NOTES TO FINANCIAL STATEMENTS

31 March 2006

1. CORPORATE INFORMATION

Long Far Pharmaceutical Holdings Limited is a limited liability company incorporated in the Cayman Islands. During the year, the Group was involved in the trading, manufacture and distribution of pharmaceutical products.

In the opinion of the directors, the parent and ultimate holding company of the Company is Oriental Chinese Medicines Limited, which is incorporated in the British Virgin Islands and owned as to 83.781% and 16.219% by Mr. Chiu Ka Leung, the Chairman of the Board, and Ms Yeh Shu Ping, Vice-Chairman of the Board, respectively.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial asset at fair value through profit or loss, which has been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2006. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

NOTES TO FINANCIAL STATEMENTS

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2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 1, 2, 7, 8, 10, 12, 14, 16, 18, 19, 20, 23, 27, 33, 37 and 38, HKFRS 2 and HK-Int 4 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 21 had no material impact on the Group. As permitted by the transitional provisions of HKAS 21, goodwill arising in a business combination prior to 1 January 2005 and fair value adjustments arising on that acquisition are deemed to be in the currency of the Company. In respect of acquisitions subsequent to 1 January 2005, any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of the assets and liabilities are treated as assets and liabilities of the foreign operation and are translated at the closing rate in accordance with HKAS 21.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

NOTES TO FINANCIAL STATEMENTS

31 March 2006

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 17 – Leases

In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease payments are included in the cost of the leasehold land and buildings as a finance lease in property, plant and equipment.

This change in accounting policy has had no effect on the consolidated income statement and retained profits. The comparative amounts for the year ended 31 March 2005 in the consolidated balance sheet have been restated to reflect the reclassification of leasehold land.

(b) HKAS 32 and HKAS 39 – Financial Instruments

Equity securities and bank deposits with embedded derivatives

In prior years, the Group classified its investments in equity securities held for trading purposes as short term investments and were stated at fair values on an individual basis with gains and losses recognised in the income statement, and bank deposits with embedded derivatives for yield enhancement were treated as bank deposits and stated at cost.

Upon the adoption of HKASs 32 and 39, these securities and bank deposits with embedded derivatives for yield enhancement are designated as financial assets at fair value through profit or loss under the transitional provisions of HKAS 39 and accordingly are stated at fair value with gains or losses being recognised in the income statement.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.

(c) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets

In prior years, goodwill arising on acquisitions was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment.

The adoption of HKFRS 3 and HKAS 36 has resulted in the Group ceasing annual goodwill amortisation and commencing testing for impairment at the cash-generating unit level annually (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired).

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 April 2005 the carrying amounts of accumulated amortisation with a corresponding adjustment to the cost of goodwill.

NOTES TO FINANCIAL STATEMENTS

31 March 2006

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

(c) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets *(Continued)*

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)–Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)–Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)–Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (effective for annual periods beginning on or after 1 December 2005)
HK(IFRIC)–Int 7	Applying the Restatement Approach under HKAS 29 – Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after 1 March 2006)
HK(IFRIC)–Int 8	Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006)
HK(IFRIC)–Int 9	Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006)

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

At 1 April 2005

Effect of new policies (Increase/(decrease))	Effect of adopting: HKAS 17# Prepaid land lease payments HK$'000	Effect of adopting: HKASs 32# and 39* Change in classification HK$'000	Total HK$'000
Assets			
Property, plant and equipment	(5,228)	–	(5,228)
Prepaid land lease payments	5,120	–	5,120
Prepayments, deposits and other receivables	108	–	108
Financial assets at fair value through profit or loss	–	1,779	1,779
Short term investment	–	(999)	(999)
Cash and cash equivalents	–	(780)	(780)
			–

* *Adjustments taken effect prospectively from 1 April 2005*

\# *Adjustments/presentation taken effect retrospectively*

NOTES TO FINANCIAL STATEMENTS

31 March 2006

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(Continued)*

(a) Effect on the consolidated balance sheet *(Continued)*

At 31 March 2006	Effect of adopting			
Effect of new policies (Increase/(decrease))	HKAS 17 Prepaid land lease payments HK$'000	HKASs 32 and 39 Change in classification HK$'000	HKFRS 3 Discontinuation of amortisation of goodwill HK$'000	Total HK$'000
Assets				
Property, plant and equipment	(23,416)	–	–	(23,416)
Prepaid land lease payments	22,858	–	–	22,858
Goodwill	–	–	273	273
Prepayments, deposits and other receivables	558	–	–	558
Financial asset at fair value through profit or loss	–	520	–	520
Short term investment	–	(520)	–	(520)
				273
Equity				
Retained profits	–	–	273	273
				273

(b) Effect on the consolidated income statement for the years ended 31 March 2006 and 2005

Effect of new policies (Increase/(decrease))	2006 HK$'000	2005 HK$'000
Effect on profit after tax:		
Effect of adopting HKFRS 3 Discontinuation of amortisation of goodwill	273	–
Effect on (loss)/earnings per share:		
Basic	HK0.05 cent	–
Diluted	HK0.05 cent	–

NOTES TO FINANCIAL STATEMENTS

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

NOTES TO FINANCIAL STATEMENTS

31 March 2006

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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 the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land	Over the lease terms
Buildings	5%
Leasehold improvements	Over the shorter of the lease terms and 20%
Furniture, fixtures and office equipment	20%
Computer equipment	20%
Plant and machinery	30%
Motor vehicles	30%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents factory buildings, plant and machinery and other property, plant and equipment under construction and installation, and is stated at cost less any impairment losses and is not depreciated. Cost comprises the direct costs of construction, installation and testing. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

NOTES TO FINANCIAL STATEMENTS

31 March 2006

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Research and development costs *(Continued)*

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products, commencing from the date when the products are put into commercial production.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the leasehold land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Applicable to the year ended 31 March 2005:

Short term investments

Short term investments are investments in equity securities held for trading purposes. Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the income statement for the period in which they arise.

Applicable to the year ended 31 March 2006:

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Applicable to the year ended 31 March 2006: *(Continued)*

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets (applicable to the year ended 31 March 2006)

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 March 2006

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets (applicable to the year ended 31 March 2006) *(Continued)*

Assets carried at amortised cost (Continued)

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss.

Derecognition of financial assets (applicable to the year ended 31 March 2006)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

NOTES TO FINANCIAL STATEMENTS

31 March 2006

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets (applicable to the year ended 31 March 2006) *(Continued)*

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any further costs expected to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents, comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities (applicable to the year ended 31 March 2006)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 March 2006

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) rental income, on a time proportion basis over the lease terms;

(c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(d) dividend income, when the shareholder's right to receive payment has been established.

Employee benefits

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A contingent liability is disclosed in respect of possible future long service payments to employees, as a number of current employees have achieved the required number of years of service to the Group, at the balance sheet date, in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated in the circumstances specified. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the participating employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

NOTES TO FINANCIAL STATEMENTS

31 March 2006

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

Pension schemes (Continued)

The employees of the Group's subsidiary which operates in the People's Republic of China (the "PRC" or "Mainland China") are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute a certain percentage of the payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

2.6 SIGNIFICANT ACCOUNTING ESTIMATES

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating unit to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. An impairment loss of HK$1,093,000 was recognised to reduce the carrying amount of goodwill to nil.

NOTES TO FINANCIAL STATEMENTS

31 March 2006

2.6 SIGNIFICANT ACCOUNTING ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised. Where the actual or expected tax positions of the relevant companies of the Group in future are different from the original estimate, such differences will have impact on the recognition of deferred tax assets and income tax charge in the period in which such estimate has been changed. The carrying amount of deferred tax assets at 31 March 2006 was HK$240,000 (2005: HK$240,000). Further details are given in note 24.

3. SEGMENT INFORMATION

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

(a) Business segment

The Group has only one business segment, which is the trading, manufacture and distribution of pharmaceutical products and therefore, no business segment information is presented.

(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 expenditure are based on the geographical location of the assets.

The following table presents revenue, certain asset and capital expenditure information for the Group's geographical segments for the years ended 31 March 2006 and 2005.

	Hong Kong		Mainland China		Elsewhere in South East Asia		Others		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:										
Sales to external customers	**39,836**	55,428	**13,023**	14,323	**4,477**	7,263	**197**	56	**57,533**	77,070
Other segment information:										
Segment assets	**74,290**	59,818	**48,490**	45,904	**–**	–	**–**	–	**122,780**	105,722
Capital expenditure	**37,878**	158	**900**	2,054	**–**	–	**–**	–	**38,778**	2,212

NOTES TO FINANCIAL STATEMENTS

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4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts, during the year.

An analysis of revenue, other income and gains is as follows:

	2006 HK$'000	2005 HK$'000
Revenue		
Sale of goods	57,533	77,070
Other income		
Dividend income from listed investments	59	–
Interest income	399	202
Advertising income	472	533
Rental income	152	400
Others	248	591
	1,330	1,726
Gains		
Gain on disposal of items of property, plant and equipment, net*	2,713	–
	4,043	1,726

* *This gain on disposal of items of property, plant and equipment is also disclosed in note 5 below.*

5. (LOSS)/PROFIT BEFORE TAX

The Group's (loss)/profit before tax is arrived at after charging/(crediting):

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
Cost of inventories sold		18,386	24,375
Depreciation	12	6,189	4,788
Amortisation of prepaid land lease payments	13	551	107
Research and development costs*		–	500
Amortisation of goodwill for the year*	14	–	273
Minimum lease payments under operating leases on land and buildings		2,079	2,329
Auditors' remuneration		735	650
Staff costs (excluding directors' remuneration in note 7):			
Wages and salaries		13,340	12,009
Pension scheme contributions (defined contribution scheme)		525	561
		13,865	12,570
Write off of inventories		314	–
Goodwill impairment*		1,093	–
Foreign exchange losses/(gains), net		2	(56)
Loss/(gain) on disposal of items of property, plant and equipment, net		(2,713)	414
Fair value gain for financial asset at fair value through profit or loss		68	–

* Included in the "Other expenses" on the face of the consolidated income statement.

6. FINANCE COSTS

	Group	
	2006 HK$'000	2005 HK$'000
Interest on bank loans wholly repayable:		
Within five years	211	–
Over five years	804	–
Interest on finance leases	29	29
	1,044	29

NOTES TO FINANCIAL STATEMENTS

31 March 2006

7. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2006 HK$'000	2005 HK$'000
Fees:		
Executive directors	–	–
Independent non-executive directors	216	180
	216	180
Other emoluments:		
Salaries, allowances and benefits in kind	3,359	3,348
Discretionary bonuses	–	135
Pension scheme contributions	48	48
	3,407	3,531
	3,623	3,711

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2006 HK$'000	2005 HK$'000
Mr. Guo Guoqing	72	72
Mr. Liu Jian	72	72
Mr. Lam Siu Hung	72	36
	216	180

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

NOTES TO FINANCIAL STATEMENTS

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7. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2006					
Executive directors:					
Mr. Chiu Ka Leung	–	1,359	–	12	1,371
Ms. Yeh Shu Ping	–	1,088	–	12	1,100
Mr. Jiao Shaoliang	–	652	–	12	664
Mr. Lan Daoying	–	260	–	12	272
	–	3,359	–	48	3,407
2005					
Executive directors:					
Mr. Chiu Ka Leung	–	1,370	24	12	1,406
Ms. Yeh Shu Ping	–	1,090	16	12	1,118
Mr. Jiao Shaoliang	–	640	75	12	727
Mr. Lan Daoying	–	248	20	12	280
	–	3,348	135	48	3,531

The discretionary bonuses of the executive directors for the year ended 31 March 2005 were determined with reference to the performance of the Group's operations.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

NOTES TO FINANCIAL STATEMENTS

31 March 2006

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2005: three) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining two (2005: two) non-director, highest paid employees for the year are as follows:

	Group	
	2006 HK$'000	2005 HK$'000
Salaries, allowances and benefits in kind	1,226	1,170
Discretionary bonuses	140	165
Pension scheme contributions	24	24
	1,390	1,359

The number of non-director, highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2006	2005
Nil to HK$1,000,000	2	2

9. TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year. Prior year's Hong Kong profits tax had been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong during that year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

	2006 HK$'000	2005 HK$'000
Group:		
Current – Hong Kong		
Charge for the year	–	1,030
Overprovision in prior years	(5)	(56)
Total tax (credit)/charge for the year	(5)	974

The subsidiary, Yunnan Long Far Pharmaceutical Company Limited, is subject to a preferential tax rate of 15% as it is located in the Yunnan Province, the PRC.

NOTES TO FINANCIAL STATEMENTS

31 March 2006

9. TAX *(Continued)*

A reconciliation of the tax expense applicable to (loss)/profit before tax using the statutory rates for the countries in which the Company and its subsidiaries, are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group – 2006

	Hong Kong		Mainland China		Others		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Loss before tax	(4,625)		(5,255)		(6)		(9,886)	
Tax at the statutory tax rate	(809)	17.5	(788)	15.0	(1)	15.0	(1,598)	16.2
Adjustments in respect of current tax of previous periods	(5)	0.1	–	–	–	–	(5)	0.1
Income not subject to tax	(530)	11.5	–	–	–	–	(530)	5.4
Expenses not deductible for tax	51	(1.1)	164	(3.1)	–	–	215	(2.2)
Tax losses not recognised	1,288	(27.9)	624	(11.9)	1	(15.0)	1,913	(19.4)
Tax credit at the Group's effective rate	(5)	0.1	–	–	–	–	(5)	0.1

Group – 2005

	Hong Kong		Mainland China		Others		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	4,580		1,127		–		5,707	
Tax at the statutory tax rate	802	17.5	169	15.0	–	–	971	17.0
Adjustments in respect of current tax of previous periods	(56)	(1.2)	–	–	–	–	(56)	(1.0)
Income not subject to tax	(27)	(0.6)	–	–	–	–	(27)	(0.5)
Expenses not deductible for tax	252	5.5	–	–	–	–	252	4.4
Tax losses utilised from previous period	–	–	(169)	(15.0)	–	–	(169)	(3.0)
Tax losses not recognised	3	0.1	–	–	–	–	3	0.1
Tax charge at the Group's effective rate	974	21.3	–	–	–	–	974	17.0

NOTES TO FINANCIAL STATEMENTS

31 March 2006

10. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The net loss from ordinary activities attributable to ordinary equity holders of the Company for the year ended 31 March 2006 dealt with in the financial statements of the Company, was HK$4,785,000 (2005: profit of HK$21,000) (note 27(b)).

11. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share amount is based on the net loss for the year attributable to ordinary equity holders of the Company of HK$9,881,000 (2005: profit of HK$4,733,000) and the 600,000,000 (2005: 600,000,000) ordinary shares in issue during the year.

A diluted loss per share amount for the year ended 31 March 2006 has not been disclosed as the share options outstanding during the year had an anti-dilutive effect on the basic loss per share for the year.

The calculation of diluted earnings per share amount for the year ended 31 March 2005 is based on the net profit for the year attributable to ordinary equity holders of the Company of HK$4,733,000. The weighted average number of ordinary shares used in the calculation is the 600,000,000 ordinary shares in issue during that year, as used in the basic earnings per share calculation, and the weighted average of 738,920 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during that year.

NOTES TO FINANCIAL STATEMENTS

31 March 2006

12. PROPERTY, PLANT AND EQUIPMENT

Group

31 March 2006	Leasehold land and buildings HK$'000	Leasehold improve-ments HK$'000	Furniture, fixtures and office equipment HK$'000	Computer equipment HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Cost:								
At 1 April 2005								
As previously reported	32,020	2,636	1,627	1,299	9,469	2,204	–	49,255
Effect of adopting								
– HKAS 17 *(note 2.2(a))*	(5,388)	–	–	–	–	–	–	(5,388)
As restated	26,632	2,636	1,627	1,299	9,469	2,204	–	43,867
Additions	15,225	380	404	60	203	879	3,018	20,169
Disposals/write-off	(4,956)	(2,024)	(691)	–	–	(77)	–	(7,748)
Transfer	108	2,347	563	–	–	–	(3,018)	–
Exchange realignment	539	–	9	–	202	17	–	767
At 31 March 2006	37,548	3,339	1,912	1,359	9,874	3,023	–	57,055
Accumulated depreciation:								
At 1 April 2005								
As previously reported	1,452	1,763	1,080	888	3,277	1,191	–	9,651
Effect of adopting								
– HKAS 17 *(note 2.2(a))*	(160)	–	–	–	–	–	–	(160)
As restated	1,292	1,763	1,080	888	3,277	1,191	–	9,491
Provided during the year	1,903	434	259	170	2,728	695	–	6,189
Disposals/write-off	(329)	(1,484)	(617)	–	–	(58)	–	(2,488)
Exchange realignment	25	–	2	–	54	7	–	88
At 31 March 2006	2,891	713	724	1,058	6,059	1,835	–	13,280
Net book value:								
At 31 March 2006	34,657	2,626	1,188	301	3,815	1,188	–	43,775
At 31 March 2005 (as restated)	25,340	873	547	411	6,192	1,013	–	34,376

NOTES TO FINANCIAL STATEMENTS

31 March 2006

12. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Group

31 March 2005	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Computer equipment HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Cost:								
At 1 April 2004								
As previously reported	30,235	2,549	1,558	1,316	9,194	2,168	592	47,612
Effect of adopting								
– HKAS 17 *(note 2.2(a))*	(5,314)	–	–	–	–	–	–	(5,314)
As restated	24,921	2,549	1,558	1,316	9,194	2,168	592	42,298
Additions	–	87	72	31	636	35	1,283	2,144
Disposals/write-off	–	–	(3)	(48)	(204)	–	(255)	(510)
Transfer	1,686	–	–	–	(166)	–	(1,620)	(100)
Exchange realignment	25	–	–	–	9	1	–	35
At 31 March 2005	26,632	2,636	1,627	1,299	9,469	2,204	–	43,867
Accumulated depreciation:								
At 1 April 2004								
As previously reported	219	1,420	866	747	1,064	535	–	4,851
Effect of adopting								
– HKAS 17 *(note 2.2(a))*	(53)	–	–	–	–	–	–	(53)
As restated	166	1,420	866	747	1,064	535	–	4,798
Provided during the year	1,126	343	215	189	2,259	656	–	4,788
Disposals/write-off	–	–	(1)	(48)	(46)	–	–	(95)
At 31 March 2005	1,292	1,763	1,080	888	3,277	1,191	–	9,491
Net book value:								
At 31 March 2005 (as restated)	25,340	873	547	411	6,192	1,013	–	34,376
At 31 March 2004 (as restated)	24,755	1,129	692	569	8,130	1,633	592	37,500

12. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Group's leasehold land and buildings with aggregate costs of HK$15,225,000 (2005: HK$4,956,000) and HK$22,323,000 (2005: HK$21,676,000) are situated in Hong Kong and Mainland China, respectively, and are held under medium term leases.

The net book value of the Group's property, plant and equipment held under finance leases included in the total amount of motor vehicles at 31 March 2006, amounted to HK$667,000 (2005: HK$604,000).

At 31 March 2006, certain of the Group's buildings with a net book value of approximately HK$25,412,000 (2005: Nil) were pledged to secure banking facilities granted to the Group (note 21).

13. PREPAID LAND LEASE PAYMENTS

	2006 HK$'000	2005 HK$'000 (Restated)
Carrying amount at beginning of year		
As previously reported	–	–
Effect of adopting HKAS 17 *(note 2.2(a))*	5,228	5,261
As restated	5,228	5,261
Addition during the year	18,609	68
Recognised during the year	(551)	(107)
Exchange realignment	130	6
Carrying amount at end of year	23,416	5,228
Current portion included in prepayments, deposits and other receivables	(558)	(108)
Non-current portion	22,858	5,120

At 31 March 2006, the land of the Group was held under medium term leases and was situated in Hong Kong and the Mainland China as to the carrying amount of HK$18,169,000 (2005: Nil) and HK$5,247,000 (2005: HK$5,228,000), respectively.

At 31 March 2006, certain of the Group's land with an aggregate net book value of approximately HK$18,505,000 (2005: Nil) was pledged to secure certain banking facilities granted to the Group (note 21).

NOTES TO FINANCIAL STATEMENTS

31 March 2006

14. GOODWILL

The amount of the goodwill capitalised as an asset in the consolidated balance sheet, arising from the acquisition of a subsidiary, is as follows:

Group

	HK$'000
31 March 2006	
At 1 April 2005:	
Cost as previously stated	1,366
Effect of adopting HKFRS 3 *(note 2.2(c))*	(273)
Cost as restated	1,093
Accumulated amortisation as previously stated	(273)
Effect of adopting HKFRS 3 *(note 2.2(c))*	273
Accumulated amortisation as restated	–
Net carrying amount	1,093
Cost at 1 April 2005	1,093
Impairment during the year	(1,093)
Net carrying amount at 31 March 2006	–
Represented by:	
At 31 March 2006:	
Cost	1,093
Accumulated impairment	(1,093)
Net carrying amount	–
31 March 2005	
At 1 April 2004:	
Cost	1,366
Accumulated amortisation	–
Net carrying amount	1,366
Cost at 1 April 2004	1,366
Amortisation provided during the year	(273)
At 31 March 2005	1,093
Represented by:	
At 31 March 2005:	
Cost	1,366
Accumulated amortisation	(273)
Net carrying amount	1,093

14. GOODWILL *(Continued)*

In 2005, goodwill was amortised on the straight-line basis over its estimated useful life of five years.

Goodwill acquired through business combination has been allocated to the manufacture and distribution of pharmaceutical products cash-generating unit for impairment testing.

The recoverable amount of the cash-generating unit is determined based on a value in use calculation using cash flow projections based on financial budgets covering a five year period approved by senior management. The discount rate applied to cash flow projections is 7% and cash flows beyond the five year period are extrapolated using a growth rate of 13%. An impairment loss of HK$1,093,000 was recognised to reduce the carrying amount to nil.

15. INVESTMENTS IN SUBSIDIARIES

	Company	
	2006	2005
	HK$'000	HK$'000
Unlisted shares, at cost	54,999	54,999
Less: Return of capital *(note)*	(25,000)	(25,000)
Less: Provision for impairment	(87)	–
	29,912	29,999

Note: Return of capital represents an interim dividend declared by a subsidiary from its profits prior to the reorganisation of the Group in 2002.

The balances with the subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

NOTES TO FINANCIAL STATEMENTS

31 March 2006

15. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/registered capital	Percentage of equity interest attributable to the Company 2006	2005	Principal activities
Long Far Pharmaceutical (BVI) Limited ("Long Far Pharmaceutical")	British Virgin Islands/ Hong Kong	US$200	100	100	Investment holding
Long Far Herbal Medicine Manufacturing (Hong Kong) Limited ("LFHK")	Hong Kong	Ordinary shares HK$10 and deferred shares* HK$100,000	100	100	Trading of pharmaceutical products
Hong Kong Health Journal Limited	Hong Kong	HK$100,000	100	100	Publishing of health journals
International Health Association (HK) Limited	Hong Kong	HK$100,000	100	100	Operating a healthcare association and the provision of healthcare consultancy services
Winlead Investment Limited	British Virgin Islands/ Hong Kong	US$1	100	100	Investment holding
Long Far Health Products Limited	Hong Kong	HK$2	100	100	Trading of health products
雲南龍發製藥有限公司 (Yunnan Long Far Pharmaceutical Company Limited)** ("Yunnan Long Far")	PRC	RMB25,700,000	100	100	Manufacture and distribution of pharmaceutical products
Long Far Investment (Hong Kong) Limited	Hong Kong	HK$1	100	100	Property holding
Long Far Pharmaceutical (Macau) Limited	Macau	MOP$25,000	100	–	Dormant

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

** *Registered as a wholly foreign-owned enterprise under the PRC laws.*

Except for Long Far Pharmaceutical, all the above subsidiaries are indirectly held by the Company.

16. INVENTORIES

	Group	
	2006	2005
	HK$'000	HK$'000
Trading goods	2,896	1,572
Finished goods	6,381	2,975
Work in progress	1,590	1,325
Raw materials	1,869	1,865
Packaging materials	1,620	1,017
	14,356	8,754

17. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period generally ranges from 30 days to 180 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. Trade and bills receivables are non-interest-bearing.

An aged analysis of the trade and bills receivables as at the balance sheet date, based on payment due date, is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Current	6,511	7,019
1 to 3 months overdue	5,337	9,114
More than 3 months overdue but less than 12 months overdue	4,730	2,226
Over 12 months overdue	1,679	451
	18,257	18,810

18. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS/ SHORT TERM INVESTMENT

	Group	
	2006	2005
	HK$'000	HK$'000
Listed equity investment in Hong Kong, at market value	520	999

The above equity investment at 31 March 2006 was classified as held for trading.

NOTES TO FINANCIAL STATEMENTS

31 March 2006

19. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
Cash and bank balances	13,412	16,765	230	205
Time deposits	5,411	13,440	–	8,248
	18,823	30,205	230	8,453
Less: Pledged time deposits	(4,546)	(4,412)	–	–
Cash and cash equivalents	14,277	25,793	230	8,453

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$1,749,000 (2005: HK$889,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at bank earns interest at floating rates based on daily bank deposits rates.

20. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet date, based on payment due date, is as follows:

	Group	
	2006 HK$'000	2005 HK$'000
Current	993	1,331
1 to 3 months overdue	3,172	1,543
More than 3 months overdue but less than 12 months overdue	574	489
Over 12 months overdue	98	–
	4,837	3,363

The trade payables are non-interest-bearing.

NOTES TO FINANCIAL STATEMENTS

31 March 2006

21. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	Group 2006 HK$'000	Group 2005 HK$'000
Current				
Bank loans – secured	5.3 – 5.6	2007	6,626	–
Finance lease payables *(note 22)*	2.5 – 3.5	2007	343	225
			6,969	225
Non-current				
Bank loans – secured	5.3	2015	18,517	–
Finance lease payables *(note 22)*	2.5 – 3.5	2007 – 2008	227	273
			18,744	273
			25,713	498

	2006 HK$'000	2005 HK$'000
Analysed into:		
Bank loans repayable:		
Within one year	6,626	–
In the second year	1,889	–
In the third to fifth years, inclusive	6,298	–
Beyond five years	10,330	–
	25,143	–
Other borrowings repayable:		
Within one year	343	225
In the second year	156	234
In the third to fifth years, inclusive	71	39
	570	498
	25,713	498

Notes:

(a) The Group's bank loans were secured by mortgages over the Group's land and buildings with an aggregate carrying amount of approximately HK$43,917,000 as at 31 March 2006.

(b) Certain of the Group's bank loans with a carrying amount of HK$20,309,000 as at 31 March 2006 was guaranteed by the Company.

(c) The Group's borrowings with carrying amount of HK$4,834,000 (2005: Nil) are denominated in RMB.

NOTES TO FINANCIAL STATEMENTS

31 March 2006

21. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

Other interest rate information:

	Group			
	2006		2005	
	Fixed rate HK$'000	Floating rate HK$'000	Fixed rate HK$'000	Floating rate HK$'000
Bank loans – secured	4,834	20,309	–	–
Finance lease payables	570	–	498	–

22. FINANCE LEASE PAYABLES

The Group leases its motor vehicles for its business. The leases are classified as finance leases and have remaining lease terms of three years.

At the balance sheet date, the total future minimum lease payments under finance leases and their present values were as follows:

Group

	Minimum lease payments 2006 HK$'000	Minimum lease payments 2005 HK$'000	Present value of minimum lease payments 2006 HK$'000	Present value of minimum lease payments 2005 HK$'000
Amounts payable:				
Within one year	369	244	343	225
In the second year	166	244	156	234
In the third to fifth years, inclusive	73	41	71	39
Total minimum finance lease payments	608	529	570	498
Future finance charges	(38)	(31)		
Total net finance lease payables	570	498		
Portion classified as current liabilities	(343)	(225)		
Long term portion	227	273		

23. DUE TO A DIRECTOR

The balance due to a director is unsecured, interest-free and has no fixed terms of repayment.

24. DEFERRED TAX

The movement in deferred tax liabilities and assets during the year is as follows:

Deferred tax liabilities

Group	2006 Accelerated tax depreciation HK$'000
Gross deferred tax liabilities at 1 April 2005 and 31 March 2006	170

Deferred tax assets

Group	2006 Fair value adjustments arising from the acquisition of a subsidiary HK$'000
Gross deferred tax assets at 1 April 2005 and 31 March 2006	240
Net deferred tax assets at 31 March 2006	70

Deferred tax liabilities

Group	2005 Accelerated tax depreciation HK$'000
Gross deferred tax liabilities at 1 April 2004 and 31 March 2005	170

NOTES TO FINANCIAL STATEMENTS

31 March 2006

24. DEFERRED TAX *(Continued)*

Deferred tax assets

Group	2005 Fair value adjustments arising from the acquisition of a subsidiary HK$'000
Gross deferred tax assets at 1 April 2004 and 31 March 2005	240
Net deferred tax assets at 31 March 2005	70

The Group has unrecognised tax losses arising in Hong Kong of HK$8,819,000 (2005: HK$439,000) and in Mainland China of HK$2,977,000 (2005: Nil) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

25. SHARE CAPITAL

Shares

	2006 HK$'000	2005 HK$'000
Authorised:		
5,000,000,000 ordinary shares of HK$0.05 each	**250,000**	250,000
Issued and fully paid:		
600,000,000 ordinary shares of HK$0.05 each	**30,000**	30,000

Share options

Details of the Company's share option scheme and the share options granted under the scheme are included in note 26 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 March 2006

26. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group and the holders of securities of the Group. The Scheme became effective on 5 September 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares which may be issued upon exercise of all options granted and to be granted under the scheme is 60,000,000 shares, representing 10% of the shares of the Company in issue as at the date of listing of the Company and as at the date of this annual report, unless approval for refreshing the 10% limit from the Company's shareholders has been obtained. The maximum number of shares issuable under share options to each eligible participant in the Scheme (including both exercised and outstanding options) within any 12-month period is limited to 1% of the shares of the Company in issue. Any grant or further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. 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, which would result in the shares issued, to be issued upon exercise of all options already granted and to be granted to such person in the 12-month period up to and including the date of the grant in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5 million, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer upon payment of a nominal consideration of HK$10 in total by the grantee. The exercise period of the share options granted is determined by the directors, save that such a period shall not be more than 10 years from the date of the offer of the share options subject to the provisions for early termination as set out in the Scheme. Unless otherwise determined by the directors at their 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 exercise price of the share options shall be the highest of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of a share of the Company on the date of offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

As at the date of this report, the total number of shares available for issue under the Scheme is 54,500,000 shares, representing 9.08% of the total issued share capital of the Company on that date.

NOTES TO FINANCIAL STATEMENTS

31 March 2006

26. SHARE OPTION SCHEME *(Continued)*

The following share options were outstanding under the Scheme during the year:

	Number of share options							
Name of option holder	At 1 April 2005	Granted during the year	Exercised during the year	Lapsed/ cancelled during the year	At 31 March 2006	Date of grant of share options	Exercise period of share options	Exercise price of share options
Mr. Jiao Shaoliang, Executive Director	1,100,000	–	–	–	1,100,000	9.9.2002	See note below	HK$0.375 per share
Mr. Lan Daoying, Executive Director	1,200,000	–	–	–	1,200,000	9.9.2002	See note below	HK$0.375 per share
Continuous contract employees in aggregate	3,200,000	–	–	–	3,200,000	9.9.2002	See note below	HK$0.375 per share
Total	5,500,000	–	–	–	5,500,000			

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

At the balance sheet date, the Company had 5,500,000 share options outstanding under the Scheme. The exercise in full of the remaining share options, would under the present capital structure of the Company, result in the issue of 5,500,000 additional ordinary shares of the Company and additional share capital of HK$275,000 and share premium of HK$1,787,500 (before issue expenses).

NOTES TO FINANCIAL STATEMENTS

31 March 2006

27. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 29 of the financial statements.

The Group's contributed surplus represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation in 2002, over the nominal value of the Company's shares issued in exchange therefor.

(b) Company

	Note	Share premium account HK$'000	Contributed surplus HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
Balance at 1 April 2004		8,720	46,999	89	55,808
Profit for the year	*10*	–	–	21	21
At 31 March 2005 and at 1 April 2005		8,720	46,999	110	55,829
Loss for the year	*10*	–	–	(4,785)	(4,785)
At 31 March 2006		8,720	46,999	(4,675)	51,044

The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group reorganisation in 2002, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Law of the Cayman Islands, a company may make distributions to its members out of its contributed surplus in certain circumstances.

28. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transaction

During the year, the Group entered into a finance lease arrangement in respect of property, plant and equipment with a capital value at the inception of the lease of HK$339,000 (2005: Nil).

NOTES TO FINANCIAL STATEMENTS

31 March 2006

29. CONTINGENT LIABILITIES

(a) As at 31 March 2006, the Group had 8,578 (2005: 41,406) outstanding coupons issued to the members of the International Health Association (established by a subsidiary of the Company), which entitle the coupon holders to purchase products of the Group from certain retailing outlets in Hong Kong at a discounted price for a period up to 30 June 2006. These retailing outlets would be entitled to recoup from the Group the amount of discounts given to the coupon holders upon the presentation of the coupons received. As at 31 March 2006, the maximum value of these outstanding coupons, subject to recoup by these retailing outlets, amounted to approximately HK$429,000 (2005: HK$1,833,000).

(b) The Group had a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK$321,000 (2005: HK$240,000) as at 31 March 2006, as further explained under the heading "Employee benefits" in note 2.5 to the financial statements. The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

(c) On 13 January 2004, LFHK, a wholly-owned subsidiary of the Company, filed its objections to the Trade Marks Registry of the Intellectual Property Department in Hong Kong to oppose certain trademarks applications by a merchant (the "Applicant"). LFHK filed its evidence and the statement of grounds of oppositions on 15 January 2005 and 24 January 2005, respectively. The Applicant filed a counter-statement and an amended counter-statement on 13 April 2004 and 12 February 2005, respectively. The Applicant filed its evidence on 15 September 2005. However, the Applicant failed to supply legible copies of the exhibits of the evidence to the Company for inspection. LFHK is currently applying to the Registrar of the Trade Marks Registry to strike out the Applicant's application. If the striking out application is not permitted, it is likely that a trial would be held at the Trade Marks Registry to determine whether LFHK's objections are valid, and estimated further costs of approximately HK$300,000 would be incurred by the Group. If LFHK loses the action, LFHK may have to pay also the Applicant's costs estimated to be approximately HK$500,000. As at 31 March 2006, the Group has not made any provision for such further legal costs subject to the occurrence of the trial.

(d) At the balance sheet date, the Company provided a guarantee given to a bank in connection with the banking facilities granted to its subsidiary utilised to the extent of HK$20,309,000 (2005: Nil).

NOTES TO FINANCIAL STATEMENTS

31 March 2006

30. OPERATING LEASE ARRANGEMENTS

(a) As lessor

In prior year, the Group leased its retail shops under operating lease arrangements, with leases negotiated for a term of two years. The terms of the leases also required the tenants to pay security deposits. The retail shops were disposed of during the year.

At the balance sheet date, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2006 HK$'000	2005 HK$'000
Within one year	–	610
In the second to fifth years, inclusive	–	209
	–	819

(b) As lessee

The Group leased its office and warehouse properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to two years, with an option to renew the lease when the terms are renegotiated.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2006 HK$'000	2005 HK$'000
Within one year	87	2,099
In the second to fifth years, inclusive	–	87
	87	2,186

NOTES TO FINANCIAL STATEMENTS

31 March 2006

31. COMMITMENTS

In addition to the operating lease commitments detailed in note 30(b) above, the Group had the following contracted capital commitments:

	2006 HK$'000	2005 HK$'000
Acquisition of items of property, plant and equipment	358	28,242

32. RELATED PARTY TRANSACTIONS

(a) During the current and prior years, the Group outsourced the manufacturing of certain goods to 雲南盤龍雲海藥業有限公司 (Yunnan Panlong Yunhai Pharmaceutical Company Limited) ("YPYP"). YPYP is a company in which a director of the Company, Mr. Chiu Ka Leung, holds a 51% interest.

	2006 HK$'000	2005 HK$'000
Goods outsourced to YPYP for manufacturing	7,819	12,714

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.

The balance due to YPYP at the balance sheet date amounting to HK$864,000 (2005: HK$910,000) is included in trade payables as at 31 March 2006.

(b) During the prior year, the Group made advances of approximately HK$353,000 and HK$185,000 to Mr. Jiao Shaoliang and Mr. Chiu Ka Leung, respectively, directors of the Company. The advances were unsecured, interest-free and had no fixed terms of repayment. The maximum outstanding amounts due from Mr. Jiao Shaoliang and Mr. Chiu Ka Leung during the prior year were approximately HK$353,000 and HK$185,000, respectively. The amounts had been fully repaid before 30 September 2004.

(c) Compensation of key management personnel of the Group:

	2006 HK$'000	2005 HK$'000
Short term employee benefits	4,941	4,998
Post-employment benefits	72	72
Total compensation paid to key management personnel	5,013	5,070

Further details of directors' emoluments are included in note 7 to the financial statements.

The related party transactions in respect of item (a) above also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

At the balance sheet date, the Group's principal financial instruments comprise cash and cash equivalents, trade and bills receivables, financial asset at fair value through profit or loss, trade payables, other receivables and payables and bank and other borrowings.

The Group does not have written risk management policies and guidelines. However, management meets periodically to analyse and formulate measures to manage the Group's exposure to financial risks, including principally interest rate risk and credit risk. Generally, the Group employs a conservative strategy regarding its risk management.

(i) Interest rate risk

The interest rates and the terms of repayment of the Group's bank and other loans are disclosed in note 21 above. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate.

(ii) Foreign currency risk

The Group has no significant exposure to foreign currency risk.

(iii) Credit risk

The carrying amount of trade and bills receivables included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to the Group's trade and bills receivables. The Group has a significant concentration of credit risk in relation to trade and bills receivables as the trade and bills receivables due from the five largest customers accounted for 74% of the Group's trade and bills receivables at the balance sheet date.

The Group performs ongoing credit evaluations of its customers' financial conditions and requires no collateral from its customers. The allowance for doubtful debts is based upon a review of the expected collectibility of all trade and bills receivables.

The credit risk of the Group's other financial assets arises from default of the counterparty, with a maximum exposure being equal to the carrying amount of these instruments. There is no significant concentration of credit risk within the Group in relation to these other financial assets.

NOTES TO FINANCIAL STATEMENTS

31 March 2006

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(iv) Fair values

Other than the financial asset at fair value through profit or loss which has been measured at fair value, the financial assets and liabilities which are not carried at fair value in the consolidated balance sheet are presented below:

(a) Bank balances, trade and bills receivables, trade payables, other receivables and payables

The carrying amounts of these balances approximate to their fair values because of the immediate or short term maturity of these financial instruments.

(b) Bank and other borrowings

The carrying amounts of bank and other borrowings approximate to their fair values, based on the borrowing rates currently available for bank and other borrowings with similar terms and average maturity.

(v) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans. In addition, banking facilities have been put in place for contingency purposes.

34. COMPARATIVE AMOUNTS

As further explained in notes 2.2 and 2.4 to the financial statements, due to the adoption of new HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year and opening balance adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 4 July 2006.