1 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 of Hong Kong Limited (the "Stock Exchange") on 5 September 2002 (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 are set out in the prospectus of the Company dated 27 August 2002 (the "Prospectus").

2 BASIS OF PRESENTATION

The Group resulting from the Reorganisation is regarded as a continuing group. Accordingly, the consolidated financial statements have been prepared on the basis of merger accounting in accordance with the Statement of Standard Accounting Practice ("SSAP") No. 2.127 "Accounting for Group Reconstructions". On this basis, the Company has been treated as the holding company of the Group for both periods presented, rather than from 22 August 2002. In the circumstances, the results of the Group for the years ended 31 March 2002 and 2003 include the results of the Company and its subsidiaries with effect from 1 April 2001 or since their respective dates of incorporation, whichever is a shorter period. The consolidated balance sheet at 31 March 2002 is a combination of the balance sheets of the Company and its subsidiaries at 31 March 2002. In the opinion of the Directors, the resulting consolidated financial statements give a more meaningful view of the results and state of affairs of the Group as a whole.

As the Company was incorporated on 17 May 2002, no comparative figures are presented in respect of the Company's balance sheet.

3 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Subsidiaries

A subsidiary is a company in which the Company or the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company or the Group has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated income statement as they arise.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (note 3(g)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

(d) Fixed assets

(i) Fixed assets are stated in the consolidated balance sheet at cost less accumulated depreciation (note 3(f)) and impairment losses (note 3(g)).

(ii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(iii) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement on the date of retirement or disposal.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Leased assets

Leases of assets under which the lessee assumes substantially all the risks and benefits of ownership are classified as finance leases. Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

(i) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets in equal annual amounts over the term of the relevant lease or, where it is likely the Company or the Group will obtain ownership of the asset, the life of the asset, as set out in note 3(f). Impairment losses are accounted for in accordance with the accounting policy as set out in note 3(g). Finance charges implicit in the lease payments are charged to the consolidated income statement over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

(ii) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the consolidated income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the consolidated income statement as an integral part of the aggregate net lease payments made.

(f) Depreciation

Depreciation is calculated to write off the cost of fixed assets over their estimated useful lives as follows:

Leasehold improvements are depreciated on a straight-line basis over the shorter of their estimated useful lives, being 5 years and the unexpired terms of the leases; and

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Depreciation *(continued)*

Other fixed assets are depreciated on a straight-line basis over their estimated useful lives as follows:

Furniture, fixtures and office equipment	5 years
Computer equipment	5 years
Plant and machinery	3 – 4 years
Motor vehicles	3 – 4 years

(g) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the fixed assets and investment in subsidiaries may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. 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 time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the consolidated income statement in the year in which the reversals are recognised.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the first in first out method and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(i) Cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(j) Employee benefits

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to the Mandatory Provident Fund as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the consolidated income statement as incurred.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Employee benefits *(continued)*

(iii) When the Group grants employees options to acquire shares of the Company at nominal consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

(iv) Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(k) Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

(l) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the consolidated income statement as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue is after deduction of any trade discounts.

(ii) Interest income

Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.

(n) Research and development costs

Research and development expenditures are charged to the consolidated income statement in the period in which they are incurred.

(o) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date.

Exchange gains and losses are dealt with in the consolidated income statement.

(p) Coupons redemption

The Group issues coupons to customers upon registration as members of International Waste Discharging & Youth Keeping Association, which is operated by a subsidiary of the Group. Coupon holders are entitled to future purchases of Beauty and Healthy at a discount of $30 per bottle. The redemption value of the coupons is recognised as distribution costs when members surrender coupons at the time of their purchases.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(r) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(s) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products (business segment), or in providing products within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise corporate and financing expenses.

(Expressed in Hong Kong dollars)

4 TURNOVER

The Group is principally engaged in the trading of proprietary Chinese medicines. Turnover represents aggregate of the invoiced value of goods sold, after deducting goods returned and trade discounts.

5 OTHER REVENUE AND OTHER NET (LOSS)/INCOME

	The Group	
	2003	2002
	$	*$*
Other revenue		
Interest income	**610,907**	357,358
Advertising income	**328,811**	233,980
Reimbursement of selling expenses	**–**	3,000,000
Others	**586,111**	237,219
	1,525,829	3,828,557
Other net (loss)/income		
Net (loss)/gain on disposal of fixed assets	**(119,040)**	40,192

(Expressed in Hong Kong dollars)

6 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

Profit from ordinary activities before taxation is arrived at after charging:

	The Group	
	2003	2002
	$	$
(a) Finance costs:		
Finance charges on obligations under finance leases	**138,687**	58,219
Other borrowing costs	**22,821**	39,836
	161,508	98,055
(b) Staff costs:		
Contribution to defined contribution plan	**355,964**	326,684
Salaries, wages and other benefits	**12,089,971**	9,180,317
	12,445,935	9,507,001
Average number of employees during the year	**50**	41
(c) Other items:		
Cost of inventories sold#	**22,518,701**	21,684,198
Auditors' remuneration	**921,000**	59,000
Research and development costs	**6,183,000**	–
Depreciation		
– assets under finance leases	**151,100**	299,216
– other assets	**1,024,412**	899,434
Operating lease charges for properties	**2,458,366**	1,852,970

Cost of inventories sold includes $183,699 (2002: $178,182) relating to depreciation expenses which amount is also included in the total amounts disclosed separately above for the depreciation expenses.

(Expressed in Hong Kong dollars)

7 TAXATION

(a) Taxation in the consolidated income statement represents:

	The Group	
	2003	2002
	$	$
Provision for Hong Kong Profits Tax for the year	**2,829,533**	5,300,000
Over-provision in respect of prior years	**(24,027)**	–
	2,805,506	5,300,000

The provision for Hong Kong Profits Tax is calculated at 16% (2002: 16%) of the estimated assessable profits for the year ended 31 March 2003.

(b) Taxation in the consolidated balance sheet represents:

	The Group	
	2003	2002
	$	$
Provision for Hong Kong Profits Tax for the year	**2,829,533**	5,300,000
Provisional Profits Tax paid	**(5,061,061)**	(2,253,229)
	(2,231,528)	3,046,771
Balance of Profits Tax provision relating to prior years	**801,452**	586,540
Tax (recoverable)/payable	**(1,430,076)**	3,633,311

(c) No provision for deferred taxation has been made as the effect of all timing differences is immaterial.

(Expressed in Hong Kong dollars)

8 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	The Group	
	2003	2002
	$	$
Fees	**87,871**	–
Salaries and other emoluments	**1,766,562**	1,974,198
Discretionary bonuses	**933,058**	500,000
Retirement scheme contributions	**36,586**	34,000
	2,824,077	2,508,198

Included in the directors' remuneration were fees of $87,871 (2002: $Nil) paid to the independent non-executive directors during the year.

The remuneration of the directors is within the following bands:

	2003	2002
$Nil – $1,000,000	**5**	3
$1,000,001 – $2,000,000	**1**	1
	6	4

There were no amounts paid during the year to directors in connection with their retirement from employment, or inducement to join the Company or the Group, or as compensation for loss of office. There was no waiver of any emoluments by the directors during the year.

(Expressed in Hong Kong dollars)

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2002: two) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other three (2002: three) individuals are as follows:

	The Group	
	2003	2002
	$	$
Salaries and other emoluments	**1,573,561**	1,313,142
Discretionery bonuses	**254,000**	99,000
Retirement scheme contributions	**36,000**	35,000
	1,863,561	1,447,142

The emoluments of the three (2002: three) individuals with the highest emoluments are within the following bands:

	2003	2002
$Nil – $1,000,000	**3**	3

There were no amounts paid during the year to the five highest paid employees in connection with their retirement from employment, or inducement to join the Company or the Group, or as compensation for loss of office.

10 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a profit of $94,061 (2002: $Nil) which has been dealt with in the financial statements of the Company.

(Expressed in Hong Kong dollars)

11 DIVIDENDS

(a) Dividends attributable to the year

	2003	2002
	$	$
Interim dividend declared and paid of 1 cent per share	**6,000,000**	–
Interim dividend proposed after the balance sheet date	**–**	4,000,000
Final dividend proposed after the balance sheet date of 0.33 cent per share	**2,000,000**	8,000,000
	8,000,000	12,000,000

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends attributable to the previous financial years, approved and paid during the year

	2003	2002
	$	$
Final dividend in respect of 2001, approved and paid during the year	**6,000,000**	–
Interim dividend in respect of 2002, approved and paid during the year	**4,000,000**	–
Final dividend in respect of 2002, approved and paid during the year	**8,000,000**	–
	18,000,000	–

The rate of dividend and the number of shares ranking for dividend for the year ended 31 March 2002, are not presented as such information is not meaningful having regard to the consolidated financial statements.

(Expressed in Hong Kong dollars)

12 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of $15,550,969 (2002: $26,678,547) and the weighted average of 535,479,452 (2002: 450,000,000) ordinary shares in issue during the year, being the shares that would have been in issue throughout the period on the assumption that the Reorganisation as set out in the section headed "Written resolutions of the sole shareholder of the Company passed on 22 August 2002" in Appendix IV to the Prospectus was completed on 1 April 2001.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 March 2003 is based on the profit attributable to shareholders of $15,550,969 and the weighted average number of ordinary shares of 536,616,094 shares after adjusting for the effects of all dilutive potential ordinary shares.

Diluted earnings per share for the year ended 31 March 2002 is not shown as there were no potential dilutive ordinary shares in existence.

(c) Reconciliations

	2003 Number of shares	2002 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	**535,479,452**	–
Deemed issue of ordinary shares for no consideration	**1,136,642**	–
Weighted average number of ordinary shares used in calculating diluted earnings per share	**536,616,094**	–

(Expressed in Hong Kong dollars)

13 SEGMENT REPORTING

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

(a) Business segment

The Group has been operating in a single business segment, that is, the trading of proprietary Chinese medicines.

(b) Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditures are based on the geographical location of the assets.

The Group's business is managed in Hong Kong, customers are mainly from Hong Kong, Japan and Southeast Asia.

	The Group	
	2003	2002
	$	*$*
Revenue from external customers:		
Hong Kong	**68,106,102**	60,034,296
Japan	**14,616,000**	506,520
Southeast Asia	**8,473,360**	20,935,310
	91,195,462	81,476,126

All segment assets and capital expenditures are in Hong Kong.

(Expressed in Hong Kong dollars)

14 FIXED ASSETS

(a) The Group

	Leasehold improvements $	Furniture, fixtures and office equipment $	Computer equipment $	Plant and machinery $	Motor vehicles $	Total $
Cost:						
As at 1 April 2002	1,172,317	805,767	783,565	596,740	3,406,337	6,764,726
Additions	472,615	433,069	428,191	448,000	–	1,781,875
Disposals	–	(43,930)	(109,141)	–	(2,560,403)	(2,713,474)
As at 31 March 2003	1,644,932	1,194,906	1,102,615	1,044,740	845,934	5,833,127
Accumulated depreciation:						
As at 1 April 2002	(675,947)	(426,752)	(379,592)	(528,866)	(1,195,508)	(3,206,665)
Charge for the year	(291,342)	(221,259)	(194,200)	(185,954)	(282,757)	(1,175,512)
Written back on disposals	–	36,192	77,138	–	834,705	948,035
As at 31 March 2003	(967,289)	(611,819)	(496,654)	(714,820)	(643,560)	(3,434,142)
Net book value:						
As at 31 March 2003	677,643	583,087	605,961	329,920	202,374	2,398,985
As at 31 March 2002	496,370	379,015	403,973	67,874	2,210,829	3,558,061

(b) The Group leased certain motor vehicles under finance leases expiring from 2 to 4 years. During the year, the ownership of all these motor vehicles was transferred to the Group.

At 31 March 2003, the net book value of motor vehicles held under finance leases of the Group was $Nil (2002: $1,879,733).

(Expressed in Hong Kong dollars)

15 INVESTMENT IN SUBSIDIARIES

	The Company 2003 $
Unlisted shares, at cost	54,999,300
Less: Return of capital *(note)*	(25,000,000)
	29,999,300

Note: Return of capital represents an interim dividend declared by a subsidiary during the year from its profits prior to the Reorganisation.

The class of shares is ordinary unless otherwise stated.

All of these are controlled subsidiaries as defined under note 3(c) and have been consolidated into the group financial statements.

Name of company	Place of incorporation and operation	Particulars of issued and paid up share capital	Proportion of ownership interest: Group effective interest	Held by the Company	Held by subsidiaries	Principal activities
Long Far Pharmaceutical (BVI) Limited ("Long Far Pharmaceutical")	British Virgin Islands	US$200	100	100	–	Investment holding in Hong Kong
Long Far Herbal Medicine Manufacturing (Hong Kong) Limited ("Long Far Herbal")	Hong Kong	Ordinary shares $10 Deferred shares *$100,000	100	–	100	Trading of proprietary Chinese medicines
Hong Kong Health Journal Limited	Hong Kong	$100,000	100	–	100	Publishing of health journals
International Health Association (Hong Kong) Limited	Hong Kong	$100,000	100	–	100	Operating the healthcare association and provision of healthcare consultancy
Winlead Investment Limited	British Virgin Islands	US$1	100	–	100	Dormant

* In accordance with the Articles of Association of Long Far Herbal, shareholders of non-voting deferred share are not entitled to any dividend, any participation in the profits or (unless the distribution of the net assets for the first $100,000 billion is made to the ordinary shareholders) assets of Long Far Herbal and are also not entitled to vote at any general meeting.

(Expressed in Hong Kong dollars)

16 INVENTORIES

	The Group	
	2003	2002
	$	$
Finished goods	**7,938,099**	1,984,899
Goods in transit	**272,853**	1,728,000
Packaging materials	**702,366**	–
	8,913,318	3,712,899

As at 31 March 2002 and 2003, none of the inventories was stated at net realisable value.

17 TRADE AND OTHER RECEIVABLES

	The Group		The Company
	2003	2002	**2003**
	$	$	**$**
Amount due from a subsidiary	**–**	–	**25,000,000**
Trade debtors	**15,200,573**	21,336,923	**–**
Deposits, prepayments and other debtors	**1,695,717**	2,543,703	**5,784**
	16,896,290	23,880,626	**25,005,784**

All of the above balances are expected to be recovered within one year.

Amount due from a subsidiary is unsecured, interest free and has no fixed terms of repayment.

(Expressed in Hong Kong dollars)

17 TRADE AND OTHER RECEIVABLES *(continued)*

Included in trade and other receivables are trade debtors with the following ageing analysis:

	The Group	
	2003 **$**	2002 $
Current	**11,179,181**	15,980,879
1 to 3 months overdue	**3,967,584**	4,678,650
More than 3 months overdue but less than 12 months overdue	**–**	58,358
Over 12 months overdue	**53,808**	619,036
	15,200,573	21,336,923

Credit terms granted by the Group to customers generally range from 20 days to 3 months.

18 CASH AND CASH EQUIVALENTS

	The Group		The Company
	2003 **$**	2002 $	**2003** **$**
Cash at bank and in hand	**5,158,612**	3,458,338	**601,151**
Deposits with banks and other financial institutions	**53,173,597**	7,864,474	**36,209,367**
Cash and cash equivalents in the consolidated balance sheet and consolidated cash flow statement	**58,332,209**	11,322,812	**36,810,518**

19 AMOUNTS DUE FROM PRIOR SHAREHOLDERS

The amounts represent receivables under a tax indemnity in respect of the years of assessment prior to the listing of the Group to be recoverable from prior shareholders of the Group. The balances are unsecured, interest free and have no fixed terms of repayment.

(Expressed in Hong Kong dollars)

20 AMOUNTS DUE FROM DIRECTORS

The balances represented loans to officers of the Company. The balances were unsecured, interest free and had no fixed terms of repayment.

Loans to officers of the Company disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

		The Group	
Name of borrower	**Position**	**2003** **$**	2002 $
Chiu Ka Leung	Director	**–**	8,584,373
Han Chin Lu	Director (resigned on 28 February 2002)	**–**	9,302,432
Yeh Shu Ping	Director (appointed on 28 February 2002)	**–**	740,000
		–	18,626,805

		The Group Maximum balance outstanding during the year ended 31 March	
Name of borrower	**Position**	**2003** **$**	2002 $
Chiu Ka Leung	Director	**15,080,580**	11,907,284
Han Chin Lu	Director (resigned on 28 February 2002)	**9,302,432**	10,179,592
Yeh Shu Ping	Director (appointed on 28 February 2002)	**2,919,420**	740,000

21 PLEDGED DEPOSITS AT BANKS

The Group had deposits with banks totalling $4,349,961 (2002: $4,488,583) pledged to secure banking facilities granted to the Group.

(Expressed in Hong Kong dollars)

22 OBLIGATIONS UNDER FINANCE LEASES

At 31 March 2003, finance lease obligations on certain motor vehicles were repayable by the Group with details as follows:

	The Group					
	2003			2002		
	Present value of the minimum lease payments $	Interest expense relating to future periods $	Total minimum lease payments $	Present value of the minimum lease payments $	Interest expense relating to future periods $	Total minimum lease payments $
Within 1 year	–	–	–	544,524	113,451	657,975
After 1 year but within 2 years	–	–	–	448,711	66,680	515,391
After 2 years but within 5 years	–	–	–	667,667	50,440	718,107
	–	–	–	1,116,378	117,120	1,233,498
	–	–	–	1,660,902	230,571	1,891,473

Upon full repayment of the finance lease obligations, the ownership of the motor vehicles was transferred to the Group.

23 TRADE AND OTHER PAYABLES

	The Group		The Company
	2003 **$**	2002 $	**2003** **$**
Amount due to a subsidiary	**–**	–	**3,976,915**
Trade creditors	**2,097,825**	2,827,598	**–**
Other payables and accrued charges	**5,483,216**	2,699,490	**25,000**
	7,581,041	5,527,088	**4,001,915**

All of the trade and other payables are expected to be settled within one year.

Amount due to subsidiaries are unsecured, interest free and has no fixed terms of repayment.

(Expressed in Hong Kong dollars)

23 TRADE AND OTHER PAYABLES *(continued)*

Included in trade and other payables are trade creditors with the following ageing analysis:

	The Group		The Company
	2003	2002	**2003**
	$	*$*	***$***
Due within 1 month or on demand	**2,097,825**	2,827,598	**–**

24 EMPLOYEE RETIREMENT BENEFITS

The Group operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of $20,000. Contributions to the scheme vest immediately.

25 EQUITY COMPENSATION BENEFITS

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

The exercise price for shares under the share option scheme must be the highest of:

(a) the nominal value of a share on the date of grant;

(b) the closing price of a share as stated in the daily quotations sheet of the Stock Exchange on the date of grant, which must be a trading day; and

(c) the average closing price of a share as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant.

(Expressed in Hong Kong dollars)

25 EQUITY COMPENSATION BENEFITS *(continued)*

Each option gives the holders the right to subscribe for one share. The options are exercisable on a day after the date of grant for a period of ten years and subject to the vesting provisions as detailed in note 25(b).

(a) Movements in share options

	2003 *Number*	2002 *Number*
At 1 April	**–**	–
Granted	**11,300,000**	–
Lapsed	**(5,800,000)**	–
At 31 March	**5,500,000**	–
Options vested at 31 March	**–**	–

(b) Terms of unexpired and unexercised share options at balance sheet date

Date granted	**Exercise period**	**Exercise price**	**2003** *Number*	2002 *Number*
9 September 2002	9 September 2003 to 8 September 2012 *(note)*	$0.375	**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.

(Expressed in Hong Kong dollars)

25 EQUITY COMPENSATION BENEFITS *(continued)*

(c) Details of share options granted during the year, all of which were granted for a nominal consideration of $10 for each lot of share options granted

Exercise period	Exercise price	2003 Number	2002 Number
9 September 2003 to 8 September 2012	$0.375	**11,300,000**	–

26 SHARE CAPITAL

	The Group and the Company			
	2003		2002	
	Number of shares	**Amount $**	Number of shares	Amount $
Authorised:				
Ordinary shares of $0.05 each	**5,000,000,000**	**250,000,000**	–	–
Ordinary shares of $1 each	**–**	**–**	100,000	100,000
Issued and fully paid:				
At beginning of the year	**100,000**	**100,000**	100,000	100,000
Issuance of shares for the acquisition of subsidiaries	**1,000**	**50**	–	–
Shares issued under the Reorganisation	**449,999,000**	**22,499,950**	–	–
Shares issued under the Placing and Public Offer	**150,000,000**	**7,500,000**	–	–
Capital elimination on combination	**(100,000)**	**(100,000)**	–	–
At end of the year	**600,000,000**	**30,000,000**	100,000	100,000

26 SHARE CAPITAL *(continued)*

Notes:

(i) The share capital as at 31 March 2002 represented the combined, issued share capital of the companies comprising the Group as at 31 March 2002 on the basis set out in note 2.

(ii) The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands on 17 May 2002 with an authorised share capital of $350,000 divided into 7,000,000 shares of $0.05 each and issued share capital of 1 share.

(iii) Pursuant to a resolution in writing of the sole shareholder of the Company passed on 22 August 2002, the authorised share capital of the Company was increased from $350,000 to $250,000,000 by the creation of an additional 4,993,000,000 shares of $0.05 each.

(iv) The Company became the holding company of the Group on 22 August 2002 pursuant to the Reorganisation on 22 August 2002 under which 999 shares of $0.05 each were allotted and issued, credited as fully paid, to Oriental Chinese Medicines Limited, the Company's shareholder, as consideration for the acquisition by the Company of, and in exchange for the 200 shares of US$1.00 each in Long Far Pharmaceutical (BVI) Limited, representing its then entire issued share capital.

(v) Pursuant to the written resolutions of the sole shareholder of the Company passed on 22 August 2002, conditional on the share premium account of the Company being credited as a result of the share offer, an amount of $22,499,950 standing to the credit of the Company's share premium account was applied in paying up in full at par 449,999,000 shares of $0.05 each for allotment and issue to holders of shares whose names appeared on the register of shareholders of the Company at the close of business on 22 August 2002 (or as they might direct) in proportion as nearly as might be without involving fractions to their then existing shareholdings in the Company.

(vi) On 5 September 2002, an aggregate of 150,000,000 shares of $0.05 each were issued and offered for subscription at a price of $0.34 per share upon the listing of the Company's share on the Stock Exchange. The Group raised approximately $38,751,000 (including interest income) net of related expenses from the share offer.

(vii) All the shares issued by the Company rank pari passu and do not carry pre-emptive rights.

(Expressed in Hong Kong dollars)

27 RESERVES

The Group

	Share premium (note (b)) $	Contributed surplus (notes (a) & (b)) $	Retained profits $	Total $
At 1 April 2001	–	–	27,989,938	27,989,938
Profit for the year	–	–	26,678,547	26,678,547
At 1 April 2002	–	–	54,668,485	54,668,485
Reorganisation adjustment	–	299,968	–	299,968
Profit for the year	–	–	15,550,969	15,550,969
Share premium from issuance of shares	43,500,000	–	–	43,500,000
Capitalisation issue	(22,499,950)	–	–	(22,499,950)
Issuing costs	(12,279,674)	–	–	(12,279,674)
Dividends	–	–	(24,000,000)	(24,000,000)
At 31 March 2003	8,720,376	299,968	46,219,454	55,239,798

The Company

	Share premium (note (b)) $	Contributed surplus (notes (a) & (b)) $	Retained profits $	Total $
At 1 April 2002	–	–	–	–
Reorganisation adjustment	–	54,999,250	–	54,999,250
Profit for the period	–	–	94,061	94,061
Share premium from issuance of shares	43,500,000	–	–	43,500,000
Capitalisation issue	(22,499,950)	–	–	(22,499,950)
Issuing costs	(12,279,674)	–	–	(12,279,674)
Dividends	–	(6,000,000)	–	(6,000,000)
At 31 March 2003	8,720,376	48,999,250	94,061	57,813,687

(Expressed in Hong Kong dollars)

27 RESERVES *(continued)*

Notes:

(a) The excess of the consolidated net assets represented by the shares acquired over the nominal value of the shares issued by the Company in exchange under the Reorganisation during the year was transferred to contributed surplus.

(b) Under the Companies Law of the Cayman Islands, the funds in the contributed surplus account and share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

28 COMMITMENTS

The total future minimum lease payments under non-cancellable operating leases as at 31 March 2002 and 2003 are payable as follows:

	The Group	
	2003	2002
	$	*$*
Within one year	**1,403,798**	1,829,850
After one year but within five years	**380,749**	692,727
	1,784,547	2,522,577

The Group leases a number of properties under operating leases. The leases typically run for an initial period of 1 to 3 years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

29 CONTINGENT LIABILITIES

The Group had 459,030 (2002: 316,852) coupons issued to customers outstanding at 31 March 2003. Coupon holders are entitled to purchase the Beauty and Healthy at a discount of $30 per bottle. The redemption value of these outstanding coupons amounted to $13,770,900 (2002: $9,505,560).

(Expressed in Hong Kong dollars)

30 RELATED PARTY TRANSACTIONS

During the year, the Group had the following significant related party transactions:

(a) Recurring

During the year, the Group outsourced the manufacturing of finished goods to Yunnan Panlong Yunhai Pharmaceutical Company Limited ("YPYP"), in which a director of the Group, Mr. Chiu Ka Leung has beneficial interests.

	The Group	
	2003 **$**	2002 $
Amount of goods outsourced	**21,397,824**	18,377,280

The balance due to YPYP at the year end amounted to $2,097,001 (2002: $2,825,280) is included in trade creditors.

Pursuant to the outsourcing agreement with YPYP, the outsourcing cost is determined based on the market price of similar services prevailing at the beginning of each year and the actual purchase costs of raw materials and other costs incurred during the manufacturing process of the goods.

(b) Non-recurring

(i) As part of the Reorganisation, a motor vehicle with net book value of $142,655 was transferred to a senior management personnel at nil consideration.

(ii) During the year ended 31 March 2002, the Group made interest-free advances to the then and the existing directors and the balances due from such parties at 31 March 2002 were as follows:

	The Group	
	2003 **$**	2002 $
Amounts due from directors	**–**	18,626,805

(Expressed in Hong Kong dollars)

30 RELATED PARTY TRANSACTIONS *(continued)*

(b) Non-recurring *(continued)*

(iii) During the year ended 31 March 2002, the directors provided personal guarantees to secure the banking facilities granted to the Group. As at 31 March 2002, such banking facilities together with the utilised amounts were as follows:

	The Group	
	2003 **$**	2002 $
Facilities amounts	**–**	2,060,902
Utilised	**–**	1,660,902

The directors of the Company are of the opinion that the above related party transactions were conducted on normal commercial terms and in the ordinary course of business of the Group, and the recurring transactions have been confirmed by the independent non-executive directors.

31 NOTE TO CASH FLOW STATEMENTS

Non cash transaction

Pursuant to the Reorganisation on 22 August 2002, 999 shares of $0.05 each were issued as consideration for the acquisition by the Company and in exchange for the entire issued share capital of the directly owned subsidiary. The investment in the subsidiary represented the net asset value of the subsidiary on the date of exchange.

32 POST BALANCE SHEET EVENTS

(i) The outbreak of severe acute respiratory syndrome ("SARS") has had an adverse impact on the sales performance of the Group's flagship product in Hong Kong after the year end. However, the directors consider that it is not possible to quantify the financial effect on the Group or predict the ultimate impact that SARS may have on the Group's business in Hong Kong or elsewhere.

(ii) On 4 April 2003, the Group entered into a provisional sales and purchase agreement for the acquisition of a retail shop in Hong Kong for the provision of healthcare consultancy services at a consideration of $4,800,000.

(iii) After the balance sheet date the directors proposed a final dividend. Further details are disclosed in note 11.

33 COMPARATIVE FIGURES

The presentation and classification of items in the consolidated cash flow statement have been changed due to the adoption of the requirements of SSAP 15 (revised 2001) "Cash flow statements". As a result, certain advances from banks have been excluded from the definition of cash equivalents, cash flow items from taxation, returns on investments and servicing of finance have been classified into operating, investing and financing activities respectively and a detailed breakdown of cash flows from operating activities has been included on the face of the consolidated cash flow statement. Comparative figures have been reclassified to conform with the current year's presentation.

34 ULTIMATE HOLDING COMPANY

The Directors consider the ultimate holding company of the Group to be Oriental Chinese Medicines Limited, a company incorporated in the British Virgin Islands.