



REPORT OF THE DIRECTORS

The directors (the “Directors”) of the Company present their report and the audited financial statements of the Company and the Group for the year ended 31 March 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 15 to the financial statements. There were no significant changes in the nature of the Group’s principal activities during the year.

RESULTS AND DIVIDENDS

The Group’s loss for the year ended 31 March 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 27 to 76.

The directors do 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 Tuesday, 15 August 2006 to Friday, 18 August 2006, both dates inclusive, during which no transfer of shares of the Company will be registered. In order to qualify for attending the annual general meeting of the Company to be held on 18 August 2006, 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 Hong Kong Branch Share Registrar, Tengis Limited, at 26/F, Tesbury Centre, 28 Queen’s Road East, Hong Kong, for registration not later than 4:30 p.m. on Monday, 14 August 2006.

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				
	2006	2005	2004	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
REVENUE	<u>57,533</u>	<u>77,070</u>	<u>60,569</u>	<u>91,195</u>	<u>81,476</u>
(LOSS)/PROFIT BEFORE TAX	<u>(9,886)</u>	<u>5,707</u>	<u>4,662</u>	<u>18,356</u>	<u>31,979</u>
Tax	<u>5</u>	<u>(974)</u>	<u>(1,350)</u>	<u>(2,805)</u>	<u>(5,300)</u>
(LOSS)/PROFIT ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	<u>(9,881)</u>	<u>4,733</u>	<u>3,312</u>	<u>15,551</u>	<u>26,679</u>

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SUMMARY FINANCIAL INFORMATION *(Continued)*

ASSETS AND LIABILITIES

	2006	2005	As at 31 March		
	HK\$'000	HK\$'000	2004	2003	2002
			HK\$'000	HK\$'000	HK\$'000
TOTAL ASSETS	122,780	105,722	102,270	92,821	65,590
TOTAL LIABILITIES	(40,270)	(14,303)	(15,573)	(7,581)	(10,821)
	<u>82,510</u>	<u>91,419</u>	<u>86,697</u>	<u>85,240</u>	<u>54,769</u>

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL 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, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and 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.

DISTRIBUTABLE RESERVES

At 31 March 2006, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to HK\$51,044,000.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$66,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, sales to the Group's five largest customers accounted for approximately 73% 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 60% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 41%.



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MAJOR CUSTOMERS AND SUPPLIERS *(Continued)*

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 one of the five largest suppliers which accounted for approximately 41% 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.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr. Chiu Ka Leung, *Chairman*

Ms. Yeh Shu Ping, *Vice-Chairman and Chief Executive Officer*

Mr. Jiao Shaoliang

Mr. Lan Daoying

Independent non-executive directors:

Mr. Guo Guoqing

Mr. Liu Jian

Mr. Lam Siu Hung

In accordance with article 87 of the Company's articles of association, Mr. Chiu Ka Leung, Ms. Yeh Shu Ping, Mr. Jiao Shaoliang and Mr. Guo Guoqing will retire as directors of the Company by rotation at the forthcoming annual general meeting ("AGM"). The above retiring directors, being eligible, will offer themselves for re-election at the forthcoming AGM.

The Company has received annual confirmations of independence from each of Mr. Guo Guoqing, Mr. Liu Jian and Mr. Lam Siu Hung and considers that each of them meets the independence guidelines as set out in Rule 3.13 of the Listing Rules.

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 one year commencing on 1 January 2006 and is subject to termination by either party giving not less than three months' prior notice in writing. The executive directors are also subject to retirement by rotation in accordance with the Articles of Association of the Company.

The independent non-executive directors of the Company have been appointed for a fixed term of about one year and are 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 AGM 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.

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DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 32 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.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 March 2006, the interests of the directors and chief executives of the Company in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was deemed or taken to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange were as follows:

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

Name of director	Nature of interests	Number of ordinary shares held/interested (Note 3)
Mr. Chiu Ka Leung	Interests held by a controlled corporation (Note 1)	450,000,000 (L) (Note 2)

Notes:

- 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 letter "L" denotes a long position in the shares.
- 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.



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DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING 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 2006 were as follows:

Name of director	Nature of interests	Number of underlying ordinary 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) 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/interested
Mr. Chiu Ka Leung	Beneficial owner	83.781 (L) (Note) ordinary shares (representing 83.781% of its entire issued share capital)
Ms. Yeh Shu Ping	Beneficial owner	16.219 (L) (Note) ordinary shares (representing 16.219% of its entire issued share capital)

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

- (b) In addition to the above, Mr. Chiu Ka Leung holds one ordinary share in each of LFHK, International Health Association (HK) 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 then minimum company membership requirement.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(Continued)*

Save as disclosed above, as at 31 March 2006, none of the directors or chief executives of the Company had registered an interest or a short position in the shares or underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 to 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 herein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share option scheme 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 2006, 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/interested	Percentage of the Company's issued share capital
Oriental Chinese <i>(Note 1)</i>	Beneficial owner	450,000,000 (L) <i>(Note 3)</i>	75%
Ms. Guo Jinxiu <i>(Note 2)</i>	Interest held by spouse	450,000,000 (L) <i>(Note 3)</i>	75%

Notes:

1. The above interest in the name of Oriental Chinese was also disclosed as the interest of Mr. Chiu Ka Leung in the above section headed "Directors' and chief executives' interests and short positions in shares and underlying shares".
2. Ms. Guo Jinxiu is the wife of Mr. Chiu Ka Leung and such interest has been disclosed as Mr. Chiu Ka Leung's interest in the above section headed "Directors' and chief executives' interests and short positions in shares and underlying shares".
3. The letter "L" denotes a long position in the shares.

Save as disclosed above, as at 31 March 2006, no person, other than the directors of the Company, whose interests are set out in the section "Directors' and chief executives' interests and short positions in shares and underlying shares" above, had registered an interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO.



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CONNECTED TRANSACTIONS

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

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 9 August 2005, YPYP is responsible for the manufacturing of "Beauty and Healthy" (排毒美顏寶) and the provision of various raw materials required for such manufacturing (the "YPYP Transactions") for a term up to 31 March 2008. LFHK is a wholly-owned subsidiary of the Company and YPYP is a company incorporated with limited liability in the PRC whose registered capital is held as to 51% by Mr. Chiu Ka Leung, the Chairman and an executive director who is also a controlling shareholder of the Company. Thus YPYP, being an associate of Mr. Chiu Ka Leung, is a connected person of the Company.

Under the YPYP Transactions, YPYP charges a fee per capsule which is inclusive of the costs of raw material purchases, processing fees, export inspection fees and transportation fees of the finished capsules. The basis of the determination of the fee per capsule under the YPYP Transactions is with reference to the prevailing costs of production, and the fees are subject to revision by mutual agreement from time to time.

The maximum amount of fees payable to YPYP arising from the YPYP Transactions approved by the shareholders of the Company at the extraordinary general meeting of the Company held on 10 October 2005 for each of the three financial years ending 31 March 2006, 2007 and 2008 were HK\$20,165,000, HK\$23,189,750 and HK\$26,668,213 respectively. For the year ended 31 March 2006, the amount of fees paid to YPYP under the YPYP Transactions amounted to HK\$7,819,000 which was within the above maximum amount of HK\$20,165,000.

The independent non-executive directors of the Company have reviewed the YPYP Transactions for the year ended 31 March 2006 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, on a test basis, the YPYP Transactions for the year ended 31 March 2006 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 Transactions during the year had not exceeded the cap stated above.

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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.

As at 31 March 2006, 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.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

AUDITORS

During the year 2003/2004, 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. There have been no other changes of auditors in the past three years. Ernst & Young will retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming AGM.

ON BEHALF OF THE BOARD

Chiu Ka Leung
Chairman

Hong Kong
4 July 2006