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 **2010**

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 enquiries, confirm that to the best of their knowledge and belief the information contained in this Report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this Report misleading.

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CORPORATE INFORMATION

Executive Directors
Mr. Cheung Hung *(Chairman)*
Mr. Zhang Sanlin
Mr. Chen Zhongwei
Mr. Tian Zhenyong
Mr. Wang Zhixin

Independent Non-executive Directors
Mr. Chong Cha Hwa
Ms. Chan Wai Yan
Mr. Sham Chi Keung, William

Audit Committee
Mr. Chong Cha Hwa
Ms. Chan Wai Yan
Mr. Sham Chi Keung, William

Remuneration Committee
Mr. Chong Cha Hwa
Ms. Chan Wai Yan
Mr. Sham Chi Keung, William
Mr. Wang Zhixin

Compliance Officer
Mr. Wang Zhixin

Company Secretary
Mr. Yu Yun Kong

Authorised Representatives
Mr. Cheung Hung
Mr. Yu Yun Kong

Auditor
Cheng & Cheng Limited
Certified Public Accountants

Legal Advisers
As to Hong Kong law:
Chiu & Partners

As to Cayman Islands law:
Conyers Dill & Pearman

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

Head Office and Principal Place of Business in Hong Kong
Suite 7602A, Level 76
International Commerce Centre
1 Austin Road West
Kowloon, Hong Kong

Principal Bankers
The Agriculture Bank of China
China Construction Bank
China CITIC Bank
Hang Seng Bank
CITIC Bank International 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
18th Floor
Fook Lee Commercial Centre
Town Place, 33 Lockhart Road
Wanchai, Hong Kong

Website
www.irasia.com/listco/hk/longlife

Stock Code
08037

CHAIRMAN'S STATEMENT

On behalf of Longlife Group Holdings Limited (the "Company") and its subsidiaries (collectively the "Group"), I would like to present the audited consolidated results of the Group for the year ended 30 September 2010 to the shareholders.

Business Review

In 2010, the Group continued to perfect the transformation of its consumer goods business into a wholesale and distribution model and to downsize the inefficient sales network and staff of its direct sales segment in Shanghai, basically releasing the historical burden accumulated over the years. Headcount was decreased from 1,268 as at the end of last financial year to approximately 720 this financial year. We continued to mitigate the labour and social insurance risk with substantial reduction in labour costs being achieved.

Internally, with an economic accountability system in place, factories and the sales department were given the accountability goals with corresponding measures of rewards and penalties, boosting the proactivity of the junior management and staff. The sales department actively consolidated itself to attract more wholesalers and dealers to refine the sales management while production department tightened cost control to increase its labour efficiency and actively took up external processing orders.

The Group has been actively disposing of idle assets to accommodate the real demand for assets after business streamlining and enhance its assets efficiency. An asset disposal team was set up to actively come up with a market-oriented disposal plan. In order to safeguard the interests of our shareholders, the Board conducted decision analyses on assets disposal in several meetings to ensure a better disposal plan was formulated.

In accordance with the conservative principle, the Group made sufficient provision for its assets. Although loss will increase in the near future, a prudent financial management is able to further eliminate the potential loss factors of the Group and completely reflect its asset quality and profitability.

To fully utilize the cash resources available and protect the interests of our shareholders, the Group set foot in engaging in investment business.

Future Prospects

By unswervingly following our operating philosophy of "light asset, focus on operation and full services", the Group will be able to commit its limited resources to brand building and products with the ultimate goal of regaining the profitability of traditional consumer goods. The Group is dedicated to exploring new business by venturing into new business areas. The Group has embarked on investment in listed securities in Hong Kong with its internal resources. It will actively utilize its investment skills to strive for better return for shareholders.

I would like to take this opportunity to thank the shareholders, the Directors and staff for their trust in, understanding of and support to the Company over the years.

Cheung Hung
Chairman

Hong Kong, 22 December 2010

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the period under review, China's economy recovered strongly and the growth of total retail sales of social consumer goods, stimulated by the government polices, restored to the levels seen prior to the financial crisis. As the business model of the Group's consumer goods segment has been converted from direct sales to that of wholesale and distribution, meanwhile the Group continued to streamline the inefficient sales networks of its direct sales business in Shanghai, the selling price and sales volume decreased by 25.53% and 23.31% respectively, compared to that of corresponding period in last year, and the sales dropped by 47.6% compared to that of last year. The Directors considered that although the sales decreased significantly, the Group has preliminarily solved the huge risks (such as those in operating losses and labor) accumulated over the years, which caused the number of employees, directly or indirectly employed, to decrease from 1,268 employees of corresponding period in last year to approximately 720 employees at present.

Revenue

Sales of the Group for the year ended 30 September 2010 were approximately HK$84,184,000, while that for the year ended 30 September 2009 were approximately HK$160,522,000, representing a decrease of approximately HK$76,338,000, or approximately 47.6%. The substantial decrease in sales was mainly due to the conversion of the Group's sales model into an agency and dealership structure, and the continuous implementation of its strategy in streamlining low efficiency sales network.

Gross profit

Gross profit for the year ended 30 September 2010 was approximately HK$40,484,000, representing a decrease of approximately HK$48,397,000, or approximately 54.4%, when compared with the gross profit of approximately HK$88,881,000 for the year ended 30 September 2009. Gross margin for the year ended 30 September 2010 was approximately 48%, a decrease of approximately 7.4 percentage points when compared with the gross margin of approximately 55.4% for the year ended 30 September 2009. The decrease in gross margin was mainly due to the conversion of the Group's sales model into an agency and dealership structure and the price reduction in response to the fierce competition from other manufacturers and in a bid to retain its dealers.

Administrative expenses

Administrative expenses for the year ended 30 September 2010 amounted to approximately HK$33,951,000, representing an increase of approximately HK$4,065,000, or approximately 13.6%, when compared with approximately HK$29,886,000 for the year ended 30 September 2009. The increase in administrative expenses was mainly due to increase in impairment loss from trade and other receivables.

Selling and distribution expenses

Selling and distribution expenses for the year ended 30 September 2010 amounted to approximately HK$27,715,000, representing a decrease of approximately HK$70,455,000, or approximately 71.8%, when compared with approximately HK$98,170,000 for the year ended 30 September 2009. The significant decrease in selling and distribution expenses was mainly due to the conversion of the Group's sales model into an agency and dealership structure and the continuous streamlining of low efficiency sales network of its direct sales business in Shanghai as well as the increasing effect of cost control.

Loss

Loss for the year ended 30 September 2010 was HK$18,065,000, representing a decrease of approximately HK$66,352,000, when compared with loss of approximately HK$84,417,000 for the year ended 30 September 2009. The significant decrease in losses was due to the conversion of the Group's sales model into an agency and dealership structure, and the decrease in sales expenses resulting from the streamlining of low efficiency sales network.

FUTURE OUTLOOK

Deepening the business model of "light asset, focus on operation and full services" remains the Group's primary task. The Group will further the process of conversion and streamlining its inefficient sales networks in Shanghai, which may cause a continuous drop in turnover and direct and indirect employees. After streamlining the business, the utilization rate of assets will be significantly decreased. The Group will actively dispose of its inefficient non-core assets, which may, to a certain extent, result in book losses. However, the Directors believe that these actions are capable of reducing losses or making turnaround, which will contribute to an increase in the shareholders' long-term value by rebuilding the profitability of the Group. The Group is dedicated to exploring new business by venturing into new business areas. The Group has embarked on investment in listed securities in Hong Kong with its internal resources. It will actively utilize its investment skills to strive for better return for shareholders.

FINANCIAL REVIEW

Inventories

The inventories were approximately HK$36,092,000 as at 30 September 2010, an increase of approximately HK$524,000, or an increase of approximately 1.5%, as compared to the inventory of approximately HK$35,568,000 for the corresponding period in 2009. The increase of inventories was mainly due to the slowing down of sales of some products.

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$88,443,000 and approximately HK$2,128,000 respectively as at 30 September 2010 and 2009.

The Group generally finances its operations with internally generated cash flows and banking facilities. As at 30 September 2010, the Group had bank borrowings of approximately HK$17,950,000 (2009: approximately HK$23,267,000). The Group also had unsecured other borrowings of approximately HK$174,000 (2009: approximately HK$110,000), which are repayable within one year. The interests of such bank and other borrowings are usually accrued 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 2010 and 2009 were approximately 7.9% and approximately 20.2% respectively.

Currency and interest rate structure

The Group had limited exposure to foreign exchange rate and interest rate fluctuation as most of its transactions, including borrowings, were mainly conducted in RMB and the exchange rates and interest rates of RMB were relatively stable throughout 2010 except for the appreciation of RMB during the year.

Contingent liabilities

Details of contingent liabilities are stated in note 40 to the consolidated financial statements.

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 2010 amounted to approximately HK$394,000 (2009: HK$5,508,000).

Operating lease commitments

Details of operating lease commitments are stated in note 33 to the consolidated financial statements.

OTHERS

Employees' remuneration

As at 30 September 2010, the Group, directly and indirectly, had approximately 720 employees (2009: 1,268). Total staff costs for the year ended 30 September 2010 was approximately HK$13,922,000 (2009: approximately HK$66,936,000). The decrease of 79.2% 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.

Material acquisitions and disposal of subsidiaries and affiliated companies

During the year ended 30 September 2010, the Group had no material acquisition and disposal of subsidiaries and affiliated companies.

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. Cheung Hung (張鴻) ("Mr. Cheung"), aged 42, has been the chairman and an executive director of the Company since 7 April 2010 and 19 January 2010 respectively. Mr. Cheung holds a Master of Business Administration degree of an Executive MBA Programme and Bachelor's degree in Business Administration from The Chinese University of Hong Kong. He has over 20 years of experience in securities industries and is currently the vice president of Guoyuan Asset Management (Hong Kong) Limited.

Mr. Zhang Sanlin (張三林) ("Mr. Zhang"), aged 48, 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. Chen Zhongwei (陳中瑋) ("Mr. Chen"), aged 37, has been an executive director of the Company since 6 July 2009. 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.

Mr. Tian Zhenyong (田真庸) ("Mr. Tian"), aged 45, has been an executive director of the Company since 1 June 2010. Mr. Tian holds a Master degree in International Finance from the postgraduate school of the head office of the People's Bank of China. Mr. Tian has served as the general manager of Shenzhen Special Economic Zone Securities Company Limited since 1992, an executive director and a vice-general president of Jun An Securities Company Limited (君安證券有限責任公司) since 1993 and he has served as the executive president and president of Baoying Fund Management Co., Ltd. and Peking University Founder Investment Company Limited (北大方正投資有限公司) respectively since 2000. He possesses extensive experience of over 16 years in securities industry and fund management.

Mr. Wang Zhixin (王志新) ("Mr. Wang"), aged 45, has been an executive director of the Company since 1 June 2010. Mr. Wang holds a bachelor's degree in accounting and a master's degree in management from Soochow University. He is also a member of the Chinese Institute of Certified Public Accountants. Mr. Wang has extensive experience in management of multi-national companies, which involves retail management and brand operation and so on. Mr. Wang has served as the Chief Financial Officer of Shanghai Aige Apparel Limited (上海艾格服飾有限公司) and was responsible for financial management, procedure management and procurement control; and the financial controller of Suzhou Dawnrays Pharmaceuticals Co., Ltd. Mr. Wang had also served as the director of the financial and taxation bureau of Suzhou Industrial Park and was responsible for foreign investment management, taxation management and audit work and hence accumulated extensive in financial and taxation as well as cooperation with international governments. Mr. Wang is currently a vice-president of the Company and is responsible for financial management.

MANAGEMENT PROFILE

Independent Non-executive Directors

Mr. Chong Cha Hwa (張家華) ("Mr. Chong"), aged 44, has been an independent non-executive director of the Company since 3 December 2007. Mr. Chong 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 publicly listed companies in Hong Kong and the Southern Asia region. He is an independent non-executive director of Vital Group BioTech Holdings Limited (Stock Code: 1164), a company listed on Main Board of the Stock Exchange.

Ms. Chan Wai Yan (陳慧殷) ("Ms. Chan"), aged 36, has been an independent non-executive director of the Company since 19 January 2010. Ms. Chan holds a bachelor of Art degree in English from The Chinese University of Hong Kong. She has over 4 years of experience in general operation management of bullion industry. She is currently the Sales Director of CNI Bullion Limited.

Mr. Sham Chi Keung William (岑志強) ("Mr. Sham"), aged 52, has been an independent non-executive director of the Company since 19 January 2010. Mr. Sham is a qualified Chartered Surveyor and a professional member of the Hong Kong Institute of Surveyors and professional member of the China Institute of Real Estate Appraiser. Mr. Sham has over 28 years working experience in the field with extensive practices in valuation, market study, financial analysis, asset management, project management, real estate transactions and investment consulting. He held senior managerial executive positions in Swire Properties Limited (one of the largest real estate developer in Hong Kong), Colliers and First Pacific Davies before he founded B.I. Group Limited and B.I. Appraisals Limited in 2000. Mr. Sham is an executive director of B.I. Group Limited and B.I. Appraisals Limited and heads up the Asia Pacific Operation of the companies.

Senior Management

Mr. Yang Shunfeng (楊順鋒) ("Mr. Yang"), aged 36, has been the chief executive officer of the Company since 1 October 2009. He is also an 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 a nephew of Mr. Zhang Sanlin, an executive director of the Company.

Mr. Yu Yun Kong (余韌剛) ("Mr. Yu"), aged 43, has been the Company Secretary of the Company since 14 July 2010. Mr. Yu is a practising certified public accountant with over 20 years of experience in public accounting practice. He is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants.

CORPORATE GOVERNANCE REPORT

Corporate Governance Practices

The Group recognises 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 2010, 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 to the GEM Listing Rules, except for the deviations from code provision A.4.1 as explained below. The Board will continue to review regularly and take appropriate actions to comply with the Code.

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 2010. 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 2010.

Board of Directors

As at the date of this report, the Board comprises five executive Directors and three independent non-executive Directors as follows:

Executive Directors

Mr. Cheung Hung *(Chairman)*
Mr. Zhang Sanlin
Mr. Chen Zhongwei
Mr. Tian Zhenyong
Mr. Wang Zhixin

Independent non-executive Directors

Mr. Chong Cha Hwa
Ms. Chan Wai Yan
Mr. Sham Chi Keung, William

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 7 to 8 of this 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 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 Directors can attend meetings in persons or through other means of electronic communication in accordance with the Company's articles of association. The following table shows the attendance of individual Directors at the meetings of the Board and other Board Committees held during the year:

		Meetings Attended/(Held)				
	Note	Board	Audit Committee	Remuneration Committee	Internal Control Committee	Compliance Committee
Executive Directors						
Mr. Zheng Lixin	*1*	6/(7)	n.a.	n.a.	n.a.	n.a.
Mr. Zhang Sanlin		1/(13)	n.a.	n.a.	1/(1)	n.a.
Mr. Yao Feng	*2*	1/(9)	n.a.	0/(2)	1/(1)	n.a.
Mr. Chen Zhongwei		9/(13)	n.a.	n.a.	n.a.	n.a.
Mr. Cheung Hung	*3*	9/(9)	n.a.	n.a.	2/(2)	n.a.
Mr. Tian Zhenyong	*4*	2/(4)	n.a.	n.a.	n.a.	n.a.
Mr. Wang Zhixin	*5*	4/(4)	n.a.	n.a.	2/(2)	1/(1)
Non-executive Director						
Mr. Lo Wing Yat, Kelvin	*6*	1/(8)	n.a.	n.a.	n.a.	n.a.
Independent Non-executive Directors						
Mr. Yu Jie	*7*	0/(6)	0/(2)	n.a.	n.a.	n.a.
Mr. Chong Cha Hwa		11/(13)	5/(5)	2/(2)	2/(2)	1/(1)
Dr. Yu Hong	*8*	1/(3)	1/(1)	n.a.	n.a.	n.a.
Ms. Chan Wai Yan	*9*	8/(9)	3/(4)	2/(2)	n.a.	n.a.
Mr. Sham Chi Keung, William	*10*	7/(9)	3/(4)	2/(2)	2/(2)	0/(1)

Notes:

1. *Resigned as Chairman and Executive Director on 7 April 2010.*
2. *Resigned as Executive Director on 1 June 2010.*
3. *Appointed as Executive Director on 19 January 2010 and appointed as Chairman on 7 April 2010.*
4. *Appointed as Executive Director on 1 June 2010.*
5. *Appointed as Executive Director on 1 June 2010.*
6. *Resigned as Non-executive Director on 9 April 2010.*
7. *Resigned as Independent Non-executive Director on 18 March 2010.*
8. *Resigned as Independent Non-executive Director on 19 January 2010.*
9. *Appointed as Independent Non-executive Director on 19 January 2010.*
10. *Appointed as Independent Non-executive Director on 19 January 2010.*

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.

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.

To ensure a balance of power and authority, the Company fully supports the division of responsibility between the Chairman and the Chief Executive Officer ("CEO"). The roles of the Chairman and the CEO are segregated and performed by Mr. Cheung Hung and Mr. Yang Shunfeng respectively.

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. The independent non-executive Directors and the non-executive Director are not appointed for specific terms. However, they are subject to retirement by rotation in accordance with the Company's articles of association.

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.

Board Committees

To maintain a high level of corporate governance standard, the Board has set up some committees as follows:

- **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. Chong Cha Hwa, Ms. Chan Wai Yan and Mr. Sham Chi Keung, William. For the year ended 30 September 2010, 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 is also responsible for reviewing and supervising the financial reporting process and internal control of the Group. A total of 5 meetings were held in the year under review. The attendance of the members of the Audit Committee is shown in page 10 above.

- **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, the Remuneration Committee comprises three independent non-executive Directors, namely, Mr. Chong Cha Hwa, Ms. Chan Wai Yan and Mr. Sham Chi Keung, William and one executive Director, Mr. Wang Zhixin.

  The main responsibilities of the Remuneration Committee are to review and endorse the remuneration policies 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 2010, in which the remuneration level of Directors and senior management are reviewed and discussed, and the adjustment of remuneration of Directors were recommended to the Board. The attendance of the members of the Remuneration Committee is shown in page 10 above.

- **Internal Control Committee**

  The Company established an internal control committee (the "Internal Control Committee") on 20 December 2005. During the year ended 30 September 2010 and as at the date of this report, the Internal Control Committee comprises Mr. Cheung Hung, Mr. Wang Zhixin, Mr. Chong Cha Hwa and Mr. Sham Chi Keung, William.

  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, 2 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 the Internal Control Committee is shown in page 10 above.

- **Compliance Committee**

  The Company established a compliance committee (the "Compliance Committee") on 16 November 2006. During the year ended 30 September 2010 and as at the date of this report, the Compliance Committee comprises Mr. Wang Zhixin, Mr. Chong Cha Hwa and Mr. Sham Chi Keung, William.

  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, 1 meeting 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 the Compliance Committee is shown in page 10 above.

Auditor's Remuneration

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

	2010 HK$'000	2009 HK$'000
Services rendered:		
Audit services	**420**	460
Non-audit services	**–**	–
	420	460

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 conducted a review of the effectiveness of the system of internal control of the Group during the year ended 30 September 2010. The review covers all material controls, including financial, operational and compliance controls and risk management functions.

During the year ended 30 September 2010, the Internal Control Committee has 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.

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 20 to 21 of this report.

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.irasia.com/listco/hk/longlife and meetings with investors and analysts.

DIRECTORS' REPORT

The Directors present the annual report and audited consolidated financial statements for the year ended 30 September 2010.

Principal Activities

The Company acts as an investment holding company and engaged in trading of securities. 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 2010 are set out in the consolidated statement of comprehensive income on page 22.

The Directors did not recommend the payment of a final dividend for the year ended 30 September 2010 (2009: 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. Cheung Hung	(Appointed on 19 January 2010 and further appointed as Chairman on 7 April 2010)
Mr. Zhang Sanlin	
Mr. Zheng Lixin	(Resigned on 7 April 2010)
Mr. Yao Feng	(Resigned on 1 June 2010)
Mr. Chen Zhongwei	
Mr. Tian Zhenyong	(Appointed on 1 June 2010)
Mr. Wang Zhixin	(Appointed on 1 June 2010)

Non-executive Director

Mr. Lo Wing Yat, Kelvin	(Resigned on 9 April 2010)

Independent non-executive Directors

Mr. Yu Jie	(Retired on 18 March 2010)
Mr. Chong Cha Hwa	
Dr. Yu Hong	(Resigned on 19 January 2010)
Ms. Chan Wai Yan	(Appointed on 19 January 2010)
Mr. Sham Chi Keung, William	(Appointed on 19 January 2010)

In accordance with article 108 of the articles of association of the Company, Mr. Chen Zhongwei shall retire from office as director by rotation at the conclusion of the forthcoming annual general meeting. In accordance with article 112 of the Company's articles of association, Mr. Cheung Hung, Mr. Tian Zhenyong, Mr. Wang Zhixin, Ms. Chan Wai Yan and Mr. Sham Chi Keung, William shall hold office until the forthcoming annual general meeting. All the retiring Directors being eligible, offer themselves for re-election.

Directors' Service Agreements

Each executive Director has entered into a service agreement with the Company. 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 agreement 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 2010, 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 Rules 5.46 to 5.67 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	Capacity	Number of ordinary shares	% to total issued share capital of the Company
Director			
Cheung Hung	Beneficial owner and family interest	8,500,000	0.89%
Zhang Sanlin	Beneficial owner	9,850,000	1.03%
Chan Wai Yan	Beneficial owner	100,000	0.01%
Chief executive			
Yang Shenfeng	Beneficial owner	250,000	0.03%

Long positions in underlying shares of the Company

Share options granted

Name of director	Date of grant	Exercisable period	Subscription price per share	Aggregate long positions in underlying shares of the Company	Approximate percentage interest in the Company's issued share capital
Cheung Hung	9 April 2010	9 April 2010 to 8 April 2020	HK$0.355	5,000,000	0.65%
Wang Zhixin	9 April 2010	9 April 2010 to 8 April 2020	HK$0.355	5,000,000	0.65%

Save as disclosed above, none of the Directors nor the chief executives of the Company had, as at 30 September 2010, 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 Rules 5.46 to 5.67 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 2010, 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 positions in shares and underlying shares of the Company

Name of shareholder	Capacity	Number of ordinary shares	Number of underlying shares held under equity derivatives	Total	% of shares in issue
Capital VC Limited (Note)	Beneficial owner/ through controlled corporation	188,595,000	500,000	189,095,000	19.70%
Yau Chung Hong	Beneficial owner	77,910,000	–	–	8.11%

Note: 123,205,000 of these shares were held by CNI Capital Limited, a company wholly-owned by Capital VC Limited.

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, the Group's largest customer and five largest customers accounted for 16% and 42% respectively, of the Group's total sales; and the Group's five largest suppliers accounted for less than 30% 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.

DIRECTORS' REPORT

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 67 of this annual report.

Share Capital

Details of the Company's share capital during the year are set out in note 30 to the consolidated financial statements.

Reserves

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 24.

Distributable Reserves

Details of the Company's distributable reserves as at 30 September 2010 are set out in note 37 to the consolidated financial statements.

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 2010.

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 three independent non-executive Directors, namely, Mr. Chong Cha Hwa, Ms. Chan Wai Yan and Mr. Sham Chi Keung, William. 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 2010.

Material Contracts

The following contracts (not being contracts in the ordinary course of business) were entered into by the Company during the year, which are or may be material:

1. On 10 February 2010, the Company entered into a placing agreement with Kingston Securities Limited, the placing agent, in relation to a placing under the general mandate. Pursuant to the placing agreement, the Company has conditionally agreed to place, through the placing agent on a best-effort basis, a maximum of 106,680,000 new Shares to not less than six placees at HK$0.215 per share of the Company.

2. On 24 March 2010, the Company and Kingston Securities Limited, the placing agent, entered into a placing agreement pursuant to which the Company has conditionally agreed to place under the general mandate through the placing agent, on a best effort basis, a maximum of 128,000,000 shares of the Company to not less than six placees at a price of HK$0.27 per share.

3. On 24 March 2010, the Company and Kingston Securities Limited, the placing agent, entered into another placing agreement pursuant to which the Company has conditionally agreed to place under a special mandate through the placing agent, on a best effort basis, a maximum of 192,000,000 shares of the Company to not less than six placees at a price of HK$0.27 per share.

4. On 18 December 2009, a wholly-owned subsidiary of the Company (as the Vendor) entered into an agreement (the "Agreement") with Mr. Zhou Xuefu (as the Purchaser) in relation to the disposal of land use right of a piece of land at a consideration of RMB12,000,000 (equivalent to approximately HK$13,625,000). An announcement was published on 18 December 2009. On 11 May 2010 the Vendor sent a written notice to the Purchaser to terminate the Agreement with immediate effect, and expressly reserved all its rights to seek compensation from the Purchaser. An announcement was published on 11 May 2010.

5. On 30 July 2010, a wholly-owned subsidiary of the Company (as the vendor), entered into an agreement with Suzhou City Xiangcheng District Weinan Village Economic Development Company Limited (蘇州市相城區渭南村經濟發展有限公司) (as the purchaser), in relation to the disposal of the land use right of a piece of land together with the plant (to be constructed on the land) to the purchaser, at a consideration of RMB12,000,000 (approximately HK$13,896,000). An announcement was published on 30 July 2010.

Litigation

As at 30 September 2010, except as set out in note 41 to the consolidated financial statements, none of the members of the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors or the Company to be pending or threatened by or against any member of the Group.

Related Party and Connected Transactions

Details of related party and connected transactions of the Group during the year are set out in note 39 to the consolidated financial statements.

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 participants, details of the scheme is set out in note 32 to the consolidated financial statements.

Auditor

The consolidated financial statements of the Group for the year ended 30 September 2010 have been audited by Cheng & Cheng Limited. Cheng & Cheng Limited was appointed on 3 September 2010 as the auditor of the Company to fill the casual vacancy following the resignation of SHINEWING (HK) CPA Limited and will hold office until the conclusion of the forthcoming annual general meeting ("AGM"). Cheng & Cheng Limited will retire and, being eligible, offer itself for reappointment at the AGM. A resolution for reappointment of Cheng & Cheng Limited as auditor of the Company is to be proposed at the AGM.

On behalf of the Board

Cheung Hung
Chairman

Hong Kong, 22 December 2010

CHENG & CHENG LIMITED
CERTIFIED PUBLIC ACCOUNTANTS
鄭鄭會計師事務所有限公司
10/F, Allied Kajima Building, 138 Gloucester Road, Wanchai, 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 22 to 66, which comprise the consolidated statement of financial position as at 30 September 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows 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.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 30 September 2010 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Cheng & Cheng Limited
Certified Public Accountants
Li Wing Sum Steven
Practising Certificate Number : P03747

Hong Kong
22 December 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 SEPTEMBER 2010

	Notes	2010 HK$'000	2009 HK$'000
Turnover	9	**84,184**	160,522
Cost of sales		**(43,700)**	(71,641)
Gross profit		**40,484**	88,881
Other income	10	**9,968**	2,046
Impairment loss recognised in respect of goodwill	18	**–**	(5,525)
Restructuring and redundancy costs	11	**(2,107)**	(35,030)
Administrative expenses		**(33,951)**	(29,886)
Selling and distribution expenses		**(27,715)**	(98,170)
Other expenses		**(2,967)**	(2,367)
Finance costs	12	**(1,730)**	(3,388)
Loss before tax	13	**(18,018)**	(83,439)
Income tax expense	14	**(47)**	(978)
Loss for the year		**(18,065)**	(84,417)
Other comprehensive income/(loss):			
Exchange differences on translation of foreign operations		**673**	(508)
Total comprehensive loss for the year		**(17,392)**	(84,925)
Loss attributable to:			
Equity holders of the Company		**(16,465)**	(83,561)
Non-controlling interests		**(1,600)**	(856)
		(18,065)	(84,417)
Total comprehensive loss attributable to:			
Equity holders of the Company		**(15,902)**	(84,065)
Non-controlling interests		**(1,490)**	(860)
		(17,392)	(84,925)
Loss per share attributable to equity holders of the Company	16		
		HK$	HK$
– basic		**(2.42 cents)**	(15.67 cents)
– diluted		**N/A**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 SEPTEMBER 2010

	Notes	2010 HK$'000	2009 HK$'000
NON-CURRENT ASSETS			
Goodwill	18	–	–
Property, plant and equipment	19	**44,966**	46,291
Prepaid lease payments	20	**11,514**	16,191
		56,480	62,482
CURRENT ASSETS			
Prepaid lease payments	20	**425**	394
Financial assets at fair value through profit or loss	21	**19,485**	–
Inventories	22	**36,092**	35,568
Trade and bills receivables	23	**28,282**	40,864
Prepayments and other receivables	24	**18,267**	7,765
Tax recoverable		**44**	138
Amount due from a director	28	–	56
Pledged bank deposits	25	–	5,675
Bank balances and cash	25	**88,443**	2,128
		191,038	92,588
CURRENT LIABILITIES			
Trade and bills payables	26	**19,527**	36,885
Other payables and accruals		**61,711**	37,698
Bank and other borrowings	27	**18,124**	23,377
Amount due to a non-controlling shareholder	28	**971**	2,851
Amount due to a shareholder	28	–	4,581
Amounts due to directors	28	**468**	500
		100,801	105,892
NET CURRENT ASSETS (LIABILITIES)		**90,237**	(13,304)
NET ASSETS		**146,717**	49,178
CAPITAL AND RESERVES			
Share capital	30	**96,008**	53,340
Reserves		**45,985**	(10,376)
Equity attributable to equity holders of the Company		**141,993**	42,964
Non-controlling interests		**4,724**	6,214
TOTAL EQUITY		**146,717**	49,178

The consolidated financial statements on pages 22 to 66 were approved and authorised for issue by the board of Directors on 22 December 2010 and are signed on its behalf by:

Cheung Hung
DIRECTOR

Tian Zhenyong
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 SEPTEMBER 2010

	Attributable to equity holders of the Company										
	Share capital HK$'000	Share premium HK$'000	Share options reserve HK$'000	Special reserve HK$'000 (Note 1)	Statutory surplus reserve fund HK$'000 (Note 2)	Statutory enterprise expansion fund HK$'000 (Note 3)	Exchange reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total Equity HK$'000
At 1 October 2008	53,340	15,479	–	22,443	15,479	3,098	28,436	(11,127)	127,148	7,393	134,541
Total comprehensive loss for the year	–	–	–	–	–	–	(504)	(83,561)	(84,065)	(860)	(84,925)
Disposal of a subsidiary	–	–	–	–	–	–	(119)	–	(119)	(319)	(438)
At 30 September 2009 and 1 October 2009	53,340	15,479	–	22,443	15,479	3,098	27,813	(94,688)	42,964	6,214	49,178
Total comprehensive loss for the year	–	–	–	–	–	–	563	(16,465)	(15,902)	(1,490)	(17,392)
Share-based compensation	–	–	8,574	–	–	–	–	–	8,574	–	8,574
Issue of ordinary shares by placing (note 30)	42,668	66,668	–	–	–	–	–	–	109,336	–	109,336
Less: Shares issue expenses on placing	–	(2,979)	–	–	–	–	–	–	(2,979)	–	(2,979)
At 30 September 2010	**96,008**	**79,168**	**8,574**	**22,443**	**15,479**	**3,098**	**28,376**	**(111,153)**	**141,993**	**4,724**	**146,717**

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 subsidiaries of the Company in the PRC 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 the 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 STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 SEPTEMBER 2010

	Notes	2010 HK$'000	2009 HK$'000
OPERATING ACTIVITIES			
Loss before tax		**(18,018)**	(83,439)
Adjustments for:			
Written back of obsolete stocks		**–**	(109)
Impairment loss of obsolete stocks		**13,404**	–
Depreciation of property, plant and equipment		**3,698**	4,620
Finance costs		**1,730**	3,388
Amortisation of prepaid lease payments		**495**	620
Cost of inventories recognised for compensation	11	**–**	29,702
Written off of property, plant and equipment		**106**	–
Impairment loss recognised in respect of goodwill		**–**	5,525
Impairment loss recognised in respect of property, plant and equipment		**2,520**	850
Share-based compensation		**8,574**	–
Trade and other receivables written off/allowance for bad and doubtful debts		**11,039**	5,162
Gain on disposal of a subsidiary		**–**	(137)
Interest income		**(108)**	(152)
Dividend income		**(38)**	–
Gain on disposal of prepaid lease payments		**(9,201)**	(807)
Loss on disposal of property, plant and equipment		**65**	996
Loss on investment in financial assets at fair value through profit or loss		**387**	–
Provision for employees termination compensation	11	**–**	953
Operating cash flows before movements in working capital		**14,653**	(32,828)
(Increase) decrease in inventories		**(13,928)**	23,482
Decrease in trade and bills receivables		**1,543**	6,062
(Increase) decrease in prepayments and other receivables		**(10,502)**	5,872
Decrease (increase) in amount due from a director		**56**	(56)
(Decrease) increase in trade and bills payables		**(17,358)**	192
Increase in other payables and accruals		**24,013**	6,501
Decrease in amount due to directors		**(32)**	–
Cash (used in) generated from operations		**(1,555)**	9,225
Income taxes refunded (paid)		**47**	(863)
NET CASH (USED IN) FROM OPERATING ACTIVITIES		**(1,508)**	8,362
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		**(5,902)**	(3,123)
Decrease (increase) in pledged bank deposits		**5,675**	(1,729)
Proceeds from disposal of prepaid lease payments		**13,757**	2,315
Proceeds from disposal of property, plant and equipment		**1,655**	1,475
Net fund used in trading of financial investments		**(19,872)**	–
Net cash inflow on disposal of a subsidiary	31	**–**	166
Interest received		**108**	152
Dividend income		**38**	–
NET CASH USED IN INVESTING ACTIVITIES		**(4,541)**	(744)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 SEPTEMBER 2010

	Notes	2010 HK$'000	2009 HK$'000
FINANCING ACTIVITIES			
Repayment of bank and other borrowings		**(5,317)**	(14,141)
Interest paid		**(1,730)**	(3,388)
Repayment to a non-controlling shareholder		**(1,880)**	(390)
(Repayment to) advance from a shareholder		**(4,581)**	1,169
New bank borrowings raised		**64**	–
Net proceeds from issue of shares		**106,357**	–
NET CASH FROM (USED IN) FINANCING ACTIVITIES		**92,913**	(16,750)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**86,864**	(9,132)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**2,128**	11,751
Effect of foreign exchange rate changes		**(549)**	(491)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash		**88,443**	2,128

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 shares of the Company are listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 17 June 2004. The address of the registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and the principal place of business of the Company is Suite 7602A, Level 76, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"). Other than those subsidiaries established in the PRC whose functional currency is Renminbi ("RMB"), the functional currency of the Company and its subsidiaries are HK$. The reason for selecting HK$ as its presentation currency is because the Company is a public company listed on the GEM of the Stock Exchange, where most of the investors are located in Hong Kong.

The principle activities of the Company are investment holding and trading of securities. The principal activities of its subsidiaries are set out in note 38 to the consolidated financial statements.

2. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of Preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on GEM of the Stock Exchange.

The consolidated financial statements have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss which have been measured at fair value.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

2. Summary of Significant Accounting Policies – *Continued*

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.

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.

Non-controlling interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Non-controlling interests in the net assets consist of the amount of those interests at the date of the original business combination and the share of changes in equity by non-controlling interests since the date of the combination.

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 October 2009, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Business combinations

Business combinations prior to 1 October 2009

Acquisitions of businesses were accounted for using the purchase method. The cost of the acquisition was 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 met the relevant conditions for recognition were recognised at their fair values at the acquisition date.

Goodwill arising on acquisition was 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 assessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeded the cost of the business combination, the excess was recognised immediately in profit or loss. The non-controlling interest in the acquiree was initially measured at the non-controlling interest's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

2. Summary of Significant Accounting Policies – *Continued*

Business combinations – *Continued*

Business combinations on or after 1 October 2009

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 (Revised) are recognised at their fair values, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;

- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with HKFRS 2 Share-based Payment ; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Noncurrent Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

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 statement of financial position, 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 is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statement of financial position.

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 profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

2. Summary of Significant Accounting Policies – *Continued*

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.

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 profit or loss 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 accumulated impairment losses. Amortisation is charged to profit or loss on a straight-line basis over the period of the rights.

Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position 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 into one of the two categories, including financial assets at fair value through profit or loss ("FVTPL") and 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 are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss ("FVTPL")

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term, or it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-making. Derivatives, including separated embedded derivates are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts.

2. Summary of Significant Accounting Policies – *Continued*

Financial instruments – *Continued*

Financial assets – *Continued*

Financial assets at fair value through profit or loss ("FVTPL") – *Continued*

A financial asset designated as at FVTPL upon initial recognition if:

– such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

– the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

– it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

At the end of each reporting period subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or recognised in profit or loss excludes any dividend or interest earned on the financial assets.

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 the end of the reporting period subsequent to initial recognition, loans and receivables (including loan receivables, other receivables, amounts due from an associate/related companies/investee companies and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss of financial assets below).

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.

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

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. 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.

2. Summary of Significant Accounting Policies – *Continued*

Financial instruments – *Continued*

Financial assets – *Continued*

Impairment of financial assets – *Continued*

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.

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 non-controlling 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.

2. Summary of Significant Accounting Policies – *Continued*

Financial instruments – *Continued*

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 the end of each reporting period, 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.

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.

Dividend income is recognised when the shareholders' rights to receive payment have been established.

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 statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes profit or loss 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 end of the reporting period.

2. Summary of Significant Accounting Policies – *Continued*

Taxation – *Continued*

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. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. 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 the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the end of the reporting period. 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 year except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

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 end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the exchange reserve).

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 end of the reporting period. Exchange differences arising are recognised in the exchange reserve.

2. Summary of Significant Accounting Policies – *Continued*

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 end of the reporting period, and are discounted to present value where the effect is material.

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.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale for which the commencement date for capitalisation is on or after 1 October 2009, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised as and included in finance costs in profit or loss 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 recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (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.

2. Summary of Significant Accounting Policies – *Continued*

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

3. Going Concern Convention

In preparing the consolidated financial statements, the directors of the Company (the "Directors") have given careful consideration to the liquidity of the Group as the Group has sustained operating losses for 4 consecutive years and incurred loss of approximately HK$18,065,000 (2009: HK$84,417,000) for the year.

In order to improve the situation, 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 during the year:

(a) the Group disposed certain of its land use right located in PRC to an independent third parties at consideration of approximately HK$13,896,000 (RMB12,000,000) in July 2010 and anticipates that the unsettled sale proceeds of approximately HK$8,106,000 (RMB7,000,000) will flow into the Group;

(b) the Group have planned, if necessary, to dispose certain of its land use right located in the PRC to independent third parties;

(c) the Group placed totally 426,680,000 ordinary shares in return for net proceeds of HK$106,357,000 during the year, details are set out in note 30; 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, as the measures described above accomplished the expected results, the directors are satisfied that the Group is 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 considered that it is appropriate to prepare the consolidated financial statements on a going concern basis.

4. Adoption of New and Revised HKFRSs

In the current year, the Group has adopted the following new and revised HKFRSs issued by the HKICPA, which are or have become effective.

Hong Kong Accounting Standard ("HKAS") 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 3 (Revised)	Business Combinations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners
HK(IFRIC) – Int 18	Transfers of Assets from Customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendments to HKFRS2, HKAS 38, paragraph 80 of HKAS 39, HK(IFRIC) – Int 9 and HK(IFRIC) – Int 16
HK – Int 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Except as described below, the adoption of the new and revised HKFRSs had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the consolidated financial statements) and changes in the format and content of the financial statements.

HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's most senior executive management.

HKFRS 3 (Revised) affects the Group's accounting for business combination for which the acquisition date is on or after 1 October 2009. The requirements in HKAS 27 (Revised) in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also adopted prospectively by the Group for transactions on or after 1 October 2009. As there was no transaction during the current financial year in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the adoption of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the consolidated financial statements of the Group for the current or prior accounting period. Accordingly, no prior year adjustment has been recognised.

HK – Int 5 requires a term loan that contains a repayment on demand clause should be classified as current liabilities. The adoption of HK – Int 5 has resulted in the presentation of bank borrowing of the Group being reclassified as current liabilities as at 30 September 2010 and 2009.

4. Adoption of New and Revised HKFRSs – *Continued*

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

HKFRSs (Amendments)	Improvements to HKFRSs 2009[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2010[2]
HKAS 24 (Revised)	Related Party Disclosures[6]
HKAS 32 (Amendment)	Classification of Rights Issues[4]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[5]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[4]
HKFRS 7 (Amendment)	Disclosures – Transfer of Financial Assets[8]
HKFRS 9	Financial Instruments[7]
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[6]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[5]

1 Amendments that are effective for annual periods beginning on or after 1 January 2010.
2 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.
3 Effective for annual periods beginning on or after 1 January 2010.
4 Effective for annual periods beginning on or after 1 February 2010.
5 Effective for annual periods beginning on or after 1 July 2010.
6 Effective for annual periods beginning on or after 1 January 2011.
7 Effective for annual periods beginning on or after 1 January 2013.
8 Effective for annual periods beginning on or after 1 July 2011.

HKFRS 9 "Financial Instruments" introduces new requirements for the classification and measurement of financial assets and will be effective for the Group's financial year commencing from 1 October 2013, with earlier adoption permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The adoption of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The Directors anticipate that the adoption of the other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

5. Critical Accounting Judgment and Key Sources of Estimation Uncertainty

Estimates and judgements are continually evaluated and are made based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that may have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Useful lives and impairment of properties, plant and equipment and other intangible assets

The Group's management determine the estimated useful lives, residual values and related depreciation and amortisation charges for the properties, plant and equipment and other intangible assets with reference to the estimated periods that the Group intends to derive future economic benefits from the use of these assets. Management will revise the depreciation and amortisation charges where useful lives are different to previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives; actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation and amortisation expense in the future periods.

The Group reviews tangibles and intangible assets for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recovered. Assessing the impairment loss requires a determination of fair value which is based on the best estimates and information available.

Assessment of goodwill impairment

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

Allowance for inventories

The management of the Group reviews an ageing analysis at the end of each reporting period, 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 the end of each reporting period 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 statement of comprehensive income 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 credit worthiness, 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 2010, the carrying amount of trade and bills receivables are approximately HK$28,282,000 (2009: HK$40,864,000), net of allowance for doubtful debts of approximately HK$21,392,000 (2009: HK$10,043,000). While the carrying amount of prepayments and other receivables are approximately HK$18,267,000 (2009: HK$7,765,000), net of allowance for doubtful debts of approximately HK$559,000 (2009: HK$559,000).

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

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, 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 27), 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

a. Financial risk management objectives and policies

The Group's major financial instruments include trade and bills receivables, other receivables, 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 non-controlling 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 2010 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position.

As at 30 September 2010, the Group has certain concentration of credit risk as 36% (2009: 28%) 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 27. 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.

7. Financial Instruments – *Continued*

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

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.

Liquidity risk

The Group is exposed to liquidity risk as at 30 September 2009 as its financial assets due within one year were less than its financial liabilities due within one year. The Group has implemented several measures to improve its working capital position and net financial position during the year, details of which are set out in note 3.

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 2010					
Financial liabilities					
Trade and bills payables	**19,527**	**–**	**–**	**19,527**	**19,527**
Other payables and accruals	**61,711**	**–**	**–**	**61,711**	**61,711**
Bank and other borrowings	**18,124**	**–**	**–**	**18,124**	**18,124**
Amount due to a non-controlling shareholder	**971**	**–**	**–**	**971**	**971**
Amounts due to directors	**468**	**–**	**–**	**468**	**468**
	100,801	**–**	**–**	**100,801**	**100,801**

	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	23,377	–	–	23,377	23,377
Amount due to a non-controlling 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
	105,892	–	–	105,892	105,892

7. Financial Instruments – *Continued*

b. 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 statement of financial position approximate to the corresponding carrying amounts due to their short-term maturities.

c. Categories of financial instruments

	2010	2009
	HK$'000	HK$'000
Financial assets		
Financial assets at fair value through profit or loss	**19,485**	–
Loans and receivables (including cash and cash equivalents)		
Trade and bills receivables	**28,282**	40,864
Other receivables	**18,267**	6,055
Amount due from a director	**–**	56
Pledged bank deposits	**–**	5,675
Bank balances and cash	**88,443**	2,128
	154,477	54,778
Financial liabilities		
Financial liabilities measured at amortised cost		
Trade and bills payables	**19,527**	36,885
Other payables and accruals	**61,711**	37,698
Bank and other borrowings	**18,124**	23,377
Amount due to a non-controlling shareholder	**971**	2,851
Amount due to a shareholder	**–**	4,581
Amounts due to directors	**468**	500
	100,801	105,892

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, dental materials and equipment in the PRC and trading of securities in Hong Kong.

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		Trading of financial assets at fair value through profit or loss		Consolidated	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Turnover	**34,511**	86,140	**19,642**	42,702	**27,883**	23,798	**1,774**	7,223	**336**	659	**38**	–	**84,184**	160,522
Segment results	**(1,498)**	(21,491)	**(3,193)**	(8,587)	**(3,395)**	(1,201)	**66**	(3,380)	**(543)**	(2,290)	**(387)**	–	**(8,950)**	(36,949)
Other income													**9,968**	2,046
Impairment loss recognised in respect of goodwill													**–**	(5,525)
Restructuring and redundancy costs													**(2,107)**	(35,030)
Unallocated corporate expenses													**(15,199)**	(4,593)
Finance costs													**(1,730)**	(3,388)
Loss before tax													**(18,018)**	(83,439)
Income tax expenses													**(47)**	(978)
Loss for the year													**(18,065)**	(84,417)

Consolidated statement of financial position

As at 30 September

	Manufacturing and sales of consumer cosmetics		Manufacturing and sales of health related products		Manufacturing and sales of capsules products		Manufacturing of health supplement wine		Manufacturing and sales of dental materials and equipment		Trading of financial assets at fair value through profit or loss		Consolidated	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Assets														
Segment assets	**62,377**	53,557	**27,464**	39,753	**38,964**	38,788	**3,156**	8,430	**8,543**	6,426	**19,485**	–	**159,989**	146,954
Unallocated corporate assets													**87,529**	8,116
Total assets													**247,518**	155,070
Liabilities														
Segment liabilities	**41,764**	35,392	**29,272**	20,923	**15,838**	14,049	**2,835**	2,387	**4,433**	401	–	–	**94,142**	73,152
Unallocated corporate liabilities													**6,659**	32,740
Total liabilities													**100,801**	105,892

8. Segment Information – *Continued*

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		Trading of financial assets at fair value through profit or loss		Unallocated		Consolidated	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Capital expenditures	**1,234**	1,456	**245**	83	**341**	496	**24**	–	**4,058**	1,088	**–**	–	**–**	–	**5,902**	3,123
Amortisation of prepaid lease payments	**326**	309	**76**	209	**62**	78	**7**	–	**24**	24	**–**	–	**–**	–	**495**	620
Depreciation of property, plant and equipment	**1,420**	586	**663**	2,159	**1,530**	1,783	**65**	–	**20**	92	**–**	–	**–**	–	**3,698**	4,620
Written off of property, plant and equipment	**59**	–	**43**	–	**–**	–	**4**	–	**–**	–	**–**	–	**–**	–	**106**	–
Impairment loss recognised in respect of property, plant and equipment	**1,931**	–	**–**	–	**–**	850	**–**	–	**589**	–	**–**	–	**–**	–	**2,520**	850
Gain on disposal of prepaid lease payment	**(5,061)**	(807)	**(3,772)**	–	**–**	–	**(368)**	–	**–**	–	**–**	–	**–**	–	**(9,201)**	(807)
Written back of obsolete stocks	**–**	–	**–**	–	**–**	(109)	**–**	–	**–**	–	**–**	–	**–**	–	**–**	(109)
(Impairment loss of) obsolete stocks	**7,660**	–	**5,233**	–	**–**	–	**511**	–	**–**	–	**–**	–	**–**	–	**13,404**	–
Gain on disposal of a subsidiary	**–**	–	**–**	–	**–**	–	**–**	–	**–**	(137)	**–**	–	**–**	–	**–**	(137)
Loss on disposal of property, plant and equipment	**76**	858	**(10)**	26	**–**	112	**(1)**	–	**–**	–	**–**	–	**–**	–	**65**	996
Trade and other receivables written off/ allowance for bad and doubtful debts	**4,366**	1,108	**3,255**	562	**3,100**	3,330	**318**	95	**–**	–	**–**	–	**–**	67	**11,039**	5,162

9. Turnover

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

10. Other Income

	2010	2009
	HK$'000	HK$'000
Net exchange gain	**–**	896
Gain on disposal of prepaid lease payments	**9,201**	807
Interest income	**108**	152
Gain on disposal of a subsidiary (note 31)	**–**	137
Sundry income	**659**	54
	9,968	2,046

11. Restructuring and Redundancy Costs

Since last 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 had shut down its inefficient sales networks and terminated certain of its employees. Relevant costs incurred in the process are as follows:

	2010	2009
	HK$'000	HK$'000
Cost of inventories recognised for compensation	**–**	29,702
Employees termination compensation paid	**2,107**	4,375
Provision for employees termination compensation	**–**	953
	2,107	35,030

12. Finance Costs

	2010	2009
	HK$'000	HK$'000
Interest expenses:		
– bank borrowings wholly repayable within five years	**1,596**	2,995
– other borrowings wholly repayable within five years	**34**	39
– discounted bills interest	**100**	354
	1,730	3,388

13. Loss Before Tax

	2010 HK$'000	2009 HK$'000
Loss before tax has been arrived at after charging (crediting):		
Directors' emoluments (note 17)	**3,640**	1,707
Other staff costs	**8,831**	62,716
Retirement benefits scheme contributions (excluding directors' remuneration)	**1,451**	2,513
Total staff costs	**13,922**	66,936
Trade and other receivables written off/allowance for bad and doubtful debts (included in administrative expenses)	**11,039**	5,162
Written back of obsolete stocks (included in cost of sales)	**–**	(109)
Impairment loss of obsolete stocks (included in cost of sales)	**13,404**	–
Cost of inventories recognised as an expense	**43,700**	71,641
Auditors' remuneration	**420**	460
Amortisation of prepaid lease payments	**495**	620
Depreciation of property, plant and equipment	**3,698**	4,620
Property, plant and equipment written off	**106**	–
Impairment loss recognised in respect of property, plant and equipment (included in administrative expenses)	**2,520**	850
Loss on disposal of property, plant and equipment	**65**	996
Loss on investment in financial assets at FVTPL	**387**	–
Net exchange loss	**2**	–
Dividend income on investment in financial assets at FVTPL	**(38)**	–

14. Income Tax Expense

	2010 HK$'000	2009 HK$'000
The amount comprises:		
Taxation arising in Hong Kong	**–**	–
Taxation arising in the PRC		
Current year	**47**	548
Under provision in prior years	**–**	430
	47	978

The Company and its subsidiaries have no assessable profits arising in Hong Kong for the year and previous year.

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

14. Income Tax Expense – *Continued*

Pursuant to the relevant law and regulations in the PRC, subsidiaries of the Company in the PRC, Jiangsu Longlife and Zhejiang Xinda Zhongshan Capsules Company Limited are exempted from PRC Enterprise Income Tax for two years starting from the first profit making year in which profits exceed any tax losses brought forward followed by a 50% tax reduction relief for PRC Enterprise Income Tax for the following three years.

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

	2010 **HK$'000**	2009 HK$'000
Loss before tax	**(18,018)**	(83,439)
Tax at respective applicable tax rates	**(4,505)**	(20,164)
Tax effect of expenses not deducible for tax purposes	**5,357**	4,887
Tax effect of income not taxable for tax purposes	**(2,300)**	(272)
Tax effect of tax losses not recognised	**1,495**	16,625
Tax effect of exemption granted to PRC subsidiaries	**–**	(528)
Under provision in prior years	**–**	430
Income tax expense for the year	**47**	978

15. Dividends

No dividend was paid or proposed during the year ended 30 September 2010, nor has any dividend been proposed since the end of the reporting period (2009: nil).

16. Loss Per Share

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

	2010 **HK$'000**	2009 HK$'000
Loss:		
Loss for the year for the purposes of basic loss per share	**(16,465)**	(83,561)

	2010	2009
Numbers of shares:		
Weighted average number of ordinary shares for the purpose of basic loss per share	**680,461,370**	533,400,000

No diluted loss per share have been presented for the year ended 30 September 2010 as there was no potential ordinary share outstanding during the year and the exercise price of the Company's outstanding share options was higher than the average market price for the Company's share during the year.

No diluted loss per share have been presented for the year ended 30 September 2009 as there was no dilutive potential ordinary share.

17. Directors' and Employees' Emoluments

(a) Directors' emoluments

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

For the year ended 30 September 2010

	Fees HK$'000	Salaries and other benefits HK$'000	Share-based compensation HK'000	Retirement benefit scheme contributions HK$'000	Total emoluments HK$'000
Executive Directors					
Zhang Sanlin	–	230	–	–	230
Chen Zhongwei	–	313	–	–	313
Cheung Hung (appointed on 19 January 2010)	–	421	866	–	1,287
Tian Zhenyong (appointed on 1 June 2010)	–	120	–	–	120
Wang Zhixin (appointed on 1 June 2010)	–	219	866	6	1,091
Zheng Lixin (resigned on 7 April 2010)	–	62	–	–	62
Yao Feng (resigned on 1 June 2010)	–	153	–	–	153
	–	1,518	1,732	6	3,256
Non-executive Director					
Lo Wing Yat, Kelvin (resigned on 9 April 2010)	–	–	–	–	–
Independent non-executive Directors					
Chong Cha Hwa	120	–	–	–	120
Chan Wai Yan (appointed on 19 January 2010)	84	–	–	–	84
Sham Chi Keung, William (appointed on 19 January 2010)	84	–	–	–	84
Yu Jie (retired on 18 March 2010)	60	–	–	–	60
Yu Hong (resigned on 19 January 2010)	36	–	–	–	36
	384	–	–	–	384
Total	384	1,518	1,732	6	3,640

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

(a) Directors' emoluments – *Continued*

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 Sanlin	–	227	5	232
Chen Zhongwei (appointed on 6 July 2009)	–	227	14	241
Yang Shunfeng (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

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 2010 and 2009.

(b) Employees' emoluments

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

	2009 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 2010 and 2009.

18. Goodwill

	HK$'000
COST	
1 October 2008	5,640
Eliminated on disposal of a subsidiary	(115)
At 30 September 2009, 1 October 2009 and 30 September 2010	5,525
IMPAIRMENT LOSS	
At 1 October 2008	–
Impairment loss recognised	5,525
At 30 September 2009, 1 October 2009 and 30 September 2010	5,525
CARRYING VALUES	
At 30 September 2010	–
At 30 September 2009	–

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.

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 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 and at 1 October 2009	39,657	5,415	2,983	18,976	4,230	71,261
Exchange realignment	712	96	53	334	77	1,272
Additions	957	140	143	584	4,078	5,902
Transfers	–	–	–	–	–	–
Disposals	(1,235)	(289)	(888)	(1,706)	–	(4,118)
Written off	–	(1,362)	(805)	(2,413)	(104)	(4,684)
At 30 September 2010	40,091	4,000	1,486	15,775	8,281	69,633
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSS						
At 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 and at 1 October 2009	9,025	4,563	2,083	9,299	–	24,970
Exchange realignment	170	80	33	172	–	455
Charge for the year	1,415	291	152	1,840	–	3,698
Impairment loss recognised	–	149	460	1,322	589	2,520
Eliminated on disposals	(344)	(205)	(759)	(1,090)	–	(2,398)
Eliminated on written off	–	(1,359)	(805)	(2,414)	–	(4,578)
At 30 September 2010	10,266	3,519	1,164	9,129	589	24,667
CARRYING VALUES						
At 30 September 2010	29,825	481	322	6,646	7,692	44,966
At 30 September 2009	30,632	852	900	9,677	4,230	46,291

As at 30 September 2010, certain buildings of the Group in the PRC with aggregate carrying amount of approximately HK$14,717,000 (2009: HK$13,062,000) have been pledged to secure bank borrowings granted to the Group (note 27).

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 2010, 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$2,520,000 (2009: HK$850,000) had been recognised in the consolidated statement of comprehensive income. 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 represented leasehold land located in the PRC held under medium-term leases.

	2010 **HK$'000**	2009 HK$'000
Carrying amount at 1 October	**16,585**	18,718
Exchange realignment	**405**	(5)
Amortisation	**(495)**	(620)
Disposal	**(4,556)**	(1,508)
Carrying amount at 30 September	**11,939**	16,585
Analysed for reporting purpose as:		
Current asset	**425**	394
Non-current asset	**11,514**	16,191
	11,939	16,585

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

At 30 September 2010, the Group's prepaid lease payments amounting to approximately HK$6,822,000 (2009: HK$6,263,000) were pledged to secure bank borrowings granted to the Group (note 27).

21. Financial Assets at Fair Value Through Profit or Loss

Financial assets at FVTPL as at 30 September comprise:

	2010 HK$'000	2009 HK$'000
Fair value:		
Securities listed in Hong Kong held for trading	**19,485**	–

The fair values of the Group's financial assets at FVTPL were determined based on the quoted market bid prices available on the relevant exchanges at the end of the reporting period.

The following table presents the carrying value of financial instruments measured at fair value at the end of the reporting period across the three levels of the fair value hierarchy defined in HKFRS 7, Financial instruments Disclosures, with the fair value of each financial instrument categorized in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

– Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments;

– Level 2 (mid level): fair values measured using quoted process in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data; and

– Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data.

Securities listed in Hong Kong held for trading

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
As at 30 September 2010	19,485	–	–	19,485
As at 30 September 2009	–	–	–	–

22. Inventories

	2010 HK$'000	2009 HK$'000
Raw materials	**7,252**	10,991
Work in progress	**1,971**	3,203
Finished goods	**26,869**	21,374
	36,092	35,568

There were no subsequent sales of obsolete inventories for the year. (2009: There were subsequent sales of obsolete inventories, as a result a reversal of allowance for obsolete stocks of approximately HK$109,000 had been recognized and included in cost of sales).

There was in exist of certain obsolete stock with shelf lives expired at the end of the reporting period. As a result, an impairment loss of obsolete stocks of approximately HK$13,404,000 has been recognised and included in cost of sales in the current year.

23. Trade and Bills Receivables

	2010 HK$'000	2009 HK$'000
Trade and bills receivables	**49,674**	50,907
Less: Allowance for bad and doubtful debts	**(21,392)**	(10,043)
	28,282	40,864

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 end of the reporting period:

	2010 HK$'000	2009 HK$'000
0 – 90 days	**10,365**	26,361
91 – 180 days	**8,762**	8,726
181 – 365 days	**9,147**	5,721
Over 365 days	**8**	56
	28,282	40,864

Ageing analysis of trade receivables past due but not impaired:

	2010 HK$'000	2009 HK$'000
91 – 180 days	**8,762**	8,726
181 – 365 days	**9,147**	5,721
Over 365 days	**8**	56
	17,917	14,503

23. Trade and Bills Receivables – *Continued*

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:

	2010	2009
	HK$'000	HK$'000
Balance at beginning of the year	**10,043**	4,948
Exchange realignment	**310**	–
Write back of allowance for bad and doubtful debts	**(2,969)**	(61)
Allowance for bad and doubtful debts recognised	**14,008**	5,156
Balance at end of the year	**21,392**	10,043

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. At the end of the reporting period, included in the allowance for doubtful debts were individually impaired trade receivables with an aggregate balance of approximately HK$21,392,000 (2009: HK$10,043,000).

24. Prepayments and Other Receivables

During the year, there were no individually impaired other receivables (2009: HK$559,000) included in the allowance for bad and doubtful debts. The individually impaired receivables in 2009 were recognised based on the aging analysis and current business relationship.

The movement in the allowance for bad and doubtful debts is as follows:

	2010	2009
	HK$'000	HK$'000
Balance at beginning of the year	**559**	492
Write back of allowance for bad and doubtful debts	**–**	(352)
Other receivables allowance for bad and doubtful debts recognized	**–**	419
Balance at end of the year	**559**	559

25. Pledged Bank Deposits and Bank Balances and Cash

No bank deposits were pledged at the end of the reporting period (2009: Pledged bank deposits of RMB5,000,000 represent the amount pledged to banks to secure banking facilities granted to the Group, with maturity within 3 months. The deposits carry interest at 1.98% per annum.)

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

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:

	2010	2009
Renminbi (RMB'000)	**4,389**	6,938
Hong Kong dollars (HK$'000)	**83,360**	–

26. Trade and Bills Payables

The following is an aged analysis of trade and bills payables at the end of the reporting period:

	2010 **HK$'000**	2009 HK$'000
0 – 90 days	**8,687**	19,265
91 – 180 days	**1,129**	11,084
181 – 365 days	**1,579**	5,513
Over 365 days	**8,132**	1,023
	19,527	36,885

The Group's bank deposits amounting to HK$5,675,000 was pledged as securities for the bills payables as at 30 September 2009. There were no bills payables and no pledge of assets for bills payables at the end of the reporting period.

27. Bank and Other Borrowings

	2010 **HK$'000**	2009 HK$'000
Secured bank borrowings	**17,371**	22,699
Unsecured bank borrowings	**579**	568
Unsecured other borrowings	**174**	110
	18,124	23,377
Carrying amount repayable:		
Less than one year	**18,124**	23,377

27. Bank and Other Borrowings – *Continued*

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

At 30 September 2010, secured bank borrowings of approximately HK$17,371,000 (2009: HK$22,699,000) were secured by buildings and prepaid lease payments of the Group with aggregate carrying amount of approximately HK$21,539,000 (2009: HK$19,325,000). At 30 September 2010, such secured bank borrowings included an amount of approximately HK$11,581,000 (2009: HK$7,718,000) which were guaranteed by the CEO and an ex-director of the Company (note 39).

At 30 September 2010, the bank borrowing of approximately HK$579,000 (2009 : HK$568,000) was guaranteed by an independent third party to the Group.

The bank borrowings carried interest ranging from 5.53% to 9.29% (2009: 5.75% to 12.33%) per annum.

The other borrowings were unsecured and carried interest at 12% (2009: 12%) per annum.

28. Amount Due from (to) a Non-controlling Shareholder, a Shareholder and Directors

The amount due from (to) a Non-controlling Shareholder, a shareholder and directors are unsecured, interest-fee and repayable on demand. Loan to officers of the Company disclosed pursuant to Section 161B of the Hong Kong Companies Ordinances are as follows.

The amount due from a director represents:

	2010	2009	**Maximum amount outstanding during the year**
	HK$'000	HK$'000	HK$'000
Due from:			
Yang Shunfeng (resigned on 18 February 2009)	–	56	56

29. Deferred Taxation

At the end of the reporting period, the Group had unused tax losses of approximately HK$125,976,000 (2009: HK$224,933,000) 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.

30. Share Capital

	Number of shares	Share capital HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 October 2008, 30 September 2009, 1 October 2009 and 30 September 2010	2,000,000,000	200,000
Issued and fully paid:		
At 1 October 2008, 30 September 2009 and 1 October 2009	533,400,000	53,340
Issue of shares by placement at HK$0.215 each (note (a))	106,680,000	10,668
Issue of shares by placement at HK$0.27 each (note (b))	128,000,000	12,800
Issue of shares by placement at HK$0.27 each (note (b))	192,000,000	19,200
Total issue of shares for the year	426,680,000	42,668
At 30 September 2010	960,080,000	96,008

Note:

(a) Pursuant to the placing agreement dated 10 February 2010, on 10 March 2010, the Company allotted and issued 106,680,000 new shares to not fewer than six placees at the placing price of HK$0.215 each. The Placees are third parties independent of and not connected persons of the Company. The new shares rank pari passu with the existing shares in all respects.

(b) Pursuant to the placing agreement dated 24 March 2010, on 9 April 2010 and 13 August 2010, the Company allotted and issued a total of 320,000,000 new shares to not fewer than six placees at the placing price of HK$0.270 each. The Placees are third parties independent of and not connected persons of the Company. The new shares rank pari passu with the existing shares in all respects.

31. Disposal of a Subsidiary

On 13 April 2009, the Group has disposed of its 51% interest in Wuxi Yongle to a non-controlling 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)
Non-controlling 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

32. Share Option Scheme

(a) 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 non-controlling shareholder in the Company's subsidiaries, and adviser to business development of the Group. The Scheme became effective on 26 May 2004 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

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

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

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

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

32. Share Option Scheme – *Continued*

(b) Options granted

Summary of the share options granted is as follows:

(i) Movement in number of share options

	2010	2009
Number of share options		
At 1 October	**–**	–
Granted during the year	**50,000,000**	–
Exercised during the year	**–**	–
At 30 September	**50,000,000**	–

(ii) Details of the share options granted during the year

Date of grant	**Exercisable period**	**Number of share options granted**	**Exercise price**	**Fair value at date of grant**
			HK$	HK$
9 April 2010	9 April 2010 – 8 April 2020	50,000,000	0.355	0.1732

The average fair value of the share options granted during the year is HK$0.1732 each. Options were priced using the Black-Scholes Option Pricing Model. As it requires the input of highly subjective assumptions, including the volatility of share prices, changes in subjective input assumptions can materially affect the fair value estimate.

The expected volatility is based on the historical volatility of the share prices of the Company over a period that is equal to the expected life before the grant date.

The vesting period of the share options is from the date of grant until the commencement of the exercise period. The share options would be fully exercisable from the commencement of the exercise period.

The fair value of the shares options granted in the year as determined by using the Black-Scholes Option pricing model was approximately HK$8,660,000 of which approximately HK$8,574,000 was recognised in profit or loss for the year.

33. Operating Lease Commitments

	2010 HK$'000	2009 HK$'000
Minimum lease payments under operating lease during the year in relation to office premises, warehouses and staff quarters	**313**	1,087

At the end of the reporting period, 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:

	2010 HK$'000	2009 HK$'000
Within one year	**1,649**	161
In the second to fifth year inclusive	**2,573**	–
Over five years	**–**	–
	4,222	161

Leases are negotiated and rentals are fixed for terms of 1 year to 3 years (2009: 1 year to 2 years).

34. Capital Commitments

	2010 HK$'000	2009 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of		
– acquisition of property, plant and equipment	**394**	5,508

35. Pledge of Assets

At end of the reporting period, the following assets were pledged by the Group to secure banking facilities:

	2010 HK$'000	2009 HK$'000
Property, plant and equipment	**14,717**	13,062
Prepaid lease payments	**6,822**	6,263
Bank deposits	**–**	5,675
	21,539	25,000

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$1,457,000 (2009: HK$2,537,000) for the year.

37. Statement of Financial Position of the Company

	2010	2009
	HK$'000	HK$'000
NON CURRENT ASSETS		
Investments in subsidiaries	**–**	–
CURRENT ASSETS		
Prepayment	**1,017**	38
Amounts due from subsidiaries (note)	**69,705**	49,285
Bank balances	**82,766**	68
	153,488	49,391
CURRENT LIABILITIES		
Other payables	**691**	1,158
Amounts due to directors (note)	**468**	–
Amounts due to subsidiaries (note)	**10,675**	8,740
	11,834	9,898
NET CURRENT ASSETS	**141,654**	39,493
CAPITAL AND RESERVES		
Share capital	**96,008**	53,340
Reserves	**45,646**	(13,847)
	141,654	39,493

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

As at 30 September 2010, the aggregate amount of reserves of the Company available for distribution to equity shareholders of the Company was approximately HK$162,695,000 (2009: nil). The distributable reserves which include the Company's share premium and other reserves, under the Companies Law of the Cayman Islands, are distributable to shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

38. Particulars of Subsidiaries

Details of the subsidiaries held by the Company as at 30 September 2010 are as follows:

Name of company	Place of incorporation/ registration/ operation	Issued and fully paid up share capital/ registered capital	Proportion ownership interest held by the Company		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, household commodities and health supplement wine
Smiston Technology Limited	BVI	Ordinary shares US$50,000	–	100%	Investment holding
Splendid Rich Holdings Limited	BVI	Ordinary shares US$100	–	100%	Investment holding and trading of securities
Suzhou Beautiful Biochemistry Co., Ltd. (Note a)	PRC	Registered capital US$3,800,000	–	100%	Manufacture of household commodities for daily use
Zhejiang Xinda Zhongshan Capsules Company Limited (Note b)	PRC	Registered capital US$1,800,000	–	61%	Manufacture and sale of capsules
Jiangsu Longlife (Note a)	PRC	Registered capital RMB10,000,000	–	100%	Manufacturing and sale of health supplement wine but inactive at end of the year
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%	Investment holding
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

Notes:

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

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

c. These subsidiaries 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 and Connected Transactions

(a) Outstanding balances with related parties

(i) As at 30 September 2010, a secured bank borrowing amounting to approximately HK$11,581,000 (2009: HK$7,718,000) was guaranteed by the CEO and an ex-director of the Company, Mr. Yang Shunfeng.

(ii) In addition to the disclosures of details of amount due from (to) a shareholder and directors in note 28 to the financial statements, as at 30 September 2010, there were outstanding balances due to the following consolidated parties:

	2010	2009
	HK$'000	HK$'000
Amount due to a shareholder:		
Mr. Yang Honggen who ceased to be a shareholder of the Company during the year 2010	**–**	4,581
Amounts due to directors:		
Mr. Cheung Hung	**91**	–
Mr. Zhang Sanlin	**78**	–
Mr. Chen Zhongwei	**139**	–
Mr. Tian Zhenyong	**30**	–
Mr. Wang Zhixin	**120**	–
Mr. Chong Cha Hwa	**10**	–
Mr. Zheng Lixin (resigned on 7 April 2010)	**–**	500
	468	500

(b) Transactions with related parties

Details of the transactions with related parties during the year:

(i) The Company and Capital VC Limited have jointly entered into a tenancy agreement for the lease of office promises. Under the agreement, the Company shared 50% of the rent on a cost basis.

The Company confirms that the joint tenancy agreement as disclosed above falls under the definition of continuing connected transactions in Chapter 20 of the GEM Listing Rules and that it should be exempted from reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

(ii) The Company has granted 500,000 units of share option to Capital VC Limited at the fair value of HK$0.1732 per unit on 9 April 2010. The maturity date of the option is on 8 April 2020.

(iii) As set out in note 31 to the consolidated financial statements, the Group has disposed of its 51% interest in Wuxi Yongle on 13 April 2009 to a non-controlling shareholder of Wuxi Yongle at a consideration of approximately HK$454,000.

(iv) The Company has granted 5,000,000 units of share option to Mr. Zheng Lixin, an ex-Director who resigned on 7 April 2010 and has been retained as a consultant of the Company, at the fair value of HK$0.1732 per unit on 9 April 2010. The maturity date of the option is on 8 April 2020.

Note: Capital VC Limited and Mr. Yau Chung Hong ("Mr. Yau") are substantial shareholders of the Company. Mr. Yau is also a shareholder and a director of Capital VC Limited.

39. Related Party and Connected Transactions – *Continued*

(c) Compensation of key management personnel

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

	2010 HK$'000	2009 HK$'000
Short-term benefits	3,634	2,007
Post-employment benefits	6	31
	3,640	2,038

The remuneration of Directors and key executives is determined by the Remuneration Committee having regard to the individual performance and market trends.

40. Contingent Liabilities

The Company and Capital VC Limited have jointly entered into a tenancy agreement for the lease of office premises for a term of three years from 5 July 2010 to 4 July 2013. As at 30 September 2010, the maximum rental liabilities of the Company due to default of rental payment of Capital VC Limited would be HK$4,222,000.

41. Legal Dispute

A dispute in relation to a construction contract between Jiangsu Longlife Special Equipment Technology Co. Ltd. ("Longlife Special Equipment"), a wholly-owned subsidiary of the Group, and 蘇州建築工程集團有限公司 was resolved by way of civil mediation through Suqian City Intermediate People's Court of Jiangsu Province on 16 September 2010. Longlife Special Equipment has to pay a construction fee of RMB 3,476,436.64 before 31 December 2010, non-compliance of which will entitle 蘇州建築工程集團有限公司 to apply to the Court for specific performance, including auctioning off or realising the land use rights and buildings of the Longlife Special Equipment with an aggregate carrying value of HK$7,477,000. Such auctions might bring profits or losses to the Group as the biding prices might not be at fair market values.

Up to the date of approval of these consolidated financial statement, no settlement has been made by the Group.

42. Comparative Figures

With adoption of HK-Int 5 Presentation of Financial statements – classification by the borrower of a term loan that contains a repayment on demand clause, comparative figure of bank borrowing of HK$3,065,000 has been reclassified from non-current liabilities to current liabilities.

FINANCIAL SUMMARY

Results

	For the year ended 30 September				
	2006 HK$'000	2007 HK$'000	2008 HK$'000	2009 HK$'000	**2010** **HK$'000**
Turnover	243,386	270,753	272,277	160,522	**84,184**
Cost of sales	(97,826)	(98,038)	(111,725)	(71,641)	**(43,700)**
Gross profit	145,560	172,715	160,552	88,881	**40,484**
Other income	4,156	2,160	1,001	2,046	**9,968**
Impairment loss recognised in respect of goodwill	–	–	–	(5,525)	**–**
Restructuring and redundancy cost	–	–	–	(35,030)	**(2,107)**
Administrative expenses	(26,236)	(26,788)	(32,192)	(29,886)	**(33,951)**
Selling and distribution expenses	(118,355)	(181,714)	(161,715)	(98,170)	**(27,715)**
Other expenses	(459)	(620)	(768)	(2,367)	**(2,967)**
Finance costs	(1,233)	(2,002)	(2,769)	(3,388)	**(1,730)**
(Loss)/profit before tax	3,433	(36,249)	(35,891)	(83,439)	**(18,018)**
Income tax expense	(2,905)	(2,084)	(1,534)	(978)	**(47)**
(Loss)/profit for the year	528	(38,333)	(37,425)	(84,417)	**(18,065)**
(Loss)/profit attributable to:					
Equity holders of the Company	639	(38,375)	(38,187)	(83,561)	**(16,465)**
Non-controlling interests	(111)	42	762	(856)	**(1,600)**
(Loss)/profit for the year	528	(38,333)	(37,425)	(84,417)	**(18,065)**

Assets and liabilities

	As at 30 September				
	2006 HK$'000	2007 HK$'000	2008 HK$'000	2009 HK$'000	**2010** **HK$'000**
Total assets	266,805	245,037	248,330	155,070	**247,518**
Total liabilities	(89,831)	(98,352)	(113,789)	(105,892)	**(100,801)**
Total equity	176,974	146,685	134,541	49,178	**146,717**
Non-controlling interests	(5,406)	(5,712)	(7,393)	(6,214)	**(4,724)**
Equity attributable to equity holders of the Company	171,568	140,973	127,148	42,964	**141,993**