

朗力福®

Longlife Group Holdings Limited

朗力福集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)



First Quarterly Report 2005/2006



05/06

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

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

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

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

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

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

HIGHLIGHTS

The Group achieved satisfactory performance with the turnover of approximately HK\$59,196,000 for the three months ended 31 December 2005, representing increases of 14.6% over the corresponding period of 2004.

Profit attributable to shareholders was approximately HK\$12,465,000 for the three months ended 31 December 2005, representing increases of 26.9% over the corresponding period of 2004.

UNAUDITED THREE-MONTH RESULTS

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

| | | Three months ended | |
|--|--------------|---------------------------|-----------------|
| | | 31 December | |
| | | 2005 | 2004 |
| | <i>Notes</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Turnover | 2 | 59,196 | 51,642 |
| Cost of sales | | (17,985) | (17,276) |
| Gross profit | | 41,211 | 34,366 |
| Other operating income | | 651 | 142 |
| Administrative expenses | | (4,460) | (3,562) |
| Selling and distribution expenses | | (25,748) | (20,767) |
| Other operating expenses | | (36) | (112) |
| Profit from operations | | 11,618 | 10,067 |
| Finance costs | | (423) | (245) |
| Profit before tax | | 11,195 | 9,822 |
| Income tax refund | 3 | 1,270 | – |
| Net profit from ordinary activities attributable to shareholders | | 12,465 | 9,822 |
| Dividends | 4 | – | – |
| Earnings per share | 5 | | |
| – Basic | | 2.49 cents | 1.96 cents |
| – Diluted | | 2.49 cents | 1.96 cents |

Notes:

I. Group Reorganisation and Basis of Preparation

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

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

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

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

The unaudited condensed results have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Statements issued by the Hong Kong Institute of Certified Public Accountants. The unaudited condensed results have been prepared under the historical cost convention. The accounting policies and methods of computation adopted are consistent with those followed in the preparation of the Group’s audited financial statements set out in the annual report for the year ended 30 September 2005.

In 2004, the Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Accounting Standards (“HKASs”) and Hong Kong Financial Reporting Standards (“HKFRSs”) (hereinafter collectively referred to as “new HKFRSs”) which are effective for accounting period beginning on or after 1 January 2005. In the current period, the Group has adopted, for the first time, those new HKFRSs which are pertinent to its operations and relevant to these condensed consolidated financial statements. The adoption of the new HKFRSs has no material impact on the Group’s results of operations and financial position, except for the adoption of HKAS 17 as described below.

In the previous periods, land use rights were included in property, plant and equipment and carried at historical cost less subsequent accumulated amortization. Following the adoption of HKAS 17, the land use rights are considered as operating leases, and their unamortized costs are classified as lease prepayments. As required by HKAS 17, a reconciliation between the total of future minimum lease payments at the balance sheet date, and their present value for (1) not later than one year; and (2) later than one year.

The adopting of HKAS 17 has no effect on the condensed consolidated profit and loss account for the three months ended 31 December 2005.

2. Turnover

Turnover represents the net amounts received and receivable from sales of consumer products less sales tax and discounts, if any, during the period. Analysis of revenue and turnover during the three months ended 31 December 2005 and the comparative figures for the corresponding period in 2004 are as follows:

| | Three months ended | |
|------------------------------------|---------------------------|----------|
| | 31 December | |
| | 2005 | 2004 |
| | HK\$'000 | HK\$'000 |
| Nutrients and health care products | 13,712 | 14,610 |
| Body care products | 45,484 | 37,032 |
| | 59,196 | 51,642 |

No geographical segmental information is presented as the Group is principally engaged in the manufacture, research, development and distribution of consumer products and operates in the People's Republic of China (the "PRC"). Accordingly, no analysis by business segment and geographical area of operations are provided.

3. Income Tax Refund

| | Three months ended 31 December | |
|---|-----------------------------------|----------|
| | 2005 | 2004 |
| | HK\$'000 | HK\$'000 |
| The income tax refund comprises: | | |
| Tax refund/charge in other regions of the PRC | <u>1,270</u> | <u>—</u> |

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

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

The income tax refund for the period represents the portion of Foreign Enterprise Income Tax paid and refunded by the State Tax Bureau, Xiangcheng District, Suzhou City, the People’s Republic of China due to a subsidiary in the Group re-investing its profit made in 2003.

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

| | Three months ended | |
|---|---------------------------|-----------------|
| | 31 December | |
| | 2005 | 2004 |
| | HK\$'000 | HK\$'000 |
| Profit before tax | 11,195 | 9,822 |
| Tax at domestic statutory tax rate of 24% (2004: 24%) | – | 2,357 |
| Income tax on concessionary rate | – | (2,357) |
| Income tax refund | 1,270 | – |
| Tax refund/charge for the period | 1,270 | – |

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

4. Dividends

The Board did not recommend the payment of any interim dividend for the period from 1 October 2005 to 31 December 2005 (2004: nil) and proposed that the profit to be retained.

5. Earnings Per Share

Basic earnings per share

The calculation of basic earnings per share for the three months ended 31 December 2005 is based on the unaudited consolidated net profit from ordinary activities attributable to shareholders for the periods of approximately HK\$12,465,000 and on 500,000,000 ordinary shares that have been in issue throughout the period.

For information only, the calculation of basic earnings per share for the three months ended 31 December 2004 is based on the unaudited combined net profit from ordinary activities attributable to shareholders for the period of approximately HK\$9,822,000 and on 500,000,000 ordinary shares that have been in issue throughout the period.

Diluted earnings per share

The calculation of diluted earnings per share for the three months ended 31 December 2005 is based on the results of HK\$12,465,000 and on adjusted number of share of approximately 501,440,622 ordinary shares that have been in issue throughout the period on the assumption that the 50,000,000 share options had been exercised on 1 October 2005.

For information only, the calculation of diluted earnings per share for the three months ended 31 December 2004 is based on the adjusted results of HK\$9,822,000, and on adjusted number of share of approximately 500,035,000 ordinary shares that have been issued throughout the period on the assumption that the 50,000,000 share options have been exercised on 1 October 2004.

6. Share Capital and Reserves

| | Number of shares | Par value per share | Amount HK\$'000 | |
|---|------------------------------|--------------------------------|------------------------------------|-------------------|
| <i>A. Movements of authorised share capital</i> | | | | |
| At 31 December 2004 | | | | |
| and 31 December 2005 | <u>2,000,000,000</u> | HK\$0.10 | <u>200,000</u> | |
| <i>B. Movements of issued share capital</i> | | | | |
| At 31 December 2004 | | | | |
| and 31 December 2005 | <u>500,000,000</u> | HK\$0.10 | <u>50,000</u> | |
| <i>C. Movements of reverses are as follows:</i> | | | | |
| | Share premium HK\$'000 | Special reserve HK\$'000 | Accumulated profits HK\$'000 | Total HK\$'000 |
| At 30 September 2004 | 8,145 | 22,443 | 58,208 | 88,796 |
| Profit for the period | <u>–</u> | <u>–</u> | <u>9,822</u> | <u>9,822</u> |
| At 31 December 2004 | <u>8,145</u> | <u>22,443</u> | <u>68,030</u> | <u>98,618</u> |
| At 30 September 2005 | 8,145 | 22,443 | 83,373 | 113,961 |
| Profit for the period | <u>–</u> | <u>–</u> | <u>12,465</u> | <u>12,465</u> |
| At 31 December 2005 | <u>8,145</u> | <u>22,443</u> | <u>95,838</u> | <u>126,426</u> |

DIVIDEND

The Board did not recommend the payment of an interim dividend for the period from 1 October 2005 to 31 December 2005 (2004: nil) and proposed that the profit to be retained.

BUSINESS REVIEW

For the three months ended 31 December 2005, the overall turnover of the Group increased 14.6% over the corresponding period last year from approximately HK\$51.6 million to HK\$59.2 million. The boost in the results was attributable to the newly built sales network as well as the continuous expansion of our market share in the original sales network.

The Group's gross profit margin for the three months ended 31 December 2005 was 69.6%, which had increased by 3% from that for the three months ended 31 December 2004.

With the Company's continuous efforts to expand its sales network and the increase in the sales personnel headcount, selling expenses rose by approximately HK\$4.98 million, while the selling expenses percentage increased from 40% of the last period to 43% of this period.

Due to the continuous expansion of the sales network and the increase in the sales personnel headcount, the Company correspondingly employed more finance and management staff. Accordingly, administrative expenses for the three months ended 31 December 2005 increased to approximately HK\$4.5 million, while the management expenses percentage increased from 7% to 7.5%.

Since the Group achieved a comparatively better increase in turnover during the period, the Company recorded a net profit of approximately HK\$11.2 million (excluding the tax refund of HK\$1.27 million) despite a certain raise in selling expenses and management expenses, representing an increase of approximately HK\$1.37 million over that of the corresponding period last year. This provided assurance and laid the foundations of realizing the business objectives for the year.

BUSINESS PROSPECT

As determined by the Board of the Group, the Company's development strategy for the 3 years ahead will be the development of the Company into a promising growing enterprise in the industry of functional instant consumer products in China.

In order to realize the Company's development strategy, the Group will in this period expand its selling network in the market by highlighting its major businesses making use of a multiplicity of marketing models, and will enhance the working capacity and efficiency of the selling staff by engaging leading marketing consultation firms to strengthen selling management and training. At the same time, the strategy will be used in conjunction with the fully implemented information system to raise the turnover of the Group and lower the selling expenses percentage.

In addition, the Group will continue to develop new products that cater to consumers' needs in the period to boost market sales; the Group will also start implementing the strategy of product branding, which is part of the development strategy of the Company. In this year, the Company will carry out product branding promotions for selected competitive products in a roll-over development fashion, and have the growth of the Group's results driven by the sales of branded products.

The Group will devote more efforts to the internal management of the Company, implementing a modern management model by taking up first-class management personnel, thereby improving management efficiency and reducing the management expenses percentage at the same time. This will lay the foundations of the realization of profit maximization.

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

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

Long positions in the ordinary shares in the Company

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

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

| Name | Date of grant | Exercise price HK\$ | Number of share option outstanding | |
|----------------------|------------------|---------------------------|------------------------------------|---------------------------|
| | | | As at 1 October 2005 | As at 31 December 2005 |
| Yang Hong Gen (楊洪根) | 28 December 2004 | 0.27 | 5,000,000 | 5,000,000 |
| Zhang San Lin (張三林) | 28 December 2004 | 0.27 | 5,000,000 | 5,000,000 |
| Yang Shun Feng (楊順峰) | 28 December 2004 | 0.27 | 5,000,000 | 5,000,000 |
| Yao Feng (姚鋒) | 28 December 2004 | 0.27 | 5,000,000 | 5,000,000 |
| Sha Hai Bo (沙海波) | 28 December 2004 | 0.27 | 5,000,000 | 5,000,000 |

The exercise period of the above share options is from 28 December 2004 to 27 December 2006.

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

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2005, according to the register kept by the Company pursuant to section 336 of SFO and so far as is known to, or can be ascertained after reasonable enquiry by the Directors, save as disclosed in the paragraph headed "DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES" in this report, the following person had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, was directly or indirectly interested in 10% or more of the voting power at general meetings of the Company:

Long position in the ordinary shares in the Company

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

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

| Name | Date of grant | Exercise price HK\$ | Number of share option outstanding | |
|---------------------|------------------|---------------------------|------------------------------------|---------------------------|
| | | | As at 1 October 2005 | As at 31 December 2005 |
| Bao Xiao Mei* (包小妹) | 28 December 2004 | 0.27 | 5,000,000 | 5,000,000 |

The exercise period of the above share options is from 28 December 2004 to 27 December 2006.

Note:

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

Save as disclosed above and in the paragraph headed “INTERESTS AND SHORT POSITIONS OF OTHER PERSONS”, as at 31 December 2005, the Company has not been notified by any person (other than directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

INTERESTS AND SHORT POSITIONS OF OTHER PERSONS

As at 31 December 2005, according to the register kept by the Company pursuant to section 336 of SFO and so far as is known to, or can be ascertained after reasonable enquiry by the Directors, save as disclosed in the paragraph headed “DIRECTORS’ INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES” in this report, the following person had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, was directly or indirectly interested in 5% or more of the voting power at general meetings of the Company:

Long position in the ordinary shares in the Company

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

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

| Name | Date of grant | Exercise price HK\$ | Number of share option outstanding | |
|------------------------|------------------|---------------------------|------------------------------------|---------------------------|
| | | | As at 1 October 2005 | As at 31 December 2005 |
| Zhou Xiang Zhen# (周祥珍) | 28 December 2004 | 0.27 | 5,000,000 | 5,000,000 |

The exercise period of the above share options is from 28 December 2004 to 27 December 2006.

Note:

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

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

COMPETING INTERESTS

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

AUDIT COMMITTEE

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

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

SPONSOR’S INTERESTS

Pursuant to a sponsor agreement dated 1 June 2004 between the Company and CSC Asia Limited (“CSC Asia”), CSC Asia will be retained as the sponsor of the Company for the purpose of Chapter 6 of the GEM Listing Rules for the period from 17 June 2004 (being the listing date) to 30 September 2006.

None of CSC Asia, its directors, employees or associates had any shareholding interest in the securities of the Company or any member of the Group nor have any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for the securities of the Company or any member of the Group as at 31 December 2005.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is in the process of reviewing its corporate governance practices and has set up committees for reviewing Remuneration of Directors and Senior Management and Internal Controls. The Company will report in its half-year financial announcement on the compliance of the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules.

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

Hong Kong, 14 February 2006

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

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

Non-Executive Director:

Mr. Lo Wing Yat, Kelvin (盧永逸)

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

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