

Health *is our power*

First Quarterly Report **2003**



Bee & Bee Natural Life Products Limited

蜂蜂天然生命產品有限公司

(Incorporated in the Cayman Islands with limited liability)



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This report, for which the directors (the “Directors”) of Bee & Bee Natural Life Products 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 Stock Exchange (“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: (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.



HIGHLIGHTS

- Turnover increased by approximately 18% over the same period in 2002 to HK\$28,595,000.
- Net profit for the period increase by approximately 14% over the same period in 2002 to HK\$7,588,000.

UNAUDITED FIRST QUARTERLY RESULTS

The board of directors (the “Board”) of Bee & Bee Natural Life Products Limited (the “Company” or “B&B”) announces the unaudited consolidated first quarterly results of the Company and its subsidiaries (together the “Group”) for the three months ended 30 September 2003, together with the comparative unaudited figures for the corresponding period in 2002, prepared in accordance with generally accepted accounting principles in Hong Kong, as follows:

		For the three months ended 30 September	
		2003	2002
	<i>Notes</i>	HK\$'000	HK\$'000
Turnover	3	28,595	24,171
Cost of sales		(17,213)	(12,955)
Gross profit		11,382	11,216
Other revenue		46	50
Selling and distribution costs		(1,944)	(1,805)
Administrative expenses		(1,850)	(1,326)
Profit from operations		7,634	8,135
Finance costs		(159)	(1,351)
Profit before taxation		7,475	6,784
Taxation	4	-	-
Profit before minority interests		7,475	6,784
Minority interests		113	(136)
Net profit for the period		7,588	6,648
Earnings per share – basic (cents)	5	1.89	2.19
– diluted (cents)		1.80	N/A



NOTES TO INTERIM FINANCIAL STATEMENTS

1. General

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 11 December 2001. The Company's shares have been listed on the GEM since 12 November 2002.

The Company acts as an investment holding company while its subsidiaries are engaged in the manufactures and distribution of natural supplementary foods.

2. Basis of preparation and principal accounting policies

The basis of preparation and principal accounting policies adopted for the preparation of the unaudited consolidated results are consistent with those used in the preparation of the Group's audited financial statements for the year ended 30 June 2003, except that the Group has adopted SSAP 12 (Revised) "Income taxes" which prescribes new accounting measurements and disclosure practices. The adoption of this SSAP during the financial period does not have any significant effect on the Group's unaudited consolidated results for the period and the prior period.

3. 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 sample income and interest income.

4. 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 three months ended 30 September 2003 (2002: Nil).

No provision for income tax in Singapore has been made as the subsidiary had no accessible profit for the period.

Pursuant to the relevant laws and regulations in the PRC, the Group's PRC subsidiaries are entitled to exemption from PRC income tax for two years commencing from their first profit-making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from PRC income tax for the following three years. The Group's PRC subsidiaries are currently in their profit-making year of operation in which they are exempted from PRC income tax.



5. Earnings per share

The calculation of basic earnings per share is based on the unaudited net profit for the three months ended 30 September 2003 of HK\$7,588,000 (2002: HK\$6,648,000) and the weighted average of 401,157,000 (2002: 304,000,000) ordinary shares in issue during the period.

The calculation of diluted earnings per share is based on the unaudited net profit for the three months ended 30 September 2003 of HK\$7,588,000 and 422,200,000 ordinary shares, being the weighted average of 401,157,000 ordinary shares as used in the calculation of basic earnings per share and the weighted average of 21,043,000 ordinary shares assumed to have been in issue at no consideration on the deemed exercise of the pre-IPO share options.

No diluted earnings per share for the three months ended 30 September 2002 has been presented as no diluting events existed during that period.

6. Dividend

The Board does not recommend the payment of any dividend for the three months ended 30 September 2003 (2002: Nil).

7. Reserves

	Share premium <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Special reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 July 2002	–	(2)	(1)	13,615	13,612
Net profit for the period	–	–	–	6,648	6,648
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At 30 September 2002	–	(2)	(1)	20,263	20,260
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At 1 July 2003	30,881	6	(1)	29,624	60,510
Issue of shares pursuant to exercise 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
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At 30 September 2003	31,946	9	(1)	37,212	69,166



MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the three months ended 30 September 2003, the Group has achieved year-on-year growth based on the successful extension of its product platform of natural wine products and natural products. Through extending its business model to strengthen its distribution network as well as production base, B&B has witnessed strong growth. Turnover for the period was recorded at HK\$28,595,000, representing an 18% increase over the corresponding period of last year, while net profit increased by 14% to reach HK\$7,588,000. B&B has expanded its business through broadening its revenue base and expanding its geographical reach. Due to the profitability arising from the vertical integration of the Group's businesses – production, processing and distribution – B&B intends to focus on strengthening these core operations. In addition, the Group will seek to pursue lucrative business opportunities in order to extend its strengths in production and distribution and to become the leading natural foods producer and distributor.

Production

Natural Wine Products

In the natural wine product segment, the Group has strengthened its portfolio of B&B mead products. A number of new mead products are also in the pipeline and will be gradually introduced into the market and targeted specifically at different categories of consumer. The Group continues to efficiently manage its production capacity to fulfill market demand.

Natural Products

During the period under review, the Group has sustained stable operations in its natural products business. The Group has conducted a review on an Australian entity and its sales branch, Superbee Honey Factory and Honey World (collectively as "Superbee") and is delighted to report that it has signed a Memorandum of Understanding for the acquisition of Superbee on 27 October, 2003. Superbee is a renowned honey factory in Australia which attracts over 200,000 visitors a year and exports to over 25 countries all over the world that possesses diverse range of pure honey flavors in the world – with up to 30 different varieties at any one time. This will significantly broaden B&B's own honey platform and boost sales of B&B products in overseas markets.



The Group will continue to seek out potential business opportunities as it believes that such opportunities will provide the Group with strong vertical integration opportunities and thus, higher profit margins.

Distribution

Focusing primarily on business development in the lucrative PRC market, the Group has been developing direct distribution to retail outlets through its own sales and marketing offices instead of solely through sales agents.

As a result of the Group's strategy to strengthen its distribution network by expanding into overseas markets, on 15 October, 2003, B&B appointed Hardy Group, a Japanese conglomerate, as sole agent to develop and expand the market presence of B&B mead products in Japan and Korea. In Japan, Hardy Group have contracted to achieve US\$15 million in sales over the next three years and US\$7 million in Korea over the same period. Under the sole agency agreement, Hardy Group will be responsible for establishing, developing, expanding and protecting the respective local markets. Through the appointment of renowned and proactive sole agents, B&B's brand name will be heightened via marketing and promotional activities. The Group will continue to seek out strong partners and opportunities for distributing its products.

Future Prospects

The economic growth of the world, in particular PRC continues to show impressive momentum, with the Hong Kong and the rest of South East Asia are demonstrating good improvements. The Group believes that the growth potential for Asia is large and will continue to seek to expand its business in Asia and is confident of an improved demand for its natural wine products and natural products during the 2003/04 financial year.

B&B will further explore opportunities for vertical integration in order to secure distribution, enhance efficiency and reduce production costs. Further, the Group looks forward to enhancing and diversifying its product portfolio. The Group believes that honey and honey products present very strong business potential for B&B.

B&B will continue to expand its market presence in the increasingly affluent and health-conscious PRC market, as well as in other potential markets.



DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

1. Shares

As at 30 September 2003, the interests or short positions of the directors and chief executives of the Company in the securities of the Company and 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 he/she is taken or deemed to have under such provisions of the SFO), or which were required to be entered into the register required to be kept by the Company, pursuant to Section 352 of the SFO, or which were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Ordinary shares of HK\$0.01 each ("Shares") of the Company

Name of Director	Capacity/ Nature of interest	Number of shares held		Approximate percentage of issued share capital as at 30 September 2003
		Long position	Short position	
Cheung Kwai Lan	Corporate interest	262,080,000 (Note)	–	64.74%
Chan Tung Mei	Corporate interest	262,080,000 (Note)	–	64.74%

Note: The Shares are held by Best Frontier Investments Limited, a limited company incorporated in the British Virgin Islands ("BVI"), which is owned as to 99.89% and 0.11% by Cheung Kwai Lan and Chan Tung Mei respectively. Cheung Kwai Lan is the wife of Chan Tung Mei. Cheung Kwai Lan and Chan Tung Mei are deemed to be interested in 262,080,000 Shares.



2. Share options

Pre-IPO Share Option Scheme

The following directors of the Company (“Directors”) have been granted options to subscribe for shares of the Company on 18 October 2002 pursuant to the Pre-IPO Share Option Scheme.

Name of Director	No. of underlying shares in respect of the options granted <i>(Note)</i>
Cheung Kwai Lan	4,000,000
Chan Tung Mei	4,000,000
Chan Ting	4,000,000
Peter Chin Wan Fung	2,600,000

Note: These Pre-IPO share options were granted on 18 October 2002, at an exercise price per share of HK\$0.23, representing 50% of the offer price of HK\$0.46 per share in respect of the Company’s initial public offering. The Pre-IPO 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 options, if not otherwise exercised, will lapse on 17 October 2007.

Each of the above mentioned Directors who has been granted options under the Pre-IPO Share Option Scheme has undertaken with the Company, Guotai Junan Capital Limited, Shenyin Wanguo Capital (H.K.) Limited (for itself and on behalf of the underwriters) and the Stock Exchange that for a period of twelve months from the date when trading in the Shares first commences on GEM, he or she will not dispose of (or enter into any agreement to dispose of) nor permit the registered holder thereof to dispose of (or enter into any agreement to dispose of) any of his, her or its direct or indirect interest in the Shares pursuant to the exercise of the options granted to him or her under the Pre-IPO Share Option Scheme.

No share options under the Pre-IPO Share Option Scheme were exercised by the Directors during the period.



Share Option Scheme

The Company has adopted a share option scheme (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 the shares in the Company.

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

As at 30 September 2003, no share option had been granted or agreed to be granted under the Share Option Scheme.

Save as disclosed above, as at 30 September 2003, none of the directors and chief executives, or their respective associates had any interest or short position in the shares of the Company or any of its 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 he/she was taken or deemed to have under such provision of the SFO) or which were required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by the directors of listed issuers as referred to in Rules 5.40 to 5.58 of the GEM Listing Rules.



SUBSTANTIAL SHAREHOLDERS

As at 30 September 2003, shareholders (other than a director or chief executive of the Company) who had interests or short positions in the shares or underlying shares 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, directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote on all circumstances at general meeting or substantial shareholders as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of Shareholder	Number of shares held		Approximate percentage of issued share capital as at 30 September 2003
	Long position	Short position	
Best Frontier Investments Limited (Note 1)	262,080,000	–	64.74%
Choice Palace Holdings Limited (Note 2)	30,000,000	–	7.41%
COFCO (Hong Kong) Limited (Note 2)	30,000,000	–	7.41%
China National Cereals, Oils & Foodstuffs Import & Export Corporation (Note 2)	30,000,000	–	7.41%

Notes:

1. The Shares are held by Best Frontier Investments Limited, a limited company incorporated in the BVI, which is owned as to 99.89% and 0.11% by Cheung Kwai Lan and Chan Tung Mei respectively. Cheung Kwai Lan is the wife of Chan Tung Mei. Cheung Kwai Lan and Chan Tung Mei are deemed to be interested in 262,080,000 Shares.
2. The Shares are held by Choice Palace Holdings Limited, a limited company incorporated in the BVI, which is wholly owned by COFCO (Hong Kong) Limited, its controlling shareholder being China National Cereals, Oils & Foodstuffs Import & Export Corporation, a state-owned enterprise established in the PRC.



Save as disclosed above, as at 30 September 2003, the directors and chief executives of the Company were not aware of any other person (other than a director or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO, or who was interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting or any other substantial shareholders as recorded in the register required to be kept by the Company under Section 336 of the SFO.

SPONSOR'S INTEREST

To the best knowledge of the Company, as at 30 September 2003, 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 interest in a business that competed or might compete with the business of the Group.



AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based upon the guidelines published by the Hong Kong Society of 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 two independent non-executive directors, namely Professor Peter Chin Wan Fung and Mr. Du Ying Min. Professor Peter Chin Wan Fung is the chairman of the audit committee. The Group's unaudited results for the three months ended 30 September 2003 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.

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

During the three months ended 30 September 2003, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

By order of the Board

CHAN Ting

Director and Chief Executive Officer

Hong Kong, 11 November 2003