Annual Report 2009

LONG FAR PHARMACEUTICAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2898

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. Lu Pingguo	*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:
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,
Wanchai,
Hong Kong.

WEBSITE

www.longfar.com.hk

STOCK CODE

2898

Chairman's Statement

TO OUR SHAREHOLDERS

On behalf of the board of directors (the "Board") of Long Far Pharmaceutical Holdings Limited (the "Company"), I present the annual results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2009.

During the financial year, the unprecedented global economic crisis posed threats for many corporations worldwide, including the Group. Economies slumped with the rising unemployment rates eroded consumer confidence and dampened retail markets including that of healthcare products, which is keenly competitive to being with. As a result, the Group's total turnover for the fiscal year dropped slightly. However, with our effective cost control, net loss attributable to shareholders was notably narrowed.

During the year under review, we stepped up efforts in marketing our flagship products while capping the Group's expenditure. These efforts made our flagship products – "Beauty and Healthy" (排毒美顏寶) sold in Hong Kong and "Chen Xiang Lu Bai Lu Pian" (陳香露白露片) sold in Mainland China reported with satisfactory sales. Going forward, the Group will continue to put resources on marketing those healthcare products with an aim of turning its business around soon.

Subsequent to the end of the financial year, in May 2009, the Company completed a transaction which marked the beginning of a new chapter for the Group. The Company acquired Longrun Tea Wealth Creation Company Limited and have proposed to change the name of the Company to "Longrun Tea Group Company Limited" to reflect its new business focus. The Group will start distributing tea products of the well-established "Longrun" (龍潤) brand, which is among the "Yunnan Top Ten Brand" and named the most popular tea product in the country at the Fourth China Agricultural Trade Fair. Apart from allowing the Group to diversify its business to broaden its revenue base and improve its profitability, the acquisition also presented an invaluable opportunity for the Group to enter the lucrative tea market in Mainland China. Furthermore, we had Rocket Capital Holdings Limited ("Rocket Capital") owned by Mr. Kenneth Huang joining us as our new investor, gaining its endorsement of our new business focus and strategy.

Going forward, the Group will strive to turnaround its healthcare product business and at the same time put more resources into growing its tea product business in Mainland China. We are optimistic that our tea product business will become the Group's new growth driver in the coming years. The Group will also actively explore other business opportunities in the food and beverages sector in Mainland China. Riding on the expertise of the Company in sales and marketing of tea products, we believe our tea business will help boost both our top and bottom line and thus create additional value for our shareholders.

With the Group focusing on the "Longrun" (龍潤) brand pu'erh tea products business and strong financial support from Rocket Capital, we are confident of the ability of the Group to capture growth opportunities in the lucrative tea market in Mainland China and enhance its financial position.

APPRECIATION

I thank my fellow Board members for aiding the strategic development of the Group in the past year. I would also like to relay the gratitude of the Board to our business partners, stakeholders and customers for their unfailing support. Working together with a committed and experienced management team, I am confident of the Group overcoming hurdles and seizing business opportunities in the coming year and beyond.

Chiu Ka Leung
Chairman

Hong Kong, 17 July 2009

FINANCIAL RESULTS

The Group's turnover for the year ended 31 March 2009 amounted to HK$38,781,000 (2008: HK$41,371,000), a slight decrease of 6.3% compared with last year. Gross profit was HK$22,533,000, an increase of 16.0% compared to HK$19,424,000 last year.

Loss for the year attributable to ordinary equity holders of the Company was HK$5,507,000 (2008: HK$19,226,000). The substantially narrowed loss was attributable to effective cost control measures taken by the Group. Basic loss per share was HK0.92 cent (2008: HK3.20 cents).

BUSINESS REVIEW

The Group, similar to many corporations around the world, was affected by the global economic downturn during the year under review. The challenging economic environment severely weakened consumption sentiment and the retail sector. The fact that the healthcare products market has been fiercely competitive traditionally did not help either. Up against all these negative factors, the Group continued its efforts to overcome price and margin pressures. The Group was able to act promptly in cutting costs by lowering advertising expenditure and administration and distribution costs. During the financial year, the Group's gross profit margin and net loss margin improved to 58.1% and 14.2% respectively (2008: 47.0% and 46.5% respectively).

Despite the challenging market environment, several key products of the Group continued to perform satisfactorily. "Beauty and Healthy" (排毒美顏寶) continued to be the Group's main revenue contributor and accounted for over 42.7% (2008: 43.3%) of total turnover during the year. "Chen Xiang Lu Bai Lu Pian" (陳香露白露片) was the second most popular product of the Group and accounted for 22.7% (2008: 19.5%) of total revenue. This product performed particularly well in the year under review as it continued to earn support from consumers in the Mainland China market. It recorded 9.0% growth in terms of turnover. The third bestseller of the Group during the year was "Pudilan Xiaoyan Pian" (蒲地藍消炎片), which accounted for 5.3% (2008: 4.7%) of the Group's total turnover.

Geographically, Mainland China was the Group's key market in terms of turnover for the second consecutive year. For the year, Mainland China and Hong Kong accounted for 51.8% and 43.4% of the Group's turnover respectively (2008: 51.7% and 41.7% respectively) with other markets at 4.8% (2008: 6.6%).

Mainland China

The operation continued to perform well during the year under review with turnover at HK$20,082,000 (2008: HK$21,388,000). Compared with other countries, Mainland China has been less affected by the global economic downturn and correspondingly the business of the Group in the market was not seriously hampered.

With the Group's continuous efforts in educating consumers about the benefits of healthcare, consumer perception of the Group's products strengthened. During the year, the Group also expanded its sales network across the country, aiding sales of its products in the market, in particular its main revenue contributor, "Chen Xiang Lu Bai Lu Pian" (陳香露白露片). Greater consumer acceptance of the product boosted sales by 9.0%.

Hong Kong

Although the economic climate in Hong Kong was poor during the year under review, the Group was able to take the opportunity of its peers holding back on new product launches to attract customers to its flagship product, "Beauty and Healthy" (排毒美顏寶). As a result, the product continued to contribute stable income to the Group. With the Group's continuous efforts to educate the public about the benefits of its products through seminars, overall sales in Hong Kong remained stable. The Group also actively implemented membership programmes and offered discounts and various promotion benefits to members, which initiatives were well-received by customers. The Group has more than 100,000 members in Hong Kong currently.

Overseas

In other South East Asia markets excluding Mainland China and Hong Kong, the Group's sales performance remained relatively stagnant. During the year under review, the Group continued to negotiate with a Russian company with the goal of penetrating the Russian market. Concrete plans in relation to this goal has yet to be drawn up.

Awards

As in previous years, products of the Group received different awards during the review year. The Group won the "Best Selling Detoxification Product – Diamond Award" (最暢銷排毒產品鑽石獎) presented by Watson's the Chemist and "Best Detoxification Product Award" (至FIT排毒獎) presented by Mannings. The Group was also named among the "Hong Kong Top Brand 2008" jointly organised 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).

PROSPECTS

Although the global economic environment continues to be uncertain, the management remains cautiously optimistic about the Group's performance in the coming year. The Group will exercise prudence and put more efforts into promoting profitable products instead of investing in new products that take time to break even and make profits. The Group will also exit non-profitable products to ensure the Group stays competitive.

The Group will strengthen relationship with customers by organising seminars and membership activities. The Group has found these activities to be very cost effective. The Group will also continue its proven direct marketing programme on a quarterly basis.

In Mainland China, which has been less affected by the global financial crisis, the Group will continue to expand its healthcare products business and tea business. Subsequent to the financial year end, on 25 May 2009, the Company announced the acquisition of the entire issued share capital of Longrun Tea Wealth Creation Company Limited together with a shareholder's loan of HK$10 million at an aggregate consideration of HK$160 million. This sum will be satisfied by the Company's allotment and issue of 400 million consideration shares of the Company at HK$0.25 each and issue of convertible bonds with an aggregate principal amount of HK$60 million and an initial conversion price of HK$0.3 per share. When the acquisition is completed, the Group will start distributing tea products of the well-established "Longrun" (龍潤) brand, which is among the "Yunnan Top Ten Brand" and named the most popular tea product in the country at the Fourth China Agricultural Trade Fair. "Longrun" (龍潤) branded pu'erh tea products are considered to be of premium quality in Mainland China and are selected by the Diaoyutai State Guesthouse (釣魚台國賓館) as the appointed pu'erh tea to serve to dignitaries staying there. The acquisition will allow the Group to broaden its revenue base and improve profitability. It also presents a valuable opportunity for the Group to enter the lucrative tea market in Mainland China and pursue other business opportunities in the food and beverages sector in Mainland China in the future. The Company has proposed to change its name to "Longrun Tea Group Company Limited" (龍潤茶集團有限公司) to reflect its new business focus.

In addition, the Company signed an investment agreement with Rocket Capital on 17 May 2009 (as amended by the supplemental agreement dated 16 June 2009) to form a strategic partnership. Pursuant to and upon completion of the said investment agreement, the Company shall issue to Rocket Capital 100 million new shares at HK$0.25 each and convertible bonds with an aggregate principal amount of HK$30 million and an initial conversion price of HK$0.3 per share. The Group will receive approximately HK$53 million net proceeds in the transaction, of which approximately HK$37 million will be used to develop its tea related business and the balance of approximately HK$16 million as general working capital. Mr. Kenneth Huang, the ultimate controlling shareholder of Rocket Capital, is a veteran in investing in emerging markets particularly those in the Greater China region. He is also the investment partner of Mr. Leslie Lee Alexander, owner of the basketball team Houston Rockets in the United States. With Rocket Capital as a strategic partner, the Group will have an enhanced shareholder base and a strong financial position to explore profitable business opportunities.

The Group is committed to delivering long-term and stable returns to shareholders. Therefore, going forward, it will continue to grow its healthcare products business aiming for a turnaround soon. At the same time, the Group will put more resources into its new tea product business in Mainland China where the market is huge and groom the business into a growth driver of the Group in the many years to come.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has consistently maintained sufficient working capital. As at 31 March 2009, the Group had current assets of HK$30,175,000 (2008: HK$44,223,000) and cash and bank balances of HK$5,599,000 (2008: HK$19,941,000). The Group's current liabilities as at 31 March 2009 were HK$24,667,000 (2008: HK$35,132,000).

As at 31 March 2009, the Group had total equity of HK$49,579,000 (2008: HK$53,592,000) and interest-bearing bank and other borrowings of HK$20,451,000 (2008: HK$33,579,000). The gearing ratio as at 31 March 2009, being the ratio of total liabilities to total equity, was 74.8% (2008: 92.9%).

EMPLOYEES

As at 31 March 2009, the Group had 206 employees (2008: 196 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 discretionary bonuses for its employees, with reference to the Group's results and individual performance.

CONTINGENT LIABILITIES

As at 31 March 2009, the Company provided a guarantee to a bank in connection with the banking facilities of HK$6,000,000 (2008: HK$6,000,000) granted to the Company's subsidiary.

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

As at 31 March 2009, the Group's bank deposits of approximately HK$375,000 (2008: HK$369,000) and leasehold land and buildings with an aggregate net book value of approximately HK$28,428,000 (2008: HK$48,820,000) 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 45, is the founder of the Group. He is the Chairman of the Board and of the Remuneration Committee, a member of the Executive Committee, an executive director of the Company and a director of certain subsidiaries of the Company. Mr. Chiu is responsible for strategic planning and overall management of business operations of the Group. Mr. Chiu graduated from 雲南省楚雄醫藥專科學校 (Yunnan Provincial Chu Xiong Medical Academy) in Mainland China in 1985 with a certification in pharmacy, and has been involved in pharmaceutical research for over ten years. Prior to founding the Group, he was a pharmacist in the 雲南省紅十字會醫院 (Yunnan Provincial Red Cross Hospital) in Mainland China for five years. Mr. Chiu received a master's degree in industrial economics from 中國社會科學院研究生院 (Graduate School of Chinese Academy of Social Sciences) in 1998. In 2006, Mr. Chiu obtained a doctorate degree of corporate management from the 中國人民大學 (Renmin University of China), and passed the qualification examination and was awarded the title of 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 Professionals of Yunnan Province) in the same year. He was appraised by the provincial government as an expert with outstanding contribution and was awarded a 五一勞動獎 medal. Mr. Chiu is the elder brother of Mr. Jiao Shaoliang (an executive director of the Company) and the brother-in-law of Mr. Lu Pingguo (an executive director of the Company appointed on 1 February 2009). Mr. Lan Daoying, the brother-in-law of Mr. Chiu, resigned as an executive director of the Company on 1 February 2009. On 17 May 2009, Longrun Tea Investment Company Limited and Longrun Tea Asset Management Company Limited reported themselves as substantial shareholders of the Company. Mr. Chiu is a director of these two Companies.

Ms. Yeh Shu Ping, aged 62, 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 35, 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. Lu Pingguo (an executive director of the Company appointed on 1 February 2009). Mr. Lan Daoying, the brother-in-law of Mr. Jiao, resigned as an executive director of the Company on 1 February 2009.

Mr. Lu Pingguo, aged 37, is an executive director and a member of the Executive Committee of the Company. He is responsible for the daily management of the tea business of the Group. Prior to joining the Group in February 2009, Mr. Lu was a statistical programmer and consultant in a commercial firm in Canada, who was responsible for conducting statistical analysis and preparing statistical reports. He has over ten years of experience in the statistical analysis and consulting field. Mr. Lu was awarded a Master of Science degree in Statistics and a Doctor of Philosophy degree in Statistics by the University of Western Ontario, Canada. He was a member of American Statistical Association from 2005 to 2007. Mr. Lu is a 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 50, joined the Group in September 2004. He is an independent non-executive director, 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 21 January 2009, Mr. Lam has resigned as an executive director and the managing director of Wing Shan International Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited.

Mr. Guo Guoqing, aged 46, joined the Group in August 2002. He is an independent non-executive director and 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 (Renmin University of China) in 1998. He is currently a professor at 中國人民大學工商管理學院 (School of Business of Renmin University of China) and a director of 中國人民大學中國市場營銷研究中心 (Marketing Research Center of China of Renmin University of China). His teaching and research interests are in the areas of marketing management.

Mr. Kwok Hok Lun, aged 33, joined the Group in October 2006. He is an independent non-executive director and 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 39, 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. Lee Hing Cheung, Eric, aged 40, is the Assistant General Manager of the Company and is responsible for the Group's corporate development. Mr. Lee holds a Master of Science degree in Finance from the University of Strathclyde in the United Kingdom. Before joining the Group in July 2007, Mr. Lee has over 15 years of experience in investment banking and held senior positions in a number of reputable financial institutions in Hong Kong.

Mr. Hui Pang To, aged 40, 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 of the Company is pleased to present this Corporate Governance Report in the Company's annual report for the year ended 31 March 2009.

CORPORATE GOVERNANCE PRACTICES

The Board believes that good corporate governance is essential for effective management and enhancement of shareholder value and investor confidence. The Board is committed to strengthening the Group's corporate governance practices, the cornerstone of which is to identify and formulate corporate governance practices appropriate to the Group and to enhance transparency and accountability to the Company's shareholders.

The Company has applied the principles as 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 2009. The Company will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review its corporate governance practices from time to time to ensure they comply with the increasingly tightened regulatory requirements and to meet the rising expectations of shareholders and investors.

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

A THE BOARD

A1. Responsibilities and Delegation

The Board is responsible for the leadership, control and management of the Company and oversees the Group's business, strategic decision and performances in the attainment of the objective of enhancing value to investors. All the directors carry out their duties in good faith and in compliance with applicable laws and regulations, taking decisions objectively and acting in the interests of the Company and its shareholders at all times.

All directors have timely access to all relevant information as well as the advice and services of the Company Secretary and senior management, with a view to ensuring compliance with Board procedures and all applicable laws and regulations. Any director may request for independent professional advice in appropriate circumstances at the Company's expense, upon reasonable request made to the Board.

The Board reserves for its decision on 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 that may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

The Executive Committee and the senior management are delegated the authority and responsibilities by the Board for the day-to-day management and operation of the Group. 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 abovementioned officers. The Board has the full support of the senior management to discharge its responsibilities.

A2. Board Composition

The Board currently comprises the following directors:

Executive directors:

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

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 during the year ended 31 March 2009 met the requirements of the Listing Rules of having at least three independent non-executive directors with at least one of them possessing appropriate professional qualifications and accounting and related financial management expertise as required under the Listing Rules. 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 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 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/or serving on Board committees, the independent non-executive directors have made 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 biographical details of the directors of the Company as well as the relationships among them, if any, are set out under "Biographical Details of Directors and Senior Management" in this annual report.

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

A3. Chairman and Chief Executive Officer

The roles and duties of the Chairman and the Chief Executive Officer of the Company are carried out by different individuals and have been clearly defined in writing to ensure a balance of power and authority, so that power is not concentrated in any one individual. Currently, the Chairman of the Board is Mr. Chiu Ka Leung, who provides leadership for the Board and is also responsible for managing the operations of the Board and ensuring that all major and appropriate issues are discussed by the Board in a timely and constructive manner whereas the Chief Executive Officer is Ms. Yeh Shu Ping, who is responsible for running the Company's businesses and implementing the Group's strategic plans and business goals.

A4. 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 agreement for a term of 2 years. The appointment may be terminated by either party by not less than 3 months' written notice. Each of the independent non-executive directors of the Company is appointed for a term of 1 year.

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.

Besides, the procedures and process of appointment, re-election and removal of directors are laid down in the Company's Articles of Association (the "Articles"). All the existing directors are subject to retirement by rotation at least once every three years and are eligible for re-election at annual general meeting of the Company. 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 of the Company held after his/her appointment. In addition, code provision A.4.2 of the CG Code also stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Pursuant to the aforesaid provisions of the Articles and the CG Code, Ms. Yeh Shu Ping and Mr. Lam Siu Hung shall retire by rotation at the forthcoming annual general meeting of the Company (the "2009 AGM"). Besides, Mr. Lu Pingguo, who has been appointed by the Board as a director of the Company with effect from 1 February 2009, will also retire at the 2009 AGM instead of the first general meeting of the Company after his appointment, held on 14 July 2009. Such arrangement, deviating from the code provision A.4.2 of the CG Code, is made as the directors consider that the dates of the two general meetings are close and the retirement and re-election of all the three directors at one general meeting, i.e. at the 2009 AGM, will provide a clearer picture to the Company's shareholders. All the above three retiring directors, being eligible, will offer themselves for re-election at the 2009 AGM. The Board recommended their re-appointment. The Company's circular, sent together with this annual report, contains detailed information of these three directors as required by the Listing Rules.

During the year ended 31 March 2009, the Board, through its meeting held on 17 July 2008 (in which Mr. Chiu Ka Leung, Ms. Yeh Shu Ping, Mr. Jiao Shaoliang and Mr. Lam Siu Hung were present) and written resolutions passed on 1 February 2009, performed the following work regarding matters relating to nomination of directors:

(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; recommendation of the re-election of the retiring directors at the 2008 annual general meeting of the Company; and assessment of the independence of all the Company's independent non-executive directors; and

(ii) acceptance of the resignation of Mr. Lan Daoying as an executive director and appointment of Mr. Lu Pingguo as an executive director of the Company.

A5. Induction and Continuing Development for Directors

Each newly appointed director receives induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The existing directors are continually updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities. As recommended by the Hong Kong Companies Registry, the "Non-statutory Guidelines on Directors' Duties" published by the Registry has been given to the Company's directors to provide them with more information on 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.

Continuing briefings and professional development to directors will be arranged whenever necessary.

A6. Board Meetings

A6.1 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 and committee 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 all 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 and committee 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 Articles 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.

A6.2 Directors' Attendance Records

During the year ended 31 March 2009, four regular Board meetings were held at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

The attendance records of each director at these four Board meetings are set out below:

Name of Director	Attendance/Number of Board Meetings
Executive directors	
Mr. Chiu Ka Leung	4/4
Ms. Yeh Shu Ping	4/4
Mr. Jiao Shaoliang	4/4
Mr. Lan Daoying *(Note 1)*	0/3
Mr. Lu Pingguo *(Note 2)*	1/1
Independent non-executive directors	
Mr. Lam Siu Hung	4/4
Mr. Guo Guoqing	1/4
Mr. Kwok Hok Lun	1/4

Notes:

1. Mr. Lan Daoying resigned as an executive director of the Company on 1 February 2009. Before his resignation, there were a total of three Board meetings held during the year ended 31 March 2009.

2. Mr. Lu Pingguo has been appointed as an executive director of the Company with effect from 1 February 2009. During the period immediately after his appointment and up to 31 March 2009, there was one Board meeting held.

A6.3 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 throughout the year ended 31 March 2009.

The Company also has established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company and/or its securities. No incident of non-compliance of the Employees Written Guidelines by the 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 A6.1 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.

B1. 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 2009, the Remuneration Committee has met once with the presence, either in person or by telephone conference, of all the committee members except Mr. Guo Guoqing. The members in that meeting had generally reviewed the remuneration policy and structure of the Group, and delegated to the Company's executive directors the power to conduct an annual review on the remuneration packages of senior management and to make any appropriate adjustments.

Details of the remuneration of each director of the Company for the year ended 31 March 2009 are set out in note 7 to the financial statements contained in this annual report.

B2. 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 2009, the Audit Committee has met three times and performed the following major works:

– Overview and discussion of the audit planning for the year ended 31 March 2008 by the auditors of the Company;

– Review and discussion of the annual financial statements, results announcement and report for the year ended 31 March 2008, the related accounting principles and practices adopted by the Group and the relevant audit findings;

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

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

– Review and discussion of the interim financial statements, results announcement and report for the six months ended 30 September 2008 and the related accounting principles and practices adopted by the Group.

The external auditors were invited to attend all 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 three Audit Committee meetings are set out below:

Name of Audit Committee Member	**Attendance/Number of Audit Committee Meetings**
Mr. Lam Siu Hung *(Chairman)*	3/3
Mr. Guo Guoqing	0/3
Mr. Kwok Hok Lun	2/3

B3. 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 2009.

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.

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 a review of the effectiveness of the internal control system of the Group for the year ended 31 March 2009. 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 2009 is set out in the section headed "Independent Auditors' Report" in this annual report.

The fees paid/payable to the Company's external auditors in respect of audit services and non-audit services for the year ended 31 March 2009 are analyzed below:

Type of services provided by the external auditors	**Fees paid/payable** HK$'000
Audit services:	
Audit fee for the year ended 31 March 2009	630
Non-audit services:	
Interim review for the six months ended 30 September 2008	145
TOTAL:	775

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 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 annual general meetings and other shareholders' meetings of the Company to answer questions raised.

Code provision E.1.2 of the CG Code stipulates that the chairman of the independent board committee (if any) should be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval. At the Company's extraordinary general meeting held on 14 July 2009 for approving the major and connected transaction, the possible continuing connected transaction, the subscription and issue of subscription shares and convertible bonds and the grant of share options (details of such transactions were set out in the Company's circular dated 26 June 2009), the independent board committee members were not present as they had other business engagements or were not in Hong Kong. The chairman of the meeting has read in the meeting the affirmative recommendation of the independent board committee on these transactions for independent shareholders' consideration, and the Company Secretary and other senior management were arranged to answer questions from the independent shareholders at that meeting. No question was raised by any shareholders during such general meeting.

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 for proposing resolutions are contained in the Articles.

Upon implementation of the amendments of the Listing Rules with effect from 1 January 2009, all resolutions proposed at shareholders' meetings of listed issuers shall be voted by poll. The poll voting results shall be posted on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.longfar.com.hk) after a shareholders' meeting.

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 2009.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 14 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 2009 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 29 to 68.

The directors of the Company do not recommend the payment of any dividend in respect of the year (2008: Nil).

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Tuesday, 25 August 2009 to Friday, 28 August 2009 (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 forthcoming annual general meeting of the Company to be held on Friday, 28 August 2009, unregistered holders of shares of the Company should ensure that all share transfer documents of the Company accompanied by the relevant share certificates 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 Monday, 24 August 2009.

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				
	2009	2008	2007	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
REVENUE	**38,781**	41,371	46,563	57,533	77,070
(LOSS)/PROFIT BEFORE TAX	**(5,507)**	(19,226)	(14,129)	(9,886)	5,707
Tax	**–**	–	–	5	(974)
(LOSS)/PROFIT ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	**(5,507)**	(19,226)	(14,129)	(9,881)	4,733

ASSETS AND LIABILITIES

	As at 31 March				
	2009	2008	2007	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**86,640**	103,382	105,242	122,780	105,722
TOTAL LIABILITIES	**(37,061)**	(49,790)	(35,256)	(40,270)	(14,303)
	49,579	53,592	69,986	82,510	91,419

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

There were no movements in the Company's authorised or issued share capital 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 of the Group during the year are set out in note 26(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 March 2009, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to HK$27,879,000.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 69% of the total sales for the year and sales to the largest customer included therein amounted to approximately 24%. Purchases from the Group's five largest suppliers accounted for approximately 36% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 13%.

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.

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 (resigned on 1 February 2009)
Mr. Lu Pingguo (appointed on 1 February 2009)

Independent non-executive directors:

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

In accordance with the Company's articles of association and the agreement among the directors, Ms. Yeh Shu Ping, Mr. Lu Pingguo and Mr. Lam Siu Hung will retire as directors of the Company 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.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors of the Company has entered into a service contract with the Company for a term of two years commencing on 1 January 2009, except Mr. Lu Pingguo whose service contract commences on 1 February 2009, 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.

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 29 to the financial statements 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 or any of its 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 2009, 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	Percentage of the Company's issued share capital as at 31 March 2009
Mr. Chiu Ka Leung	Beneficial owner	347,244,500	57.87%
Ms. Yeh Shu Ping	Beneficial owner	53,955,500	8.99%

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

The following director was granted share options under the share option scheme of the Company dated 22 August 2002 to subscribe for ordinary shares of the Company. The outstanding share options held by the director as at 31 March 2009 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 as at 31 March 2009
Mr. Jiao Shaoliang	Beneficial owner	1,100,000	HK$10.00 (for all)	0.18%

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

In addition to the above, as at 31 March 2009, 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 2009, 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in note 25 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 or any of its 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 25 to the financial statements. The following table shows movements of the Company's share options during the year:

	Number of share options						
Name or category of option holder	At 1 April 2008	Granted/ exercised/ (cancelled) during the year	(Lapsed) during the year	At 31 March 2009	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	*Note 1*	HK$0.375 per share
Mr. Lan Daoying, Executive Director	1,200,000	–	(1,200,000)	–	9.9.2002	*Note 2*	HK$0.375 per share
Employees working under continuous contracts – in aggregate	3,200,000	–	–	3,200,000	9.9.2002	*Note 1*	HK$0.375 per share
Total	5,500,000	–	(1,200,000)	4,300,000			

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. On 1 February 2009, Mr. Lan Daoying resigned as an executive director of the Company and therefore, the share options granted to him were lapsed during the year.

3. 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 2009, 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 as at 31 March 2009
Ms. Guo Jinxiu *(Note 1)*	Interest held by spouse	347,244,500 (L) *(Note 2)*	57.87%

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 2009, no person, other than the directors of the Company whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares and underlying shares" above, had registered an interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO.

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 is set out below:

Mr. Chiu Ka Leung has a controlling interest in Yunnan Panlong Yunhai Pharmaceutical Company Limited ("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 Mainland China 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 2009, 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, Southeast 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.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTION

Subsequent to the year-end date, the Company has conducted the following transactions, which constituted "connected transaction" and "continuing connected transaction" under the Listing Rules:

(A) Connected Transaction – Acquisition of Longrun Tea Wealth Creation Company Limited

The Company entered into a sale and purchase agreement on 17 May 2009 (as supplemented by a supplemental agreement dated 16 June 2009), for its acquisition of all of the issued share capital of Longrun Tea Wealth Creation Company Limited ("Target") and a shareholder's loan of HK$10 million (the "Acquisition"). Upon completion of the Acquisition, the Target together with its subsidiaries ("Target Group"), comprising Longrun Tea Trading Company Limited and Yunnan Longrun Trading Company Limited ("PRC Longrun"), shall become wholly-owned subsidiaries of the Group.

The Company, upon completion of the Acquisition, is capable of entering into the rapidly growing and lucrative tea market in the People's Republic of China (the "PRC") with the existing products, network and expertise of the Target Group. This will enable the Group to broaden its revenue base and enhance its profitability and at the same time diversify the risk profile of the Group from the reliance on the pharmaceutical industry. It is also the intention of the Company that PRC Longrun will also explore other business opportunities in the food and beverages sector in the PRC.

(B) Continuing Connected Transaction – Purchase Agreement

Prior to signing the aforesaid sale and purchase agreement by the Company, on 12 May 2009, PRC Longrun entered into an exclusive purchase agreement (the "Purchase Agreement") with Longrun Tea Group Limited ("Longrun Tea Group") for a term of 10 years, pursuant to which PRC Longrun is granted an exclusive right to purchase the tea products of Longrun Tea Group and to use the trademarks (including both registered and unregistered trademarks) and other intellectual properties owned by Longrun Tea Group and its subsidiaries. As such, all the tea products manufactured by Longrun Tea Group will be sold to PRC Longrun. PRC Longrun will, through developing its own distribution network of self-owned retail stores and franchise stores, distribute the tea products to the market. With the Purchase Agreement, a long-term contract in place, PRC Longrun is able to secure supply of high quality pu'erh tea products at favourable purchase terms.

(C) Connected Transaction – Grant of Share Options

On 17 May 2009, the Company entered into respective option agreements with the following directors and/or management of the Group for granting a total of 50,000,000 share options (the "Options") to them as follows, subject to fulfillment of certain conditions:

Name of Grantee	Number of Options to be granted
Ms. Yeh Shu Ping	10,000,000
Mr. Lu Pingguo	14,000,000
Mr. Lee Hing Cheung, Eric	23,000,000
Mr. Hui Pang To	3,000,000

The grant of the Options is part of the incentive offered to the foregoing grantees for their contribution to the diversification of the business of the Group.

Details of the above connected transactions and continuing connected transaction have been set out in the Company's circular dated 26 June 2009. The transactions were approved by the independent shareholders at the Company's extraordinary general meeting held on 14 July 2009, but have not been completed up to the date of this report. Other details of the above transactions as required by Rules 14A.45 and 14A.46 of the Listing Rules are set out in note 32 to the financial statements.

Report of the Directors

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 re-appointment 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 2009

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 29 to 68, which comprise the consolidated and company balance sheets as at 31 March 2009, 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 2009 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 2009

Consolidated Income Statement

Year ended 31 March 2009

	Notes	2009 HK$'000	2008 HK$'000
REVENUE	4	**38,781**	41,371
Cost of sales		**(16,248)**	(21,947)
Gross profit		**22,533**	19,424
Other income and gain	4	**1,310**	1,165
Selling and distribution costs		**(6,724)**	(12,516)
Administrative expenses		**(21,484)**	(25,304)
Other expenses		**(399)**	(359)
Finance costs	6	**(743)**	(1,636)
LOSS BEFORE TAX	5	**(5,507)**	(19,226)
Tax	9	**–**	–
LOSS FOR THE YEAR ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	10	**(5,507)**	(19,226)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	11		
Basic		**(HK0.92 cent)**	(HK3.20 cents)
Diluted		**N/A**	N/A

Consolidated Balance Sheet

31 March 2009

	Notes	2009 HK$'000	2008 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**34,171**	36,499
Prepaid land lease payments	13	**22,054**	22,420
Deferred tax assets	23	**240**	240
Total non-current assets		**56,465**	59,159
CURRENT ASSETS			
Inventories	15	**11,477**	9,539
Trade receivables	16	**9,831**	11,757
Prepayments, deposits and other receivables		**2,612**	2,159
Financial assets at fair value through profit or loss	17	**232**	448
Tax recoverable		**49**	10
Pledged deposits	18	**375**	369
Cash and cash equivalents	18	**5,599**	19,941
Total current assets		**30,175**	44,223
CURRENT LIABILITIES			
Trade payables	19	**2,548**	2,240
Other payables and accruals		**7,709**	7,419
Interest-bearing bank and other borrowings	20	**8,227**	19,091
Due to a related company	22	**113**	109
Due to directors	22	**6,070**	6,273
Total current liabilities		**24,667**	35,132
NET CURRENT ASSETS		**5,508**	9,091
TOTAL ASSETS LESS CURRENT LIABILITIES		**61,973**	68,250
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	20	**12,224**	14,488
Deferred tax liabilities	23	**170**	170
Total non-current liabilities		**12,394**	14,658
Net assets		**49,579**	53,592
EQUITY			
Issued capital	24	**30,000**	30,000
Reserves	26(a)	**19,579**	23,592
Total equity		**49,579**	53,592

Yeh Shu Ping
Director

Jiao Shaoliang
Director

Consolidated Statement of Changes in Equity

Year ended 31 March 2009

	Issued capital HK$'000	Share premium account HK$'000	Contributed surplus HK$'000 *(note 26(a))*	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total equity HK$'000
At 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 and 1 April 2008	**30,000**	**8,720**	**300**	**5,543**	**9,029**	**53,592**
Exchange realignment and total income and expense for the year recognised directly in equity	**–**	**–**	**–**	**1,494**	**–**	**1,494**
Loss for the year	**–**	**–**	**–**	**–**	**(5,507)**	**(5,507)**
At 31 March 2009	**30,000**	**8,720***	**300***	**7,037***	**3,522***	**49,579**

* These reserve accounts comprise the consolidated reserves of HK$19,579,000 (2008: HK$23,592,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 March 2009

	Notes	2009 HK$'000	2008 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(5,507)**	(19,226)
Adjustments for:			
Dividend income from listed investments	4	**(1)**	(20)
Finance costs	6	**743**	1,636
Interest income	4	**(45)**	(249)
Fair value loss for financial assets at fair value through profit or loss	5	**216**	553
Loss on disposal of financial assets at fair value through profit or loss	5	**–**	115
Depreciation	5	**3,366**	4,630
Recognition of prepaid land lease payments	5	**577**	559
Loss/(gain) on disposal of items of property, plant and equipment, net	5	**31**	(63)
Impairment of trade receivables	5	**136**	359
Write-down of inventories to net realisable value	5	**80**	2,234
		(404)	(9,472)
Increase in inventories		**(2,018)**	(144)
Decrease in trade receivables		**1,790**	2,717
Increase in prepayments, deposits and other receivables		**(453)**	(353)
(Decrease)/increase in amounts due to directors		**(203)**	120
Increase in trade payables		**308**	72
Increase/(decrease) in other payables and accruals		**290**	(1,540)
Cash used in operations		**(690)**	(8,600)
PRC profits tax paid		**(39)**	(10)
Net cash outflow from operating activities		**(729)**	(8,610)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**45**	249
Purchases of items of property, plant and equipment		**(260)**	(272)
Increase in pledged time deposits		**(6)**	(12)
Proceeds from disposal of items of property, plant and equipment		**–**	125
Proceeds from disposal of an investment property		**–**	386
Purchases of financial assets at fair value through profit or loss		**–**	(3,099)
Proceeds from disposal of financial assets at fair value through profit or loss		**–**	5,516
Dividend received from listed investments		**1**	20
Net cash (outflow)/inflow from investing activities		**(220)**	2,913

	Notes	2009 HK$'000	2008 HK$'000
Net cash (outflow)/inflow from investing activities		**(220)**	2,913
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital element of finance lease rental payments		**(71)**	(156)
New bank loans		**–**	16,900
Repayment of bank loans		**(13,057)**	(4,951)
Advance from a director		**–**	6,000
Increase/(decrease) in amount due to a related company		**4**	(1,911)
Interest paid		**(743)**	(1,636)
Net cash (outflow)/inflow from financing activities		**(13,867)**	14,246
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(14,816)**	8,549
Cash and cash equivalents at beginning of year		**19,941**	10,739
Effect of foreign exchange rate changes, net		**474**	653
CASH AND CASH EQUIVALENTS AT END OF YEAR		**5,599**	19,941
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*18*	**5,599**	19,846
Non-pledged time deposits with original maturity of less than three months when acquired	*18*	**–**	95
		5,599	19,941

Balance Sheet

31 March 2009

	Notes	2009 HK$'000	2008 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	*14*	**6,712**	6,712
CURRENT ASSETS			
Due from subsidiaries	*14*	**50,972**	50,937
Other receivables		**109**	109
Cash and cash equivalents	*18*	**106**	107
Total current assets		**51,187**	51,153
CURRENT LIABILITIES			
Other payables and accruals		**20**	11
NET CURRENT ASSETS		**51,167**	51,142
Net assets		**57,879**	57,854
EQUITY			
Issued capital	*24*	**30,000**	30,000
Reserves	*26(b)*	**27,879**	27,854
Total equity		**57,879**	57,854

Yeh Shu Ping
Director

Jiao Shaoliang
Director

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 few financial years and the current financial position of the Group, the directors (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 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 ("HKICPA"), 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, 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 Group for the year ended 31 March 2009. 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 income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new interpretations and amendments to HKFRSs for the first time for the current year's financial statements.

HKAS 39 and HKFRS 7 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement and HKFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets*
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*

The adoption of these new interpretations and amendments has had no significant financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

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 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs and* HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*[1]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*[1]
HKFRS 3 (Revised)	*Business Combinations*[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*[1]
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*[2]
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation and* HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*[1]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*[2]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes*[3]
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate*[1]
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation*[4]
HK(IFRIC)-Int 17	*Distribution of Non-cash Assets to Owners*[2]
HK(IFRIC)-Int 18	*Transfer of Assets from Customers*[2]

Apart from the above, the HKICPA has also issued Improvements to HKFRSs* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendment to HKFRS 5 which is effective for annual periods beginning on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 January 2009

2 Effective for annual periods beginning on or after 1 July 2009

3 Effective for annual periods beginning on or after 1 July 2008

4 Effective for annual periods beginning on or after 1 October 2008

* Improvements to HKFRSs contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 7 Amendments, HKFRS 8 and HKAS 1 (Revised) may result in new or amended disclosures and the adoption of HKFRS 3 (Revised), HKAS 27 (Revised) and HKAS 23 (Revised) may result in changes in accounting policies, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

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.

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 an 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 an 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 least 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

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

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss or loans and receivables as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 costs" 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the 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.

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 2009 was HK$240,000 (2008: HK$240,000). Further details are given in note 23.

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 attributed 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 2009 and 2008.

	Hong Kong		Mainland China		Elsewhere in South East Asia		Consolidated	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
Segment revenue:								
Sales to external customers	**16,827**	17,232	**20,082**	21,388	**1,872**	2,751	**38,781**	41,371
Other segment information:								
Segment assets	**41,723**	50,806	**44,917**	52,576	**–**	–	**86,640**	103,382
Capital expenditure	**41**	93	**219**	179	**–**	–	**260**	272

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:

	2009 HK$'000	2008 HK$'000
Revenue		
Sale of goods	**38,781**	41,371
Other income		
Dividend income from listed investments	**1**	20
Interest income	**45**	249
Advertising income	**–**	389
Rental income	**–**	29
Subsidy income	**339**	–
Others	**925**	415
	1,310	1,102
Gain		
Gain on disposal of items of property, plant and equipment, net	**–**	63
	1,310	1,165

5. LOSS BEFORE TAX

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

	Notes	2009 HK$'000	2008 HK$'000
Cost of inventories sold		**15,974**	20,381
Depreciation	*12*	**3,366**	4,630
Recognition of prepaid land lease payments	*13*	**577**	559
Minimum lease payments under operating leases on land and buildings		**–**	352
Auditors' remuneration		**630**	700
Employee benefits expense (excluding directors' remuneration in note 7):			
Wages and salaries		**10,441**	13,057
Pension scheme contributions (defined contribution schemes)		**408**	476
		10,849	13,533
Impairment of trade receivables*	*16*	**136**	359
Write-down of inventories to net realisable value**		**80**	2,234
Foreign exchange losses, net		**5**	55
Loss/(gain) on disposal of items of property, plant and equipment, net		**31**	(63)
Fair value loss for financial assets at fair value through profit or loss		**216**	553
Loss on disposal of financial assets at fair value through profit or loss		**–**	115
Subsidy income***		**(339)**	–

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

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

*** Various government subsidies have been received for enterprises in Yunnan province, Mainland China. There are no unfulfilled conditions or contingencies related to those subsidies.

6. FINANCE COSTS

	Group 2009 HK$'000	2008 HK$'000
Interest on bank loans wholly repayable:		
Within five years	**424**	769
Over five years	**317**	857
Interest on finance leases	**2**	10
Total interest expenses on financial liabilities not at fair value through profit or loss	**743**	1,636

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 2009 HK$'000	2008 HK$'000
Fees:		
Executive directors	**–**	–
Independent non-executive directors	**216**	216
	216	216
Other emoluments:		
Salaries, allowances and benefits in kind	**3,862**	3,892
Pension scheme contributions	**48**	48
	3,910	3,940
	4,126	4,156

7. DIRECTORS' REMUNERATION (Continued)

(a) Independent non-executive directors

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

	2009 HK$'000	2008 HK$'000
Mr. Guo Guoqing	**72**	72
Mr. Lam Siu Hung	**72**	72
Mr. Kwok Hok Lun	**72**	72
	216	216

There were no other emoluments payable to the independent non-executive directors during the year (2008: Nil).

(b) Executive directors

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2009				
Executive directors:				
Mr. Chiu Ka Leung	**–**	**1,623**	**12**	**1,635**
Ms. Yeh Shu Ping	**–**	**1,379**	**12**	**1,391**
Mr. Jiao Shaoliang	**–**	**612**	**12**	**624**
Mr. Lan Daoying	**–**	**210**	**10**	**220**
Mr. Lu Pingguo	**–**	**38**	**2**	**40**
	–	**3,862**	**48**	**3,910**
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

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

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2008: two) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the three (2008: three) non-director, highest paid employees for the year are as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**2,988**	2,601
Pension scheme contributions	**34**	34
	3,022	2,635

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

	Number of employees	
	2009	2008
Nil to HK$1,000,000	**2**	3
HK$1,000,001 to HK$1,500,000	**1**	–
	3	3

9. TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2008: Nil). No provision for PRC corporate income tax 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 (2008: Nil).

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 – 2009

	Hong Kong		Mainland China		Macau		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	(6,937)		1,430		–		(5,507)	
Tax at the statutory or applicable tax rate	(1,145)	16.5	357	25.0	–	–	(788)	14.3
Income not subject to tax	(89)	1.3	–	–	–	–	(89)	1.6
Expenses not deductible for tax	358	(5.2)	91	6.3	–	–	449	(8.1)
Tax losses not recognised	743	(10.7)	4	0.3	–	–	747	(13.6)
Tax loss utilised from previous periods	–	–	(452)	(31.6)	–	–	(452)	8.2
Deductible temporary difference not recognised	133	(1.9)	–	–	–	–	133	(2.4)
Tax at the Group's effective rate	–	–	–	–	–	–	–	–

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	–	–	–	–	–	–	–	–

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 2009 includes a profit of HK$25,000 (2008: loss of HK$13,996,000) which has been dealt with in the financial statements of the Company (note 26(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$5,507,000 (2008: HK$19,226,000) and the 600,000,000 (2008: 600,000,000) ordinary shares in issue during the year.

Diluted loss per share amounts for the years ended 31 March 2009 and 2008 have not been disclosed as the share options outstanding during these years had an anti-dilutive effect on the basic loss per share amounts for these years.

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 2009								
Cost:								
At 1 April 2008	41,152	2,747	2,131	1,429	11,196	2,369	–	61,024
Additions	–	–	12	35	213	–	–	260
Disposal/write-off	–	(19)	(199)	(427)	(26)	–	–	(671)
Exchange realignment	980	–	30	–	364	21	–	1,395
At 31 March 2009	42,132	2,728	1,974	1,037	11,747	2,390	–	62,008
Accumulated depreciation:								
At 1 April 2008	7,236	1,321	1,437	1,325	11,012	2,194	–	24,525
Provided during the year	2,115	545	294	41	194	177	–	3,366
Disposal/write-off	–	(2)	(186)	(426)	(26)	–	–	(640)
Exchange realignment	187	–	19	–	361	19	–	586
At 31 March 2009	9,538	1,864	1,564	940	11,541	2,390	–	27,837
Net book value:								
At 31 March 2009	32,594	864	410	97	206	–	–	34,171
At 31 March 2008	33,916	1,426	694	104	184	175	–	36,499

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 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

The Group's buildings with aggregate costs of HK$15,225,000 (2008: HK$15,225,000) and HK$26,907,000 (2008: HK$25,927,000) are situated in Hong Kong and Mainland China, respectively, and are held under medium term leases.

No property, plant and equipment was held under finance leases as at 31 March 2009. 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.

At 31 March 2009, certain of the Group's buildings with a carrying amount of approximately HK$11,935,000 (2008: HK$28,913,000) were pledged to secure banking facilities granted to the Group (note 20).

13. PREPAID LAND LEASE PAYMENTS

	Group	
	2009	2008
	HK$'000	HK$'000
Carrying amount at beginning of year	**22,990**	23,135
Recognised during the year	**(577)**	(559)
Exchange realignment	**211**	414
Carrying amount at end of year	**22,624**	22,990
Current portion included in prepayments, deposits and other receivables	**(570)**	(570)
Non-current portion	**22,054**	22,420

At 31 March 2009, 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$16,840,000 (2008: HK$17,283,000) and HK$5,784,000 (2008: HK$5,707,000), respectively.

At 31 March 2009, certain of the Group's land with a carrying amount of approximately HK$16,493,000 (2008: HK$19,907,000) was pledged to secure certain banking facilities granted to the Group (note 20).

14. INVESTMENTS IN SUBSIDIARIES

	Company	
	2009	2008
	HK$'000	HK$'000
Unlisted shares, at cost	**54,999**	54,999
Less: Return of capital *(note)*	**(25,000)**	(25,000)
Less: Impairment	**(23,287)**	(23,287)
	6,712	6,712

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.

14. 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 2009	2008	Principal activities
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	Dormant
International Health Association (HK) Limited	Hong Kong	HK$100,000	**100**	100	Dormant
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	RMB31,580,900	**100**	100	Manufacture and distribution of pharmaceutical products
Long Far Investment (Hong Kong) Limited	Hong Kong	HK$1	**100**	100	Property holding
Long Far Pharmaceutical (Macau) Limited	Macau	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**	100	Dormant
Long Far Real Estate Limited	Hong Kong	HK$1	**100**	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.

15. INVENTORIES

	Group	
	2009	2008
	HK$'000	HK$'000
Trading goods	**506**	595
Finished goods	**6,571**	4,693
Work in progress	**1,948**	1,341
Raw materials	**986**	1,456
Packaging materials	**1,466**	1,454
	11,477	9,539

16. TRADE RECEIVABLES

	Group	
	2009	2008
	HK$'000	HK$'000
Trade receivables	**9,831**	11,773
Impairment	**–**	(16)
	9,831	11,757

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	
	2009	2008
	HK$'000	HK$'000
Current (neither past due nor impaired)	**3,783**	2,744
Within 1 to 3 months overdue	**4,171**	5,212
More than 3 months overdue but less than 12 months overdue	**1,388**	2,722
Over 12 months overdue	**489**	1,079
	9,831	11,757

16. TRADE RECEIVABLES (Continued)

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

	Group	
	2009	2008
	HK$'000	HK$'000
At beginning of year	**16**	–
Impairment losses recognised *(note 5)*	**136**	359
Amount written off as uncollectible	**(152)**	(343)
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 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.

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2009	2008
	HK$'000	HK$'000
Listed equity investments in Hong Kong, at market value	**232**	448

The above equity investments at 31 March 2009 were classified as held for trading.

18. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**5,974**	19,846	**106**	107
Time deposits	**–**	464	**–**	–
	5,974	20,310	**106**	107
Less: Pledged time deposits	**(375)**	(369)	**–**	–
Cash and cash equivalents	**5,599**	19,941	**106**	107

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$2,877,000 (2008: HK$13,042,000). 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.

18. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (Continued)

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.

19. 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	
	2009	2008
	HK$'000	HK$'000
Within 1 to 3 months overdue	**2,166**	1,823
More than 3 months overdue but less than 12 months overdue	**97**	189
Over 12 months overdue	**285**	228
	2,548	2,240

The trade payables are non-interest-bearing.

20. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	2009			2008		
	Effective interest rate (%)	**Maturity**	**HK$'000**	Effective interest rate (%)	Maturity	HK$'000
Current						
Bank loans – secured	**2.5 – 3.5**	**2010**	**8,227**	4.76 – 7.23	2009	19,020
Finance lease payables *(note 21)*			**–**	2.5 – 3.5	2009	71
			8,227			19,091
Non-current						
Bank loans – secured	**2.5**	**2011 – 2015**	**12,224**	4.9	2009 – 2015	14,488
			20,451			33,579

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

	2009 HK$'000	2008 HK$'000
Analysed into:		
Bank loans repayable:		
Within one year	**8,227**	19,020
In the second year	**2,284**	2,189
In the third to fifth years, inclusive	**7,203**	7,012
Beyond five years	**2,737**	5,287
	20,451	33,508
Other borrowings repayable:		
Within one year	**–**	71
	20,451	33,579

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$28,428,000 (2008: HK$48,820,000) as at 31 March 2009.

(b) All borrowings are denominated in Hong Kong dollars, except borrowings with a carrying amount of HK$10,900,000 in the prior year were denominated in RMB.

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

21. FINANCE LEASE PAYABLES

The Group leases its motor vehicles for its business. At 31 March 2008, the leases were classified as finance leases and had 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 2009 HK$'000**	Minimum lease payments 2008 HK$'000	**Present value of minimum lease payments 2009 HK$'000**	Present value of minimum lease payments 2008 HK$'000
Amounts payable:				
Within one year	–	73	–	71
Total minimum finance lease payments	–	73	–	71
Future finance charges	–	(2)		
Total net current finance lease payables	–	71		

22. 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.

23. DEFERRED TAX

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

Deferred tax liabilities

	Group 2009 HK$'000	Group 2008 HK$'000
Depreciation allowance in excess of related depreciation		
Balance at beginning and end of year	**170**	170

23. DEFERRED TAX (Continued)

Deferred tax assets

	Group	
	2009	2008
	HK$'000	HK$'000
Fair value adjustment arising from the acquisition of a subsidiary		
Balance at beginning and end of year	**240**	240

Deferred tax assets have not been recognised in respect of the following items as it is not considered probable that taxable profits will be available against which the tax losses can be utilised:

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Tax losses	**42,749**	41,274	**356**	361
Deductible temporary differences	**133**	110	**–**	–
	42,882	41,384	**356**	361

Certain tax losses of HK$5,880,000 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.

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

24. SHARE CAPITAL

Shares

	2009	2008
	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 25 to the financial statements.

25. SHARE OPTION SCHEME

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

The maximum number of shares which may be issued upon exercise of all options granted and to be granted under the Scheme is 60,000,000, 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 issuable under share options granted to each eligible participant in the Scheme (including both exercised and outstanding options) within any 12-month period is limited to 1% of the shares of the Company in issue. Any grant or further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

A grant of share options to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, which would result in the shares issued 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, are subject to shareholders' approval in advance in a general meeting.

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

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

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

As at the date of this report, there were 55,700,000 shares available for issue under the Scheme, representing 9.23% of the total issued share capital of the Company at that date.

25. SHARE OPTION SCHEME (Continued)

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

	2009 Weighted average exercise price HK$ per share	**2009** Number of options	2008 Weighted average exercise price HK$ per share	2008 Number of options
At the beginning of year	**0.375**	**5,500,000**	0.375	5,500,000
Lapsed during the year	**0.375**	**(1,200,000)**	–	–
At the end of year	**0.375**	**4,300,000**	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:

2009

Number of options	**Exercise price HK$ per share**	**Exercise period***
1,100,000	**0.375**	**9-9-2003 to 8-9-2012**
3,200,000	**0.375**	**9-9-2003 to 8-9-2012**
4,300,000		

2008

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 2008 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.

25. SHARE OPTION SCHEME (Continued)

At the balance sheet date, the Company had 4,300,000 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 4,300,000 additional ordinary shares of the Company and additional share capital of HK$215,000 and share premium of HK$1,398,000 (before issue expenses).

Subsequent to the balance sheet date, on 17 April 2009, an aggregate of 3,010,000 share options were exercised which result in the issue of 3,010,000 ordinary shares of the Company and new share capital of HK$151,000 and share premium of HK$978,000 (before issue expenses).

Subsequent to the balance sheet date, on 17 May 2009, a total of 50,000,000 share options were agreed to be granted to certain directors and employees of the Company in respect of their services to the Group in the forthcoming year. 75% of the aforesaid share options are exercisable at any time since the effective date ("Effective Date"), which is the 5th business day immediately following fulfillment of conditions precedent as referred to in the option agreements entered into between the Company and the grantees while the remaining 25% are exercisable commencing from the date falling six months from the Effective Date. The share options have an exercise price of HK$0.4 per share and have an exercise period of 5 years from the Effective Date. The price of the Company's share at the date of grant was HK$0.47 per share.

26. 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 31 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 2007		8,720	46,999	(13,869)	41,850
Loss for the year	*10*	–	–	(13,996)	(13,996)
At 31 March 2008 and at 1 April 2008		8,720	46,999	(27,865)	27,854
Profit for the year	*10*	–	–	25	25
At 31 March 2009		**8,720**	**46,999**	**(27,840)**	**27,879**

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.

27. CONTINGENT LIABILITIES

As at 31 March 2009, the Company provided a guarantee given to a bank in connection with the banking facilities of HK$6,000,000 (2008: HK$6,000,000) granted to the Company's subsidiary.

28. COMMITMENTS

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

29. RELATED PARTY TRANSACTIONS

(a) The amount of HK$113,000 (2008: HK$109,000) due to Yunnan Longrun Pharmaceuticals Company Limited ("YLRP") as at 31 March 2009 is unsecured, interest-free and has no fixed terms of repayment (note 22). 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.

(b) During the prior year, the Group obtained an advance of HK$6,000,000 from Ms. Yeh Shu Ping, a director of the Company. The amount is unsecured, interest-free and has no fixed terms of repayment (note 22). 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.

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

	2009 **HK$'000**	2008 HK$'000
Short term employee benefits	**6,849**	6,445
Post-employment benefits	**84**	82
Total compensation paid to key management personnel	**6,933**	6,527

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

30. FINANCIAL INSTRUMENTS BY CATEGORY

Other than certain financial instruments being classified as financial assets at fair value through profit or loss as disclosed in note 17 to the financial statements, all financial assets and liabilities of the Company and the Group as at 31 March 2008 and 2009 are loans and receivables and financial liabilities stated at amortised cost, respectively.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, finance leases, 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.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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 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** HK$'000	**Increase/ (decrease) in equity*** HK$'000
2009			
Hong Kong dollar and Renminbi	**50**	**76**	**–**
Hong Kong dollar and Renminbi	**(50)**	**(76)**	**–**
2008			
Hong Kong dollar and Renminbi	50	87	–
Hong Kong dollar and Renminbi	(50)	(87)	–

* Excluding retained profits

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 69% (2008: 67%) of the Group's trade receivables at the balance sheet date.

The Group performs ongoing credit evaluations of its customers' financial conditions and requires no collateral from its customers. The allowance for 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.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

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

	2009			
	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	**8,588**	**10,253**	**2,777**	**21,618**
Trade payables	**2,548**	**–**	**–**	**2,548**
Other payables	**2,817**	**–**	**–**	**2,817**
Due to a related company	**113**	**–**	**–**	**113**
Due to directors	**6,070**	**–**	**–**	**6,070**
	20,136	**10,253**	**2,777**	**33,166**

	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

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 17) as at 31 March 2009. 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 2009	**High/low 2009**	31 March 2008	High/low 2008
Hong Kong – Hang Seng Index	**13,576**	**26,387/10,676**	22,849	31,958/19,387

31. 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
2009				
Investments listed in:				
Hong Kong – Held-for-trading	**232**	**50.26**	**(117)**	**–**
	232	**(50.26)**	**117**	**–**
2008				
Investments listed in:				
Hong Kong – Held-for-trading	448	54.30	(243)	–
	448	(54.30)	243	–

* Excluding retained profits

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 2009 and 2008.

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

	2009 HK$'000	2008 HK$'000
Total liabilities	**37,061**	49,790
Total equity	**49,579**	53,592
Gearing ratio	**74.8%**	92.9%

32. POST BALANCE SHEET EVENTS

(a) On 17 April 2009, 3,010,000 share options were exercised by a director and certain employees of the Company, as further detailed in note 25 to the financial statements.

(b) On 17 May 2009, the Company entered into a sale and purchase agreement (as amended by the supplemental agreement dated 16 June 2009) with Longrun Tea Asset Management Company Ltd. (the "Vendor") and Mr. Chiu Ka Leung ("Mr. Chiu") (chairman and major shareholder of the Company) whereby the Company agreed to purchase and accept the transfer of the entire issued share capital of Longrun Tea Wealth Creation Company Limited ("Target") and a shareholder's loan of HK$10 million at an aggregate consideration of HK$160 million (the "Acquisition"). The consideration will be satisfied by the issue of 400 million shares in the Company at a price of HK$0.25 per share and convertible bonds with a principal amount of HK$60 million with an initial conversion price of HK$0.3 per conversion share. The Vendor is beneficially owned as to 90% and 10% by Mr. Chiu and Mr. Jiao Shaoliang ("Mr. Jiao"), a director of the Company, respectively.

The Target was newly incorporated in November 2008 and is the holding company of a group of companies (the "Target Group") comprising Longrun Tea Trading Company Limited and Yunnan Longrun Trading Company Limited ("PRC Longrun"). Prior to signing the aforesaid sale and purchase agreement by the Company, on 12 May 2009, PRC Longrun entered into an exclusive purchase agreement (the "Purchase Agreement") with Longrun Tea Group Limited ("Longrun Tea Group") for a term of ten years, pursuant to which PRC Longrun is granted an exclusive right to purchase from Longrun Tea Group the tea products and tea-related food products manufactured by Longrun Tea Group for onward distribution to the customers of PRC Longrun and to use the trademarks and other intellectual properties owned by Longrun Tea Group and its subsidiaries. Longrun Tea Group is beneficially owned as to 90% and 10% by Mr. Chiu and Mr. Jiao, respectively. The key products of Longrun Tea Group are mainly pu'erh tea products which are marketed under the brand name of "Longrun 龍潤" and are sold through its extensive franchise system in Mainland China.

The Acquisition has been approved by the independent shareholders at the Company's extraordinary general meeting held on 14 July 2009, but has not been completed up to the date of approval of these financial statements. Upon completion of the Acquisition, the Target Group will become wholly-owned subsidiaries of the Company and the sole customer of Longrun Tea Group.

On 17 May 2009, the Company entered into an investment agreement (as amended by the supplemental agreement dated 16 June 2009) with Rocket Capital Holdings Limited (the "Subscriber") whereby the Subscriber shall subscribe for, and the Company shall issue to the Subscriber, (i) 100 million subscription shares at a subscription price of HK$0.25 each and (ii) subscription convertible bonds with a principal amount of HK$30 million with an initial conversion price of HK$0.3 per conversion share (the "Subscription"). The Subscriber is a company incorporated in the British Virgin Islands.

The Subscription has been approved by the independent shareholders at the Company's extraordinary general meeting held on 14 July 2009, but is conditional upon the completion of the Acquisition.

On 17 May 2009, 50,000,000 share options ("Options") were agreed to be granted to certain directors and employees of the Company as further detailed in note 25 to the financial statements. The grant of the Options has been approved by the independent shareholders at the Company's extraordinary general meeting held on 14 July 2009, but is conditional upon the completion of the Acquisition.

Further details regarding the Acquisition, the Purchase Agreement, the Subscription and the grant of the Options are set out in the Company's announcement dated 25 May 2009 and the circular dated 26 June 2009.

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 17 July 2009.