朗力福®

Longlife Group Holdings Limited

朗力福集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8037

Annual Report 2007

Healthy life
happy life

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

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

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Corporate Information

EXECUTIVE DIRECTORS

Mr. Zheng Lixin *(Chairman)*
(appointed on 31 October 2007)
Mr. Yang Shun Feng
Mr. Zhang San Lin
Mr. Yao Feng
Dr. Seet Lip Chai (appointed on 31 October 2007)
Mr. Sha Hai Bo
Mr. Yang Hong Gen (resigned on 22 March 2007)
Mr. Cheung Chun Ho, Frankie
(resigned on 22 March 2007)

NON-EXECUTIVE DIRECTOR

Mr. Lo Wing Yat, Kelvin

INDEPENDENT NON-EXECUTIVE DIRECTORS AND AUDIT COMMITTEE

Mr. Yu Jie
Mr. Yin Jing Le
Mr. Chong Cha Hwa
(appointed on 3 December 2007)
Mr. Luk Yu King, James
(resigned on 30 November 2007)

REMUNERATION COMMITTEE

Mr. Yu Jie
Mr. Yin Jing Le
Mr. Chong Cha Hwa
(appointed on 3 December 2007)
Mr. Luk Yu King, James
(resigned on 30 November 2007)
Mr. Yang Shun Feng
Mr. Sha Hai Bo

COMPLIANCE OFFICER

Mr. Yao Feng

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Ms. Cheung Woon Yiu
(appointed on 1 March 2007 and
resigned on 7 December 2007)
Mr. Wong Chan Biu
(resigned on 1 March 2007)

HONG KONG LEGAL ADVISERS

Chiu & Partners Solicitors

AUDITORS

SHINEWING (HK) CPA Limited
Certified Public Accountants

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

18th Floor, West Wing,
Sincere Insurance Building,
4-6 Hennessy Road,
Admiralty, Hong Kong

PRINCIPAL BANKERS

The Agriculture Bank of China
China Construction Bank
China CITIC Bank
CITIC Ka Wah Bank Limited

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 Island

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

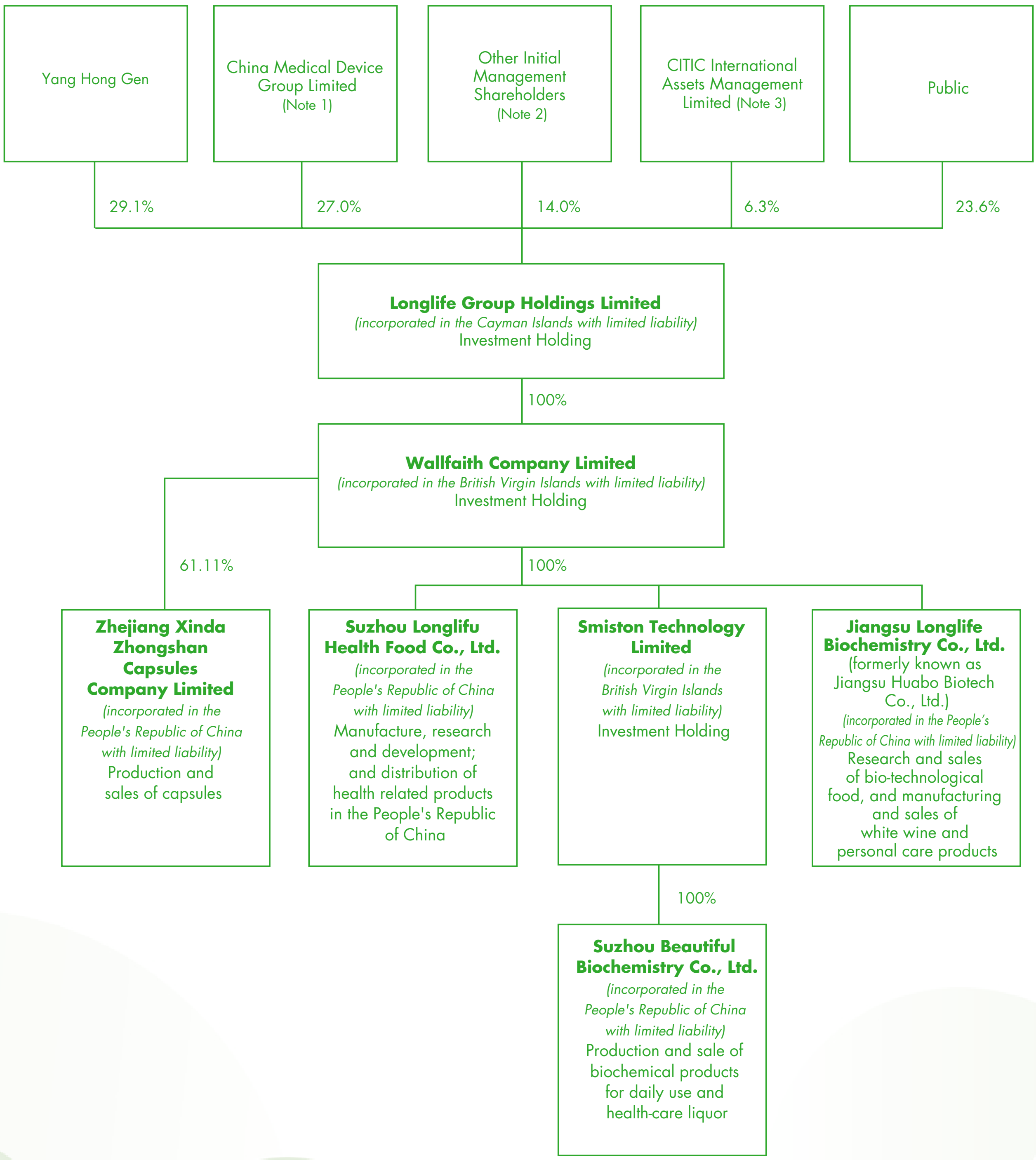
Tricor Investor Services Limited
26th Floor, Tesbury Centre,
28 Queen's Road East, Hong Kong

WEBSITE

www.china-longlife.com

Group Structure

As at 30 September 2007, the corporate structure and main activities of the principal members of the Group are shown below:



Notes:

1. China Medical Device Group Limited ("China Medical") holds 135,000,000 ordinary shares of the Company. The issued share capital of China Medical is wholly owned by Mr. Zheng Lixin, a director of the Company.

2. 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 set out in the prospectus of the Company dated 1 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%

3. 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

On behalf of Longlife Group Holdings Limited (the "Company") and its subsidiaries (the "Group"), I am pleased to present the audited consolidated results of the Group for the year ended 30 September 2007.

The 2007 financial year was a watershed year since its establishment. Our founder, the former-Chairman and President of the Company, Mr. Yang Hong Gen, became seriously ill and underwent several operations from which he is still recovering. This adversely affected the operations of the Company. The strategies adopted by the then management in developing the Company through expanding the sales network and frontline sales teams could not be successfully implemented. Despite increased sales and gross margins of the Company and success in controlling the management expenses of the Group, our significantly increased sales expenses have resulted in major losses in the 2007 financial year.

Since becoming the second largest shareholder of the Company on 18 June 2007, I realised the deficiencies in the original operating strategies, operation management and organisation efficiency, and have proposed improvement plan i.e. "streamlining and yet strengthening the existing consumer business, entering the fast growing medical industry and improving management capability through hiring high quality staff ". The objective is to build on our current sales and marketing, manufacturing and technical platforms to turn around our existing business, expand into new businesses and grow the Group into a leading health care conglomerate.

BUSINESS REVIEW

The results of the 2007 financial year not only reflected the deficiencies in the operations of the Company for the year, it also necessitated a review of its business strategies. The existing positioning of the Company as a "producer and promoter of low to medium priced consumer products" has not generated a high awareness of the Company and its products. This further resulted in poor margins and lack of core and profitable products. The substantial surge in distribution expenses and sales staff costs had also contributed to the losses for the year.

During the financial year, despite an overall increase in raw material prices, the Group still succeeded in improving its gross margins. The improvement in new product development and building a company-wide sales information system will contribute to the long-term development of the Company. The Group has also undergone a series of reorganisation and streamlining efforts and has achieved results in operating efficiencies.

FUTURE PROSPECTS

After becoming the Chairman and Executive Director of the Company on 31 October 2007, I fully support the Management's missions for year 2008: to first improve the Corporate Governance of the Company, to enhance the strategic planning and operating efficiencies and to bring "World class, technology driven and branding" mentality to the Group.

In our business going forward, the Group has decided to streamline the current consumer business distribution network, but to strengthen our market share and operating performance in key markets and channels. Through measures such as acting as a sales and marketing agency for other consumer companies and OEM/ODM production, we will introduce new and advanced consumer products with higher margins to the market. The purpose is to optimise the product portfolio of our consumer business and to enlarge our coverage in certain product categories. We will introduce brandable products at appropriate times to improve the awareness and profitability of the Company and to reduce our reliance on promotional sales staff. Through changing product strategies, tightening sales management and forming strategic alliances, we aim to turn around the loss-making consumer business At the same time, the Company will continue to explore the potentials in procurement, production, logistics and resources utilisation.

The Group will swiftly enter certain emerging sectors in the health care industry, especially leveraging on the Group's toothpaste operations built over the years. We will gradually introduce new dental consumer products, and further develop more technically advanced dental materials, supplies and equipment. Through in-house R&D, co-development, joint ventures and acquisitions, we intend to establish ourselves as a leader in the booming dental industry. In summary, our targets in 2008 are to achieve the turnaround of our consumer business, to successfully launch of our dental businesses, to rejuvenate organisation and to rebuild our core competitive strengths to improve the overall profitability for the Group.

Chairman's Statement

APPRECIATION

I would like to thank the board of directors and the shareholders for their support to and confidence in the Company over the years and would also like to extend my sincere gratitude to all staff, management and business partners for their endeavors. Despite the on-going competitive pressure in the PRC consumer markets and various potential difficulties that the Group are facing in strategies, organisation and management enhancement, I firmly believe that the Group can capitalise on the opportunities driven by the fast-growing domestic consumer market and awareness in health care and we shall create better returns for our shareholders and make our due contribution to the society.

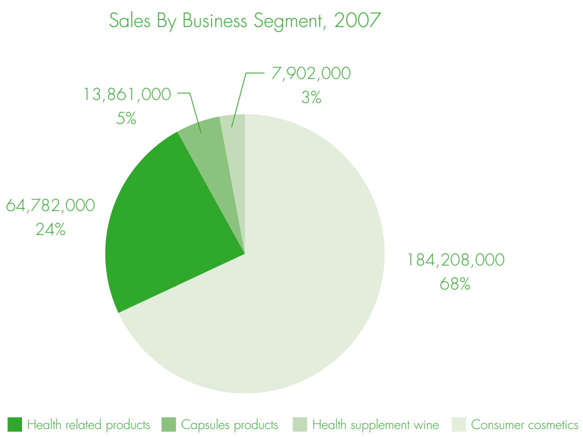
Mr. Zheng Lixin
Chairman

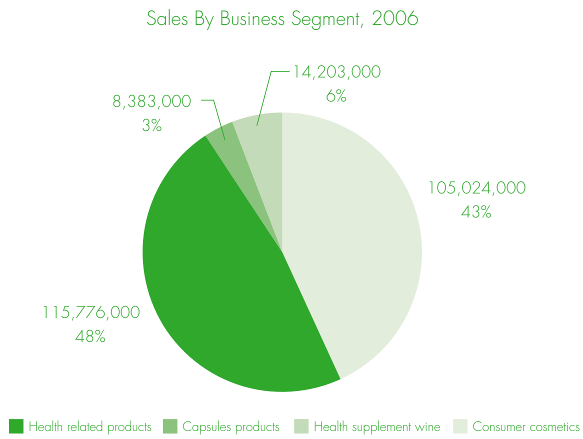
Hong Kong, 27 December 2007

(A) BUSINESS REVIEW

Revenue

Sales for the year ended 30 September 2007 was approximately HK$270,753,000, while that for the year ended 30 September 2006 was approximately HK$243,386,000, representing an increase of approximately HK$27,367,000 over last year with a growth rate of approximately 11.24%. The increase in sales volume in cosmetics products has brought about an overall increase in sales and the breakdown is as follows:–





Units: Hong Kong Dollars, Percentage to the total sales

1. Sales of consumer cosmetics increased by HK$79,184,000, a growth of approximately 75.40%. Such an increase was mainly due to more promotional efforts, introduction of new products and new packaging design.

2. Sales of health related products decreased by HK$50,994,000, a drop of approximately 44.05%. Such a decrease was mainly due to the fact that no new product was introduced for the year ended 30 September 2007, aged packaging design and products are out of fashion.

3. Sales of capsule products increased by HK$5,478,000, a growth of approximately 65.35%. Such an increase was mainly due to more sales efforts and the development of several new clients.

4. Sales of health supplement wine decreased by HK$6,301,000, a drop of approximately 44.36%. Such a decrease was mainly due to no new product being introduced for the year ended 30 September 2007 and out-moded packaging design.

Management Discussion and Analysis

Gross profit

Gross profit for the financial year ended 30 September 2007 was approximately HK$172,715,000, an increase of HK$27,155,000 when compared with the gross profit of HK$145,560,000 for the same period last year, a growth of approximately 18.66%. Gross margin for the financial year ended 30 September 2007 was approximately 63.79%, an increase of 3.98 percentage points when compare with 59.81% for the same period last year. The increase in gross profit was mainly due to structural changes of product mix. As shown in the above graphs, such an increase was due to the proportionate increase in the sales of cosmetics, with a gross margin of approximately 66.64%, higher than the total sales average.

Administrative expenses

Administrative expenses for the financial year ended 30 September 2007 was approximately HK$26,788,000, an increase of approximately HK$552,000 when compared with HK$26,236,000 for the same period last year, a growth of approximately 2.10%. With the more stringent control policies by the headquarter in the second half of the year, the surge of administrative expenses has been controlled, resulting in a slight increase in administrative expenses for the financial year ended 30 September 2007.

Selling and distribution expenses

Selling and distribution expenses for the financial year ended 30 September 2007 was approximately HK$181,714,000, a substantial increase of approximately HK$63,359,000 when compared with HK$118,355,000 for the same period last year, a growth of approximately 53.53%. The increase in selling and distribution expenses was mainly due to the substantial increase in the headcount of first line sales staff in order to boost our sales in the increasingly competitive environment. The increase came mainly from salaries, social insurance and benefits expenses of sales staff, and the substantial surge in expenses for strengthening our sales network, and costs for advertising new products and their entry into the outlets.

Net profit

Loss of the Group for the financial year ended 30 September 2007 was approximately HK$38,333,000, while a profit of HK$528,000 was recorded in the same period last year. Such a loss was mainly due to lack of product differentiation and core competitiveness. Selling and distribution expenses increased by 53.53% (an increase of approximately HK$63,359,000) when compared with the same period last year. A out of dated sales strategy, irresponsiveness to market changes, and ineffectiveness in counter-measures were major reasons driving high sales expenses.

Business review

During the twelve months from October 2006 to September 2007, in order to maintain sales and market position, the management of the Group had decided to invest substantial resources in building and managing the sales network and enhancing the training, benefits and remuneration of first line sales staff. Although the increase in headcount has contributed to the growth in sales, the increase in selling expenses far exceeded the increase in sales revenues and caused the substantial operating losses.

In response to overall increases in raw material prices, surge in sales expenses and price competition in the market place, the Group has endeavored to control its sales expenses and to enhance its product image at the same time. The Group has invested over HK$4 million in advertising across the regions in Jiangsu, Zhejiang and Shanghai and had introduced 8key products with special features. We had also redesigned the packaging of 12 existing products, reshaped the bottles of 11 and revised the specifications of 5 key products to meet consumer demands.

(B) FUTURE OUTLOOK

Looking forward, the Group will still have to face the challenges of increasing competition, staff costs and expenses. In this regard, the Group has to adjust its overall strategies and implement a policy of "streamlining and strengthening the existing consumer business, entering the fast growing medical industry and improving management capability through hiring high quality staff ".

The Group will endeavor to strengthen the existing business platforms, tightly control its costs, reduce the number of underperforming sales offices and outlets, improve operating efficiencies. At the same time, we will actively search for and launch new consumer and medical products with high technological content and value added to boost sales and margins. These measures, however, will take time to implement and generate significant profits for the Group.

Meanwhile, the Group will further strengthen its management and supervision of its subsidiaries, tighten corporate governance and lead them to operate more efficiently.

The Group has unanimously agreed that the next two years will be an important period for Longlife Group in adjusting and consolidating its strategies. It is also a critical period for the Group to continue its efforts in exploring new sales tactics and new business initiatives.

The directors believe: with full dedication to and firm confidence in creating value for our shareholders, society and our employees, we will achieve our targets by consistently focusing on both internal and external improvements.

(C) FINANCIAL REVIEW

Inventories

The balance of inventories was approximately HK$91,394,000 as at 30 September 2007, representing a decrease of approximately HK$89,000 as compared to the inventory balance of approximately HK$91,483,000 as at 30 September 2006. Although there was a decrease, the balance was still high at HK$91,394,000. This was due to the Group's large number of sales offices and sales outlets, which spread across the PRC. Accordingly, a certain level of stock has to be maintained at all times to ensure smooth delivery and sales. The decrease in stock turnover was attributable to a faster rate in inventory sales than that as at 30 September 2006 and through enhancing sales plans and production plan management, the inventory was also reduced. Moreover, inventories as at 30 September 2007 included stock of approximately HK$1,346,000 of Zhejiang Xinda Zhongshan Capsules Company Limited, and approximately HK$1,461,000 of Jiangsu Longlife Biochemistry Company Limited, both of which are subsidiaries.

Liquidity and financial resources

The Company executes a prudent policy in its financial resources management. The Group had total bank balances and cash (excluding pledged bank deposits) of approximately HK$11,125,000 as at 30 September 2007 and approximately HK$28,760,000 as at 30 September 2006.

The Group generally financed its operations with internally generated cash flows and banking facilities. The financial position of the Group was healthy. As at 30 September 2007, the Group had secured short term bank borrowings of approximately HK$26,850,000 (2006: HK$5,909,000), which are repayable within one year. There was no bank borrowing which was repayable after one year as at 30 September 2007. The bank borrowings which were repayable after one year as at 30 September 2006 were HK$15,462,000. 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 31 on page 76.

The gearing ratio (defined as total borrowings including bank loans and amounts due to directors to total assets) as at 30 September 2007 and 2006 was approximately 11.60% and 8.20% 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 30 September 2007.

Capital Commitment

Capital expenditure included those contracted for but not provided in the financial statements and the respective capital commitments as at 30 September 2007.

(D) EMPLOYEES' REMUNERATION

As at 30 September 2007, the Group had 9,581 employees (2006: 7,174) from its various offices located in the PRC. Total staff costs for the year ended 30 September 2007 was approximately HK$101,110,000 (2006: HK$46,182,000). The increase in salaries was mainly due to the substantial increase of sales staff headcount and increase in salary levels.

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.

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 basis 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.

Management Discussion and Analysis

In addition, pursuant to the regulations stipulated by the PRC government, the PRC subsidiaries started a defined contribution health care scheme with effect from 1 July 2002. The employees currently under the defined contribution pension scheme are entitled to the health care scheme. Under the scheme, the PRC subsidiaries and the relevant employees have to contribute a certain percentage of the employees' salaries to the scheme respectively.

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

Details of share option scheme by the Group are set out in note 28 on page pages 73 to 74.

Mr. Zheng Lixin
Chairman
Hong Kong, 27 December 2007

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Zheng Lixin (鄭立新), aged 42, is the Chairman, Chief Executive Officer and an executive Director of the Company. Mr. Zheng holds a Masters degree in Business Administration of University of Western Ontario, Canada and a Masters degree in Applied Science of University of Toronto, Canada. Prior to joining the Company, Mr. Zheng had worked as senior management positions in global healthcare and pharmaceutical corporations such as GlaxoWellcome Pharmaceuticals Group (UK), Tianjin SmithKline Beecham French Laboratories Limited and Jiangzhong Pharmaceutical Group Company; and in management consulting company such as McKinsey & Company. Mr. Zheng was appointed as the Chairman, Chief Executive Officer and executive Director of the Company on 31 October 2007. Mr. Zheng has discloseable interests in the Company under the provisions of the Securities and Futures Ordinance.

Mr. Yang Shun Feng (楊順峰), aged 33, is an executive Director of the Company. Mr. Yang joined the Group in March, 1998. He is the general manager of Suzhou Longlifu Health Co., Ltd., one of the subsidiaries of the Group . 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 nephew of Mr. Zhang San Lin. 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 45, is an executive Director and Vice President of the Company and 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 Hong Gen 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 production management of the Group. 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. Yao Feng (姚鋒), aged 58, is an executive Director, Vice President 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 the newly established dental business unit of the Group. Mr. Yao was appointed as the Chairman and Chief Executive Office of the Company on 22 March 2007 and he has resigned on 31 October 2007 while remaining as an executive Director of the Company. Mr. Yao has discloseable interests in the Company under the provisions of the Securities and Futures Ordinance.

Management Profile

Dr. Seet Lip Chai（薛立財）, aged 64, holds degrees of Bachelor of Medicine and Bachelor of Surgery, a Diploma in Public Health (with Distinction) from the University of Singapore and is a Fellow of the Academy of Medicine, Singapore. Dr. Seet had held senior management positions in major global pharmaceutical companies such as Ciba-Geigy, SmithKline Beecham and GlaxoWellcome both in the Asian Region and in the People's Republic of China prior to taking up an academic position as Associate Professor in Strategy and Entrepreneurship in Nanyang Technological University, Singapore in 1999. Besides holding directorships in several private companies, Dr. Seet is presently also an Independent Non-executive Director and Non-executive Chairman of Rockeby Biomed Ltd, a medical diagnostic company listed on the Australian Stock Exchange (RBY.ASX); and an Independent Non-executive director of Jiwa Bio-Pharm Holdings Limited (Stock code: 02327), a company listed on the Stock Exchange of Hong Kong Limited. Dr. Seet was appointed as an executive Director of the Company on 31 October 2007.

Mr. Sha Hai Bo（沙海波）, aged 31, is an executive Director of the Company and the Chief Financial Officer 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. Yang Hong Gen（楊洪根）, aged 57, 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 resigned as an executive Director and the Chairman of the Company on 22 March 2007. Mr. Yang has discloseable interests in the Company under the provisions of the Securities and Futures Ordinance.

Mr. Cheung Chun Ho, Frankie（張晉浩）, aged 49, was an executive Director of the Company. 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. Mr. Cheung has resigned as an executive Director of the Company on 22 March 2007.

NON-EXECUTIVE DIRECTOR

Mr. Lo Wing Yat, Kelvin (盧永逸), aged 49, is a non-executive Director of the Company. Mr. Lo is a director, managing director of CITIC International Financial Holdings Limited (Stock Code: 00183), a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), director of CITIC Ka Wah Bank Limited, director and chief executive officer of CITIC International Assets Management Limited. CITIC International Financial Holdings Limited and CITIC International Assets Management Limited have discloseable interests in the Company under the provision of the Securities and Futures Ordinance.

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 25 November 2005.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yin Jing Le (尹景樂), aged 66, is an independent non-executive Director of the Company. 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 26 May 2004.

Mr. Yu Jie (俞杰), aged 66, is an independent non-executive Director of the Company. 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 the Supervisory Board Chairman of Nanjing Iron and Steel Joint Company Limited (南京鋼鐵聯合有限公司). Mr. Yu was appointed as an independent non-executive Director on 26 May 2004.

Management Profile

Mr. Chong Cha Hwa (張家華), aged 41, is a fellow member of the Association of Chartered Certified Accountants and a member of the Malaysian Institute of Accountants. Mr. Chong has obtained a degree of bachelor of management with honours from the University of Science, Malaysia. Prior to joining the Company, Mr. Chong has gained more than 14 years of experience in the accounting and finance area servicing private and public listed companies in Hong Kong and the Southern Asia region. Currently, Mr. Chong is the qualified accountant and the company secretary of Shanghai Jiaoda Withub Information Industrial Company Limited (Stock code: 8205), being a company listed on Growth Enterprise Market of the Stock Exchange, the independent non-executive director of Vital BioTech Holdings Limited (Stock code: 1164), being a company listed on Main Board of the Stock Exchange and the independent non-executive director of China Railway Logistics Limited (Stock code: 8089), being a company listed on GEM of the Stock Exchange. Mr. Chong was appointed as an independent non-executive Director on 3 December 2007.

Mr. Luk Yu King, James (陸宇經), aged 53, was an independent non-executive Director of the Company. 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 Society of 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 26 May 2006 and resigned on 30 November 2007.

SENIOR MANAGEMENT

Mr. Chen Zhong Wei (陳中瑋), aged 34, is the Vice President of the Group, responsible for consumer business. 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. Mr. Chen is the son-in-law of Mr. Yang Hong Gen.

Mr. Wu De Biao (吳德標), aged 40, is the Vice President of the Group, responsible for human resources management; internal auditing; legal affairs and administration. Mr. Wu received a certificate from Guanghua Executive Program of Beijing University and a Bacholar's Degree from Jiangsu Jurong Agriculture College. Mr. Wu held senior positions in multinational corporations such as Enjoylife China (a subsidiary of Enjoylife U.K.) and Kymco China, and PRC corporations like Guode Holdings (a medical devices producer); CNOTS; and China Aviation Automobiles Corporation prior to joining the Group. Mr. Wu joined the Group in November 2007.

Ms. Cheung Woon Yiu (張煥瑤), aged 43, is the qualified accountant and the company secretary of the Company. She holds a bachelor degree of economics from The University of Sydney in Australia, Ms. Cheung is a Certified Practising Accountant, and is an associate of Hong Kong Society of Accountants. Prior to joining the Group, Ms. Cheung has worked in Ernst & Young, an international accounting firm, for over 4 years. She has appointed as the qualified accountant and the company secretary of the Company on 1 March 2007. Ms. Cheung resigned as qualified accountant and company secretary of the Company on 7 December 2007.

Mr. Wong Chan Biu (黃燦標), aged 59, 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.. Mr. Wong has resigned as the qualified accountant and company secretary of the Company on 1 March 2007.

Corporate Governance Report

A. CORPORATE GOVERNANCE PRACTICES

The Company and its subsidiaries (the ''Group'') recognise the importance of achieving and monitoring the high standard of corporate governance consistent with the need and requirements of its business and the best interest of all of its shareholders. The Group is fully committed to doing so. It is with the objectives in mind that the Group has applied such principles and will comply with the individual code provisions.

Throughout the year ended 30 September 2007, the Company has adopted and complied with the code provisions of the Code on Corporate Governance Practice (the "Code") as set out in Appendix 15 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"), except or the deviations to Code A.1.3, A.2.1, A.4.1, A.4.2, A6.1 and C2.1 as explained in this report. The board of Directors (the "Board") will keep these matters under review on a periodical basis.

B. DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the year ended 30 September 2007. Having made specific enquiry with all Directors, the Directors have complied with the code of conduct and the required standard of dealings concerning securities transactions by the Directors throughout the year ended 30 September 2007.

C. BOARD OF DIRECTORS

During the year ended 30 September 2007, the Board comprises six executive Directors, one non-executive Director and three independent non-executive Directors as follows:

Executive Directors

Mr. Yao Feng	*(Chairman and Chief Executive Officer from 22 March 2007)* (designated to Chairman and Chief Executive Officer on 22 March 2007)
Mr. Zhang San Lin	
Mr. Yang Shun Feng	
Mr. Sha Hai Bo	
Mr. Yang Hong Gen	(*Chairman and Chief Executive Officer who* resigned on 22 March 2007)
Mr. Cheung Chun Ho, Frankie	(resigned on 22 March 2007)

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 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. The biographical details of the Directors and the relationship among the members of the Board are disclosed in the "Management Profile" set out on pages 14 to 18.

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 and the Company considers all the independent non-executive Directors to be independent.

Code provisions A1.3 and A6.1 stipulate that 14-days notice should be given for each regular board meeting and that in respect of regular meetings, and so far as practicable in all other cases, an agenda and accompanying board papers should be sent in full to all directors in a timely manner and at least 3 days before the intended date of a board or board committee meeting (or such other period as agreed). The Company agrees that sufficient time should be given to the Directors in order to make a proper decision. In these respects, the Company adopts a more flexible approach (and yet sufficient time has been given) in convening board meetings and provision of information to ensure efficient and prompt management decisions could be made.

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. During the year, 10 board meetings , of which four were regular meetings, were held and the individual attendance of each director is set out as follows:

Name of Directors	**Number of attendance**
Mr. Yao Feng	10/10
Mr. Zhang San Lin	10/10
Mr. Yang Shun Fung	10/10
Mr. Sha Hai Bo	10/10
Mr. Yang Hong Gen (resigned on 22 March 2007)	6/6
Mr. Cheung Chun Ho, Frankie (resigned on 22 March 2007)	5/6
Mr. Lo Wing Yat, Kelvin	10/10
Mr. Yin Jing Le	10/10
Mr. Yu Jie	9/10
Mr. Luk Yu King, James	10/10

D. CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Pursuant to the code provisions A.2.1, 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.

During the year ended 30 September 2007, Mr. Yao Feng ("Mr. Yao") (formerly Mr. Yang Hong Gen who resigned as the chairman and chief executive officer of the Company on 22 March 2007), is both the chairman and chief executive officer of the Company who is responsible for managing the Board and the Group's business. Mr. Yao has been both chairman and chief executive officer of the Company since 22 March 2007. The Board considers that Mr. Yao has in-depth knowledge in the Group's business and can make appropriate decisions promptly and efficiently. The combination of the roles of chairman and chief executive officer can effectively formulate and implement the Group's strategies. The Board also considers that, at its present size, there is no imminent need to segregate the role of chairman and chief executive officer. However, the Board will continue to review the effectiveness of the Group's corporate governance structure to assess whether the separation of the position of chairman and chief executive officer is necessary.

E. NON-EXECUTIVE DIRECTORS

Code provision A4.1 stipulates 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, the non-executive director of the Company is not appointed for specific terms. However, the non-executive director is subject to retirement by rotation in accordance with the articles of association of the Company (the "Articles"). Accordingly the Company believes that the non-executive directors ought to be committed to representing the long-term interests of the Company's shareholders and the rotation methodology ensures a reasonable proportion of Directors in continuity which is to the best interest of the Company's shareholders.

Code provision A4.2 stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

According to the Articles of the Company, 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 provided that the Chairman, Deputy Chairman or managing Director shall not be subject to retirement by rotation. The Company's Articles deviate from the code provision. The Company considered that the continuity of the Chairman/Deputy Chairman/managing Director and their leadership is essential for the stability of the business and key management.

F. REMUNERATION OF DIRECTORS AND REMUNERATION COMMITTEE

The Company established a Remuneration Committee on 20 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 Directors, 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.

The Remuneration Committee met once during the year ended 30 September 2007 and all the members attended the meeting in which the remuneration level of directors and senior management are reviewed and recommended to the Board.

G. INTERNAL CONTROL COMMITTEE AND COMPLIANCE COMMITTEE

Internal Control Committee

The Company established an Internal Control Committee on 20 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 Ms. Cheung Woon Yiu.

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.

Compliance Committee

The Company established a Compliance Committee on 16 November 2006, which consists of Mr. Yao Feng, Mr. Luk Yu King, James, Mr. Yu Jie and Ms. Cheung Woon Yiu.

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.

H. AUDITORS' REMUNERATION

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

	2007 HK$'000	2006 HK$'000
Services rendered		
Audit services	**420**	687
Non-audit services	**–**	–
	420	687

I. 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 auditors once.

A total of 4 meetings were held in the year under review and the individual attendance of members are as follows:

Name of Directors	Number of attendance
Mr. Yin Jing Le	4/4
Mr. Yu Jie	4/4
Mr. Luk Yu King, James	4/4

The Audit Committee reviewed the quarterly, half-yearly and full year consolidated financial statements, including the Group's adopted accounting principles and practices, of internal control systems and financial reporting matters (in conjunction with the external auditors for the full year results). The Audit Committee endorsed the accounting treatments adopted by the Company and, to the best of its ability assured itself that the disclosures of the financial information in this report, complies with the applicable accounting standards and Chapter 18 of the GEM Listing Rules.

J. INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company has established a range of communication channels between itself and its shareholders, investors and other shareholders. These include the annual general meeting, the annual, interim and quarterly reports, notices, announcements and circulars, the Company's website at www.china-longlife.com and meetings with investors and analysts.

K. INTERNAL CONTROL

The Board is responsible for overseeing the Group's internal control systems and to ensure that sound and effective internal control systems are maintained. The Board is responsible for approving and reviewing internal control policies while the day-to-day management of operational risks and implementation of mitigation measures lies with the management.

Pursuant to code provision C2.1, the directors should at least annually conduct a review of the effectiveness of the system of internal control of the Group and report to shareholders that they have done so in the Corporate Governance Report. The review should cover all material controls, including financial, operational and compliance controls and risk management functions.

During the year ended 30 September 2007, the internal control committees have completed the preliminary review of the internal control system. The internal control committees have identified certain area of weakness, especially in the sales network management. The report (together with recommendations) is due to be reported to the board of directors for their review and endorsement.

L. FINANCIAL REPORTING

The directors acknowledged their responsibility 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 the independent auditors' responsibility to form an independent opinion, based on their audit, on those financial statements and to report their opinion to the Company's shareholders. The responsibilities of the independent auditors are set out in the independent auditors' report.

Directors' Report

The directors present the annual report and audited financial statements for the year ended 30 September 2007.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 34 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 30 September 2007 are set out in the consolidated income statement on page 36.

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

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 16 to the financial statements.

DIRECTORS

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

Executive Directors

Mr. Zheng Lixin	(appointed on 31 October 2007)
Mr. Yang Shun Feng	
Mr. Zhang San Lin	
Mr. Yao Feng	(designated to Chairman and Chief Executive Officer on 22 March 2007 and resigned as Chairman and Chief Executive Officer while remaining as Executive Director of the Company on 31 October 2007)
Dr. Seet Lip Chai	(appointed on 31 October 2007)
Mr. Sha Hai Bo	
Mr. Yang Hong Gen	(resigned on 22 March 2007)
Mr. Cheung Chun Ho, Frankie	(resigned on 22 March 2007)

Non-executive Director

Mr. Lo Wing Yat, Kelvin

Independent non-executive Directors

Mr. Yin Jing Le	
Mr. Yu Jie	
Mr. Chong Cha Hwa	(appointed on 3 December 2007)
Mr. Luk Yu King, James	(resigned on 30 November 2007)

In accordance with article 108 of the Company's Articles of Association, Messrs. Zhang San Lin and Yu Jie retire by rotation, and being eligible, offer themselves for re-election.

Subsequent to the year end, Dr. Seet Lip Chai was appointed as executive Director of the Company with effect from 31 October 2007 and Mr. Chong Cha Hwa was appointed as independent non-executive Director of the Company with effect from 30 November 2007. In accordance with article 112 of the Company's Articles of Association, Dr. Seet and Mr. Chong retire, and being eligible, offer themselves for re-election.

All non-executive directors, except for Mr. Lo Wing Yat, Kelvin and Mr. Chong Cha Hwa, have been appointed for a term of two years.

Each of the executive directors, except for Mr. Zheng Lixin and Dr. Seet Lip Chai has entered into a service contract with the Company for an initial terms of 36 months commencing from 1 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 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' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

At 30 September 2007, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meanings of Part XV of the Securities and Future Ordinance ("SFO")) which require notification to the Company and The Stock Exchange of Hong Kong Limited (the "Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Director or chief executive is taken or deemed to have under such provision of the SFO) or which are required pursuant to section 352 of the SFO or which are required, pursuant to rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Exchange were as follows:

Long positions in the ordinary shares in the Company

Name of director	Capacity	Number of ordinary shares	% to total issued share capital of the Company
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%

Save as disclosed above, none of the Directors of the Company have, as at 30 September 2007, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meanings of Part XV of the SFO) which require notification to the Company and the Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such director is taken or deemed to have under such provision of the SFO) or which are required pursuant to Section 352 of the SFO, or which are required pursuant to Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Exchange.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 30 September 2007, according to the register kept by the Company pursuant to section 336 of SFO and so far as is known to, or can be ascertained after reasonable enquiry by the Directors, save as disclosed in the paragraph headed "DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES" in this report, the following person had an interest or short positions in the shares in and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, was directly or indirectly interested in 10% or more of the voting power at general meetings of the Company:

Long position in the ordinary shares in the Company

Name of shareholder	Capacity	Number of ordinary shares	% to total issued share capital of the Company
Mr. Yang Hong Gen (1) (楊洪根)	Beneficial owner	145,500,000	29.1%
Ms. Bao Xiao Mei (1) (包小妹)	Interest of spouse of Mr. Yang Hong Gen who is a beneficial owner	145,500,000	29.1%
China Medical Device Group Limited (2)	Beneficial owner	135,000,000	27.0%
Mr. Zheng Lixin (2) (鄭立新)	Through a controlled corporation	135,000,000	27.0%

Notes:

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

(2) China Medical Device Group Limited ("China Medical") holds 135,000,000 ordinary shares of the Company. The issued share capital of China Medical is wholly owned by Mr. Zheng Lixin. Mr. Zheng Lixin was deemed to be interested in 135,000,000 ordinary shares of the Company by virtue of its interest in China Medical.

Save as disclosed above and in the paragraph headed "DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES" and "INTERESTS AND SHORT POSITIONS OF OTHER PERSONS", as at 30 September 2007, 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 in or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

INTERESTS AND SHORT POSITIONS OF OTHER PERSONS

As at 30 September 2007, according to the register kept by the Company pursuant to section 336 of SFO and so far as is known to, or can be ascertained after reasonable enquiry by the Directors, save as disclosed in the paragraph headed "DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES" and "INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS DISCLOSEABLE UNDER THE SFO" in this report, the following persons had an interest or short position in the shares in 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 ordinary shares	% to total issued share capital of the Company
Zhou Xiang Zhen [1] (周祥珍)	Interest of spouse of Mr. Zhang San Lin who is a beneficial owner	25,000,000	5.0%
CITIC International Assets Management Limited [2]	Beneficial owner	31,500,000	6.3%
CITIC International Financial Holdings Limited [2]	Through a controlled corporation	31,500,000	6.3%
CITIC Group [2]	Through a controlled corporation	31,500,000	6.3%

Notes:

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

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

Save as disclosed above and in the paragraph headed "DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES" and "INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS DISCLOSEABLE UNDER THE SFO", as at 30 September 2007, 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 28 to the financial statements.

The share options granted to certain Directors on 28 December 2004 lapsed in December 2006.

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.

MAJOR CUSTOMERS AND SUPPLIERS

During the year,

(i) the Group's largest customer and five largest customers accounted for 11% and 26% respectively, of the Group's total sales; and

(ii) the Group's largest supplier and five largest suppliers accounted for 10% and 27% 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.

SHARE CAPITAL

Details of the Company's share capital during the year are set out in note 25 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group during the year are set out on page 38 in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

As at 30 September 2007, the Company had distributable reserves of approximately HK$82,200,000.

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 publicity available to the Company and within the knowledge of the Company's directors throughout the year ended 30 September 2007.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY LISTED SECURITIES

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

SPONSOR'S INTERESTS

The sponsor agreement dated 1 June 2004 between the Company and CSC Asia Limited ("CSC Asia") for the appointment of CSC Asia as sponsor of the Company under the GEM Listing Rules was terminated on 30 June 2006. With effect from 1 July 2006, First Shanghai Capital Limited ("First Shanghai") was appointed as the compliance adviser of the Company pursuant to Rule 6A.19 of the GEM Listing Rules. The appointment of First Shanghai has been terminated before 30 September 2007.

CODE ON CORPORATE GOVERNANCE PRACTICES

Save as the deviations, and the reason thereof, as disclosed in the Corporate Governance Report set out on pages 19 to 24, in the opinion of the Directors, the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules.

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

During the year ended 30 September 2007, the audit committee of the Company comprises three independent non-executive Directors. Messrs. Yin Jing Le, Yu Jie and Luk Yu King, James. Subsequent to the balance sheet date on 30 November 2007, Mr. Luk Yu King, James resigned as independent non-executive Director and member of audit committee of the Company. Mr. Chong Cha Hwa was appointed as independent non-executive Director and member of audit committee of the Company on 3 December 2007.

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

The audit committee held four meetings in the year ended 30 September 2007.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its independent non-executive Directors, namely Messers. Yin Jing Le, Yu Jie, Luk Yu King, James and Chong Cha Hwa a confirmation of their independence pursuant to rule 5.09 of the GEM Listing Rules and considers the independent non-executive Directors to be independent.

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 28 to the financial statements.

AUDITORS

SHINEWING (HK) CPA Limited were appointed as the auditors of the Company in succession to Messrs. Deloitte Touche Tohmatsu who resigned from the office with effect from 25 September 2007. The financial statements for the year were audited by SHINEWING (HK) CPA Limited, who will retire and, being eligible, offer themselves for re-appointment as auditors of the Company at the forthcoming annual general meeting. Save as disclosed above, there was no change in the Company's auditors during the past three years.

On behalf of the Board

Zheng Lixin
Chairman

Hong Kong,
27 December 2007

Independent Auditor's Report

SHINEWING (HK) CPA Limited
16/F., United Centre
95 Queensway, Hong Kong

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 consolidated financial statements of Longlife Group Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 36 to 79, which comprise the consolidated balance sheet as at 30 September 2007, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The Company's directors are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from misstatement.

Independent Auditor's Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of the Group's affairs as at 30 September 2007 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

SHINEWING (HK) CPA Limited
Certified Public Accountants

Ip Yu Chak
Practising Certificate Number : P04798

Hong Kong
27 December 2007

Consolidated Income Statement

For the year ended 30 September 2007

	Notes	2007 HK$'000	2006 HK$'000
Revenue	7	**270,753**	243,386
Cost of sales		**(98,038)**	(97,826)
Gross profit		**172,715**	145,560
Other income	8	**2,160**	4,156
Administrative expenses		**(26,788)**	(26,236)
Selling and distribution expenses		**(181,714)**	(118,355)
Other expenses		**(620)**	(459)
Finance costs	9	**(2,002)**	(1,233)
(Loss)/profit before tax	10	**(36,249)**	3,433
Income tax expenses	11	**(2,084)**	(2,905)
(Loss)/profit for the year		**(38,333)**	528
Attributable to:			
Equity holders of the Company		**(38,375)**	639
Minority interests		**42**	(111)
		(38,333)	528
(Loss)/earnings per share	13		
– Basic		**(7.68 HK cent)**	0.13 HK cent
– Diluted		**–**	0.13 HK cent

Consolidated Balance Sheet

At 30 September 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Goodwill	15	**5,525**	5,525
Property, plant and equipment	16	**50,197**	47,545
Prepaid lease payments	17	**15,236**	14,360
Deposit paid for acquisition of property, plant and equipment		**–**	671
		70,958	68,101
CURRENT ASSETS			
Prepaid lease payments	17	**517**	315
Inventories	18	**91,394**	91,483
Trade and bills receivables	19	**43,356**	56,600
Prepayments and other receivables		**17,598**	15,962
Tax recoverable		**474**	452
Pledged bank deposits	20	**9,615**	5,132
Bank balances and cash		**11,125**	28,760
		174,079	198,704
CURRENT LIABILITIES			
Trade and bills payables	21	**33,447**	28,311
Other payables and accruals		**34,552**	38,977
Bank borrowings – due within one year	22	**26,850**	5,909
Amount due to a minority shareholder	23	**2,005**	311
Amount due to a shareholder	23	**1,498**	–
Amount due to a director	23	**–**	543
Tax payable		**–**	318
		98,352	74,369
NET CURRENT ASSETS		**75,727**	124,335
TOTAL ASSETS LESS CURRENT LIABILITIES		**146,685**	192,436
NON-CURRENT LIABILITY			
Bank borrowings – due after one year	22	**–**	15,462
		146,685	176,974
CAPITAL AND RESERVES			
Share capital	25	**50,000**	50,000
Reserves		**90,973**	121,568
Equity attributable to equity holders of the Company		**140,973**	171,568
Minority interests		**5,712**	5,406
		146,685	176,974

The consolidated financial statements on pages 36 to 79 were approved and authorised for issue by the Board of Directors on 27 December 2007 and are signed on its behalf by:

Zheng Lixin
DIRECTOR

Yao Feng
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 30 September 2007

	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
	Attributable to equity holders of the Company									
At 1 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
Profit for the year	–	–	–	–	–	–	639	639	(111)	528
Total recognised income for the year	–	–	–	–	–	6,968	639	7,607	(54)	7,553
Appropriations	–	–	–	3,098	3,098	–	(6,196)	–	–	–
At 30 September 2006 and at 1 October 2006	50,000	8,145	22,443	3,098	3,098	6,968	77,816	171,568	5,406	176,974
Exchange difference arising on translation of foreign operations	–	–	–	–	–	7,780	–	7,780	264	8,044
Loss for the year	–	–	–	–	–	–	(38,375)	(38,375)	42	(38,333)
Total recognised income for the year	–	–	–	–	–	7,780	(38,375)	(30,595)	306	(30,289)
Appropriations	–	–	–	12,381	–	–	(12,381)	–	–	–
At 30 September 2007	**50,000**	**8,145**	**22,443**	**15,479**	**3,098**	**14,748**	**27,060**	**140,973**	**5,712**	**146,685**

Notes:

1. Special reserve represents the difference between the paid-up capital and share premium of the subsidiary acquired and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation.

2. Pursuant to the Articles of Association of certain of the Company's subsidiaries in PRC, those subsidiaries should transfer not less than 10% of net profit to the statutory surplus reserve fund, while the rest of the Company's PRC subsidiaries can make appropriation of 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 those PRC subsidiaries.

3. Pursuant to the Articles of Association of certain subsidiaries of the Company in PRC, those subsidiaries can make appropriation of 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 those subsidiaries by means of capitalisation.

Consolidated Cash Flow Statement

For the year ended 30 September 2007

	Notes	2007 HK$'000	2006 HK$'000
OPERATING ACTIVITIES			
(Loss)/profit before tax		**(36,249)**	3,433
Adjustments for:			
Inventories written off/allowance for obsolete stocks		**10,530**	13,632
Depreciation of property, plant and equipment		**4,822**	3,984
Finance costs		**2,002**	1,233
Amortisation of prepaid lease payments		**515**	219
Trade receivables and other receivables written off/allowance for bad and doubtful debts		**688**	1,730
Interest income		**(133)**	(116)
(Gain)/loss on disposal of property, plant and equipment		**(4)**	1
Discount on acquisition		**–**	(2,592)
Operating cash flows before movements in working capital		**(17,829)**	21,524
Increase in inventories		**(10,441)**	(12,234)
Decrease/(increase) in trade and bills receivables		**12,556**	(12,623)
(Increase)/decrease in prepayments and other receivables		**(1,120)**	4,132
Increase in trade and bills payables		**5,136**	12,698
(Decrease)/increase in other payables and accruals		**(4,425)**	10,580
Cash (used in)/generated from operations		**(16,123)**	24,077
Income taxes paid		**(2,547)**	(3,116)
Income taxes refunded		**123**	1,759
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES		**(18,547)**	22,720
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		**(5,582)**	(8,508)
Increase in pledged bank deposits		**(4,483)**	(3,280)
Purchases of prepaid lease payments		**(335)**	(1,071)
Sale proceeds on disposal of property, plant and equipment		**170**	1
Interest received		**133**	116
Acquisition of a subsidiary	26	**–**	(17,574)
Acquisition of a business	27	**–**	(7,272)
Deposits paid for acquisition of property, plant and equipment		**–**	(671)
NET CASH USED IN INVESTING ACTIVITIES		**(10,097)**	(38,259)

Consolidated Cash Flow Statement

For the year ended 30 September 2007

	Notes	2007 HK$'000	2006 HK$'000
FINANCING ACTIVITIES			
New bank borrowings raised		**29,237**	28,560
Increase in amount due to a minority shareholder		**1,694**	311
Advance from a shareholder		**955**	–
Repayment of bank borrowings		**(24,902)**	(25,408)
Interest paid		**(2,002)**	(1,233)
Contribution from a minority shareholder		**–**	5,460
Advance from a director		**–**	483
NET CASH FROM FINANCING ACTIVITIES		**4,982**	8,173
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(23,662)**	(7,366)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**28,760**	34,672
Effect of foreign exchange rate changes		**6,027**	1,454
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash		**11,125**	28,760

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 5 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 shares of the Company are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 17 June 2004.

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

The Company is an investment holding company and the principal activities of its subsidiaries are set out in note 34.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Company and its subsidiaries (the "Group") has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1 December 2005, or 1 January 2006. The adoption of these new HKFRSs has no material effect on how the results for the current or prior accounting year have been prepared and presented. Accordingly, no prior year adjustment has been required.

The Group has not early adopted the following new standards, amendments or interpretations that have been issued but are not yet effective. The Group has commenced considering the potential impact of these new or revised HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS – continued

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 23 (Revised)	Borrowing Costs[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment[3]
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions[4]
HK(IFRIC)-Int 12	Service Concession Arrangements[5]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[6]
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[5]

1 Effective for annual periods beginning on or after 1 January 2007.
2 Effective for annual periods beginning on or after 1 January 2009.
3 Effective for annual periods beginning on or after 1 November 2006.
4 Effective for annual periods beginning on or after 1 March 2007.
5 Effective for annual periods beginning on or after 1 January 2008.
6 Effective for annual periods beginning on or after 1 July 2008.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values, 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 Growth Enterprise Market of 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 entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Basis of consolidation – continued

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 intra-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.

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 consolidated balance sheet.

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 consolidated income statement. 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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

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 acquisition")

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.

Property, plant and equipment

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

Depreciation is provided to write off the cost of the property, plant and equipment over their estimated useful lives and after taking into account of 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.

Construction in progress

Construction-in-progress represents plant and properties under construction and is stated at cost less any recognised impairment losses. This includes cost of construction, plant and equipment and other direct costs. Upon completion of construction, and when they are ready for their intended use, the relevant costs are transferred to the appropriate categories of property, plant and equipment. No depreciation is provided on construction-in-progress until the asset is completed and put into use upon which depreciation commence to be provided on the same basis as other property, plant and equipment items of the same category.

Prepaid lease payments

Payments for obtaining land use rights are accounted for as prepaid lease payments. Prepaid lease payments are stated at cost less accumulated amortisation and impairment losses, amortisation is charged to the consolidated income statement on a straight-line basis over the lease terms.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Research and development expenditure

Expenditure on research activities is recognised as expense in the year in which it is incurred.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when the Group becomes a party to the contractual provisions of the instruments. 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 (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policy adopted in respect of loans and receivables is 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 and bills receivables, other receivables, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss 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 years when an increase in the assets 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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity 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 Group's financial liabilities are mainly other financial liabilities. The accounting policies adopted in respect of other financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including trade and bills payables, other payables and accruals, bank borrowings, amounts due to a minority shareholder, a shareholder and 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 and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using weighted average cost method.

Impairment (other than goodwill – see the accounting policy in respect of goodwill above)

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 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 loss is 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, such 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 income statement items that are never taxable or 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 amounts 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.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 year when the liability is settled or the asset is realised. Deferred tax is charged or credited to consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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 the respective 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. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the year in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the year except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

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 Group (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 year, 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 profit or loss in the year in which the foreign operation is disposed of.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Foreign currencies – continued

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the exchange reserve.

Leases

Rentals payable under operating leases are charged to profit or loss 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.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold 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 to customers.

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.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the year in which they are incurred.

Retirement benefits costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as expenses when employees have rendered service entitling them to the contributions.

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 each balance sheet date, the Group revised its estimates of the number of options that are expected to ultimately vest. The effect of the change in estimate, if any, is recognised in profit or loss with a corresponding adjustment to 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 after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated profits.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of consolidated financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumption that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other source. Actual results may differ from these estimates.

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 also discussed below.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY – continued

Allowance for bad and doubtful debts

Management regularly reviews the recoverability and age of the trade receivables and other 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 allowance 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 allowance may be required.

Allowance for inventories

The management of the Group reviews an ageing analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sales. The management estimates the net realisable value for the inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete and slow-moving items.

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account the estimated residual value. The Group assesses annually the residual value and the useful life of the property, plant and equipment and if the expectation differs from the original estimates, such differences from the original estimates will affect the depreciation charges in the year in which the estimates change.

Impairment of property, plant and equipment

The impairment loss for property, plant and equipment are recognised for the amounts by which the carrying amounts exceeds its recoverable amount, in accordance with the Group's accounting policy. The recoverable amounts have been determined based on value-in-use calculations. These calculations require the use of estimates such as the future revenue and discount rates. No impairment was provided during the year.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY – continued

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. No impairment was provided during the year.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade receivables, other receivables, pledged bank deposits, bank balances, trade payables, other payables and accruals, bank borrowings and amounts due to a minority shareholder, a shareholder and a director. 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 30 September 2007 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, with exposure spreading over a number of counterparties and customers.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

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 22.

Currency risk

The Group mainly operates in the PRC with most of the transactions settled in RMB. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Liquidity risk

For the management of the Group's liquidity risk, the Group monitors and maintains a sufficient level of cash and cash equivalents considered adequate by management to finance the Group's operations and mitigate the effects of fluctuation in cash flows. Management reviews and monitors its working capital requirements regularly.

Fair values of financial assets and financial liabilities

The fair values of financial assets and financial liabilities reported in the consolidated balance sheet approximate their carrying amounts due to their immediate or short-term maturities.

6. SEGMENT INFORMATION

The Group is engaged in the manufacture, research and development and distribution of consumer cosmetics, 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 in respect of business segments is presented as below:

Income statement

For the year ended 30 September

	Manufacturing and sales of consumer cosmetics		Manufacturing and sales of health related products		Manufacturing and sales of capsules products		Manufacturing and sales of health supplement wine		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Revenue	**184,208**	105,024	**64,782**	115,776	**13,861**	8,383	**7,902**	14,203	**270,753**	243,386
Segment results	**(20,152)**	(16,396)	**(7,458)**	18,633	**(18)**	(61)	**(2,932)**	(201)	**(30,560)**	1,975
Other income									**2,160**	4,156
Unallocated corporate expenses									**(5,847)**	(1,465)
Finance costs									**(2,002)**	(1,233)
(Loss)/profit before tax									**(36,249)**	3,433
Income tax expenses									**(2,084)**	(2,905)
(Loss)/profit for the year									**(38,333)**	528

6. SEGMENT INFORMATION – continued

Balance sheet

As at 30 September

	Manufacturing and sales of consumer cosmetics		Manufacturing and sales of health related products		Manufacturing and sales of capsules products		Manufacturing and sales of health supplement wine		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Assets										
Segment assets	**83,255**	56,771	**72,095**	162,388	**36,429**	27,049	**26,889**	18,332	**218,668**	264,540
Unallocated corporate assets									**26,369**	2,265
Total assets									**245,037**	266,805
Liabilities										
Segment liabilities	**23,186**	23,159	**29,149**	36,965	**11,942**	6,456	**2,117**	629	**66,394**	67,209
Unallocated corporate liabilities									**31,958**	22,622
Total liabilities									**98,352**	89,831

Other information

For the year ended 30 September

	Manufacturing and sales of consumer cosmetics		Manufacturing and sales of health related products		Manufacturing and sales of capsules products		Manufacturing and sales of health supplement wine		Unallocated		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Capital expenditures	**137**	81	**564**	13,843	**4,982**	2,638	**389**	40	**-**	–	**6,072**	16,602
Depreciation of property, plant and equipment	**120**	101	**3,101**	3,323	**1,238**	487	**359**	73	**4**	–	**4,822**	3,984
Goodwill on acquisition	**-**	–	**-**	–	**-**	–	**-**	5,525	**-**	–	**-**	5,525
Inventories written off/allowance for obsolete stocks	**4,301**	9,884	**4,240**	3,748	**-**	–	**1,989**	–	**-**	–	**10,530**	13,632

7. REVENUE

Revenue, which is also the Group's turnover, represents the amounts received and receivable from sales of goods less sales tax and discounts, if any, during the year.

8. OTHER INCOME

	2007 **HK$'000**	2006 HK$'000
Interest income	**133**	116
Sundry income	**461**	658
Discount on acquisition	**–**	2,592
Written back of staff welfare provision	**744**	–
Net exchange gain	**818**	790
Gain on disposal of property, plant and equipment	**4**	–
	2,160	4,156

9. FINANCE COSTS

	2007 **HK$'000**	2006 HK$'000
Interest expenses on		
– bank borrowings wholly repayable within five years	**1,939**	1,121
– other borrowings	**63**	112
	2,002	1,233

10. (LOSS)/PROFIT BEFORE TAX

	2007 HK$'000	2006 HK$'000
(Loss)/profit before tax has been arrived at after charging:		
Directors' remuneration (Note 14)	**1,293**	1,385
Other staff costs	**98,766**	44,199
Retirement benefits scheme contributions (excluding directors' remuneration)	**1,051**	598
Total staff costs	**101,110**	46,182
Trade receivables and other receivables written off/allowance for bad and doubtful debts	**688**	1,730
Inventories written off/allowance for obsolete stocks	**10,530**	13,632
Cost of inventories recognised as an expense	**87,508**	84,194
Auditors' remuneration	**420**	687
Amortisation of prepaid lease payments	**515**	219
Depreciation of property, plant and equipment	**4,822**	3,984
Research and development costs	**111**	11
Loss on disposal of property, plant and equipment	**–**	1

11. INCOME TAX EXPENSES

	2007 HK$'000	2006 HK$'000
The amount comprises:		
Hong Kong Profits Tax		
Underprovision in prior years	**–**	6
Taxation arising in the PRC		
Current year	**2,547**	3,002
Overprovision in prior years	**(463)**	(103)
	2,084	2,899
	2,084	2,905

11. INCOME TAX EXPENSES – continued

No provision for Hong Kong profits tax has been made in the consolidated financial statements as the Group's income neither arises in, nor derived from Hong Kong for the year.

In 2006, no provision for Hong Kong profits tax has been made in the consolidated financial statements as the Group did not have any assessable profit in Hong Kong.

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

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

Pursuant to the relevant law and regulations in the PRC, certain subsidiaries of the Company in the PRC are exempted from PRC Enterprise Income Tax 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 PRC Enterprise Income Tax for the following three years.

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

	2007 **HK$'000**	2006 HK$'000
(Loss)/profit before tax	**(36,249)**	3,433
Tax at domestic statutory tax rate of 24%	**(8,700)**	824
Tax effect of expenses not deductible for tax purposes	**915**	324
Tax effect of income not taxable for tax purposes	**(6,643)**	(759)
Tax effect of tax loss not recognised	**19,527**	9,339
Reduction of tax to concessionary rate	**(2,749)**	(6,720)
Tax effect of exemption granted to subsidiaries	**(140)**	–
Effect of different tax rate of subsidiaries	**337**	–
Overprovision in prior years	**(463)**	(103)
Income tax expense for the year	**2,084**	2,905

12. DIVIDENDS

The directors of the Company have resolved not to recommend the payment of any dividend for the year ended 30 September 2007 (2006: nil).

13. (LOSS)/EARNINGS PER SHARE

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

	2007	2006
	HK$'000	HK$'000
(Loss)/earnings:		
(Loss)/profit for the year for the purposes of basic/diluted (loss)/earnings per share	**(38,375)**	639

	2007	2006
Numbers of shares:		
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	**500,000,000**	500,000,000
Effect of dilutive potential ordinary shares – share option	**–**	4,317,000
Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per share	**500,000,000**	504,317,000

No diluted loss per share have been presented for the year ended 30 September 2007 as there was no dilutive potential ordinary share for the year.

14. 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 30 September 2007

	Fees HK$'000	Salaries and other benefits HK$'000	Retirement benefit scheme contributions HK$'000	Total emoluments HK$'000
Executive Directors				
Yao Feng	–	198	–	198
Zhang San Lin	–	199	3	202
Yang Shun Feng	–	199	3	202
Sha Hai Bo	–	54	3	57
Yang Hong Gen (resigned on 22 March 2007)	–	199	3	202
Cheung Chun Ho, Frankie (resigned on 22 March 2007)	–	120	–	120
	–	969	12	981
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	969	12	1,293

14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS – continued

(a) Directors' emoluments – continued

For the year ended 30 September 2006

	Fees HK$'000	Salaries and other benefits HK$'000	Retirement benefit scheme contributions HK$'000	Total emoluments HK$'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 16 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

No directors of the Company waived or agreed to waive any emoluments paid by the Group and no incentive payment for joining the Group or compensation for loss of office was paid or payable to any director of the Company during the two years ended 30 September 2007 and 2006.

14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS – continued

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, four (2006: four) 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 were as follows:

	2007 **HK$'000**	2006 HK$'000
Salaries and other benefits	**220**	480
Retirement benefit scheme contributions	**5**	12
	225	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.

15. GOODWILL

	HK$'000
COST	
At 1 October 2005	–
Arising on acquisition of a subsidiary	5,525
At 30 September 1 October 2006 and 30 September 2007	5,525
IMPAIRMENT LOSS	
At 1 October 2005, 30 September 2006 and 30 September 2007	–
NET CARRYING VALUES	
At 30 September 2007	5,525
At 30 September 2006	5,525

Goodwill arose on acquisition of subsidiary, Jiangsu Longlife Biochemistry Co., Ltd. ("Jiangsu Longlife", formerly known as Jiangsu Huabo Biotech Co., Ltd). Goodwill will be tested for impairment at least annually.

Impairment testing of goodwill

During the year, the Group performed an impairment testing of goodwill with reference to a valuation carried out by BMI Appraisals Limited, a qualified valuer not connected with the Group, for the purpose of assessing the recoverable amount. Such valuation has been carried out using cash flow projections based on financial budgets approved by management and applying the discounted cash flow technique. The directors are of the opinion, based on the business valuation, that the recoverable amount exceeds its net carrying value in the consolidated balance sheet and no impairment is needed.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Furniture, fixtures and office equipment	Motor vehicles	Plant and machinery	Construction in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COSTS						
At 1 October 2005	12,445	4,052	6,093	13,218	–	35,808
Exchange realignment	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 30 September 2006 and 1 October 2006	32,723	4,447	7,445	15,777	2,291	62,683
Exchange realignment	1,327	218	348	881	116	2,890
Additions	92	161	344	4,649	336	5,582
Transfers	–	–	–	118	(118)	–
Disposals	–	(44)	(919)	(55)	–	(1,018)
At 30 September 2007	34,142	4,782	7,218	21,370	2,625	70,137
ACCUMULATED DEPRECIATION						
At 1 October 2005	2,720	1,895	2,626	3,389	–	10,630
Exchange realignment	138	100	133	178	–	549
Charge for the year	933	803	876	1,372	–	3,984
Eliminated on disposals	–	(25)	–	–	–	(25)
At 30 September 2006 and 1 October 2006	3,791	2,773	3,635	4,939	–	15,138
Exchange realignment	216	145	182	289	–	832
Charge for the year	1,306	441	1,026	2,049	–	4,822
Eliminated on disposals	–	(16)	(795)	(41)	–	(852)
At 30 September 2007	5,313	3,343	4,048	7,236	–	19,940
CARRYING AMOUNT						
At 30 September 2007	28,829	1,439	3,170	14,134	2,625	50,197
At 30 September 2006	28,932	1,674	3,810	10,838	2,291	47,545

As at 30 September 2007, certain of the Group's buildings in PRC with aggregate carrying amount of approximately HK$ 28,829,000 (2006 : 10,252,000) have been pledged to secure bank borrowings granted to the Group (note 22).

16. 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

17. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments are in respect of use rights of land located in the PRC held under medium-term leases.

	2007 **HK$'000**	2006 HK$'000
Carrying amount at 1 October	**14,675**	8,383
Exchange realignment	**1,103**	369
Acquisition of a subsidiary	**–**	4,454
Additions	**490**	1,688
Amortisation	**(515)**	(219)
Carrying amount at 30 September	**15,753**	14,675
Analysed for reporting purpose as:		
Current asset	**517**	315
Non-current asset	**15,236**	14,360
	15,753	14,675

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

As at 30 September 2007, certain Group's prepaid lease payments with aggregate carrying amount of approximately HK$14,789,000 (2006: HK$14,058,000) have been pledged to secured bank borrowing granted to the Group (note 22).

18. INVENTORIES

	2007 HK$'000	2006 HK$'000
Raw materials	**15,735**	20,425
Work in progress	**2,379**	3,392
Finished goods	**73,280**	67,666
	91,394	91,483

19. TRADE AND BILLS RECEIVABLES

	2007 HK$'000	2006 HK$'000
Trade and bills receivables	**46,048**	58,604
Less: Allowance for bad and doubtful debts	**(2,692)**	(2,004)
	43,356	56,600

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 and bills receivables net of allowance at the balance sheet dates:

	2007 HK$'000	2006 HK$'000
0 – 90 days	**28,055**	41,123
91 – 180 days	**7,589**	8,213
181 – 360 days	**3,352**	6,934
Over 360 days	**4,360**	330
	43,356	56,600

The directors consider that the fair value of the trade and bills receivables approximates the corresponding carrying amount.

20. PLEDGED BANK DEPOSITS

The amounts represent deposits pledged to banks to secure banking facilities granted to the Group, with maturity within 3 months.

The deposits carry interest rates at respective bank saving deposits ranging from 0.72% to 1.53% (2006: 0.72% to 1.12%). The directors consider that carrying amount of pledged bank deposit approximates to its fair value.

21. TRADE AND BILLS PAYABLES

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

	2007 **HK$'000**	2006 HK$'000
0 – 90 days	**27,661**	24,608
91 – 180 days	**5,105**	2,272
181 – 360 days	**69**	350
Over 360 days	**612**	1,081
	33,447	28,311

The directors consider that the fair value of trade and bills payables approximates the corresponding carrying amount.

22. BANK BORROWINGS

	2007 **HK$'000**	2006 HK$'000
Secured	**25,817**	20,386
Unsecured	**1,033**	985
	26,850	21,371
Bank loans repayable within a period of:		
Less than one year	**26,850**	5,909
More than one year but within two years	**–**	2,659
More than two years but within three years	**–**	12,803
	26,850	21,371
Less: Amount due within one year disclosed under current liabilities	**26,850**	5,909
Amount due after one year	**–**	15,462

All of the Group's borrowings are denominated in RMB.

Bank loans repayable after one year as at 30 September 2006 have all be repaid during the year ended 30 September 2007.

At 30 September 2007, secured bank loans of approximately HK$20,654,000 (2006: HK$20,386,000) were secured by buildings and prepaid lease payments of the Group with aggregate carrying amount of approximately HK$30,687,000 (2006 : HK$24,310,000).

At 30 September 2006, all secured bank loans were also guaranteed by the ex-director of the company, Mr. Yang Hong Gen, and his spouse (note 35).

At 30 September 2007, the loan with a principal amount of approximately HK$1,033,000 (2006: HK$985,000) was guaranteed by 浙江美力彈簧有限公司, independent third party to the Group.

At 30 September 2007, the loan with a principal amount of approximately HK$5,163,000 (2006: Nil) was guaranteed by 蘇州國發中小企業擔保投資有限公司 , an independent third party to the Group. For the purpose of obtaining such guarantee, the Group has pledged its buildings and prepaid lease payments of approximately HK$12,931,000 to 蘇州國發中小企業擔保投資有限公司.

22. BANK BORROWINGS – continued

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

The average effective interest rate (being the contracted interest rate) on the Group's borrowings is 6,85% per annum.

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

23. AMOUNTS DUE TO A MINORITY SHAREHOLDER, A SHAREHOLDER AND A DIRECTOR

The amounts are unsecured, interest free and repayable on demand. The directors consider that the fair value of the amounts due to a minority shareholder, a shareholder and a director approximate to its carrying amounts.

24. DEFERRED TAXATION

At the balance sheet date, the Group has estimated the unused tax losses of approximately HK$120,277,000 (2006: HK$38,914,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profits stream. Such tax losses can be carried forward for 5 years from the year in which the respective loss arose.

25. SHARE CAPITAL

	Number of shares	**Amount**
		HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 30 September 2006 and 30 September 2007	2,000,000,000	200,000
Issued and fully paid:		
At 30 September 2006 and 30 September 2007	500,000,000	50,000

26. ACQUISITION OF A SUBSIDIARY

There was no acquisition of subsidiaries during the year ended 30 September 2007.

On 28 July 2006, the Group acquired 100% equity interest in Jiangsu Longlife, 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 Longlife during the year ended 30 September 2006 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)

26. ACQUISITION OF A SUBSIDIARY – continued

The goodwill arising on the acquisition of Jiangsu Longlife during the year ended 30 September 2006 was attributable to the anticipated future operating synergies from the combination of the existing distribution networks of the Group and the production capacity of Jiangsu Longlife.

The subsidiary acquired during the year ended 30 September 2006 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 1 October 2005, total contribution to the Group's revenue for the year ended 30 September 2006 would have been HK$4,903,000, and profit for the year ended 30 September 2006 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 for the year ended 30 September 2006 that actually would have been achieved had the acquisition been completed on 1 October 2005, nor is it intended to be a projection of future results.

27. ACQUISITION OF A BUSINESS

There was no acquisition of business during the year ended 30 September 2007.

On 30 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.

27. ACQUISITION OF A BUSINESS – continued

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 30 September 2006. If the acquisition had been completed on 1 October 2005, total contribution to the Group's revenue for the year ended 30 September 2006 would have been HK$15,449,000 and profit for the year ended 30 September 2006 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 for the year ended 30 September 2006 that actually would have been achieved had the acquisition been completed on 1 October 2005, nor is it intended to be a projection of future results.

28. 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 26 May 2004 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

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

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

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

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the closing price of the Company's shares as stated in the 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.

28. SHARE OPTION SCHEME – continued

The details of movements in the number of options outstanding during the year which have been granted under the Scheme are as follows:

For the year ended 30 September 2007

	Date of grant	Exercisable period	Exercise price HK$	Outstanding at 1 October 2006	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 30 September 2007
				Number of share options				
Directors of the Company	28 December 2004	28 December 2004 – 27 December 2006	**0.27**	**25,000,000**	**–**	**–**	**(25,000,000)**	**–**
Other employees of the Group	28 December 2004	28 December 2004 – 27 December 2006	**0.27**	**25,000,000**	**–**	**–**	**(25,000,000)**	**–**
				50,000,000	**–**	**–**	**(50,000,000)**	**–**

For the year ended 30 September 2006

	Date of grant	Exercisable period	Exercise price HK$	Outstanding at 1 October 2006	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 30 September 2006
				Number of share options				
Directors of the Company	28 December 2004	28 December 2004 – 27 December 2006	0.27	25,000,000	–	–	–	25,000,000
Other employees of the Group	28 December 2004	28 December 2004 – 27 December 2006	0.27	25,000,000	–	–	–	25,000,000
				50,000,000	–	–	–	50,000,000

At 30 September 2007, all share options granted to eligible participants (including executive directors) under the Scheme were lapsed.

At 30 September 2006, the number of shares in 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.

29. OPERATING LEASE COMMITMENTS

	2007 HK$'000	2006 HK$'000
Minimum lease payments under operating lease during the year	**2,401**	1,079

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, warehouses and staff quarters which fall due as follows:

	2007 HK$'000	2006 HK$'000
Within one year	**1,255**	807
In the second to third year inclusive	**391**	258
	1,646	1,065

Leases are negotiated and rentals are fixed for terms of 6 months to 3 years (2006: 6 months to 3 years).

30. CAPITAL COMMITMENTS

	2007 HK$'000	2006 HK$'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
	–	6,350

31. PLEDGE OF ASSETS

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

	2007	2006
	HK$'000	HK$'000
Prepaid lease payments	**14,789**	14,058
Property, plant and equipment	**28,829**	10,252
Bank deposits	**9,615**	5,132
	53,233	29,442

32. 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$1,063,000 (2006: HK$612,000) for the year.

33. BALANCE SHEET OF THE COMPANY

	2007 HK$'000	2006 HK$'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 balances and cash	**71**	41
CURRENT LIABILITY		
Amounts due to subsidiaries	**4,634**	4,634
NET CURRENT LIABILITIES	**(4,563)**	(4,593)
	132,200	132,170
CAPITAL AND RESERVES		
Share capital	**50,000**	50,000
Reserves	**82,200**	82,170
	132,200	132,170

34. PARTICULARS OF SUBSIDIARIES

Details of the company's subsidiaries held by the company as at 30 September 2007 are as follows:

Name of company	Place of incorporation/ registration/ operation	Issue and fully paid up share capital/ registered capital	Proportion ownership interest held by the Company		Principal activities
			Directly	Indirectly	
Wallfaith Company Limited	British Virgin Islands ("BVI")	Ordinary shares US$100	100%	–	Investment holding
Suzhou Longlifu Health Food Co., Ltd ("Suzhou Longlifu") (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 holding
Suzhou Beautiful Biochemistry Co., Ltd ("Suzhou Beautiful") (Note 1)	PRC	Registered capital US$3,800,000	–	100%	Manufacture and sale of biochemical products for daily use
Zhejiang Xinda Zhongshan Capsules	PRC	Registered capital US$1,800,000	–	61.11%	Manufacture and sale of capsules
Jiangsu Longlife (Notes 1 and 3)	PRC	Registered capital RMB10,000,000	–	100%	Manufacture and sale of health supplement wine

Notes:

1. Suzhou Longlifu, Suzhou Beautiful and Jiangsu Longlife 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.

3. The name of the company was changed from Jiangsu Huabo Biotech Co., Ltd to Jiangsu Longlife Biochemistry Co., Ltd on 15 June 2007.

35. RELATED PARTY TRANSACTIONS

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

(a) Save as disclosed elsewhere in these financial statements, during the year, the Group entered into the following transactions with related parties:

An ex-director of the Company, Mr. Yang Hong Gen, and his spouse provided personal guarantee amounting to HK$ nil (2006: HK$3,959,000) in favour of a subsidiary for securing banking facilities granted by a bank during the year ended 30 September 2006. The guarantee was released upon his resignation as director of the Company on 22 March 2007.

In March 2006, the Group acquired certain property, plant and equipment, and 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 30 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 27 to the financial statements.

(b) Compensation of key management personnel

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

	2007 **HK$'000**	2006 HK$'000
Short-term benefits	**1,602**	1,716
Other long-term benefits	**20**	29
	1,622	1,745

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

36. POST BALANCE SHEET EVENTS

Pursuant to a placing and a subscription agreement entered into after the balance sheet date, the Company issued 33,400,000 ordinary shares of HK$0.10 each at a price of HK$0.33 per share to various independent third parties for cash on 29 October 2007. A net proceed of approximately HK$10,674,000 was raised from such placing.

RESULTS

	For the year ended 30 September				
	2003	2004	2005	2006	**2007**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Revenue	186,573	197,822	197,457	243,386	**270,753**
Cost of sales	(88,989)	(66,257)	(70,111)	(97,826)	**(98,038)**
Gross profit	97,584	131,565	127,346	145,560	**172,715**
Other income	265	368	1,033	4,156	**2,160**
Administrative expenses	(7,575)	(11,458)	(20,858)	(26,236)	**(26,788)**
Selling and distribution expenses	(50,116)	(77,874)	(81,219)	(118,355)	**(181,714)**
Other expenses	(500)	(722)	(189)	(459)	**(620)**
Finance costs	(1,187)	(2,213)	(1,554)	(1,233)	**(2,002)**
(Loss)/profit before tax	38,471	39,666	24,559	3,433	**(36,249)**
Income tax expenses (credit)	4,648	4,388	(606)	2,905	**2,084**
(Loss)/profit for the year	33,823	35,278	25,165	528	**(38,333)**
Attributable to:					
Equity holders of the Company	33,823	35,278	25,165	639	**(38,375)**
Minority interests	–	–	–	(111)	**42**
(Loss)/profit for the year	33,823	35,278	25,165	528	**(38,333)**

FINANCIAL SUMMARY

ASSETS, LIABILITIES AND MINORITY INTERESTS

	As at 30 September				
	2003	2004	2005	2006	**2007**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	150,867	191,430	214,928	266,805	**245,037**
Total liabilities	(100,294)	(52,634)	(50,967)	(89,831)	**(98,352)**
	50,573	138,796	163,961	176,974	**146,685**
Equity attributable to equity holders of the Company	50,573	138,796	163,961	171,568	**140,973**
Minority interests	–	–	–	5,406	**5,712**
	50,573	138,796	163,961	176,974	**146,685**

Notes:

1. The Company was incorporated on 5 June 2003 and became the holding company of the Group on 26 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 1 June 2004.

2. The results for year ended 30 September 2003 have been prepared on a combined basis as if the current group structure had been in existence throughout that year.