

## REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 March 2004.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 17 to the financial statements.

### RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 March 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 25 to 62.

The directors did not recommend the payment of any dividend in respect of the year.

### CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, 23 August 2004 to Friday, 27 August 2004 (both days inclusive), during which period no transfer of shares of the Company will be registered. Those unregistered holders of shares of the Company who intend to attend the forthcoming 2004 annual general meeting of the Company to be held on Friday, 27 August 2004, shall lodge the appropriate transfer forms and the relevant share certificates with the Company's Share Registrar in Hong Kong, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 20 August 2004.

### SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out below.

### RESULTS

	Year ended 31 March				
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
TURNOVER	<b>60,569</b>	91,195	81,476	59,930	93,460
PROFIT BEFORE TAX	<b>4,662</b>	18,356	31,979	15,931	26,919
Tax	<b>(1,350)</b>	(2,805)	(5,300)	(2,621)	(4,006)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<b>3,312</b>	15,551	26,679	13,310	22,913

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### ASSETS AND LIABILITIES

	As at 31 March				
	2004	2003	2002	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TOTAL ASSETS	102,270	92,821	65,590	38,672	28,636
TOTAL LIABILITIES	(15,573)	(7,581)	(10,821)	(10,582)	(11,742)
	86,697	85,240	54,769	28,090	16,894

### FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 15 to the financial statements.

### SHARE CAPITAL AND SHARE OPTIONS

There were no movements in the Company's authorised or issued share capital and share options 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, SALE OR REDEMPTION OF THE COMPANY'S SHARES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

### RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 27 to the financial statements and in the consolidated statement of changes in equity, respectively.



## REPORT OF THE DIRECTORS

### DISTRIBUTABLE RESERVES

At 31 March 2004, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to HK\$55,808,000.

### CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$96,000.

### MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 86% of the total sales for the year and sales to the largest customer included therein amounted to approximately 34%. Purchases from the Group's five largest suppliers accounted for approximately 73% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 56%.

Mr. Chiu Ka Leung, who is a director of the Company and has an attributable interest of 62.84% in the Company's share capital, had beneficial interests in two of the five largest suppliers which accounted for approximately 66% of the total purchases of the Group.

Mr. Jiao Shaoliang, a director of the Company, had beneficial interests in one of the five largest suppliers which accounted for approximately 10% of the total purchases of the Group.

Save as disclosed above, 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.



## REPORT OF THE DIRECTORS

### DIRECTORS

The directors of the Company during the year were:

*Executive directors:*

Mr. Chiu Ka Leung, *Chairman*

Ms. Yeh Shu Ping, *Vice-Chairman*

Mr. Jiao Shaoliang

Mr. Lan Daoying

*Independent non-executive directors:*

Mr. Guo Guoqing

Mr. Liu Jian

In accordance with article 87(1) of the Company's articles of association, Mr. Liu Jian will retire by rotation and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

### DIRECTORS' SERVICE CONTRACTS

Each of the executive directors of the Company has entered into a service contract with the Company for an initial term of three years commencing on 23 August 2002 which will thereafter continue and is subject to termination by either party giving not less than three 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 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' INTERESTS IN CONTRACTS

Save as disclosed in note 31 to the financial statements and in the section headed "Connected 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, its holding company, or any of its subsidiaries or fellow 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.

## REPORT OF THE DIRECTORS

### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 31 March 2004, 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 of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was deemed or taken to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange were as follows:

#### (A) (i) Interests in shares of the Company

Name of director	Nature of interests	Number of shares held (Note 3)
Mr. Chiu Ka Leung	Interests held by a controlled corporation (Note 1)	450,000,000 (L)

*Notes:*

1. 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.
2. The letter "L" denotes a long position in the shares.
3. As defined in Section 331 of the SFO, a reference to interests in shares comprised in the share capital of a listed corporation includes a reference to interests in shares so comprised, which are the underlying shares of equity derivatives (as defined in the SFO). The 450,000,000 shares do not include underlying shares of equity derivatives which are separately disclosed below.

## REPORT OF THE DIRECTORS

### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES *(Continued)*

#### (A) (ii) Interests in the underlying shares of the Company through unlisted and physically settled equity derivatives (as defined in the SFO)

Certain directors were granted share options under the share option scheme of the Company dated 22 August 2002. The share options granted to directors to subscribe for ordinary shares of the Company which were outstanding at 31 March 2004 were as follows:

Name of director	Nature of of interests	Number of underlying shares in respect of options granted	Exercise period	Price for grant	Exercise price
Mr. Jiao Shaoliang	Beneficial owner	1,100,000 (L) (Note)	9 September 2003 to 8 September 2012	HK\$10.00 (for all)	HK\$0.375 (per share)
Mr. Lan Daoying	Beneficial owner	1,200,000 (L) (Note)	9 September 2003 to 8 September 2012	HK\$10.00 (for all)	HK\$0.375 (per share)

*Note:* The letter "L" denotes a long position in the underlying shares.

The date of grant of such options is 9 September 2002 and the number of outstanding share options at the beginning and at the end of the financial year is the same.

#### (B) (i) Interests in shares of 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
Mr. Chiu Ka Leung	Beneficial owner	83.781 (L) ordinary shares (representing 83.781% of its entire issued share capital)
Ms. Yeh Shu Ping	Beneficial owner	16.219 (L) ordinary shares (representing 16.219% of its entire issued share capital)

*Note:* The letter "L" denotes a long position in the shares.

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### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES *(Continued)*

#### (B) (i) Interests in shares of associated corporations of the Company *(Continued)*

- (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 <i>(Note 1)</i>
Mr. Chiu Ka Leung	Beneficial owner	83,781 (L) non-voting deferred shares (representing 83.781% of its issued non-voting deferred shares)
	Interest held by controlled corporations <i>(Note 3)</i>	10 (L) voting shares (representing 100% of its issued voting shares)
Ms. Yeh Shu Ping	Beneficial owner	16,219 (L) non-voting deferred shares (representing 16.219% of its issued non-voting deferred shares)

*Notes:*

- These interests in shares do not include interests or short positions in the underlying shares of equity derivatives which are separately disclosed below.
  - The letter "L" denotes a long position in the shares.
  - These interests in shares are held through controlled corporations, namely, Oriental Chinese, the Company and Long Far Pharmaceutical (BVI) Limited.
- (c) In addition to the above, Mr. Chiu Ka Leung holds one ordinary share in each of LFHK, International Health Association (Hong Kong) Limited, Long Far Health Products Limited and Hong Kong Health Journal Limited (in all cases on trust for Long Far Pharmaceutical (BVI) Limited and all of which are indirect wholly-owned subsidiaries of the Company) in a non-beneficial capacity, solely for the purpose of complying with the minimum company membership requirement.

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### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES *(Continued)*

#### (B) (ii) Interests and short positions in the underlying shares of an associated corporation of the Company through unlisted and physically settled equity derivatives (as defined in the SFO)

Each of Mr. Chiu Ka Leung and Ms. Yeh Shu Ping granted an option to Long Far Pharmaceutical (BVI) Limited to acquire from them the non-voting deferred shares of LFHK.

Name of director	Nature of interests	Number of underlying shares of LFHK in respect of options granted	Exercise period	Price for grant	Exercise price
Mr. Chiu Ka Leung	Beneficial owner	83,781 (S) non-voting deferred shares (representing 83.781% of its issued non-voting deferred shares)	22 August 2002 to 21 August 2023	HK\$10.00 (for all)	HK\$1.00 (for all)
	Interests held by controlled corporations (Note 1)	83,781 (L) non-voting deferred shares (representing 83.781% of its issued non-voting deferred shares)	22 August 2002 to 21 August 2023	HK\$10.00 (for all)	HK\$1.00 (for all)
Ms. Yeh Shu Ping	Beneficial owner	16,219 (S) non-voting deferred shares (representing 16.219% of its issued non-voting deferred shares)	22 August 2002 to 21 August 2023	HK\$10.00 (for all)	HK\$1.00 (for all)

*Notes:*

- These interests in the shares are held through controlled corporations, namely, Oriental Chinese, the Company and Long Far Pharmaceutical (BVI) Limited.
- The letter "L" denotes a long position in the shares. The letter "S" denotes a short position in the shares.

Save as disclosed above, as at 31 March 2004, none of the directors and chief executive of the Company had any interest or short positions in the shares, 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 for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange.



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### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share option scheme disclosure in note 26 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 their respective spouse or children under 18 years of age, or were there any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

### SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

At 31 March 2004, the following interests of 5% or more of the issued share capital of the Company were 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 held	Percentage of the Company's issued share capital
Oriental Chinese ( <i>Note 1</i> )	Beneficial owner	450,000,000 (L)	75%
Ms. Guo Jinxiu ( <i>Note 2</i> )	Interest held by spouse	450,000,000 (L)	75%

*Notes:*

1. The above interest in the name of Oriental Chinese was also disclosed as deemed interests of Mr. Chiu Ka Leung in the above section headed "Directors' and chief executive's interests in shares".
2. Ms. Guo Jinxiu is the wife of Mr. Chiu Ka Leung and these interests have also been disclosed as Mr. Chiu Ka Leung's interests in the sub-paragraph headed "Interests in shares of the Company" above.
3. The letter "L" denotes a long position in the shares.

Save as disclosed above, as at 31 March 2004, no person, other than the directors of the Company, whose interests are set out in the section "Directors' and chief executive's interests in shares" above, had 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.

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### CONNECTED TRANSACTIONS

During the year under review, the Group had the following connected transactions:

- (1) Under the manufacturing agreement entered into between LFHK and 雲南盤龍雲海藥業有限公司 (Yunnan Panlong Yunhai Pharmaceutical Company Limited) (“YPYP”) on 22 August 2002, YPYP is responsible for the manufacturing of Beauty and Healthy (排毒美顏寶) and the provision of various raw materials for such manufacturing (the “YPYP Transactions”) 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 YPYP Transactions amounted to HK\$8,015,000 for the year ended 31 March 2004. The YPYP Transactions constitute connected transactions for the Company under the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) as Mr. Chiu Ka Leung held 51% interest in YPYP. The Directors consider that disclosure and approval by independent shareholders of the Company of the YPYP Transactions on a recurring basis is impractical, unduly onerous and not beneficial to the shareholders of the Company. Therefore, the Company obtained a conditional waiver from strict compliance with the requirements under the old Chapter 14 of the Listing Rules in connection with the YPYP Transactions for a period of three financial years ending 31 March 2005 so that disclosure and prior approval by independent shareholders of the Company regarding the YPYP Transactions for the said period are not required. Pursuant to this conditional waiver, the aggregate fee charged by YPYP should not exceed 35% of the consolidated net tangible asset value of the Group in any financial year.

The independent non-executive directors of the Company have reviewed the YPYP Transactions for the year ended 31 March 2004 and confirmed that the YPYP Transactions 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 were comparable transactions) or, where there were not sufficient comparable transactions to judge whether they were 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) entered into on terms that were fair and reasonable and in the interests of the independent shareholders of the Company as a whole.

Ernst & Young, the Company’s auditors, have also reviewed the YPYP Transactions for the year ended 31 March 2004 and provided a letter to the Board of Directors (with a copy to the Listing Division of the Stock Exchange) confirming that:

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

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### CONNECTED TRANSACTIONS *(Continued)*

- (2) The Group purchased certain pharmaceutical products and health food products for sales and distribution in an aggregate amount of HK\$1,406,000 from 雲南龍潤藥業有限公司 (Yunnan Long Run Pharmaceuticals Company Limited) (“YLRP”), 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.
- (3) On 5 August 2003, Winlead Investment Limited (“Winlead”), a wholly-owned subsidiary of the Company, entered into an acquisition agreement with YLRP pursuant to which Winlead conditionally agreed to purchase and YLRP conditionally agreed to sell, the entire equity interest in 楚雄雁塔藥業有限責任公司 (Chuxiong Yanta Pharmaceutical Company Limited) (which is now known as Yunnan Long Far Pharmaceutical Company Limited (“Yunnan Long Far”)) at a total cash consideration of HK\$13,500,000 (the “Acquisition”). Yunnan Long Far is a company incorporated in the People’s Republic of China (the “PRC”) with limited liability and its principal activities include the provision of research, development, manufacture and distribution of pharmaceutical products in the PRC. The Acquisition constituted a discloseable and connected transaction for the Company under the Listing Rules and was approved by the independent shareholders of the Company at an extraordinary general meeting held on 22 September 2003. Further details of the Acquisition are set out in the Company’s circular to shareholders dated 5 September 2003. The Acquisition was completed on 8 October 2003.

### DIRECTORS’ INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, the following director is considered to have interests 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, as set out below:

Mr. Chiu Ka Leung has controlling interests in 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 approvals from the relevant authorities in the PRC 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.



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### DIRECTORS' INTERESTS IN A COMPETING BUSINESS *(Continued)*

As at 31 March 2004, YPYP had only distributed Health & Beauty InnerPure Capsules (排毒養顏膠囊) in the PRC 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 the PRC, and 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.

### CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the annual report, except that the independent non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's articles of association.

### AUDIT COMMITTEE

The audit committee, comprising two independent non-executive directors, Mr. Guo Guoqing (Chairman of the audit committee) and Mr. Liu Jian, had reviewed with the senior management of the Group and external auditors the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting process including the review of the financial statements for the year ended 31 March 2004.

### AUDITORS

During the year, KPMG resigned as auditors of the Company and Ernst & Young were appointed by the shareholders of the Company to fill the casual vacancy so arising. A resolution for the reappointment of Ernst & Young as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**Chiu Ka Leung**

*Chairman*

Hong Kong

15 July 2004