# Longlife Group Holdings Limited

# 朗力福集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Annual Report 2005

**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")**

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*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.*

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# 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 Chun Ho, Frankie

## NON-EXECUTIVE DIRECTOR

Mr. Lo Wing Yat, Kelvin
(Appointed on 25th November, 2005)

## INDEPENDENT NON-EXECUTIVE DIRECTORS AND AUDIT COMMITTEES

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

## COMPLIANCE OFFICER

Mr. Yao Feng

## COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Wong Chan Biu

## 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
The Bank of East Asia

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

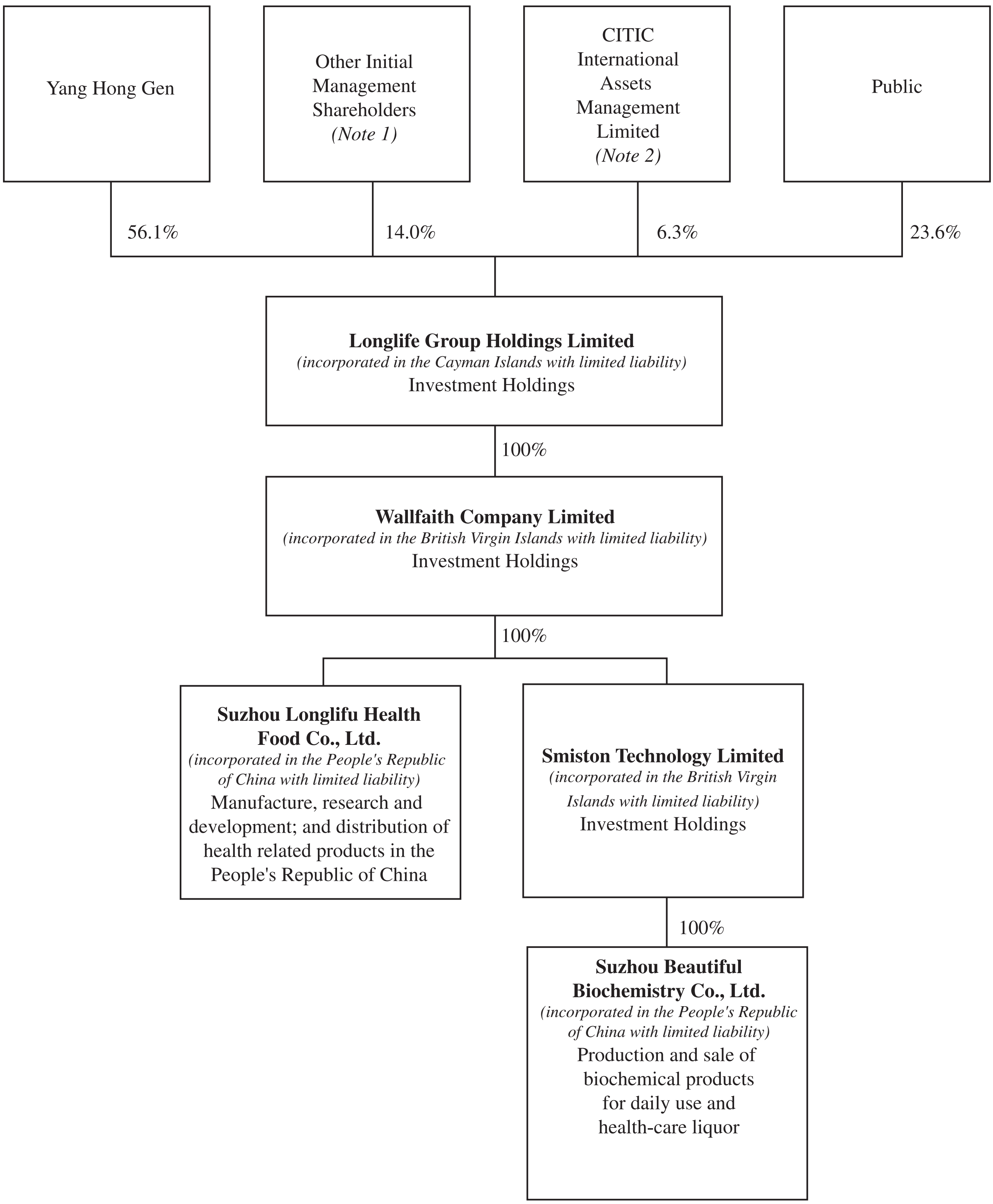
Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands

## 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, 2005, the corporate structure and main activities of the principal members of the Group are shown below:



# GROUP STRUCTURE

*Notes:*

1. Details of the shareholdings of the Other Initial Management Shareholders (collectively, Messrs. Zhang San Lin, Yang Shun Feng, Zhou Sheng Yuan, Li Jin Sen, Yao Feng and Bao Jian Gen) upon completion of the placing of shares, the capitalisation issue and the issue of the conversion shares as detailed in the group re-organisation as set out in the prospectus of the Company dated 1st June, 2004 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% |

2. 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

## BUSINESS REVIEW

For the year ended 30 September 2005, the Group registered a turnover of HK$197.5 million, representing a decrease of about 0.2% over the previous corresponding figure. Net profit attributable to shareholders was HK$25.2 million. Earnings per share for the year ended 30th September, 2005 stood at 5.03 HK cents.

During the past year under review, the Group has increased its capital commitment and expenses in the following three main horizons:

**Firstly, enlarged coverage of the Group's sales and marketing network**
Backed up by the Group's extensive sales and marketing network, we are assured of delivering proven annual results for the company. In light of an increasingly competitive atmosphere in the industry of health care and personal care products, the Group has identified a prime tactic of further exploring the coverage of its sales and marketing network. During the current year, the Group has established a number of new sales branches and offices in various regions including Sichuan, Zhejiang, Jiangxi, Shandong, Anhui, Hunan and Hubei, with a view to fostering sales business and promotion points in new markets. At the same time, concerted effort was made to explore overseas sales channels. In particular, sales professionals in external trade were retained. The Group has also made an attempt to build up business associations with a number of sales companies in Hong Kong, Morocco, Singapore, Canada, France and United Arab Emirates as part of its endeavors to actively expand external trade business.

**Secondly,** the Group has employed more sales and management costs for a focused enhancement of its marketing infrastructure, maintenance and promotion of sales network, as well as expansion and diversification in customer base.

**Furthermore,** to promote the sales volume of our main stream products and enlarge our market share, effect and positioning of certain products were improved and dozens of new products were gradually developed.

## FURTHER STRENGTHENING OF MANAGEMENT AND CONTROL OVER EACH INDIVIDUAL SERVICE UNIT AND PRODUCTION UNIT

In addition to strengthening sales management for improving present business situation, one of the regular focuses is to exert stronger management and control over each individual service unit and production unit.

With stringent management on purchasing, the cost of material was reduced. Accordingly, unit product costs were reduced.

Through our close collaboration with professional software companies in introducing information management, we are well poised to keep abreast of sales information, marketing cost information, product production cost information for various types of products, and make timely responses accordingly. All these moves are strong simulators for lower product inventory at market level, lower raw material inventory at company level and higher product sales growth.

External management experts were engaged to participate in the management of our service units and production units in order to facilitate a more regulated and scientific management style for those units.

## CONTINUATION IN CONSIDERING THE FEASIBILITY OF LISTING ON THE MAIN BOARD

Upon the release of the annual results for the current year, the profit records of the Group for the financial year ended 30th September, 2003, 2004 and 2005 are basically in satisfaction of the requirements for listing on the Main Board of The Stock Exchange of Hong Kong Limited. Relevant professionals are retained by the Group to study and advise the board of the feasibility, the related costs and the benefits in association with the shift of the Group from listing on the Growth Enterprise Market 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.

# CHAIRMAN'S STATEMENT

## FUTURE PROSPECTS

2005 was a year in which the Group has developed defined development strategies, adjusted marketing organization structure, as well as selected and formulated sales tactics, while it was also a year for our training of salespersons, strengthening of sales promotion efforts and consolidation of internal fundamental management. Looking forward to 2006, it will be a year of an increasingly tougher industrial competition and a more challenging environment, yet also a crucial year for Longlife Group to pursue significant business breakthroughs. As to our strategic goal for the recent two years, our management has a vision to upgrade the Group to a promising growing enterprise in the industry of natural function consumer products in China. One of our marketing strategies is to flourish overall product sales of Longlife Group through product branding. Our management is confident that Longlife Group will forge ahead towards great leaps in the coming 2006 financial year.

With all the accomplishment 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
20th December, 2005

# 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.

Total turnover for the year ended 30th September, 2005 was approximately HK$197.5 million which is in line with that for the year ended 30th September, 2004 of approximately HK$197.8 million. The slight drop of approximately HK$0.3 million was the net result of the decrease in sales of certain products in capsule forms and the increase of sales of newly introduced products such as hair-care products.

**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 has been dropped to approximately HK$127.3 million for the financial year ended 30th September, 2005, representing a drop of 3.3% as compared to previous financial year of approximately HK$131.6 million. It was because during the year, the Group has adopted an aggressive pricing policy to offer samples together with existing products, especially new products. Though this policy caused an increase in cost of sales and a decrease in gross profit and profit margin, the directors of the Company ("Directors") believe that it will assist the Group in promoting our new products and extending our sales networks.

**Selling and distribution expenses**

Selling and distribution expenses mainly comprise advertising expenses, sales promotion fees and sales service fees and marketing staff costs. Selling and distribution expenses has grown from approximately HK$77.9 million to approximately HK$81.2 million for the financial year ended 30th September, 2004 and 2005 respectively, representing a growth by 4.2%. The increase was mainly due to the expansion of sales networks, growth of sales teams the higher costs for introduction of new products and as well as its "Longlife" brand name as a whole through various promotion media.

The increase in advertising expenses, sales promotion fees and sales service fees of approximately HK$2.4 million was mainly due to an increase in advertising activities and launching of new products during the financial year ended 30th September, 2005. Increase in marketing staff costs is mainly due to expansion of the sales teams from approximately 2,000 as at 30th September, 2004 to approximately 4,000 sales staff as at 30th September, 2005 with the increase in sales and expansion of sales networks to cover wider geographical areas.

# 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$11.5 million to approximately HK$20.9 million for the financial year ended 30th September, 2004 and 2005 respectively, representing an increase by 81.7%. 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. Moreover, higher administration costs are attributed to maintain the listing status of the Company.

**Net profit**

Net profit had decreased from approximately HK$35.3 million to approximately HK$25.2 million for the financial year ended 30th September, 2004 and 2005 respectively, representing a decrease by 28.6%. The drop in net profit is attributable to decrease in profit margin and the higher selling and distribution expenses and administration expenses resulted from increasing promotional activities, introduction of new product, expansion in marketing networks and sales teams and better management control is employed as a whole.

## (B) OUTLOOK AND NEW DEVELOPMENT

With the surge of the economy in the PRC in recent years, the Group targets to invest more in its future business opportunities by widening its marketing channels and product base. On one hand, the Group will continue to strengthen the marketing and distribution networks. On the other hand, 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. The Directors believe that the investment made to open more sales channels and geographical coverage, to widen its target customer groups, and to enhance the brand awareness and customers' loyalty will form a solid foundation which facilitate future growth.

**Continuing our effort to expand our sales and marketing network**

We believe the expansion of our sales networks and introduction of new products will allows us to reach a wider range of customer group. The marketing and regional sales offices were established with an aggressive but mindful pace.

**Invest in advertising and promotion activities**

We have set up specialized team to implement feasible advertising and promotion plans in order to cater for different regions and seasons. Periodic training are given to the front-line marketing personnel in order to keep them updated with the Group's products as well as marketing strategies.

**Formation of a joint venture company in the People's Republic of China (the "PRC")**

On 29 September 2005, the board of Directors announced that on 19 September 2005, Wallfaith Company Limited ("Wallfaith"), a wholly owned subsidiary of the Company, entered into an agreement (the "JV Agreement") with a company established in the PRC (the "JV Partner"), pursuant to which, Wallfaith and the JV Partner agreed to set up a company in the PRC as a sino-foreign equity joint venture company (the "JV Company") of 61.11% owned by Wallfaith and 38.89% owned by the JV Partner with limited liability.

# MANAGEMENT DISCUSSION AND ANALYSIS

## (B) OUTLOOK AND NEW DEVELOPMENT – *continued*

The total investment amount and the registered capital of the JV Company is US$2.5 million and US$1.8 million respectively, US$1.1 million of the registered capital will be contributed by Wallfaith in cash, representing approximately 61.11% of the registered capital and as to the remaining US$0.7 million will be contributed by the JV Partner by way of injection of certain properties and machineries relevant to the JV Company's business, representing approximately 38.89% of the registered capital.

The JV Company has a term of ten years from the date of issue of its business licence. The board of directors of the JV Company will comprise five directors, 3 of whom will be appointed by Wallfaith and 2 of whom will be appointed by the JV Partner. Wallfaith and the JV Partner will be entitled to share profit or to bear the loss of the JV Company in proportion to their respective equity interest in the JV Company, namely, 61.11% and 38.89%.

The principal business of the JV Company is the production and sale of various kinds of capsules; research and development of new capsule products. It is the Directors' intention that part of the capsules manufactured by the JV Company will be for the Group's use on its health care products in capsule form, the remaining portion will be sold to other parties.

As capsules, being one of the materials for the production of some of the Group's health care products are currently outsourced by the Group, the Directors believe that by establishing the JV Company, the cost of the Group's purchase of capsules may be reduced and thereby the profit margin of its health products in form of capsule may be increased. Further, based on the internal market research conducted by the Group in May 2005 through the study and analysis of the information of certain key capsule manufacturers in the PRC, the reports of the national capsule enterprises meetings and various reported marked analysis, since the demand for the medicines and health food is increasing, as a result, the packing materials in form of capsule for medicines and health food in the PRC is also increasing, the demand of capsules in the PRC market showed an overall increasing trend. Accordingly, the Directors consider that the investment in the JV Company may also increase the Group's profitability.

Further details of the formation of the JV Company is set out in the circular of the Company dated 20th October, 2005.

# MANAGEMENT DISCUSSION AND ANALYSIS

## (C) FINANCIAL REVIEW

**Inventories**

The balance of inventories was approximately HK$85.7 million as at 30th September, 2005 representing an increase of 14.6% as compared to the inventory balance of approximately HK$74.8 million as at 30th September, 2004. The increase from that as at 30th September, 2004 was due to the Group's large number of sales points and sales outlets, which covers a large geographic area. Accordingly, a certain level of stock has to be maintained at all time to ensure smooth delivery and sales. The increase in stock is also attributable to the increase in number of new products which resulted in higher raw materials and finished goods as at 30th September, 2005.

**Liquidity and financial resources**

The Group executes prudent policy in its financial resources management. The Group had total cash and bank balances excluding restricted-use bank deposits of approximately HK$34.7 million and approximately HK$34.8 million as at 30th September, 2005 and 2004, respectively.

Except for the use of listing proceeds mentioned in the prospectus of the Company, the Group generally finance its operations with internally generated cash flows and banking facilities. The financial position of the Group was healthy. As at 30th September, 2005, the Group had secured short term bank borrowings of approximately HK$14.0 million (2004: HK$9.4 million) which are repayable within one year. The Group's bank borrowings are secured by property, plant and equipment having net book value of approximately HK$13.8 million as at 30th September, 2005 (2004: HK$14.4 million). The interest rates of such bank loans are usually at fixed rates.

The gearing ratio (defined as total borrowings including bank loans and amounts due to directors to total assets) as at 30th September, 2005 and 2004 was 6.5% and 5.0% respectively. The increase in gearing ratio is mainly due to the increase in bank loans employed.

**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 except for the inflation of Renmibi effective from July 2005.

**Contingent liabilities**

The Group had no material contingent liabilities as at 30th September, 2005 and 2004.

**Capital commitments**

Capital expenditure contracted for but not provided for in the financial statements, in respect of investment in a joint venture in the People's Republic of China amounted to HK$8,580,000 (2004: in respect of acquisition of land use right amounted to HK$3,175,000).

**Related party transactions**

Except for the amounts due to directors and the issue of share options to Directors, the Group did not have material related party transactions during the years:

# MANAGEMENT DISCUSSION AND ANALYSIS

## (D) EMPLOYEES' REMUNERATION

As at 30th September, 2005, the Group had 4,514 (2004: 2,540) employees from its various offices located in the PRC. Total staff costs for the year ended 30th September, 2005 was approximately HK$36.2 million (2004: 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 GEM Listing Rules 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.

During the year, 50,000,000 share options were 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 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$421,000 (2004: HK$217,000) 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 a certain percentages of the employees' salaries to the scheme respectively. The health care scheme contributions made by the PRC subsidiary was approximately HK$94,000 (2004: HK$58,000) for the year.

All directors' salaries paid during the year are based on their respective service contracts except for the non-executive Directors.

**Mr. Yang Hong Gen**
*Chairman*

Hong Kong
20th December, 2005

# MANAGEMENT PROFILE

## BIOGRAPHICAL DETAILS OF DIRECTORS OF THE COMPANY ("DIRECTORS") AND SENIOR MANAGEMENT

### EXECUTIVE DIRECTORS

**Mr. Yang Hong Gen (楊洪根)**, aged 55, is an executive Director and the Chairman of the Company. Mr. Yang is a brother-in-law of Mr. Zhang San Lin and the father of Mr. Yang Shun Feng. 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 Zhuo Ru (劉卓如)**, aged 58, 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 43, is an executive Director. He is the brother-in-law of Mr. Yang Hong Gen and the uncle of Mr. Yang Shun Feng. 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 31, is an executive Director. 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 and niece of Mr. Zhang San Lin. Mr. Yang has discloseable interests in the Company under the provisions of the Securities and Futures Ordinance.

**Mr. Yao Feng (姚鋒)**, aged 56, is an executive Director and 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 29, is an executive Director 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 Lianyunggang Kuozui Accounting & Taxation Firm (連雲港國瑞税務師事務所). He joined the Group in October 2001. Mr. Sha is responsible for handling the accounting and finance matters of the Group.

**Mr. Cheung Chun Ho, Frankie**, aged 47, is an executive Director. 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

## NON-EXECUTIVE DIRECTOR

**Mr. Lo Wing Yat, Kelvin,** aged 47, is a non-executive Director. Mr. Lo is a director, managing director and alternate chief executive officer of CITIC International Financial Holdings Limited (Stock Code: 183), a company listed on The Stock Exchange of Hong Kong Limited, director and executive vice president of CITIC Ka Wah Bank Limited, director and chief executive officer of CITIC International Assets Management Limited. Mr. Lo is also a non-executive director of Fortune Telecom Holdings Limited and China Sciences Conservational Power Limited.

Mr. Lo graduated from the University of Hong Kong with a Bachelor Degree in Law. He was admitted as a solicitor of the High Court of Hong Kong in 1984 and a solicitor of the Supreme Court in England and Wales in 1989. Prior to joining CITIC International Financial Holdings Limited, Mr. Lo served as an in-house counsel of Bank of China Hong Kong-Macau Regional Office and then became a partner of Messrs. Kao, Lee & Yip and Messrs. Linklaters. Mr. Lo was appointed as the non-executive Director on 25th November, 2005.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Yin Jing Le (尹景樂)**, aged 64, is an independent non-executive Director. 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 64, is an independent non-executive Director. 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 Chairman of the Board of Supervisory of Nanjing Iron and Steel United 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 51, is an independent non-executive Director. Mr. Luk 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.

## SENIOR MANAGEMENT

**Mr. Bao Jian Gen (包建根)**, aged 40, is the assistant manager in production department and a nephew of Mr. Yang. 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 continued 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 (陳中瑋)**, aged 32, 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.

# MANAGEMENT PROFILE

**Mr. Zhou Sheng Yuan (周生元)**, aged 50, is the production manager of the Group and a brother-in-law of Mr. Yang. 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 57, 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.

**Mr. Wong Chan Biu**, aged 57, is the qualified accountant and company secretary of the Company and joined the Group in August 2005. Mr. Wong is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of International Accountants, United Kingdom and member of the Certified General Accountants' Association of Canada. He has over 30 years' experience in accounting, financial management and corporate secretarial work. Prior to joining the Company, Mr. Wong had worked as senior management positions in the accounting or finance department of a number of multinational corporations in North America, Hong Kong and the PRC including North American Property Group, The Hong Kong Land Company Limited, Equant Group, Occidental Petroleum Corporation Group, and was responsible for financial control, tax planning, forecasting and budgetary control in Canada, Hong Kong and the PRC. From August 2004 to January 2005, Mr. Wong was a chief accounting officer and company secretary of Mtone Wireless Corporation, USA, a company incorporated in the United States. Mr. Wong holds a bachelor degree and a master degree in Business Administration of Pacific Western University, Los Angeles, U.S.A..

# DIRECTORS' REPORT

The directors of the Company ("Directors") present the annual report and audited financial statements for the year ended 30th September, 2005.

## PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 14 to the financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 30th September, 2005 are set out in the consolidated income statement on pages 21.

The Directors did not recommend the payment of a final dividend and propose that the profit for the year be retained.

## PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment amounting to HK$6,782,000. The details of these movements during the year in the property, plant and equipment of the Group are set out in note 13 to the financial statements.

## DIRECTORS

The Directors during the year and up to the date of this report were:

**Executive Directors**

Mr. Yang Hong Gen
Mr. Zhang San Lin
Mr. Liu Zhuoru
Mr. Yang Shun Feng
Mr. Yao Feng
Mr. Sha Hai Bo
Mr. Cheung Chun Ho, Frankie

**Non-executive Director**

Mr. Lo Wing Yat, Kelvin (appointed on 25th November, 2005)

**Independent non-executive Directors**

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

In accordance with the provision of the Company's Articles of Association, Messrs. Yang Shun Feng and Sha Hai Bo retire by rotation, and being eligible, offer themselves for re-election.

Subsequent to the year end with effect from 25th November, 2005, Mr. Lo Wing Yat, Kelvin was appointed as a non-executive Director. Under the Articles of Association of the Company, Mr. Lo will retire at the next annual general meeting and is eligible for re-election.

All non-executive Directors, except for Mr. Lo Wing Yat, Kelvin 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 term 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 as 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' REPORT

## DIRECTORS' INTERESTS IN SHARES

At 30th September, 2005, the interests or short positions of the Directors and their associates 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 Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV 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 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 ordinary shares in the Company**

| Name of Director | Capacity | Number of issued ordinary shares held | 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% |

**Options to subscribe for ordinary shares in the Company**

| Name | Capacity | Date of grant | Exercise price *HK$* | Number of share options outstanding: As at 1st October, 2004 | Number of share options outstanding: As at 30th September, 2005 |
|---|---|---|---|---|---|
| Yang Hong Gen (楊洪根) | Beneficial owner | 28th December, 2004 | 0.27 | – | 5,000,000 |
| Zhang San Lin (張三林) | Beneficial owner | 28th December, 2004 | 0.27 | – | 5,000,000 |
| Yang Shun Feng (楊順峰) | Beneficial owner | 28th December, 2004 | 0.27 | – | 5,000,000 |
| Yao Feng (姚鋒) | Beneficial owner | 28th December, 2004 | 0.27 | – | 5,000,000 |
| Sha Hai Bo (沙海波) | Beneficial owner | 28th December, 2004 | 0.27 | – | 5,000,000 |

The exercise period of the above share options is from 28th December, 2004 to 27th December, 2006. None of the share options have been exercised, cancelled or lapsed during the year.

The Directors consider it inappropriate to value the share options granted under the Scheme as a number of factors critical for the valuation cannot be determined accurately. Any valuation of the share options based on various speculative assumptions would be meaningless and misleading. Therefore the Directors believe that the costs for disclosing the value of share options do not justify the benefits provided at this stage.

Save as disclosed above, none of the Directors and their associates have, as at 30th September, 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 Stock Exchange pursuant to Divisions 7 and 8 of Part XV 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 Stock Exchange.

# DIRECTORS' REPORT

## INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 30th September, 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 IN SHARES" in this report, the following 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 of shareholder | Capacity | Number of issued ordinary shares held | Percentage of the issued share capital of the Company |
|---|---|---|---|
| *Substantial shareholder:* | | | |
| Bao Xiao Mei#1 (包小妹) | Interest of spouse | 280,500,000 | 56.1% |
| *Other persons:* | | | |
| Zhou Xiang Zhen#2 (周祥珍) | Interest of spouse | 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 a controlled corporation | 31,500,000 | 6.3% |

**Options to subscribe for ordinary shares in the Company**

| Name | Capacity | Date of grant | Exercise price | Number of share options outstanding | |
|---|---|---|---|---|---|
| | | | *HK$* | As at 1st October, 2004 | As at 30th September, 2005 |
| *Substantial shareholder:* | | | | | |
| Bao Xiao Mei#1 (包小妹) | Interest of spouse | 28th December, 2004 | 0.27 | – | 5,000,000 |
| *Other person:* | | | | | |
| Zhou Xiang Zhen#2 (周祥珍) | Interest of spouse | 28th December, 2004 | 0.27 | – | 5,000,000 |

The exercise period of the above share options is from 28th December, 2004 to 27th December, 2006. None of the share options have been exercised, cancelled or lapsed during the year.

# DIRECTORS' REPORT

## INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO – *continued*

The Directors consider it inappropriate to value the share options granted under the Scheme as a number of factors critical for the valuation cannot be determined accurately. Any valuation of the share options based on various speculative assumptions would be meaningless and misleading. Therefore the Directors believe that the costs for disclosing the value of share options do not justify the benefits provided at this stage.

#1 Ms. Bao Xiao Mei (包小妹) is the wife of Mr. Yang Hong Gen (楊洪根). By virtue of Section 316(1) of the SFO, Ms. Bao Xiao Mei (包小妹) is taken to be interested in the same number of shares and options to subscribe for ordinary shares in the Company in which Mr. Yang Hong Gen (楊洪根) is interested.

#2 Ms. Zhou Xiang Zhen (周祥珍) is the wife of Mr. Zhang San Lin (張三林). By virtue of Section 316(1) of the SFO, Ms. Zhou Xiang Zhen (周祥珍) is taken to be interested in the same number of shares and options to subscribe for ordinary shares in the Company in which Mr. Zhang San Lin (張三林) is interested.

* CITIC Group was deemed to be interested in 31,500,000 ordinary shares of the Company by virtue of its 56.38% 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 100% interest in CITIC International Assets Management Limited.

Save as disclosed above, as at 30th September, 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.

## SHARE OPTION SCHEME

The details of the share option scheme of the Company are set out in note 20 to the financial statements.

Details of the options granted during the year are as follows:

| Name | Date of grant | Exercise price *HK$* | Number of share options outstanding As at 1st October, 2004 | Number of share options outstanding As at 30th September, 2005 |
|---|---|---|---|---|
| Executive Directors: | | | | |
| Yang Hong Gen (楊洪根) | 28th December, 2004 | 0.27 | – | 5,000,000 |
| Zhang San Lin (張三林) | 28th December, 2004 | 0.27 | – | 5,000,000 |
| Yang Shun Feng (楊順峰) | 28th December, 2004 | 0.27 | – | 5,000,000 |
| Yao Feng (姚鋒) | 28th December, 2004 | 0.27 | – | 5,000,000 |
| Sha Hai Bo (沙海波) | 28th December, 2004 | 0.27 | – | 5,000,000 |
| | | | – | 25,000,000 |
| Other eligible participants: | | | | |
| 5 eligible participants | 28th December, 2004 | 0.27 | – | 25,000,000 |
| | | | – | 50,000,000 |

The exercise period of the above share options is from 28th December, 2004 to 27th December, 2006. None of the share options have been exercised, cancelled or lapsed during the year.

The closing price of the Company's shares immediately before 28th December, 2004, the date of grant of the options, was HK$0.27.

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

# DIRECTORS' REPORT

## MAJOR CUSTOMERS AND SUPPLIERS

During the year,

(i) the Group's largest customer and five largest customers accounted for 10% (2004: 8%) and 27% (2004: 23%), respectively, of the Group's total sales; and

(ii) the percentage of the Group's five largest suppliers is less than 30% (2004: less than 30%) of the Group's total purchases.

None of the Directors or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

## 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

None of the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

## CORPORATE GOVERNANCE

The Company has complied with the corporate governance matters as set out in Rules 5.34 to 5.45 of the GEM Listing Rules, throughout the year ended 30th September, 2005.

## 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 of the financial reporting process and internal control procedures of the Group.

The audit committee held four meetings throughout the year ended 30th September, 2005.

## 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 6A 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, 2005.

## AUDITORS

Messrs. Deloitte Touche Tohmatsu were appointed as auditors of the Company during the 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
20th December, 2005

# AUDITOR'S REPORT

Deloitte.
德勤

**TO THE SHAREHOLDERS OF LONGLIFE GROUP HOLDINGS LIMITED**
**朗力福集團控股有限公司**
*(incorporated in the Cayman Islands with limited liability)*

We have audited the financial statements on pages 21 to 43 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 judgements 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, 2005 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 Ordnance.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
20th December, 2005

# CONSOLIDATED INCOME STATEMENT

For the year ended 30th September, 2005

| | *Notes* | **2005** *HK$'000* | 2004 *HK$'000* |
|---|---|---|---|
| Turnover | 5 | **197,457** | 197,822 |
| Cost of sales | | **(70,111)** | (66,257) |
| Gross profit | | **127,346** | 131,565 |
| Other operating income | 6 | **1,033** | 368 |
| Administrative expenses | | **(20,858)** | (11,458) |
| Selling and distribution expenses | | **(81,219)** | (77,874) |
| Other operating expenses | | **(189)** | (722) |
| Profit from operations | 7 | **26,113** | 41,879 |
| Finance costs | 8 | **(1,554)** | (2,213) |
| Profit before tax | | **24,559** | 39,666 |
| Income tax credit (expense) | 9 | **606** | (4,388) |
| Profit for the year | | **25,165** | 35,278 |
| Dividends | 10 | **–** | 5,000 |
| Earnings per share | 11 | | |
| – Basic | | **HK5.03 cents** | HK8.91 cents |
| – Diluted | | **HK4.97 cents** | HK8.64 cents |

# CONSOLIDATED BALANCE SHEET

At 30th September, 2005

| | *Notes* | **2005** | 2004 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 13 | **33,561** | 30,102 |
| Deposit paid for acquisition of land use right | | **–** | 1,226 |
| | | **33,561** | 31,328 |
| CURRENT ASSETS | | | |
| Inventories | 15 | **85,733** | 74,801 |
| Trade receivables | 16 | **40,606** | 33,419 |
| Deposits, prepayments and other receivables | | **16,971** | 17,035 |
| Tax recoverable | | **1,611** | – |
| Restricted-use bank deposits | | **1,774** | – |
| Bank balances and cash | | **34,672** | 34,847 |
| | | **181,367** | 160,102 |
| CURRENT LIABILITIES | | | |
| Trade payables | 17 | **12,184** | 7,872 |
| Other payables and accruals | | **24,761** | 19,803 |
| Secured bank loans | | **13,962** | 9,434 |
| Amounts due to directors | 18 | **60** | 150 |
| Tax payable | | **–** | 842 |
| Dividend payable | | **–** | 250 |
| Dividend payable to the former shareholders of a subsidiary | | **–** | 14,283 |
| | | **50,967** | 52,634 |
| NET CURRENT ASSETS | | **130,400** | 107,468 |
| | | **163,961** | 138,796 |
| CAPITAL AND RESERVES | | | |
| Share capital | 19 | **50,000** | 50,000 |
| Reserves | | **113,961** | 88,796 |
| | | **163,961** | 138,796 |

The financial statements on pages 21 to 43 were approved and authorised for issue by the board of Directors on 20th December, 2005 and are signed on its behalf by:

**Yang Hong Gen**
*DIRECTOR*

**Zhang San Lin**
*DIRECTOR*

# BALANCE SHEET

At 30th September, 2005

| | *Notes* | **2005** | 2004 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| NON CURRENT ASSET | | | |
| Interest in a subsidiary | 14 | **132,336** | 133,096 |
| CURRENT ASSET | | | |
| Bank balance and cash | | **38** | 738 |
| CURRENT LIABILITIES | | | |
| Dividend payable | | **–** | 250 |
| Amounts due to directors | 18 | **–** | 450 |
| | | **–** | 700 |
| NET CURRENT ASSETS | | **38** | 38 |
| | | **132,374** | 133,134 |
| CAPITAL AND RESERVES | | | |
| Share capital | 19 | **50,000** | 50,000 |
| Reserves | 21 | **82,374** | 83,134 |
| | | **132,374** | 133,134 |

**Yang Hong Gen**
*DIRECTOR*

**Zhang San Lin**
*DIRECTOR*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30th September, 2005

| | **Paid in capital/ share capital** *HK$'000* | **Share premium** *HK$'000* | **Special reserve** *HK$'000* *(Note 1)* | **Accumulated profits** *HK$'000* | **Total** *HK$'000* |
|---|---|---|---|---|---|
| THE GROUP | | | | | |
| At 1st October, 2003 | 1 | 22,642 | – | 27,930 | 50,573 |
| Eliminated on group reorganisation *(Note 2)* | (1) | (22,442) | 22,443 | – | – |
| Issue of shares *(Note 3)* | 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 and 1st October, 2004 | 50,000 | 8,145 | 22,443 | 58,208 | 138,796 |
| Profit for the year | – | – | – | 25,165 | 25,165 |
| At 30th September, 2005 | 50,000 | 8,145 | 22,443 | 83,373 | 163,961 |

*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. The capital of Wallfaith is eliminated as it became a wholly-owned subsidiary of the Company as at 26th May, 2004. Details of the Group reorganisation were set out in the Company's prospectus dated 1st June, 2004.

3. 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. Details of the Group reorganisation were set out in the Company's prospectus dated 1st June, 2004.

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30th September, 2005

| | 2005 | 2004 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| OPERATING ACTIVITIES | | |
| Profit from operations | **26,113** | 41,879 |
| Adjustments for: | | |
| Depreciation | **3,305** | 2,925 |
| Interest income | **(208)** | (92) |
| Loss on disposal of property, plant and equipment | **18** | 120 |
| Trade debtors written off/allowances for doubtful debts | **–** | 1,109 |
| Inventories write off | **6,667** | – |
| Operating cash flows before movements in working capital | **35,895** | 45,941 |
| Increase in inventories | **(17,599)** | (12,505) |
| Increase in trade receivables | **(7,187)** | (4,888) |
| Increase in deposits, prepayments and other receivables | **(309)** | (4,178) |
| Increase (decrease) in trade payables | **4,312** | (14,652) |
| Increase in other payables and accruals | **5,331** | 4,438 |
| Cash from operations | **20,443** | 14,156 |
| Income taxes paid | **(2,453)** | (5,444) |
| Income taxes refund | **606** | – |
| Interest paid | **(1,554)** | (2,213) |
| NET CASH FROM OPERATING ACTIVITIES | **17,042** | 6,499 |
| INVESTING ACTIVITIES | | |
| Purchase of property, plant and equipment | **(5,556)** | (5,294) |
| Interest received | **208** | 92 |
| Increase in deposit paid for acquisition of land use right | **–** | (1,226) |
| Proceeds on disposal of property, plant and equipment | **–** | 132 |
| NET CASH USED IN INVESTING ACTIVITIES | **(5,348)** | (6,296) |

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30th September, 2005

| | **2005** | 2004 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| FINANCING ACTIVITIES | | |
| Dividend paid | **(14,533)** | (4,750) |
| Repayment of bank loans | **(9,434)** | (74,764) |
| (Increase) decrease in restricted-use bank deposits | **(1,774)** | 1,304 |
| Repayment to directors | **(90)** | (12,326) |
| New bank loans raised | **13,962** | 62,028 |
| New shares issued | **–** | 62,500 |
| New shares issued expenses | **–** | (13,130) |
| Repayment to a related party | **–** | (1,578) |
| Repayment of exchangeable bonds | **–** | (1,425) |
| NET CASH (USED IN) FROM FINANCING ACTIVITIES | **(11,869)** | 17,859 |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | **(175)** | 18,062 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | **34,847** | 16,785 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash | **34,672** | 34,847 |

# NOTES TO FINANCIAL STATEMENTS

For the year ended 30th September, 2005

## 1. GENERAL

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 Company is an investment holding company. The principal activities of its subsidiaries are set out in note 14.

## 2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards ("HKASs") and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 30th September, 2005.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

## 3. 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 the 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. All significant intercompany transactions and balances between group enterprises are eliminated on consolidation.

**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.

**Property, plant and equipment**

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

# NOTES TO FINANCIAL STATEMENTS

For the year ended 30th September, 2005

## 3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

**Property, plant and equipment** – *continued*

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, or over the period of the rights, whichever is shorter |
| 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.

**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 weighted average cost method.

**Impairment**

At each balance sheet date, the Group reviews the carrying amounts of its 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 recognized 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

**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.

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 the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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 its 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.

# NOTES TO FINANCIAL STATEMENTS

For the year ended 30th September, 2005

## 4. SEGMENT INFORMATION

The Group is engaged solely in the manufacture, research and development and distribution of consumer health-related 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.

## 5. TURNOVER

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

## 6. OTHER OPERATING INCOME

| | 2005 | 2004 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Interest income | **208** | 92 |
| Sundry income | **825** | 276 |
| | **1,033** | 368 |

## 7. PROFIT FROM OPERATIONS

| | 2005 | 2004 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Profit from operations has been arrived at after charging: | | |
| Directors' remuneration *(note 12)* | **1,320** | 530 |
| Other staff costs | **34,385** | 23,887 |
| Retirement benefits scheme contributions (excluding directors' remuneration) | **503** | 270 |
| Total staff costs | **36,220** | 24,687 |
| Trade debtors written off/allowances for doubtful debts | **–** | 1,109 |
| Inventories written off | **6,667** | – |
| Auditors' remuneration | **708** | 499 |
| Depreciation | **3,305** | 2,925 |
| Loss on disposal of property, plant and equipment | **18** | 120 |
| Research and development costs | **34** | 100 |

## 8. FINANCE COSTS

| | 2005 | 2004 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Interest on: | | |
| Bank loans wholly repayable within five years | **1,554** | 1,827 |
| Exchangeable bonds | **–** | 386 |
| | **1,554** | 2,213 |

## 9. INCOME TAX CREDIT (EXPENSE)

| | **2005** | 2004 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| The income tax credit (expense) comprises: | | |
| Tax in regions of the PRC | | |
| Current year | **–** | (4,388) |
| Overprovision in prior year | **606** | – |
| | **606** | (4,388) |

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 Longlife Health Food Co., Ltd. ("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, following 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 PRC income tax charges are arrived at after taking into account of these tax incentives. No provision for PRC income tax has been made for the year as Suzhou Longlifu incurred a tax loss for the year.

The income tax (credit) expense for the year can be reconciled to the profit before tax per the income statement as follows:

| | **2005** | 2004 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit before tax | **24,559** | 39,666 |
| Tax at domestic statutory tax rate of 24% (2004: 24%) | **5,894** | 9,520 |
| Tax effect of expenses not deducible for tax purposes | **750** | 1,244 |
| Reduction of tax to concessionary rate | **(6,644)** | (6,376) |
| Overprovision in prior year | **(606)** | – |
| Income tax (credit) expense for the year | **(606)** | 4,388 |

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

## 10. DIVIDENDS

| | **2005** | 2004 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Dividend declared by the Company | | |
| Nil (2004: interim, paid – HK1 cent per share) | **–** | 5,000 |

# NOTES TO FINANCIAL STATEMENTS

For the year ended 30th September, 2005

## 11. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for the year is based on the following data:

| | **2005** | 2004 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Earnings: | | |
| Profit for the year and earnings for the purpose of basic earnings per share | **25,165** | 35,278 |
| Adjusted for the interest on exchangeable bonds | **–** | 386 |
| Earnings for the purpose of diluted earnings per share | **25,165** | 35,664 |

| | **2005** | 2004 |
|---|---|---|
| Number of shares: | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **500,000,000** | 395,964,000 |
| Effect of dilutive potential ordinary shares | | |
| – share options | **6,256,000** | – |
| – exchangeable bonds | **–** | 17,049,000 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **506,256,000** | 413,013,000 |

## 12. DIRECTORS' AND EMPLOYEES' REMUNERATION

**Directors**

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

| | **2005** | 2004 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Fees | **312** | 104 |
| Salaries and other allowances | **996** | 421 |
| Retirement benefit scheme contributions | **12** | 5 |
| | **1,320** | 530 |

## 12. DIRECTORS' AND EMPLOYEES' REMUNERATION – *continued*

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

| | **2005** | 2004 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Executive directors** | | |
| Yang Hong Gen | | |
| – Fee | **–** | – |
| – Salaries and other allowances | **180** | 81 |
| – Retirement benefit scheme contributions | **2** | 1 |
| | **182** | 82 |
| Zhang San Lin | | |
| – Fee | **–** | – |
| – Salaries and other allowances | **180** | 71 |
| – Retirement benefit scheme contributions | **4** | 1 |
| | **184** | 72 |
| Liu Zhuoru | | |
| – Fee | **–** | – |
| – Salaries and other allowances | **48** | 36 |
| – Retirement benefit scheme contributions | **–** | – |
| | **48** | 36 |
| Yang Shun Feng | | |
| – Fee | **–** | – |
| – Salaries and other allowances | **180** | 70 |
| – Retirement benefit scheme contributions | **2** | 1 |
| | **182** | 71 |
| Yao Feng | | |
| – Fee | **–** | – |
| – Salaries and other allowances | **180** | 70 |
| – Retirement benefit scheme contributions | **–** | – |
| | **180** | 70 |

# NOTES TO FINANCIAL STATEMENTS

For the year ended 30th September, 2005

## 12. DIRECTORS' AND EMPLOYEES' REMUNERATION – *continued*

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| **Executive directors** – *continued* | | |
| Sha Hai Bo | | |
| – Fee | **–** | – |
| – Salaries and other allowances | **48** | 33 |
| – Retirement benefit scheme contributions | **4** | 2 |
| | **52** | 35 |
| Cheung Chun Ho, Frankie | | |
| – Fee | **–** | – |
| – Salaries and other allowances | **180** | 60 |
| – Retirement benefit scheme contributions | **–** | – |
| | **180** | 60 |
| | **1,008** | 426 |
| **Independent non-executive directors** | | |
| Luk Yu King, James | | |
| – Fee | **180** | 60 |
| – Salaries and other allowances | **–** | – |
| – Retirement benefit scheme contributions | **–** | – |
| | **180** | 60 |
| Yin Jing Le | | |
| – Fee | **36** | 12 |
| – Salaries and other allowances | **–** | – |
| – Retirement benefit scheme contributions | **–** | – |
| | **36** | 12 |
| Yu Jie | | |
| – Fee | **96** | 32 |
| – Salaries and other allowances | **–** | – |
| – Retirement benefit scheme contributions | **–** | – |
| | **96** | 32 |
| | **312** | 104 |
| Total | **1,320** | 530 |

## 12. DIRECTORS' AND EMPLOYEES' REMUNERATION – *continued*

**Employees**

The five highest paid individuals of the Group for both years are all directors. Details of their remuneration were set out above.

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.

## 13. PROPERTY, PLANT AND EQUIPMENT

**THE GROUP**

| | **Land use rights** | **Buildings** | **Furniture, fixtures and office equipment** | **Motor vehicles** | **Plant and machinery** | **Total** |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| COST | | | | | | |
| At 1st October, 2004 | 4,289 | 12,445 | 2,840 | 5,315 | 12,853 | 37,742 |
| Additions | 4,400 | – | 1,212 | 778 | 392 | 6,782 |
| Disposals | – | – | – | – | (27) | (27) |
| At 30th September, 2005 | 8,689 | 12,445 | 4,052 | 6,093 | 13,218 | 44,497 |
| DEPRECIATION | | | | | | |
| At 1st October, 2004 | 162 | 2,152 | 1,117 | 1,915 | 2,294 | 7,640 |
| Provided for the year | 144 | 568 | 778 | 711 | 1,104 | 3,305 |
| Eliminated on disposals | – | – | – | – | (9) | (9) |
| At 30th September, 2005 | **306** | **2,720** | **1,895** | **2,626** | **3,389** | **10,936** |
| NET BOOK VALUES | | | | | | |
| At 30th September, 2005 | **8,383** | **9,725** | **2,157** | **3,467** | **9,829** | **33,561** |
| At 30th September, 2004 | 4,127 | 10,293 | 1,723 | 3,400 | 10,559 | 30,102 |

The Group has pledged land use rights and buildings having net book value of approximately HK$13,766,000 (2004: HK$14,420,000) as at 30th September, 2005 to secure its bank loans.

## 14. INTEREST IN A SUBSIDIARY

| | **THE COMPANY** | |
|---|---|---|
| | **2005** | 2004 |
| | ***HK$'000*** | *HK$'000* |
| Unlisted share, at cost | **75,153** | 75,153 |
| Amount due from a subsidiary | **57,183** | 57,943 |
| | **132,336** | 133,096 |

# NOTES TO FINANCIAL STATEMENTS

For the year ended 30th September, 2005

## 14. INTEREST IN A SUBSIDIARY – *continued*

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, 2005 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 Company Limited ("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.

## 15. INVENTORIES

| | THE GROUP | |
|---|---|---|
| | **2005** | 2004 |
| | ***HK$'000*** | *HK$'000* |
| Raw materials | **21,521** | 16,624 |
| Work in progress | **4,162** | 5,724 |
| Finished goods | **60,050** | 52,453 |
| | **85,733** | 74,801 |

Inventories are stated at cost as at 30th September, 2004 and 2005.

## 16. 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 | |
|---|---|---|
| | **2005** | 2004 |
| | ***HK$'000*** | *HK$'000* |
| 0 – 90 days | **34,913** | 27,765 |
| 91 – 180 days | **3,238** | 4,450 |
| 181 – 360 days | **2,083** | 987 |
| Over 360 days | **1,564** | 1,409 |
| | **41,798** | 34,611 |
| Less: Allowances for doubtful debts | **(1,192)** | (1,192) |
| | **40,606** | 33,419 |

## 17. TRADE PAYABLES

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

| | THE GROUP | |
|---|---|---|
| | **2005** | 2004 |
| | ***HK$'000*** | *HK$'000* |
| 0 – 90 days | **8,515** | 6,324 |
| 91 – 180 days | **1,593** | 1,380 |
| 181 – 360 days | **1,871** | 132 |
| Over 360 days | **205** | 36 |
| | **12,184** | 7,872 |

## 18. AMOUNTS DUE TO DIRECTORS

**THE GROUP AND THE COMPANY**

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

# NOTES TO FINANCIAL STATEMENTS

For the year ended 30th September, 2005

## 19. SHARE CAPITAL

**THE GROUP AND THE COMPANY**

| | Number of shares | Amount *HK$'000* |
|---|---|---|
| Authorised: | | |
| Ordinary shares of HK$0.10 each | | |
| At 1st October, 2003 | 1,000,000 | 100 |
| Increase on 26th May, 2004 *(note a)* | 1,000,000 | 100 |
| Further increased on 26th May, 2004 *(note b)* | 1,998,000,000 | 199,800 |
| At 30th September, 2004 and 30th September, 2005 | 2,000,000,000 | 200,000 |
| Issued and fully paid: | | |
| At 1st October, 2003 | 1,000,000 | – |
| Shares issued upon reorganisation *(note a)* | 1,000,000 | 200 |
| Exercise of the Bonds *(note c)* | 24,500,000 | 2,450 |
| Issue of shares on placing *(note d)* | 125,000,000 | 12,500 |
| Capitalisation issue *(note e)* | 348,500,000 | 34,850 |
| At 30th September, 2004 and 30th September, 2005 | 500,000,000 | 50,000 |

*Notes:*

(a) 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 at nil paid on 25th June, 2003).

(b) 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.

(c) 24,500,000 shares of HK$0.10 each were issued at HK$0.35 per share pursuant to the conversion of the Bonds.

(d) 125,000,000 shares of HK$0.10 each were issued at HK$0.50 per share.

(e) 348,500,000 shares of HK$0.10 each were issued and credited as fully paid by capitalising the Company's share premium.

## 20. 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.

## 20. SHARE OPTION SCHEME – *continued*

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-momth 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, 2005, 50,000,000 (2004: nil) share options have been granted to 10 eligible participants (including executive directors) under the Scheme.

| | | | Number of share options outstanding | |
|---|---|---|---|---|
| **Name** | **Date of grant** | **Exercise price** | **As at 1st October, 2004** | **As at 30th September, 2005** |
| | | *HK$* | | |
| Executive directors: | | | | |
| Yang Hong Gen (楊洪根) | 28th December, 2004 | 0.27 | – | 5,000,000 |
| Zhang San Lin (張三林) | 28th December, 2004 | 0.27 | – | 5,000,000 |
| Yang Shun Feng (楊順峰) | 28th December, 2004 | 0.27 | – | 5,000,000 |
| Yao Feng (姚鋒) | 28th December, 2004 | 0.27 | – | 5,000,000 |
| Sha Hai Bo (沙海波) | 28th December, 2004 | 0.27 | – | 5,000,000 |
| | | | – | 25,000,000 |
| Other eligible participants: | | | | |
| 5 eligible participants | 28th December, 2004 | 0.27 | – | 25,000,000 |
| | | | – | 50,000,000 |

# NOTES TO FINANCIAL STATEMENTS

For the year ended 30th September, 2005

## 20. SHARE OPTION SCHEME – *continued*

The exercise period of the above share options is from 28th December, 2004 to 27th December, 2006. None of the share options have been exercised, cancelled or lapsed during the year.

Total consideration received during the year from directors and other employees for taking up the options granted amounted to HK$10.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

## 21. RESERVES

**THE COMPANY**

| | **Share premium** *HK$'000* | **Accumulated profits** *HK$'000* | **Total** *HK$'000* |
|---|---|---|---|
| At 1st October, 2003 | – | – | – |
| Shares exchanged upon reorganisation *(note)* | 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 and 1st October, 2004 | 83,098 | 36 | 83,134 |
| Loss for the year | – | (760) | (760) |
| At 30th September, 2005 | 83,098 | (724) | 82,374 |

*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$82,374,000 (2004: HK$83,134,000), which comprised share premium and accumulated profits in aggregate.

## 22. OPERATING LEASE COMMITMENTS

**The Group as lessee**

| | **2005** | 2004 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Minimum lease payments under operating lease during the year | **1,154** | 487 |

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:

| | **2005** | 2004 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within one year | **1,221** | 367 |
| In the second to fifth year inclusive | **1,160** | 101 |
| | **2,381** | 468 |

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

**The Company as lessee**

| | **2005** | 2004 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Minimum lease payments under operating lease during the year | **71** | – |

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

| | **2005** | 2004 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within one year | **48** | – |

Leases are negotiated and rentals are fixed for terms of 2 years.

# NOTES TO FINANCIAL STATEMENTS

For the year ended 30th September, 2005

## 23. CAPITAL COMMITMENTS

**THE GROUP**

| | **2005** | 2004 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Capital expenditure contracted for but not provided in the financial statements in respect of | | |
| – investment in PRC joint venture | **8,580** | – |
| – acquisition of land use right | **–** | 3,175 |
| | **8,580** | 3,175 |

On 29th September, 2005, the board of Directors announced that on 19th September, 2005, Wallfaith, a wholly owned subsidiary of the Company, entered into a joint venture agreement (the "JV Agreement") with Zhejiang Zhongshan Capsules Company Limited 浙江中山膠囊有限公司 (the "JV Partner"), pursuant to which, Wallfaith and the JV Partner agreed to set up a sino-foreign equity joint venture company, Zhejiang Xinda Zhongshan Capsules Company Limited 浙江新大中山膠囊有限公司 (the "JV Company"), in the PRC.

The principal business of the JV Company is the production and sales of various kinds of capsules and research and development of new capsule products.

The registered capital of the JV Company is US$1.8 million, among which as to US$1.1 million will be contributed by Wallfaith in cash, representing approximately 61.11% of the registered capital and as to the remaining US$0.7 million will be contributed by the JV Partner by way of injection of certain properties and machineries relevant to the JV Company's business, representing approximately 38.89% of the registered capital.

Pursuant to the terms of the JV Agreement, each of Wallfaith and the JV Partner is required to contribute its share of the registered capital of the JV Company in full within three months from the date of issue of the business licence to the JV Company. As at the date of report, the business licence of the JV Company has not been issued by the relevant Industry and Commercial Bureau in the PRC.

The total investment amount of the JV Company is US$2.5 million, including the registered capital of US$1.8 million. Apart from the obligation to contribute its share of the registered capital to the JV Company, no guarantee and indemnity will be provided by Wallfaith or other members of the Group under the terms of the JV Agreement.

**THE COMPANY**

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

## 24. 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$421,000 (2004: HK$217,000) 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$94,000 (2004: HK$58,000) for the year.

## 25. RELATED PARTY TRANSACTIONS

Details of balances with related parties are disclosed in note 18.

# FINANCIAL SUMMARY

## RESULTS

| | For the year ended 30th September, | | | |
|---|---|---|---|---|
| | 2002 | 2003 | 2004 | **2005** |
| | *HK$'000* | *HK$'000* | *HK$'000* | ***HK$'000*** |
| Turnover | 134,540 | 186,573 | 197,822 | **197,457** |
| Cost of sales | (71,941) | (88,989) | (66,257) | **(70,111)** |
| Gross profit | 62,599 | 97,584 | 131,565 | **127,346** |
| Other operating income | 2,885 | 265 | 368 | **1,033** |
| Administrative expenses | (4,777) | (7,575) | (11,458) | **(20,858)** |
| Selling and distribution expenses | (35,630) | (50,116) | (77,874) | **(81,219)** |
| Other operating expenses | (150) | (500) | (722) | **(189)** |
| Profit from operations | 24,927 | 39,658 | 41,879 | **26,113** |
| Finance costs | (928) | (1,187) | (2,213) | **(1,554)** |
| Profit before tax | 23,999 | 38,471 | 39,666 | **24,559** |
| Income tax expense | – | (4,648) | (4,388) | **606** |
| Profit for the year | 23,999 | 33,823 | 35,278 | **25,165** |

## ASSETS AND LIABILITIES

| | 30th September, | | | |
|---|---|---|---|---|
| | 2002 | 2003 | 2004 | **2005** |
| | *HK$'000* | *HK$'000* | *HK$'000* | ***HK$'000*** |
| Total assets | 115,916 | 150,867 | 191,430 | **214,928** |
| Total liabilities | (85,262) | (100,294) | (52,634) | **(50,967)** |
| | 30,654 | 50,573 | 138,796 | **163,961** |

*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 set out in the Company's prospectus dated 1st June, 2004.

2. The results for each of the two 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 sheets that have been prepared are set out on page 23 to the financial statements.

# STATEMENT OF BUSINESS OBJECTIVES

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, 2005, the net listing proceeds was used as to approximately HK$1.3 million for research and development of new products; as to approximately HK$3.4 million for marketing sales and distribution activities; as to approximately HK$4.6 million for advertising and promotional activities; as to approximately HK$4.6 million for new production facilities; at to approximately HK$0.1 million of the implementation of the ERP management and upgrading computer facilities. With a cost saving in the research and development costs, the deferred of development and testing of Nutrient Yellow Wine, and the Group's other new products are well accepted by the market during the trial sales, the Group decided made a faster pace in its marketing, sales and distribution areas and also the advertising and promotional activities to further develop the Group's market shares and coverage.

The following is a comparison of actual business progress for the period from 1st April, 2005 to 30th September, 2005 ("Review Period") and the business objectives for the same period as set out in the prospectus of the Company dated 1st June, 2004 (the "Prospectus"). The actual business progress of the Group compared with the business objectives as set out in the Prospectus for the period from 1st October, 2004 to 31st March, 2005 has been disclosed in the interim report for the six months ended 31st March, 2005.

| EXPECTED BUSINESS PROGRESS | ACTUAL BUSINESS PROGRESS |
|---|---|
| **RESEARCH AND DEVELOPMENT** | **RESEARCH AND DEVELOPMENT** |
| 1. Further improve the functions of Glossy-ganoderma and Placenta Capsule | 1. The Group has improved the functions of Glossy-ganoderma and Placenta Capsule by upgrading its production process and use of better raw materials. |
| 2. Commence to produce the Nutrient Yellow Wine | 2. The development of Nutrient Yellow Wine was deferred due to management's judgment on market condition development. |
| 3. Apply for all relevant product licences for manufacturing and distribution of Nutrient Yellow Wine | 3. Due to the reason stated in (2) above, the application of product licences was also deferred. |
| **MARKETING SALES AND DISTRIBUTION** | |
| 1. Establish three business offices in Northern China region | 1. During the year, the Group has established 3 additional business offices in Tangshan (Hebei Province), Shashi (Hubei Province) and Shangrao (Jiangxi Province). In addition, the Group has also established additional business offices in other cities to extend the geographical coverage of the Group's sales networks. |
| 2. Identify overseas wholesalers and distributors in Hong Kong | 2. The Group has exported a selected range of its products to various South East Asia Markets and other overseas markets. |
| 3. Recruit thirty additional sales and marketing staff | 3. The Group has recruited over 30 additional sales and marketing staff during the year to cater for its expansion. |

# STATEMENT OF BUSINESS OBJECTIVES

**ADVERTISING AND PROMOTIONAL ACTIVITIES**

| | |
|---|---|
| 1. Change packaging for three 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 some gift boxes. |
| 3. Conduct a carnival during Mid-Autumn Festival to promote the Group's health related products | 3. The Group has already conducted a carnival during Mid-Autumn Festival and participated in consumer product exhibition to promote the Group's health related products. |

**PRODUCTION**

| | |
|---|---|
| 1. Purchase machinery for Suzhou Beautiful | 1. The Group has upgraded some machinery for Suzhou Beautiful and also other production facilities during the year. |

**IMPLEMENTING ERP MANAGEMENT AND UPGRADING COMPUTER FACILITIES**

| | |
|---|---|
| 1. Implement computer reporting system for timely sales and delivery reporting | 1. The Group has implemented and upgraded the computer reporting system for timely sales and delivery reporting. |