
– Basic		(HK0.54 cent)	(HK1.77 cents)
– Diluted		N/A	N/A

**CONDENSED CONSOLIDATED BALANCE SHEET**

30 September 2008

	Notes	30 September 2008 (Unaudited) HK\$'000	31 March 2008 (Audited) HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	9	35,820	36,499
Prepaid land lease payments	10	22,366	22,420
Deferred tax assets		240	240
<b>Total non-current assets</b>		<b>58,426</b>	<b>59,159</b>
<b>CURRENT ASSETS</b>			
Inventories		12,325	9,539
Trade receivables	11	10,690	11,757
Prepayments, deposits and other receivables		3,149	2,159
Financial assets at fair value through profit or loss		215	448
Tax recoverable		49	10
Pledged deposits		370	369
Cash and cash equivalents		9,503	19,941
<b>Total current assets</b>		<b>36,301</b>	<b>44,223</b>
<b>CURRENT LIABILITIES</b>			
Trade payables	12	2,467	2,240
Other payables and accruals		8,844	7,419
Interest-bearing bank and other borrowings		11,603	19,091
Due to a related company	16(b)	114	109
Due to directors	16(c)	6,271	6,273
<b>Total current liabilities</b>		<b>29,299</b>	<b>35,132</b>
<b>NET CURRENT ASSETS</b>		<b>7,002</b>	<b>9,091</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>65,428</b>	<b>68,250</b>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings		13,357	14,488
Deferred tax liabilities		170	170
<b>Total non-current liabilities</b>		<b>13,527</b>	<b>14,658</b>
<b>Net assets</b>		<b>51,901</b>	<b>53,592</b>
<b>EQUITY</b>			
Issued capital	13	30,000	30,000
Reserves	14	21,901	23,592
<b>Total equity</b>		<b>51,901</b>	<b>53,592</b>

## CONDENSED CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2008

	For the six months ended 30 September	
	2008 (Unaudited) <i>HK\$'000</i>	2007 (Unaudited) <i>HK\$'000</i>
Total equity at 1 April	53,592	69,986
Loss for the period	(3,254)	(10,640)
Exchange realignment	1,563	442
Total equity at 30 September	51,901	59,788

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

For the six months ended 30 September 2008

	<b>For the six months ended 30 September</b>	
	2008 (Unaudited) <i>HK\$'000</i>	2007 (Unaudited) <i>HK\$'000</i>
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(1,595)	(6,159)
NET CASH (OUTFLOW)/INFLOW FROM INVESTING ACTIVITIES	(150)	1,940
NET CASH (OUTFLOW)/INFLOW FROM FINANCING ACTIVITIES	(9,104)	5,366
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(10,849)	1,147
Cash and cash equivalents at beginning of period	19,941	10,739
Effect of foreign exchange rate changes, net	411	(224)
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>9,503</b>	<b>11,662</b>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	8,959	11,569
Non-pledged time deposits with original maturity of less than three months when acquired	544	93
	<b>9,503</b>	<b>11,662</b>

## NOTES TO INTERIM FINANCIAL INFORMATION

30 September 2008

### 1. ACCOUNTING POLICIES

The condensed interim financial information is prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”. The accounting policies and basis of preparation adopted in the preparation of the interim financial information are the same as those used in the annual financial statements for the year ended 31 March 2008, except in relation to the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period’s financial statements:

HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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.

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.

The adoption of the above new and revised HKFRSs has no material impact on the Group’s results of operations and financial position.

### 2. SEGMENT INFORMATION

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

#### (a) Business segment

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

## 2. SEGMENT INFORMATION (Continued)

### (b) Geographical segments

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

	Six months ended 30 September							
	Hong Kong		Mainland China		Elsewhere in Southeast Asia		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Segment revenue:								
Sales to external customers	8,856	7,569	10,016	8,577	282	279	19,154	16,425
Other income	44	433	10	480	–	–	54	913
<b>Total</b>	<b>8,900</b>	<b>8,002</b>	<b>10,026</b>	<b>9,057</b>	<b>282</b>	<b>279</b>	<b>19,208</b>	<b>17,338</b>

## 3. OTHER INCOME AND GAINS

	For the six months ended 30 September	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Interest income	30	170
Advertising income	–	486
Rental income	10	11
Others	44	416
<b>Total</b>	<b>84</b>	<b>1,083</b>



**4. FINANCE COSTS**

	<b>For the six months ended 30 September</b>	
	2008 (Unaudited) <i>HK\$'000</i>	2007 (Unaudited) <i>HK\$'000</i>
Interest on bank loans	483	746
Interest on finance leases	2	6
	<b>485</b>	<b>752</b>

**5. LOSS BEFORE TAX**

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

	<b>For the six months ended 30 September</b>	
	2008 (Unaudited) <i>HK\$'000</i>	2007 (Unaudited) <i>HK\$'000</i>
Cost of inventories sold	6,599	8,376
Depreciation	1,739	2,736
Amortisation of land lease payments	289	283
Write-down of inventories to net realisable value*	1,393	-
Loss/(gain) on write-off/disposal of items of property, plant and equipment, net	29	(3)

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

**6. TAX**

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the current and prior periods. No provision for corporate income tax in Mainland China has been made as the Group's subsidiary has available tax losses brought forward from prior years to offset the assessable profits generated during the period.

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

**7. INTERIM DIVIDEND**

The Directors did not propose to declare an interim dividend for the six months ended 30 September 2008 (2007: Nil).

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

The calculation of basic loss per share amount is based on the loss for the period attributable to ordinary equity holders of the Company of HK\$3,254,000 (six months ended 30 September 2007: HK\$10,640,000) and the 600,000,000 (six months ended 30 September 2007: 600,000,000) ordinary shares in issue during the period.

Diluted loss per share amounts for the periods ended 30 September 2008 and 2007 have not been disclosed as the share options outstanding during these periods had an anti-dilutive effect on the basic loss per share for these periods.

## 9. PROPERTY, PLANT AND EQUIPMENT

	Buildings improvements (Unaudited) HK\$'000	Leasehold improvements (Unaudited) HK\$'000	Plant and machinery (Unaudited) HK\$'000	Furniture, fixtures and office equipment (Unaudited) HK\$'000	Motor vehicles (Unaudited) HK\$'000	Computer equipment (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Cost:							
At 1 April 2008	41,152	2,747	11,196	2,131	2,369	1,429	61,024
Additions	-	-	167	7	-	6	180
Disposal/write-off	-	(19)	-	(164)	-	-	(183)
Exchange realignment	1,103	-	410	33	24	-	1,570
At 30 September 2008	42,255	2,728	11,773	2,007	2,393	1,435	62,591
Accumulated depreciation:							
At 1 April 2008	7,236	1,321	11,012	1,437	2,194	1,325	24,525
Provided during the period	1,060	273	106	163	115	22	1,739
Disposal/write-off	-	(2)	-	(152)	-	-	(154)
Exchange realignment	212	-	405	22	22	-	661
At 30 September 2008	8,508	1,592	11,523	1,470	2,331	1,347	26,771
Net book value:							
At 30 September 2008	33,747	1,136	250	537	62	88	35,820
At 31 March 2008	33,916	1,426	184	694	175	104	36,499

**10. PREPAID LAND LEASE PAYMENTS**

	(Unaudited) HK\$'000
Carrying amount at 1 April 2008	22,990
Recognised during the period	(289)
Exchange realignment	243
Carrying amount at 30 September 2008	22,944
Current portion included in prepayments, deposits and other receivables	(578)
Non-current portion	22,366
Carrying amount at 1 April 2008	22,990
Current portion included in prepayments, deposits and other receivables	(570)
Non-current portion	22,420

**11. TRADE RECEIVABLES**

The Group allows an average credit period ranging from 30 days to 180 days to its customers. An aged analysis of the trade receivables as at the balance sheet date, based on payment due date, that are not considered to be impaired, is as follows:

	30 September 2008 (Unaudited) HK\$'000	31 March 2008 (Audited) HK\$'000
Current (neither past due nor impaired)	3,478	2,744
Within 1 to 3 months overdue	3,488	5,212
More than 3 months overdue but less than 12 months overdue	2,191	2,722
Over 12 months overdue	1,533	1,079
	10,690	11,757

**12. TRADE PAYABLES**

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

	30 September 2008 (Unaudited) HK\$'000	31 March 2008 (Audited) HK\$'000
Current	32	–
Within 1 to 3 months overdue	1,955	1,823
More than 3 months overdue but less than 12 months overdue	189	189
Over 12 months overdue	291	228
	2,467	2,240

**13. SHARE CAPITAL**

	30 September 2008 (Unaudited) HK\$'000	31 March 2008 (Audited) HK\$'000
Authorised 5,000,000,000 ordinary shares of HK\$0.05 each	250,000	250,000
Issued and fully paid 600,000,000 ordinary shares of HK\$0.05 each	30,000	30,000

**Share options**

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

As at 1 April 2008 and 30 September 2008, the Company had 5,500,000 share options outstanding under the share option scheme with an exercise price of HK\$0.375 per share and an exercise period from 9 September 2003 to 8 September 2012. There was no movement in the share options outstanding during the period.

## 14. RESERVES

	Share premium account (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 April 2008	8,720	300	5,543	9,029	23,592
Exchange realignment	–	–	1,563	–	1,563
Loss for the period	–	–	–	(3,254)	(3,254)
At 30 September 2008	8,720	300	7,106	5,775	21,901
At 1 April 2007	8,720	300	2,711	28,255	39,986
Exchange realignment	–	–	442	–	442
Loss for the period	–	–	–	(10,640)	(10,640)
At 30 September 2007	8,720	300	3,153	17,615	29,788

## 15. CONTINGENT LIABILITIES

- (a) As at 30 September 2008, the Group had 734 (31 March 2008: 700) outstanding coupons issued to the members of the International Health Association (established by a subsidiary of the Company) which entitle the coupon holders to purchase products of the Group from certain retailing outlets in Hong Kong at a discounted price. These retailing outlets would be entitled to recoup from the Group for the amount of discounts given to the coupon holders upon the presentation of the coupons received. As at 30 September 2008, the maximum value of these outstanding coupons, subject to recoup by these retailing outlets, amounted to approximately HK\$37,000 (31 March 2008: HK\$35,000).
- (b) On 13 January 2004, Long Far Herbal Medicine Manufacturing (Hong Kong) Limited ("LFHK"), a wholly-owned subsidiary of the Company, filed its opposition 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 opposition 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. If LFHK loses the action, LFHK may have to pay also the Applicant's costs estimated to be approximately HK\$800,000. As at 30 September 2008, the Group has not made any provision for such further costs subject to the results of the hearing. A hearing of the opposition has been held at the Trade Marks Registry in September 2008, but the results of the hearing are still pending as at 30 September 2008.

**16. RELATED PARTY TRANSACTIONS**

- (a) During the prior period, 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”), a company in which a Director, Mr. Chiu Ka Leung, holds a 51% interest.

	<b>For the six months ended 30 September</b>	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Goods outsourced to YPYP for manufacturing	–	912

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

- (b) The amount due to a related party, 雲南龍潤藥業有限公司 (Yunnan Long Run Pharmaceuticals Company Limited (“YLRP”)) is unsecured, interest-free and has no fixed terms of repayment. 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, respectively.
- (c) The amounts due to Directors are unsecured, interest-free and have no fixed terms of repayment. A Director has undertaken not to demand repayment of the amount of HK\$6,000,000 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

	<b>For the six months ended 30 September</b>	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Short term employee benefits	3,082	4,275
Post-retirement benefits	42	75
	3,124	4,350

**17. PLEDGE OF ASSETS**

As at 30 September 2008, the Group's bank deposits of approximately HK\$370,000 (31 March 2008: HK\$369,000) and leasehold land and buildings with an aggregate net book value of approximately HK\$29,017,000 (31 March 2008: HK\$48,820,000) were pledged to secure banking facilities granted to the Group.

**18. APPROVAL OF THE INTERIM FINANCIAL INFORMATION**

This interim financial information was approved and authorised for issue by the board of Directors on 15 December 2008.

## REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



To the board of directors of  
Long Far Pharmaceutical Holdings Limited

### INTRODUCTION

We have reviewed the interim financial information set out on pages 2 to 14 which comprises the condensed consolidated balance sheet of Long Far Pharmaceutical Holdings Limited as of 30 September 2008 and the related condensed consolidated statements of income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants.

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

### SCOPE OF REVIEW

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



## **CONCLUSION**

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

### **Ernst & Young**

*Certified Public Accountants*

18th Floor, Two International Finance Centre

8 Finance Street, Central

Hong Kong

15 December 2008

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL RESULTS

For the six months ended 30 September 2008, the Group recorded a turnover of HK\$19,154,000 (2007: HK\$16,425,000), a rise of approximately 16.6% compared with the corresponding period last year. The Group recorded a significant reduction in loss to HK\$3,254,000 for the reporting period (2007: loss of HK\$10,640,000). The basic loss per share was HK0.54 cent (2007: basic loss per share of HK1.77 cents).

### BUSINESS REVIEW

With the grip of the global financial crisis taking hold on the general public, significant erosion of confidence and reduced consumer spending have resulted. However, the Group has been able to successfully cut costs associated with selling and distribution which, for the reporting period, accounted for approximately 17.4% of total sales as opposed to around 42.1% for the same period last year. Moreover, administration costs have likewise decreased, down from roughly 72.6% of total sales to the region of 55.4% year on year. In addition, the Group has been able to enhance its gross profit margin to approximately 58.1% (2007: 48.0%).

The main revenue driver for the Group continued to be "Beauty and Healthy" (排毒美顏寶), which accounted for over 41.2% (2007: 41.7%) of total turnover during the review period. Holding second position among the Group's top products was "Chen Xiang Lu Bai Lu Pian" (陳香露白露片), a "Yanta Pai" (雁塔牌) branded Chinese gastrointestinal medicine, which generated 26.6% (2007: 21.1%) of turnover. The third and fourth best sellers were "Pudilan Xiaoyan Pian" (蒲地藍消炎片), and the "Superior Series" (極品系列) which accounted for 5.1% and 3.4% (2007: 5.4% and 3.1%) of the Group's total turnover respectively.

Geographically, Hong Kong, Mainland China, and elsewhere in Southeast Asia accounted for 46.2%, 52.3% and 1.5% of overall turnover respectively.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### BUSINESS REVIEW *(Continued)*

#### *Hong Kong*

With the economic climate turning down during the reporting period, the public has become increasingly despondent about the future outlook. Also, peers in the healthcare product sector duly cutback on new product launches owing to poor consumer sentiment, therefore, attracting and retaining customers have become increasingly challenging for the Group. With re-branding of its flagship product, "Beauty and Healthy" (排毒美顏寶), as of July 2007, and continuing education of the public about the product's benefits, including the importance of preventive medicine, the Group has successfully increased sales of the product, thus enhancing overall sales by 16.6%. The strategies of raising the average selling price of its products and employing several promotions, all contributed to bolstering the Group's financial position. In addition, the Hong Kong Polytechnic University ("HKPU") was commissioned to survey over 1,000 people aged from 30 to 60 to determine their level of understanding towards environmental contamination and poisonous substances as well as symptoms related with exposure to such pollutants. As part of the study, HKPU conducted tests on "Beauty and Healthy" (排毒美顏寶), and since 2005, the tests have found the product capable of lowering mercury levels in the kidney, DDT and arsenic in the blood, and lead in the thighbone of animals.

#### *Mainland China*

Market consolidation continued to affect the healthcare product sector in Mainland China. Nevertheless, the Group was able to increase sales in this region by 16.8% during the review period as a result of ongoing demand for "Chen Xiang Lu Bai Lu Pian" (陳香露白露片), which enjoyed double-digit sales growth. Moreover, by being able to offer a more diversified product portfolio, the Group saw a rise in sales across different products.

#### *Others*

Outside of the two key markets of Mainland China and Hong Kong, the Group's sales levels in Southeast Asia remain relatively flat. Its efforts at penetrating the Indonesian market has been hampered by a slow approval process and high import taxes.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### AWARDS

Consistent with its long-held position as a leader in the healthcare product sector, the Group was honoured with several awards during the review period. In particular, the Group earned for the “Best Selling Detoxification Product – Diamond Award” (最暢銷排毒產品鑽石獎) by Watson’s The Chemist. In addition, the Group received similar acknowledgement from Mannings, again earning the “Best Detoxification Product Award” (至FIT排毒獎). Also, the distinction of “Hong Kong Top Brand 2008” was bestowed on the Group by The Chinese Manufacturers’ Association of Hong Kong (香港中華廠商聯合會) and the Hong Kong Brand Development Council (香港品牌發展局) jointly.

### PROSPECTS

The Group remains optimistic that its current efforts, particularly in Hong Kong and Mainland China, will allow it to maintain progress towards profitability, despite the extremely harsh economic realities that have impacted on it.

In Hong Kong, the Group will place emphasis on strengthening relations with customers via seminars and membership activities as such efforts have proven to be cost effective. Accordingly, both celebrities and customers will be invited to speak at regularly held events, helping to generate interest while also providing an effective platform for keeping participants abreast of the Group’s latest developments and product promotions. In addition, the Group will continue its direct mailing programme on a quarterly basis as this has achieved a relatively high response rate. Also, to generate ongoing awareness of the Group’s 10th anniversary, special offers will be made on a timely basis.

The Group, having won the confidence of consumers in Mainland China, which now constitutes its Group’s largest market, will make every effort to strengthen its position. As part of such efforts, the Group will use education programmes to emphasize the importance of preventive medicine as well as highlight the quality of relevant products, namely, “Superior Lingzhi” (極品靈芝) and “Superior Cordyceps” (極品冬蟲夏草), which are of US origin.

Across Southeast Asia, specifically in Singapore and Malaysia, the Group will replicate the re-branding programme used for “Beauty & Healthy” (排毒美顏寶) in Hong Kong to stimulate market demand. In both countries, the Group’s “Superior Cordyceps” (極品冬蟲夏草) products will be receiving the approval soon and it is expected that orders will be processed in the second half of the financial year, hence the Group will step up efforts to boost sales in the two countries. With regard to the Group’s efforts in securing relevant licences to operate in Taiwan, such labours are about to be concluded and will enable the Group to establish a presence on the island in the approaching financial period.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### PROSPECTS *(Continued)*

Outside of this region, the Group is currently working with a Russian company with the goal of penetrating the local market, and relevant application procedures have commenced.

In addition to consolidating its position in key markets and establishing new footholds, the Group views enhanced efficiency as paramount for survivability. Consequently, such expenses as advertising, which constitutes 23% of total expenditures, will be even more sparingly yet prudently employed. By tightening cost controls and rationalizing operations, the Group aims to not only strengthen its present financial position but also realize gains that extend beyond the current period of economic unrest; hence, upholding its responsibility to deliver long-term stable returns to its shareholders.

### LIQUIDITY AND FINANCIAL RESOURCES

The Group continues to observe a strategy of maintaining sufficient working capital. Accordingly, as of 30 September 2008, the Group had current assets of HK\$36,301,000 (31 March 2008: HK\$44,223,000) and cash and bank balances of HK\$9,503,000 (31 March 2008: HK\$19,941,000). The Group's current liabilities as at 30 September 2008 totalled HK\$29,299,000 (31 March 2008: HK\$35,132,000).

As at 30 September 2008, the Group's total equity was HK\$51,901,000 (31 March 2008: HK\$53,592,000). The Group had interest-bearing bank and other borrowings of HK\$24,960,000 (31 March 2008: HK\$33,579,000). The gearing ratio as at 30 September 2008, being the ratio of total liabilities to total equity, was 82.5% (31 March 2008: 92.9%). The Group has maintained a policy of not engaging in speculative activities. Consistent with this principle, the Group did not have any derivatives or enter into any structured contracts during the reporting period.

### EMPLOYEES

As at 30 September 2008, the Group had 224 employees (31 March 2008: 196 employees).

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

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### EXCHANGE RISK

The Group's revenues and costs are mainly denominated in Hong Kong dollars and Renminbi. Since the Hong Kong dollar remains 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 in this regard.

### PLEDGE OF THE GROUP'S ASSETS

Details of pledge of the Group's assets are set out in note 17 to the interim financial information.

### CONTINGENT LIABILITIES

Details of the Group's contingent liabilities are set out in note 15 to the interim financial information.

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

As at 30 September 2008, the interests of the Directors in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was deemed or taken to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), to be notified to the Company and the Stock Exchange were as follows:

### (A) 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	347,244,500	57.87%
Ms. Yeh Shu Ping	Beneficial owner	53,995,500	8.99%

## 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 30 September 2008 were as follows:

Name of Director	Nature of interests	Number of underlying ordinary shares in respect of options granted	Price for grant	Percentage of underlying shares over the Company's issued share capital
Mr. Jiao Shaoliang	Beneficial owner	1,100,000	HK\$10.00 (for all)	0.18%
Mr. Lan Daoying	Beneficial owner	1,200,000	HK\$10.00 (for all)	0.20%

Note: Details of the above share options granted by the Company are set out in the section headed "Share option scheme" in this interim report.

In addition to the above, as at 30 September 2008, Mr. Chiu Ka Leung held one ordinary share in each of LFHK, International Health Association (HK) Limited, Long Far Health Products Limited and Hong Kong Health Journal Limited (in all cases in trust of 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", as at 30 September 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 six months ended 30 September 2008.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 30 September 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	347,244,500 (L) (Note 2)	57.87%

Notes:

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

Save as disclosed above, as at 30 September 2008, no person, other than the Directors whose interests are set out in the section headed "Directors' and chief executive's interests and short positions in shares and underlying shares" above, had registered an interest or a short position in the shares or underlying shares of the Company as recorded in the register of the Company required to be kept pursuant to Section 336 of the SFO.

## SHARE OPTION SCHEME

The Company operates a share option 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 share option scheme include the Directors, including independent non-executive Directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group and the holders of securities of the Group. The share option scheme became effective on 5 September 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.



**SHARE OPTION SCHEME** *(Continued)*

Details of the share options granted under the share option scheme were as follows:

Name or category of option holder	Number of share options				At 30 September 2008	Date of grant of share options	Exercise period of share options	Exercise price of share options
	At 1 April 2008	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period				
Mr. Jiao Shaoliang, Executive Director	1,100,000	-	-	-	1,100,000	9.9.2002	See note 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
<b>Total</b>	<b>5,500,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,500,000</b>			

## Notes:

- 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.

- 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 charges in the Company's share capital.

## **SHARE OPTION SCHEME** *(Continued)*

At 30 September 2008, the Company had 5,500,000 share options outstanding under the share option scheme. The exercise in full of all the outstanding share options would, under the present capital structure of the Company, result in the issue of 5,500,000 additional ordinary shares of the Company and an additional share capital of HK\$275,000 and a share premium of HK\$1,787,500 (before issue expenses).

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

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 September 2008.

## **AUDIT COMMITTEE**

The audit committee of the Company has reviewed with management the unaudited consolidated interim financial statements for the six months ended 30 September 2008, including accounting principles and practices adopted by the Group, and discussed internal controls and financial reporting matters.

## **CORPORATE GOVERNANCE**

The Company is committed to maintaining a high standard of corporate governance with a view to enhancing the management of the Company as well as preserving the interests of the shareholders as a whole. The board of Directors is of the view that the Company has met the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules").

## **COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

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

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

The Company has established written guidelines for the relevant employees of the Company (the "Relevant Employees") in respect of their dealings in the securities of the Company (the "Written Guidelines") on terms no less exacting than the required standard set out in the Model Code. For this purpose, "Relevant Employee" includes any employee of the Company or a director or employee of a subsidiary or holding company of the Company who, because of such office or employment, is likely to be in possession of unpublished price sensitive information in relation to the Company or its securities. No incident of non-compliance of the Written Guidelines was noted by the Company during the six months ended 30 September 2008.

By Order of the Board  
**Chiu Ka Leung**  
*Chairman*

Hong Kong, 15 December 2008