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

Healthy life happy life

Annual Report 2009

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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

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 GEM of the Stock Exchange (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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Mr. Zheng Lixin
Mr. Zhang San Lin
Mr. Yao Feng
Mr. Chen Zhongwei

Non-executive Director
Mr. Lo Wing Yat, Kelvin

Independent Non-executive Directors and Audit Committee
Mr. Yu Jie
Mr. Chong Cha Hwa
Dr. Yu Hong

Remuneration Committee
Mr. Yu Jie
Mr. Chong Cha Hwa
Dr. Yu Hong
Mr. Yao Feng

Compliance Officer
Mr. Yao Feng

Company Secretary
Mr. Lo Wah Wai, *HKICPA, AICPA*

Hong Kong Legal Advisers
Chiu & Partners Solicitors

Auditor
SHINEWING (HK) CPA Limited
Certified Public Accountants

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George Town
Grand Cayman
British West Indies

Head Office and Principal Place of Business in Hong Kong
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Wanchai, 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 Fulcrum Group (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
Union Registrars Limited
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Fook Lee Commercial Centre
Town Place, 33 Lockhart Road
Wanchai, Hong Kong

Website
www.longlifechina.com

* The Chinese version of the annual report is for reference only. Should there be any inconsistency between the Chinese translation and the English text, the English version shall prevail.

GROUP STRUCTURE

As at 30 September 2009, the corporate structure and main activities of the principal members of the Group are shown below:

- **Longlife Group Holdings Limited** **朗力福集團控股有限公司** *(incorporated in the Cayman Islands with limited liability)* Investment Holding
  - 100%
    - **Wallfaith Company Limited** *(incorporated in the British Virgin Islands with limited liability)* Investment Holding
      - 61.11%
        - **Zhejiang Xinda Zhongshan Capsules Company Limited** **浙江新大中山膠囊有限公司** *(incorporated in the People's Republic of China with limited liability)* Manufacture and sales of capsules
      - 100%
        - **Suzhou Longlifu Health Food Co., Limited** **蘇州朗力福保健品有限公司** *(incorporated in the People's Republic of China with limited liability)* Manufacture and sale of health related products
          - 100%
            - **Suzhou Longlife Trading Co. Ltd** **蘇州朗力福商貿有限公司** *(incorporated in the People's Republic of China with limited liability)* Trading of household commodities and health related products
        - **Smiston Technology Limited** *(incorporated in the British Virgin Islands with limited liability)* Investment Holding
          - 100%
            - **Suzhou Beautiful Biochemistry Co., Ltd** **蘇州別特福生化有限公司** *(incorporated in the People's Republic of China with limited liability)* Manufacture and sale of biochemical products for daily use
        - **Jiangsu Longlife Biochemistry Company Limited** **江蘇朗力福生化有限公司** (formerly known as Jiangsu Huabo Biotech Co., Ltd.) *(incorporated in the People's Republic of China with limited liability)* Manufacturing and sales of biochemical products for daily use and wine
        - **Jiangsu Longlife Special Equipment Technology Co.** **江蘇朗力福專用設備科技有限公司** *(incorporated in the People's Republic of China with limited liability)* Research, manufacture and sales of equipment and material specialty designed for orthodontics
          - 100%
            - **Suzhou Longlife Medical Devices Co., Ltd** **蘇州朗力福醫療器械有限公司** *(incorporated in the People's Republic of China with limited liability)* Inactive
            - **Suzhou Anderson Medical Devices Co. Ltd.** **蘇州安德森醫療器械有限公司** *(incorporated in the People's Republic of China with limited liability)* Inactive
    - **China Dental Technology Group Limited** **中國齒科科技集團有限公司** *(incorporated in the British Virgin Islands with limited liability)* Investment Holding

CHAIRMAN'S STATEMENT

On behalf of Longlife Group Holdings Limited (the "Company") and its subsidiaries (collectively the "Group"), I presented the audited consolidated results of the Group for the year ended 30 September 2009 to the shareholders.

Business Review

Amid the wreaking havoc of the global financial tsunami, consumers exercised more caution in spending and so, supermarkets have had to continuously offer discounts and promotions, but at the same time set higher distribution charges. The Group's labour costs have been raised upon the implementation of the New Labour Law. Under such an unfavorable external environment and in this vigorous industry-chain competition, in which supermarkets always have more advantageous positions, the bargaining power of the Group was relatively weak. Therefore, the competitive edge of its traditional consumer goods was diminishing.

By means of the business thinking system, the Group has pondered the industry chain, corporate position and profit-making model, and also launched an industry upgrade and cultivated the development of dental business. On this basis, the sales network, research, development and production platforms for dental business have been basically established. However, under the impact of financial crisis, financing of dental business has been performed slower than expected and is still at the input stage without making any profit contribution. Both traditional consumer goods and dental business continuously recorded higher losses.

In 2009, the Group has basically completed the transformation of traditional consumer goods from the direct sales model. In the past, the Group had been over-expanding under the direct sales system. With tons of inventories and over thousands of staff, the direct sales model not only dragged down the Group's gross profit and cash flow, but also led to the problems of labour costs and risks. The large amounts of inventories, extremely high distribution charges and labour costs have placed extra burdens on the Company. It was hard to keep up with the operation. Since the capital restructuring taken place in the mid of 2007, the Group has, in the past two years, already gradually implemented the distribution and dealership-oriented business model on the basis of optimized customers and varieties, in order to get rid of the inventories and staff burdens as well as operation difficulties at the fastest pace. Assets (such as inventories and receivables) and staff were succeeded by distributors. Based on the qualities of assets, including inventories and part of receivables, and the distributors, as well as particular situations of the brand and staff burdens, the Group has negotiated with distributors from individual markets to figure out the appropriate prices for the disposals of the existing inventories. It is estimated that the business model transformation would cause a loss of approximately HK$3,500,000. The directors of the Company (the "Directors") are in the view that despite the Group experienced relatively larger losses because of the successful business model conversion, the historical burden of operating risks and labour risks would be fundamentally eliminated. By doing this, the Group can largely reduce the inventory to improve liquidity and avoid goods loss. On the other hand, the conversion has successfully reduced the number of employees by about 80%, which resulted in an immediate reduction of labor cost by about 30%, and also reduced a large portion of labour and social insurance liability.

CHAIRMAN'S STATEMENT

Future Prospects

The strategy of converting the sales model of traditional consumer goods and focusing on the dental business is a wise decision. By unswervingly follow our operating philosophy of "light capital, effective operation and full services", the Company will be able to concentrate its limited resources on the brand and products, so as to regain profitability of traditional consumer goods. For the area of dental business, the Group will, on the basis of medium-high end products, technologies and equipments, commit to establish domestic and international sales network, as well as research, development and production platforms mainly through international cooperation.

For the emerging dental business, as the Group has recouped its investment in Wuxi Yongle Medical Devices Co., Ltd. by selling off its controlling shares, it obtained valuable insights in merger and acquisition and restructuring of dental business. Also, the Group will continue its collaborations with Taiwan, Japan, Israel, Swiss and other regions in the area of product, technology and equipment. At the same time, the Group will spare no effort to gather resources for the research, development and production of self-innovated new projects.

I would like to take this opportunity to thank the shareholders and the Directors for their confidence, understanding in and support to the Company over the years and would especially like to extend my sincere gratitude to all staff for their sufferings and efforts at the time of our business transformation.

Mr. Zheng Lixin
Chairman

Hong Kong, 21 December 2009

MANAGEMENT DISCUSSION AND ANALYSIS

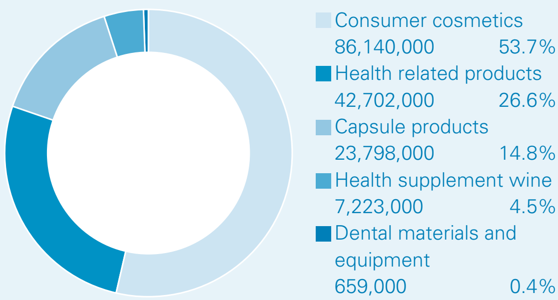
(A) Business Review

Revenue

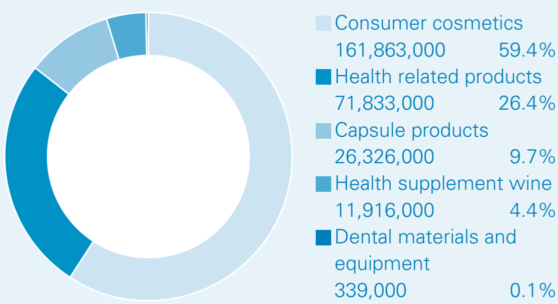
Sales for the year ended 30 September 2009 was approximately HK$160,522,000, while that for the year ended 30 September 2008 was approximately HK$272,277,000, representing a decrease of approximately HK$111,755,000 or approximately 41.0%. The sharp cut of revenue was that the Group continuously executed the strategy of streamlining low efficiency sales network and shift of business model and people are more cautious in consumption under the global financial crisis.

The Group's business breakdown is as follows:

Sales and Percentage to Total Sales by Business Segment, 2009 (in HK$)



Sales and Percentage to Total Sales by Business Segment, 2008 (in HK$)



1. Sales of consumer cosmetics decreased to approximately HK$86,140,000, representing a decrease of approximately 46.8%, whose percentage to total sales is 53.7%.

2. Sales of health related products decreased to approximately HK$42,702,000, representing a decrease of approximately 40.6%, whose percentage to total sales is 26.6%.

3. Sales of capsule products decreased to approximately HK$23,798,000, representing a decrease of approximately 9.6%, whose percentage to total sales is 14.8%.

4. Sales of health supplement wine decreased to approximately HK$7,223,000, representing a decrease of approximately 39.4%, whose percentage to total sales is 4.5%.

5. Dental materials and equipment business is still at early stage and recorded sales of approximately HK$659,000, whose percentage to total sales is 0.4%.

Gross profit

Gross profit for the year ended 30 September 2009 was approximately HK$88,881,000, representing a decrease of approximately HK$71,671,000, when compared with the gross profit of approximately HK$160,552,000 for last year. Gross margin for the year ended 30 September 2009 was approximately 55.4%, a decrease of approximately 3.6 percentage points when compared with approximately 59.0% for last year. The decrease in gross margin was mainly due to the increased prices of raw materials and higher labor costs.

Administrative expenses

Administrative expenses for the year ended 30 September 2009 amounted to approximately HK$29,886,000, representing a decrease of approximately HK$2,306,000, or approximately 7.2%, when compared with approximately HK$32,192,000 for last year. The decrease in administrative expenses was mainly due to that the Group continuously executed the strategy of streamlining staff and cost saving.

MANAGEMENT DISCUSSION AND ANALYSIS

Selling and distribution expenses

Selling and distribution expenses for the year ended 30 September 2009 amounted to approximately HK$98,170,000, representing a decrease of approximately HK$63,545,000 or a decline of approximately 39.3%, when compared with approximately HK$161,715,000 for last year. The Group streamlined low efficiency sales network and executed shift of business model which saved much selling expenses, especially in labor cost and supermarket expenses.

Impairment loss of goodwill

During the year ended 30 September 2009, the Group recognised an impairment loss of approximately HK$5,525,000 in relation to goodwill arising on acquisition of Jiangsu Longlife Biochemistry Company Limited ("Jiangsu Longlife") as Jiangsu Longlife has continually suffered from operating losses and the directors of the Company do not expect it to be able to generate positive cash flow from operation in the foreseeable future.

Direct loss of shift of business model

During the year ended 30 September 2009, the Group shifted its business model from direct sale to distributorship and agency based. During the shift of business model, the Group disposed goods with different qualities at amount of HK$6,739,000 comparing with the cost at amount of HK$36,441,000, in which the Group suffered loss of HK$29,702,000 together with HK$5,328,000 of compensation for laid-off personnel. The Group recorded direct loss of HK$35,030,000 from shift of business model, but the Group improved its liquidity and eliminated goods lost and labor risk.

Loss

Loss for the year ended 30 September 2009 was HK$84,417,000, in which loss from operation was HK$43,862,000, representing an increase of approximately HK$6,437,000, or a growth of approximately 17.2%, when compared with approximately HK$37,425,000 for last year. In traditional consumer business, people are more cautious in consumption under the global financial crisis. Streamlining low efficiency sales network and employees affected the Group's revenue and selling expenses. The shift of sales model also caused the decline of revenue, disposal of goods and expenses, which intensified the Group's loss for the year. Besides indirect loss, the shift of business model caused direct loss of HK$35,030,000. Impairment of goodwill also caused loss of HK$5,525,000. Dental business has not achieved remarkable result which also intensified the Group's loss.

Business Overview

Retailers such as supermarkets and stores have developed excessively, and usually there are dozens of supermarkets and stores competing with each other intensively within a distance of one kilometer, which result in price wars and increase in charges by suppliers. As the consumption intention of consumers abates significantly under the background of global financial tsunami, the competition between retailers and the competition between suppliers have been intensified. As a supplier, the Group is in a weak position in the industry chain of traditional consumer goods, and faces the conditions of decrease in price and increase in charge. During past years, the Group has adopted a direct sale model which requires direct distribution of goods and dispatch of personnel to supermarkets. The Directors consider that, the strategy which requires direct and indirect employment of nearly ten thousand of promotional staff and distribution substantial goods to supermarkets, would result in a lot of inventories and account receivables being occupied, huge labor risks being accumulated, selling expenses becoming higher, and liquidity becoming extremely low. The weak position in the industry chain and the direct operating model are the principal reasons for consecutive losses of the Group. During the period under review, the Group continued streamlining the inefficient sales network, trying to convert its business model in minor markets and introducing such conversion in major markets such as Jiangsu Province and Zhejiang Province, actively developing professional distributors and dealers, timely disposing inventory, improving liquidity, and also reducing the numbers of direct and indirect sales persons to minimize labor cost and risks. After our great efforts, the Group has basically completed the conversion of business model in all areas except for Shanghai market, successfully converted the direct operating business model to the model of distribution and wholesale, and eliminated the operating risks and labor risks accumulated during the past years.

After solving labor problems in consumer business, the Group moved forward on new dental material project and obtained preliminary capability of research and development and sale marketing for orthodontic material. The global financial crisis has increased the difficulties for the Group to restructure its businesses and slowed down the pace of dental business development. Although the Group still suffered a substantial loss, the Directors believe the conversion of business model has laid a solid foundation to the recovery of profitability.

In the dental business, the Group recouped its total investment in Wuxi Yongle Medical Devices Co., Ltd. by selling of controlling shares and obtained valuable insights in dental distribution business and acquisition.

(B) Future Outlook

For the year of 2010, the Group will continue to deepen internal management reform, enhance efficiency and control expense. In the business of traditional consumer goods, the Group will operate effectively in "the model of distribution and proxy", adopt the operation concept of "light asset, focus on operation and full services", and also adopt various measures such as new products, continuing to introduce professional dealers and agents, in order to increase turnover and eventually regain its profitability.

In the emerging dental business, the Group will, through international cooperation, commit to establishing sales network for dental products and promoting the development of self-innovated new projects.

(C) Financial Review

Inventories

The inventories were approximately HK$35,568,000 as at 30 September 2009, a decrease of approximately HK$53,476,000, or a decline of approximately 60.1%, as compared to the inventory of approximately HK$89,044,000 for the corresponding period in 2008. The decrease of inventories was due to the Group changed its sales model in which there would be lots of inventories, and the Group disposed lots of goods near shelf life at lower price.

Liquidity and financial resources

The Group adopts a prudent policy for its financial resources management. The Group had cash and bank balances (excluding pledged bank deposits) of approximately HK$2,128,000 and approximately HK$11,751,000 respectively as at 30 September 2009 and 2008.

The Group generally finances its operations with internally generated cash flows and banking facilities. As at 30 September 2009, the Group had bank borrowings of approximately HK$23,267,000 (2008: approximately HK$37,230,000). The Group also had unsecured other borrowings of approximately HK$110,000 (2008: approximately HK$292,000), which are repayable within one year. The interests of such bank and other borrowings usually accrue at fixed rates.

Details of assets pledged by the Group to secure banking facilities are set out in note 35 to the consolidated financial statements.

The gearing ratio (defined as total borrowings to total assets) of the Group as at 30 September 2009 and 2008 were approximately 20.2% and approximately 18.0% respectively. There is no material change during the year.

Currency structure

The Group had limited exposure to foreign exchange rate fluctuation as most of its transactions, including borrowings, were mainly conducted in RMB and the exchange rates of these currencies were relatively stable throughout the year 2009 except for the appreciation of RMB during the year.

Contingent liabilities

The Group had no material contingent liabilities as at 30 September 2009 (2008: Nil).

Capital Commitment

Capital expenditure included those contracted for but not provided in the consolidated financial statements and the respective capital commitments as at 30 September 2009 amounted to approximately HK$5,508,000 (2008: HK$6,813,000).

(D) Employees' Remuneration

As at 30 September 2009, the Group, directly and indirectly, had 1,268 employees (2008: 5,721). Total staff costs for the year ended 30 September 2009 was approximately HK$66,936,000 (2008: approximately HK$102,736,000). The decrease of 34.8% in staff costs of the Group was mainly due to streamlining of marketing staff, management staff and manufacturing staff.

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

The employees of the subsidiaries of the Company in the PRC participate in a state-managed pension 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. 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. All 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 remunerations paid to the Directors during the year were based on their respective service contracts except for the non-executive Director.

(E) Material Acquisitions and Disposal of Subsidiaries and Affiliated Companies

During the year ended 30 September 2009, the Group had no material acquisition and disposal of subsidiaries and affiliated companies.

(F) Details of Future Plans for Material Investment or Capital Assets

Save as disclosed above and in this section of "Management Discussion and Analysis", the Directors do not have any future plans for material investment or capital assets.

MANAGEMENT PROFILE

Executive Directors

Mr. Zheng Lixin (鄭立新) ("Mr. Zheng"), aged 44, is the chairman and an executive director of the Company. Mr. Zheng holds a Master degree in Business Administration of University of Western Ontario, Canada and a Master degree in Applied Science of University of Toronto, Canada. Prior to joining the Group, 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. He joined the Group in October 2007.

Mr. Zhang San Lin (張三林) ("Mr. Zhang"), aged 47, is an executive director and vice president of the Company, and he is the brother-in-law of Mr. Yang Hong Gen and the uncle of Mr. Yang Shun Feng. Mr. Zhang worked in Shenzhen Wild Animals Company (深圳野生動物商行) with Mr. Yang Hong Gen during the period from 1984 to 1994 and was responsible for sales and marketing. 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. Yao Feng (姚鋒) ("Mr. Yao"), aged 60, 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 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 and was 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. Chen Zhongwei (陳中瑋) ("Mr. Chen"), aged 36, is an executive director of the Company. He is the vice president of the Company, who is responsible for consumer business, and the general manager of 蘇州朗力福保健品有限公司上海分公司, a subsidiary of the Company. 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 Company and its subsidiary (collectively the "Group"). He has over 3 years of experience in hotel management. Mr. Chen joined the Group in May 1999. Prior to joining the Group, Mr. Chen has worked in Shanghai Waigaoqiao Tourism Company (上海外高橋旅遊公司) and is principally responsible for tour business.

Non-executive Director

Mr. Lo Wing Yat, Kelvin (盧永逸) age 51, is a non-executive director. Mr. Lo is a director and chief executive officer of CITIC International Assets Management Limited ("CIAM") and is the executive vice-chairman and chief executive officer of CIAM Group Limited (Stock Code: 378). He is also a director and managing director of CITIC International Financial Holdings Limited ("CIFH"), an executive director of Jia Sheng Holdings Limited (formerly known as Carico Holdings Limited) (Stock Code: 729), a non-executive director of China Fortune Holdings Limited (Stock Code: 110) and an independent non-executive director of Winteam Pharmaceutical Group Limited (Stock Code: 570). CIFH and CIAM have discloseable interest in the Company under the provision of the SFO.

Mr. Lo graduated from the University of Hong Kong and was admitted as a solicitor of the Supreme Court of Hong Kong (as it was then known) in 1984 and a solicitor of the Supreme Court of England and Wales in 1989. He served as an in-house counsel of the Bank of China Hongkong-Macau Regional Office and was a partner of Linklaters before joining CIFH as its chief group counsel in October 1997. During his legal career, Mr. Lo was specialized in banking and project financing primarily in the PRC. Mr. Lo was appointed as the non-executive Director of the Company on 25 November 2005.

MANAGEMENT PROFILE

Independent Non-executive Directors

Mr. Yu Jie (俞杰) ("Mr. Yu"), aged 67, 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 of the Company on 26 May 2004.

Mr. Chong Cha Hwa (張家華) ("Mr. Chong"), aged 43, 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 Group, 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. He was also the independent non-executive director of China Railway Logistics Limited (Stock Code: 8089), a company listed on GEM of the Stock Exchange from October 2006 to July 2008. Currently, Mr. Chong is the qualified accountant and the company secretary of Shanghai Jiaoda Withub Information Industrial Company Limited (Stock Code: 8205) and the company secretary of Big Media Group Limited (Stock Code: 8167), both companies are listed on GEM of the Stock Exchange, and he is the independent non-executive director of Vital BioTech Holdings Limited (Stock Code: 1164), a company listed on Main Board of the Stock Exchange. Mr. Chong was appointed as an independent non-executive director of the Company on 3 December 2007.

Dr. Yu Hong (虞泓) ("Dr. Yu"), aged 46, is an independent non-executive director of the Company. He holds a Post Doctorate degree of Molecular Ecogenetics under the Laboratory of Systematic and Evolutionary Botany and awarded by the Institute of Botany of Chinese Academy of Sciences, a Doctorate degree of Evolutionary Ecology from the Ecology Institute of Yunnan University and a Master degree of Cytogenetics from the Biology Department of Yunnan University. Prior to joining the Group, he has received the Scientific Awards of Yunnan Government in the People's Republic of China. He is the author and co-author of more than 60 papers, patents and abstracts. Dr. Yu is currently a Professor of the Biology Department under the School of Life Science of Yunnan University and a director of the Laboratory of Ecological Genetics of Yunnan University. Dr. Yu was appointed as an independent non-executive director of the Company on 1 April 2008.

Senior Management

Mr. Yang Shun Feng (楊順鋒) ("Mr. Yang"), aged 35, a chief executive officer of the Company and the executive director and general manager of Suzhou Longlifu Health Co., Ltd., one of the subsidiaries of the Company. Mr. Yang graduated from University of Shanghai in 1997 in secretarial and administration studies. Mr. Yang is the son of Mr. Yang Hong Gen and nephew of Mr. Zhang San Lin. Mr. Yang was appointed as chief executive officer on 1 October 2009. As at the date of this report, Mr. Yang is interested in 10,000,000 Shares, representing 1.87% of the Company's entire issued share capital.

Mr. Lo Wah Wai (盧華威) ("Mr. Lo"), aged 45, holds a Bachelor's degree in Business Administration from the Chinese University of Hong Kong and a Master's degree in Science from New Jersey Institute of Technology, the United States. He is a practising member of the Hong Kong Institute of Certified Public Accountants and is a member of the American Institute of Certified Public Accountants.

CORPORATE GOVERNANCE REPORT

A. Corporate Governance Practices

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 2009, the Company has adopted and complied with the code provisions as set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 15 of the GEM Listing Rules, except for the deviations to code provisions A.2.1 and A.4.1 as below. The Board will continue to review regularly and take appropriate actions to comply with the Code.

B. Code of Conduct Regarding Securities Transactions by Directors

The Company has adopted a code of conduct regarding securities transactions by the 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 2009. Having made specific enquiry with all Directors, the Company confirmed that all 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 2009.

C. Board of Directors

As at 30 September 2009, the Board comprises four executive Directors, one non-executive Director and three independent non-executive Directors as follows:

Executive Directors
Mr. Zheng Lixin
Mr. Zhang San Lin
Mr. Yao Feng
Mr. Chen Zhongwei

Non-executive Director
Mr. Lo Wing Yat, Kelvin

Independent non-executive Directors
Mr. Yu Jie
Mr. Chong Cha Hwa
Dr. Yu Hong

The Board's primary responsibilities are to formulate the Company's long-term corporate strategy, oversee the management of the Group, 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 set out in the "Management Profile" on pages 10 to 11 of this annual report.

The composition of the Board is well balanced with each Director having sound industry knowledge, extensive corporate and strategic planning experience and/or expertise relevant to the business of the Group. All executive Directors, non-executive Director and independent non-executive Directors bring a variety of experience and expertise to the Company.

During the year, the Board complies at all times with the requirement of the GEM Listing Rules relating to the appointment of at least 3 independent non-executive directors and at least one of them has appropriate professional qualifications or accounting or related financial management expertise. 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.

The Board schedules four meetings a year at approximately quarterly intervals and will be met as necessary. During the year ended 30 September 2009, the Board held 5 meetings, of which 4 were regular meetings. The Directors can attend meetings in persons or through other means of electronic communication in accordance with the Company's articles of association. Notice of at least 14 days is given of a regular Board meeting to give all Directors an opportunity to attend. The following table shows the attendance of individual Directors at the meetings held during the year:

Name of Directors		Number of attendance
Executive Directors		
Mr. Zheng Lixin	(Resigned as Chief Executive Officer on 1 October 2009)	5/5
Mr. Yang Shun Feng	(Resigned on 18 February 2009 but appointed as Chief Executive Officer on 1 October 2009)	2/2
Mr. Zhang San Lin		5/5
Mr. Yao Feng		5/5
Dr. Seet Lip Chai	(Resigned on 11 August 2009)	3/5
Mr. Chen Zhongwei	(Appointed on 6 July 2009)	2/2
Non-executive Director		
Mr. Lo Wing Yat, Kelvin		5/5
Independent non-executive Directors		
Mr. Yu Jie		5/5
Mr. Chong Cha Hwa		5/5
Dr. Yu Hong		5/5

Board papers are circulated at least 3 days before the Board meetings to enable the Directors to make informed decisions on matters to be raised at the Board meetings.

In addition, the Company has maintained a procedure for the Directors to seek independent professional advice, in appropriate circumstances, at the Company's expense in discharging their duties to the Company. Moreover, the Company Secretary prepares minutes and keeps records of matters discussed and decisions resolved at all Board meetings. The Company Secretary also keeps the minutes, which are open for inspection at any reasonable time on reasonable notice by any Director.

D. Chairman and Chief Executive Officer

Pursuant to the code provision 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.

Mr. Zheng Lixin was appointed as the chairman and chief executive officer of the Company on 31 October 2007 who is responsible for managing the Board and the Group's business. The Board considers that Mr. Zheng has in-depth knowledge in the Group's business and can make appropriate decisions promptly and efficiently.

The Board considered the effectiveness of the Group's corporate governance structure, therefore, it appointed Mr. Yang Shun Feng, who replaced Mr. Zheng Lixin, to be the chief executive officer on 1 October 2009.

E. Appointment, Re-election and Removal

Code provision A.4.1 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 is not appointed for specific terms. However, the non-executive Director is subject to retirement by rotation in accordance with the Company's articles of association. Accordingly the Company believes that the non-executive Director 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.

According to the Company's articles of association, one-third of the Directors are required to retire from office at each annual general meeting, provided that every Director shall be subject to retirement by rotation at least once in every three years. The Directors to retire every year shall be those appointed by the Board during the year and those who have been longest in office since their last re-election.

F. Nomination of Directors

According to recommended best practices A.4.4 of the Code, the listed issuers are recommended to set up a nomination committee with a majority of the members thereof being independent non-executive directors. As the Board considers that may take up by the Board members, therefore, the Company has not established a nomination committee. The Board is responsible for selecting and recommending candidates for directorship, which based on assessment of their professional qualifications and experience and also responsible for determining the independence of each independent non-executive Director. During the year ended 30 September 2009, the Board has assessed the independence of the independent non-executive Directors and selected Mr. Chen Zhongwei being the executive Directors.

G. Remuneration Committee

The Company established a remuneration committee (the "Remuneration Committee") on 20 December 2005 and adopted the terms of reference in alignment with the provisions as set out in the Code. During the year, Mr. Yang Shun Feng was resigned as member of Remuneration Committee with effect from 18 February 2009. The Remuneration Committee currently comprises three independent non-executive Directors, namely Mr. Yu Jie, Mr. Chong Cha Hwa and Dr. Yu Hong and one executive Director, Mr. Yao Feng (appointed at 18 February 2009).

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 held 2 meetings during the year ended 30 September 2009, in which the remuneration level of Directors and senior management are reviewed and discussed the adjustment of remuneration of Directors, and recommended to the Board. The attendance of the members of the Remuneration Committee is as follow:

Name of members	Number of attendance
Mr. Yu Jie	2/2
Mr. Yang Shun Feng (Resigned on 18 February 2009)	2/2
Mr. Chong Cha Hwa	2/2
Dr. Yu Hong	2/2
Mr. Yao Feng (Appointed on 18 February 2009)	2/2

H. Internal Control Committee and Compliance Committee

Internal Control Committee

The Company established an internal control committee (the "Internal Control Committee") on 20 December 2005. During the year ended 30 September 2009 and as at the date of this annual report, the Internal Control Committee comprises Mr. Yao Feng, Mr. Chong Cha Hwa, Mr. Yu Jie and Mr. Zheng Lixin.

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. During the year, 6 meetings had been held to oversee certain area of weakness of operation of the Group and identify the control of inventory and accounts receivable of the Group. The attendance of the members of Internal Control Committee is as follows:

Name of members	Number of attendance
Mr. Yu Jie	6/6
Mr. Chong Cha Hwa	6/6
Mr. Zheng Lixin	6/6
Mr. Yao Feng	6/6

Compliance Committee

The Company established a compliance committee (the "Compliance Committee") on 16 November 2006. During the year ended 30 September 2009 and as at the date of this annual report, the Compliance Committee comprises Mr. Yao Feng, Mr. Yu Jie and Mr. Chong Cha Hwa.

The main responsibilities of the Compliance Committee are to ensure compliance of rules and regulations particularly the GEM Listing Rules and regulations applicable to the Company. During the year, 2 meetings had been held to oversee the operation of the Group is comply with the financial, legal, statutory and listing rules requirements. The attendance of the members of Compliance Committee is as follows:

Name of members	Number of attendance
Mr. Yu Jie	2/2
Mr. Chong Cha Hwa	2/2
Mr. Yao Feng	2/2

I. Auditors' Remuneration

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

	2009 **HK$'000**	2008 HK$'000
Services rendered		
Audit services	**460**	595
Non-audit services	**–**	–
	460	595

J. Audit Committee

The Company established an audit committee (the "Audit Committee") with written terms of reference in compliance with the requirements as set out in the GEM Listing Rules. The Audit Committee currently comprises three independent non-executive Directors, Mr. Yu Jie, Mr. Chong Cha Hwa and Dr. Yu Hong. For the year ended 30 September 2009, the Audit Committee met with the external auditors once.

The primary duties of the Audit Committee are to review the Company's annual report and consolidated 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 of the Group.

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. Yu Jie	4/4
Mr. Chong Cha Hwa	4/4
Dr. Yu Hong	4/4

The Audit Committee reviewed the quarterly, half-yearly and annual 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 the GEM Listing Rules.

K. Investor Relations and Communication with Shareholders

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

L. 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.

The Directors had conduct a review of the effectiveness of the system of internal control of the Group during the year ended 30 September 2009. The review covers all material controls, including financial, operational and compliance controls and risk management functions.

During the year ended 30 September 2009, the Internal Control Committee have completed the preliminary review of the internal control system. The Internal Control Committee has identified certain area of weakness, especially in the sales network management. The report (together with recommendations) is due to be reported to the Board for their review and endorsement.

M. Financial Reporting

The Directors acknowledged their responsibility for the preparation of consolidated financial statements which give a true and fair view. In preparing consolidated 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 consolidated 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 on pages 22 to 23 of this annual report.

DIRECTORS' REPORT

The Directors present the annual report and audited consolidated financial statements for the year ended 30 September 2009.

Principal Activities

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 38 to the consolidated financial statements.

Results and Appropriations

The results of the Group for the year ended 30 September 2009 are set out in the consolidated income statement on page 24.

The Directors did not recommend the payment of a final dividend for the year ended 30 September 2009 (2008: Nil).

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group are set out in note 19 to the consolidated financial statements.

Directors

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

Executive Directors

Mr. Zheng Lixin	(Resigned as Chief Executive Officer on 1 October 2009)
Mr. Yang Shun Feng	(Resigned on 18 February 2009 but appointed as Chief Executive Officer on 1 October 2009)
Mr. Zhang San Lin	
Mr. Yao Feng	
Dr. Seet Lip Chai	(Resigned on 11 August 2009)
Mr. Chen Zhongwei	(Appointed on 6 July 2009)

Non-executive Director

Mr. Lo Wing Yat, Kelvin

Independent non-executive Directors

Mr. Yu Jie
Mr. Chong Cha Hwa
Dr. Yu Hong

In accordance with article 108(A) and 108(B) of the articles of association of the Company, Mr. Zheng Lixin, Mr. Zhang San Lin and Mr. Yu Jie shall retire from office as Directors by rotation at the conclusion of the forthcoming annual general meeting. Save and except for Mr. Yu Jie has declined to offer himself for re-election, all the above-mentioned Directors will offer themselves for re-election at the forthcoming annual general meeting.

In addition, Mr. Chen Zhongwei was appointed as Executive Director with effect from 6 July 2009. In accordance with article 112 of the Company's articles of association, Mr. Chen Zhongwei shall hold office until the forthcoming annual general meeting, and being eligible, offer himself for re-election.

Directors' Service Agreements

Each of the Directors has entered into a service contract with the Company except Mr. Lo Wing Yat, Kelvin. However, all of them are subject to retirement by rotation in accordance with the Company's articles of association.

None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures

As at 30 September 2009, the interests or short positions of the Directors and chief executives 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 Futures Ordinance (the "SFO")) which require notification to the Company and the Stock 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 Stock Exchange were as follows:

Long positions in the ordinary shares of the Company

Name of director	Capacity	Number of ordinary shares	% to total issued share capital of the Company
Zheng Lixin (鄭立新)	Through a controlled corporation	135,000,000 (Note)	25.31%
Zhang San Lin (張三林)	Beneficial owner	25,000,000	4.69%
Yao Feng (姚鋒)	Beneficial owner	10,000,000	1.87%

Note: These shares are held by China Medical Device Group Limited, a company wholly-owned by Mr. Zheng Lixin.

Save as disclosed above, none of the Directors nor the chief executives of the Company had, as at 30 September 2009, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meanings of Part XV of the SFO) which require notification to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (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 Stock Exchange.

Interests and Short Positions of Substantial Shareholders in the Shares, Underlying Shares and Debentures

As at 30 September 2009, 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' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures" in this report, the following persons had an interest or short positions in the shares, underlying shares and debentures 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 of the Company

Name of shareholder	Capacity	Number of ordinary shares	% to total issued share capital of the Company
Yang Hong Gen (楊洪根)	Beneficial owner	145,500,000	27.28%
Bao Xiao Mei (包小妹)	Interest of spouse	145,500,000 (Note 1)	27.28%
China Medical Device Group Limited	Beneficial owner	135,000,000 (Note 2)	25.31%
CITIC International Assets Management Limited	Beneficial owner	31,500,000	5.90%
CITIC International Financial Holdings Limited	Through a controlled corporation	31,500,000 (Note 3)	5.90%
CITIC Group	Through a controlled corporation	31,500,000 (Note 3)	5.90%

Notes:

1. Ms. Bao Xiao Mei is the wife of Mr. Yang Hong Gen. By virtue of the SFO, Ms. Bao Xiao Mei is deemed to be interested in the shares of Mr. Yang Hong Gen.

2. These shares are held by China Medical Device Group Limited, a company wholly-owned by Mr. Zheng Lixin, an executive Director.

3. These shares are held by CITIC International Assets Management Limited, a company 40% owned by CITIC International Financial Holdings Limited and 55% owned by CITIC Group respectively.

Save as disclosed above, the Company has not been notified of any other interests or short positions representing 5% or more of the issued share capital of the Company and recorded in the register required to be kept by the Company under section 336 of the SFO as at 30 September 2009.

Subsequent Event

Details of the subsequent Event are set out in note 40 to the consolidated financial statements.

Share Option Scheme
The details of the share option scheme of the Company are set out in note 32 to the consolidated financial statements.

Directors' Interests in Contracts
Save as those set out in note 39 to the consolidated financial statements, none of the Directors had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

Major Customers and Suppliers
During the year,

(i) the Group's largest customer and five largest customers accounted for 16% and 36% respectively, of the Group's total sales; and

(ii) the Group's largest supplier and five largest suppliers accounted for 4% and 14% 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.

Emoluments of Directors and Five Highest Paid Individuals
Details of the emoluments of the Directors and the five highest paid individuals of the Group are set out in note 17 to the consolidated financial statements.

Financial Summary
A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 65 of this annual report.

Share Capital
Details of the Company's share capital during the year are set out in note 29 to the consolidated financial statements.

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

Distributable Reserves
As at 30 September 2009, the Company had no distributable reserves.

Pre-emptive Rights
There is no provision for pre-emptive rights under the Company's articles of association, 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
Based on the information publicity available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the GEM Listing Rules, throughout the year ended 30 September 2009.

Purchase, Sale or Redemption of Listed Securities of the Company
Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

Rights to acquire Company's Securities

Other than as disclosed under the sections "Share Option Scheme" and "Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures" above, at no time during the year was the Company or any of its subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executives of the Company or their respective associates (as defined in the GEM Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

Competing Interests

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

Audit Committee

The Company established an Audit Committee with written terms of reference in compliance with the requirements as set out in the GEM Listing Rules for the purposes of reviewing and supervising the financial reporting process and internal controls of the Group. The Audit Committee currently comprises of Mr. Yu Jie, Mr. Chong Cha Hwa and Dr. Yu Hong. The Audit Committee has reviewed and discussed with the management and the external auditors financial reporting matters including the annual results for the year ended 30 September 2009.

Independent Non-executive Directors

The Company has received from each of its independent non-executive Directors, namely Mr. Yu Jie, Mr. Chong Cha Hwa and Dr. Yu Hong 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 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 32 to the consolidated financial statements.

Auditors

SHINEWING (HK) CPA Limited were appointed as the auditors of the Company. The consolidated financial statements for the year ended 30 September 2009 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.

On behalf of the Board

Zheng Lixin
Chairman

Hong Kong, 21 December 2009

INDEPENDENT AUDITOR'S REPORT

信永中和 ShineWing

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

To the shareholders of Longlife Group Holdings Limited
(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 24 to 64, which comprise the consolidated balance sheet as at 30 September 2009, and 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 directors of the Company 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 material misstatement.

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.

INDEPENDENT AUDITOR'S REPORT

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 2009 and of its 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.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 2 to the consolidated financial statements, which indicates that as of 30 September 2009 the Group had net current liabilities of approximately HK$10,239,000 and incurred loss of approximately HK$84,417,000 for the year then ended. These conditions, along with other matters as set forth in note 2 to the consolidated financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Pang Wai Hang
Practising Certificate Number : P05044

Hong Kong
21 December 2009

CONSOLIDATED INCOME STATEMENT

For the year ended 30 September 2009

	Notes	2009 HK$'000	2008 HK$'000
Turnover	9	**160,522**	272,277
Cost of sales		**(71,641)**	(111,725)
Gross profit		**88,881**	160,552
Other income	10	**2,046**	1,001
Impairment loss recognised in respect of goodwill	18	**(5,525)**	–
Restructuring and redundancy costs	11	**(35,030)**	–
Administrative expenses		**(29,886)**	(32,192)
Selling and distribution expenses		**(98,170)**	(161,715)
Other expenses		**(2,367)**	(768)
Finance costs	12	**(3,388)**	(2,769)
Loss before tax	13	**(83,439)**	(35,891)
Income tax expenses	14	**(978)**	(1,534)
Loss for the year		**(84,417)**	(37,425)
Attributable to:			
Equity holders of the Company		**(83,561)**	(38,187)
Minority interests		**(856)**	762
		(84,417)	(37,425)
Loss per share	16		
– Basic		**(15.67 HK cents)**	(7.19 HK cents)

CONSOLIDATED BALANCE SHEET

At 30 September 2009

	Notes	2009 HK$'000	2008 HK$'000
NON-CURRENT ASSETS			
Goodwill	18	–	5,640
Property, plant and equipment	19	**46,291**	52,513
Prepaid lease payments	20	**16,191**	18,098
		62,482	76,251
CURRENT ASSETS			
Prepaid lease payments	20	**394**	620
Inventories	21	**35,568**	89,044
Trade and bills receivables	22	**40,864**	52,441
Prepayments and other receivables	23	**7,765**	13,714
Tax recoverable		**138**	563
Amount due from a director	27	**56**	–
Pledged bank deposits	24	**5,675**	3,946
Bank balances and cash	24	**2,128**	11,751
		92,588	172,079
CURRENT LIABILITIES			
Trade and bills payables	25	**36,885**	36,805
Other payables and accruals		**37,698**	31,994
Bank and other borrowings – due within one year	26	**20,312**	34,457
Amount due to a minority shareholder	27	**2,851**	3,241
Amount due to a shareholder	27	**4,581**	3,414
Amount due to a director	27	**500**	500
Tax payable		–	313
		102,827	110,724
NET CURRENT (LIABILITIES) ASSETS		**(10,239)**	61,355
TOTAL ASSETS LESS CURRENT LIABILITIES		**52,243**	137,606
NON-CURRENT LIABILITY			
Bank and other borrowings – due after one year	26	**3,065**	3,065
NET ASSETS		**49,178**	134,541
CAPITAL AND RESERVES			
Share capital	29	**53,340**	53,340
Reserves		**(10,376)**	73,808
Equity attributable to equity holders of the Company		**42,964**	127,148
Minority interests		**6,214**	7,393
TOTAL EQUITY		**49,178**	134,541

The consolidated financial statements on pages 24 to 64 were approved and authorised for issue by the board of directors on 21 December 2009 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 2009

	Attributable to equity holders of the Company									
	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000 (Note 1)	Statutory surplus reserve fund HK$'000 (Note 2)	Statutory enterprise expansion fund HK$'000 (Note 3)	Exchange reserve HK$'000	Retained profits (Accumulated losses) HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 October 2007	50,000	8,145	22,443	15,479	3,098	14,748	27,060	140,973	5,712	146,685
Exchange difference arising on translation of foreign operations, representing net income recognised directly in equity	–	–	–	–	–	13,688	–	13,688	589	14,277
(Loss) profit for the year, representing total recognised income and expense for the year	–	–	–	–	–	–	(38,187)	(38,187)	762	(37,425)
Issue of shares during the year	3,340	7,682	–	–	–	–	–	11,022	–	11,022
Transaction costs attributable to issue of new shares	–	(348)	–	–	–	–	–	(348)	–	(348)
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	330	330
At 30 September 2008	53,340	15,479	22,443	15,479	3,098	28,436	(11,127)	127,148	7,393	134,541
Exchange difference arising on translation of foreign operations, representing net expense recognised directly in equity	–	–	–	–	–	(504)	–	(504)	(4)	(508)
Loss for the year	–	–	–	–	–	–	(83,561)	(83,561)	(856)	(84,417)
Disposal of a subsidiary	–	–	–	–	–	(119)	–	(119)	(319)	(438)
Total recognised income and expense for the year	–	–	–	–	–	(119)	(83,561)	(83,680)	(1,175)	(84,855)
At 30 September 2009	**53,340**	**15,479**	**22,443**	**15,479**	**3,098**	**27,813**	**(94,688)**	**42,964**	**6,214**	**49,178**

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 subsidiaries of the Company in the People's Republic of China (the "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 2009

	Notes	2009 HK$'000	2008 HK$'000
OPERATING ACTIVITIES			
Loss before tax		**(83,439)**	(35,891)
Adjustments for:			
(Written back of) allowance for obsolete stocks		**(109)**	7,419
Depreciation of property, plant and equipment		**4,620**	5,351
Finance costs		**3,388**	2,769
Amortisation of prepaid lease payments		**620**	603
Cost of inventories recognised for compensation	11	**29,702**	–
Impairment loss recognised in respect of goodwill		**5,525**	–
Impairment loss recognised in respect of property, plant and equipment		**850**	–
Trade and other receivables written off/allowance for bad and doubtful debts		**5,162**	2,402
Gain on disposal of a subsidiary		**(137)**	–
Interest income		**(152)**	(289)
Gain on disposal of prepaid lease payments		**(807)**	–
Loss on disposal of property, plant and equipment		**996**	226
Provision for employees termination compensation	11	**953**	–
Operating cash flows before movements in working capital		**(32,828)**	(17,410)
Decrease in inventories		**23,482**	4,838
Decrease (increase) in trade and bills receivables		**6,062**	(6,679)
Decrease in prepayments and other receivables		**5,872**	4,899
Increase in amount due from a director		**(56)**	–
Increase in trade and bills payables		**192**	449
Increase (decrease) in other payables and accruals		**6,501**	(5,418)
Cash generated from (used in) operations		**9,225**	(19,321)
Income taxes paid		**(863)**	(1,315)
NET CASH FROM (USED IN) OPERATING ACTIVITIES		**8,362**	(20,636)
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		**(3,123)**	(6,970)
(Increase) decrease in pledged bank deposits		**(1,729)**	6,482
Proceed from disposal of prepaid lease payments		**2,315**	–
Proceed from disposal of property, plant and equipment		**1,475**	3,450
Net cash inflow on disposal of a subsidiary	31	**166**	–
Interest received		**152**	289
Purchases of prepaid lease payments		**–**	(1,189)
Net cash outflow on acquisition of a subsidiary	30	**–**	(315)
NET CASH (USED IN) FROM INVESTING ACTIVITIES		**(744)**	1,747

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 September 2009

	2009 HK$'000	2008 HK$'000
FINANCING ACTIVITIES		
Repayment of bank and other borrowings	**(14,141)**	(35,187)
Interest paid	**(3,388)**	(2,769)
(Repayment to) advance from a minority shareholder	**(390)**	1,066
Advance from a shareholder	**1,169**	265
New bank borrowings raised	**–**	43,197
Net proceeds from issue of shares	**–**	10,674
Advance from a director	**–**	500
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(16,750)**	17,746
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(9,132)**	(1,143)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**11,751**	11,125
Effect of foreign exchange rate changes	**(491)**	1,769
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**2,128**	11,751

1. General Information

Longlife Group Holdings Limited (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 presented in Hong Kong dollars ("HK$"). Other than those subsidiaries established in the People's Republic of China (the "PRC") whose functional currency is Renminbi ("RMB"), the functional currency of the Company and its subsidiaries are HK$. The reason for selecting HK$ as its presentation currency is because the Company is a public company listed on the Growth Enterprise Market of The Stock Exchange, where most of the investors are located in Hong Kong.

The Company is an investment holding company and the principal activities of its subsidiaries are set out in note 38 to the consolidated financial statements.

2. Basis of Preparation

In preparing the consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Company and its subsidiaries (collectively referred to as the "Group") as the Group sustained continuous operating losses and incurred loss of approximately HK$84,417,000 for the year ended 30 September 2009 and net current liabilities of approximately HK$10,239,000 as at 30 September 2009. In view of the substantial losses in consecutive years and the liquidity position of the Group, the directors have adopted the following measures with a view to maintain the Group's existence as a going concern and to improve the Group's overall financial and cash flow position:

(a) subsequent to the balance sheet date, in December 2009, Mr. Yang Hong Gen, a major shareholder of the Company, agreed to provide additional financing to the Group amounted to approximately RMB18,000,000 (equivalents to approximately HK$20,429,000) that will be deposited into the Group progressively. Up to the date of this report, amount of approximately RMB17,950,000 (equivalents to approximately HK$20,372,000) has been deposited into the Group. The shareholder loans are unsecured, born interest at 5% per annum and repayable when the Group is financially capable to do so;

(b) subsequent to the balance sheet date, on 18 December 2009, the Group has entered an agreement with an independent third party to dispose certain of its land use right located in the PRC at a consideration of RMB12,000,000 (equivalents to approximately HK$13,619,000);

(c) the directors of the Company anticipate that the Group will generate positive cash flows from its businesses; and

(d) the Group continues to implement measures to tighten cost controls over various operating expenses and to improve the Group's operating results and positive cash flow operation.

In the opinion of the directors of the Company, if the measures described above accomplish the expected results, the directors are satisfied that the Group will be able to have sufficient working capital to meet in full its financial obligations as they fall due in the foreseeable future and be able to return to a commercially viable concern. Accordingly, the directors of the Company considered that it is appropriate to prepare the consolidated financial statements on a going concern basis, notwithstanding the Group's financial position and tight cash flows as at 30 September 2009.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the value of the assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities respectively. The effects of these adjustments have not been reflected in the consolidated financial statements.

3. Adoption of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")

In the current year, the Group has applied, for the first time, the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1 October 2008.

HK(IFRIC)-Interpretation ("INT") 12	Service Concession Arrangements
HK(IFRIC)-INT 9 and Hong Kong Accounting Standard ("HKAS") 39 (Amendments)	Embedded Derivatives
HK(IFRIC)-INT 13	Customer Loyalty Programmes
HK(IFRIC)-INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
HK(IFRIC)-INT 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC)-INT 18	Transfers of Assets from Customers

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs May 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs April 2009[2]
HKAS 1 (Revised)	Presentation of Financial Statements[3]
HKAS 23 (Revised)	Borrowing Costs[3]
HKAS 24 (Revised)	Related Party Disclosures[7]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[4]
HKAS 32 (Amendment)	Financial instruments: Presentation – Classification of Rights Issues[6]
HKAS 32 & HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[3]
HKAS 39 (Amendment)	Eligible Hedged Items[4]
HKFRS 1 (Revised)	First-time Adoption of HKFRSs[4]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[5]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[3]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[3]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[5]
HKFRS 3 (Revised)	Business Combinations[4]
HKFRS 7 (Amendments)	Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments[3]
HKFRS 8	Operating Segments[3]
HKFRS 9	Financial Instruments[8]
HK(IFRIC)-INT 14 (Amendment)	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[7]
HK(IFRIC)-INT 15	Agreements for the Construction of Real Estate[3]
HK(IFRIC)-INT 17	Distributions of Non-cash Assets to Owners[4]
HK(IFRIC)-INT 19	Extinguishing Financial Liabilities with Equity Instruments[9]

3. Adoption of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") – *Continued*

[1] Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
[2] Effective for annual periods beginning on or after 1 January 2009, 1 July 2009 and 1 January 2010, as appropriate
[3] Effective for annual periods beginning on or after 1 January 2009
[4] Effective for annual periods beginning on or after 1 July 2009
[5] Effective for annual periods beginning on or after 1 January 2010
[6] Effective for annual periods beginning on or after 1 February 2010
[7] Effective for annual periods beginning on or after 1 January 2011
[8] Effective for annual periods beginning on or after 1 January 2013
[9] Effective for annual periods beginning on or after 1 July 2010

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

4. Significant Accounting Policies

The consolidated financial statements have been prepared on 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.

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.

4. Significant Accounting Policies – *Continued*

Business combinations

The acquisition of a business is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "*Business Combinations*" are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Investments in subsidiaries

Subsidiaries are entities that are controlled by the Company, where the Company has the power to govern the financial and operating policies of such entities so as to obtain benefits from their activities.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Goodwill

Goodwill arising on an acquisition of a business 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 business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business 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.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress) are stated at cost less accumulated depreciation and accumulated impairment losses.

4. Significant Accounting Policies – *Continued*

Property, plant and equipment – *Continued*

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, 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.

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 period of the rights.

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 balance sheet when a group entity 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 as 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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Interest income is recognised on an effective interest basis for the debt instruments.

4. Significant Accounting Policies – *Continued*

Financial instruments – *Continued*

Financial assets – *Continued*

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 and cash and amount due from a director) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the assets have been affected.

For all of the Group's financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade and other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, 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 estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables and the amount due from a director, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other receivable or an amount due from a director is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by 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.

4. Significant Accounting Policies – *Continued*

Financial instruments – *Continued*

Financial liabilities and equity – *Continued*

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 generally classified into other financial liabilities. The accounting policies adopted in respect of other financial liabilities and equity instruments are set out below.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Other financial liabilities

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

Equity instruments

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

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received 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.

Inventories

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

Impairment losses on tangible assets (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 tangible 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. An 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, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

4. Significant Accounting Policies – *Continued*

Taxation

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

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

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from 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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, 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 period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

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. 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 period in which the foreign operation is disposed of.

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.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

4. Significant Accounting Policies – *Continued*

Leasing

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

The Group as lessee

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.

Leasehold land and buildings

The land and buildings elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases.

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 period in which they are incurred.

Retirement benefits costs

Payments to state-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

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, with a corresponding increase in equity (share options 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 during the vesting period, if any, is recognised in profit or loss with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options 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 options reserve will be transferred to accumulated losses.

5. Critical Accounting Judgment and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make judgment, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgment

The following is the critical judgment, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in consolidated financial statements.

Going concern consideration

In preparing the consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group as the Group sustained continuous operating losses and incurred loss of approximately HK$84,417,000 for the year ended 30 September 2009 and net current liabilities of approximately HK$10,239,000 as at 30 September 2009. In view of the substantial losses in consecutive years and the liquidity position of the Group, the directors have adopted the several measures as set out in note 2 with a view to maintain the Group's existence as a going concern and to improve the Group's overall financial and cash flow position.

In the opinion of the directors of the Company, if the measures described in note 2 accomplish the expected results, the directors are satisfied that the Group will be able to have sufficient working capital to meet in full its financial obligations as they fall due in the foreseeable future and be able to return to a commercially viable concern. Accordingly, the directors of the Company considered that it is appropriate to prepare the consolidated financial statements on a going concern basis, notwithstanding the Group's financial position and tight cash flows as at 30 September 2009.

Key sources of estimation uncertainty

The followings are 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.

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 their 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.

5. Critical Accounting Judgment and Key Sources of Estimation Uncertainty – *Continued*

***Impairment of property, plant and equipment** – Continued*

The Group tests annually whether property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the net asset exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit is determined based on value-in-use calculations prepared on the basis of management's assumptions and estimates such as the future revenue and discount rates, taking into account the existing business expansion plan going forward, the current sales orders on hand and other strategic new business development. The management had reviewed the Group's property, plant and equipment for impairment using cash flow projections and valuation report prepared by an independent professional valuer. During the year ended 30 September 2009, the management considered that there would be no or minimal future economic benefits generated from certain property, plant and equipment, accordingly, an impairment loss of approximately HK$850,000 (2008: nil) had been recognised in the consolidated income statement.

Impairment of prepaid lease payments

The recoverable amounts of prepaid lease payments is assessed annually by independent qualified valuer. In determining fair values, the valuer has based on valuation method which involves certain estimates. In relying on the valuation report, the management has exercised their judgment and is satisfied that the method of valuation is reflective of the current market conditions.

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. As at 30 September 2009, the carrying amount of goodwill is nil (net of accumulated impairment loss of HK$5,525,000). Details of the impairment testing are disclosed in note 18.

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 such finished goods 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.

Allowance for bad and doubtful debts

Management regularly reviews the recoverability and age of the trade and other receivables. Appropriate impairment for estimated irrecoverable amounts are recognised in the consolidated 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 impairment may be required. As at 30 September 2009, the carrying amount of trade and bills receivables are approximately HK$40,864,000 (2008: HK$52,441,000), net of allowance for doubtful debts of approximately HK$10,043,000 (2008: HK$4,948,000). While the carrying amount of prepayments and other receivables are approximately HK$7,765,000 (2008: HK$13,714,000), net of allowance for doubtful debts of approximately HK$559,000 (2008: HK$492,000).

Estimation on redundancy provision

As disclosed in note 11, the Group actively implemented a restructuring of its products distribution mode by converting direct sales system to dealership structure. The redundancy costs provision recognised for the employees compensation by the Group is based on management evaluation on the Group's estimated additional future claims, in light of the legal opinion obtained from an independent lawyer, which requires the use of judgement and estimates.

6. Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of debt, which includes borrowings as detailed in note 26, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital and reserves. The directors of the Company review the capital structure on a regular basis. As a part of this review, the directors of the Company consider the cost of capital and the associated risks and take appropriate actions to adjust the Group's capital structure.

7. Financial Instruments

7a. Financial risk management objectives and policies

The Group's major financial instruments include trade and bills receivables, other receivables, pledged bank deposits, bank balances and cash, amount due from a director, trade and bills payables, other payables and accruals, bank and other borrowings, amount due to a minority shareholder, amount due to a shareholder and amount due to 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 2009 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet.

As at 30 September 2009, the Group has certain concentration of credit risk as 28% (2008: 26%) of the total trade receivables were due from the Group's top five largest customers. 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 liquid funds is limited because the counterparties are banks with high credit ratings.

Interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's fair value interest-rate risk mainly arises from bank and other borrowings as detailed in note 26. Bank and other borrowings were issued at fixed rates, exposing the Group to fair value interest-rate risk. The Group historically has not used any financial instruments to hedge potential fluctuations in interest rates.

Currency risk

Most of the Group's monetary assets and liabilities are denominated in RMB, and the Group conducts its business transactions principally in RMB. The exchange rate risk of the Group is not significant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 September 2009

7. Financial Instruments – *Continued*

7a. Financial risk management objectives and policies – *Continued*

Liquidity risk

The Group is exposed to liquidity risk as at 30 September 2009 as its financial assets due within one year was less than its financial liabilities due within one year. The Group has planned to implement several measures to improve its working capital position and net financial position, details of which are set out in note 2.

The Group has no covenants with banks for the banking facilities granted.

The following table details the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	On demand or within one year HK$'000	More than one year less than two years HK$'000	More than two years less than five years HK$'000	Total undiscounted cash flow HK$'000	Carrying amount HK$'000
At 30 September 2009					
Financial liabilities					
Trade and bills payables	**36,885**	**–**	**–**	**36,885**	**36,885**
Other payables and accruals	**37,698**	**–**	**–**	**37,698**	**37,698**
Bank and other borrowings	**22,623**	**3,259**	**–**	**25,882**	**23,377**
Amount due to a minority shareholder	**2,851**	**–**	**–**	**2,851**	**2,851**
Amount due to a shareholder	**4,581**	**–**	**–**	**4,581**	**4,581**
Amount due to a director	**500**	**–**	**–**	**500**	**500**
	105,138	**3,259**	**–**	**108,397**	**105,892**

	On demand or within one year HK$'000	More than one year less than two years HK$'000	More than two years less than five years HK$'000	Total undiscounted cash flow HK$'000	Carrying amount HK$'000
At 30 September 2008					
Financial liabilities					
Trade and bills payables	36,805	–	–	36,805	36,805
Other payables and accruals	31,994	–	–	31,994	31,994
Bank and other borrowings	36,733	–	3,637	40,370	37,522
Amount due to a minority shareholder	3,241	–	–	3,241	3,241
Amount due to a shareholder	3,414	–	–	3,414	3,414
Amount due to a director	500	–	–	500	500
	112,687	–	3,637	116,324	113,476

7b. Fair value

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

The directors consider that the fair values of financial assets and financial liabilities recorded at amortised cost in the consolidated balance sheet approximate to the corresponding carrying amounts due to their short-term maturities.

7. Financial Instruments – *Continued*

7c. Categories of financial instruments

	2009 HK$'000	2008 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)		
Trade and bills receivables	**40,864**	52,441
Other receivables	**6,055**	7,368
Amount due from a director	**56**	–
Pledged bank deposits	**5,675**	3,946
Bank balances and cash	**2,128**	11,751
	54,778	75,506
Financial liabilities		
Financial liabilities measured at amortised cost		
Trade and bills payables	**36,885**	36,805
Other payables and accruals	**37,698**	31,994
Bank and other borrowings	**23,377**	37,522
Amount due to a minority shareholder	**2,851**	3,241
Amount due to a shareholder	**4,581**	3,414
Amount due to a director	**500**	500
	105,892	113,476

8. Segment Information

The Group engaged in the manufacture, research and development and distribution of consumer cosmetic, health related products, capsules products, health supplement wine and dental materials and equipment 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.

8. Segment Information – *Continued*

Segment information in respect of business segments is presented as below:

Consolidated 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		Manufacturing and sales of dental materials and equipment		Consolidated	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
Turnover	**86,140**	161,863	**42,702**	71,833	**23,798**	26,326	**7,223**	11,916	**659**	339	**160,522**	272,277
Segment results	**(21,491)**	(24,234)	**(8,587)**	(1,585)	**(1,201)**	3,172	**(3,380)**	(5,624)	**(2,290)**	(2,356)	**(36,949)**	(30,627)
Interest income											**152**	289
Other income											**1,894**	712
Impairment loss recognised in respect of goodwill											**(5,525)**	–
Restructuring and redundancy costs											**(35,030)**	–
Unallocated corporate expenses											**(4,593)**	(3,496)
Finance costs											**(3,388)**	(2,769)
Loss before tax											**(83,439)**	(35,891)
Income tax expenses											**(978)**	(1,534)
Loss for the year											**(84,417)**	(37,425)

Other information

	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		Manufacturing and sales of dental materials and equipment		Unallocated		Consolidated	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
Capital expenditures	**1,456**	123	**83**	192	**496**	1,905	**–**	340	**1,088**	5,606	**–**	–	**3,123**	8,166
Amortisation of prepaid lease payments	**309**	–	**209**	202	**78**	84	**–**	300	**24**	17	**–**	–	**620**	603
Depreciation of property, plant and equipment	**586**	97	**2,159**	3,094	**1,783**	1,692	**–**	449	**92**	3	**–**	16	**4,620**	5,351
Impairment loss recognised in respect of property, plant and equipment	**–**	–	**–**	–	**850**	–	**–**	–	**–**	–	**–**	–	**850**	–
Gain on disposal of prepaid lease payment	**(807)**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**(807)**	–
(Written back of) allowance for obsolete stocks	**–**	4,152	**–**	2,763	**(109)**	213	**–**	291	**–**	–	**–**	–	**(109)**	7,419
Gain on disposal of a subsidiary	**–**	–	**–**	–	**–**	–	**–**	–	**(137)**	–	**–**	–	**(137)**	–
Loss on disposal of property, plant and equipment	**858**	–	**26**	226	**112**	–	**–**	–	**–**	–	**–**	–	**996**	226
Trade and other receivables written off/allowance for bad and doubtful debts	**1,108**	–	**562**	877	**3,330**	1,518	**95**	–	**–**	7	**67**	–	**5,162**	2,402

Capital expenditure for the year ended 30 September 2008 includes additions resulting from acquisitions through business combinations, amounting to approximately HK$7,000.

8. Segment Information – *Continued*

Consolidated 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		Manufacturing and sales of dental materials and equipment		Consolidated	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
Assets												
Segment assets	**53,557**	81,100	**39,753**	66,670	**38,788**	45,028	**8,430**	26,650	**6,426**	9,760	**146,954**	229,208
Unallocated corporate assets											**8,116**	19,122
Total assets											**155,070**	248,330
Liabilities												
Segment liabilities	**35,392**	22,254	**20,923**	28,918	**14,049**	13,875	**2,387**	2,369	**401**	581	**73,152**	67,997
Unallocated corporate liabilities											**32,740**	45,792
Total liabilities											**105,892**	113,789

9. Turnover

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

10. Other Income

	2009 HK$'000	2008 HK$'000
Net exchange gain	**896**	–
Gain on disposal of prepaid lease payments	**807**	–
Interest income	**152**	289
Gain on disposal of a subsidiary (note 31)	**137**	–
Sundry income	**54**	712
	2,046	1,001

11. Restructuring and Redundancy Costs

During the year, the Group actively implemented a restructuring of its products distribution mode by converting direct sales system to dealership structure. To achieve so, the Group has shut down its inefficient sales networks and terminated certain of its employees. Relevant costs incurred in the progress include the following:

	2009 HK$'000	2008 HK$'000
Cost of inventories recognised for compensation	**29,702**	–
Employees termination compensation paid	**4,375**	–
Provision for employees termination compensation	**953**	–
	35,030	–

11. Restructuring and Redundancy Costs – *Continued*

As a result, the total restructuring and employees compensation cost in relation to the shut down of sales networks amounting to approximately HK$35,030,000 were recognised in the consolidated income statement for the year ended 30 September 2009.

The directors of the Company, in light of the legal opinion obtained from an independent lawyer, are in the opinion that the Group has taken appropriate actions for compensating the employees termination. It is considered that the potential risk derived from the employees termination is insignificant to the Group.

12. Finance Costs

	2009 HK$'000	2008 HK$'000
Interest expenses on:		
– bank borrowings wholly repayable within five years	**2,995**	2,416
– other borrowings wholly repayable within five years	**39**	89
– discounted bills interest	**354**	264
	3,388	2,769

13. Loss Before Tax

	2009 HK$'000	2008 HK$'000
Loss before tax has been arrived at after charging (crediting):		
Directors' emoluments (note 17)	**1,707**	1,211
Other staff costs	**62,716**	99,939
Retirement benefits scheme contributions (excluding directors' remuneration)	**2,513**	1,586
Total staff costs	**66,936**	102,736
Trade and other receivables written off/allowance for bad and doubtful debts (included in administrative expenses)	**5,162**	2,402
(Written back of) allowance for obsolete stocks (included in cost of sales)	**(109)**	7,419
Cost of inventories recognised as an expense	**71,641**	111,725
Auditors' remuneration	**460**	595
Amortisation of prepaid lease payments	**620**	603
Depreciation of property, plant and equipment	**4,620**	5,351
Impairment loss recognised in respect of property, plant and equipment (included in administrative expenses)	**850**	–
Loss on disposal of property, plant and equipment	**996**	226
Net exchange loss	**–**	382
Research and development costs	**–**	125

14. Income Tax Expenses

	2009 HK$'000	2008 HK$'000
The amount comprises:		
Taxation arising in the PRC		
Current year	**548**	1,446
Under provision in prior years	**430**	88
	978	1,534

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group's income neither arose in, nor was derived from Hong Kong for both years.

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

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.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 issued by the Tenth National People's Congress. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. Pursuant to the New Law and Implementation Regulations, the Enterprise Income Tax for both domestic and foreign-invested enterprises will be unified at 25% effective from 1 January 2008. There will be a transitional period for PRC subsidiaries that currently entitled to preferential tax treatments granted by the relevant tax authorities. PRC subsidiaries currently subject to an enterprise income tax rate lower than 25% will continue to enjoy the lower tax rate and be gradually transitioned to the new unified rate of 25% within five years after 1 January 2008.

The income tax expense for the year can be reconciled to the loss per the consolidated income statement as follows:

	2009 HK$'000	2008 HK$'000
Loss before tax	**(83,439)**	(35,891)
Tax at respective applicable tax rates	**(20,164)**	(8,958)
Tax effect of expenses not deducible for tax purposes	**4,887**	4,130
Tax effect of income not taxable for tax purposes	**(272)**	(166)
Tax effect of tax losses not recognised	**16,625**	9,469
Reduction of tax to concessionary rate	**–**	(1,794)
Tax effect of exemption granted to PRC subsidiaries	**(528)**	(1,235)
Under provision in prior years	**430**	88
Income tax expense for the year	**978**	1,534

15. Dividends

No dividend was paid or proposed during the year ended 30 September 2009, nor has any dividend been proposed since the balance sheet date (2008: nil).

16 Loss Per Share

The calculation of the basic loss per share attributable to the equity holders of the Company is based on the following data:

	2009 **HK$'000**	2008 HK$'000
Loss:		
Loss for the year for the purposes of basic loss per share	**(83,561)**	(38,187)

	2009	2008
Numbers of shares:		
Weighted average number of ordinary shares for the purpose of basic loss per share	**533,400,000**	531,392,000

No diluted loss per share have been presented for the two years ended 30 September 2009 and 2008 as there was no dilutive potential ordinary share for both years.

17. 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 2009

	Fees HK$'000	Salaries and other benefits HK$'000	Retirement benefit scheme contributions HK$'000	Total emoluments HK$'000
Executive Directors				
Zheng Lixin	–	272	–	272
Yao Feng	–	227	–	227
Zhang San Lin	–	227	5	232
Chen Zhong Wei (appointed on 6 July 2009)	–	227	14	241
Yang Shun Feng (resigned on 18 February 2009)	–	272	5	277
Seet Lip Chai (resigned on 11 August 2009)	–	104	–	104
	–	1,329	24	1,353
Non-executive Director				
Lo Wing Yat, Kelvin	–	–	–	–
Independent non-executive Directors				
Yu Jie	114	–	–	114
Yu Hong	120	–	–	120
Chong Cha Hwa	120	–	–	120
	354	–	–	354
Total	354	1,329	24	1,707

17. Directors' and Employees' Emoluments – *Continued*

(a) Directors' emoluments – *Continued*

For the year ended 30 September 2008

	Fees HK$'000	Salaries and other benefits HK$'000	Retirement benefit scheme contributions HK$'000	Total emoluments HK$'000
Executive Directors				
Zheng Lixin (appointed on 31 October 2007)	–	110	–	110
Yao Feng	–	198	–	198
Zhang San Lin	–	198	8	206
Yang Shun Feng	–	198	8	206
Seet Lip Chai (appointed on 31 October 2007)	–	110	–	110
Sha Hai Bo (resigned on 1 June 2008)	–	72	5	77
	–	886	21	907
Non-executive Director				
Lo Wing Yat, Kelvin	–	–	–	–
Independent non-executive Directors				
Yu Jie	96	–	–	96
Yu Hong (appointed on 1 April 2008)	60	–	–	60
Chong Cha Hwa (appointed on 3 December 2007)	100	–	–	100
Luk Yu King, James (resigned on 30 November 2007)	30	–	–	30
Yin Jing Le (resigned on 1 April 2008)	18	–	–	18
	304	–	–	304
Total	304	886	21	1,211

None of the 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 2009 and 2008.

17. Directors' and Employees' Emoluments – *Continued*

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, four (2008: all) were directors of the Company whose emoluments are included in the disclosures in note (a) above. The emoluments of the remaining one individual (2008: nil) for the year ended 30 September 2009 were as follows:

	2009 **HK$'000**	2008 HK$'000
Salaries and other benefit	**261**	–
Retirement benefit scheme contributions	**5**	–
	266	–

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 during the two years ended 30 September 2009 and 2008.

18. Goodwill

	HK$'000
COST	
1 October 2007	5,525
Arising on acquisition of a subsidiary	115
At 30 September 2008 and 1 October 2008	5,640
Eliminated on disposal of a subsidiary	(115)
30 September 2009	5,525
IMPAIRMENT LOSS	
At 1 October 2007, 30 September 2008 and 1 October 2008	–
Impairment loss recognised during the year	5,525
At 30 September 2009	5,525
CARRYING VALUES	
At 30 September 2009	–
At 30 September 2008	5,640

Goodwill arose on acquisition of subsidiaries, Jiangsu Longlife Biochemistry Company Limited ("Jiangsu Longlife") and Wuxi Yongle Medical Devices Company Limited ("Wuxi Yongle"). Goodwill will be tested for impairment at least annually.

Impairment testing of goodwill

During the year ended 30 September 2009, the Group recognised an impairment loss of approximately HK$5,525,000 in relation to goodwill arising on acquisition of Jiangsu Longlife as Jiangsu Longlife has continually suffered from operating losses and the directors of the Company do not expect it to be able to generate positive cash flow from operation in the foreseeable future.

During the year ended 30 September 2009, the recoverable amounts of the goodwill from the acquisition of Jiangsu Longlife has been determined on the basis of value in use calculations, which use cash flow projections based on financial budgets approved by management covering a 5-years period with 5% growth rate and a discount rate of 15%. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Cash flow projections during the budget period for Jiangsu Longlife is also based on the budgeted sales and expected gross margins during the budget period and the same raw materials price inflation during the budget period. Expected cash inflows/outflows, which include budgeted sales, gross margin and raw material price inflation have been determined based on past performance and management's expectations for the market development.

19. Property, Plant and Equipment

	Buildings HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Plant and machinery HK$'000	Construction in progress HK$'000	Total HK$'000
COSTS						
At 1 October 2007	34,142	4,782	7,218	21,370	2,625	70,137
Exchange realignment	2,812	547	650	2,339	176	6,524
Acquired on acquisition of a subsidiary	–	7	–	–	–	7
Additions	1,341	478	104	1,059	3,988	6,970
Transfers	–	–	–	371	(371)	–
Disposals	–	(216)	(1,397)	(6,550)	–	(8,163)
At 30 September 2008 and 1 October 2008	38,295	5,598	6,575	18,589	6,418	75,475
Exchange realignment	(3)	(1)	(2)	(2)	(2)	(10)
Additions	377	20	–	846	1,880	3,123
Transfers	2,620	–	–	–	(2,620)	–
Disposals	(1,632)	(195)	(3,536)	(457)	(1,446)	(7,266)
Disposal of a subsidiary	–	(7)	(54)	–	–	(61)
At 30 September 2009	39,657	5,415	2,983	18,976	4,230	71,261
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 1 October 2007	5,313	3,343	4,048	7,236	–	19,940
Exchange realignment	638	375	415	730	–	2,158
Charge for the year	1,471	634	823	2,423	–	5,351
Eliminated on disposals	–	(95)	(1,189)	(3,203)	–	(4,487)
At 30 September 2008 and 1 October 2008	7,422	4,257	4,097	7,186	–	22,962
Exchange realignment	–	(1)	(1)	–	–	(2)
Charge for the year	1,609	396	613	2,002	–	4,620
Impairment loss recognised	356	75	–	419	–	850
Eliminated on disposals	(362)	(158)	(2,620)	(308)	–	(3,448)
Disposal of a subsidiary	–	(6)	(6)	–	–	(12)
At 30 September 2009	9,025	4,563	2,083	9,299	–	24,970
CARRYING VALUES						
At 30 September 2009	30,632	852	900	9,677	4,230	46,291
At 30 September 2008	30,873	1,341	2,478	11,403	6,418	52,513

As at 30 September 2009, certain of the Group's buildings in the PRC with aggregate carrying amount of approximately HK$13,062,000 (2008: HK$25,538,000) have been pledged to secure bank borrowings granted to the Group (note 26).

19. 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

During the year ended 30 September 2009, the management considered that there would be no or minimal future economic benefits generated from certain property, plant and equipment, accordingly, an impairment loss of approximately HK$850,000 (2008: nil) had been recognised in the consolidated income statement. The recoverable amounts of the relevant assets have been determined on the basis of their value in use. The discount rates in measuring the amounts of value in use were 15%.

20. Prepaid Lease Payments

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

	2009 HK$'000	2008 HK$'000
Carrying amount at 1 October	18,718	15,753
Exchange realignment	(5)	2,379
Addition	–	1,189
Amortisation	(620)	(603)
Disposal	(1,508)	–
Carrying amount at 30 September	16,585	18,718
Analysed for reporting purpose as:		
Current asset	394	620
Non-current asset	16,191	18,098
	16,585	18,718

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

At 30 September 2009, the Group's prepaid lease payments amounting to approximately HK$6,263,000 (2008: HK$15,972,000) were pledged to secured bank borrowings granted to the Group (note 26).

21. Inventories

	2009 HK$'000	2008 HK$'000
Raw materials	10,991	14,753
Work in progress	3,203	5,663
Finished goods	21,374	68,628
	35,568	89,044

During the year, there was a subsequent sales of obsolete inventories. As a result, a reversal of allowance for obsolete stocks of approximately HK$109,000 (2008: nil) has been recognised and included in cost of sales in the current year.

22. Trade and Bills Receivables

	2009 HK$'000	2008 HK$'000
Trade and bills receivables	**50,907**	57,389
Less: Allowance for bad and doubtful debts	**(10,043)**	(4,948)
	40,864	52,441

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:

	2009 HK$'000	2008 HK$'000
0 – 90 days	**26,361**	31,934
91 – 180 days	**8,726**	14,018
181 – 365 days	**5,721**	5,522
Over 365 days	**56**	967
	40,864	52,441

Ageing analysis of trade receivables past due but not impaired:

	2009 HK$'000	2008 HK$'000
91 – 180 days	**8,726**	14,018
181 – 365 days	**5,721**	5,522
Over 365 days	**56**	967
	14,503	20,507

Trade receivables that were past due but not impaired related to customers that have a good repayment record with the Group. Based on past experience, the directors believe that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly. The movement in the allowance for bad and doubtful debts is as follows:

	2009 HK$'000	2008 HK$'000
Balance at beginning of the year	**4,948**	2,692
Exchange realignment	**–**	331
Write back of allowance for bad and doubtful debts	**(61)**	–
Trade receivables allowance for bad and doubtful debts	**5,156**	1,925
Balance at end of the year	**10,043**	4,948

At each of the balance sheet dates, included in the allowance for doubtful debts were individually impaired trade receivables with an aggregate balance of approximately HK$10,043,000 (2008: HK$4,948,000). The individually impaired receivables are recognised based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions.

23. Prepayments and Other Receivables

At each of the balance sheet dates, included in the allowance for doubtful debts were individually impaired other receivables with an aggregate balance of approximately HK$559,000 (2008: HK$492,000). The individually impaired receivables are recognised based on the aging analysis and current business relationship. The movement in the allowance for bad and doubtful debts is as follows:

	2009 HK$'000	2008 HK$'000
Balance at beginning of the year	**492**	15
Write back of allowance for bad and doubtful debts	**(352)**	–
Other receivables allowance for bad and doubtful debts	**419**	477
Balance at end of the year	**559**	492

24. Pledged Bank Deposits and Bank Balances and Cash

Pledged bank deposits represent the amount pledged to banks to secure banking facilities granted to the Group, with maturity within 3 months. The deposits carry interest rates at 1.98% during the year ended 30 September 2009 (2008: 0.72%).

Bank balances carry interest at prevailing market rate for both years.

At 30 September 2009, the Group's bank balances and cash, and pledged bank deposit denominated in RMB amounted to approximately RMB1,938,000 (2008: RMB10,115,000) and RMB5,000,000 (2008: RMB3,476,000) respectively. Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

Included in bank balances and cash are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	2009 '000	2008 '000
United States dollars	**–**	12
Hong Kong dollars	**–**	283

25. Trade and Bills Payables

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

	2009 HK$'000	2008 HK$'000
0 – 90 days	**19,265**	32,186
91 – 180 days	**11,084**	1,878
181 – 365 days	**5,513**	1,558
Over 365 days	**1,023**	1,183
	36,885	36,805

The bills payables were secured by the Group's bank deposits amounting to HK$5,675,000 (2008: HK$3,946,000).

26. Bank and Other Borrowings

	2009 HK$'000	2008 HK$'000
Secured bank borrowings	**22,699**	36,095
Unsecured bank borrowings	**568**	1,135
Unsecured other borrowings	**110**	292
	23,377	37,522
Carrying amount repayable:		
Less than one year	**20,312**	34,457
More than one year but within two years	**3,065**	–
More than two years but within three years	**–**	3,065
	23,377	37,522
Less: Balance repayable within one year disclosed under current liabilities	**(20,312)**	(34,457)
Balance disclosed under non-current liability	**3,065**	3,065

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

At 30 September 2009, secured bank borrowings of approximately HK$22,699,000 (2008: HK$30,420,000) were secured by buildings and prepaid lease payments of the Group with aggregate carrying amount of approximately HK$19,325,000 (2008 : HK$30,915,000). At 30 September 2008, such secured bank borrowings included an amount of approximately HK$7,718,000 which were also guaranteed by a director of the Company (note 39).

At 30 September 2009, the bank borrowing of approximately HK$568,000 (2008 : HK$1,135,000) was guaranteed by 浙江美力彈簧有限公司, independent third party to the Group.

At 30 September 2008, the secured bank borrowing of approximately HK$5,675,000 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$10,595,000 to 蘇州國發中小企業擔保投資有限公司. The bank borrowing has been fully repaid during the year ended 30 September 2009 and the relevant pledged of assets has been released upon the settlement of the bank borrowing.

26. Bank and Other Borrowings – *Continued*

The bank borrowings carried fixed-rate interest ranging from 5.75% to 12.33% (2008: 7.47% to 14.56%) per annum.

At 30 September 2009, the other borrowings were unsecured and carried interest at 12% (2008: 12%).

27. Amount Due from (to) a Minority Shareholder, a Shareholder and Directors

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

The amount due from a director represents:

	2009	**2008**	**Maximum amount outstanding during the year**
	HK$'000	HK$'000	HK$'000
Due from:			
Yang Shun Feng	**56**	–	56

28. Deferred Taxation

At the balance sheet date, the Group had estimated the unused tax losses of approximately HK$224,933,000 (2008: HK$158,433,000) 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.

29. Share Capital

	Number of shares	**Amount**
		HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 30 September 2008 and 30 September 2009	2,000,000,000	200,000
Issued and fully paid:		
1 October 2007	500,000,000	50,000
Issue of shares upon placing (note)	33,400,000	3,340
At 30 September 2008 and 30 September 2009	533,400,000	53,340

Note: Pursuant to the placing and subscription agreement dated 15 October 2007, the Company issued 33,400,000 ordinary shares of HK$0.10 each at a price of HK$0.33 per share to independent third parties for cash. The new shares rank pari passu with the existing shares in all respects.

30. Acquisition of a Subsidiary

On 17 July 2008, the Group acquired 51% equity interests in Wuxi Yongle, a company established in the PRC and engaged in trading of medical machinery, at a consideration of approximately HK$458,000. This acquisition has been accounted for by the purchase method of accounting. The amount of goodwill arising as a result of the acquisition was approximately HK$115,000.

Details of the net assets acquired in respect of the acquisition of Wuxi Yongle during the year ended 30 September 2008 are summarised below:

	Fair value of assets and liabilities acquired HK$'000
NET ASSETS ACQUIRED	
Property, plant and equipment	7
Inventories	337
Trade receivables	333
Other receivables	12
Bank balances and cash	143
Trade payables	(80)
Other payables and accruals	(74)
Tax payables	(5)
Minority interests	(330)
Net assets acquired	343
Goodwill	115
Total consideration satisfied by cash	458
Net cash outflow arising on acquisition:	
Cash paid	(458)
Bank balances and cash acquired	143
	(315)

The goodwill arising on the acquisition of Wuxi Yongle during the year ended 30 September 2008 was attributable to the anticipated future operating synergies from the combination of the existing distribution networks of the Group. The directors of the Company consider that the carrying values of assets and liabilities of Wuxi Yongle as at the date of acquisition approximate to their fair values.

The subsidiary acquired during the year ended 30 September 2008 contributed approximately HK$339,000 to the Group's revenue and loss of HK$22,000 to the Group's results.

If the acquisition had been completed on 1 October 2007, total contribution to the Group's revenue for the year ended 30 September 2008 would have been HK$1,289,000, and profit for the year ended 30 September 2008 would have been HK$5,400. 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 2008 that actually would have been achieved had the acquisition been completed on 1 October 2007, nor is it intended to be a projection of future results.

31. Disposal of a Subsidiary

On 13 April 2009, the Group has disposed of its 51% interest in Wuxi Yongle to a minority shareholder of Wuxi Yongle at a consideration of approximately HK$454,000. The net assets of the subsidiary at the date of disposal were as follows:

	13 April 2009 HK$'000
Net assets disposed of:	
Goodwill	115
Property, plant and equipment	49
Inventories	391
Trade receivables	415
Other receivables	9
Bank balances and cash	288
Trade payables	(109)
Other payables and accruals	(400)
Tax payables	(3)
	755
Exchange reserve realised on disposal of a subsidiary	(119)
Minority interests	(319)
Gain on disposal	137
Total cash consideration	454
Net cash inflow arising on disposal:	
Cash consideration	454
Bank balances and cash disposed of	(288)
	166

During the year, Wuxi Yongle contributed approximately HK$131,000 to the Group's net operating cash outflows paid nil in respect of investing activities and received approximately HK$71,000 in respect of financing activities.

32. 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.

32. Share Option Scheme – *Continued*

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.

There is no outstanding options under the Scheme as at 30 September 2009 (2008: nil).

33. Operating Lease Commitments

	2009 HK$'000	2008 HK$'000
Minimum lease payments under operating lease during the year in relation to office premises, warehouses and staff quarters	**1,087**	2,280

At the balance sheet date, 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:

	2009 HK$'000	2008 HK$'000
Within one year	**161**	1,369
In the second to fifth year inclusive	**–**	605
Over five years	**–**	149
	161	2,123

Leases are negotiated and rentals are fixed for terms of 1 year to 2 years (2008: 6 months to 12 years).

34. Capital Commitments

	2009 HK$'000	2008 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of – acquisition of property, plant and equipment	**5,508**	6,813

35. Pledge of Assets

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

	2009 HK$'000	2008 HK$'000
Property, plant and equipment	**13,062**	25,538
Prepaid lease payments	**6,263**	15,972
Bank deposits	**5,675**	3,946
	25,000	45,456

36. 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$2,537,000 (2008: HK$1,607,000) for the year.

37. Balance Sheet of the Company

	2009 HK$'000	2008 HK$'000
NON CURRENT ASSETS		
Investments in subsidiaries	–	75,152
Amounts due from subsidiaries (note)	**49,285**	49,285
	49,285	124,437
CURRENT ASSETS		
Prepayment	**38**	–
Bank balances	**68**	68
	106	68
CURRENT LIABILITIES		
Other payables	**1,158**	1,171
Amounts due to subsidiaries (note)	**8,740**	6,648
	9,898	7,819
NET CURRENT LIABILITIES	**(9,792)**	(7,751)
	39,493	116,686
CAPITAL AND RESERVES		
Share capital	**53,340**	53,340
Reserves	**(13,847)**	63,346
	39,493	116,686

Note: The amounts due from (to) subsidiaries are unsecured, interest-free and repayable on demand.

38. Particulars of Subsidiaries

Details of the subsidiaries held by the Company as at 30 September 2009 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. (Note a)	PRC	Registered capital RMB70,000,000	–	100%	Manufacture and sale of health related products
Smiston Technology Limited	BVI	Ordinary shares US$50,000	–	100%	Investment holding
Suzhou Beautiful Biochemistry Co., Ltd. (Note a)	PRC	Registered capital US$3,800,000	–	100%	Manufacture and sale of biochemical products for daily use
Zhejiang Xinda Zhongshan Capsules Company Limited (Note b)	PRC	Registered capital US$1,800,000	–	61.11%	Manufacture and sale of capsules
Jiangsu Longlife (Note a)	PRC	Registered capital RMB10,000,000	–	100%	Manufacturing and sale of health supplement wine
Suzhou Longlifu Trading Co., Ltd. (Note c)	PRC	Registered capital RMB5,000,000	–	100%	Trading of household commodities and health related products
Jiangsu Longlife Special Equipment Technology Co. Ltd. (Note a)	PRC	Registered capital HK$50,000,000 (paid up HK$10,000,000)	–	100%	Research, manufacture and sales of equipment and material specially designed for orthodontics
China Dental Technology Group Limited	BVI	Ordinary shares US$1	100%	–	Investment holding
Suzhou Longlife Medical Devices Co., Ltd. (Note c)	PRC	Registered capital RMB5,000,000	–	100%	Sales of dental materials and equipment
Suzhou Anderson Medical Devices Co., Ltd. (Note c)	PRC	Registered capital RMB1,000,000	–	100%	Inactive

38. Particulars of Subsidiaries – *Continued*

Notes:

a. These are wholly-foreign owned enterprises established in the PRC.

b. It is a sino-foreign owned enterprise established in the PRC.

c. These are limited companies established in the PRC.

The English names of all PRC subsidiaries are for identification purpose only.

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

39. 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.

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

As at 30 September 2008, a secured bank borrowing amounting to approximately HK$7,718,000 (2009: nil) granted during the year ended 30 September 2008 was guaranteed by a director of the Company, Mr. Yang Shun Feng.

As set out in note 31 to the consolidated financial statements, the Group has disposed of its 51% interest in Wuxi Yongle to a minority shareholder of Wuxi Yongle at a consideration of approximately HK$454,000.

(b) Compensation of key management personnel

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

	2009	2008
	HK$'000	HK$'000
Short-term benefits	**2,007**	1,501
Post-employment benefits	**31**	24
	2,038	1,525

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

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For the year ended 30 September 2009

40. Subsequent Event

(i) As set out in the Company's announcement dated 7 December 2009, Mr. Yang Hong Gen, a former major shareholder of the Company, has disposed of his 27.28% interest in the Company on the Stock Exchange. After the disposal, Mr. Yang Hong Gen does not hold any share of the Company.

(ii) As set out in the Company's announcement dated 18 December 2009, the Group has entered an agreement with an independent third party on 18 December 2009 to dispose certain of the Group's land use right located in the PRC at a consideration of RMB12,000,000 (equivalents to approximately HK$13,619,000).

41. Major Non-cash Transaction

During the year ended 30 September 2009, the Group disposed certain land use right and buildings to an independent third party at an aggregate consideration of approximately HK$3,687,000. Approximately HK$1,347,000 of the aggregate consideration was net-off against the other payable balance that was due to the acquirer.

FINANCIAL SUMMARY

Results

	For the year ended 30 September				
	2005 HK$'000	2006 HK$'000	2007 HK$'000	2008 HK$'000	**2009** **HK$'000**
Turnover	197,457	243,386	270,753	272,277	**160,522**
Cost of sales	(70,111)	(97,826)	(98,038)	(111,725)	**(71,641)**
Gross profit	127,346	145,560	172,715	160,552	**88,881**
Other income	1,033	4,156	2,160	1,001	**2,046**
Impairment loss recognised in respect of goodwill	–	–	–	–	**(5,525)**
Restructuring and redundancy cost	–	–	–	–	**(35,030)**
Administrative expenses	(20,858)	(26,236)	(26,788)	(32,192)	**(29,886)**
Selling and distribution expenses	(81,219)	(118,355)	(181,714)	(161,715)	**(98,170)**
Other expenses	(189)	(459)	(620)	(768)	**(2,367)**
Finance costs	(1,554)	(1,233)	(2,002)	(2,769)	**(3,388)**
(Loss)/profit before tax	24,559	3,433	(36,249)	(35,891)	**(83,439)**
Income tax (expenses)/credit	606	(2,905)	(2,084)	(1,534)	**(978)**
(Loss)/profit for the year	25,165	528	(38,333)	(37,425)	**(84,417)**
Attributable to:					
Equity holders of the Company	25,165	639	(38,375)	(38,187)	**(83,561)**
Minority interests	–	(111)	42	762	**(856)**
(Loss)/profit for the year	25,165	528	(38,333)	(37,425)	**(84,417)**

Assets and liabilities

	At 30 September				
	2005 HK$'000	2006 HK$'000	2007 HK$'000	2008 HK$'000	**2009** **HK$'000**
Total assets	214,928	266,805	245,037	248,330	**155,070**
Total liabilities	(50,967)	(89,831)	(98,352)	(113,789)	**(105,892)**
Total equity	163,961	176,974	146,685	134,541	**49,178**
Minority interests	–	(5,406)	(5,712)	(7,393)	**(6,214)**
Equity attributable to equity holders of the Company	163,961	171,568	140,973	127,148	**42,964**