

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



FIRST QUARTERLY REPORT 2004-2005

* For identification purpose only

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

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

This report, for which the directors 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.

The board of directors (the "Board") of B & B Natural Products Limited (the "Company" or "B&B") announces that the unaudited consolidated results of the Company and its subsidiaries (together the "Group") for the three months ended 30 September 2004, together with the comparative unaudited figures for the corresponding period in 2003, are as follows:

		For the three months ended 30 September	
		2004	2003
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
Turnover	4	62,980	28,595
Cost of sales		(50,426)	(17,213)
Gross profit		12,554	11,382
Other revenue		5,674	46
Selling and distribution costs		(1,845)	(1,944)
Administrative expenses		(2,845)	(1,850)
Profit from operations		13,538	7,634
Finance costs		(178)	(159)
Profit before taxation		13,360	7,475
Taxation	5	(809)	–
Profit before minority interest		12,551	7,475
Minority interest		(488)	113
Net profit for the period		12,063	7,588
Earnings per share – basic (cents)	7	2.51	1.89
– diluted (cents)		2.50	1.80

Notes:

1. Basis of Preparation

The unaudited consolidated results for the three months ended 30 September 2004 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.

2. Basis of consolidation

The unaudited consolidated results of the Group for the three months ended 30 September 2004 include the results of the Company and its subsidiaries for the three months ended 30 September 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 consolidated results 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 interest income.

5. 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.

6. Dividend

The Board does not recommend the payment of any dividend for the three months ended 30 September 2004 (2003: Nil).

7. Earnings per share

The calculation of basic earnings per share is based on the unaudited net profit for the three months ended 30 September 2004 of approximately HK\$12,063,000 (three months ended 30 September 2003: approximately HK\$7,588,000) and of the weighted average number of approximately 481,330,000 (three months ended 30 September 2003: approximately 401,157,000) ordinary shares in issue.

The calculation of diluted earnings per share is based on the unaudited net profit for the three months ended 30 September 2004 of approximately HK\$12,063,000 (three months ended 30 September 2003: approximately HK\$7,588,000) and of the weighted average number of approximately 484,481,000 (three months ended 30 September 2003: approximately 422,200,000) ordinary shares in issue during the period.

8. Movement of Reserves

	(Unaudited) Share premium HK\$'000	(Unaudited) Translation reserve HK\$'000	(Unaudited) Special reserve HK\$'000	(Unaudited) Retained profit HK\$'000	(Unaudited) Total HK\$'000
Balance as at 1 July 2004	80,649	15	(1)	51,990	132,653
Exchange differences arising from translation of financial statements of overseas operation	-	18	-	-	18
Net profit for the period	-	-	-	12,063	12,063
Balance as at 30 September 2004	<u>80,649</u>	<u>33</u>	<u>(1)</u>	<u>64,053</u>	<u>144,734</u>
	(Unaudited) Share premium HK\$'000	(Unaudited) Translation reserve HK\$'000	(Unaudited) Special reserve HK\$'000	(Unaudited) Retained profit HK\$'000	(Unaudited) Total HK\$'000
At 1 July 2003	30,881	6	(1)	29,624	60,510
Issue of shares pursuant to exercises of share options	1,065	-	-	-	1,065
Exchange differences arising from translation of financial statements of Singapore operation	-	3	-	-	3
Net profit for the period	-	-	-	7,588	7,588
Balance as at 30 September 2003	<u>31,946</u>	<u>9</u>	<u>(1)</u>	<u>37,212</u>	<u>69,166</u>

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in the production and distribution of bee related products and other natural products. A three-pronged strategy was being carried through to enhance the synergy of product development, distribution and production of natural products.

Financial Review

For the three months ended 30 September 2004, the Group recorded unaudited consolidated turnover and net profit of approximately HK\$63.0 million and HK\$ 12.1 million, respectively. There is an approximately 120% increase in turnover with an over 1.5 times increase in net profit as comparing to the corresponding period of last year. Gross profit was approximately 19.9% for the three months ended 30 September 2004. The increase in net profit was mainly due to the increase in turnover which was the result of the Group's efforts in promoting its products and launching new products to the market.

Business Review

During the period under review, the Group continues with its efforts with a focus in product development and distribution. In light of the success in the trial distribution with the retail chain Bee Eden in Guangzhou during the period under review, the Group is pursuing to enlarge the scale of distributing its natural products through Bee Eden.

During the period under review, the Group has introduced various Korean soft drinks into the Hong Kong market utilizing its existing distribution platform. At the same time, the Group is preparing for distributing the soft drinks into the PRC market as well.

During the period under review, the Group has been granted exclusive distribution rights on several natural skincare product lines which include full range of aloe based skincare products from Korea and a full range of honey based skincare products from France. The Group was able to promptly distributed these skincare products out and on parallel, preparing for the exhibition of the products in the upcoming Cosmoprof Asia (亞太區美容展) in November 2004.

Prospects

As the PRC offers tremendous opportunities, the Group plans to focus on the expansion of its business in the PRC, while maintaining Hong Kong as a strategic distribution and brand building location. The Group will continue to emphasis on expanding its distribution capacity.

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

As at 30 September 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 and shares of associated corporations

Name of Director	Company/ Name of associated corporation	Number of ordinary shares held			Total interest
		Corporate interest	Personal interest	Family interest	
Cheung Kwai Lan	Company	262,080,000 (Note 1)	1,380,000	–	263,460,000
Chan Tung Mei	Company	262,080,000 (Note 2)	–	1,380,000 (Note 3)	263,460,000
Peter Chin Wan Fung	Company	–	1,730,000	–	1,730,000
Cheung Kwai Lan	Best Frontier Investments Limited ("Best Frontier")	–	909	1 (Note 4)	910
Chan Tung Mei	Best Frontier	–	1	909 (Note 5)	910

Notes:

1. 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. 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.
4. The 1 share of US\$1 in Best Frontier is owned by Mr. Chan Tung Mei who is the spouse of Madam Cheung Kwai Lan. Accordingly, Madam Cheung Kwai Lan is deemed to be interested in the shares under the SFO.
5. The 909 shares of US\$1 each in Best Frontier 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*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 30 September 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 30 September 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 30 September 2004, 38,800,000 share options had been granted under the Share Option Scheme.

Save as disclosed herein, as at 30 September 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 30 September 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	–	54.45%
Oppenheimer Funds, Inc.	Investment manager	26,000,000	–	5.40%
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:

- 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 30 September 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 30 September 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 an 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 three months ended 30 September 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 three months ended 30 September 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 three independent non-executive Directors, namely Professor Peter Chin Wan Fung, 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 three months ended 30 September 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 three months ended 30 September 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. Du Ying Min and Mr. Tsui Wing Tak respectively.

Hong Kong, 12 November 2004