



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



First Quarterly Report 2011



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

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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.

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This report for which the directors (the “Directors”) of Longlife Group Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, confirm that to the best of their knowledge and belief 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.

UNAUDITED THREE-MONTH RESULTS

The board (the “Board”) of directors (the “Directors”) of Longlife Group Holdings Limited (the “Company”) announces the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the three months ended 31 December 2010 together with the comparative unaudited figures for the corresponding period in 2009 prepared in accordance with generally accepted accounting principles in Hong Kong, as follows. The unaudited consolidated results have not been audited by the Company’s auditors but have been reviewed by the Company’s audit committee.

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

		Three months ended 31 December 2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
	Notes		
Turnover	2	19,756	23,319
Cost of sales		(10,063)	(9,749)
Gross profit		9,693	13,570
Other income		56	89
Loss on investment in financial assets at fair value through profit or loss		(1,420)	–
Administrative expenses		(3,393)	(3,825)
Selling and distribution expenses		(5,733)	(10,295)
Other expenses		(31)	(49)
Finance costs		(373)	(567)
Loss before tax		(1,201)	(1,077)
Income tax expenses	3	(29)	(10)
Loss for the period		(1,230)	(1,087)
Attributable to:			
Owners of the Company		(1,235)	(983)
Non-controlling interests		5	(104)
		(1,230)	(1,087)
Loss per share	4		
– Basic		(0.13) cent	(0.18) cent
– Diluted		N/A	N/A

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	Three months ended	
	31 December	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Loss for the period	(1,230)	(1,087)
Other comprehensive income:		
Exchange difference arising on translation of foreign operations	440	23
Total comprehensive loss for the period	(790)	(1,064)
Attributable to:		
Owners of the Company	(865)	(964)
Non-controlling interests	75	(100)
	(790)	(1,064)

Notes:

1. BASIS OF PREPARATION

The Company was incorporated and registered as an exempted company in the Cayman Islands under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 5 June 2003.

The shares of the Company were successfully listed on the GEM of the Exchange on 17 June 2004. The condensed consolidated financial statements are presented in Hong Kong dollars ("HK\$"). Other than those subsidiaries established in the People's Republic of China (the "PRC") whose functional currency is Renminbi ("RMB"), the functional currency of the Company and its subsidiaries are HK\$. The reason for selecting HK\$ as its presentation currency is because the Company is a public company listed on the Growth Enterprise Market of The Stock Exchange, where most of the investors are located in Hong Kong.

The unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standards ("HKFRS"), which is a collective term of Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations ("Int") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The accounting policies and methods of computation adopted are consistent with those followed in the preparation of the Group's audited financial statements set out in the annual report for the year ended 30 September 2010. The unaudited condensed financial statements have been prepared under the historical cost basis, except for financial assets at fair value through profit or loss which have been measured at fair value.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the current period and prior periods.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The application of these new HKFRSs will not have material impact on the financial statements of the Group.

2. TURNOVER

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

	Three months ended	
	31 December	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Manufacturing and sales of consumer cosmetics	9,719	10,465
Manufacturing and sales of health related products	3,122	4,804
Manufacturing and sales of capsules products	6,542	7,545
Manufacturing and sales of health supplement wine	242	415
Manufacturing and sales of dental materials and equipment	131	90
	19,756	23,319

3. INCOME TAX EXPENSES

Three months ended 31 December	
2010	2009
(Unaudited)	(Unaudited)
HK\$'000	HK\$'000

The amount comprises:

Taxation arising in the PRC		
– Current period	29	10

No provision for Hong Kong Profits Tax has been made in the consolidated income statement as the Company and its subsidiaries have no assessable profits arising in Hong Kong for both periods.

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

Pursuant to the relevant law and regulations in the PRC, certain subsidiaries of the Company in the PRC are exempted from PRC Enterprise Income Tax for two years starting from the first profit making year in which profits exceed any carried forward tax losses followed by a 50% tax relief for PRC Enterprise Income Tax for the following three years.

The income tax expenses for the period can be reconciled to the loss before tax per the consolidated income statement as follows:

	Three months ended 31 December	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Loss before tax	(1,201)	(1,077)
Tax at respective applicable tax rates	(376)	(228)
Tax effect of expenses not deductible for tax purposes	179	169
Tax effect of income not taxable for tax purposes	(8)	(22)
Tax effect of tax losses not recognised	234	91
Income tax expense for the period	29	10

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

The income tax expense for the period is arisen from profit recorded by some of the Group's subsidiaries.

4. LOSS PER SHARE

Basic loss per share

The calculation of basic loss per share for the three months ended 31 December 2010 are based on the unaudited consolidated loss attributable to owners of the Company for the period of approximately HK\$1,235,000 (Three months ended 31 December 2009: approximately HK\$983,000) and weighted average number of ordinary shares for the purposes of basic loss per share of 960,080,000 (Three months ended 31 December 2009: 533,400,000) shares.

Diluted loss per share

No diluted loss per share has been presented for the three months ended 31 December 2010 as there was no potential ordinary share outstanding during the period 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 period.

No diluted loss per share have been presented for the three months ended 31 December 2009 as there was no dilutive potential ordinary share.

5. SHARE CAPITAL AND RESERVES

	Number of shares	Par value per share	Amount HK\$'000
<i>A. Movement of authorised share capital</i>			
At 31 December 2009 (unaudited) and 31 December 2010 (unaudited)	2,000,000,000	HK\$0.10	200,000
<i>B. Movement of issued share capital</i>			
At 1 October 2009 and 31 December 2009	533,400,000	HK\$0.10	53,340
Placing of new shares during the 9 months ended 30 September 2010	426,680,000	HK\$0.10	42,668
At 30 September 2010 and 31 December 2010	960,080,000	HK\$0.10	96,008

C. *Movements of reserves are as follows:*

	Share premium HK\$'000	Share options reserve HK\$'000	Special reserve HK\$'000	Statutory surplus reserve fund HK\$'000 (Note1)	Statutory enterprise expansion fund HK\$'000 (Note2)	Exchange reserve HK\$'000 (Note3)	Accumulated losses HK\$'000	Total HK\$'000
At 1 October 2009 (Audited)	15,479	–	22,443	15,479	3,098	27,813	(94,688)	(10,376)
Loss for the period	–	–	–	–	–	–	(983)	(983)
Other comprehensive loss								
Exchange differences arising on translation	–	–	–	–	–	19	–	19
Total comprehensive loss for the three months ended 31 December 2009	–	–	–	–	–	19	(983)	(964)
At 31 December 2009 (Unaudited)	15,479	–	22,443	15,479	3,098	27,832	(95,671)	(11,340)
At 1 October 2010 (Audited)	79,168	8,574	22,443	15,479	3,098	28,376	(111,153)	45,985
Loss for the period	–	–	–	–	–	–	(1,235)	(1,235)
Other comprehensive loss								
Exchange differences arising on translation	–	–	–	–	–	370	–	370
Total comprehensive loss for the three months ended 31 December 2010	–	–	–	–	–	370	(1,235)	(865)
At 31 December 2010 (Unaudited)	79,168	8,574	22,443	15,479	3,098	28,746	(112,388)	45,120

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 PRC, those subsidiaries should transfer not less than 10% of net profit to the statutory surplus reserve fund, while the rest of the Company's PRC subsidiaries can make appropriation of net profit to the statutory surplus reserve fund on a discretionary basis.

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

3. Pursuant to the Articles of Association of certain subsidiaries of the Company in PRC, those subsidiaries can make appropriation of net profit to the statutory enterprise expansion fund on a discretionary basis.

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

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 during the periods ended 31 December 2010 and 2009.

The capital structure of the Group consists of debt, which includes borrowings, cash and cash equivalents and equity attributable to owners 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. CAPITAL COMMITMENTS

	31 December	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of:		
– construction in progress	–	5,420
– acquisition of property, plant and equipment	400	–
	400	5,420

8. 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 31 December 2010, the maximum liabilities of rental and corresponding administrative charges of the Company due to default of payment of Capital VC Limited would be approximately HK\$3,866,000.

9. 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. Up to the date of approval of these consolidated financial statements, a partial settlement of approximately RMB1,000,000 has been made by the Group.

DIVIDENDS

The Board does not recommend the payment of an interim dividend for the three months ended 31 December 2010 (three months ended 31 December 2009: Nil).

SHARE OPTION SCHEME

During the three months ended 31 December 2010, no share option was granted, exercised, expired or lapsed under the share option scheme approved on 26 May 2004.

BUSINESS REVIEW

During the period under review, China's economy recovered strongly and the growth of total retail amount of social consumer goods, stimulated by the government policies, recovered to the pre-financial crisis level. As the consumer business model of the Group was converted from direct sale to wholesale and agent based model, the Group continued to streamline the inefficient sales networks in Shanghai direct sales market, hence the selling price and sales volume decreased by 15.23% and increased by 16.24% compared to that of corresponding period in last year, respectively, and the turnover decreased by 15.3% compared to that of last year.



Turnover

For the three months ended 31 December 2010, the Group recorded a turnover of approximately HK\$19,756,000, a decrease of approximately HK\$3,563,000 and approximately 15.3% compared to approximately HK\$23,319,000 over the corresponding period of last year. The decrease in sales was due to the Group's conversion on its sales model to agent and dealership structure and the preliminary completion of transition.

Gross Profit

For the three months ended 31 December 2010, the Group recorded a gross profit of approximately HK\$9,693,000, a decrease of approximately HK\$3,877,000 and approximately 28.6% compared to approximately HK\$13,570,000 over the corresponding period of last year. The gross margin was approximately 49.1%, a decrease of approximately 9.1 percentage points compared to approximately 58.2% over the corresponding period of last year. The decrease in gross margin was mainly due to the Group's conversion on its sales model to agent and dealership structure and price cut in order to counteract the fierce competition from other manufacturers and maintain its dealers.

Administrative Expenses

For the three months ended 31 December 2010, administrative expenses was approximately HK\$3,393,000, a decrease of approximately HK\$432,000 and approximately 11.3% compared to approximately HK\$3,825,000 over the corresponding period of last year. The decrease in administrative expenses was due to the Group's strategy of cutting head counts and saving cost.

Selling and Distribution Expenses

For the three months ended 31 December 2010, selling and distribution expenses was approximately HK\$5,733,000, a decrease of approximately HK\$4,562,000 and approximately 44.3% compared to HK\$10,295,000 over the corresponding period of last year. The sharp drop in selling and distribution expenses was a result of the Group's conversion on its sales model to agent and dealership structure and continuous effort in streamlining inefficient sales networks in Shanghai direct sales market as well as its effort in cost control.

Loss for the period

For the three months ended 31 December 2010, the Group recorded a loss of approximately HK\$1,230,000, an increase of approximately HK\$143,000 and approximately 13.2% compared to the loss of approximately HK\$1,087,000 over the corresponding period of last year. Increase in losses of the Group was mainly due to some losses incurred in listed securities investment during the period.

FUTURE OUTLOOK

The primary task of the Group is to continue deepening the business model of “emphasis less on assets but more on operations and full services”. Given the booming economic environment in 2011, the Group will put more resources in production and distribution areas of the daily consumer goods in order to develop new products and raise the turnover, as well as stepping up its investment in listed securities, with a view to ultimately rebuilding the Group’s profitability and enhancing its value.

DIRECTORS’ AND CHIEF EXECUTIVES’ INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2010, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meanings of Part XV of the Securities and Future Ordinance (the “SFO”)) which require notification to the Company and the Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Director or chief executive is taken or deemed to have under such provision of the SFO) or which are required pursuant to section 352 of the SFO or which are required, pursuant to rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Exchange 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 Shunfeng	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 31 December 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 Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such director is taken or deemed to have under such provision of the SFO) or which are required pursuant to Section 352 of the SFO, or which are required pursuant to Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Exchange.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 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 person 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 <i>(Note)</i>	Beneficial owner/ through controlled corporation	153,805,000	500,000	154,305,000	19.70%
Yau Chung Hong	Beneficial owner	64,205,000	–	–	8.11%

Note: 88,415,000 of these shares were held by CNI Capital Limited a company wholly-owned by Capital VC Limited.

Save as disclosed above, the Company has not been notified of any other interests or short positions representing 5% or more of the issued share capital of the Company and recorded in the register required to be kept by the Company under section 336 of the SFO as at 31 December 2010.

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 three months ended 31 December 2010 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.



PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to exiting shareholders.

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 for the purposes of reviewing and supervising the financial reporting process and internal controls of the Group. The Audit Committee currently comprises of Mr. Chong Cha Hwa, Ms. Chan Wai Yan and Mr. Sham Chi Keung, William.

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Company and discussed internal controls and financial reporting matters including review of the unaudited condensed consolidated results of the Company for the three months ended 31 December 2010.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the three months ended 31 December 2010, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities.

By Order of the Board
Longlife Group Holdings Limited
Cheung Hung
Chairman

Hong Kong, 14 February 2011

Executive Directors as at the date of this report:

Mr. Cheung Hung
Mr. Zhang San Lin
Mr. Chen Zhongwei
Mr. Tian Zhenyong
Mr. Wang Zhixin

Independent Non-executive Directors as at the date of this report:

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