



THIRD
QUARTERLY
REPORT
2003-2004



B & B

B & B Natural Products Limited

蜂林天然產品有限公司

(formerly known as 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 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"/ "B&B") announces that the unaudited consolidated results of the Company and its subsidiaries (together the "Group") for the three months and nine months ended 31 March 2004, together with the comparative unaudited figures for the corresponding period in 2003, are as follows:

	Notes	(Unaudited) Three months ended 31 March		(Unaudited) Nine months ended 31 March	
		2004 HK\$'000	2003 <i>HK\$'000</i>	2004 HK\$'000	2003 <i>HK\$'000</i>
Turnover	4	34,193	27,031	94,139	69,460
Cost of goods sold		(20,567)	(19,702)	(56,540)	(42,029)
Gross profit		13,626	7,329	37,599	27,431
Other revenue		16	60	147	359
Selling and distribution costs		(2,200)	(2,294)	(6,768)	(6,089)
Administrative expenses		(2,279)	(1,766)	(7,445)	(4,814)
Profit from operations		9,163	3,329	23,533	16,887
Finance costs		(161)	–	(470)	(1,494)
Profit before taxation		9,002	3,329	23,063	15,393
Taxation	5	(1,717)	–	(1,718)	–
Profit before minority interests		7,285	3,329	21,345	15,393
Minority interest		(231)	(89)	(525)	(332)
Net profit for the period		7,054	3,240	20,820	15,061
Dividend per share	6	–	0.5 cent	0.5 cent	0.5 cent
Earnings per share					
– basic	7	1.50 cents	0.81 cent	4.80 cents	3.97 cents
– diluted		1.47 cents	0.77 cent	4.63 cents	3.85 cents

Notes:

1. Basis of Preparation

The unaudited consolidated results for the three months and nine months ended 31 March 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 and nine months ended 31 March 2004 include the results of the Company and its subsidiaries for the three months and nine months ended 31 March 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 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.

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

On 28 November 2003, a dividend of HK\$0.01 per share was paid to shareholders as the final dividend for the year ended 30 June 2003 (year ended 30 June 2002: Nil).

The Board of Directors does not recommend the payment of an interim dividend for the three months ended 31 March 2004 (three months ended 31 March 2003: HK 0.5 cent per share). For the nine months ended 31 March 2004, the Board of Directors has declared an interim dividend of HK 0.5 cent per share for the six months ended 31 December 2003 (six months ended 31 December 2002: Nil). Total interim dividend for the nine months ended 31 March 2004 was HK 0.5 cent per share (nine months ended 31 March 2003: HK 0.5 cent per share).

7. Earnings per share

The calculation of basic earnings per share is based on the unaudited net profit for the three months and nine months ended 31 March 2004 of approximately HK\$7,054,000 and HK\$20,820,000 respectively (three months and nine months ended 31 March 2003: HK\$3,240,000 and HK\$15,061,000 respectively) and of the weighted average number of 470,620,000 and 433,602,000 (three months and nine months ended 31 March 2003: 400,000,000 and 379,652,000 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 nine months ended 31 March 2004 of approximately HK\$7,054,000 and HK\$20,820,000 respectively (three months and nine months ended 31 March 2003: HK\$3,240,000 and HK\$15,061,000 respectively) and of the weighted average number of 480,244,000 and 449,745,000 (three months and nine months ended 31 March 2003: 421,600,000 and 391,274,000 respectively) ordinary shares respectively in issued 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 2003	30,881	6	(1)	29,624	60,510
Issue of shares pursuant to exercises of share options and placing	49,116	-	-	-	49,116
Share issue expenses	(1,705)	-	-	-	(1,705)
Exchange differences arising from translation of financial statements of overseas operation	-	15	-	-	15
Profit for the period	-	-	-	20,820	20,820
Final dividend paid for the year ended 30 June 2003	-	-	-	(4,246)	(4,246)
Balance as at 31 March 2004	78,292	21	(1)	46,198	124,510
	(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 2002	-	(2)	(1)	13,615	13,612
Issue of shares pursuant to public offer and placing	43,200	-	-	-	43,200
Capitalization issue of shares	(3,030)	-	-	-	(3,030)
Share issue expenses	(9,289)	-	-	-	(9,289)
Profit for the period	-	-	-	15,061	15,061
Balance as at 31 March 2003	30,881	(2)	(1)	28,676	59,554

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the period under review, the Group has achieved a remarkable growth in turnover and net profit. For the nine month ended 31 March 2004, turnover amounted to approximately HK\$94,139,000, representing an increase of 35.5% as compared with that of last year, while net profit surged 38.2% to approximately HK\$20,820,000. For the three month ended 31 March 2004, turnover amounted to approximately HK\$34,193,000, representing an increase of 26.5% as compared with same period of last year, while net profit surged 117.7% to approximately HK\$7,054,000. The encouraging performance for the third quarter was mainly attributable to the effective integration of the Group's businesses in products platform, distribution and production, which successfully enhanced B&B's income.

The Group's direction to implement a three-pronged strategic development is beginning to be in place. The Group has gained momentum in 1) identify and develop new potential products; 2) penetrate the products through its distribution network (including strategic joint venture with the retail chain store in Hunan, the PRC); 3) integration of operation to maximize profit margin and secure supply. By focusing on strengthening its core operations and seeking after lucrative business opportunities, B&B is committed to becoming the leading producer and distributor of natural products in the PRC.

Production

During the period under review, products production has been able to keep up with the growing market demand.

With the recent cooperation with the city government of Yunan Lijiang on Gastrodia plantation; and the Sino-foreign joint venture Yunan Yong Sheng B&B Natural Products Ltd. on olive plantation, the Group has begun the organization of the plantation. Gastrodia is a Chinese herb with significant health benefits and is commonly found in the PRC, Korea and Japan.

In January 2004, the Group entered into an agreement to form a 51% owned joint venture with Yunan Rongda Biochemical Industry Co. Ltd. The joint venture will produce Rongda Feng, one of the most progressive humic acid water soluble organic fertilizers that can partially or completely replace chemical fertilizers. Rongda Feng has been accredited a Grade A Green Food production standard by China Green Food Development Center. It is widely applicable in agricultural products and can effectively reduce the use of chemical fertilizers, control pollution and act as a replacement fertilizer for the purpose of environmental conservation. The joint venture will own the relevant product patent, trademark, brand name and packaging copyrights in the PRC.

B&B will further identify potential products, with the view of enhancing its product portfolio.

Distribution

After entering into joint venture agreement with Hunan Friendship Apollo Company Limited in November 2003, the Group has proceeded the formation of the joint venture and received relevant government permits. In addition, the Group has pursued strategic sales arrangement with the joint venture. The Group's products is being arranged to penetrate into the retail outlets of the joint venture with special promotion booths. On the other hand, selective Hunan local organic food products have been sourced by the Group for trial distribution in Hong Kong and other oversea countries.

While PRC being the focus of the Group's distribution, Hong Kong remains as a strategic distribution location. The Group continued to carry out promotional activities and also joined up with local clinics in promoting health products.

The Group will continue to seek potential partners for enhancing its distribution network.

Future Prospects

B&B will proactively yet selectively cooperate with potential partners, to generate impressive and synergistic effects to motive its future growth. On 23 March 2004, the Group has entered into an agreement to dispose 75% interest in its edible oil division to Aptus Holdings Limited ("Aptus"; stock code: 8212). At the same time, B&B has also entered into another agreement with Aptus to acquire new Aptus shares. (Further details please refer to the announcement dated 26 April 2004). The transactions are subject to further approval and if completed, B&B will become the controlling shareholder of Aptus, holding approximately 60.02% of the issued share capital of Aptus on a fully-diluted basis. Through the transaction, B&B can accelerate the expansion of the healthcare distribution network.

Leverage on the solid foundation of existing product platform, facilities and distribution, the Group will continue to embrace the same attitude to propel the business. Looking ahead, the Group will expand the PRC market, Asia as well as overseas countries, with a goal to bring fruitful returns to our supportive shareholders.

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

As at 31 March 2004, 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 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 are 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 Rule 5.40 to 5.58 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	Capacity	Number and class of securities
Cheung Kwai Lan	Company	Interest of a controlled corporation	262,080,000 Shares (Note 1)
	Company	Beneficial owner	2,660,000 Shares
	Company	Interest of spouse	2,660,000 Shares (Note 2)
Chan Tung Mei	Company	Interest of a controlled corporation	262,080,000 Shares (Note 3)
	Company	Interest of spouse	2,660,000 Shares (Note 4)
	Company	Beneficial owner	2,660,000 Shares
Chan Ting	Company	Beneficial owner	2,660,000 Shares
Peter Chin Wan Fung	Company	Beneficial owner	1,730,000 Shares
Cheung Kwai Lan	Best Frontier Investments Limited	Beneficial owner	909 shares of US\$1 each
		Interest of spouse	1 share of US\$1 (Note 5)
Chan Tung Mei	Best Frontier Investments Limited	Beneficial owner	1 share of US\$1
		Interest of spouse	909 shares of US\$1 each (Note 6)

Notes:

1. The 262,080,000 Shares are owned by Best Frontier Investments Limited which is owned as to 99.89% and 0.11% by Madam Cheung Kwai Lan and Mr Chan Tung Mei respectively. Accordingly, Madam Cheung Kwai Lan is deemed to be interested in the Shares under the SFO.
2. The 2,660,000 Shares are 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.
3. The 262,080,000 Shares are owned by Best Frontier Investments Limited. Accordingly, Mr Chan Tung Mei is deemed to be interested in the Shares under the SFO.
4. The 2,660,000 Shares are owned by Madam Cheung Kwai Lan. Accordingly, Mr Chan Tung Mei is deemed to be interested in the Shares under the SFO.
5. The 1 share of US\$1 in Best Frontier Investments Limited is owned by Mr Chan Tung Mei and Madam Cheung Kwai Lan is deemed to be interested in the shares under the SFO.
6. The 909 shares of US\$1 each in Best Frontier Investments Limited are owned by Madam Cheung Kwai Lan and 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 31 March 2004 were as follows:

Name of Director	Number of share options granted (Note)	Number of share options exercised	Number of share options outstanding as at 31 March 2004
Cheung Kwai Lan	4,000,000	2,660,000	1,340,000
Chan Tung Mei	4,000,000	2,660,000	1,340,000
Chan Ting	4,000,000	2,660,000	1,340,000
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 March 2004, no share option had been granted or agreed to be granted under the Share Option Scheme.

Save as disclosed herein, as at 31 March 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 are 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 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS

So far as is known to any Director or chief executive of the Company, as at 31 March 2004, the persons/companies (not being a Director or chief executive of the Company) who have 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 will be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group are as follows:

Name of shareholder	Capacity	Number of Shares	Approximate % of shareholding
Best Frontier Investments Limited	Beneficial owner	262,080,000 Long position	55.69%
Oppenheimer Funds, Inc	Investment manager	26,000,000 Long position	5.52%

Save as disclosed above, as at 31 March 2004, the Directors are not aware of any other person who has 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 provisions of Divisions 2 and 3 of Part XV of the SFO, or who is interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other members of the Company.

SPONSOR'S INTEREST

To the best knowledge of the Company's sponsor, Guotai Junan Capital Limited (the "Sponsor"), as at 31 March 2004, neither 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 members of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any members 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

During the nine months ended 31 March 2004, none of the directors had been aware of any information that would reasonably indicate that the Company was not in compliance with Rules 5.28 to 5.45 of the GEM Listing Rules.

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 nine months ended 31 March 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 nine months ended 31 March 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 and Mr. Du Ying Min respectively.

Hong Kong, 10 May 2004