



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)



2004/2005

Interim 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.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNTS

The board of directors (the “Board”) of Longlife Group Holdings Limited (the “Company”) announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the three months and six months ended 31 March 2005 together with the comparative unaudited figures for the corresponding periods in 2004, prepared in accordance with generally accepted accounting principles in Hong Kong, as follows. The unaudited results have not been audited by the Company’s auditors but have been reviewed by the Company’s audit committee.

	<i>Notes</i>	(Unaudited) Three months ended 31 March		(Unaudited) Six months ended 31 March	
		2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Turnover	2	60,294	63,993	111,936	111,177
Cost of sales		(19,671)	(29,489)	(36,947)	(45,165)
Gross profit		40,623	34,504	74,989	66,012
Other operating income		284	135	426	224
Administrative expenses		(3,832)	(2,340)	(7,394)	(5,271)
Selling and distribution expenses		(23,517)	(17,639)	(44,284)	(36,375)
Other operating expenses		(236)	(186)	(348)	(476)
Profit from operations	3	13,322	14,474	23,389	24,114
Finance costs	4	(346)	(618)	(591)	(1,073)
Profit before tax		12,976	13,856	22,798	23,041
Income tax expenses	5	(762)	(1,670)	(762)	(2,872)
Net profit from ordinary activities attributable to shareholders		12,214	12,186	22,036	20,169
Dividends	6	—	—	—	—
Earnings per share	7				
– Basic		2.44 cents	3.48 cents	4.41 cents	5.75 cents
– Diluted		2.44 cents	3.32 cents	4.40 cents	5.52 cents

CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited) As at 31 March 2005 HK\$'000	(Audited) As at 30 September 2004 HK\$'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment		34,299	30,102
Deposit paid for acquisition of fixed assets		7,996	1,226
		<u>42,295</u>	<u>31,328</u>
CURRENT ASSETS			
Inventories		75,721	74,801
Trade receivables	8	48,248	33,419
Deposits, prepayments and other receivables		22,623	17,035
Bank balances and cash		27,433	34,847
		<u>174,025</u>	<u>160,102</u>
CURRENT LIABILITIES			
Trade payables	9	10,740	7,872
Other payables and accruals		15,427	19,803
Bank loans		28,255	9,434
Amounts due to directors	10	502	150
Tax payable		314	842
Dividend payable		250	250
Dividend payable to the former shareholders of a subsidiaries		—	14,283
		<u>55,488</u>	<u>52,634</u>
NET CURRENT ASSETS		<u>118,537</u>	<u>107,468</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>160,832</u>	<u>138,796</u>
CAPITAL AND RESERVES			
Share capital		50,000	50,000
Reserves		110,832	88,796
		<u>160,832</u>	<u>138,796</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 March 2005

	Paid in capital/ share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Special reserve <i>HK\$'000</i>	Accumulated profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 October 2003 (Audited)	1	22,642	–	27,930	50,573
Profit for the period (Unaudited)	–	–	–	20,169	20,169
At 31 March 2004 (Unaudited)	1	22,642	–	48,099	70,742
At 1 October 2004 (Audited)	50,000	8,145	22,443	58,208	138,796
Profit for the period (Unaudited)	–	–	–	22,036	22,036
At 31 March 2005 (Unaudited)	50,000	8,145	22,443	80,244	160,832

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	(Unaudited) Six months ended 31 March	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
NET CASH INFLOW FROM OPERATING ACTIVITIES	2,805	10,760
Net cash outflow from investing activities	(12,683)	(2,023)
Net cash inflow from financing activities	2,464	9,677
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(7,414)	18,414
Cash and cash equivalents at beginning of period	34,847	16,785
CASH AND CASH EQUIVALENTS AT END OF PERIOD	27,433	35,199

Notes:

1. Group Reorganisation and Basis of Preparation

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 5 June 2003.

Pursuant to the group reorganisation completed on 26 May 2004 (the “Group Reorganisation”) in preparation for the listing of the Company’s shares on the GEM of the Exchange, the Company became the holding company of its subsidiaries. Details of the Group Reorganisation was set out in the prospectus of the Company dated 1 June 2004 (the “Prospectus”).

The shares of the Company were successfully listed on the GEM of the Exchange on 17 June 2004.

The unaudited results of the Group for the periods ended 31 March 2004 comprised the results of the Company and its subsidiaries using the merger accounting basis as if the current group structure has been in existence throughout the said periods under report or since their respective dates of incorporation/acquisition, where this is a shorter period.

The unaudited condensed results have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Statements issued by the Hong Kong Institute of Certified Public Accountants. The unaudited condensed results have been prepared under the historical cost convention. The accounting policies and methods of computation adopted are consistent with those followed in the preparation of the Group’s audited financial statements set out in the annual report for the year ended 30 September 2004.

2. Turnover

Turnover represents the net amounts received and receivable from sales of consumer products less sales tax and discounts, if any, during the periods. The Group is solely engaged in the manufacture, research, development and distribution of consumer products and operates in the People’s Republic of China (the “PRC”) only. In addition, the identifiable assets of the Group are located in the PRC. Accordingly, no analysis by business segment and geographical area of operations are provided. However, for reference purposes only, the following set out an analysis of revenue and turnover during the three months and six months ended 31 March 2005 and the comparative figures for the corresponding periods in 2004.

	(Unaudited) Three months ended 31 March		(Unaudited) Six months ended 31 March	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Nutrients and health care products	26,783	34,046	41,393	50,876
Body care products	33,511	29,947	70,543	60,301
	60,294	63,993	111,936	111,177

3. Profit from Operations

	(Unaudited) Three months ended 31 March		(Unaudited) Six months ended 31 March	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000

Profit from operations has been arrived at after charging:

Cost of goods sold	19,671	29,489	36,947	45,165
Depreciation	852	545	1,752	1,274

4. Finance Costs

	(Unaudited) Three months ended 31 March		(Unaudited) Six months ended 31 March	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000

Interest on:

Exchangeable bonds	–	122	–	122
Bank loans wholly repayable within five years	346	496	591	951
	346	618	591	1,073

5. Income Tax Expenses

	(Unaudited) Three months ended 31 March		(Unaudited) Six months ended 31 March	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000

Tax charge comprises:

Tax in other regions of the PRC (Outside Hong Kong)	762	1,670	762	2,872
---	-----	-------	-----	-------

No provision for Hong Kong profits tax has been made for the periods as the income neither arises in, nor is derived from, Hong Kong.

5. Income Tax Expenses (continued)

Pursuant to the relevant laws and regulations in the PRC, Suzhou Longlifu Health Food Co., Ltd (“Suzhou Longlifu”) and Suzhou Beautiful Biochemistry Co., Ltd. (“Suzhou Beautiful”) were entitled to the exemptions from the PRC Foreign Enterprise Income Tax (“FEIT”) for two years starting from 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 1 January 2001 and Suzhou Longlifu was entitled to a 50% reduction from FEIT commenced on 1 January 2003. Suzhou Beautiful obtained confirmation from the relevant tax authority for commencing its first profit-making year from 1 January 2004.

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

	(Unaudited) Three months ended 31 March				(Unaudited) Six months ended 31 March			
	2005		2004		2005		2004	
	HK\$'000		HK\$'000		HK\$'000		HK\$'000	
Profit before tax	12,976		13,856		22,798		23,041	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Tax at domestic statutory tax rate of 24% (2004: 24%)	3,114	24	3,325	24	5,472	24	5,530	24
Income tax on concessionary rate	(2,352)	(18)	(1,655)	(12)	(4,710)	(21)	(2,658)	(12)
Tax charged for the period	762	6	1,670	12	762	3	2,872	12

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

6. Dividends

The Board did not recommend the payment of any interim dividend for the periods ended 31 March 2005 (periods ended 31 March 2004: nil) and proposed that the profit to be retained.

7. Earnings Per Share

Basic earnings per share

The calculations of basic earnings per share for the three months and six months ended 31 March 2005 are based on the unaudited consolidated net profit from ordinary activities attributable to shareholders for the periods of approximately HK\$12,214,000 and HK\$22,036,000, respectively and on 500,000,000 ordinary shares that have been in issue throughout the periods.

For information only, the calculations of basic earnings per share for the three months and six months ended 31 March 2004 are based on the unaudited combined net profit from ordinary activities attributable to shareholders for the periods of approximately HK\$12,186,000 and HK\$20,169,000, respectively and on 350,500,000 ordinary shares that have been in issue throughout the periods on the assumption that the Group Reorganisation and the capitalisation issue had been completed on date of grant.

Diluted earnings per share

The calculations of diluted earnings per share for the three months and six months ended 31 March 2005 are based on the results of HK\$12,214,000 and HK\$22,036,000, respectively and on adjusted number of share of approximately 501,264,000 and 501,299,000 ordinary shares that have been in issue throughout the periods respectively on the assumption that the 50,000,000 share options had been exercised on 1 October 2004.

For information only, the calculations of diluted earnings per share for the three months and six months ended 31 March 2004 are based on the adjusted results of approximately HK\$12,443,000 and HK\$20,685,000, respectively, after adjusted the interest on exchangeable bonds ("Exchangeable Bonds") with CITIC Investment Limited, the principal terms of which are set out in the Prospectus, of approximately HK\$257,000 and HK\$516,000 respectively and on adjusted number of share of 375,000,000 ordinary shares that have been in issue throughout the periods on the assumption that the Group Reorganisation and capitalisation issue of 350,500,000 shares of the Company had been effective on 1 October 2003 taking into account the weighted average number of 24,500,000 to be issued upon conversion of Exchangeable Bonds in accordance with the terms of the deed poll constituting the Exchangeable Bonds dated 18 September 2003.

8. 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:

	(Unaudited) 31 March 2005 HK\$'000	(Audited) 30 September 2004 HK\$'000
0 -90 days	36,004	27,765
91 – 180 days	9,467	4,450
181 – 360 days	2,030	987
Over 360 days	1,939	1,409
	49,440	34,611
Less: Allowances for doubtful debts	(1,192)	(1,192)
	48,248	33,419

9. Trade Payables

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

	(Unaudited) 31 March 2005 HK\$'000	(Audited) 30 September 2004 HK\$'000
0 -90 days	8,822	6,324
91 – 180 days	1,548	1,380
181 – 360 days	308	132
Over 360 days	62	36
	10,740	7,872

10. Amounts Due to Directors

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

11. Operating Lease Commitments

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

	(Unaudited) 31 March 2005 HK\$'000	(Audited) 30 September 2004 HK\$'000
Within one year	433	367
In the second to fifth year inclusive	230	101
	663	468

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

12. Captial Commitments

	(Unaudited) 31 March 2005 HK\$'000	(Audited) 30 September 2004 HK\$'000
Capital expenditure in respect of the acquisition of land use right contracted for but not provided in the financial statements	-	3,175

BUSINESS REVIEW

For the six months ended 31 March 2005, the overall turnover of the Group continued to grow with an increase from approximately HK\$111 million to approximately HK\$112 million, representing a slight increase of 1% over the corresponding period last year. On a quarterly basis, the turnover of the second quarter of this fiscal year showed a slight decrease of 6% over the corresponding period of 2004.

During the three months and six months ended 31 March 2005, the effect of revenue growth of body care products has been offset by the revenue drop of nutrients and health care products. The shift in sales mix was due to the Group has been more focused on promoting body care products with higher gross profit margins.

The Group's gross margin has increased from 59% for the six months ended 31 March 2004 to 67% for the six months ended 31 March 2005; and from 54% for the three months ended 31 March 2004 to 67% for the three months ended 31 March 2005. The improvement in gross profit margin was due to the Group has placed more effort in products with high profit margins.

BUSINESS REVIEW *(continued)*

In order to strengthen its coverage in the Eastern China Region, the Group increases advertising and number of sales headcount. As a result, selling and distribution expenses increased by 33% and 22% to approximately HK\$23.5 million and HK\$44.3 million for the three months and six months ended 31 March 2005 respectively as compared to the corresponding periods last year.

During the periods under review, the Group has placed increasing emphasis on the improvement of efficiency and effective controls over sales offices located in more than 10 provinces and municipal cities in the PRC. Additional administrative and finance staffs have been employed to cater for the management of the expanding sales team. Moreover, the Company incurred additional administrative and professional expenses for listing compliance in 2005. Accordingly, administrative expenses increased by 64% and 40% to approximately HK\$3.8 million and HK\$7.4 million for the three months and six months ended 31 March 2005 respectively as compared to the corresponding periods last year.

The Group's effective tax rate was lowered during the three months and six months ended 31 March 2005 as compared with the corresponding periods last year because of the tax benefit enjoyed by Suzhou Beautiful.

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\$27.4 million and approximately HK\$34.8 million as at 31 March 2005 and 30 September 2004, respectively. The gearing ratio (defined as total borrowings including bank loans and amounts due to directors to total assets) as at 31 March 2005 and 30 September 2004 is 13% and 5% respectively. The increase in gearing ratio is mainly due to the increase in bank borrowings of approximately HK\$19 million for the additional working capital.

On 17 June 2004, the Group was successfully listed on the GEM of the Stock Exchange, the Group received listing proceeds (net of listing expenses) of approximately HK\$49.3 million.

Except for the use of listing proceeds mentioned above, the Group generally finance its operations with internally generated cash flows and banking facilities. As at 31 March 2005, the Group has short term bank borrowings of approximately HK\$28.3 million (30 September 2004: HK\$9.4 million) which are repayable within one year. The Group's bank borrowings are secured by property, plant and equipment, corporate guarantee by the Company and its subsidiary.

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 has no material contingent liabilities as at 31 March 2005 (30 September 2004: nil).

BUSINESS PROSPECT

The directors believe research and development (“R&D”) are essential for the continuous growth of the Group. The Group’s R&D team particularly focuses on the development of new commercial-viable products and the development of production technology in order to facilitate the commercialisation of the Group’s wide range of products. In addition, the R&D team continuously participates in academic seminars and consumer product exhibitions in order to understand and keep abreast of the latest development of the market trend. During the period under review, the product testing and commercial production testing of Spot Removing Capsule, a new nutrient and health care product, was completed. The Group has also obtained all the relevant licences of this product. During the period under review, the new products were well received by the market.

To further sustain the growth of the business, the Group intends to expand the sales network and the market coverage by establishing more branch offices and business offices in different provinces or cities in the PRC. During the period under review, new business offices have been established in various regions such as Sichuan Province and Hubei Province. During the period under review, the Group commenced export of its body care products (such as Goat Placenta and SOD Cream (羊胎素SOD蜜)) and nutrients and health products (such as Glossy-ganoderma and Placenta Capsule (靈芝胎盤膠囊), Pearl Powder Capsule (珍珠粉膠囊), etc) to various South East Asia Countries.

The Group places strong emphasis on establishing the image of products through product packaging. During the period under review, the Group has upgraded its packing facilities. Different product packagings includes large gift pack (大禮盒裝), simple pack (簡易裝) and discount pack (優惠裝), which serve the function in the implementation of different marketing approaches.

BUSINESS PROSPECT *(continued)*

In order to enhance the brand name of “Longlife”, the Group has advertised through different mass media including newspaper and television such as advertising in Shanghai Television Station (上海電視台) and Jiangsu TV (江蘇衛視). The Group has formulated and implemented aggressive advertising strategies through which, the directors believe that the Group is able to increase sales volume.

The Group has confirmed its commitment to enhance computer facilities as to improve the effectiveness and efficiency of the Group’s workflow to cater for further development. During the period under review, the implantation of ERP management system has been completed. It allows the Group’s effective control over sales order, processing, inventories on hand and reallocation of inventories among different business offices.

DIRECTORS’ INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 March 2005, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meanings of Part XV of the Securities and Future Ordinance (“SFO”)) which require notification to the Company and the Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such director or chief executive is taken or deemed to have under such provision of the SFO) or which are required pursuant to section 352 of the SFO or which are required, pursuant to rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Exchange were as follows:

Long positions in the ordinary shares in the Company

Name	Capacity	Number of ordinary shares	Percentage of the issued share capital of the Company
Yang Hong Gen (楊洪根)	Beneficial owner	280,500,000	56.1%
Zhang San Lin (張三林)	Beneficial owner	25,000,000	5.0%
Yang Shun Feng (楊順峰)	Beneficial owner	10,000,000	2.0%
Yao Feng (姚鋒)	Beneficial owner	10,000,000	2.0%

**DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SHARES,
UNDERLYING SHARES AND DEBENTURES** *(continued)*

Options to subscribe for ordinary shares in the Company (as cash settled equity derivatives)

Name	Date of grant	Capacity	Closing price immediately before the date on which the options were granted HK\$	Exercise price HK\$	Number of share options outstanding as at 1 October 2004	Number of share options granted	Number of share options outstanding as at 31 March 2005
Yang Hong Gen (楊洪根)	28 December 2004	Beneficial owner	0.27	0.27	–	5,000,000	5,000,000
Zhang San Lin (張三林)	28 December 2004	Beneficial owner	0.27	0.27	–	5,000,000	5,000,000
Yang Shun Feng (楊順峰)	28 December 2004	Beneficial owner	0.27	0.27	–	5,000,000	5,000,000
Yao Feng (姚鋒)	28 December 2004	Beneficial owner	0.27	0.27	–	5,000,000	5,000,000
Sha Hai Bo (沙海波)	28 December 2004	Beneficial owner	0.27	0.27	–	5,000,000	5,000,000

The exercisable period of the above share options is from 28 December 2004 to 27 December 2006. There are no options exercised, lapsed and cancelled during the period.

Save as disclosed above, none of the directors or chief executive of the Company have, as at 31 March 2005, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meanings of Part XV of the SFO) which require notification to the Company and the Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such director or chief executive is taken or deemed to have under such provision of the SFO) or which are required pursuant to section 352 of the SFO or which are required, pursuant to rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Exchange.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 31 March 2005, 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 AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES" 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 ordinary shares in the Company

Name	Capacity	Number of ordinary shares	Percentage of the issued share capital of the Company
Bao Xiao Mei [#] (包小妹)	Beneficial owner	280,500,000	56.1%

Option to subscribe for ordinary shares in the Company (as cash settled equity derivatives)

Name	Date of grant	Capacity	Closing price immediately before the date on which the options were granted HK\$	Exercise price HK\$	Number of share options outstanding as at 1 October 2004	Number of share options granted	Number of share options outstanding as at 31 March 2005
Bao Xiao Mei [#] (包小妹)	28 December 2004	Interest of spouse	0.27	0.27	–	5,000,000	5,000,000

The exercisable period of the above share options is from 28 December 2004 to 27 December 2006. There are no options exercised, lapsed and cancelled during the period.

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.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

(continued)

Save as disclosed above and in the paragraph headed “INTERESTS AND SHORT POSITIONS OF OTHER PERSONS”, as at 31 March 2005, 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.

INTERESTS AND SHORT POSITIONS OF OTHER PERSONS

As at 31 March 2005, 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 AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES” 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 ordinary shares in the Company

Name	Capacity	Number of ordinary shares	Percentage of the issued share capital of the Company
Zhou Xiang Zhen # (周祥珍)	Beneficial owner	25,000,000	5.0%
CITIC International * Assets Management Limited	Beneficial owner	31,500,000	6.3%
CITIC International * Financial Holdings Limited	Through a controlled corporation	31,500,000	6.3%
CITIC Group *	Through controlled corporations	31,500,000	6.3%

INTERESTS AND SHORT POSITIONS OF OTHER PERSONS *(continued)***Option to subscribe for ordinary shares in the Company (as cash settled equity derivatives)**

Name	Date of grant	Capacity	Closing price immediately before the date on which the options were granted HK\$	Exercise price HK\$	Number of share options outstanding as at 1 October 2004	Number of share options granted	Number of share options outstanding as at 31 March 2005
Zhou Xiang Zhen [#] (周祥珍)	28 December 2004	Interest of spouse	0.27	0.27	–	5,000,000	5,000,000

The exercisable period of the above share options is from 28 December 2004 to 27 December 2006. There are no options exercised, lapsed and cancelled during the period.

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.

^{*} CITIC Group was deemed to be interested in 31,500,000 ordinary shares of the Company by virtue of its interest in CITIC International Financial Holdings Limited, CITIC International Financial Holdings Limited was deemed to be interested in 31,500,000 ordinary shares of the Company by virtue of its interest in CITIC International Assets Management Limited.

Save as disclosed above and in the paragraph headed “INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS”, as at 31 March 2005, 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.

RIGHTS OF DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

Pursuant to the Company's share option scheme (the "Scheme") adopted on 26 May 2004 by the written resolutions of the shareholders of the Company, the Company granted certain options to the following directors which entitled the holder to subscribe for ordinary shares of the Company. Further details of the Scheme are set out under the heading "SHARE OPTION SCHEME" below. Details of the share option granted up to 31 March 2005 are set out in "DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES". No share option was exercised by the Director as at 31 March 2005.

Save as disclosed above, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

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. 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 26 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 OPTION SCHEME *(continued)*

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 daily quotation sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") 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.

There are no share options outstanding as at 1 October 2004. Total number share options granted during the six months ended 31 March 2005 was 50,000,000. No share options has been exercised, lapsed and cancelled during the period.

Details of the share options granted and remain outstanding as at 31 March 2005 are as follow:

Position	Exercisable period	Exercise price HK\$	Number of share option	Percentage vested
Directors	28 December 2004 to 27 December 2006	0.27	25,000,000	50 %
Other employees	28 December 2004 to 27 December 2006	0.27	25,000,000	50 %
Total			<u>50,000,000</u>	<u>100 %</u>

VALUATION OF SHARE OPTION

The directors of the Company consider that it is inappropriate to state the value of the options granted under the Scheme due to the following reasons:

- (i) the calculation of the value of the options will be based on a number of undetermined but crucial variables such as the subscription price payable for the shares in the Company, the number of options to be granted under the Scheme during their duration, the exercisable period, interest rate, expected volatility and other relevant variables. In particular, the duration of the Scheme of 10 years will make these volatile variables very difficult to ascertain with accuracy;
- (ii) the generally accepted pricing models of options normally value options which are transferable but the options granted to a grantee under the Scheme are personal to the grantee which are non-transferable and non-assignable and hence calculation of the value of the options granted under the Schemes using such pricing models may not be appropriate; and
- (iii) the directors of the Company are of the view that the calculation on speculative assumptions would not be meaningful and would be misleading to shareholders of the Company.

EMPLOYEES' REMUNERATION

As at 31 March 2005, the Group had approximately 4,000 (30 September 2004: 2,540) employees which are mainly located in the PRC. The staff costs for the six months ended 31 March 2005 was approximately HK\$16.4 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 employees of the subsidiaries are members of retirement benefits scheme according to the statutory requirements. The relevant subsidiaries is required to make contributions to the defined contribution pension scheme 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.

In addition, pursuant to regulations stipulated by the PRC government, the PRC subsidiary started a defined contribution health care scheme. 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 certain percentage of the employees' salaries to the scheme.

BUSINESS PROGRESS

The following compares the actual business progress of the Group against the business plan from 1 October 2004 to 31 March 2005 as set out in the Prospectus.

Expected business progress**Actual business progress****RESEARCH AND DEVELOPMENT**

- | | |
|--|---|
| 1. Complete product testing and commercial production testing of Spot Removing capsule | 1. The product testing and commercial production testing of Spot Removing Capsules was completed during the period. |
| 2. Apply for all relevant product licences for manufacturing and distribution of Spot Removing Capsule | 2. The Group has obtained all relevant product licences for manufacturing and distribution of Spot Removing Capsule during the period. |
| 3. Continue development and testing of Nutrient Yellow Wine | 3. The development and testing of Nutrient Yellow Wine was deferred due to management's judgment on market condition development. |
| 4. Amount of placing proceed to be invested: HK\$6 million | 4. During the six months ended 31 March 2005, the Group spent approximately HK\$0.7 million in the product testing, commercial production testing and application for all relevant product licences for manufacturing and distribution of Spot Removing Capsule. This amount is lower than the estimation made in June 2004 set out in the Prospectus. The lower costs achieved was mainly due to better cost control and also the deferral of the development of Nutrient Yellow Wine. |

BUSINESS PROGRESS *(continued)***Expected business progress****Actual business progress****MARKETING SALES AND DISTRIBUTION**

- | | |
|---|---|
| 1. Establish three business offices in Guangdong and Fujian regions | 1. The Group has established 6 additional business offices in Sichuan and Hubei regions. |
| 2. Commence exporting some of the Group's products to the South East Asia markets | 2. The Group commenced export of its product to various South East Asia Markets. |
| 3. Recruit thirty additional sales and marketing staff | 3. The Group has recruited approximately twenty sales and marketing managers and over 1,000 salesmen during the period. |
| 4. Amount of placing proceeds to be invested: HK\$2 million | 4. There is no significant deviation. |

ADVERTISING AND PROMOTIONAL ACTIVITIES

- | | |
|---|---|
| 1. Change packaging for four body care products | 1. The Group has completed changing packaging for these products. |
| 2. Upgrade and change packaging for gift box | 2. The Group has upgraded and changed packaging for the gift box. |
| 3. Organise interactive seminars for the sales and marketing staff to strengthen their product knowledge of the Group's products and marketing skills | 3. The Group had organized a number of interactive seminars for the sales and marketing staffs. |

BUSINESS PROGRESS *(continued)***Expected business progress**

4. Introduce to public media and conduct promotional campaigns on television and magazine in the PRC for High Calcium Protein Nutritious Powder
5. Formulate advertising campaign for holiday seasons in late 2004 and early 2005
6. Amount of placing proceeds to be invested: HK\$4 million

Actual business progress

4. The Group has introduced High Calcium Protein Nutritious Powder to public media and conduct promotional campaigns on television and magazine in the PRC.
5. The Group has formulated advertising campaign for holiday seasons in late 2004 and early 2005.
6. There is no significant deviation.

PRODUCTION

1. Purchase machinery for Suzhou Beautiful
2. Amount of placing proceed to be invested: HK\$5 million

1. The Group has purchased machineries for its body care products.
2. There is no significant deviation.

**IMPLEMENTING ERP
MANAGEMENT AND UPGRADING
COMPUTER FACILITIES**

1. Purchase not more than twenty computers for various business offices
2. Implement computer reporting system for timely sales and delivery reporting
3. Amount of placing proceed to be invested: HK\$1 million

1. The Group has purchased 16 computers for various business offices.
2. The Group has completed the implementation of the ERP management system.
3. There is no significant deviation.

COMPETING INTERESTS

None of the Directors or the management shareholders of the Company and their respective associates (as defined under the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Group or has any other conflict of interest with the Group.

AUDIT COMMITTEE

The Company established an audit committee (the “Committee”) in June 2004 with written terms of reference in compliance with the GEM Listing Rules. The Committee provides an important link between the Board and the Company’s auditors in matters coming within the scope of the Group’s audit. It also reviews the effectiveness of both the external audit and of internal controls and risk evaluation. The Committee comprises three independent non-executive directors of the Company, namely Messrs. Yin Jing Le, Yu Jie and Luk Yu King, James.

The audit committee has reviewed with the management the accounting principles and practices adopted by the Company and discussed internal controls and financial reporting matters including review of the unaudited condensed results of the Company for the three months and six months ended 31 March 2005.

BOARD PRACTICES AND PROCEDURES

During the periods under review, the Company has complied with the board practices and procedures as set out in rules 5.34 to 5.45 of the GEM Listing Rules, which applied before the amendment of the GEM Listing Rules relating to the Code on Corporate Governance and Rules on Corporate Governance Report on 1 January 2005. The Code has become effective for accounting periods commencing on or after 1 January 2005. The Company will prepare a Corporate Governance Report in accordance with Rule 18.44 of the GEM Listing Rules for the financial year ending 30 September 2006.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company had adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company also had made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transaction by Directors.

SPONSOR'S INTERESTS

Pursuant to a sponsor agreement dated 1 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 17 June 2004 (being the listing date) to 30 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 31 March 2005.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the periods under review, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities.

By Order of the Board
Longlife Group Holdings Limited
Yang Hong Gen
Chairman

Hong Kong, 12 May 2005

Executive directors of the Company as at date of this report:

Mr. Yang Hong Gen (楊洪根)
 Mr. Liu Zhuoru (劉卓如)
 Mr. Zhang San Lin (張三林)
 Mr. Yang Shun Feng (楊順峰)
 Mr. Yao Feng (姚鋒)
 Mr. Sha Hai Bo (沙海波)
 Mr. Cheung Chun Ho, Frankie (張晉浩)
 (formerly named as Cheung Kin Hung, Frankie (張建雄))

Independent non-executive directors of the Company as at date of this report:

Mr. Yin Jing Le (尹景樂)
 Mr. Yu Jie (俞杰)
 Mr. Luk Yu King, James (陸宇經)