

B&B

B & B Natural Products Limited

蜂林天然產品有限公司 *

(Incorporated in the Cayman Islands with limited liability)

04



INTERIM REPORT 2004-2005

* For identification purpose only

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This report, for which the directors of B & B Natural Products Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to B & B Natural Products Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– 1. the information contained in this report is accurate and complete in all material respects and not misleading; 2. there are no other matters the omission of which would make any statement in this report misleading; and 3. all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

FINANCIAL HIGHLIGHTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2004

- Turnover increased by approximately 80% over the same period in 2003 to approximately HK\$107,893,000.
- Net profit for the period increased by approximately 45% over the same period in 2003 to approximately HK\$19,902,000.
- Dividend per share was HK0.5 cent.

The board of directors (the "Board") of B & B Natural Products Limited (the "Company") announces that the unaudited condensed consolidated results of the Company and its subsidiaries (together the "Group") for the three months and six months ended 31 December 2004, together with the comparative unaudited figures for the corresponding periods in 2003, are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT – UNAUDITED

For the three months and six months ended 31 December 2004

	Notes	(Unaudited) Three months ended 31 December		(Unaudited) Six months ended 31 December	
		2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Turnover	4	44,913	31,351	107,893	59,946
Cost of sales		(32,078)	(18,760)	(82,504)	(35,973)
Gross profit		12,835	12,591	25,389	23,973
Other revenue	4	3,211	85	8,885	131
Selling and distribution costs		(1,693)	(2,624)	(3,538)	(4,568)
Administrative expenses		(8,381)	(3,316)	(11,226)	(5,166)
Profit from operations	6	5,972	6,736	19,510	14,370
Finance costs		(555)	(150)	(733)	(309)
Share of results of associated company		2,595	–	2,595	–
Profit before taxation		8,012	6,586	21,372	14,061
Taxation	7	(752)	(1)	(1,561)	(1)
Profit before minority interests		7,260	6,585	19,811	14,060
Minority interests		579	(407)	91	(294)
Net profit for the period		7,839	6,178	19,902	13,766
Dividend per share (cent)	8	0.5	0.5	0.5	0.5
Earnings per share	9				
– basic (cents)		1.63	1.44	4.13	3.31
– diluted (cents)		1.60	1.39	4.09	3.17

CONDENSED CONSOLIDATED BALANCE SHEET

As at 31 December 2004

		(Unaudited) 31 December 2004 HK\$'000	(Audited) 30 June 2004 HK\$'000
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment		4,876	3,547
Investment in associated company		44,995	–
Technical know-how	10	–	58
Goodwill	11	13,168	191
Deposits made on acquisition of property, plant and equipment		3,883	3,871
		66,922	7,667
Current assets			
Inventories		7,179	6,024
Trade and other receivables and prepayment	12	20,066	41,477
Pledged bank deposits	15	24,184	21,135
Bank balances and cash		121,894	110,919
		173,323	179,555
Current liabilities			
Trade and other payables	13	31,723	10,768
Taxation		1,230	957
Bank borrowings – secured		42,396	30,376
		75,349	42,101
Net current assets		97,974	137,454
Total assets less current liabilities		164,896	145,121
Minority interests		11,713	4,824
Non-current liabilities			
Bank borrowings – secured		1,887	2,831
Net assets		151,296	137,466
Capital and reserves			
Share capital	14	4,821	4,813
Reserves		146,475	132,653
Shareholders' fund		151,296	137,466

CONDENSED CONSOLIDATED CASH FLOW STATEMENT – UNAUDITED*For the six months ended 31 December 2004*

	(Unaudited)	
	Six months ended	
	31 December	
	2004	2003
	HK\$'000	HK\$'000
Net cash inflow from operating activities	4,630	7,468
Net cash outflow from investing activities	(12,217)	(7,505)
Net cash (outflow)/inflow from financing activities	(9,300)	43,871
	<hr/>	<hr/>
Net (decrease)/increase in cash and cash equivalents	(16,887)	43,834
Effect of foreign exchange rates change	12	8
Cash and cash equivalents at beginning of period	94,486	44,072
	<hr/>	<hr/>
Cash and cash equivalents at end of period	77,611	87,914
	<hr/>	<hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED*For the six months ended 31 December 2004*

	(Unaudited) Share capital <i>HK\$'000</i>	(Unaudited) Share premium <i>HK\$'000</i>	(Unaudited) Translation reserve <i>HK\$'000</i>	(Unaudited) Special reserve <i>HK\$'000</i>	(Unaudited) Retained profit <i>HK\$'000</i>	(Unaudited) Total <i>HK\$'000</i>
Balance as at 1 July 2004	4,813	80,649	15	(1)	51,990	137,466
Issue of shares pursuant to exercises of share options	8	176	-	-	-	184
Exchange differences arising from translation of financial statements of overseas operation	-	-	12	-	-	12
Net profit for the period	-	-	-	-	19,902	19,902
Final dividend paid for the year ended 30 June 2004	-	-	-	-	(6,268)	(6,268)
Balance as at 31 December 2004	4,821	80,825	27	(1)	65,624	151,296
	(Unaudited) Share capital <i>HK\$'000</i>	(Unaudited) Share premium <i>HK\$'000</i>	(Unaudited) Translation reserve <i>HK\$'000</i>	(Unaudited) Special reserve <i>HK\$'000</i>	(Unaudited) Retained profit <i>HK\$'000</i>	(Unaudited) Total <i>HK\$'000</i>
Balance as at 1 July 2003	4,000	30,881	6	(1)	29,624	64,510
Issue of shares pursuant to exercises of share options and placing	706	49,116	-	-	-	49,822
Share issue expenses	-	(1,705)	-	-	-	(1,705)
Exchange differences arising from translation of financial statements of overseas operation	-	-	8	-	-	8
Profit for the period	-	-	-	-	13,766	13,766
Final dividend paid for the year ended 30 June 2003	-	-	-	-	(4,246)	(4,246)
Balance as at 31 December 2003	4,706	78,292	14	(1)	39,144	122,155

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**1. Basis of Preparation**

The condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants.

2. Basis of consolidation

The unaudited consolidated results of the Group for the three months and six months ended 31 December 2004 include the results of the Company and its subsidiaries for the three months and six months ended 31 December 2004.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

3. Principal accounting policies

The principal accounting policies adopted for the preparation of these unaudited condensed consolidated interim financial statements are consistent with those used in the preparation of the Group's audited financial statements for the year ended 30 June 2004.

4. Turnover and revenue

Turnover represents the net invoiced value of the goods sold, after allowances for returns and trade discounts excluding value-added tax and business tax. Other revenue represents mainly profit on disposal of subsidiaries and gain on redemption of convertible notes.

5. Segment information

During the period, since the Group is principally engaged in the manufacture and sales of natural supplementary products, the directors consider that the Group operated within a single business segment. Accordingly, no business segment information is presented.

An analysis of the Group's turnover and results by geographical market is as follows:

	(Unaudited) Turnover		(Unaudited) Results	
	Six months ended 31 December		Six months ended 31 December	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
PRC	78,320	42,237	21,846	21,843
Hong Kong	2,342	593	(2,614)	(7,467)
South East Asia	27,231	17,116	278	(6)
	<u>107,893</u>	<u>59,946</u>		
Profit from operations			19,510	14,370
Finance costs			(733)	(309)
Share of results of associated company			2,595	-
Profit before taxation			21,372	14,061
Taxation			(1,561)	(1)
Profit before minority interests			19,811	14,060
Minority interests			91	(294)
Net profit for the period			<u>19,902</u>	<u>13,766</u>

6. Profit from operations

Profit from operations has been arrived at after charging/(crediting):

	(Unaudited)	
	Six months ended 31 December	
	2004	2003
	HK\$'000	HK\$'000
Amortisation of technical know-how	58	87
Amortisation of goodwill	244	27
Depreciation of property, plant and equipment	608	325
Interest on bank borrowings	733	309
Interest income	(49)	(62)

7. Taxation

No provision for Hong Kong profits tax has been made as the Group did not have any assessable profits arising in Hong Kong during the period (2003: Nil).

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

8. Dividend

On 29 November 2004, a dividend of HK\$0.013 per share was paid to shareholders as the final dividend for the year ended 30 June 2004 (year ended 30 June 2003: HK\$0.01 per share).

The Board of Directors recommends the payment of an interim dividend of HK0.5 cent per share for the six months ended 31 December 2004 (six months ended 31 December 2003: HK0.5 cent per share).

9. Earnings per share

The calculation of basic earnings per share is based on the unaudited net profit for the three months and six months ended 31 December 2004 of approximately HK\$7,839,000 and HK\$19,902,000 respectively (three months and six months ended 31 December 2003: approximately HK\$6,178,000 and HK\$13,766,000 respectively) and of the weighted average number of approximately 482,078,000 and 481,704,000 (three months and six months ended 31 December 2003: approximately 429,432,000 and 415,295,000 respectively) ordinary shares respectively in issue.

The calculation of diluted earnings per share is based on the unaudited net profit for the three months and six months ended 31 December 2004 of approximately HK\$7,839,000 and HK\$19,902,000 respectively (three months and six months ended 31 December 2003: approximately HK\$6,178,000 and HK\$13,766,000 respectively) and of the weighted average number of approximately 488,582,000 and 486,322,000 (three months and six months ended 31 December 2003: approximately 443,471,000 and 434,135,000 respectively) ordinary shares respectively in issue.

10. Technical know-how

	(Unaudited) 31 December 2004 HK\$'000	(Audited) 30 June 2004 HK\$'000
At beginning of the period/year	58	231
Amortisation charge	58	173
At end of the period/year	–	58

11. Goodwill

	(Unaudited) 31 December 2004 HK\$'000	(Audited) 30 June 2004 HK\$'000
At beginning of the period/year	191	245
Additions	13,221	–
Amortisation charge	244	54
At end of the period/year	13,168	191

12. Trade receivables

Payment terms with customers are mainly on credit together with deposits. Invoices are normally payable within 60 days of issuance.

An aged analysis of the Group's trade receivables at the balance sheet dates, is as follows:

	(Unaudited) 31 December 2004 HK\$'000	(Audited) 30 June 2004 HK\$'000
0 to 30 days	12,832	13,969
31 to 60 days	198	718
61 to 365 days	2	–
Over 1 year	–	519
	13,032	15,206

13. Trade payables

An aged analysis of the Group's trade payables at the balance sheet dates, is as follows:

	(Unaudited) 31 December 2004 HK\$'000	(Audited) 30 June 2004 HK\$'000
0 to 30 days	494	1,777
31 to 120 days	–	26
	494	1,803

14. Share capital*Shares*

	(Unaudited) 31 December 2004 HK\$'000	(Audited) 30 June 2004 HK\$'000
<i>Authorised:</i>		
20,000,000,000 (30 June 2004: 20,000,000,000) ordinary shares of HK\$0.01 each	200,000	200,000
<i>Issued and fully paid:</i>		
482,130,000 (30 June 2004: 481,330,000) ordinary shares of HK\$0.01 each	4,821	4,813

Share options

The Company operates the Pre-IPO Share Option Scheme and Share Option Scheme, details of the share option schemes of the Company are set out in the paragraph headed "Directors' interests and short positions in shares, underlying shares and debentures". At 31 December 2004, the Company had outstanding pre-IPO share options and share options entitling the holders to subscribe for 870,000 and 40,000,000 shares in the Company respectively.

15. Pledge of assets

At 31 December 2004, the Group has pledged its bank deposits of approximately HK\$24,184,000 (30 June 2004: HK\$21,135,000) to banks to secure the credit facilities granted to the Group.

16. Operating leases commitments

At 31 December 2004, the Group was committed to make the following future minimum lease payments under non-cancellable operating leases which fall due as follows:

	(Unaudited) 31 December 2004 HK\$'000	(Audited) 30 June 2004 HK\$'000
Within one year	693	970
In the second to fifth year inclusive	398	582
	1,091	1,552

17. Capital commitments

At 31 December 2004, the Group had the following capital commitments:

	(Unaudited) 31 December 2004 HK\$'000	(Audited) 30 June 2004 HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment		
– authorized but not contracted for	18,981	18,981
– contracted for but not provided in the financial statements	20,019	20,058
	39,000	39,039
Capital expenditure in respect of the acquisition of joint stock limited company and subsidiary		
– contracted for but not provided in the financial statements	10,345	32,798
Total	49,345	71,837

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Performance

For the six months ended 31 December 2004, the Group continued to achieve encouraging performance. During the period under review, turnover climbed 80% to reach HK\$107,893,000, as compared to HK\$59,946,000 in the corresponding period of last year. Net profit also rose by 45% to reach HK\$19,902,000, as compared to HK\$13,766,000 in the corresponding period of last year. Gross profit and net profit both improved to HK\$25,389,000 and HK\$19,902,000 respectively, as compared HK\$23,973,000 and HK\$13,766,000 respectively in the corresponding period of last year.

The reasons of the sustainable growth in the Group's businesses are attributable to the Group's commitment in expanding its business, in broadening its revenue base, vertical integration of operations and in extending its geographical reach. The end result is an increase in profitability of the Group.

Financial resources and liquidity

As at 31 December 2004, the Group enjoyed a healthy financial position, with cash and bank balance of approximately HK\$146,078,000 (30 June 2004: HK\$132,054,000). Net asset value per share was approximately HK\$0.31 (30 June 2004: approximately HK\$0.29), and current assets stood at HK\$173,323,000 (30 June 2004: HK\$179,555,000). The gearing ratio was 0.59 as at 31 December 2004 (30 June 2004: 0.36). Gearing ratio is calculated as total liabilities to total equity.

The Group's sales and purchases are transacted mainly in Renminbi, Hong Kong Dollars, Singaporean Dollars and US Dollars and the books are recorded in Hong Kong dollars. The exchange rate fluctuation between these currencies have not been material. The foreign exchange risk was very low and no hedging was undertaken.

Capital structure

During the six months ended 31 December 2004, 800,000 shares were issued due to the exercises of pre-IPO share options.

Charges on the Group assets

As at 31 December 2004, the Group has pledged its bank deposits of approximately HK\$24,184,000 (30 June 2004: HK\$21,135,000) to banks to secure the credit facilities granted to the Group.

Contingent liabilities

The Group did not have any contingent liabilities as at 31 December 2004 (30 June 2004: Nil).

Commitments

The Group had capital commitments of approximately HK\$49,345,000 and operating leases commitment of approximately HK\$1,091,000 as at 31 December 2004 (30 June 2004: HK\$71,837,000 and HK\$1,552,000 respectively).

Significant investments and acquisitions

During the six months ended 31 December 2004, the Group disposed 75% equity interest of Top Entrepreneur Profits Limited to Aptus Holdings Limited ("Aptus") at a consideration of HK\$4,000,000 (the "Disposal"). The consideration was satisfied by the allotment and issue of shares at HK\$0.021 per share of Aptus. Besides, the Group also subscribed for 738,095,238 new Aptus shares at approximately HK\$0.021 per share (the "Subscription"). After the completion of the Disposal and the Subscription, Aptus became an indirect non wholly-owned subsidiary of the Group.

Employees

The Group employed 91 full-time employees as at 31 December 2004. Employees' remuneration is in line with market conditions, working experience and performance. In addition to basic salaries and provident fund contributions, the Group also offers medical benefits and training programs.

Business Review

During the period under review, the Group continues its growth in both product range and in distribution coverage.

The Group has introduced a range of soft drinks imported from Korea. The products were distributed in a number of supermarkets, retail shops and retail chains. Promotions were carried while during summer time which is the peak season for soft drinks. Market feedbacks were collected and will be utilized for the development plan in the coming year.

The Group has successfully established the initial distribution network for the newly acquired health products from Korea namely Cherry Slim – a Korean drink which mainly targets consumers that are interested to enhance their body shape and skin complexion and Mekabu – a natural product made from the sporophyll of brown seaweed that contains valuable ingredients that helps to take away body waste from inside the body. The products have been distributed through various large retail chains in Hong Kong. Through active advertising and promotions, the product has begun to win market recognitions and acceptance.

The Group was succeeded in acquiring several exclusive distribution rights on natural skin care products lines which include a full range of aloe based skincare products from Korea and a full range of honey based skincare products from France. The Group had promptly distributed the skincare products and the market response was positive with repeated orders from the customers.

Besides new beverages and skincare products, the Group also acquired the exclusive distribution rights of K.G.B., a hangover remedy from Russia, within the territory of the PRC including Hong Kong. With cooperation from the supplier and various retail chains, the product was promptly listed on shelves of three retail chains before and around Christmas time. The product has aroused interest from the media and the Group has been interviewed by a number of media within approximately two months time.

During the period under review, the Group has been actively carried out promotional counters through various supermarkets to enhance the market exposure of new products while at the same time collect feedbacks. The Group also participated in the Cosmoprof Asia in November 2004 to increase the Group's exposure and to explore new business partners.

Future Prospects

As the Group has introduced and envisaged opportunities of numerous new products including soft drinks, health care products and skincare products as well as K.G.B., the Group will further develop the distribution networks of these products in order to maximize the returns. In particular to the skincare products, the Group is in consideration of developing product lines under B&B own brand name and establishing its own retail shop to vertically integrate this business.

On 22 December 2004, the Group signed a non-legally binded memorandum of cooperation with China Petroleum Pipeline Urban Gas Investment Limited (中國石油天然氣管道城市燃氣投資有限公司) to engage in the natural gas business in urban cities in the PRC. If this cooperation proceed, the Group will be engaged in the supply of natural gas in the PRC.

INTERIM DIVIDEND

The Board recommends the payment of an interim dividend of HK0.5 cent per share for the six months ended 31 December 2004 (six months ended 31 December 2003: HK0.5 cent per share). The dividend will be payable on Wednesday, 4 May 2005 to shareholders whose names appear on the Register of Members of the Company on Tuesday, 26 April 2005. The Register of Members will be closed between Wednesday, 20 April 2005 and Tuesday, 26 April 2005 (both days inclusive) during which period no transfer of the Company's shares will be effected. To qualify for the aforesaid interim dividend, all completed transfer forms, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar, Standard Registrars Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Tuesday, 19 April 2005.

Comparison of the planned use of proceeds from the initial public offering against the actual usage

	Planned usage for the period from the Listing Date to 31 December 2004 <i>HK\$ million</i>	Actual usage for the period from the Listing Date to 31 December 2004 <i>HK\$ million</i>
Expanding the new production facilities in Zhuhai, the PRC		
(i) purchase of land	1.3	1.7
(ii) construction cost	5.5	2.0
Conducting various research and development programmes to increase the varieties of the Group's products (<i>note 1</i>)	3.9	0.2
Marketing and promotional activities	1.5	3.2
Purchasing new machinery for producing new natural supplementary foods	2.6	–
Redemption of the Convertible Notes	14.0	14.0
General working capital	0.5	0.5
	<hr/>	<hr/>
Total	29.3	21.6

Notes:

1. Research & Development

Utilizing firm cost control measures and through an effective use of resources, the Group has successfully researched and developed new product prototypes more efficiently than originally anticipated.

2. The Board of Directors does not anticipate any material deviation from the intended uses of proceeds as disclosed in the Prospectus. Unutilised net proceeds will be maintained as short term deposits with authorized financial institutions in Hong Kong.

Comparison of Business Objectives with Actual Business Progress

Business objectives for the six months ended 31 December 2004 as stated in the Prospectus

Actual business progress

1. Introduce new products: (conduct various research and development programmes and purchase new machinery for new products)

Appoint laboratory to test the other new natural supplementary food products

New natural supplementary food products are tested by independent testing centre.

2. Enrich the contents of the Group's existing website

Continue to update the web site information

New content were updated onto the website to reflect the growth in the business of the Group. The Group is also arranging to develop a dedicated area for the consumer products and consistent clients.

3. Explore overseas markets

Join the Asia Food Expo

Participated in Cosmoprof Asia in November 2004 to create exposure on recent new products and upcoming new products.

4. Appoint world-wide distributors

Expand into more overseas countries by appointing more new distributors

Trial orders and testings were carried in Malaysia to explore the possibility of appointing an exclusive distributor.

5. Marketing and promotional activities

Continue to build up market awareness by advertising and arranging small scale promotional activities in the PRC and overseas countries including Japan, Korea and the US

Active advertising and promotional activities were carried out in the PRC including Hong Kong. In particular, a joint promotion with the movie Kungfu was carried out in December 2004.

Business objectives for the six months ended 31 December 2004 as stated in the Prospectus

Actual business progress

6. Research on technology for production process

Maintain dedication to technology research, new product development and focus on production enhancement and quality improvements

Maintained dedication to new product development. Market feedbacks were passed onto the manufacturing side to improve on product quality.

7. Zhuhai facilities

Expand the research and development team and the distribution centre

The initial construction schedule of the new Zhuhai manufacturing facilities was amended which was due to the amendment of the structural design as disclosed in the Company's interim report 2003-2004. The progress of the construction has been following the latest schedule.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2004, the interests and 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 meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified 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 they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were 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:

(1) Long positions in the shares of the Company

Name of Director	Corporate interest	Number of ordinary shares held			Approximate percentage of shareholding
		Personal interest	Family interest	Total interest	
Cheung Kwai Lan	262,080,000 (Note 1)	1,380,000	-	263,460,000	54.65%
Chan Tung Mei	262,080,000 (Note 2)	-	1,380,000 (Note 3)	263,460,000	54.65%
Peter Chin Wan Fung	-	1,730,000	-	1,730,000	0.36%

Notes:

1. The 262,080,000 shares are owned by Best Frontier Investments Limited ("Best Frontier") which is owned as to 99.89% and 0.11% by Madam Cheung Kwai Lan and Mr. Chan Tung Mei respectively. Madam Cheung Kwai Lan is the spouse of Mr. Chan Tung Mei. Accordingly, Madam Cheung Kwai Lan is deemed to be interested in the shares under the SFO.
2. The 262,080,000 shares are owned by Best Frontier which is owned as to 99.89% and 0.11% by Madam Cheung Kwai Lan and Mr. Chan Tung Mei respectively. Mr. Chan Tung Mei is the spouse of Madam Cheung Kwai Lan. Accordingly, Mr. Chan Tung Mei is deemed to be interested in the shares under the SFO.
3. The 1,380,000 shares are owned by Madam Cheung Kwai Lan who is the spouse of Mr. Chan Tung Mei. Accordingly, Mr. Chan Tung Mei is deemed to be interested in the shares under the SFO.

(2) Share options of the Company*Pre-IPO Share Option Scheme*

Pursuant to the Pre-IPO share option scheme adopted by the Company on 18 October 2002 ("Pre-IPO Share Option Scheme"), certain Directors had been granted share options to subscribe for Shares, details of which as at 31 December 2004 were as follows:

Name of Director	Number of share options granted <i>(Note)</i>	Number of share options exercised	Number of share options outstanding as at 31 December 2004
Cheung Kwai Lan	4,000,000	4,000,000	–
Chan Tung Mei	4,000,000	4,000,000	–
Chan Ting	4,000,000	4,000,000	–
Peter Chin Wan Fung	2,600,000	1,730,000	870,000

Note: These share options were granted on 18 October 2002, at an exercise price of HK\$0.23 per Share, representing 50% of the offer price of HK\$0.46 per Share in respect of the Company's initial public offering. The share options are exercisable in three equal portions. The respective portions are exercised at any time commencing on 12 May 2003, 12 November 2003 and 12 May 2004 respectively. These share options, if not otherwise exercised, will lapse on 17 October 2007.

Share Option Scheme

The Company has adopted a share option scheme on 18 October 2002 (the "Share Option Scheme"), under which the Board may, at its discretion, invite any persons who satisfy the criteria of the Share Option Scheme, to take up options to subscribe for Shares.

The Share Option Scheme will remain valid for a period of 10 years commencing from 18 October 2002.

As at 31 December 2004, 40,000,000 share options (including 1,200,000 share options granted to the non-executive director, Mr. Shaw Kyle Arnold Junior) had been granted under the Share Option Scheme.

(3) Long positions in the shares of associated corporation – Aptus Holdings Limited

Name of Director	Number of ordinary shares held			Total interest	Approximate percentage of shareholding
	Corporate interest	Personal interest	Family interest		
Cheung Kwai Lan (Note)	928,571,428	–	–	928,571,428	60.03%

Note: Madam Cheung Kwai Lan and Mr. Chan Tung Mei have equity interests of 99.89% and 0.11% respectively of the issued share capital of Best Frontier Investments Limited ("Best Frontier"). Madam Cheung Kwai Lan is the spouse of Mr. Chan Tung Mei. Accordingly, Madam Cheung Kwai Lan is deemed to be 100% interested in the shares of Best Frontier under the SFO. As at 31 December 2004, Best Frontier is interested in approximately 54.36% of the issued share capital of B & B Natural Products Limited which in turn holds 100% shareholding of China Success Enterprises Limited. China Success Enterprises Limited then holds 100% shareholding of Precise Result Profits Limited which directly holds 928,571,428 shares of Aptus Holdings Limited. Besides, Madam Cheung Kwai Lan holds 1,380,000 shares of B & B Natural Products Limited as at 31 December 2004.

Save as disclosed herein, as at 31 December 2004, none of the Directors or chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which would have to be notified 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 they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

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

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 31 December 2004, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital.

Name of Shareholders	Capacity	Number of ordinary shares held		Percentage of shareholding
		Long position	Short position	
Best Frontier Investments Limited	Beneficial owner	262,080,000	–	54.36%
Oppenheimer Funds, Inc.	Investment manager	26,000,000	–	5.39%
China Value Investment Limited	Investment manager	24,620,000 (Note 1)	–	5.11%
Asian Value Investment Fund, L. P.	Investment manager	24,620,000 (Note 1)	–	5.11%

Note:

1. The shares are held by China Value Investment Limited, which is wholly owned by Asian Value Investment Fund, L. P. Accordingly, Asian Value Investment Fund, L. P. is deemed to be interested in the shares under the SFO.

Save as disclosed above, as at 31 December 2004, the directors are not aware of any other person who has an interest or short position in the shares or underlying shares and debentures of the Company which would fall to be disclosed to the Company under Section 336 of the SFO, or who is interested in 5% or more of the Company's issued share capital.

SPONSOR'S INTEREST

To the best knowledge of the Company, as at 31 December 2004, neither Guotai Junan Capital Limited (the "Sponsor"), nor its directors or employees or associates (as referred to in Note 3 of Rule 6.35 of the GEM Listing Rules) had any interest in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

Pursuant to the sponsorship agreement dated 28 October 2002 between the Company and the Sponsor, the Sponsor has been retained for a fee, as the continuing sponsor of the Company until 30 June 2005.

COMPETING INTERESTS

None of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had any interest in a business that competed or might compete with the business of the Group.

BOARD PRACTICES AND PROCEDURES AND CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has complied with Rules 5.34 to 5.45 of the GEM Listing Rules regarding board practices and procedures throughout the six months ended 31 December 2004.

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 the Rules 5.48 to 5.67 of the GEM Listing Rules. The Company, having made specific enquiry of all the Directors, was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by the Directors during the six months ended 31 December 2004.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based upon the guidelines published by the Hong Kong Institute of Certified Public Accountants. The primary duties of the audit committee are to review the Company's annual report and accounts, half-year reports and quarterly reports and to provide advice and comments thereon to the Board. The audit committee is also responsible for reviewing and supervising the Company's financial reporting and internal control procedures. The audit committee consisted of four independent non-executive Directors, namely Professor Peter Chin Wan Fung, Mr. Tian He Nian, Mr. Du Ying Min and Mr. Tsui Wing Tak. Professor Peter Chin Wan Fung is the chairman of the audit committee. The Group's unaudited results for the six months ended 31 December 2004 have been reviewed by the audit committee which was of the opinion that the preparation of such results complied with applicable accounting standards and requirements and that adequate disclosures had been made.

PURCHASES, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

During the six months ended 31 December 2004, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares.

By order of the Board
CHAN Ting
Director and Chief Executive Officer

As at the date of this report, the Company's executive Directors are Madam Cheung Kwai Lan, Mr. Chan Tung Mei and Mr. Chan Ting, the Company's non-executive Director is Mr. Shaw Kyle Arnold Junior, and the Company's independent non-executive Directors are Professor Peter Chin Wan Fung, Mr. Tian He Nian, Mr. Du Ying Min and Mr. Tsui Wing Tak respectively.

Hong Kong, 7 February 2005