

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)



Interim Report 2005/2006



5/06

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.

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

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

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

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNTS

The board of directors (the “Board”) of Longlife Group Holdings Limited (the “Company”) announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the three months and six months ended 31 March 2006 together with the comparative unaudited figures for the corresponding periods in 2005, prepared in accordance with generally accepted accounting principles in Hong Kong, as follows. The unaudited results have not been audited by the Company’s auditors but have been reviewed by the Company’s audit committee.

	<i>Notes</i>	(Unaudited) Three months ended 31 March		(Unaudited) Six months ended 31 March	
		2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Turnover	2	71,156	60,294	130,352	111,936
Cost of sales		(23,969)	(19,671)	(41,954)	(36,947)
Gross profit		47,187	40,623	88,398	74,989
Other operating income		208	284	859	426
Administrative expenses		(5,631)	(3,832)	(10,090)	(7,394)
Selling and distribution expenses		(26,544)	(23,517)	(52,292)	(44,284)
Other operating expenses		(42)	(236)	(78)	(348)
Profit from operations	3	15,178	13,322	26,797	23,389
Finance costs	4	67	(346)	(356)	(591)
Profit before tax		15,245	12,976	26,441	22,798
Income tax (expenses)/refund	5	(501)	(762)	769	(762)
Net profit from ordinary activities attributable to shareholders		14,744	12,214	27,210	22,036
Dividends	6	–	–	–	–
Earnings per share	7				
– Basic		2.95 cents	2.44 cents	5.44 cents	4.41 cents
– Diluted		2.94 cents	2.44 cents	5.41 cents	4.40 cents

CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited) As at 31 March 2006 HK\$'000	(Audited) As at 30 September 2005 HK\$'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment		38,339	33,561
Prepaid land use rights		10,507	—
		48,846	33,561
CURRENT ASSETS			
Inventories		93,779	85,733
Trade receivables	8	84,788	40,606
Deposits, prepayments and other receivables		22,066	16,971
Tax recoverable		—	1,611
Restricted-use cash deposit		—	1,774
Bank balance and cash		26,023	34,672
		226,656	181,367
CURRENT LIABILITIES			
Trade payables	9	45,931	12,184
Other payables and accruals		11,623	24,761
Bank loans		18,050	13,962
Amounts due to directors	10	95	60
		75,699	50,967
NET CURRENT ASSETS		150,957	130,400
TOTAL ASSETS LESS CURRENT LIABILITIES		199,803	163,961
CAPITAL AND RESERVES			
Share capital		50,000	50,000
Reserves		144,370	113,961
Equity attributable to equity holders of the Company		194,370	163,961
Minority Interest		5,433	—
Total equity		199,803	163,961

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the six months ended 31 March 2006*

	Attributable to equity holders of the Company						Total HK\$'000
	Paid in capital/ share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Translation reserve HK\$'000	Accumulated profits HK\$'000	Minority interests HK\$'000	
At 1 October 2004 (Audited)	50,000	8,145	22,443	-	58,208	-	138,796
Profit for the period (Unaudited)	-	-	-	-	22,036	-	22,036
At 31 March 2005 (Unaudited)	50,000	8,145	22,443	-	80,244	-	160,832
At 1 October 2005 (Audited)	50,000	8,145	22,443	-	83,373	-	163,961
Profit for the period (Unaudited)	-	-	-	-	27,210	-	27,210
Exchange differences on translation on consolidation	-	-	-	3,199	-	-	3,199
Minority interests on consolidation	-	-	-	-	-	5,433	5,433
At 31 March 2006 (Unaudited)	50,000	8,145	22,443	3,199	110,583	5,433	199,803

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

(Unaudited)

Six months ended
31 March

2006 2005

HK\$'000 HK\$'000

NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(6,638)	2,805
Net cash outflow from investing activities	(7,491)	(12,683)
Net cash inflow from financing activities	507	2,464
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(13,622)	(7,414)
Cash and cash equivalents at beginning of period	36,446	34,847
Effect of foreign exchange rate changes	3,199	—
CASH AND CASH EQUIVALENTS AT END OF PERIOD	26,023	27,433

*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 and six months ended 31 March 2006.

2. TURNOVER

Turnover represents the net amounts received and receivable from sales of consumer products less sales tax and discounts, if any, during the periods. The Group is solely engaged in the manufacture, research, development and distribution of consumer products and mainly operates in the People's Republic of China (the "PRC") only. In addition, the identifiable assets of the Group are located in the PRC. Accordingly, no analysis by business segment and geographical area of operations are provided. However, for reference purposes only, the following set out an analysis of revenue and turnover during the three months and six months ended 31 March 2006 and the comparative figures for the corresponding periods in 2005.

	(Unaudited) Three months ended 31 March		(Unaudited) Six months ended 31 March	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Nutrient and health care products	30,629	26,783	44,341	41,393
Body care products	40,527	33,511	86,011	70,543
	<u>71,156</u>	<u>60,294</u>	<u>130,352</u>	<u>111,936</u>

3. PROFIT FROM OPERATIONS

	(Unaudited) Three months ended 31 March		(Unaudited) Six months ended 31 March	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Profit from operations has been arrived at after charging:				
Cost of goods sold	23,969	19,671	41,954	36,947
Depreciation	<u>752</u>	<u>852</u>	<u>1,505</u>	<u>1,752</u>

4. FINANCE COSTS

	(Unaudited) Three months ended 31 March		(Unaudited) Six months ended 31 March	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest on:				
Bank loans wholly repayable within five years	100	346	356	591
Adjustment of over-provision of interest	(167)	—	—	—
	(67)	346	356	591

5. INCOME TAX EXPENSES

	(Unaudited) Three months ended 31 March		(Unaudited) Six months ended 31 March	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Tax charge comprises:				
Hong Kong Profits Tax	6	—	6	—
Tax in other regions of the PRC (Outside Hong Kong)				
Charge	1,701	762	1,701	762
Refund	(1,206)	—	(2,476)	—
	501	762	(769)	762

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. Starting from 1 January 2006, full tax is payable. Suzhou Beautiful obtained confirmation from the relevant tax authority for commencing its first profit-making year from 1 January 2004 and it was entitled a 50% reduction from FEIT commenced on 1 January 2006.

The income tax refund for the period including (i) 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; and (ii) refund of Enterprise Income Tax for 2005 paid by Suzhou Longlifu.

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

	(Unaudited) Three months ended 31 March				(Unaudited) Six months ended 31 March			
	2006 HK\$'000	2005 HK\$'000			2006 HK\$'000	2005 HK\$'000		
Profit before tax	<u>1,701</u>	<u>12,976</u>			<u>1,701</u>	<u>22,798</u>		
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'00	%
Tax at domestic statutory tax rate of 24% (2005: 24%)	<u>3,659</u>	<u>24</u>	<u>3,114</u>	<u>24</u>	<u>6,345</u>	<u>24</u>	<u>5,472</u>	<u>24</u>
Income tax on concessionary rate	<u>(1,958)</u>	<u>13</u>	<u>(2,352)</u>	<u>(18)</u>	<u>(4,644)</u>	<u>18</u>	<u>(4,710)</u>	<u>(21)</u>
Tax charged for the period	<u>1,701</u>	<u>11</u>	<u>762</u>	<u>6</u>	<u>1,701</u>	<u>6</u>	<u>762</u>	<u>3</u>

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

6. DIVIDENDS

The Board did not recommend the payment of any interim dividend for the periods ended 31 March 2006 (periods ended 31 March 2005: nil) and proposed that the profit to be retained.

7. EARNINGS PER SHARE

Basic earnings per share

The calculations of basic earnings per share for the three months and six months ended 31 March 2006 are based on the unaudited consolidated net profit from ordinary activities attributable to shareholders for the periods of approximately HK\$14,744,000 and HK\$27,210,000, respectively and on 500,000,000 ordinary shares that have been in issue throughout the periods.

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

Diluted earnings per share

The calculations of diluted earnings per share for the three months and six months ended 31 March 2006 are based on the results of HK\$14,744,000 and HK\$27,210,000, respectively and on adjusted number of share of approximately 501,701,867 and 503,142,489 ordinary shares that have been in issue throughout the periods respectively on the assumption that the 50,000,000 share options had been exercised on 1 October 2005.

For information only, the calculations of diluted earnings per share for the three months and six months ended 31 March 2005 are based on the adjusted results of approximately HK\$12,214,000 and HK\$22,036,000, respectively on adjusted number of share of 501,264,000 and 501,299,000 ordinary shares that have been in issue throughout the periods.

8. TRADE RECEIVABLES

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

	(Unaudited) 31 March 2006 HK\$'000	(Audited) 30 September 2005 HK\$'000
0 – 90 days	74,785	34,913
90 – 180 days	3,469	3,238
181 – 360 days	7,004	2,083
Over 360 days	753	1,564
	86,011	41,798
Less: Allowances for doubtful debts	(1,223)	(1,192)
	84,788	40,606

9. TRADE PAYABLES

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

	(Unaudited) 31 March 2006 HK\$'000	(Audited) 30 September 2005 HK\$'000
0 – 90 days	27,682	8,515
90 – 180 days	14,380	1,593
181 – 360 days	2,949	1,871
Over 360 days	920	205
	<u>45,931</u>	<u>12,184</u>

10. AMOUNTS DUE TO DIRECTORS

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

11. OPERATING LEASE COMMITMENTS

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

	(Unaudited) 31 March 2006 HK\$'000	(Audited) 30 September 2005 HK\$'000
Within one year	1,135	1,221
In the second to fifth year inclusive	698	1,160
	<u>1,833</u>	<u>2,381</u>

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

12. CAPITAL COMMITMENTS

	(Unaudited) 31 March 2006 HK\$'000	(Audited) 30 September 2005 HK\$'000
Capital expenditure in respect of investment in PRC joint venter contracted for but not provided in the financial statements	<u>-</u>	<u>8,580</u>

BUSINESS REVIEW

For the six months ended 31 March 2006, the overall turnover of the Group increased 16% over the corresponding period last year from HK\$111.938 million to HK\$130.352 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 six months ended 31 March 2006 was 68%, which had increased by 1% from that for the six months ended 31 March 2005. And that for the three months ended 31 March 2006 had decreased slightly by 1%.

With the Company's continuous efforts to expand its sales network and the increase in the sales personnel headcount, selling expenses for the three and six months ended 31 March 2006 had increased by approximately HK\$3 million and HK\$8 million respectively. However, due to the increase of turnover, the selling expenses percentage of this period didn't rise, which remains unchanged as compared to approximately 40% of the last period.

During the period under review, 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 and six months ended 31 March 2006 increased by approximately HK\$1.8 million and HK\$2.7 million respectively, while the management expenses percentage increased from 6% to 8% and 7% to 8% respectively.

Since the Group achieved a comparatively better increase in turnover during this period, the Company recorded profit before tax for the three and six months ended 31 March 2006 was approximately HK\$15.245 million and HK\$26.440 million respectively despite a certain raise in selling expenses and management expenses, representing an increase of approximately HK\$2.269 million and HK\$3.642 million respectively over that of the corresponding period last year. This provided assurance and laid the foundations of realizing our business objectives for the year.

LIQUIDITY AND FINANCIAL RESOURCES

The Group executes prudent policy in its financial resources management. The Group had total cash and bank balances of approximately HK\$26 million and approximately HK\$36.4 million as at 31 March 2006 and 30 September 2005, respectively.

The Group finance its operations with internally generated cash flows and banking facilities. As at 31 March 2006, the Group has secured short term bank borrowings of approximately HK\$18.050 million (30 September 2005: HK\$13.962 million) which are repayable within one to two years. The Group's bank borrowings are secured by its land use rights, personal guarantee by the chairman of the Company and corporate guarantee by other companies.

CURRENCY STRUCTURE

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

CONTINGENT LIABILITIES

The Group has no material contingent liabilities as at 31 March 2006 (30 September 2005: nil).

BUSINESS PROSPECT

During the preceding six months under review, the Company had implemented effectively its development strategy as a promising growing enterprise in the industry of functional instant consumer products, the sales of healthcare products and personnel care products had achieved the expected increase, and reached the expected profit objective.

The Company had completed its investment in Xindazhong Capsule Limited (新大中膠囊有限公司) at the end of March 2006. The investment will become a new profit increase point to the Company, and also will provide the useful experiment for it in exploring new sales models.

In the next six months for the year, the Company will continue to enhance its sales network, and raise the working efficiency and results of the sales staff by strengthening the management and training of the sales team.

The fully implemented information system of the Company had increased substantially the swiftness and accuracy of the market sales staff understanding the market sales information. In the future six months, we will further cooperate with the relative software company to enhance the functions of the information system. A strong information system will ensure the Company to control effectively the selling expenses and fund occupied rate of market inventories.

With the efforts of the Company's Research & Development Department, the Company is continuously launching new products. In the future six months, it will introduce five to eight new products into market.

During the preceding six months, the Company's internal management had achieved a better progress, and in the future six months, the Company will lead into the objective management instruments to further enhance its internal management, and will continue to recruit the excellent management talents into the Longlife management team to strengthen its management capacity. This provides an effective assurance of realizing our business objectives for the year.

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

As at 31 March 2006, 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 of director	Capacity	Number of ordinary shares	Percentage to total 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 of director	Date of grant	Capacity	Closing price immediately before the date on which the options were granted HK\$	Exercise price HK\$	Number of share option outstanding as at 1 October 2005	Number of share option granted	Number of share option outstanding as at 31 March 2006
Yang Hong Gen (楊洪根)	28 December 2004	Beneficial owner	0.27	0.27	5,000,000	5,000,000	5,000,000
Zhang San Lin (張三林)	28 December 2004	Beneficial owner	0.27	0.27	5,000,000	5,000,000	5,000,000
Yang Shun Feng (楊順峰)	28 December 2004	Beneficial owner	0.27	0.27	5,000,000	5,000,000	5,000,000
Yao Feng (姚鋒)	28 December 2004	Beneficial owner	0.27	0.27	5,000,000	5,000,000	5,000,000
Sha Hai Bo (沙海波)	28 December 2004	Beneficial owner	0.27	0.27	5,000,000	5,000,000	5,000,000

The exercise period of the above share options is from 28 December 2004 to 27 December 2006. No share options were exercised, cancelled and lapsed during the period.

Save as disclosed above, none of the Directors or chief executive of the Company have, as at 31 March 2006, 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 DISCLOSEABLE UNDER THE SFO

As at 31 March 2006, 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 of shareholder	Capacity	Number of ordinary shares	Percentage to total issued share capital of the Company
Bao Xiao Mei* (包小妹)	Beneficial owner	280,500,000	56.1%

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

Name	Date of grant	Capacity	Closing price immediately before the date on which the options were granted HK\$	Exercise price HK\$	Number of share option outstanding as at 1 October 2005	Number of share option granted	Number of share option outstanding as at 31 March 2006
Bao Xiao Mei [#] (包小妹)	28 December 2004	Interest of spouse	0.27	0.27	5,000,000	5,000,000	5,000,000

The exercise period of the above share options is from 28 December 2004 to 27 December 2006. No share options were exercised, cancelled and lapsed during the period.

Note:

- [#] 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 in the Company in which Mr. Yang Hong Gen (楊洪根) is interested.

Save as disclosed above and in the paragraph headed “INTERESTS AND SHORT POSITIONS OF OTHER PERSONS”, as at 31 March 2006, the Company has not been notified by any person (other than directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

INTERESTS AND SHORT POSITIONS OF OTHER PERSONS

As at 31 March 2006, 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 positions in the ordinary shares in the Company

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

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

Name	Date of grant	Capacity	Closing price immediately before the date on which the options were granted HK\$	Exercise price HK\$	Number of share option outstanding as at 1 October 2005	Number of share option granted	Number of share option outstanding as at 31 March 2006
Zhou Xiang Zhen [#] (周祥珍)	28 December 2004	Interest of spouse	0.27	0.27	5,000,000	5,000,000	5,000,000

The exercise period of the above share options is from 28 December 2004 to 27 December 2006. No share options were exercised, cancelled and lapsed during the period.

Note:

[#] 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 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 interest in CITIC International Financial Holdings Limited, CITIC International Financial Holdings Limited was deemed to be interested in 31,500,000 ordinary shares of the Company by virtue of its interest in CITIC International Assets Management Limited.

Save as disclosed above and in the paragraph headed "INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS DISCLOSEABLE UNDER THE SFO", as at 31 March 2006, the Company has not been notified by any person (other than Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

RIGHTS OF DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

Pursuant to the Company's share option scheme (the "Scheme") adopted on 26 May 2004 by the written resolutions of the shareholders of the Company, the Company granted certain options to the following directors which entitled the holder to subscribe for ordinary shares of the Company. Further details of the Scheme are set out under the heading "SHARE OPTION SCHEME" below. Details of the share option granted up to 31 March 2006 are set out in "DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES". No share option was exercised by the Director as at 31 March 2006.

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

SHARE OPTION SCHEME

The Company operates the Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, persons or entity provides research, development or other technological support to the Group, any minority shareholder in the Company's subsidiaries, and adviser to business development of the Group. The Scheme became effective on 26 May 2004 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

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

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

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

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

There are no share options outstanding as at 1 October 2005. Total number share options granted during the six months ended 31 March 2006 was 50,000,000. No share options has been exercised, lapsed and cancelled during the period.

Details of the share options granted and remain outstanding as at 31 March 2006 are as follow:

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

VALUATION OF SHARE OPTION

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

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

EMPLOYEES' REMUNERATION

As at 31 March 2006, the Group had approximately 4,615 (30 September 2005: 4,514) employees which are mainly located in the PRC. The staff costs for the six months ended 31 March 2006 was approximately HK\$24,000,000 million.

The Group remunerates its employees based on their performance, work experience and the prevailing market price. Performance related bonuses are granted on a discretionary basis. Other employee benefits include mandatory provident fund, insurance and medical coverage, training and a share option scheme.

The employees of the subsidiaries are members of retirement benefits scheme according to the statutory requirements. The relevant subsidiaries is required to make contributions to the defined contribution pension scheme based on certain percentage of the monthly salaries of their current employees to fund the benefits. The employees are entitled to retirement pension calculated with reference to their basic salaries on retirement and their length of service in accordance with the relevant government regulations.

In addition, pursuant to regulations stipulated by the PRC government, the PRC subsidiary started a defined contribution health care scheme. The employees currently under the defined contribution pension scheme are entitled to the health care scheme. Under this scheme, the PRC subsidiary and the relevant employees have to contribute certain percentage of the employees' salaries to the scheme.

BUSINESS PROGRESS

Expected business progress

Actual business progress

Research and Development

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|--|---|
| <p>1. Commence to identify product extension for shampoo and whitening cream</p> | <p>1. According to market survey and its demand, and on the basis of the Company's existing conditions, We have developed successfully five products for cosmetics with special functions, currently, of which two products (being Spot Removing Beauty Gel and Skin Whitening and Spot Removing Cream) had completed the batch production, and the remaining three products (being Whitening Anti-sunlight Lotion, Whitening Preventing Cream and Whitening Anti-sunlight Lotion) has realized the scale production.</p> |
| <p>2. Further improve the functions of Glossy-ganoderma and Placenta Capsule</p> | <p>2. The Group has completed the improvement of the functions of Glossy-ganoderma and Placenta Capsule.</p> |

Marketing, Sales and Distribution

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|--|--|
| <p>1. Establish two business offices in Shandong Region</p> | <p>1. The Group has set up business offices in Shandong Region.</p> |
| <p>2. Organize promotional stands and direct sales in shopping malls and department stores</p> | <p>2. The Group has organized promotional stands and direct sales in shopping malls and department stores.</p> |
| <p>3. Recruit twenty additional sales and marketing staff</p> | <p>3. The Group had recruited more than 100 additional sales and marketing staff.</p> |

Expected business progress

Actual business progress

Advertising and Promotional Activities

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|---|--|
| 1. Upgrade and change packaging for gift box | 1. For the peak seasons such as Mid-autumn Festival, Christmas and Chinese New Year in 2005, the Group introduced the Longlife brand products including “High Calcium Nutritious Protein Powder” double-pot gift box, “Fast-dissolving Calcium Bone Powder” double-pot gift box and “Liquor of Tortoise and Snake” double-bottle gift box, and thus increased effectively the sales results. |
| 2. Launch advertising campaigns for Christmas and Chinese New Year | 2. The Group made mainly the advertising and promotional activities through the local television station in Jiangsu, Zhejiang, and Shanghai. |
| 3. Adopt new style gift box for health related products to widen customer range | 3. The Group has adopted new style double-pot and double-bottle gift box. |

Expected business progress

Actual business progress

Production

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| <p>1. Organize three-shift productions to boost production capacity for holiday sales</p> | <p>1. During this half-year, the utilisation rate for health care products facilities was arrived at 100%. Over 100 production staff had worked overtime for one month to meet the product capacity demand for the peak season.</p> |
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Implementing ERP management and upgrading computer facilities

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| <p>1. Implementing computer reporting system for timely sales and delivery reporting</p> | <p>1. The Company's DRP and ERP systems have been implemented and operated for more than two years, with the increase of system models and the continuous optimization of its features, the Company can collect quickly and timely more and more information and data, including a range of data for purchasing, production, sales, recovering amounts, expenses, inventories and receivable amounts, it provides a scientific foundation for the management of the Company in management and making policy, and thus the Company reaches a new stage in the enterprise information management.</p> |
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COMPETING INTERESTS

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

AUDIT COMMITTEE

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

The audit committee has reviewed with the management the accounting principles and practices adopted by the Company and discussed internal controls and financial reporting matters including review of the unaudited condensed results of the Company for the three months and six months ended 31 March 2006.

BOARD PRACTICES AND PROCEDURES

During the periods under review, the Company has complied with the board practices and procedures as set out in rules 5.34 to 5.45 of the GEM Listing Rules, which applied before the amendment of the GEM Listing Rules relating to the Code on Corporate Governance and Rules on Corporate Governance Report on 1 January 2005.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

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

SPONSOR'S INTERESTS

The sponsor agreement dated 1 June 2004 between the Company and CSC Asia Limited (“CSC Asia”) for the appointment of CSC Asia as sponsor of the Company under the GEM Listing Rules will be terminated with effect from 1st July, 2006.

The Company is in the process of finalising the appointment of a replacement compliance adviser. Upon finalisation an announcement will be published.

None of CSC Asia, its directors, employees or associates had any shareholding interest in the securities of the Company or any member of the Group nor have any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for the securities of the Company or any member of the Group as at 31 March 2006.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules for the six months ended 31 March 2006, except for the following deviation.

A2.1 The chairman and chief executive officer of the Company is the same individual.

Mr. Yang Hong Gen (“Mr. Yang”) is both the chairman and chief executive officer of the Company who is responsible for managing the Board and the Group's business. Mr. Yang has been both chairman and chief executive officer of the Company since its incorporation. The management considered that there is no imminent need to change the arrangement. However, the Board will continue to review the effectiveness of the Group's corporate governance structure to assess whether the separation of the position of chairman and chief executive officer is necessary.

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

Hong Kong, 15 May 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 of the Company as at date of this report:

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)