Longlife Group Holdings Limited
朗力福集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock code : 8037

ANNUAL REPORT 06

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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. 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

INDEPENDENT NON-EXECUTIVE DIRECTORS AND AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

Mr. Yu Jie
Mr. Yin Jing Le
Mr. Luk Yu King, James
Mr. Yang Shun Feng
Mr. Sha Hai Bo

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

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111

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

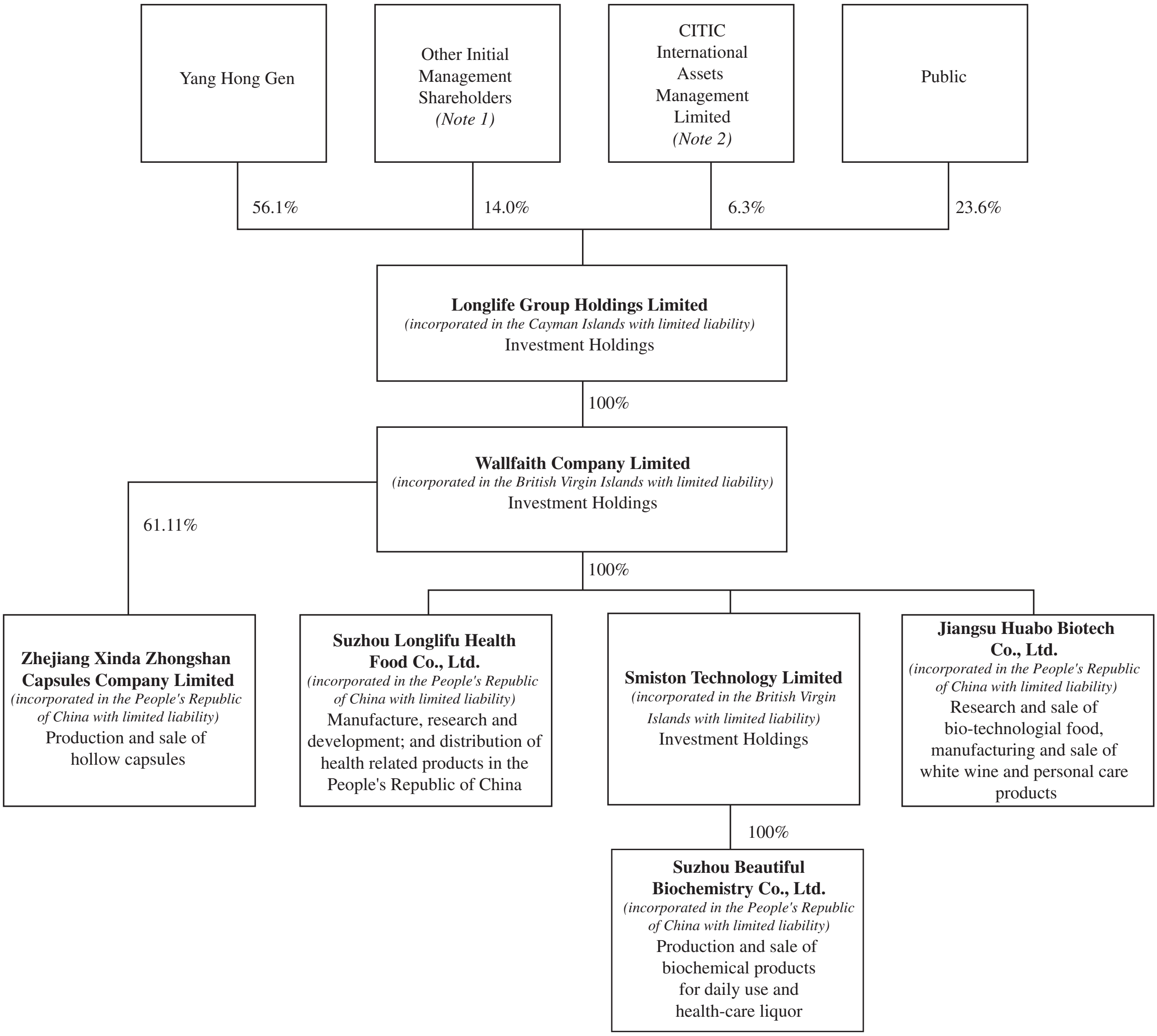
Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26/F, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

GROUP STRUCTURE

As at 30th September, 2006, 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**
Mr. Zhang San Lin (張三林)	25,000,000	5%
Mr. Yang Shun Feng (楊順峰)	10,000,000	2%
Mr. Zhou Sheng Yuan (周生元)	10,000,000	2%
Mr. Li Jin Sen (李錦森)	10,000,000	2%
Mr. Yao Feng (姚鋒)	10,000,000	2%
Mr. 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 30th September, 2006, the Group recorded a turnover of HK$243,386,000, representing an increase of HK$45,929,000 or 23% over that of the corresponding period in the previous year. Net profit, however, was HK$528,000, which is primarily due to the drop of product gross profit margin, the significant increase in selling expenses, as well as the scrapping of slow-moving inventory.

During the past year under review, the Group increased its capital commitment and expenses in the following four main areas:

Firstly, we stressed on the strengthening and perfection of the Group's sales and marketing network.

Building on the foundation of the original sales staff, the Group newly recruited and trained 2,400 marketing staff for its branch entities in various markets, perfected the sales teams at different locations, and developed a batch of new network sales terminals in the southwest, central, and northern regions of the PRC. This laid a foundation for the expansion of our market share. At the same time, the Group revised and improved our sales and financial management system, eliminating and clearing the bad debts and unmerchantable inventory accumulated over the years. This created suitable conditions for the strengthening of monitoring and the implementation of assessment contracts for the next year.

Secondly, we devoted more inputs to the research and development of new products and the improvement of existing products.

Over the year, 23 new products were developed and 21 existing products improved. We also strengthened the co-operation with post-secondary institutions (mainly 雲南大學 (Yunnan University) and 江南大學 (Jiang Nan University)) in terms of scientific research. Besides, we increased capital commitment to raise the technology contents in our products.

Furthermore, capitalizing on our position as a listed company, we began to explore the capitalist operations of investment holding and acquisition.

In order to ensure the sustainable development of the Company and to optimize the positioning of our products in the market, the Group now holds 61.11% of the equity interest in Zhejiang Xinda Zhongshan Capsules Company Limited (浙江新大中山膠囊有限公司) and has acquired 100% of the equity interest in Jiangsu Huabo Biotech Company Limited (江蘇華博生物科技有限公司) respectively. This has stocked quality assets and created better conditions for the sustainable development of the Group.

At the same time, the Group has retained the strengthening of the management and control of service and production departments as the key point of our day-to-day work. In particular, we strengthened purchasing management, focusing on the reduction of the costs of raw and subsidiary materials; we strengthened the management of manufacturing costs for each workshop, focusing on comparability, assessability, and rewards and penalty; we strengthened the implementation of information-based management, focusing on quickly gaining the sales information, expenses information, information on seasonal variations, information about each sales terminal for each market and for each product, thus procuring that the management of service and production departments is standardized and scientific.

FUTURE PROSPECTS

The industry in which the Group carries on business is a fast consumer goods industry. The industry has been developing rapidly in recent years. At the same time, competition is getting more and more fierce. The Group will be devoted to the consolidation and perfection of its sales network. On one hand, we will refine our management, stressing on the central task of earnings development and actively facing competition. On the other hand, the management will intensify reform, making correct decisions, as well as stressing on the nurturing of a strong sales team, and a new strong research and development team. The Directors believe that the development of even more selling channels and the expansion of target consumer groups can be fundamentally achieved only by the introduction at the right time of new products which cater to market demands and are high in technology contents. Only through this can the gross profit margin of our products be effectively raised, and the brand awareness and consumer awareness raised as well. This will build a strong foundation and create favourable conditions for our development in the coming year and in the future.

The Directors also believe that we must re-position ourselves gradually from a low-end consumer group to a middle to high-end consumer group in a fast consumption goods industry. The year 2007 will be a critical year for the adjustment of our strategies. Our management believe that this strategic stride will materialize if we are united as one and firm in our beliefs, implement scientific decision making, and operate efficiently.

Yang Hong Gen
Chairman

Hong Kong
20th December, 2006

MANAGEMENT DISCUSSION AND ANALYSIS

(A) BUSINESS REVIEW

Revenue

Revenue 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, 2006 was approximately HK$243,386,000, while that for the year ended 30th September, 2005 was approximately HK$197,457,000, representing an increase of approximately HK$45,929,000. A growth rate of approximately 23% was the result of an increase in the sales of everyday cosmetics and an increase in the sales of self-developed new 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, ginseng, lingzhi, and other agricultural products and general chemical industry raw materials. Packing materials are also included.

Gross profit was approximately HK$145,560,000 for the financial year ended 30th September, 2006, representing an increase of approximately 14% as compared to that of the previous financial year of approximately HK$127,346,000. During the financial year ended 30th September, 2006, the gross profit margin was approximately 60%, representing a decrease of approximately 4% when compared to the gross profit margin of approximately 64% in the previous financial year. It was because during the year, the Group adopted an aggressive pricing policy, which caused a decrease in gross profit margin and a rise in sales. At the same time, it was due to the fact that the actual market selling expenses and cost of sales rose significantly. Apart from that, the Group has accounted for the scrapping of slow-moving goods as cost of sales, which resulted in a decrease in gross profit margin.

The Directors believe that it will assist the Group in promoting our new products and consolidating our sales networks.

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$20,858,000 for the financial year ended 30th September, 2005 to approximately HK$26,236,000 for the financial year ended 30th September, 2006, representing an increase by approximately 26%. The increase in administrative expenses was mainly due to the 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 sales and customer resources management system, which led to additional costs.

Selling and distribution expenses

Selling and distribution expenses amounted to a total of approximately HK$118,355,000 for the financial year ended 30th September, 2006. Selling and distribution expenses mainly comprised advertising expenses, sales promotion fees and sales service fees and marketing staff costs. Selling and distribution expenses had significant grown from approximately HK$81,219,000 for the financial year ended 30th September, 2005 to approximately HK$118,355,000 for the financial year ended 30th September, 2006, representing a significant growth by approximately 46%. The increase in selling and distribution expenses was mainly due to the increase in the number of sales personnel, the expansion of sales networks, the higher costs for the introduction of new products and as well as the "Longlife" brand name through various promotion media.

In addition, the sales teams expanded from approximately 4,000 as at 30th September, 2005 to approximately 6,400 sales staff as at 30th September, 2006. Other marketing staff expenses and expenses for the expansion of sales network also increased when compared with the previous year.

Net profit

Net profit had decreased from approximately HK$25,165,000 for the financial year ended 30th September, 2005 to approximately HK$528,000 for the financial year ended 30th September, 2006. The reason for the decrease in net profit was that the consolidated gross profit margin dropped by approximately 4 percentage points, the scrapping of slow-moving goods amounting to HK$13,632,000, and an increase in selling and distribution expenses by approximately 46 percentage points.

MANAGEMENT DISCUSSION AND ANALYSIS

(B) OUTLOOK AND NEW DEVELOPMENT

The industry in which the Group carries on business is a fast consumer goods industry. The industry has been developing rapidly in recent years. At the same time, competition is getting more and more fierce. The Group will be devoted to the consolidation and perfection of its sales network. On one hand, we will refine our management, stressing on the central task of earnings development and actively facing competition. On the other hand, the management will intensify reform, making correct decisions, as well as stressing on the nurturing of a strong sales team, and a new strong research and development team. The Directors believe that the development of even more selling channels and the expansion of target consumer groups can be fundamentally achieved only by the introduction at the right time of new products which cater to market demands and are high in technology contents. Only through this can the gross profit margin of our products be effectively raised, and the brand awareness and consumer awareness raised as well. This will build a solid foundation and create favourable conditions for our development in the coming year and in the future.

(C) FINANCIAL REVIEW

Inventories

The balance of inventories was approximately HK$91,483,000 as at 30th September, 2006, representing an increase of approximately 6.7% as compared to the inventory balance of approximately HK$85,733,000 as at 30th September, 2005. The increase from that as at 30th September, 2005 was due to the Group's large number of sales points and sales outlets, which covered a large geographic area. Accordingly, a certain level of stock has to be maintained at all times to ensure smooth delivery and sales. The extension in stock turnover is also attributable to the increase in the number of new products, which resulted in more raw materials and finished goods as at 30th September, 2006. In addition, inventories as at 30th September, 2006 included stock of approximately HK$1,200,000 of Zhejiang Xinda Zhongshan Capsules Company Limited, a subsidiary acquired during the year.

Liquidity and financial resources

The Group executes a prudent policy in its financial resources management. The Group had total cash and bank balances (excluding restricted-use bank deposits) of approximately HK$28,760,000 and approximately HK$34,672,000 as at 30th September, 2006 and 2005, respectively.

The Group generally financed its operations with internally generated cash flows and banking facilities. The financial position of the Group was healthy. As at 30th September, 2006, the Group had secured short term bank borrowings of approximately HK$5,900,000 (2005: HK$14,000,000), which are repayable within one year. Bank borrowings which are repayable after one year amounted to HK$15,462,000 (2005: nil). The interest rates of such bank loans are usually at fixed rates.

Details of assets pledged by the Group to secure banking facilities are set out in note 33 on page 50.

The gearing ratio (defined as total borrowings including bank loans and amounts due to directors to total assets) as at 30th September, 2006 and 2005 was approximately 8.2% and 6.5% respectively. The increase in the gearing ratio is mainly due to an 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 appreciation of the Renminbi during the year.

Contingent liabilities

The Group had no material contingent liabilities as at 30th September, 2006 and 2005.

Capital commitments

As at 30th September, 2006, capital expenditure included those contracted for but not provided for in the financial statements, which amounted to approximately HK$6,350,000, which included acquisition of property, plant and equipment HK$4,320,000, construction in progress HK$1,749,000 and acquisition of prepaid lease payments HK$281,000 (2005: in respect of investment in a joint venture in the People's Republic of China amounted to approximately HK$8,580,000).

MANAGEMENT DISCUSSION AND ANALYSIS

(D) EMPLOYEES' REMUNERATION

As at 30th September, 2006, the Group had 7,174 (2005: 4,514) employees from its various offices located in the PRC. Total staff costs for the year ended 30th September, 2006 was approximately HK$46,196,000 (2005: HK$36,200,000).

The Group remunerates its employees based on their performance, work experience and the prevailing market price. Performance related bonuses are also 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 for which an option must be held before an option can be exercised on a case by case 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 the grantee 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.

On 28th December, 2004, 50,000,000 share options were granted under the Scheme. The exercise period of the above share options is from 28th December, 2004 to 27th December, 2006.

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 a certain percentage of the monthly salaries of their current employees to fund the benefits. The employees are entitled to a 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$612,000 (2005: HK$421,000) for the year.

In addition, pursuant to regulations stipulated by the PRC government, the PRC subsidiaries started a defined contribution health care scheme with effect 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 subsidiaries and the relevant employees have to contribute a certain percentage of the employees' salaries to the scheme respectively. The health care scheme contributions made by the PRC subsidiaries were approximately HK$125,000 (2005: HK$94,000) for the year.

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

Yang Hong Gen
Chairman

Hong Kong
20th December, 2006

MANAGEMENT PROFILE

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

EXECUTIVE DIRECTORS

Mr. Yang Hong Gen (楊洪根), aged 56, 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. Zhang San Lin (張三林), aged 44, 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 32, is an executive Director. Mr. Yang joined the Group in March 1998. He is the general manager of Suzhou Longlifu Health Food Co., Ltd. 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 57, 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 30, 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 (連雲港國瑞稅務師事務所). He joined the Group in October 2001. Mr. Sha is responsible for handling the accounting and finance matters of the Group.

Mr. Cheung Chun Ho, Frankie (張晉浩), aged 48, 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 (盧永逸), aged 48, 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 65, 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 65, 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 52, 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 41, 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 33, 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 51, 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 58, 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 (黃燦標), aged 58, 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..

CORPORATE GOVERNANCE REPORT

The Company has complied with the Code provisions set out in the Code on Corporate Governance Practice (the "Code") in Appendix 15 of the GEM Listing Rules of The Stock Exchange of Hong Kong Limited, which became effective on 1st January, 2005.

Throughout the year ended 30th September, 2006, the Company has complied with the Code provisions set out in the Code except for Code Provisions A.2.1 and A.4.1. The Board will keep these matters under review on a periodical basis.

THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

The code provisions A.2.1 require that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

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 businesses of the Group. Mr. Yang has been both chairman and chief executive officer of the Company since its incorporation. The management considers that there is no imminent need to change the arrangement. However the Board is reviewing 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.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The code provisions A.4.1 requires that non-executive directors should be appointed for a specific term, subject to re-election.

Apart from the executive Directors and independent non-executive Directors, no other Directors are currently appointed with specific terms which are subject to retirement in accordance with the articles of association of the Company (the "Articles"). According to the Articles, at each annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not greater than one-third) shall retire from office by rotation.

BOARD OF DIRECTORS

The Board's primary responsibilities are to formulate the Company's long-term corporate strategy, to oversee the management of the Group, to evaluate the performance of the Group and enhance long-term shareholder value.

Executive Directors

Mr. Yang Hong Gen — *Chairman and Chief Executive Officer*
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

Independent Non-Executive Directors

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

The relationship among the members of the Board are disclosed under the "Management Profile".

CORPORATE GOVERNANCE REPORT

INDEPENDENCE

The Company has received from each independent non-executive Director an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers all the independent non-executive Directors to be independent.

MEETINGS AND ATTENDANCE

The board regularly met in person or through other means of electronic communication at least four times every year. Apart from the regular board meetings of the year, the board will meet on other occasions when a board-level decision on a particular matter is required. Details of the participation of individual Directors at the Board meeting and Audit Committee meeting are set out as follows:

	Meetings Participated/Held	
Directors	**Board**	**Audit Committee**
Executive Directors		
Mr. Yang Hong Gen	7/7	N/A
Mr. Zhang San Lin	7/7	N/A
Mr. Yang Shun Feng	7/7	N/A
Mr. Yao Feng	7/7	N/A
Mr. Sha Hai Bo	7/7	N/A
Mr. Cheung Chun Ho, Frankie	7/7	N/A
Non-executive Director		
Mr. Lo Wing Yat, Kelvin	7/7	N/A
Independent non-executive Directors		
Mr. Yin Jing Le	7/7	4/4
Mr. Yu Jie	6/7	4/4
Mr. Luk Yu King, James	7/7	4/4

BOARD COMMITTEES

The Board has established Audit, Remuneration, Internal Control and Compliance Committees in accordance with the Code Provisions and all or a majority of the members of the Committees are independent non-executive Directors.

(1) The Audit Committee

The Company established an audit committee with written terms of reference in compliance with the requirements as set out in Rules 5.28, 5.29 and 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review the Company's annual report and financial statements, half-yearly report and quarterly reports and to provide advice and comment thereon to the Board. The audit committee are also responsible for reviewing and supervising the financial reporting process and internal control procedures of the Group. Currently it consists of three independent non-executive Directors, Messrs. Yin Jing Le, Luk Yu King, James and Yu Jie. During the year under review, the Audit Committee met with the external auditor once.

CORPORATE GOVERNANCE REPORT

(2) The Remuneration Committee

The Company established a Remuneration Committee on 20th December, 2005 and adopted the terms of reference of the Remuneration Committee in alignment with the provisions set out in the Code. The Remunerations Committee now comprises three independent non-executive Directors, namely Mr. Yu Jie, Mr. Yin Jing Le and Mr. Luk Yu King, James and two executive director, Mr. Yang Shun Feng and Mr. Sha Hai Bo.

The main responsibilities of the Remuneration Committee are to review and endorse the remuneration policy of the Directors and Senior Management and to make recommendations to the Board for the remuneration of the Directors. The Remuneration Committee ensures that no Director is involved in deciding his own remuneration.

(3) Internal Control Committee

The Company established an Internal Control Committee on 20th December, 2005 in alignment with the provisions set out in the Code. The Internal Control Committee now comprises Mr. Yao Feng, Mr. Sha Hai Bo, Mr. Luk Yu King, James and Mr. Wong Chan Biu.

The main responsibilities of the Internal Control Committee are to set up and review the Company's Internal Control procedures and ensure proper and appropriate control in respect of finance, operations and human resources is in place.

(4) Compliance Committee

The Company established a Compliance Committee on 16th November, 2006, which consists of Mr. Yao Feng, Mr. Luk Yu King, James, Mr. Yu Jie and Mr. Wong Chan Biu.

The main responsibilities of the Compliance Committee are to ensure compliance of rules and regulations particularly the listing rules and regulations applicable to the Company.

AUDITORS' REMUNERATION

The remuneration in respect of the services provided by the Company's auditors is analysed as follows:

	2006	2005
	HK$'000	*HK$'000*
Services rendered		
– Audit services	**687**	708
– Non-audit services	**–**	–
	687	708

DIRECTORS' REPORT

The Directors present the annual report and audited financial statements for the year ended 30th September, 2006.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its subsidiaries are set out in note 36 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 30th September, 2006 are set out in the consolidated income statement on page 24.

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

Details of movements during the year in the property, plant and equipment of the Group are set out in note 14 to the financial statements.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 53. This summary does not from a part of the audited financial statements.

DIRECTORS

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

Executive Directors

Mr. Yang Hong Gen
Mr. Zhang San Lin
Mr. Yang Shun Feng
Mr. Yao Feng
Mr. Sha Hai Bo
Mr. Cheung Chun Ho, Frankie
Mr. Liu Zhuoru (resigned on 16th May, 2006)

Non-executive Director

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

Independent non-executive Directors

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

In accordance with the provision of the Company's Articles of Association, Messrs. Cheung Chun Ho, Frankie, Luk Yu King, James and Yin Jing Le retire by rotation and, being eligible, offer themselves 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 AND UNDERLYING SHARES

At 30th September, 2006, 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 as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance, 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**
Mr. Yang Hong Gen (楊洪根)	Beneficial owner	280,500,000	56.1%
Mr. Zhang San Lin (張三林)	Beneficial owner	25,000,000	5.0%
Mr. Yang Shun Feng (楊順峰)	Beneficial owner	10,000,000	2.0%
Mr. Yao Feng (姚鋒)	Beneficial owner	10,000,000	2.0%

Options to subscribe for ordinary shares in the Company

				Number of share options outstanding	
Name	**Capacity**	**Date of grant**	**Exercise price** *HK$*	**As at 1st October, 2005**	**As at 30th September, 2006**
Mr. Yang Hong Gen (楊洪根)	Beneficial owner	28th December, 2004	0.27	5,000,000	5,000,000
Mr. Zhang San Lin (張三林)	Beneficial owner	28th December, 2004	0.27	5,000,000	5,000,000
Mr. Yang Shun Feng (楊順峰)	Beneficial owner	28th December, 2004	0.27	5,000,000	5,000,000
Mr. Yao Feng (姚鋒)	Beneficial owner	28th December, 2004	0.27	5,000,000	5,000,000
Mr. Sha Hai Bo (沙海波)	Beneficial owner	28th December, 2004	0.27	5,000,000	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.

Save as disclosed above, none of the directors and their associates have, as at 30th September, 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 Securities and Futures Ordinance ("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, 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 IN SHARES AND UNDERLYING 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:			
Ms. Bao Xiao Mei[#1] (包小妹)	Interest of spouse	280,500,000	56.1%
Other persons:			
Ms. 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 *HK$*	Number of share options outstanding As at 1st October, 2005	As at 30th September, 2006
Substantial shareholder:					
Ms. Bao Xiao Mei[#1] (包小妹)	Interest of spouse	28th December, 2004	0.27	5,000,000	5,000,000
Other person:					
Ms. Zhou Xiang Zhen[#2] (周祥珍)	Interest of spouse	28th December, 2004	0.27	5,000,000	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*

#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, 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.

SHARE OPTION SCHEME

The details of the share option scheme of the Company are set out in note 30 to the financial statements.

Details of the options granted are as follows:

			Number of share options outstanding	
Name	**Date of grant**	**Exercise price** *HK$*	**As at 1st October, 2005**	**As at 30th September, 2006**
Executive Directors:				
Mr. Yang Hong Gen (楊洪根)	28th December, 2004	0.27	5,000,000	5,000,000
Mr. Zhang San Lin (張三林)	28th December, 2004	0.27	5,000,000	5,000,000
Mr. Yang Shun Feng (楊順峰)	28th December, 2004	0.27	5,000,000	5,000,000
Mr. Yao Feng (姚鋒)	28th December, 2004	0.27	5,000,000	5,000,000
Mr. Sha Hai Bo (沙海波)	28th December, 2004	0.27	5,000,000	5,000,000
			25,000,000	25,000,000
Other eligible participants:				
5 eligible participants	28th December, 2004	0.27	25,000,000	25,000,000
			50,000,000	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' REPORT

ARRANGEMENTS FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES

Other than the share option scheme, at no time during the year was the Company or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its independent non-executive directors, namely Mr. Luk Yu King, James, Mr. Yin Jing Le and Mr. Ye Jie, an annual confirmation of their independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and considers the independent non-executive directors to be independent.

MAJOR CUSTOMERS AND SUPPLIERS

During the year,

(i) the Group's largest customer and five largest customers accounted for 12% and 27% respectively, of the Group's total sales; and

(ii) the Group's largest supplier and five largest suppliers accounted for 9% and 29% respectively, of the Group's total purchases.

None of the directors of the Company 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.

SHARE CAPITAL

Details of the Company's share capital during the year are set out in note 27 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group during the year are set out on page 26 in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

As at 30th September, 2006, the Company had distributable reserves of approximately HK$85,961,000.

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.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Company's directors throughout the year ended 30th September, 2006.

DIRECTORS' REPORT

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S 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.

CODE ON CORPORATE GOVERNANCE PRACTICES

Details are set out in the Corporate Governance Report on pages 12 to 14.

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 specified 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 the directors.

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 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 reports and half-yearly report and to provide advice and comment thereon to the Board. The audit committee is also responsible for reviewing and supervision of the financial reporting process and internal control procedures of the Group.

The audit committee held four meetings during the year ended 30th September, 2006.

EMOLUMENT POLICY

The emolument policy of the employees and senior management of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to market competitiveness, individual performance and achievement.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 30 to the financial statements.

SPONSOR'S INTERESTS

Pursuant to a sponsor agreement dated 1st June, 2004 between the Company and CSC Asia Limited ("CSC Asia"), CSC Asia was retained as the sponsor of the Company for the purpose of Chapter 6 of the GEM Listing Rules for the period from 17th June, 2004 (being the listing date) to 30th June, 2006. With effect from 1st July, 2006, First Shanghai Capital Limited ("First Shanghai") is appointed as compliance adviser of the Company. None of First Shanghai, 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, 2006.

DIRECTORS' REPORT

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.

MAJOR AND CONNECTED TRANSACTIONS

The Company made an announcement on 8th December, 2006 (the "Announcement") to disclose a series of discloseable and connected transaction which constitute a major transaction.

The transactions include:

(1) subsequent to the formation of the Zhejiang Xinda Zhongshan Capsules Company Limited (JV Company) between Wallfaith Company Limited (Wallfaith), a wholly-owned subsidiary of the Company and Zhejiang Zhongshan Capsules Company Limited (the JV Partner) (the announcement dated 29th September, 2005 and the circular dated 20th October, 2005 refer), on 18th November, 2005, Wallfaith and the JV Partner entered into a supplemental agreement to the Joint Venture Agreement (JV Agreement), whereby it was agreed that the original mode of injection of the portion of the JV Company's registered capital attributable to the JV Partner would be changed from the injection of certain land use rights, machineries and equipment having an aggregate value of US$700,000 (equivalent to approximately HK$5,460,000) to the injection of cash (in RMB) equivalent to US$700,000, followed by the JV Company's application of such cash to acquire the said assets from the JV Partner pursuant to the Sales and Purchases Agreement (SP Agreement);

(2) on 29th March, 2006, a total sum of US$1,100,000 (equivalent to approximately HK$8,580,000) was advanced in RMB (the Advance) by the JV Company to the JV Partner, as deposit for the JV Partner's production of capsule products for the Group pursuant to certain sub-contracting agreement (sub-contracting agreement) made between the JV Company and the JV Partner; and

(3) on 30th September, 2006, the JV Company acquired certain inventories, plants and equipment, accounts receivable and accounts payable from the JV Partner (Acquisition Agreement) at a total consideration of US$1,056,000 (equivalent to approximately to HK$8,236,000) which was determined by reference to the net asset value of such assets and liabilities.

Since (i) the SP Agreement, the Advance under the Sub-contracting Agreement and the Acquisition Agreement were entered into by the JV Company within a 12-month period; (ii) the parties to such agreements are the same; and (iii) the Advance is a transaction under Chapter 19 of the GEM Listing Rules, under Rule 19.22 of the GEM Listing Rules, the aggregated transactions (Aggregated Transactions) are treated as if they had been one transaction.

The Aggregated Transactions together constitute a major transaction for the Company under Rule 19.06 of the GEM Listing Rules, as the consideration ratios (as prescribed under Chapter 19 of the GEM Listing Rules) relating to the Aggregated Transactions are more than 25% but less than 75%.

As the JV Partner is a substantial shareholder of the JV Company which is a subsidiary of the Company, for the reasons stated above in relation to the aggregation of Aggregated Transactions to constitute a major transaction, under Rule 20.25 of the GEM Listing Rules, the Aggregated Transactions are treated as if they had been one connected transaction. A total of approximately US$1.8 million (equivalent to approximately HK$14,040,000) was paid by the JV Company to the JV Partner for the settlement of consideration of the SP Agreement and the Acquisition Agreement under the Aggregated Transactions. The Advance was repayable and repaid by the JV Partner. As the applicable percentage ratios (as prescribed under Chapter 19 of the GEM Listing Rules) for the Aggregated Transactions is greater than 2.5% and the total considerations under the Aggregated Transactions are greater than HK$10,000,000, the Aggregated Transactions constitute a non-exempted connected transaction of the Company under Chapter 20 of the GEM Listing Rules and is subject to reporting, disclosure and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules. The Directors (including the independent non-executive Directors) are of the view that the Aggregated Transactions are fair and reasonable and on normal commercial terms and in the interest of the Company and the Shareholders as a whole for the reasons set out in the announcement.

DIRECTORS' REPORT

An Extraordinary General Meeting (EGM), at which the voting on resolutions will be taken by way of poll, will be convened and held for the purpose of considering and, if thought fit, approving and ratifying (i) the SP Agreement; (ii) the Advance under the Sub-contracting Agreement; and (iii) the Acquisition Agreement.

An announcement will be made by the Company on the business day immediately following the conclusion of the EGM to inform the Shareholders and the public of the results of the EGM.

The SP Agreement was signed on 30th December, 2005, the Advance was made on 29th March, 2006 and the Acquisition Agreement was signed on 30th September, 2006. However, it has not been disclosed by way of announcement until the publication of the announcement. The major reasons for the failure to bring such matter to the attention of the Directors and the management of the Company on a timely basis were that the management staff at the JV Company level were dedicating all their efforts and attempting every legal means within the PRC to bring the business operation in place so as to minimize the loss which may have caused to and generate revenue for the JV Company. The management team focused so deeply in this aim that the disclosure requirements were overlooked inadvertently. During the audit process of the Group for the year ended 30th September, 2006, it was discovered by the management of the Company that the Aggregated Transactions ought to be disclosed and approved.

For the above reasons, the making of the Advance and the signing of the SP Agreement and the Acquisition Agreement did not come to the immediate notice of the Board and an announcement could not be published on a timely basis.

The Board considers that the omission, which was inadvertent and regretful, is an isolated event and the Company will tighten its compliance system in order to prevent a repetition of a similar incident. A compliance committee of the Board, comprising Mr. Yao Feng, Mr. Luk Yu King, James, Mr. Yu Jie and Mr. Wong Chan Biu, has been established on 16th November, 2006. It is the plan of the compliance committee that regular meetings will be held with the management of each subsidiary of the Company on a monthly basis, such that any event which requires disclosure will be identified and made on a timely basis. Training is also planned to be conducted by members of the compliance committee and/or other advisers to the Company on a regular basis.

As each of the SP Agreement, the Advance and the Acquisition should have been subject to the reporting and announcement requirements under Chapter 20 of the GEM Listing Rules upon the signing of SP Agreement on 30th December, 2005, the signing of Sub-contracting Agreement on 28th February, 2006 and the signing of the Acquisition Agreement on 30th September, 2006, and that the Aggregated Transaction should have been subject to the reporting, announcement and shareholders' approval requirement, the entering into of the above agreements without timely disclosure by the Company nor proper approval by Shareholders constitutes a breach of Rules 20.18 and 20.47 of the GEM Listing Rules.

On behalf of the Board

Yang Hong Gen
Chairman

Hong Kong
20th December, 2006

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 from pages 24 to 52 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 Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the 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 Group as at 30th September, 2006 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
20th December, 2006

CONSOLIDATED INCOME STATEMENT

For the year ended 30th September, 2006

	Notes	**2006** ***HK$'000***	2005 *HK$'000*
Revenue	7	**243,386**	197,457
Cost of sales		**(97,826)**	(70,111)
Gross profit		**145,560**	127,346
Other income	8	**4,156**	1,033
Administrative expenses		**(26,236)**	(20,858)
Selling and distribution expenses		**(118,355)**	(81,219)
Other expenses		**(459)**	(189)
Finance costs		**(1,233)**	(1,554)
Profit before tax	9	**3,433**	24,559
Income tax expense (credit)	10	**2,905**	(606)
Profit for the year		**528**	25,165
Attributable to:			
Equity holders of the Company		**639**	25,165
Minority interest		**(111)**	–
		528	25,165
Earnings per share	12		
– Basic		**0.11 HK cent**	5.03 HK cents
– Diluted		**0.10 HK cent**	4.97 HK cents

CONSOLIDATED BALANCE SHEET

At 30th September, 2006

	Notes	**2006** **HK$'000**	2005 HK$'000 (restated)
NON-CURRENT ASSETS			
Property, plant and equipment	14	**47,545**	25,178
Prepaid lease payments	15	**14,360**	8,209
Deposit paid for acquisition of property, plant and equipment		**671**	–
Goodwill	16	**5,525**	–
		68,101	33,387
CURRENT ASSETS			
Inventories	17	**91,483**	85,733
Trade receivables	18	**56,600**	40,606
Prepayments and other receivables	19	**15,962**	16,971
Prepaid lease payments	15	**315**	174
Tax recoverable		**452**	1,611
Pledged bank deposits	20	**5,132**	1,774
Bank balances and cash	21	**28,760**	34,672
		198,704	181,541
CURRENT LIABILITIES			
Trade payables	22	**28,311**	12,184
Other payables and accruals	23	**38,977**	24,761
Bank borrowings	24	**5,909**	13,962
Amount due to a minority shareholder	25	**311**	–
Amount due to a director	26	**543**	60
Tax payable		**318**	–
		74,369	50,967
NET CURRENT ASSETS		**124,335**	130,574
		192,436	163,961
CAPITAL AND RESERVES			
Share capital	27	**50,000**	50,000
Reserves		**121,568**	113,961
Equity attributable to equity holders of the Company		**171,568**	163,961
Minority interests		**5,406**	–
TOTAL EQUITY		**176,974**	163,961
NON-CURRENT LIABILITY			
Bank borrowings	24	**15,462**	–
		192,436	163,961

The financial statements on pages 24 to 52 were approved and authorised for issue by the Board of Directors on 20th December, 2006 and are signed on its behalf by:

Yang Hong Gen
Director

Zhang San Lin
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30th September, 2006

	Attributable to equity holders of the Company									
	Share capital *HK$'000*	Share premium *HK$'000*	Special reserve *HK$'000* *(Note 1)*	Statutory surplus reserve fund *HK$'000* *(Note 2)*	Statutory enterprise expansion fund *HK$'000* *(Note 3)*	Exchange reserve *HK$'000*	Accumulated profits *HK$'000*	Total *HK$'000*	Minority interests *HK$'000*	Total equity *HK$'000*
At 1st October, 2004	50,000	8,145	22,443	–	–	–	58,208	138,796	–	138,796
Profit for the year	–	–	–	–	–	–	25,165	25,165	–	25,165
At 30th September, 2005 and 1st October, 2005	50,000	8,145	22,443	–	–	–	83,373	163,961	–	163,961
Contribution from a minority shareholder	–	–	–	–	–	–	–	–	5,460	5,460
Exchange difference arising on translation of foreign operations	–	–	–	–	–	6,968	–	6,968	57	7,025
Net income recognised directly in equity	–	–	–	–	–	6,968	–	6,968	57	7,025
Profit for the year and total recognised income for the year	–	–	–	–	–	–	639	639	(111)	528
Appropriations	–	–	–	3,098	3,098	–	(6,196)	–	–	–
At 30th September, 2006	50,000	8,145	22,443	3,098	3,098	6,968	77,816	171,568	5,406	176,974

Note:

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. Pursuant to Articles of Association of Suzhou Longlifu Health Food Co. Ltd. ("Suzhou Longlifu") which became effective on 16th February, 2003, the management of Suzhou Longlifu could transfer the net profit to the statutory surplus reserve fund on a discretionary basis.

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

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

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

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 30th September, 2006

	Notes	**2006** ***HK$'000***	2005 *HK$'000* (restated)
OPERATING ACTIVITIES			
Profit before tax		**3,433**	24,559
Adjustments for:			
Amortisation of prepaid lease payment		**219**	144
Depreciation of property, plant and equipment		**3,984**	3,161
Discount on acquisition		**(2,592)**	–
Finance cost		**1,233**	1,554
Interest income		**(116)**	(208)
Inventories written off/allowance for obsolete stocks		**13,632**	6,667
Loss on disposal of property, plant and equipment		**1**	18
Trade receivables written off/allowance for bad and doubtful debts		**1,730**	–
Operating cash flows before movements in working capital		**21,524**	35,895
Increase in inventories		**(12,234)**	(17,599)
Increase in trade receivables		**(12,623)**	(7,187)
Decrease (increase) in prepayments and other receivables		**4,132**	(309)
Increase in trade payables		**12,698**	4,312
Increase in other payables and accruals		**10,580**	5,331
Cash generated from operations		**24,077**	20,443
Income taxes paid		**(3,116)**	(2,453)
Income taxes refunded		**1,759**	606
NET CASH GENERATED FROM OPERATING ACTIVITIES		**22,720**	18,596
INVESTING ACTIVITIES			
Acquisition of a subsidiary	28	**(17,574)**	–
Acquisition of a business	29	**(7,272)**	–
Purchase of property, plant and equipment		**(8,508)**	(1,156)
Increase in pledged bank deposits		**(3,280)**	(1,774)
Purchase of prepaid lease payments		**(1,071)**	(4,400)
Deposits paid for acquisition of property, plant and equipment		**(671)**	–
Interest received		**116**	208
Sale proceeds of property, plant and equipment		**1**	–
NET CASH USED IN INVESTING ACTIVITIES		**(38,259)**	(7,122)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30th September, 2006

	2006	2005
	HK$'000	*HK$'000*
		(restated)
FINANCING ACTIVITIES		
New bank borrowings raised	**28,560**	13,962
Contribution from a minority shareholder	**5,460**	–
Advance from a director	**483**	–
Increase in amount due to a minority interest	**311**	–
Repayment of bank borrowings	**(25,408)**	(9,434)
Interest paid	**(1,233)**	(1,554)
Dividend paid	**–**	(14,533)
Repayment to a director	**–**	(90)
NET CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES	**8,173**	(11,649)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(7,366)**	(175)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**34,672**	34,847
Effect of foreign exchange rate changes	**1,454**	–
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**28,760**	34,672

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30th September, 2006

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. The address of the registered office and principal place of business of the Company are disclosed in the section of "Corporate Information" in the annual report.

The consolidated financial statements are prepared in Hong Kong dollars because it is considered to provide more useful information to the shareholders and the Company is listed in Hong Kong. The functional currency of the Company and the major subsidiaries of the Group is Renminbi.

The Company is an investment holding company and the principal activities of its subsidiaries are set out in note 36.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations ("INTs") (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1st January, 2005. The adoption of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current years are prepared and presented:

Owner-occupied Leasehold Interest in Land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured at revalued amount. In the current year, the Group have applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively. The change has resulted in HK$4,127,000 land use rights being reclassified from property, plant and equipment to prepaid lease payments on 1st October, 2004.

Share-based Payments

In the current year, the Group has applied HKFRS 2 "Share-based Payment", which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Group, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 30th September, 2005. In relation to share options granted before 30th September, 2005, the Group chooses not to apply HKFRS 2 with respect to share options granted on or before 7th November, 2002 and vested before 30th September, 2005. However, the Group is still required to apply HKFRS 2 retrospectively to share options that were granted after 7th November, 2002 and had not yet vested on 30th September, 2005. This change has had no material effect on the result for the current and prior year.

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective. Except for the financial impact on adoption of HKAS 39 & HKFRS 4 (Amendments) "Financial guarantee contracts" which requires financial guarantee contracts within the scope of HKAS 39 to be measured at fair value on initial recognition, the directors of the Group anticipate that these standards, amendments or interpretations will have no material impact on the consolidated financial statements of the Group. The Group is not yet in a position to reasonably estimate the impact on adoption of HKAS 39 & HKFRS 4 (Amendments).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30th September, 2006

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

– continued

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]
HK(IFRIC) – INT 8	Scope of HKFRS 2[5]
HK(IFRIC) – INT 9	Reassessment of embedded derivatives[6]
HK(IFRIC) – INT 10	Interim financial reporting and impairment[7]

[1] Effective for annual periods beginning on or after 1st January, 2007.
[2] Effective for annual periods beginning on or after 1st January, 2006.
[3] Effective for annual periods beginning on or after 1st December, 2005.
[4] Effective for annual periods beginning on or after 1st March, 2006.
[5] Effective for annual periods beginning on or after 1st May, 2006.
[6] Effective for annual periods beginning on or after 1st June, 2006.
[7] Effective for annual periods beginning on or after 1st November, 2006.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis, as explained in the accounting policies set out below:

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

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.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All inter-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30th September, 2006

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Goodwill

Goodwill represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet as an intangible asset.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions")

A discount on acquisition arising on an acquisition of a subsidiary represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in profit or loss.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods in the normal course of business, net of discounts and sales related taxes.

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

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying value.

Property, plant and equipment

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

Construction in progress is stated at cost which includes all construction costs and other direct costs attributable to such projects. Construction in progress is not depreciated until completion of construction. Costs on completed construction work are transferred to the appropriate categories of property, plant and equipment.

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.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30th September, 2006

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Prepaid lease payments

Payments for obtaining land use rights are accounted for as prepaid lease payments and are charged to the income statement on a straight-line basis over the lease terms.

Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

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 (excluding goodwill)

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 recognised as an expense immediately.

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

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated 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 and deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30th September, 2006

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Taxation – *continued*

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.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in the consolidated income statement in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in consolidated income statement in the period in which the foreign operation is disposed of.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

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.

Payments to the Mandatory Provident Fund Scheme retirement benefit scheme are charged as an expense as they fall due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30th September, 2006

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified into loans and receivables. The accounting policies adopted in respect of loans and receivables set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, other receivables, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in the consolidated income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including trade payables, other payables, bank borrowings, amount due to a minority shareholder and amount due to a director are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received or receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in the consolidated income statement.

For financial liabilities, they are removed from the Group's consolidated balance sheet when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30th September, 2006

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees of the Group

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period or recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share option reserve).

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated profits.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Allowance for bad and doubtful debts

Management regularly reviews the recoverability and age of the trade receivables. Appropriate impairment for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired.

In determining whether impairment for bad and doubtful debts is required, the Group takes into consideration the current creditworthiness, the past collection history, age status and likelihood of collection. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flow expected to receive discounted using the original effective interest rate and its carrying value. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade receivables, other receivables, pledged bank deposits, bank balances and cash, trade payables, other payables and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 30th September, 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade receivables to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on bank balances is limited because the counterparties are banks with high credit ratings.

The Group has no significant concentration of credit risk (other than its major customer), with exposure spread over a number of counterparties and customers. The credit risk of the major customer is low because it is a well known and established enterprise in the PRC.

Interest rate risk

The Group is exposed to fair value interest rate risk through the impact of rate changes on interest bearing bank borrowings. The interest rates and terms of repayment of bank borrowings of the Group are disclosed in notes 24.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30th September, 2006

6. SEGMENT INFORMATION

The Group is engaged in the manufacture, research and development and distribution of consumer cosmetic, health related products, capsules products, and health supplement wine and operates only in the PRC. In addition, the identifiable assets of the Group are located in the PRC. Accordingly, no analyses by geographical area of operations are provided.

Segment information about these business is presented as below:

Income statement

	Manufacturing and sales of consumer cosmetic		Manufacturing and sales of health related products		Manufacturing and sales of capsules products		Manufacturing and sales of health supplement wine		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue	**105,024**	109,262	**115,776**	88,195	**8,383**	–	**14,203**	–	**243,386**	197,457
Segment results	**(16,396)**	(1,857)	**18,633**	30,066	**(61)**	–	**(201)**	–	**1,975**	28,209
Other income									**4,156**	1,033
Unallocated corporate expenses									**(1,465)**	(3,129)
Finance costs									**(1,233)**	(1,554)
Profit before taxation									**3,433**	24,559
Income tax expense (credit)									**2,905**	(606)
Profit for the year									**528**	25,165

Balance sheet

	Manufacturing and sales of consumer cosmetic		Manufacturing and sales of health related products		Manufacturing and sales of capsules products		Manufacturing and sales of health supplement wine		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Assets										
Segment assets	**56,771**	68,952	**162,388**	142,562	**27,049**	–	**18,332**	–	**264,540**	211,514
Unallocated corporate assets									**2,265**	3,414
Total assets									**266,805**	214,928
Liabilities										
Segment liabilities	**23,159**	11,078	**36,965**	23,676	**6,456**	–	**629**	–	**67,209**	34,754
Unallocated corporate liabilities									**22,622**	16,213
									89,831	50,967

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30th September, 2006

6. SEGMENT INFORMATION – *continued*

Other information

	Manufacturing and sales of consumer cosmetic		Manufacturing and sales of health related products		Manufacturing and sales of capsules products		Manufacturing and sales of health supplement wine		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Capital expenditures	**81**	648	**13,843**	1,734	**2,638**	–	**40**	–	**16,602**	2,382
Depreciation of property, plant and equipment	**101**	76	**3,323**	3,085	**487**	–	**73**	–	**3,984**	3,161
Goodwill on acquisition	**5,525**	–	**–**	–	**–**	–	**–**	–	**5,525**	–
Inventories written off/ allowance for obsolete stock	**9,884**	4,357	**3,748**	2,310	**–**	–	**–**	–	**13,632**	6,667

7. REVENUE

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

8. OTHER INCOME

	2006	2005
	HK$'000	*HK$'000*
Interest income	**116**	208
Sundry income	**658**	825
Discount on acquisition	**2,592**	–
Net exchange gain	**790**	–
	4,156	1,033

9. PROFIT BEFORE TAX

	2006	2005
	HK$'000	*HK$'000*
Profit before tax has been arrived at after charging:		
Directors' remuneration *(Note 13)*	**1,385**	1,320
Other staff costs	**44,074**	34,385
Retirement benefits scheme contributions (excluding directors' remuneration)	**737**	515
Total staff costs	**46,196**	36,220
Trade receivables and other receivables written off/ allowance for bad and doubtful debts	**1,730**	–
Inventories written off/allowance for obsolete stocks	**13,632**	6,667
Cost of inventories recognised as an expense	**84,194**	63,444
Auditors' remuneration	**687**	708
Amortisation of prepaid lease payments	**219**	144
Depreciation of property, plant and equipment	**3,984**	3,161
Loss on disposal of property, plant and equipment	**1**	18
Research and development costs	**11**	34

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30th September, 2006

10. INCOME TAX EXPENSE (CREDIT)

	2006	2005
	HK$'000	*HK$'000*
The amount comprises:		
Hong Kong Profits Tax		
Underprovision in prior years	**6**	–
Taxation arising in the PRC		
Current year	**3,002**	–
Overprovision in prior years	**(103)**	(606)
	2,899	(606)
	2,905	(606)

Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profits for the year.

Taxation arising in the PRC is calculated at the rates prevailing in the relevant jurisdiction.

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

	2006	2005
	HK$'000	*HK$'000*
Profit before tax	**3,433**	24,559
Tax at domestic statutory tax rate of 24% (note 1)	**824**	5,894
Tax effect of expenses not deducible for tax purposes	**9,663**	750
Tax effect of income not taxable for tax purposes	**(759)**	–
Reduction of tax to concessionary rate (note 2)	**(6,720)**	(6,644)
Overprovision in prior years	**(103)**	(606)
Income tax expense (credit) for the year	**2,905**	(606)

Notes:

1. The domestic income tax rate of 24% represents the PRC Foreign Enterprise Income Tax of which the Group's operations are substantially based.

2. Certain subsidiaries of the Company in the PRC are exempted from income tax in the PRC for two years starting from the first profit making year in which profits exceed any carried forward tax losses followed by a 50% tax relief for the following three years.

11. DIVIDENDS

The directors of the Group has resolved not to recommend the payment of any dividend for the year ended 30th September, 2006 (2005: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30th September, 2006

12. EARNINGS PER SHARE

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

	2006	2005
	HK$'000	*HK$'000*
Earnings:		
Profit for the year for the purpose of basic/diluted earnings per share	**528**	25,165

	2006	2005
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**500,000,000**	500,000,000
Effect of dilutive potential ordinary shares – share options	**4,317,000**	6,256,000
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**504,317,000**	506,256,000

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

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

For the year ended 30th September, 2006

	Fees	**Salaries and other benefits**	**Retirement benefit scheme contributions**	**Total emoluments**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Executive directors				
Yang Hong Gen	**–**	**198**	**4**	**202**
Zhang San Lin	**–**	**198**	**4**	**202**
Yang Shun Feng	**–**	**198**	**3**	**201**
Yao Feng	**–**	**198**	**–**	**198**
Sha Hai Bo	**–**	**53**	**3**	**56**
Cheung Chun Ho, Frankie	**–**	**180**	**–**	**180**
Liu Zhuoru (resigned on 16th May, 2006)	**–**	**34**	**–**	**34**
	–	**1,059**	**14**	**1,073**
Non-executive director				
Lo Wing Yat, Kelvin	**–**	**–**	**–**	**–**
Independent non-executive directors				
Luk Yu King, James	**180**	**–**	**–**	**180**
Yin Jing Le	**36**	**–**	**–**	**36**
Yu Jie	**96**	**–**	**–**	**96**
	312	**–**	**–**	**312**
Total	**312**	**1,059**	**14**	**1,385**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30th September, 2006

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS – *continued*

(a) Directors' emoluments – *continued*

For the year ended 30th September, 2005

	Fees *HK$'000*	Salaries and other benefits *HK$'000*	Retirement benefit scheme contributions *HK$'000*	Total emoluments *HK$'000*
Executive directors				
Yang Hong Gen	–	180	2	182
Zhang San Lin	–	180	4	184
Liu Zhuoru	–	48	–	48
Yang Shun Feng	–	180	2	182
Yao Feng	–	180	–	180
Sha Hai Bo	–	48	4	52
Cheung Chun Ho, Frankie	–	180	–	180
	–	996	12	1,008
Non-executive director				
Lo Wing Yat, Kelvin	–	–	–	–
Independent non-executive directors				
Luk Yu King, James	180	–	–	180
Yin Jing Le	36	–	–	36
Yu Jie	96	–	–	96
	312	–	–	312
Total	312	996	12	1,320

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, four (2005: five) were directors of the Company whose emoluments are included in the disclosures in note (a) above. The emoluments of the remaining individual for the year ended 30th September, 2006 were as follows:

	2006 ***HK$'000***	2005 *HK$'000*
Salaries and other benefits	**480**	–
Contributions to Mandatory Provident Fund Scheme	**12**	–
	492	–

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30th September, 2006

14. PROPERTY, PLANT AND EQUIPMENT

	Land use rights *HK$'000*	Buildings *HK$'000*	Furniture, fixtures and office equipment *HK$'000*	Motor vehicles *HK$'000*	Plant and machinery *HK$'000*	Construction in progress *HK$'000*	Total *HK$'000*
COST							
At 1st October, 2004							
– As originally stated	4,289	12,445	2,840	5,315	12,853	–	37,742
– Effects of change in accounting policy *(note 2)*	(4,289)	–	–	–	–	–	(4,289)
– As restated	–	12,445	2,840	5,315	12,853	–	33,453
Additions	–	–	1,212	778	392	–	2,382
Disposals	–	–	–	–	(27)	–	(27)
At 30th September, 2005 and 1st October, 2005	–	12,445	4,052	6,093	13,218	–	35,808
Exchange adjustment	–	546	177	267	582	–	1,572
Acquired on acquisition of a subsidiary	–	8,556	13	82	77	–	8,728
Additions	–	11,176	232	1,003	1,900	2,291	16,602
Disposals	–	–	(27)	–	–	–	(27)
At 30th September, 2006	–	32,723	4,447	7,445	15,777	2,291	62,683
DEPRECIATION							
At 1st October, 2004							
– As originally stated	162	2,152	1,117	1,915	2,294	–	7,640
– Effects of change in accounting policy *(note 2)*	(162)	–	–	–	–	–	(162)
– As restated	–	2,152	1,117	1,915	2,294	–	7,478
Provided for the year	–	568	778	711	1,104	–	3,161
Eliminated on disposals	–	–	–	–	(9)	–	(9)
At 30th September, 2005 and 1st October, 2005	–	2,720	1,895	2,626	3,389	–	10,630
Exchange adjustment	–	138	100	133	178	–	549
Provided for the year	–	933	803	876	1,372	–	3,984
Eliminated on disposals	–	–	(25)	–	–	–	(25)
At 30th September, 2006	–	3,791	2,773	3,635	4,939	–	15,138
CARRYING VALUES							
At 30th September, 2006	–	28,932	1,674	3,810	10,838	2,291	47,545
At 30th September, 2005	–	9,725	2,157	3,467	9,829	–	25,178

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30th September, 2006

14. PROPERTY, PLANT AND EQUIPMENT – *continued*

The above items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives as below:

Buildings	20 years
Furniture, fixtures and office equipment	5 years
Motor vehicles	5 years
Plant and machinery	10 years

15. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments are in the PRC under medium-term leases.

	2006	2005
	HK$'000	*HK$'000*
Analysed for reporting purposes as:		
Current asset	**315**	174
Non-current asset	**14,360**	8,209
	14,675	8,383

The prepaid lease payments are amortised over the lease term of 45 years.

16. GOODWILL

Impairment testing of goodwill

The goodwill was allocated to Jiangsu Huabo Biotech Co., Ltd. ("Jiangsu Huabo") for the purpose of impairment testing. The recoverable amount of this cash generating unit has been determined using a value in use calculation. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the business. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next five years and extrapolates cash flows for the following years based on an estimated growth rate of 0%. This rate does not exceed the average long-term growth rate for the relevant markets.

The rate used to discount the forecast cash flows of Jiangsu Huabo is 12.8%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30th September, 2006

17. INVENTORIES

	2006	2005
	HK$'000	*HK$'000*
Raw materials	**20,425**	21,521
Work in progress	**3,392**	4,162
Finished goods	**67,666**	60,050
	91,483	85,733

18. TRADE RECEIVABLES

	2006	2005
	HK$'000	*HK$'000*
Trade receivables	**58,604**	41,798
Less: Allowance for bad and doubtful debts	**(2,004)**	(1,192)
	56,600	40,606

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 net of impairment at the balance sheet dates:

	2006	2005
	HK$'000	*HK$'000*
0 – 90 days	**41,123**	34,913
91 – 180 days	**8,213**	3,238
181 – 360 days	**6,934**	2,083
Over 360 days	**2,334**	1,564
	58,604	41,798
Less: Allowance for bad and doubtful debts	**(2,004)**	(1,192)
	56,600	40,606

The directors consider that the fair value of the trade receivables approximates to its carrying amount.

19. PREPAYMENTS AND OTHER RECEIVABLES

	2006	2005
	HK$'000	*HK$'000*
Prepayments	**10,698**	5,487
Other receivables	**5,264**	11,484
	15,962	16,971

The directors consider that the fair value of other receivables approximates to its carrying amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30th September, 2006

20. PLEDGED BANK DEPOSITS

The amounts represent deposits pledged to banks to secure banking short-term facilities granted to the Group.

The deposits carry interest rates at respective bank saving deposits ranging from 0.72% to 1.12% for both years. The directors consider that the fair value of pledged bank deposits approximates to its carrying amount, in view of the fact that the pledged bank deposits bear at market interest rates.

21. BANK BALANCES AND CASH

The amount includes bank deposits which carry fixed interest rate ranging from 0.72% to 1.25% for both years. The directors consider that fair value of bank balances and cash approximates to its carrying amount.

22. TRADE PAYABLES

The following is an aged analysis of trade payables (including bills payables) at the balance sheet dates:

	2006	2005
	HK$'000	*HK$'000*
0 – 90 days	**24,608**	8,515
91 – 180 days	**2,272**	1,593
181 – 360 days	**350**	1,871
Over 360 days	**1,081**	205
	28,311	12,184

The directors consider that fair value of the trade payables approximates to its carrying amount.

23. OTHER PAYABLES AND ACCRUALS

	2006	2005
	HK$'000	*HK$'000*
Other payables	**27,092**	17,798
Accruals	**11,885**	6,963
	38,977	24,761

The directors consider that fair value of the other payables approximates to its carrying amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30th September, 2006

24. BANK BORROWINGS

	2006	2005
	HK$'000	*HK$'000*
Secured	**20,386**	13,962
Unsecured	**985**	–
	21,371	13,962
Bank loans repayable within a period of:		
Less than one year	**5,909**	13,962
More than one year but within two years	**2,659**	–
More than two years but within three years	**12,803**	–
	21,371	13,962
Less: Amount due within one year	**5,909**	13,962
Amount due after one year	**15,462**	–

The bank loans are fixed-rate borrowings which carry commercial interest rates in the PRC.

The effective interest rate (being the contracted interest rate) on the Group's borrowings is 6.56% (2005: 6.12%) per annum.

The directors consider that the fair values of the Group's borrowings approximate to their carrying amounts.

25. AMOUNT DUE TO A MINORITY SHAREHOLDER

The amount is unsecured, interest free and repayable on demand. The directors consider that fair value of the amount due to a minority shareholder approximates to its carrying amount.

26. AMOUNT DUE TO A DIRECTOR

The amount is unsecured, interest free and repayable of demand. The directors consider that fair value of the amount due to a director approximates to its carrying amount.

27. SHARE CAPITAL

	Number of shares	**Amount**
		HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 30th September, 2005 and 30th September, 2006	2,000,000,000	200,000
Issued and fully paid:		
At 30th September, 2005 and 30th September, 2006	500,000,000	50,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30th September, 2006

28. ACQUISITION OF A SUBSIDIARY

On 28th July, 2006, the Group acquired 100% equity interest in Jiangsu Huabo, a company established in the PRC and engaged in manufacture and sale of health supplement wine, at a consideration of HK$17,619,000. This acquisition has been accounted for by the purchase method of accounting. The amount of goodwill arising as a result of the acquisition was HK$5,525,000.

Details of the net assets acquired in respect of the acquisition of Jiangsu Huabo are summarised below:

	Acquiree's carrying amount before combination *HK$'000*	**Fair value adjustment** *HK$'000*	**Fair value** *HK$'000*
NET ASSETS ACQUIRED			
Property, plant and equipment	5,913	2,815	8,728
Prepaid lease payments	12,440	(7,986)	4,454
Trade receivables	246	–	246
Prepayments and other receivables	17	–	17
Bank balances and cash	45	–	45
Trade payables	(1,161)	–	(1,161)
Other payables and accruals	(235)	–	(235)
	17,265	(5,171)	12,094
Goodwill			5,525
Total consideration satisfied by cash			17,619
Net cash outflow arising on acquisition:			
Cash paid			(17,619)
Bank balances and cash acquired			45
			(17,574)

The goodwill arising on the acquisition of Jiangsu Huabo is attributable to the anticipated future operating synergies from the combination of the existing distribution networks of the Group and the production capacity of Jiangsu Huabo.

The subsidiary acquired during the year contributed HK$852,000 to the Group's revenue and loss of HK$189,000 to the Group's results.

If the acquisition had been completed on 1st October, 2005, total contribution to the Group's revenue for the period would have been HK$4,903,000, and profit for the year would have been HK$652,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1st October, 2005, nor is it intended to be a projection of future results.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30th September, 2006

29. ACQUISITION OF A BUSINESS

On 30th September, 2006, a subsidiary of the Group, Zhejiang Xinda Zhongshan Capsules Company Limited ("Zhejiang Xinda Zhongshan Capsules") 浙江新大中山膠囊有限公司, acquired a business from Zhejiang Zhongshan Capsules Company Limited ("Zhejiang Zhongshan Capsules", the "Minority Shareholder") 浙江中山膠囊有限公司, the minority shareholder of Zhejiang Xinda Zhongshan Capsules, at a consideration of HK$8,237,000. This acquisition has been accounted for by the purchase method of accounting.

Details of the net assets acquired in respect of the acquisition of business are summarised below:

	Acquiree's carrying amount before combination *HK$'000*	**Fair value adjustment** *HK$'000*	**Fair value** *HK$'000*
NET ASSETS ACQUIRED			
Property, plant and equipment	5,403	2,691	8,094
Prepaid lease payments	716	(99)	617
Inventories	3,382	–	3,382
Trade receivables	2,086	–	2,086
Prepayments and other receivables	3,443	–	3,443
Bank balances and cash	965	–	965
Trade payables	(1,733)	–	(1,733)
Other payables and accruals	(2,381)	–	(2,381)
Bank borrowings	(3,644)	–	(3,644)
	8,237	2,592	10,829
Discount on acquisition			(2,592)
Total consideration satisfied by cash			8,237
Net cash outflow arising on acquisition:			
Cash paid			(8,237)
Bank balances and cash acquired			965
			(7,272)

The business was acquired on 30th September, 2006. If the acquisition had been completed on 1st October, 2005, total contribution to the Group's revenue for the period would have been HK$15,449,000 and profit for the year would have been HK$800,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1st October, 2005, nor is it intended to be a projection of future results.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30th September, 2006

30. SHARE OPTION SCHEME

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

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

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

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

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

Up to 30th September, 2006, 50,000,000 (2005: 50,000,000) share options have been granted to 10 eligible participants (including executive directors) under the Scheme.

At 30th September, 2006, the number of shares of the Company in respect of which options had been granted and remained outstanding under the Scheme of the Company was 50,000,000, representing 10% of the shares of the Company in issue at that date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30th September, 2006

30. SHARE OPTION SCHEME – *continued*

The following table discloses details of the share options of the Company held by directors and employees and movements in such holdings during the year.

Grantees	**Date of grant**	**Outstanding at 30th September, 2005 and 30th September, 2006**	**Exercisable period**	**Exercise price per share (subject to adjustment)** *HK$*
Directors of the Company	28th December, 2004	25,000,000	28th December, 2004 – 27th December, 2006	0.27
Other employees of the Group	28th December, 2004	25,000,000	28th December, 2004 – 27th December, 2006	0.27
		50,000,000		
Exercisable at the end of the year		50,000,000		

None of the share options have been exercised, cancelled or lapsed during the year.

The share options do not have vesting period and they are exercisable on grant date. The adoption of HKFRS 2 would not have any effect on the result for the current and prior years.

31. OPERATING LEASE COMMITMENTS

	2006 *HK$'000*	2005 *HK$'000*
Minimum lease payments under operating lease during the year	**1,079**	1,154

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:

	2006 *HK$'000*	2005 *HK$'000*
Within one year	**807**	1,221
In the second to third year inclusive	**258**	1,160
	1,065	2,381

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30th September, 2006

32. CAPITAL COMMITMENTS

	2006	2005
	HK$'000	*HK$'000*
Capital expenditure contracted for but not provided in the financial statements in respect of		
– acquisition of property, plant and equipment	**4,320**	–
– construction in progress	**1,749**	–
– acquisition of prepaid lease payments	**281**	–
– investment in Zhejiang Xinda Zhongshan Capsules	**–**	8,580
	6,350	8,580

33. PLEDGE OF ASSETS

At the balance sheet date, the following assets were pledged by the Group to secure banking facilities:

	2006	2005
	HK$'000	*HK$'000*
Prepaid lease payments	**14,058**	4,041
Property, plant and equipment	**10,252**	9,725
Bank deposits	**5,132**	1,774
	29,442	15,540

34. 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 a 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$612,000 (2005: HK$421,000) for the year.

In addition, pursuant to regulations stipulated by the PRC government, the PRC subsidiaries started a defined contribution health care scheme 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$125,000 (2005: HK$94,000) for the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30th September, 2006

35. BALANCE SHEET OF THE COMPANY

	2006	2005
	HK$'000	*HK$'000*
NON CURRENT ASSETS		
Interest in a subsidiary	**75,152**	75,152
Amount due from a subsidiary	**61,611**	61,611
	136,763	136,763
CURRENT ASSET		
Bank balance and cash	**41**	38
CURRENT LIABILITY		
Amounts due to subsidiaries	**4,634**	4,427
NET CURRENT LIABILITIES	**(4,593)**	(4,389)
	132,170	132,374
CAPITAL AND RESERVES		
Share capital	**50,000**	50,000
Reserves	**82,170**	82,374
	132,170	132,374

36. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries as at 30th September, 2006 were as follows:

Name of company	**Place of incorporation/ registration/operation**	**Issued and fully paid up share capital/ registered capital**	**Proportion ownership interest held by the Company Directly**	**Indirectly**	**Principal activities**
Wallfaith Company Limited	British Virgin Islands ("BVI")	Ordinary shares US$100	100%	–	Investment holdings
Suzhou Longlifu 蘇州朗力福保健品有限公司 *(Note 1)*	PRC	Registered capital RMB70,000,000	–	100%	Manufacture and sale of health related products
Smiston Technology Limited ("Smiston")	BVI	Ordinary shares US$50,000	–	100%	Investment holdings
Suzhou Beautiful 蘇州別特福生化有限公司 *(Note 1)*	PRC	Registered capital US$3,800,000	–	100%	Manufacture and sale of biochemical products for daily use

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30th September, 2006

36. PARTICULARS OF SUBSIDIARIES – *continued*

Name of company	Place of incorporation/ registration/operation	Issued and fully paid up share capital/ registered capital	Proportion ownership interest held by the Company Directly	Indirectly	Principal activities
Zhejiang Xinda Zhongshan Capsules 浙江新大中山膠囊有限公司 *(Note 2)*	PRC	Registered capital US$1,800,000	–	61.11%	Manufacture and sale of capsules
Jiangsu Huabo 江蘇華博生物科技有限公司 *(Note 1)*	PRC	Registered capital RMB10,000,000	–	100%	Manufacture and sale of health supplement wine

Note:

1. Suzhou Longlifu, Suzhou Beautiful and Jiangsu Huabo are wholly foreign owned enterprises.
2. The Group has control of the board of directors of Zhejiang Xinda Zhongshan Capsules which is a sino-foreign joint venture.

37. RELATED PARTY TRANSACTIONS

(a) During the year, the Group entered into the following transactions with related parties:

In March 2006, the Group acquired certain property, plant and equipment, prepaid lease payments from the Minority Shareholder at total consideration of HK$5,460,000. In addition, the Group paid subcontracting fee of approximately HK$338,000 to the Minority Shareholder for the year ended 30th September, 2006.

In September 2006, the Group acquired the business of Zhejiang Zhongshan Capsules from the Minority Shareholder, details of transaction are disclosure in note 29 to the financial statements.

Details of the balances with related parties as at balance sheet date are set out in the consolidated balance sheet on page 25 and relevant notes to the consolidated financial statements.

A director of the Company, Mr. Yang Hong Gen, and his spouse provided personal guarantee amounting to HK$3,959,000 to a subsidiary to use banking facilities granted by a bank.

(b) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2006 *HK$'000*	2005 *HK$'000*
Short-term benefits	**1,716**	1,597
Other long-term benefits	**29**	25
	1,745	1,622

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

FINANCIAL SUMMARY

RESULTS

			30th September,		
	2002	2003	2004	2005	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Revenue	134,540	186,573	197,822	197,457	**243,386**
Cost of sales	(71,941)	(88,989)	(66,257)	(70,111)	**(97,826)**
Gross profit	62,599	97,584	131,565	127,346	**145,560**
Other income	2,885	265	368	1,033	**4,156**
Administrative expenses	(4,777)	(7,575)	(11,458)	(20,858)	**(26,236)**
Selling and distribution expenses	(35,630)	(50,116)	(77,874)	(81,219)	**(118,355)**
Other expenses	(150)	(500)	(722)	(189)	**(459)**
Finance costs	(928)	(1,187)	(2,213)	(1,554)	**(1,233)**
Profit before tax	23,999	38,471	39,666	24,559	**3,433**
Income tax expense (credit)	–	4,648	4,388	(606)	**2,905**
Profit for the year	23,999	33,823	35,278	25,165	**528**
Attributable to:					
Equity holders of the Company	23,999	33,823	35,278	25,165	**639**
Minority interests	–	–	–	–	**(111)**
Profit for the year	23,999	33,823	35,278	25,165	**528**

ASSETS AND LIABILITIES

	2002	2003	2004	2005	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
				(restated)	
Total assets	115,916	150,867	191,430	214,928	**266,805**
Total liabilities	(85,262)	(100,294)	(52,634)	(50,967)	**(89,831)**
	30,654	50,573	138,796	163,961	**176,974**
Equity attributable to equity holders of the Company	30,654	50,573	138,796	163,961	**171,568**
Minority interests	–	–	–	–	**5,406**
	30,654	50,573	138,796	163,961	**176,974**

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 application of new HKFRSs issued by the HKICPA that are effective for accounting periods beginning on or after 1st January, 2005 did not result in material changes to the Group's results for the years ended 30th September, 2005. The Group had not restated the summary of assets and liabilities as at 30th September, 2002, 2003 and 2004.

STATEMENT OF BUSINESS OBJECTIVES AND USE OF PROCEEDS

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

During the year ended 30th September, 2006, the net listing proceeds was used as to approximately HK$1.1 million for research and development of new products; as to approximately HK$4.2 million for marketing sales and distribution activities; as to approximately HK$3.2 million for advertising and promotional activities; as to approximately HK$4 million for new production facilities; at to approximately HK$1 million of the implementation of the ERP management and upgrading computer facilities. The directors are of the view that listing proceeds remaining as at 30th September, 2006 will be used as a working capital of the Group.

The following is a comparison of actual business progress for the period from 1st April, 2006 to 30th September, 2006 ("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, 2005 to 31st March, 2006 has been disclosed in the interim report for the six months ended 31st March, 2006.

RESEARCH AND DEVELOPMENT

EXPECTED BUSINESS PROGRESS	ACTUAL BUSINESS PROGRESS
1. Identify product extension for snake oil and SOD body care products	1. We have identified product extension for snake oil and SOD body care products. The packaging of the Silk Protein SOD and the 100 g Goat Placenta Essence SOD has improved. The packaging of the 60 g Goat Placenta Essence SOD Morning Cream has also improved.
2. Improve functions for Powder of Tortoise and Snake and Calcium Supplement Capsules	2. We have improved the functions of the Powder of Tortoise and Snake, and we have newly introduced the 180 g #2 Powder of Tortoise and Snake Capsules.
3. Commence testing runs and commercial productions of new products extension	3. We have completed the development of more than 20 new products such as the Fresh Fruit Shower Cream and the Fresh Fruit Shampoo, which have been channelled into Longlife's sales network.
4. Apply for license and/or registration of new products extension	4. We have completed the application for sales licence for five new products such as the 200 ml Oil Treatment Smoothing Shampoo.

MARKETING SALES AND DISTRIBUTION

EXPECTED BUSINESS PROGRESS	ACTUAL BUSINESS PROGRESS
1. Establish two business offices in Shandong region	1. The original plan to establish two business offices in the Shandong region was aborted. The headquarters established four new business offices at Mianyang, Deyang, Nanchong, and Wanzhou in Sichuan.
2. Organise promotions stands, and direct sales in shopping malls and department stores	2. In Shanghai, Jiangsu, and Zhejiang, Group companies have stated promotional stands and direct sales in shopping malls and supermarkets in department stores.
3. Commence exporting some of the Group's products to the Hong Kong Market	3. Our products are now exported to Taiwan, Africa, and Mexico through Hong Kong, the sales of which reached RMB400,000.

STATEMENT OF BUSINESS OBJECTIVES AND USE OF PROCEEDS

ADVERTISING AND PROMOTIONAL ACTIVITIES

1. Upgrade and change packaging for gift box
2. Develop new style and smaller size gift box to suit younger age group

1. During the year, we changed the packaging of 21 products and upgraded the image and design for the gift boxes of 6 health food products.
2. We have introduced 5 new styles of gift boxes.

PRODUCTION

1. Review and streamline supply logistics and production efficiency of the factories of Longlifu and Suzhou Beautiful

1. We have fully refurbished the production workshops of Suzhou Beautiful Biochemistry Co., Ltd., and made additions and adjustments to the production assembly line, thus raising labour productivity.

IMPLEMENTING ERP MANAGEMENT AND UPGRADING COMPUTER FACILITIES

1. Implement of computer reporting system for timely sales and delivery reporting
2. Implement of electronic resource processing system

1. The common software on the computers of key position personnel at the headquarters has been upgraded from Windows 2000 to Windows XP.
2. The electronic resource processing system has been implemented for 90% of the branch entities and branch factories in Group companies.