



朗力福®

Longlife Group Holdings Limited

朗力福集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)



2 0 0 4

Annual Report

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report for which the directors (the “Directors”) of Longlife Group Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquires, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

CONTENTS

| | <i>Pages</i> |
|---|--------------|
| Corporate Information | 2 |
| Group Structure | 3 |
| Chairman's Statement | 5 |
| Management Discussion and Analysis | 7 |
| Management Profile | 12 |
| Directors' Report | 14 |
| Auditors' Report | 18 |
| Audited Financial Statements | |
| Consolidated Income Statement | 19 |
| Consolidated Balance Sheet | 20 |
| Balance Sheet | 21 |
| Consolidated Statement of Changes in Equity | 22 |
| Consolidated Cash Flow Statement | 24 |
| Notes to the Financial Statements | 26 |
| Financial Summary | 43 |
| Statement of Business Objectives | 44 |

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Yang Hong Gen (*Chairman*)
 Mr. Liu Zhuoru (*Vice Chairman*)
 Mr. Zhang San Lin
 Mr. Yang Shun Feng
 Mr. Yao Feng
 Mr. Sha Hai Bo
 Mr. Cheung Kin Hung, Frankie

INDEPENDENT NON-EXECUTIVE DIRECTORS AND AUDIT COMMITTEE

Mr. Yin Jing Le
 Mr. Yu Jie
 Mr. Luk Yu King, James

COMPLIANCE OFFICER

Mr. Yao Feng

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Ms. Cheung Woon Yiu

HONG KONG LEGAL ADVISERS

Chiu & Partners

AUDITORS

Deloitte Touche Tohmatsu

REGISTERED OFFICE

Century Yard
 Cricket Square
 Hutchins Drive
 P.O. Box 2681GT
 George Town
 Grand Cayman
 British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 604
 CC Wu Building
 302-308 Hennessy Road
 Wanchai
 Hong Kong

PRINCIPAL BANKERS

The Agricultural Bank of China
 China Construction Bank
 Bank of China
 CITIC Industrial Bank
 CITIC Ka Wah Bank Limited
 Bank of East Asia

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

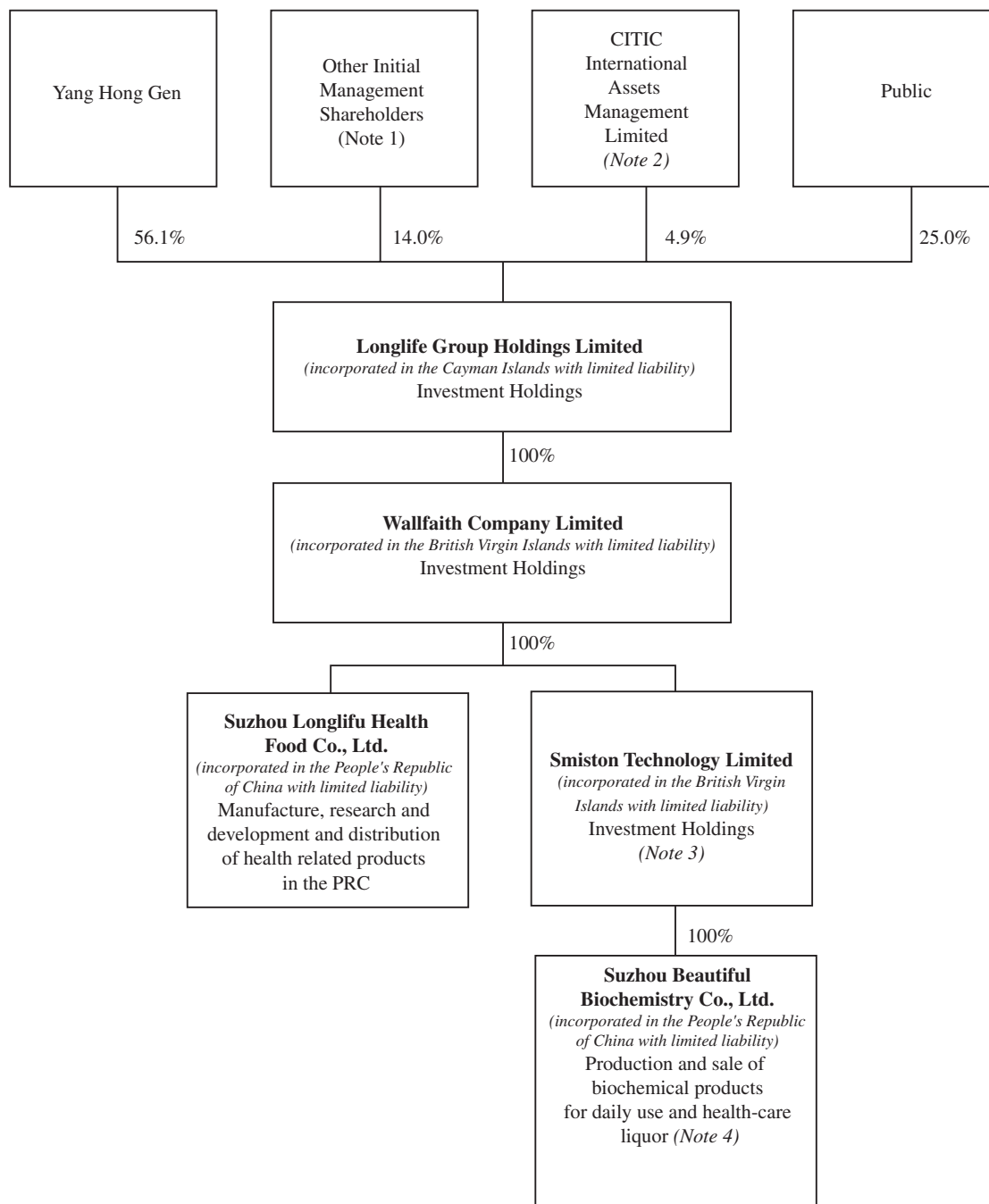
Bank of Butterfield International (Cayman Island) Ltd.
 Butterfield House
 68 Fort Street
 P.O. Box 705
 George Town
 Grand Cayman
 Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
 Ground Floor
 Bank of East Asia Harbour View Centre
 56 Gloucester Road
 Wanchai
 Hong Kong

GROUP STRUCTURE

As at 30th September, 2004, the corporate structure and main activities of the principal members of the Group are shown below:



GROUP STRUCTURE

Notes:

- Details of the shareholdings of the Other Initial Management Shareholders (collectively, Messrs. Zhang San Lin, Zhou Sheng Yuan, Yang Shun Feng, Li Jin Sen, Yao Feng and Bao Jian Gen) upon completion of the placing, the capitalisation issue and the issue of the conversion shares are as follows:

| Name | Number of shares held | Shareholding |
|-----------------------|-----------------------|--------------|
| Zhang San Lin (張三林) | 25,000,000 | 5% |
| Yang Shun Feng (楊順峰) | 10,000,000 | 2% |
| Zhou Sheng Yuan (周生元) | 10,000,000 | 2% |
| Li Jin Sen (李錦森) | 10,000,000 | 2% |
| Yao Feng (姚鋒) | 10,000,000 | 2% |
| Bao Jian Gen (包建根) | 5,000,000 | 1% |

- CITIC International Assets Management Limited and its shareholders are independent of and not connected with any directors, chief executive, initial management shareholders, or substantial shareholders of the Company, its subsidiaries or any of their respective associates.

CHAIRMAN'S STATEMENT

SUCCESSFUL LISTING IN THE GEM

On 17th June this year, the Group was successfully listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited. It well marked a milestone for recognition of the Group's success in the consumer products market in the People's Republic of China ("PRC").

This strategic move benefited the Group in a number of ways. To the consumers in the PRC, especially East China region including Shanghai, Jiangsu and Zhejiang areas where we are strong in, it provides a strong indication of the Group's well-recognised quality assurance to strengthen our customer loyalty. The enhanced trade name will be a very useful tool to further develop our markets in other regions in the PRC. The public offering also strengthened the asset base of the Group and provides fund flow to develop our sales and marketing network. In addition, with the listing of the Group, it provides a window for the Group to raise fund for future expansion to capture the fast moving market opportunities.

EXPANDING OUR SALES AND MARKETING NETWORK

We are dedicated to capture the opportunities of fast growing demand for high quality and more sophisticated daily care and consumer products brought by the increasing health and personal care awareness of the PRC consumers. We will make aggressive, yet very careful moves to implement our expansion program for our sales network.

During the year, we have established a number of new sales branches and representative offices in a wide spread of cities and regions. We believe this will allow us to reach much greater population of consumers and market our products more efficient and effectively.

STRENGTHENING OF INTERNAL CONTROLS AND CORPORATE GOVERNANCE

We have launched our ERP management system to closely monitor our inventory controls over all the sales branches and representative offices. It also allows us to gather information on customer/consumer preferences in different locations for effective and efficient resources and inventory allocations. The system was proven successful to effectively utilised the Group's resources and become more transparent on each customer's retail outlets performance and their recent slowdown or speedup of in take of our products. It provides a useful tool for the management to capture market opportunities swiftly on one hand and noticed any potential danger of credit risk on the other.

We have established our own internal control team to cross check on each individual sales branch/representative office on rotation basis to ensure proper execution of corporate control measures and efficient use of resources.

LAUNCHING OF NEW PRODUCTS

As indicated in our prospectus dated 1st June, 2004, we will continue to research and develop new products which upholds our believe of health awareness and suits the market demand and tastes. In August this year, we have launched the protein powder, which have received wide acceptance by consumers, especially in the East China region.

NEW BUSINESS OPPORTUNITIES

While focusing to develop our core business, we are actively looking for new business opportunities for co-operation and joint-venture with strong sales network in areas which we are presently have less comprehensive coverage.

In addition to the traditional distribution channels through retail outlets such as supermarkets and stores, we have established pilot team to explore other means of distribution channels such as direct selling and our own brand name shops.

In addition, we will open for opportunity which allows vertically integration and generate positive synergy on costs saving and better quality controls.

CHAIRMAN'S STATEMENT

CONSIDER THE POSSIBILITY OF CHANGING TO MAIN BOARD

With the announcement of the final results this year, the Group's profitability recorded in the financial years ended 30 September 2002, 2003 and 2004, prima facie, have met the minimum requirement for listing in the Main Board of The Stock Exchange of Hong Kong Limited. We have engaged professional parties such as sponsors and lawyers to investigate and to advise the board the possibility and costs and benefits of changing from GEM to the Main Board. We believe this move will benefit the Group in the future with improved corporate profile and investors coverage with Main Board listing status.

PROMISING PROSPECTS

2004 has been a tremendous year for us. We strives to maintain our profitability, while at the same time, taking the opportunity of the current market development to build an extensive distribution network. With the increase in the number of distribution and sales channels, we are ready for a strong growth in the near future. We have a solid history and strong base in the East China markets. We will keep improving the quality of our products and service and introducing wider range of products to our customers.

We look to the future with great optimism. We have a team of management with strong experience and expertise. With our dedication to quality assurance, corporate growth and heighten scrutiny in management efficiency, the Group is ready on the move to realize our ambitions.

With all the accomplishments I mentioned above, I specially pay a tribute to all my fellow colleagues, customers and business partners for their consistent and perpetual support.

Mr. Yang Hong Gen

Chairman

Hong Kong

23rd December, 2004

MANAGEMENT DISCUSSION AND ANALYSIS

(A) BUSINESS REVIEW

Turnover

Turnover represents the net amounts received and receivable from sales of consumer products less sales tax and discounts, if any.

Increase in total turnover by approximately HK\$11.2 million (representing 6% of the 2003 total turnover) is mainly attributable to expansion of sales networks and sales teams from approximately 1,700 to approximately 2,000 marketing staff during the financial year ended 30th September, 2003 and 2004 respectively. In addition, launching of 12 new products during the year also contributed to the growth in total sales. The turnover of the 12 new products for the year ended 30th September, 2004 was approximately HK\$6.7 million, representing 3.4% of the total turnover of the year.

Gross profit

Cost of sales mainly represents direct materials, electricity, labour cost and depreciation, which are directly related to the Group's production. Major direct materials included tortoise, snakes and other agricultural products and packing materials such as tubs, bottles and boxes.

Gross profit had been increased by HK\$34.0 million for the financial year ended 30th September, 2004, representing an increase of 34.8% as compared to previous financial year. Increase in gross profit is mainly attributable to increase in total turnover by 6%. Furthermore, the increase in the gross profit margin of the Group was due to the adjustment of product mix with higher sales contributions from relatively higher margin products such as bath and shower products, hair care products and skin care products.

The growth in gross profit has outpaced the growth in turnover representing an improvement of gross profit margin from 52.3% to 66.5% for the financial years ended 30th September, 2004. The growth in gross profit margin is mainly attributable to lower raw materials costs in this year and better controls on production wastage. Also, the Group achieved higher selling price of certain products which resulted in an improvement of the gross profit margins.

Selling and distribution expenses

Selling and distribution expenses mainly comprise advertising expenses, sales promotion fee and sales services fee, sales staff salaries and welfare expenses and delivery expenses. Selling and distribution expenses has grown significantly from approximately HK\$50.2 million to approximately HK\$77.9 million for the financial year ended 30th September, 2003 and 2004 respectively representing a growth by 55%.

The increase was mainly due to the expansion of sales networks and growth of sales teams from approximately 1,700 members to approximately 2,000 members and the introduction of new products and as well as its "Longlife" brand name as a whole through advertising in television.

Increase in advertising expenses, sales promotion fee and sales services fee was mainly due to an increase in advertising activities and launching of new products during the financial year ended 30th September, 2004. Increase in advertising expenses from approximately HK\$5.4 million for the previous financial year to approximately HK\$16.6 million was mainly due to the promotion of the corporate and brand images and increase in the number of new products. Increase in staff salaries and welfare expenses is mainly due to expansion of the sales teams from approximately 1,700 to approximately 2,000 sales staff with the increase in sales and expansion of sales networks to cover wider geographical areas.

The selling and distribution expenses/turnover ratio increased from 26.8% to 39.4% during the financial year ended 30th September, 2003 and 2004 respectively. The increase in the aforementioned ratio was mainly due to the expansion of sales networks and increasing in television advertising.

MANAGEMENT DISCUSSION AND ANALYSIS

(A) BUSINESS REVIEW *(continued)*

Administrative expenses

Administrative expenses mainly represent management and staff salaries and welfare expenses, office administrative overheads and travelling expenses. Administrative expenses grew from approximately HK\$7.6 million to approximately HK\$11.5 million for the financial year ended 30th September, 2003 and 2004 respectively representing an increase by 51.3%. Increases in administrative expenses are mainly due to expansion of the management and finance and administrative teams to cater for the management of an expanded sales network and sales team and better management control of its production process and additional costs to set up, maintain and monitor the new on-line customer resources management system.

Net profit

Net profit had increased from approximately HK\$33.8 million to approximately HK\$35.3 million for the financial year ended 30th September, 2003 and 2004 respectively representing an increase by 4%. The growth in net profit is attributable to the growth in revenue resulted from successful promotional activities and expansion in marketing networks and sales teams on one hand and effective control of costs of sales on the other.

(B) OUTLOOK AND NEW DEVELOPMENT

With the surge of the economy in the PRC in recent years, more business opportunities are expected to be available for the Group. To sustain the growth momentum, the Group will continue to strengthen the marketing and distribution networks. The Group is working for a more extensive coverage for its products so as to boost the sales. With the strong research and development back up, the Group is well equipped to develop a greater variety of new quality products to cater to the demand of the expanding PRC consumer market and the development of overseas market.

Continuing our effort to expand our sales and marketing network

We will continue to make aggressive, yet very mindful steps of expansion for our sales networks. We believe, this will allows us to reach much greater population of consumers and market our products more efficient and effectively. On top of the traditional retail channels, we have set up pilot team to explore the possibility of direct marketing as well as setting up of our own branded outlets.

Invest in advertising and promotion activities

In line with our believe of well-blended combination of media advertisement, direct market sales promotions by cash sales booth, as well as soft advertising through health awareness education and industry expert opinions, we will continue to implement this proven cost efficient and effective model to promote our products in the market.

Introduction to Hong Kong and South East Asia markets

As our first step to build an internationally recognised brand of quality consumer products, we have planned to introduce a selective number of products to the Hong Kong and South East Asia markets.

MANAGEMENT DISCUSSION AND ANALYSIS

(C) FINANCIAL REVIEW

Inventories and stock turnover period

Balance of inventories of approximately HK\$74.8 million as at 30th September, 2004 representing an increase of 20% as compared to the inventory balance of approximately HK\$62.3 million as at 30th September, 2003. The stock/turnover period was 138 days as at 30th September, 2004, which represented a slight increase from that as at 30th September, 2003 of 122 days. The average turn around time from purchase of raw materials, production, delivery and sales is about three months. However, certain health related raw materials such as snakes and tortoise are purchased according to seasonal supply. In addition, as the Group has a large number of sales points and sales outlets, which covers a large geographic area, we need to maintain a certain level of stock at all time to ensure smooth delivery and sales. The increase in stock turnover period is mainly attributable to the increase in number of new products which resulted at higher raw materials, work in progress and finished goods as at 30th September, 2004 as a whole.

Major customers and suppliers

For the year ended 30th September, 2004,

- (i) The Group's largest customer and five largest customers accounted for 15% and 39%, respectively, of the Group's total turnover; and
- (ii) The percentage of the Group's five largest suppliers is less than 30%.

According to the understanding of the directors, none of the directors, their associates (within the meaning of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") or any shareholders who owned more than 5% of the Company's share capital had any interest in the Group's five largest customers.

Liquidity and financial resources

The Group executes prudent policy in its financial resources management. The Group had total cash and bank balances of approximately HK\$16.8 million and approximately HK\$34.9 million as at 30th September, 2003 and 2004, respectively.

Except for the use of listing proceeds mentioned above, the Group generally finance its operations with internally generated cash flows and banking facilities. The financial positions of the Group was healthy. As at 30th September, 2004, the Group has secured short term bank borrowings of approximately HK\$9.4 million which are repayable within one year. As at 30th September, 2003, the Group had secured short term bank borrowings amounted to approximately HK\$22.2 million; and exchangeable bonds with an aggregate principal value of approximately HK\$10.0 million. The Group's bank borrowings are secured by property, plant and equipment having net book value of approximately HK\$14.4 million as at 30th September, 2004 (2003: HK\$27.1 million). During the year, exchangeable bonds of approximately HK\$8.5 million were converted into capital of the Company pursuant to the terms and conditions of such bond and the remaining HK\$1.5 million were fully repaid. The interest rates are usually at fixed rates.

The gearing ratio (defined as total borrowings including bank loans, exchangeable bonds, amounts due to directors and amount due to a related party to total assets) as at 30th September, 2003 and 2004 is 30.6% and 5.0% respectively. The decrease in gearing ratio is mainly due to the increase in total assets as a result of the initial public offering, and the decrease in the amounts due to a related party and directors.

Currency structure

The Group had limited exposure to foreign exchange rate fluctuation as most of its transactions, including borrowings, were mainly conducted in Renminbi and the exchange rates of these currencies were relatively stable throughout the year.

Contingent liabilities

The Group had no material contingent liabilities as at 30th September, 2004 and 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

(C) FINANCIAL REVIEW *(continued)*

Capital commitments

The Group had a capital expenditure in respect of the acquisition of land use right contracted for but not provided in the financial statements of approximately HK\$3,175,000 as at 30th September, 2004. The Group has no material capital commitments as at 30th September, 2003.

Related party transactions

Except for the amounts due to related parties, the Group has the following material related party transactions during the years:

As at 30th September, 2003, 吳縣市渭塘鎮集體資產經營公司 acted as the guarantor for bank loans of approximately HK\$11,321,000 granted to the Group. No such guarantee was outstanding as at 30th September, 2004.

In addition, 蘇州天成投資有限公司 and Mr. Yang Hong Gen acted as guarantors for bank loans of HK\$7,358,000 and HK\$20,755,000, respectively, granted to the Group during the year. No such guarantees were outstanding as at 30th September, 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

(D) EMPLOYEES' REMUNERATION

As at 30th September, 2004, the Group had 2,540 (2003: 2,305) employees from its various offices located in the PRC. Total staff costs for the year ended 30th September, 2004 was approximately HK\$24.7 million.

The Group remunerates its employees based on their performance, work experience and the prevailing market price. Performance related bonuses are granted on a discretionary basis. Other employee benefits include mandatory provident fund, insurance and medical coverage, training and a share option scheme (the "Scheme") conditionally adopted by the Company on 26th May, 2004.

The Company operates the Scheme, for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The Scheme, with its broadened basis of participation will enable the Group to reward the employees, the directors and other selected participants for their contribution to the Group. Given that the Directors are entitled to determine any performance targets to be achieved as well as the minimum period that an option must be held before an option can be exercised on a case by cash basis, and that the exercise price of an option cannot in any event fall below the price stipulated in the Rules Governing the Listing of Securities on GEM or such higher price as may be fixed by the Directors, it is expected that grantees of an option will make an effort to contribute to the development of the Group so as to bring about an increased market price of the Company's shares in order to capitalise on the benefits of the options granted.

No share option was granted under the Scheme.

The employees of the subsidiaries of the Company in the PRC are members of a state-managed retirement benefits scheme operated by the PRC government.

The relevant subsidiaries is required to make contributions to the defined contribution pension scheme in the PRC based on certain percentage of the monthly salaries of their current employees to fund the benefits. The employees are entitled to retirement pension calculated with reference to their basic salaries on retirement and their length of service in accordance with the relevant government regulations. The PRC government is responsible for the pension liability to these retired staff. The pension scheme contributions made by the Group was approximately HK\$217,000 (2003: HK\$34,500) for the year.

In addition, pursuant to regulations stipulated by the PRC government, the PRC subsidiaries started a defined contribution health care scheme with effective from 1st July, 2002. The employees currently under the defined contribution pension scheme are entitled to the health care scheme. Under this scheme, the PRC subsidiary and the relevant employees have to contribute 9% and 2% of the employees' salaries to the scheme respectively. The health care scheme contributions made by the PRC subsidiary was approximately HK\$58,000 (2003: HK\$61,500) for the year.

Mr. Yang Hong Gen

Chairman

Hong Kong

23rd December, 2004

MANAGEMENT PROFILE

BIOGRAPHICAL DETAILS OF DIRECTORS

Executive Directors

Mr. Yang Hong Gen (楊洪根), aged 53, is an executive director, the chairman and the founder of the Company. Mr. Yang is the father of Mr. Yang Shun Feng, a brother-in-law of each of Mr. Zhang San Lin and Mr. Zhou Sheng Yuan and a uncle of Mr. Bao Jia Gen. Mr. Yang has engaged in business relating to snake for over 23 years. He managed Shenzhen Wild Animals Company (深圳野生動物商行) from 1983 to 1994, whose principal business was engaged in the trading of wild animals. During the period from 1984 to 1996, Mr. Yang was responsible for the business management and development. Since the establishment of Longlifu, he has been responsible for the development of overall corporate policy and strategy as well as overseeing the Group's operation and management. Mr. Yang has more than 20 years of experience in the fields of management. Mr. Yang has discloseable interests in the Company under the provisions of the Securities and Futures Ordinance.

Mr. Liu Zhouru (劉卓如), aged 56, is an executive director and the vice-chairman of the Company. Mr. Liu obtained a Bachelor's degree of Medicine from Medical School of Soochow University (中國蘇州大學醫學院), a Master's degree of Immunology from Chinese Academy of Medical Sciences in Beijing (中國醫學科學院中國協和醫科大學) and a doctorate degree from Columbia University in the City of New York, United States. Mr. Liu had held the position of assistant professor in the field of surgery at the Columbia University in United States. He joined the Group in April, 2002. He is responsible for research and development of the new product and providing technological advice to the Group.

Mr. Zhang San Lin (張三林), aged 41, is an executive director of the Company and a brother-in-law of each of Mr. Yang and Mr. Zhou Sheng Yuan and an uncle of Mr. Yang Shun Feng and Mr. Bao Jian Gen. Mr. Zhang worked in Shenzhen Wild Animals Company (深圳野生動物商行) with Mr. Yang during the period from 1984 to 1994. He was responsible for the sales and marketing during the period from 1984 to 1994. During 1994 to 1996, he worked in a health food trading company. Mr. Zhang joined the Group in April, 1996. He is responsible for the corporate development, business management and general administration. He has more than 10 years of experience in management. Mr. Zhang has discloseable interests in the Company under the provisions of the Securities and Futures Ordinance.

Mr. Yang Shun Feng (楊順峰), aged 29, is an executive director of the Company and a sales manager of the Group. Mr. Yang is the son of Mr. Yang Hong Gen and a family relative of Mr. Zhang San Lin, Mr. Zhou Sheng Yuan and Mr. Bao Jian Gen. Mr. Yang joined the Group in March, 1998. He is responsible for the sales and marketing strategy and general administration of the sales department in Shanghai. He graduated from University of Shanghai in 1997 in secretarial and administration studies. Mr. Yang Shun Feng is the son of Mr. Yang Hong Gen. Mr. Yang has discloseable interests in the Company under the provisions of the Securities and Futures Ordinance.

Mr. Yao Feng (姚鋒), aged 55, is an executive director and an compliance officer of the Company. He graduated from Jiangsu Radio and TV University (江蘇廣播電視大學) in 1986 with a Bachelor's degree of Industrial Statistics. He was awarded the Certificate of Accomplishment in Accounting and Finance Refreshment Course by Postgraduate College of the Chinese Academy of Social Science (中國社會科學院研究生院財會知識更新函授研修班研修證書) in 1991. Mr. Yao was the managing Director of Suzhou Industrial Park Zhongshan Consultancy Co., Ltd. (蘇州工業園區中山諮詢有限公司) during 1999 to 2002 principally responsible for providing corporate strategies and advisory service. He joined the Group in April, 2002. Mr. Yao is responsible for financial management, investment and corporate financing. Mr. Yao has discloseable interests in the Company under the provisions of the Securities and Futures Ordinance.

Mr. Sha Hai Bo (沙海波), aged 27, is an executive director of the Company and the manager of the Finance Department of the Group. Mr. Sha graduated from Nanjing Economics College (南京經濟學院) with a Bachelor's degree of Accounting. Prior to joining the Group, Mr. Sha was an accountant at Lianyungang Kuozui Accounting & Taxation Firm (連雲港國瑞稅務師事務所). He joined the Group in October, 2001. Mr. Sha is responsible for handling the accounting and finance matters of the Group.

Mr. Cheung Kin Hung, Frankie (張建雄), aged 46, is an executive Director of the Company. He joined the Group in May 2004. Mr. Cheung is responsible for the corporate development and image designing. Mr. Cheung was the employee of Citigroup during 1979 to 1986 principally engaging in providing financial solutions to corporate and individual. He was admitted as an associate member of The Chartered Institute of Marketing in 1989. Mr. Cheung established Trend Design Limited in 1995 to carry on the business of advertising and promotion. Mr. Cheung is a member of Hong Kong Institute of Marketing and Hong Kong Designers Association.

MANAGEMENT PROFILE

Independent Non-Executive Directors

Mr. Yin Jing Le (尹景樂), aged 62, is an independent non-executive director of the Company. Mr. Yin graduated from Beijing Commercial College (北京商學院) in 1962. Mr. Yin has been working in Soochow University for approximately 17 years. Mr. Yin was appointed as an independent non-executive Director on 26th May, 2004.

Mr. Yu Jie (俞杰), aged 62, is an independent non-executive director of the Company. He worked in China Jiangsu International Economic and Technology Cooperation Company (中國江蘇國際經濟技術合作公司). China Jiangsu International Economic and Technology Cooperation Company is a large State-owned enterprise which principally engages in international project construction, and import and export trading and international labor agency. From 2003, Mr. Yu was appointed as the Supervisory Board Chairman of Nanjing Iron and Steel Joint Company Limited (南京鋼鐵聯合有限公司). Mr. Yu was appointed as an independent non-executive Director on 26th May, 2004.

Mr. Luk Yu King, James (陸宇經), aged 49, is an independent non-executive director of the Company. He graduated from the University of Hong Kong with a Bachelor of Science degree. He is a fellow member of The Association of Chartered Certified Accountants in U.K. and an associated member of the Hong Kong Institute of Certified Public Accountants. Mr. Luk served as the executive director of Hong Kong listed companies of Seapower Resources International Limited during the period of 1989 to 1995 and South China Brokerage Company Limited during 1997 to 1998. Mr. Luk has over ten years of experience in corporate finance, securities and commodities trading business with several international and local financial institutions. Mr. Luk was appointed as an independent non-executive Director on 26th May, 2004.

BIOGRAPHICAL DETAILS OF SENIOR MANAGEMENT

Ms. Cheung Woon Yiu, Idy (張煥瑤), aged 40, is the qualified accountant and the company secretary of the Company. She holds a bachelor degree of economics from The University of Sydney in Australia. Ms. Cheung is a Certified Public Accountant, Practising, and is an associate of Hong Kong Institute of Certified Public Accountants. She joined the Group in July, 2003. Prior to joining the Group, Ms. Cheung has worked in Ernst & Young, an international accounting firm, for over 4 years.

Mr. Bao Jian Gen (包建根), aged 39, is the assistant manager in production department and a nephew of Mr. Yang Hong Gen and a family relative of Mr. Zhang San Lin, Mr. Yang Shun Feng and Mr. Zhou Sheng Yuan. He operated his own business of sourcing snakes in Zhejiang, Anhui and Jiangxi in 1980. During 1993 to 1994, he joined Shenzhen Wild Animals Company (深圳野生動物商行) and worked with Messrs. Yang and Zhou Sheng Yuan, and continue to engage in the sourcing of snakes, snake gallbladder, skin and meat. Mr. Bao joined the Group in September 1996. He is responsible for the production management, machineries maintenance and storage management.

Mr. Chen Zhong Wei (陳中偉), aged 30, is the assistant manager of the marketing department of Shanghai operation of the Group. Mr. Chen graduated from Shanghai Tourism College (上海旅遊高等專科學校) in 1994 with a Diploma of Hotel Management. He is responsible for the sales development activities of the Group. He has over 3 years of experience in hotel management. Mr. Chen joined the Group in April, 2000. Prior to joining the Group, Mr. Chen has worked in Shanghai Gaogiao Tourism Company (上海高橋旅遊公司) principally responsible for tour development.

Mr. Zhou Sheng Yuan (周生元), aged 48, is the production manager of the Group and a brother-in-law of Mr. Yang Hong Gen and a family relative of Mr. Zhang San Lin, Mr. Yang Shun Feng and Mr. Bao Jian Gen. During 1979 to 1994, Mr. Zhou was employed in Shenzhen Wild Animals Company (深圳野生動物商行). He has over 7 years of experience in production operation management. Mr. Zhou joined the Group in April, 2000. He is responsible for the production development activities of the Group.

Mr. Li Jin Sen (李錦森), aged 56, is the assistant general manager and sales manager of the Group. He is responsible for the sales and marketing. Mr. Li graduated from Shanghai Aviation Industry Intermediate Technical School (上海航空工業中等技術學校) in 1966 with a Diploma in Mechanics. During 1970 to 1994, Mr. Li was the employee in Guizhou 3655 Factory (貴州3655工廠) principally responsible for management. He joined the Group in April, 1996 and has over 14 years of experience in the fields of management.

DIRECTORS' REPORT

The directors present their first annual report and audited financial statements for the year ended 30th September, 2004.

CORPORATE REORGANISATION

The Company was incorporated and registered as an exempted company in the Cayman Islands under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 5th June, 2003.

Pursuant to a reorganisation scheme to rationalise the structure of the Group in preparation for the public listing of the Company's shares on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 26th May, 2004.

Details of the reorganisation are set out in note 1 to the financial statements.

The shares of the Company were listed on the GEM of the Stock Exchange with effect from 17th June, 2004.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 13 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 30th September, 2004 are set out in the consolidated income statement on pages 19.

An interim dividend of HK1 cent per share amounting to HK\$5,000,000 was paid to the shareholders of the Company during the year. The directors did not recommend the payment of a final dividend and propose that the profit for the year to be retained.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment amounting to HK\$5,294,000. The details of these movements during the year in the property, plant and equipment of the Group are set out in note 12 to the financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 20 to the financial statements.

DIRECTORS

The directors of the Company since incorporation and up to the date of this report were:

Executive directors

| | |
|------------------------------|---|
| Mr. Yang Hong Gen | (appointed on 25th June, 2003) |
| Mr. Zhang San Lin | (appointed on 25th June, 2003) |
| Mr. Liu Zhuoru | (appointed on 26th May, 2004) |
| Mr. Yang Shun Feng | (appointed on 26th May, 2004) |
| Mr. Yao Feng | (appointed on 26th May, 2004) |
| Mr. Sha Hai Bo | (appointed on 26th May, 2004) |
| Mr. Cheung Kin Hung, Frankie | (appointed on 26th May, 2004) |
| Mr. Neil T. Cox | (appointed on 5th June, 2003 and resigned on 25th June, 2003) |

Independent non-executive directors

| | |
|------------------------|-------------------------------|
| Mr. Luk Yu King, James | (appointed on 26th May, 2004) |
| Mr. Yin Jing Le | (appointed on 26th May, 2004) |
| Mr. Yu Jie | (appointed on 26th May, 2004) |

DIRECTORS' REPORT

DIRECTORS (continued)

In accordance with the provision of the Company's Articles of Association, Messrs. Zhang San Lin and Yao Feng retire by rotation, and being eligible, other themselves for re-election.

All non-executives directors have been appointed for a term of two years.

Each of the executive directors has entered into a service contract with the Company for an initial terms of 36 months commencing from 1st June, 2004, and will continue thereafter for successive terms of one year each commencing from the day next after the expiry of the then current term until terminated by not less than three month's notice in writing served by either party on the other expiring at the end of the initial term or at any time thereafter.

Other than disclosed above, no directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN SHARES

At 30th September, 2004, the interests of the directors and their associates in the shares of the Company or any of its associates corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO") which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required pursuant to Section 352 of the SFO, or which are required pursuant to Rules 5.46 of the Rules Governing the Listing of Securities on GEM ("GEM Listing Rules"), to be notified to the Company and the Stock Exchange, were as follows:

Long positions in the shares

| Name of director | Capacity | Number of issued ordinary shares of the Company held | Percentage of the issued share capital of the Company |
|------------------|---------------------------|---|--|
| Yang Hong Gen | Beneficial owner (Note 1) | 280,500,000 | 56.1% |
| Zhang San Lin | Beneficial owner (Note 2) | 25,000,000 | 5.0% |
| Yang Shun Feng | Beneficial owner | 10,000,000 | 2.0% |
| Yao Feng | Beneficial owner | 10,000,000 | 2.0% |

Notes:

- Ms. Bao Xiao Mei is the wife of Mr. Yang Hong Gen. By virtue of Section 316(1) of the SFO, Ms. Bao Xiao Mei is taken to be interested in the same number of shares in the Company in which Mr. Yang Hong Gen is interested. For details, please referred to "SUBSTANTIAL SHAREHOLDERS' INTERESTS"
- Ms. Zhou Xiang Zhen is the wife of Mr. Zhang San Lin. By virtue of Section 316(1) of the SFO, Ms. Zhou Xiang Zhen is taken to be interested in the same number of shares in the Company in which Mr. Zhang San Lin is interested. For details, please referred to "OTHER PERSONS' INTERESTS"

Other than as disclosed above, none of the directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 30th September, 2004.

SHARE OPTION SCHEME

The details of the share option scheme of the Company are set out in note 21 to the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30th September, 2004, according to the register kept by the Company pursuant to Section 336 of SFO and so far as is known to, or can be ascertained after reasonable enquiry by the directors, save as disclosed in the paragraph headed "DIRECTORS' INTERESTS" in this report, the following person had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, was directly or indirectly interested in 10% or more of the voting power at general meetings of the Company:

Long position in the shares of the Company

| Name of shareholder | Capacity | Number of ordinary shares | % to total issued share capital of the Company |
|----------------------|------------------|---------------------------|--|
| Bao Xiao Mei # (包小妹) | Beneficial owner | 280,500,000 | 56.1% |

Note:

Ms. Bao Xiao Mei is the wife of Mr. Yang Hong Gen. By virtue of Section 316(1) of the SFO, Ms. Bao Xiao Mei is taken to be interested in the same number of shares in the Company in which Mr. Yang Hong Gen is interested.

Save as disclosed above and in the paragraph headed "OTHER PERSONS' INTERESTS", as at 30th September, 2004, the Company has not been notified by any person (other than directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

OTHER PERSONS' INTERESTS

As at 30th September, 2004, according to the register kept by the Company pursuant to Section 336 of SFO and so far as is known to, or can be ascertained after reasonable enquiry by the directors, save as disclosed in the paragraph headed "DIRECTORS' INTERESTS" in this report, the following person had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, was directly or indirectly interested in 5% or more of the voting power at general meetings of the Company:

Long position in the shares of the Company

| Name of shareholder | Capacity | Number of ordinary shares | % to total issued share capital of the Company |
|-------------------------|------------------|---------------------------|--|
| Zhou Xiang Zhen # (周祥珍) | Beneficial owner | 25,000,000 | 5.0% |

Note:

Ms. Zhou Xiang Zhen is the wife of Mr. Zhang San Lin. By virtue of Section 316(1) of the SFO, Ms. Zhou Xiang Zhen is taken to be interested in the same number of shares in the Company in which Mr. Zhang San Lin is interested.

Save as disclosed above and in the paragraph headed "SUBSTANTIAL SHAREHOLDERS' INTERESTS", as at 30th September, 2004, the Company has not been notified by any person (other than directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' REPORT

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY LISTED SECURITIES

Other than issuing of shares disclosed in note 20 to the financial statements, none the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

USE OF LISTING PROCEEDS

On 17th June, 2004, the Company was successfully listed on the GEM of the Stock Exchange, the Company received listing proceeds (net of listing expenses) of approximately HK\$49.3 million. During the year ended 30th September, 2004, the net listing proceeds was used as to approximately HK\$0.4 million for research and development of new products; as to approximately HK\$3.3 million for marketing sales and distribution activities; as to approximately HK\$4.8 million for advertising and promotional activities; as to approximately HK\$3.3 million for new production facilities; at to approximately HK\$ 1.4 million of the implementation of the ERP management and upgrading computer facilities; and as to approximately HK\$1.3 million for general working capital. With a cost saving in the research and development costs and the new products are well accepted by the market during the trial sales, the Group decided made a faster pace in its marketing and promotion activities to boost the sales of new products.

CORPORATE GOVERNANCE

The Company has complied in the period between its listing date and 30th September, 2004 with the corporate governance matters as set out in Rules 5.34 to 5.45 of the GEM Listing Rules.

AUDIT COMMITTEE

The audit committee comprises three independent non executive directors, Messrs. Luk Yu King, James, Yin Jing Le and Yu Jie.

The primary duties of the audit committee are to review the Company's annual report and financial statements, quarterly report and half-yearly report and to provide advice and comment thereon to the board of directors. The audit committee will also be responsible for reviewing and supervision the financial reporting process and internal control procedures of the Group.

The audit committee held one meeting in the period between its listing date and 30th September, 2004.

SPONSOR'S INTERESTS

Pursuant to a sponsor agreement dated 1st June, 2004 between the Company and CSC Asia Limited ("CSC Asia"), CSC Asia will be retained as the sponsor of the Company for the purpose of Chapter 6 of the GEM Listing Rules for the period from 17th June, 2004 (being the listing date) to 30th September, 2006. None of CSC Asia, its directors, employees or associates had any shareholding interest in the securities of the Company or any member of the Group nor have any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for the securities of the Company or any member of the Group as at 30th September, 2004.

AUDITORS

Messrs. Deloitte Touche Tohmatsu were appointed as auditors of the Company during year. A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Yang Hong Gen
Chairman

Hong Kong
23rd December, 2004

AUDITORS' REPORT



TO THE SHAREHOLDERS OF LONGLIFE GROUP HOLDINGS LIMITED

朗力福保健集團有限公司

(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 19 to 42 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30th September, 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

23rd December, 2004

CONSOLIDATED INCOME STATEMENT

For the year ended 30th September, 2004

| | Notes | 2004 HK\$'000 | 2003 HK\$'000 (Note 1) |
|-----------------------------------|-------|---------------------|------------------------------|
| Turnover | 4 | 197,822 | 186,573 |
| Cost of sales | | <u>(66,257)</u> | <u>(88,989)</u> |
| Gross profit | | 131,565 | 97,584 |
| Other operating income | 5 | 368 | 265 |
| Administrative expenses | | (11,458) | (7,575) |
| Selling and distribution expenses | | (77,874) | (50,116) |
| Other operating expenses | | <u>(722)</u> | <u>(500)</u> |
| Profit from operations | 6 | 41,879 | 39,658 |
| Finance costs | 7 | <u>(2,213)</u> | <u>(1,187)</u> |
| Profit before tax | | 39,666 | 38,471 |
| Income tax expense | 8 | <u>(4,388)</u> | <u>(4,648)</u> |
| Profit for the year | | <u>35,278</u> | <u>33,823</u> |
| Dividends | 9 | <u>5,000</u> | <u>14,283</u> |
| Earnings per share | 10 | | |
| – Basic | | <u>HK8.91 cents</u> | <u>HK9.65 cents</u> |
| – Diluted | | <u>HK8.64 cents</u> | <u>HK9.64 cents</u> |

CONSOLIDATED BALANCE SHEET

At 30th September, 2004

| | Notes | 2004 HK\$'000 | 2003 HK\$'000 (Note 1) |
|--|-------|------------------|------------------------------|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 12 | 30,102 | 27,985 |
| Deposit paid for acquisition of land use right | | 1,226 | — |
| | | 31,328 | 27,985 |
| CURRENT ASSETS | | | |
| Inventories | 14 | 74,801 | 62,296 |
| Trade receivables | 15 | 33,419 | 29,640 |
| Deposits, prepayments and other receivables | | 17,035 | 12,857 |
| Restricted-use bank deposits | | — | 1,304 |
| Bank balances and cash | | 34,847 | 16,785 |
| | | 160,102 | 122,882 |
| CURRENT LIABILITIES | | | |
| Trade payables | 16 | 7,872 | 22,524 |
| Other payables and accruals | | 19,803 | 15,365 |
| Secured bank loans | | 9,434 | 22,170 |
| Exchangeable bonds | 17 | — | 10,000 |
| Amount due to a related party | 18 | — | 1,578 |
| Amounts due to directors | 19 | 150 | 12,476 |
| Tax payable | | 842 | 1,898 |
| Dividend payable | | 250 | — |
| Dividend payable to then former shareholders of a subsidiary | | 14,283 | 14,283 |
| | | 52,634 | 100,294 |
| NET CURRENT ASSETS | | | |
| | | 107,468 | 22,588 |
| | | 138,796 | 50,573 |
| CAPITAL AND RESERVES | | | |
| Share capital | 20 | 50,000 | 1 |
| Reserves | | 88,796 | 50,572 |
| | | 138,796 | 50,573 |

The financial statements on pages 19 to 42 were approved and authorised for issue by the Board of Directors on 23rd December, 2004 and are signed on its behalf by:

Yang Hong Gen
DIRECTOR

Zhang San Lin
DIRECTOR

BALANCE SHEET*At 30th September, 2004*

| | <i>Notes</i> | 2004 HK\$'000 | 2003 <i>HK\$'000</i> |
|--------------------------|--------------|--------------------------------|-------------------------|
| <hr/> | | | |
| NON-CURRENT ASSET | | | |
| Interest in a subsidiary | 13 | <u>133,096</u> | <u>—</u> |
| CURRENT ASSET | | | |
| Bank balance and cash | | <u>738</u> | <u>—</u> |
| CURRENT LIABILITIES | | | |
| Dividend payable | | <u>250</u> | <u>—</u> |
| Amounts due to directors | 19 | <u>450</u> | <u>—</u> |
| | | <u>700</u> | <u>—</u> |
| NET CURRENT ASSETS | | <u>38</u> | <u>—</u> |
| | | <u>133,134</u> | <u>—</u> |
| CAPITAL AND RESERVES | | | |
| Share capital | 20 | <u>50,000</u> | <u>—</u> |
| Reserves | 22 | <u>83,134</u> | <u>—</u> |
| | | <u>133,134</u> | <u>—</u> |

Yang Hong Gen
DIRECTOR

Zhang San Lin
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30th September, 2004

| | Paid in capital/ share capital HK\$'000 | Share premium HK\$'000 | Special reserve HK\$'000 (Note 1) | Statutory surplus reserve fund HK\$'000 (Note 2) | Statutory enterprise expansion fund HK\$'000 (Note 3) | Accumulated profits HK\$'000 | Total HK\$'000 |
|--|---|------------------------------|--|---|--|------------------------------------|-------------------|
| THE GROUP | | | | | | | |
| At 1st October, 2002 | 11,698 | — | — | 921 | 922 | 17,113 | 30,654 |
| Appropriations | — | — | — | 392 | 392 | (784) | — |
| Transfer to capital (Note 4) | 10,566 | — | — | (1,313) | (1,314) | (7,939) | — |
| Increase in paid in capital (Note 5) | 1 | 22,642 | — | — | — | — | 22,643 |
| Eliminated on consolidation (Note 6) | (22,264) | — | — | — | — | — | (22,264) |
| Profit for the year | — | — | — | — | — | 33,823 | 33,823 |
| Dividends | — | — | — | — | — | (14,283) | (14,283) |
| At 30th September, 2003 and 1st October, 2003 | 1 | 22,642 | — | — | — | 27,930 | 50,573 |
| Eliminated on group reorganisation (Note 7) | (1) | (22,442) | 22,443 | — | — | — | — |
| Issue of shares (Note 8) | 200 | (200) | — | — | — | — | — |
| Exercise of exchangeable bonds | 2,450 | 6,125 | — | — | — | — | 8,575 |
| Issue of shares on placing | 12,500 | 50,000 | — | — | — | — | 62,500 |
| Shares issue expenses | — | (13,130) | — | — | — | — | (13,130) |
| Capitalisation issue | 34,850 | (34,850) | — | — | — | — | — |
| Profit for the year | — | — | — | — | — | 35,278 | 35,278 |
| Interim dividend | — | — | — | — | — | (5,000) | (5,000) |
| At 30th September, 2004 | 50,000 | 8,145 | 22,443 | — | — | 58,208 | 138,796 |

Notes:

1. Special reserve represents the difference between the paid-up capital and share premium of the subsidiary acquired and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation.
2. Prior to 27th May, 2002, the management of Suzhou Longlifu Health Food Co., Ltd ("Suzhou Longlifu") could transfer the net profit of Suzhou Longlifu to the statutory surplus reserve fund on a discretionary basis.

Pursuant to Suzhou Longlifu's Articles of Association which became effective on 27th May, 2002, Suzhou Longlifu is required to transfer 10% of its net profit to statutory surplus reserve fund until the accumulated statutory surplus reserve fund is more than 50% of Suzhou Longlifu's registered capital. Transfer to this fund must be made before distributing dividends to shareholders.

Pursuant to Suzhou Longlifu's Articles of Association which became effective on 16th February, 2003, the management of Suzhou Longlifu could transfer the net profit to the statutory surplus reserve fund on a discretionary basis.

The statutory surplus reserve fund can be used to make up for previous year's losses, expand the existing operations or convert into additional capital of Suzhou Longlifu.

3. Prior to 27th May, 2002, the management of Suzhou Longlifu could transfer the net profit or Suzhou Longlifu to the statutory enterprise expansion fund on a discretionary basis.

Pursuant to Suzhou Longlifu's Articles of Association which became effective on 27th May, 2002, Suzhou Longlifu is required to transfer 10% of its net profit to the statutory enterprise expansion fund. Transfers to this fund must be made before distributing dividends to shareholders.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30th September, 2004

Pursuant to Suzhou Longlifu's Articles of Association which became effective on 16th February, 2003, the management of Suzhou Longlifu could transfer the net profit to the statutory enterprise expansion fund on a discretionary basis.

The statutory enterprise expansion fund can be used to expand the capital of Suzhou Longlifu by means of capitalisation.

4. The increase capital of Suzhou Longlifu was contributed by means of transfers from Suzhou Longlifu's accumulated profits and/or statutory surplus reserve fund and/or statutory enterprise expansion fund.
5. The amount represents the increase in paid in capital and share premium of Wallfaith Company Limited ("Wallfaith") during the year ended 30th September, 2003.
6. The capital of Suzhou Longlifu, Suzhou Beautiful Biochemistry Co., Ltd and Smiston Technology Limited are eliminated as these companies became wholly-owned subsidiaries of Wallfaith as at 30th September, 2003.
7. The capital of Wallfaith is eliminated as it became a wholly-owned subsidiary of the Company as at 26th May, 2004.
8. 2,000,000 Company's shares of HK\$0.10 each were issued and credited as fully paid to existing shareholders immediately before placing of shares to public and conversion of exchangeable bonds.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30th September, 2004

| | Notes | 2004 HK\$'000 | 2003 HK\$'000 |
|--|-------|------------------|------------------|
| OPERATING ACTIVITIES | | | |
| Profit from operations | | 41,879 | 39,658 |
| Adjustments for: | | | |
| Depreciation | | 2,925 | 2,096 |
| Interest income | | (92) | (24) |
| Loss on disposal of property, plant and equipment | | 120 | 21 |
| Trade debtors written off/allowances for doubtful debts | | 1,109 | 1,280 |
| Inventories write off | | — | 3,316 |
| Operating cash flows before movements in working capital | | 45,941 | 46,347 |
| Increase in inventories | | (12,505) | (4,220) |
| Increase in trade receivables | | (4,888) | (8,806) |
| Increase in deposits, prepayments and other receivables | | (4,178) | (6,847) |
| (Decrease) increase in trade payables | | (14,652) | 3,861 |
| Increase in other payables and accruals | | 4,438 | 4,849 |
| Cash from operations | | 14,156 | 35,184 |
| Income taxes paid | | (5,444) | (2,750) |
| Interest paid | | (2,213) | (1,187) |
| NET CASH FROM OPERATING ACTIVITIES | | 6,499 | 31,247 |
| INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | | (5,294) | (10,085) |
| Increase in deposit paid for acquisition of land use right | | (1,226) | — |
| Decrease (increase) in restricted-use bank deposits | | 1,304 | (1,304) |
| Proceeds on disposal of property, plant and equipment | | 132 | 33 |
| Interest received | | 92 | 24 |
| Acquisition of subsidiaries | 23 | — | 412 |
| NET CASH USED IN INVESTING ACTIVITIES | | (4,992) | (10,920) |

CONSOLIDATED CASH FLOW STATEMENT*For the year ended 30th September, 2004*

| | <i>Notes</i> | 2004 HK\$'000 | 2003 <i>HK\$'000</i> |
|--|--------------|--------------------------------|-------------------------|
| FINANCING ACTIVITIES | | | |
| New shares issued | | 62,500 | – |
| New bank loans raised | | 62,028 | 44,811 |
| Repayment of bank loans | | (74,764) | (37,735) |
| New shares issued expenses | | (13,130) | – |
| Repayment to directors | | (12,326) | (28,598) |
| Interim dividend paid | | (4,750) | – |
| (Repayment to) advance from a related party | | (1,578) | 1,578 |
| (Repayment of) issue of exchangeable bonds | | (1,425) | 10,000 |
| | | <hr/> | <hr/> |
| NET CASH FROM (USED IN) FINANCING ACTIVITIES | | 16,555 | (9,944) |
| | | <hr/> | <hr/> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 18,062 | 10,383 |
| | | <hr/> | <hr/> |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | | 16,785 | 6,402 |
| | | <hr/> | <hr/> |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash | | 34,847 | 16,785 |
| | | <hr/> <hr/> | <hr/> <hr/> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th September, 2004

1. GROUP REORGANISATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company was incorporated and registered as an exempted company in the Cayman Islands under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 5th June, 2003.

Under a group reorganisation scheme to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Group on 26th May, 2004. Details of the group reorganisation were set out in the prospectus issued by the Company dated 1st June, 2004.

The principal steps of the group reorganisation, which involved the exchange of shares, were as follows:

- (a) the shares of Wallfaith Company Limited ("Wallfaith"), former holding company of the Group, were issued and allotted to the then shareholders of Suzhou Longlifu Health Food Co., Ltd ("Suzhou Longlifu") in exchange for the equity interests in Suzhou Longlifu; and
- (b) the shares of the Company were then issued and allotted to the then shareholders of Wallfaith in exchange for the shares in Wallfaith.

The Group resulting from the above mentioned reorganisation is regarded as a continuing entity. Accordingly, the financial statements of the Group have been prepared using the principle of merger accounting in accordance with Statement of Standard Accounting Practice 27, "Accounting for Group Reconstructions".

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 13.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

Basis of consolidation

The consolidated financial statements incorporate in financial statements of the Company and its subsidiaries made up to 30th September each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th September, 2004

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and identified impairment losses.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum.

| | |
|--|----------|
| Land use rights | 50 years |
| Buildings | 20 years |
| Furniture, fixtures and office equipment | 5 years |
| Motor vehicles | 5 years |
| Plant and machinery | 10 years |

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statements.

Construction in progress are carried at cost, less any recognised impairment loss is not depreciated until completion of construction. On completion of construction, the assets are transferred to appropriate categories in property, plant and equipment.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th September, 2004

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statements.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Operating leases

Rentals payable under operating lease are charged to the income statements on a straight-line basis over the term of the relevant lease.

Retirement benefit scheme

The Group's contribution to a local municipal government retirement scheme in the People's Republic of China (the "PRC") are expended as incurred while the local municipal government in the PRC undertakes to assume the retirement obligations of all existing and future retirees of the qualified staff in the PRC.

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally-generated asset arising from the Group's customer products development is recognised only if all of the following conditions are met:

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Inventories

Inventories are stated at lower of cost and net realisable value. Cost is calculated using standard costing method.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th September, 2004

3. SEGMENT INFORMATION

The Group is engaged solely in the manufacture, research and development and distribution of consumer products and operates only in the PRC. In addition, the identifiable assets of the Group are located in the PRC. Accordingly, no analyses by business segment and geographical area of operations are provided.

4. TURNOVER

Turnover represents the net amounts received and receivable from sales of consumer products less sales tax and discounts, if any, during the year.

5. OTHER OPERATING INCOME

| | 2004 HK\$'000 | 2003 HK\$'000 |
|-----------------|------------------|------------------|
| Interest income | 92 | 24 |
| Sundry income | 276 | 241 |
| | <u>368</u> | <u>265</u> |

6. PROFIT FROM OPERATIONS

| | 2004 HK\$'000 | 2003 HK\$'000 |
|---|------------------|------------------|
| Profit from operations has been arrived at after charging: | | |
| Directors' remuneration (note 11) | 530 | 150 |
| Other staff costs | 23,887 | 21,596 |
| Retirement benefits scheme contributions (excluding directors' remuneration) | <u>270</u> | <u>87</u> |
| Total staff costs | 24,687 | 21,833 |
| Trade debtors written off/allowances for doubtful debts | 1,109 | 1,280 |
| Inventories written off | – | 3,316 |
| Auditors' remuneration | 499 | 75 |
| Depreciation | 2,925 | 2,096 |
| Loss on disposal of property, plant and equipment | 120 | 21 |
| Research and development costs | <u>100</u> | <u>200</u> |

7. FINANCE COSTS

| | 2004 HK\$'000 | 2003 HK\$'000 |
|---|------------------|------------------|
| Interest on: | | |
| Exchangeable bonds | 386 | 37 |
| Bank loans wholly repayable within five years | <u>1,827</u> | <u>1,150</u> |
| | <u>2,213</u> | <u>1,187</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th September, 2004

8. INCOME TAX EXPENSE

| | 2004 HK\$'000 | 2003 HK\$'000 |
|--|------------------|------------------|
|--|------------------|------------------|

The charge comprises:

| | | |
|---------------------------------|-------|-------|
| Tax in other regions of the PRC | 4,388 | 4,648 |
|---------------------------------|-------|-------|

No provision for Hong Kong Profits Tax has been made for the year as the income neither arises in, nor is derived from, Hong Kong.

Pursuant to the relevant laws and regulations in the PRC, Suzhou Longlifu and Suzhou Beautiful Biochemistry Co., Ltd. ("Suzhou Beautiful") were entitled to the exemptions from PRC Foreign Enterprise Income Tax ("FEIT") for two years starting from their first profit-making year, followed by a 50% tax relief for the next three years. The first profit making year of Suzhou Longlifu commenced on 1st January, 2001 and Suzhou Longlifu was entitled to a 50% reduction from FEIT commenced on 1st January, 2003. Suzhou Beautiful obtained confirmation from the relevant tax authority for commencing its first profit-making year from 1st January, 2004.

The charge for the year can be reconciled to the profit before tax per the income statement as follows:

| | 2004 HK\$'000 | 2003 HK\$'000 |
|---|------------------|------------------|
| Profit before tax | 39,666 | 38,471 |
| Tax at domestic statutory tax rate of 24% (2003: 24%) | 9,520 | 9,233 |
| Tax effect of expenses not deductible for tax purpose | 1,244 | 63 |
| Income tax on concessionary rate | (6,376) | (4,648) |
| Tax charge for the year | 4,388 | 4,648 |

No provision for deferred taxation has been recognised in the financial statements as the amount involved is insignificant.

9. DIVIDENDS

| | 2004 HK\$'000 | 2003 HK\$'000 |
|--|------------------|------------------|
| Dividend declared by the Company | | |
| Interim, paid – HK1 cent per share (2003: nil) | 5,000 | – |
| Dividend declared by Suzhou Longlifu | | |
| First interim | – | 14,283 |
| Second interim | – | 7,547 |
| Third interim | – | 10,188 |
| Forth interim | – | 2,075 |
| | – | 34,093 |
| Less: Intercompany elimination | – | (19,810) |
| | – | 14,283 |
| Total | 5,000 | 14,283 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th September, 2004

10. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit for the year of HK\$35,278,000 (2003: HK\$33,823,000) and the weighted average number of approximately 395,964,000 (2003: 350,500,000) in issue and issuable on the assumption that the capitalisation issue of 350,500,000 shares of the Company had been effective on 1st October 2002.

The calculation of diluted earning per share for the year ended 30th September, 2004 was based on the adjusted results of HK\$35,664,000 (2003: HK\$33,860,000) after adjusted the interest on exchangeable bonds of HK\$386,000 (2003: HK\$37,000) and on the adjusted weighted average number of approximately 413,013,000 (2003: 351,373,000) shares in issue and issuable on the assumption that the capitalisation issue of 350,500,000 shares of the Company had been effective on 1st October 2002 taking into account the weighted average number of approximately 17,049,000 (2003: 873,000) to be issued upon conversion of exchangeable bonds in accordance with the terms of the deed poll constituting the exchangeable bonds dated 18th September, 2003.

11. DIRECTORS' AND EMPLOYEES' REMUNERATION

Directors

Details of emoluments paid by the Group to the directors during the year are as follows:

| | 2004 HK\$'000 | 2003 HK\$'000 |
|---|------------------|------------------|
| Fees | 104 | — |
| Salaries and other allowances | 421 | 141 |
| Retirement benefit scheme contributions | 5 | 9 |
| | <u>530</u> | <u>150</u> |

Details of emoluments paid to individual executive directors and independent non-executive directors during the year are as follows:

| | 2004 HK\$'000 | 2003 HK\$'000 |
|---|------------------|------------------|
| Executive directors | | |
| Yang Hong Gen | | |
| – Fee | — | — |
| – Salaries and other allowances | 81 | 29 |
| – Retirement benefit scheme contributions | 1 | 3 |
| | <u>82</u> | <u>32</u> |
| Liu Zhuoru | | |
| – Fee | — | — |
| – Salaries and other allowances | 36 | 33 |
| – Retirement benefit scheme contributions | — | — |
| | <u>36</u> | <u>33</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th September, 2004

11. DIRECTORS' AND EMPLOYEES' REMUNERATION (continued)

| | 2004 HK\$'000 | 2003 HK\$'000 |
|---|------------------|------------------|
| Executive directors | | |
| Zhang San Lin | | |
| – Fee | – | – |
| – Salaries and other allowances | 71 | 27 |
| – Retirement benefit scheme contributions | 1 | 2 |
| | <u>72</u> | <u>29</u> |
| Yang Shun Feng | | |
| – Fee | – | – |
| – Salaries and other allowances | 70 | 23 |
| – Retirement benefit scheme contributions | 1 | 2 |
| | <u>71</u> | <u>25</u> |
| Yao Feng | | |
| – Fee | – | – |
| – Salaries and other allowances | 70 | 6 |
| – Retirement benefit scheme contributions | – | – |
| | <u>70</u> | <u>6</u> |
| Sha Hai Bo | | |
| – Fee | – | – |
| – Salaries and other allowances | 33 | 23 |
| – Retirement benefit scheme contributions | 2 | 2 |
| | <u>35</u> | <u>25</u> |
| Cheung Kin Hung, Frankie | | |
| – Fee | – | – |
| – Salaries and other allowances | 60 | – |
| – Retirement benefit scheme contributions | – | – |
| | <u>60</u> | <u>–</u> |
| | <u>426</u> | <u>150</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th September, 2004

11. DIRECTORS' AND EMPLOYEES' REMUNERATION (continued)

| | 2004 HK\$'000 | 2003 HK\$'000 |
|--|------------------|------------------|
| Independent non-executive directors | | |
| Luk Yu King, James | | |
| – Fee | 60 | – |
| – Salaries and other allowances | – | – |
| – Retirement benefit scheme contributions | – | – |
| | <u>60</u> | <u>–</u> |
| Yin Jing Le | | |
| – Fee | 12 | – |
| – Salaries and other allowances | – | – |
| – Retirement benefit scheme contributions | – | – |
| | <u>12</u> | <u>–</u> |
| Yu Jie | | |
| – Fee | 32 | – |
| – Salaries and other allowances | – | – |
| – Retirement benefit scheme contributions | – | – |
| | <u>32</u> | <u>–</u> |
| | <u>104</u> | <u>–</u> |
| Total | <u>530</u> | <u>150</u> |

Employees

The five highest paid individuals of the Group for the year ended 30th September, 2004 are all directors. Details of their remuneration are set out above.

The five highest paid individuals of the Group for the year ended 30th September, 2003 included three directors. Details of their remuneration were set out above. The emoluments of the remaining two individuals, which fall within the band of nil to HK\$1,000,000, for the year ended 30th September, 2003 were as follows:

| | HK\$'000 |
|---|-----------|
| Salaries and other allowances | 49 |
| Retirement benefit scheme contributions | <u>3</u> |
| | <u>52</u> |

During both years, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th September, 2004

12. PROPERTY, PLANT AND EQUIPMENT

THE GROUP

| | Land use rights HK\$'000 | Buildings HK\$'000 | Furniture, fixtures and office equipment HK\$'000 | Motor vehicles HK\$'000 | Plant and machinery HK\$'000 | Construction in progress HK\$'000 | Total HK\$'000 |
|---|--------------------------------|-----------------------|---|-------------------------------|---------------------------------|---|-------------------|
| COST | | | | | | | |
| At 1st October, 2003 | 4,289 | 10,916 | 1,182 | 3,928 | 11,739 | 811 | 32,865 |
| Additions | – | 718 | 1,746 | 1,387 | 1,443 | – | 5,294 |
| Transfer from construction in progress | – | 811 | – | – | – | (811) | – |
| Disposals | – | – | (88) | – | (329) | – | (417) |
| At 30th September, 2004 | 4,289 | 12,445 | 2,840 | 5,315 | 12,853 | – | 37,742 |
| DEPRECIATION | | | | | | | |
| At 1st October, 2003 | 76 | 1,632 | 783 | 1,102 | 1,287 | – | 4,880 |
| Provided for the year | 86 | 520 | 422 | 813 | 1,084 | – | 2,925 |
| Eliminated on disposals | – | – | (88) | – | (77) | – | (165) |
| At 30th September, 2004 | 162 | 2,152 | 1,117 | 1,915 | 2,294 | – | 7,640 |
| NET BOOK VALUES | | | | | | | |
| At 30th September, 2004 | 4,127 | 10,293 | 1,723 | 3,400 | 10,559 | – | 30,102 |
| At 30th September, 2003 | 4,213 | 9,284 | 399 | 2,826 | 10,452 | 811 | 27,985 |

The Group has pledged property, plant and equipment having net book value of approximately HK\$14,420,000 (2003: HK\$27,148,000) as at 30th September, 2004 to secure its bank loans.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th September, 2004

13. INTEREST IN A SUBSIDIARY

| | THE COMPANY | |
|------------------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Unlisted share, at cost | 75,153 | — |
| Amount due from a subsidiary | 57,943 | — |
| | 133,096 | — |

The amount due from a subsidiary is unsecured, interest-free and has no fixed repayment terms. In the opinion of the directors, the amount will not be repayable within twelve months from the balance sheet date. Accordingly, the amount is shown as non-current.

Details of the Company's subsidiaries as at 30th September, 2004 were as follows:

| Name of company | Place of incorporation/ registration/operation | Issued and fully paid-up share capital/ registered capital | Attributable equity interest held by the Group | Principal activities |
|---|---|---|---|---|
| Wallfaith | British Virgin Islands ("BVI") | Ordinary shares US\$100 | 100% | Investment holding |
| Suzhou Longlifu 蘇州朗力福保健品有限公司 (note) | PRC | Registered capital RMB70,000,000 | 100% | Manufacture and sale of health care products |
| Smiston Technology Limited ("Smiston") | BVI | Ordinary shares US\$50,000 | 100% | Investment holding |
| Suzhou Beautiful 蘇州別特福生化有限公司 (note) | PRC | Registered capital US\$300,000 | 100% | Manufacture and sale of biochemistry products for daily use and health supplement wine |

Note: Suzhou Longlifu and Suzhou Beautiful are wholly foreign owned enterprises.

Wallfaith is held by the Company directly. Suzhou Longlifu, Smiston and Suzhou Beautiful are held by the Company indirectly.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th September, 2004

14. INVENTORIES

| | THE GROUP | |
|------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Raw materials | 16,624 | 7,931 |
| Work in progress | 5,724 | 3,359 |
| Finished goods | 52,453 | 51,006 |
| | <u>74,801</u> | <u>62,296</u> |

Inventories are stated at cost as at 30th September, 2003 and 2004.

15. TRADE RECEIVABLES

The Group has a policy of allowing an average credit period of 90 days to its trade customers. The following is an aged analysis of trade receivables at the balance sheet dates:

| | THE GROUP | |
|-------------------------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| 0 – 90 days | 27,765 | 23,783 |
| 91 – 180 days | 4,450 | 5,471 |
| 181 – 360 days | 987 | 1,542 |
| Over 360 days | 1,409 | 1,014 |
| | <u>34,611</u> | <u>31,810</u> |
| Less: Allowances for doubtful debts | (1,192) | (2,170) |
| | <u>33,419</u> | <u>29,640</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th September, 2004

16. TRADE PAYABLES

The following is an aged analysis of trade payables at the balance sheet dates:

| | THE GROUP | |
|----------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| 0 – 90 days | 6,324 | 20,120 |
| 91 – 180 days | 1,380 | 1,472 |
| 181 – 360 days | 132 | 692 |
| Over 360 days | 36 | 240 |
| | 7,872 | 22,524 |

17. EXCHANGEABLE BONDS

THE GROUP

On 18th September, 2003, Wallfaith issued exchangeable bonds with a principal value of HK\$10,000,000 (the “Bonds”). The Bonds bore interest at the rate of 12% per annum.

During the year, the Bonds of HK\$8,575,000 were converted into 24,500,000 shares of the Company at a conversion price of HK\$0.35 per share (note 20(e)). The remaining balance of the Bonds of HK1,425,000 were redeemed by cash during the year.

18. AMOUNT DUE TO A RELATED PARTY

| Name of related party | THE GROUP | |
|-----------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| 吳縣市渭塘鎮集體資產經營公司 (Note) | – | 1,578 |

Note: 吳縣市渭塘鎮集體資產經營公司 was a former shareholder of Suzhou Longlifu of which the shareholding was previously held on behalf of Mr. Yang Hong Gen, a director and a major shareholder of the Company.

The amount was unsecured and interest-free.

19. AMOUNTS DUE TO DIRECTORS

THE GROUP AND THE COMPANY

The amounts are unsecured, interest free and are repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th September, 2004

20. SHARE CAPITAL

THE GROUP AND THE COMPANY

| | Number of shares | Amount HK\$'000 |
|--|------------------|--------------------|
| Authorised: | | |
| Ordinary shares of HK\$0.10 each | | |
| Incorporation of the Company (<i>note a</i>) and balances at 30th September, 2003 and 1st October, 2003 | 1,000,000 | 100 |
| Increase on 26th May, 2004 (<i>note c</i>) | 1,000,000 | 100 |
| Further increased on 26th May, 2004 (<i>note d</i>) | 1,998,000,000 | 199,800 |
| At 30th September, 2004 | 2,000,000,000 | 200,000 |
| Issued and fully paid: | | |
| Incorporation of the Company | — | — |
| Shares issued at nil paid (<i>note b</i>) | 1,000,000 | — |
| At 30th September, 2003 and 1st October, 2003 | 1,000,000 | — |
| Shares issued upon reorganisation (<i>note c</i>) | 1,000,000 | 200 |
| Exercise of the Bonds (<i>note e</i>) | 24,500,000 | 2,450 |
| Issue of shares on placing (<i>note f</i>) | 125,000,000 | 12,500 |
| Capitalisation issue (<i>note g</i>) | 348,500,000 | 34,850 |
| At 30th September, 2004 | 500,000,000 | 50,000 |

Notes:

- (a) On 5th June, 2003, the Company was incorporated with an authorised share capital of HK\$100,000 divided into 1,000,000 shares of HK\$0.10 each.
- (b) On 25th June, 2003, 1,000,000 shares of HK\$0.10 each were allotted and issued at nil paid.
- (c) On 26th May, 2004, the authorised share capital of the Company was increased to HK\$200,000 by the creation of 1,000,000 shares of HK\$0.10 each, all of which were on that date allotted, issued and credited as fully paid (together with 1,000,000 shares issued in note b).
- (d) The authorised share capital of the Company was further increased to HK\$200 million by the creation of 1,998 million shares of HK\$0.10 each.
- (e) 24,500,000 shares of HK\$0.10 each were issued at HK\$0.35 per share pursuant to the conversion of the Bonds.
- (f) 125,000,000 shares of HK\$0.10 each were issued at HK\$0.50 per share.
- (g) 348,500,000 shares of HK\$0.10 each were issued and credited as fully paid by capitalising the Company's share premium.

For the purpose of the preparation of the comparative figures, the balance of share capital shown as at 30th September, 2003 represented share capital of Wallfaith.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th September, 2004

21. 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, persons or entity provides research, development or other technological support to the Group, any minority shareholder in the Company’s subsidiaries, and adviser to business development of the Group. The Scheme became effective on 26th May, 2004 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue as at the date of approval of the Scheme. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting.

Share options granted 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, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company’s shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders’ approval in advance in a general meeting.

The offer of a grant of share options may be accepted in writing within 21 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted shall be determined by the directors at their absolute discretion, but in any event shall not be more than 10 years from the date of the offer of the share options.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the closing price of the Company’s shares as stated in the Stock Exchange’s daily quotation sheet on the date of the offer of grant; (ii) the average closing price of the Company’s shares as stated in the Stock Exchange’s daily quotation sheets for the five business days immediately preceding the date of the offer of grant; and (iii) the nominal value of the Company’s shares.

Up to 30th September, 2004, no share options have been granted under the Scheme.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th September, 2004

22. RESERVES

THE COMPANY

| | Share premium HK\$'000 | Accumulated profits HK\$'000 | Total HK\$'000 |
|--|------------------------------|------------------------------------|-------------------|
| Incorporation of the Company | — | — | — |
| At 30th September, 2003 and 1st October, 2003 | — | — | — |
| Shares exchanged upon reorganisation (<i>note</i>) | 74,953 | — | 74,953 |
| Exercise of the Bonds | 6,125 | — | 6,125 |
| Issue of shares on placing | 50,000 | — | 50,000 |
| New shares issued expenses | (13,130) | — | (13,130) |
| Capitalisation issue | (34,850) | — | (34,850) |
| Profit for the year | — | 5,036 | 5,036 |
| Interim dividend | — | (5,000) | (5,000) |
| At 30th September, 2004 | 83,098 | 36 | 83,134 |

Note: The amount represents the difference between the book value of the underlying net assets of the subsidiaries acquired by the Company under the group reorganisation and the nominal value of the Company's shares issued for the acquisition.

In addition to accumulated profits, under the Companies Law Cap.22 (Law 3 of 1961 as consolidated and revised), the share premium is also available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of share premium, if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they became due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and shares premium accounts.

At the balance sheet date, the Company has distributable profits of HK\$83,134,000, which comprised share premium and accumulated profits in aggregate.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th September, 2004

23. ACQUISITION OF SUBSIDIARIES

| | 2003 HK\$'000 |
|---|------------------|
| Net assets acquired: | |
| Property, plant and equipment | 26 |
| Other receivables (<i>note 1</i>) | 2,170 |
| Amount due from a director | 360 |
| Bank balances and cash | 412 |
| Other payables and accruals (<i>note 2</i>) | (2,589) |
| | <u>379</u> |
| Net assets/total consideration | <u>379</u> |
| Satisfied by issue of a share of Wallfaith | <u>379</u> |
| Net cash inflow arising on acquisition: | |
| Bank balances and cash acquired | <u>412</u> |

Notes:

- (1) Amount represented the amount due from Suzhou Longlifu.
- (2) Included in other payables and accruals was an amount due to Wallfaith of HK\$2,500,000.

24. OPERATING LEASE COMMITMENTS

| | The Group as lessee | |
|--|---------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Minimum lease payments under operating lease during the year | <u>487</u> | <u>481</u> |

As at the respective balance sheet dates, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of office premises which fall due as follows:

| | 2004 HK\$'000 | 2003 HK\$'000 |
|---------------------------------------|------------------|------------------|
| Within one year | 367 | 494 |
| In the second to fifth year inclusive | <u>101</u> | <u>89</u> |
| | <u>468</u> | <u>583</u> |

Leases are negotiated and rentals are fixed for terms of 6 months to 3 years.

The Company had no operating lease commitments at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th September, 2004

25. CAPITAL COMMITMENTS

| | THE GROUP | |
|---|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Capital expenditure in respect of the acquisition of land use right contracted for but not provided in the financial statements | <u>3,175</u> | <u>—</u> |

The Company had no capital commitments at the balance sheet date.

26. RETIREMENT BENEFITS SCHEME

The employees of the subsidiaries in the PRC are members of a state-managed retirement benefits scheme operated by the PRC government.

The relevant subsidiaries are required to make contributions to the defined contribution pension scheme in the PRC based on certain percentage of the monthly salaries of their current employees to fund the benefits. The employees are entitled to retirement pension calculated with reference to their basic salaries on retirement and their length of service in accordance with the relevant government regulations. The PRC government is responsible for the pension liability to these retired staff. The pension scheme contributions made by the Group was approximately HK\$217,000 (2003: HK\$34,500) for the year.

In addition, pursuant to regulations stipulated by the PRC government, the PRC subsidiaries started a defined contribution health care scheme with effective from 1st July, 2002. The employees currently under the defined contribution pension scheme are entitled to the health care scheme. Under this scheme, the PRC subsidiary and the relevant employees have to contribute 9% and 2% of the employees' salaries to the scheme respectively. The health care scheme contributions made by the PRC subsidiary was approximately HK\$58,000 (2003: HK\$61,500) for the year.

27. RELATED PARTY TRANSACTIONS

Details of balances with related parties are disclosed in notes 18 and 19.

As at 30th September, 2003, 吳縣市渭塘鎮集體資產經營公司 acted as the guarantor for bank loans of approximately HK\$11,321,000 granted to the Group. No such guarantee was outstanding as at 30th September, 2004.

In addition, 蘇州天成投資有限公司 and Mr. Yang Hong Gen acted as guarantors for bank loans of HK\$7,358,000 and HK\$20,755,000, respectively, granted to the Group during the year. No such guarantees were outstanding as at 30th September, 2004.

FINANCIAL SUMMARY

RESULTS

| | For the year ended 30th September, | | | |
|-----------------------------------|------------------------------------|----------|----------|----------|
| | 2001 | 2002 | 2003 | 2004 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Turnover | 99,018 | 134,540 | 186,573 | 197,822 |
| Cost of sales | (67,231) | (71,941) | (88,989) | (66,257) |
| Gross profit | 31,787 | 62,599 | 97,584 | 131,565 |
| Other operating income | 85 | 2,885 | 265 | 368 |
| Administrative expenses | (2,691) | (4,777) | (7,575) | (11,458) |
| Selling and distribution expenses | (20,583) | (35,630) | (50,116) | (77,874) |
| Other operating expenses | (194) | (150) | (500) | (722) |
| Profit from operations | 8,404 | 24,927 | 39,658 | 41,879 |
| Finance costs | (526) | (928) | (1,187) | (2,213) |
| Profit before tax | 7,878 | 23,999 | 38,471 | 39,666 |
| Income tax expense | — | — | (4,648) | (4,388) |
| Profit for the year | 7,878 | 23,999 | 33,823 | 35,278 |

ASSETS AND LIABILITIES

| | At 30th September, | | | |
|-------------------|--------------------|----------|-----------|----------|
| | 2001 | 2002 | 2003 | 2004 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Total assets | 90,177 | 115,916 | 150,867 | 191,430 |
| Total liabilities | (83,522) | (85,262) | (100,294) | (52,634) |
| | 6,655 | 30,654 | 50,573 | 138,796 |

Notes:

1. The Company was incorporated on 5th June, 2003 and became the holding company of the Group on 26th May, 2004. The above summary represents the financial information based on the group structure following the Group's reorganisation as explained on note 1 to the financial statements.
2. The results for each of the four years ended 30th September, 2003 have been prepared on a combined basis as if the current group structure had been in existence throughout those years.
3. The Company was incorporated on 5th June, 2003 and became the holding company of the Group on 26th May, 2004. Accordingly, the only consolidated balance sheet that have been prepared are set out on page 20 to the financial statements.

STATEMENT OF BUSINESS OBJECTIVES

The following compares the actual business progress of the Group against the business plan from the Latest Practicable Date (as defined in the prospectus of the Company dated 1st June, 2004 (the “Prospectus”) to 30th September, 2004 of the business objectives set out in the Prospectus.

Expected business progress

Actual business progress

RESEARCH AND DEVELOPMENT

- | | |
|--|---|
| 1. Continue to develop and test of Spot Removing Capsules | 1. The development and product testing of Spot Removing Capsules was completed during the period. |
| 2. Apply for all relevant product licences for manufacturing and distribution of High Calcium Protein Nutritious Powder and complete product testings and commercial production testings of High Calcium Protein Nutritious Powder | 2. The Group has obtained all relevant product licences for manufacturing and distribution of High Calcium Protein Nutritious Powder during the period. The Group has completed product testings, commercial production testings of High Calcium Protein Nutritious Powder during the period. |
| 3. Continue to develop and test of Nutrient Yellow Wine | 3. The development and testing of Nutrient Yellow Wine was deferred due to management’s judgement on market condition development. |

MARKETING SALES AND DISTRIBUTION

- | | |
|--|--|
| 1. Identify overseas wholesalers and distributors in South East Asia | 1. The identification of overseas wholesalers and distributors is still in progress. |
| 2. Establish two additional business offices in Eastern China region and recruit twenty additional sales and marketing staff | 2. During the period, the Group has established 10 additional business offices in Eastern China regions and recruit approximately 300 marketing staff. |

ADVERTISING AND PROMOTIONAL ACTIVITIES

- | | |
|---|---|
| 1. Complete the standardisation of corporate logos | 1. The Group has completed standardisation and promotion of the Group’s logo. |
| 2. Change packaging for three products | 2. The Group has completed changing packaging for these products. |
| 3. Conduct market researches to understand younger age group’s product acceptance on the Group’s body care products | 3. The Group has completed the researches to understand younger age group’s product acceptance on the Group’s body care products. |
| 4. Upgrade websites to promote the health consciousness image of the Group | 4. The Group has completed upgrade the website to promote the health consciousness image of the Group. |

STATEMENT OF BUSINESS OBJECTIVES

Expected business progress

Actual business progress

PRODUCTION

1. Streamline and upgrade the production facilities of the Longlifu factory

1. The Group has streamlined and upgraded the part of the production facilities of the Longlifu factory during the period.

IMPLEMENTING ERP MANAGEMENT AND UPGRADING COMPUTER FACILITIES

1. Purchase not more than twenty computers for various business offices

1. The Group has completed the implementation of the ERP management system and purchased approximately 100 computers.