

To the shareholders

I am pleased to present the annual report and audited accounts of Long Far Pharmaceutical Holdings Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 March 2003. This is the first annual report since the listing of the Company.

Remarkably, the Company was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 5 September 2002 (the "Listing Date"). This successful listing will further accelerate the Group's business growth, and enable it to build on the past successes while continuing to produce excellent results in the years to come.

During the year under review, the Group's turnover was HK\$91,195,462 representing an increase of 11.9% compared with that of last year. This increase was derived principally from the increase in the sales of Beauty and Healthy (排毒美顏寶) under the Group's brand name 「龍發製藥」 (Long Far). Profit attributable to shareholders was HK\$15,550,969 (2002: HK\$26,678,547), representing a decrease of 41.7%. This decrease was mainly due to the increased expenditures on research and development and the large-scale advertising and promotion campaigns for the launch of new products during the year for driving the Group's future business growth.

The financial year 2002–2003 was a challenging year for the Group. The Group's overall performance was inevitably affected by the prolonged economic downturn resulting from lower retail spending and consumer uncertainty under the recession environment. However, with higher investments in product research and development and marketing and promotion along with the launch of several new products, the Group was still able to sustain satisfactory performance during the year under review.

OUTLOOK

As we march into the 21st century, Chinese medicinal healthcare products have become more and more popular because of the growing demand of people for good health and longevity. The benefits of Chinese herbal products have been well recognised and accepted globally. People's health is greatly affected by various types of pressure in their daily lives. Thus, the principle "prevention is better than cure" has become the essence of healthcare concepts for our Chinese medicinal products.

The Group's ongoing business strategy, which ensures a consistent distribution network for our proprietary Chinese healthcare products with high quality, is driven by our commitment to "Provide Good Health Every Day". By capitalising on the distinctive detoxification concept of the Group's flagship product Beauty and Healthy (排毒美顏寶) coupled with our innovative marketing campaigns and effective distribution strategies, we have successfully built up our brand name 「龍發製藥」 (Long Far) in the market. With our unrelenting efforts over the previous years, Beauty and Healthy (排毒美顏寶) has received widespread public recognition in Hong Kong

and the Group's brand name has become a well-recognised brand name in Southeast Asia and Japan with the increasing popularity of its products in these Asian markets. To further strengthen our operational foundations for future business development, we will maintain our strong emphasis on strengthening and expanding our overseas distribution network. Moreover, we will continue our co-operations with universities and research and development centers in order to develop new products and expand our product base, customer base and market share. We are confident that this will not only further accelerate our business growth but also strengthen our position in the Chinese medicinal healthcare industry so as to generate long-term sustainable returns for our shareholders.

Looking ahead, in view of the tremendous business opportunities arising from the continuing and stable economic growth in the People's Republic of China (the "PRC"), the Group will search for investment opportunities in the PRC in order to strengthen its business operations in the areas of research and development, production, marketing and distribution of proprietary Chinese medicines.

APPRECIATION

Lastly, on behalf of the board of directors (the "Board of Directors") of the Company, I would like to express my sincere gratitude to the management and staff for their wholehearted commitments, contributions, dedication and hard work, and to our customers, suppliers, business partners and shareholders for their continuous support to the Group.

Chiu Ka Leung

Chairman

Hong Kong, 11 July 2003