

The Directors have pleasure in submitting their first annual report together with the audited financial statements of the Group for the year ended 31 March 2003.

REORGANISATION

The Company was incorporated in the Cayman Islands on 17 May 2002 as an exempted company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and was listed on the Main Board of the Stock Exchange on the Listing Date. The Company became the holding company of the Group on 22 August 2002 through a reorganisation of the Group (the "Reorganisation"). Particulars of the Reorganisation and the basis of presentation of the financial statements are set out in the Prospectus and note 1 and 2 on the financial statements.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries of the Company are set out in note 15 on the financial statements.

The analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries during the financial year are set out in note 13 on the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of The Group's total	
	Sales	Purchases
The largest customer	28%	
Five largest customers in aggregate	84%	
The largest supplier		78%
Five largest suppliers in aggregate		98%

Mr. Chiu Ka Leung, who has an attributable interests of 62.84% in the Company's share capital, had beneficial interests in one of the five largest suppliers which accounted for approximately 78% of the purchases of the Group.

Save as disclosed above, during the year none of the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in the Group's five largest customers and suppliers.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 March 2003 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 25 to 60.

DIVIDENDS

An interim dividend of HK1 cent per share was paid on 20 January 2003. The Directors now recommend the payment of a final dividend of HK0.33 cent per share in respect of the year ended 31 March 2003 to the shareholders whose names appear on the Register of Members on 22 August 2003. The said final dividend will be paid to the Company's shareholders around 5 September 2003. The rate of dividend for the year ended 31 March 2002 are not presented as such information is not meaningful having regard to this report.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 20 August 2003 to Friday, 22 August 2003 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for entitlement to the proposed final dividend for the year ended 31 March 2003 and for attending the forthcoming 2003 annual general meeting of the Company to be held on Friday, 22 August 2003, all transfers of shares of the Company accompanied by the relevant share certificates and the appropriate transfer forms must be lodged with the Company's Share Registrar in Hong Kong, Tengis Limited at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 19 August 2003.

DONATIONS

Charitable donations made by the Group during the year amounted to HK\$207,016 (2002: HK\$Nil).

FIXED ASSETS

Details of the movements in fixed assets are set out in note 14 on the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 26 on the financial statements. Shares were issued during the year to broaden the capital base of the Company.

DISTRIBUTABLE RESERVES

Details of the movements in reserves of the Group during the year are set out in note 27 on the financial statements.

DIRECTORS

The Directors during the financial year were:

Executive directors

Mr. Chiu Ka Leung, <i>Chairman</i>	(appointed on 4 June 2002)
Ms. Yeh Shu Ping, <i>Vice-Chairman</i>	(appointed on 4 June 2002)
Mr. Jiao Shaoliang	(appointed on 22 August 2002)
Mr. Lan Daoying	(appointed on 22 August 2002)

Independent non-executive directors

Mr. Guo Guoqing	(appointed on 22 August 2002)
Mr. Liu Jian	(appointed on 22 August 2002)

In accordance with article 86(3) and article 87(1) of the Company's articles of association, Ms. Yeh Shu Ping and Mr. Jiao Shaoliang retire from the board at the forthcoming annual general meeting and, the above two retiring directors being eligible, offers themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors of the Company has entered into a service contract with the Company for a term of three years commencing on 23 August 2002. The service contracts shall continue thereafter unless and until terminated by either party giving to the other not less than three calendar months' prior notice in writing.

The independent non-executive directors of the Company have not been appointed for any fixed term but shall be subject to retirement by rotation in accordance with the articles of association of the Company.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory compensation.

DIRECTORS' INTERESTS IN SHARES

As at 31 March 2003, the interests of the Directors and their respective associates (as defined in Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules")) in shares of the Company or any of its associated corporations (within the meaning of the Securities (Disclosure

of Interests) Ordinance of Hong Kong (the “SDI Ordinance”)) as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance were as follows:

(i) **Interests in the Company**

Name of director	Nature of interest	Number of shares
Mr. Chiu Ka Leung <i>(Note)</i>	Corporate	450,000,000

Note: These shares which represent 75% of the issued share capital of the Company are beneficially owned by Oriental Chinese Medicines Limited (“Oriental Chinese”). Oriental Chinese is a company incorporated in the British Virgin Islands with limited liability and owned as to 83.781% and 16.219% by Mr. Chiu Ka Leung and Ms. Yeh Shu Ping respectively.

The interests of the Directors in the share options of the Company are separately disclosed in the paragraph headed “Share Option Scheme” below.

(ii) **Interests in the associated corporations of the Company**

(a) *Oriental Chinese (holding company of the Company)*

Name of director	Nature of interest	Number and class of shares held in Oriental Chinese
Mr. Chiu Ka Leung	Personal	83.781 ordinary shares (representing 83.781% of its entire issued share capital)
Ms. Yeh Shu Ping	Personal	16.219 ordinary shares (representing 16.219% of its entire issued share capital)

(b) *Long Far Herbal Medicine Manufacturing (Hong Kong) Limited (“LFHK”) (indirect wholly-owned subsidiary of the Company)*

Name of director	Nature of interest	Number and class of shares held in LFHK
Mr. Chiu Ka Leung	Personal	83,781 non-voting deferred shares (representing 83.781% of its issued non-voting deferred shares)
Ms. Yeh Shu Ping	Personal	16,219 non-voting deferred shares (representing 16.219% of its issued non-voting deferred shares)

Save as disclosed above, none of the Directors or their associates had any personal, family, corporate or other beneficial interests in the share capital of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) as recorded in the register required to be kept under Section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as at 31 March 2003.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the paragraph headed "Share option scheme" below, at no time during the year were there any rights to acquire benefits by means of acquisition of shares in or debentures of the Company granted to any Directors or their respective spouse or children under 18 years of age, or were there any such rights exercised by them, or was the Company or its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

DIRECTORS' INTEREST IN COMPETING BUSINESS

Mr. Chiu Ka Leung has controlling interests in 雲南盤龍雲海藥業有限公司 (Yunnan Panlong Yunhai Pharmaceutical Company Limited) ("YPYP") which is principally engaged in the development, manufacture and distribution of Chinese pharmaceutical products in the PRC.

One of the products of YPYP named Health & Beauty InnerPure Capsules (排毒養顏膠囊) was developed by YPYP which obtained approval from the relevant authority in the PRC for the manufacture of such product in 1995. Health & Beauty InnerPure Capsules (排毒養顏膠囊) is targeted to improve conditions of constipation, high blood pressure, insomnia, abdominal swelling, overweight, pigmentation as well as to tonify the functions of the spleen and kidney. 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.

Although with a different medicinal formula to the Group's Beauty and Healthy (排毒美顏寶), the symptoms which are targeted to have application by Beauty and Healthy (排毒美顏寶) and Health & Beauty InnerPure Capsules (排毒養顏膠囊), such as to improve conditions of constipation, abdominal swelling, overweight, pigmentation as well as to tonify the functions of spleen and kidney are similar. There is a possibility that Health & Beauty InnerPure Capsules (排毒養顏膠囊) can be used as substitute for Beauty and Healthy (排毒美顏寶) for such conditions. As at 31 March 2003, YPYP had distributed Health & Beauty InnerPure Capsules (排毒養顏膠囊) only in the PRC since it was first launched in 1995 while the Group distributed Beauty and Healthy (排毒美顏寶) under the Group's brandname of 「龍發製藥」 (Long Far) in Hong Kong, Southeast Asia and other Asian regions outside the PRC, and the Directors consider that the operations of YPYP will not affect the Group's business.

Mr. Chiu Ka Leung has given non-competition undertakings to the Company, details of which have been set out in the “Business” section contained in the Prospectus.

DIRECTORS’ INTERESTS IN CONTRACTS

Save as disclosed under the paragraph headed “Connected Transaction” below, no contracts of significance to which the Company or its subsidiaries was a party, and in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

SHARE OPTION SCHEME

The Company operates a Share Option Scheme (the “Scheme”) for the purpose of providing incentives and rewards to eligible participants for their contribution to the Group and/or to enable the Group to recruit and retain high calibre employees and attract human resources that are valuable to the Group and any entity in which the Company or any of its subsidiaries holds any equity interest (the “Invested Entity”). Eligible participants of the Scheme include any employee, director (including executive and non-executive director of the Group), shareholder, supplier, customer, consultant, adviser, other service provider, joint venture partner and business or strategic alliance partner of the Group or any Invested Entity or any discretionary trust whose discretionary objects may be any of the above persons.

The offer of a grant of share options may be accepted within 28 days from the date of the offer upon payment of a consideration of HK\$10 in total by the grantee. An option may be exercised in accordance with the terms of the Scheme at any time during a period to be notified by the Board to each grantee provided that such period should not exceed the period of 10 years from the date of the letter of offer of grant of option (the “Date of Offer”). Unless otherwise determined by the Board of Directors at its 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 Scheme was conditionally adopted on 22 August 2002 and, unless otherwise cancelled or altered, will continue in force for 10 years from the date on which it became unconditional, namely 5 September 2002. The exercise price of the options shall be the highest of (a) the nominal value of a share of the Company on the Date of Offer; (b) the closing price of a share of the Company as stated in the daily quotations sheet of the Stock Exchange on the Date of Offer, which must be a trading day; and (c) the average closing price of a share of the Company as stated in the Stock Exchange’s daily quotations sheets for the five trading days immediately preceding the Date of Offer.

The total number of Company’s shares available for issue under the Scheme as at 31 March 2003 is 54,500,000 shares, being 9.08% of the existing issued share capital of the Company as at the date of this report.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue as at the Listing Date, unless approval for refreshing the 10% limit from the Company's shareholders has been obtained. The number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company must not exceed 30% of the shares in issue from time to time.

In respect of the maximum entitlement of each participant under the Scheme, the number of Company's shares issued and to be issued upon exercise of the options granted to each participant in the 12-month period up to and including the date of further grant is limited to 1% of the share capital of the Company in issue for the time being. Any further grant of share options in excess of this limit is subject to the shareholders' approval in a general meeting.

Share options granted to Directors, chief executive or substantial shareholder of the Company or to any of their associates shall be approved by the independent non-executive directors of the Company. 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, in excess of 0.1% of the shares of the Company in issue for the time being or 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, within any 12-month period up to and including the date of such grant, are subject to shareholders' approval in advance in a general meeting.

As at 31 March 2003, the Company has granted options to subscribe for 11,300,000 shares in the Company under the Scheme. The options are granted at nominal consideration of HK\$10 for each lot of share options granted under the Scheme. Each option gives the holder the right to subscribe for one share. The share options are not recognised in the financial statements until they are exercised.

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

Name	Outstanding as at 1 April 2002	Granted during the year	Date of grant	Exercise period	Exercise price HK\$	Closing price before date of grant HK\$	Exercised during the year	Lapsed/ cancelled during the year	Outstanding as at 31 March 2003
Directors									
Mr. Jiao Shaoling	-	1,100,000	9.9.2002	See note below	0.375	0.365	-	-	1,100,000
Mr. Lan Daoying	-	1,200,000	9.9.2002	See note below	0.375	0.365	-	-	1,200,000
Continuous contract employees in aggregate	-	9,000,000	9.9.2002	See note below	0.375	0.365	-	5,800,000	3,200,000
Total	-	11,300,000					-	5,800,000	5,500,000

Note: 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 not yet exercised and the shares of the Company that may be subscribed by the grantee in respect of such unexercised option 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 not yet exercised may be carried forward and that no option can be exercised after 8 September 2012.

The Directors do not consider it appropriate to disclose a theoretical value of the share options granted during the year because the Directors opine that the values of the share options calculated using theoretical models are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of the assumptions of expected future performance input to the model, and certain inherent limitations of the model itself. The Directors consider that such disclosure does not give additional value in view of the above mentioned limitations surrounding these models.

SUBSTANTIAL SHAREHOLDER

As at 31 March 2003, the following interest of 10% or more of the issued share capital of the Company was recorded in the register of interests kept by the Company under Section 16(1) of the SDI Ordinance:

Name of shareholder	Number of shares of the Company held	Percentage of the Company's issued shares
Oriental Chinese	450,000,000	75%

The above interest in the name of Oriental Chinese was also disclosed as the interest of Mr. Chiu Ka Leung in the above paragraph headed "Interests in the Company".

Save as disclosed above, the Company had not been notified of any other interests representing 10% or more of the issued share capital of the Company at 31 March 2003.

CONNECTED TRANSACTION

Under the manufacturing agreement entered into between LFHK and YPYP on 22 August 2002, YPYP is responsible for the manufacturing of Beauty and Healthy (排毒美顏寶) and provision of various raw materials for such manufacturing (the "Transaction") for a term of three years up to 21 August 2005 with an option to renew on the same terms for another year. The terms of this agreement were negotiated on arm's length basis. The Transaction constitutes a connected transaction for the Company under the Listing Rules as Mr. Chiu Ka Leung held 51% of the interest in YPYP. The Directors consider that disclosure and approval by independent shareholders of the Company of the Transaction on a recurring basis is impractical, unduly onerous and not beneficial to the shareholders of the Company. Therefore, the Company obtained a waiver from strict compliance with requirements under Chapter 14 of the Listing Rules so that disclosure and prior approval by independent shareholders of the Company regarding the Transaction are not required. Pursuant to such waiver, the aggregate fee charged by YPYP should not exceed 35% of the net tangible asset value of the Group in any financial year.

The independent non-executive directors of the Company have reviewed the Transaction for the year ended 31 March 2003 and confirmed that the Transaction had been:

- (a) entered into by the Group in its ordinary and usual course of business;

- (b) entered into by the Group on normal commercial terms (to the extent that there are comparable transactions) or, where there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms not less favourable to the Group than those available to or from (as appropriate) independent third parties, and
- (c) on terms that are fair and reasonable and in the interests of the independent shareholders of the Company as a whole.

Messer KPMG, the Company's auditors, have also reviewed the Transaction for the year ended 31 March 2003 and provided a letter to the Board of Directors (with a copy to the Listing Division of the Stock Exchange) confirming that:

- (a) the Transaction had received the approval of the Board of Directors;
- (b) the Transaction had been entered into in accordance with the relevant agreement governing the Transaction; and
- (c) the aggregate fee charged by YPYP under the Transaction during the year had not exceeded the limit stated above.

The details of the Transaction for the year ended 31 March 2003 are set out in note 30 on the financial statements.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the period from the Listing Date to 31 March 2003.

FOUR YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on page 61 of the annual report.

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.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the laws of the Cayman Islands, being the jurisdiction in which the Company is incorporated, in relation to the issue of new shares by the Company.

RETIREMENT SCHEMES

With effect from 1 December 2000, all employees of the Group are eligible to join a mandatory provident fund scheme ("MPF Scheme"). The MPF Scheme is a defined contribution plan. The Group's contributions to the MPF Scheme are charged to the income statement in the period to which the contributions relate. The contributions to the MPF Scheme are fully and immediately vested in the employees as accrued benefit once they are paid. Particulars of the scheme are set out in note 24 on the financial statements.

COMPLIANCE WITH CODE OF BEST PRACTICE

The Directors are of the opinion that the Company has complied throughout the year with the Code of Best Practice as set out by the Stock Exchange in Appendix 14 to the Listing Rules since its shares were listed on the Stock Exchange on 5 September 2002.

AUDIT COMMITTEE

The audit committee comprises two independent non-executive directors of the Company and reports to the Board of Directors. The audit committee meets with the Group's senior management and external auditors regularly to review the effectiveness of the internal control systems, the financial reporting processes and the interim and annual reports of the Group.

AUDITORS

Messrs. KPMG retire and, being eligible, offer themselves for re-appointment as auditors of the Company, and a resolution for their re-appointment as auditors of the Company is to be proposed at the forthcoming annual general meeting.

By order of the board

Chiu Ka Leung

Chairman

Hong Kong, 11 July 2003