



ANNUAL 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)

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 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 Bee & Bee Natural Life 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 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.

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Madam CHEUNG Kwai Lan
Mr. CHAN Tung Mei
Mr. CHAN Ting

Non-executive Director

Mr. SHAW Kyle Arnold Junior

Independent non-executive Directors

Professor Peter Chin Wan FUNG
Mr. DU Ying Min

AUDIT COMMITTEE

Professor Peter Chin Wan FUNG
Mr. DU Ying Min

AUTHORISED REPRESENTATIVES

Madam CHEUNG Kwai Lan
Mr. CHAN Ting

COMPLIANCE OFFICER

Mr. CHAN Ting

COMPANY SECRETARY

Mr. KWAN Yiu Ming, Patrick *FCCA FHKSA*

QUALIFIED ACCOUNTANT

Mr. KWAN Yiu Ming, Patrick *FCCA FHKSA*

PRINCIPAL BANKERS

Nanyang Commercial Bank, Limited
151 Des Voeux Road Central
Hong Kong

DBS Bank (Hong Kong) Limited
16th Floor, The Center
99 Queen's Road Central
Hong Kong

Hang Seng Bank Limited
83 Des Voeux Road Central
Hong Kong

AUDITORS

W.H. Tang & Partners CPA Limited
Level 7, Parkview Centre
7 Lau Li Street, Causeway Bay
Hong Kong

SOLICITORS

Kenneth C.C. Man & Co.
1203-8, Hang Seng Building
77 Des Voeux Road Central
Hong Kong

REGISTERED OFFICE

Ugland House, P.O. Box 309
George Town, Grand Cayman
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 1603, 16th Floor, Dina House
11 Duddell Street
Central, Hong Kong

WEBSITE

www.bnbnatural.com

SHARE REGISTRAR AND TRANSFER

Standard Registrars Limited
Ground Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road, Wanchai, Hong Kong

SPONSOR

Guotai Junan Capital Limited
27th Floor, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong



Chairman's Statement

Dear Shareholders:

On behalf of the Board of Directors (the "Board"), I am pleased to report a profitable year ended 30 June 2003 for Bee & Bee Natural Life Products Limited ("B & B"/"the Group"). This is the Group's first full year as a listed company following its listing on 12 November 2002, on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). For the year under review, the Group recorded a turnover of HK\$88,337,000 (2002: HK\$62,850,000) and a net profit of HK\$18,009,000 (2002: HK\$13,613,000). It should be noted that the Severe Acute Respiratory Syndrome ("SARS") outbreak in early 2003 did have an adverse impact on the Group's financial performance.

Apart from listing on GEM, the Group has diligently tapped into various opportunities in order to enhance its earnings base and promote product diversification. In the process, several milestones have been attained, and the Group has successfully widened its product platform to comprise two main product categories: natural wine products and natural products.

The natural wine product range includes both sweet and dry mead with an 11% alcohol level, a sparkling honey wine product with a 4% alcohol level and also mead with ginseng, aloe, plum and milk flavors. These various products enable the Group to target a wider consumer market with different preferences, thus further strengthening B & B market position and facilitating its expansion into overseas markets.

The natural products category, previously consisting of a bird's nest range and a honey range, has been expanded to include newly acquired natural palm oil products and a natural herbal drink for which the Group is on trial distribution. The natural palm oil product was obtained via acquisition of a majority 75% shareholding in Hsing Long Trading Co. Pte. Ltd. ("Hsing Long"), a reputable company incorporated in Singapore.

In the vital aspect of sales and distribution, the Group has opened its first sales and marketing office & warehouse in Shanghai. Backed by a professional sales team, the Group is now able to carry out direct distribution to retail outlets instead of solely relying on sales agents, as previously practised. The sales and marketing office also facilitates centralized strategic advertising, promotions and increased brand awareness activities for B & B products. The Group has now therefore evolved into a vertical business operation that covers sourcing, production, sales and distribution. This vertical integration is advantageous as it ensures effective controls in quality, cost and inventory.

Overseas, the Group has begun the setup of distribution network in South East Asia, through the establishment of a joint venture company, B & B South East Asia Ltd., and in Singapore, through the acquisition of Hsing Long. The Group can now explore product distribution further in the South East Asia market.

Chairman's Statement

In the field of Research and Development ("R&D"), the Group has achieved a breakthrough in shortening the mead fermentation process to approximately 12 days. The Group will continue to apply allocated resources on R&D to maintain its momentum.

PROSPECTS

The People's Republic of China's ("PRC") economy is expected to continue to show positive growth, while in Hong Kong and elsewhere in the region, economic recovery seems relatively slow. The Group will seek to increase revenue through prudent market expansion and product diversification. As the PRC offers tremendous potential, the Group will focus on business development primarily in the Mainland, while continuing to explore overseas markets, especially in South East Asia, while concurrently building up the brand image and popularity of B & B products. In Hong Kong, there were 380 point-of-sales by the end of June 2003 and the Group targets to further increase them in the future.

The Group is also optimistic about the potential of the palm oil business in the lucrative PRC market, and will increase efforts to capture more sales. As part of business prudence, the Group will continue to pursue effective cost controls in production while maintaining quality control and production procedures in compliance with ISO 9001: 2000 quality management system standards. Construction of the new Zhuhai manufacturing facilities have been delayed slightly due to the revision in the blueprint and construction schedule earlier in the year, however, the Group is confident that the first milestone will be completed during the first half of 2004.

APPRECIATION

On behalf of the Board of Directors, I wish to thank all our valued shareholders, customers, business associates, and advisors for their invaluable assistance and strong support. I would like to thank my fellow Directors, the management and the staff for their dedication, commitment and valuable contributions. The Board, the management and the staff will continue to work diligently to take the Group to greater heights.

Cheung Kwai Lan
Chairman

19 September 2003



Management Discussion and Analysis

FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK\$0.01 per share by the Company for the year ended 30 June 2003.

FINANCIAL PERFORMANCE

This is the first annual report of the Group as a listed company on the GEM of the Stock Exchange, following its listing on 12 November 2002. For the year ended 30 June 2003, the Group showed a satisfactory performance. By adopting a prudent approach in business development and through exercising careful cost control measures, the Group has achieved a turnover amounting to HK\$88,337,000, representing an increase of 40.6%, as compared to the previous year. Net profit was HK\$18,009,000, representing an increase of 32.3%.

The positive financial results can be attributed mainly to an expansion of the Group's product platform, product diversification, growing market acceptance of B & B's products and sales growth in the PRC market.

BUSINESS REVIEW

During the period under review, the Group has successfully broadened its product platform, which comprises natural wine products and natural products. This has led to a broadening of the Group's revenue base. There was also concurrent regional expansion.

Unfortunately, the outbreak of SARS in Hong Kong and the PRC has had an adverse impact on retail activities. There were, however, no substantial effects on operation. Sales growth of the Group's products continued to be satisfactory, with growth in its palm oil business especially significant. The Group is continuously seeking potentially profitable business opportunities and new markets, while expanding its distribution network.

NATURAL WINE PRODUCTS

The Group has successfully expanded its product platform in the category of natural wine products with the inclusion of different varieties of B & B mead products. New B & B mead products will be launched step by step depending on market conditions. The Group targets different categories of customers for different products.

Sweet & Dry Mead with 11% alcohol level

Overall growth recorded for the financial year 2002/03 was satisfactory. The Group believes that sales would have been better but for the outbreak of SARS. During the second half of the financial year 2002/03, especially from April to June, the incidence of SARS impacted on the sales of mead due to fewer activities in the food service industry and the pub/karaoke/entertainment sector. This product is targeted at consumers with higher quality requirements for wine and who enjoy a leisurely lifestyle.

Management Discussion and Analysis

Sparkling Honey Wine Product

This carbonated mead drink with 4% alcohol level and resembling sparkling wine serves as an alternative and special beverage to soft drinks. The prototype came out during the second half of the financial year 2002/03. It is expected to be test launched in the new financial year.

NATURAL PRODUCTS

Honey

Sales remained stable for the period under review. Due to bad weather and flooding in the PRC, there was a price fluctuation on raw honey of around 10%-20% but this had little effect on the mead business as the Group had sufficient inventory.

Bird's Nest

Sales were stable over the review period. In the beginning of 2003, the cost and selling prices of bird's nest both fell by around 10%, while profit margin remained stable.

Natural Palm Oil Product

In January 2003, the Group acquired a majority 75% shareholding in Hsing Long, a natural palm oil product trading company incorporated in Singapore. This acquisition represents an astute business development that will broaden the Group's natural product revenue base. It is also a synergistic move in line with the Group's business strategy of expanding its product platform. The Group will maintain its focus on business expansion of natural palm oil in the PRC market and is looking for suitable opportunities for strategic expansion. The Group will put efforts in generating more sales for Hsing Long in the upcoming financial year.

Natural Herbal Drink

The Group is planning to jointly distribute the natural herbal drink in the PRC, Hong Kong and South East Asia and will explore the viability of manufacturing the product in the PRC. A market trial of the product was carried out during the financial year 2002/03 and the Group has received positive responses from distributors.

SALES AND DISTRIBUTION

The Group's strategic market expansion plan will focus primarily on business development in the PRC, where the sales and distribution market is positive, and it will develop direct distribution to retail outlets through the Group's own sales and marketing offices instead of distribution solely through sales agents.

The Group is focused on expanding its distribution network to the PRC cities with business potential, and will continue to explore overseas markets, especially in South East Asia.

Management Discussion and Analysis

OVERSEAS MARKETS

Malaysia

The Group has established a joint venture company, B & B South East Asia Ltd., to introduce B & B mead products and set up a distribution network for Malaysia and other South East Asia countries. B & B brand name products will initially be introduced through pubs, restaurants, lounges and hotels where customer bases are well established. B & B South East Asia Ltd. will engage in marketing efforts to increase product and brand awareness.

Singapore

The newly acquired natural palm oil trading business through Hsing Long also serves to expand the sales network for B & B. The Group will study the viability of setting up a distribution network for natural wine products and natural products in Singapore.

Other Asia Markets

The Group will explore South East Asia further for other distribution channels.

PRC

Assuming no unforeseen events with detrimental effect on business occur, sales of the Group's products are expected to remain healthy in the coming financial year. The Group has opened its own sales and marketing office & warehouse in Shanghai, recruited professional personnel for its sales team, centralized strategic advertising and promotions and has effectively increased brand name awareness for B & B products. The establishment of the sales offices offers the advantage of direct distribution with less reliance on sales agents.

The Group expects to put more efforts and resources in the southern part of the PRC, and is considering opening a sales office in southern part of the PRC during the first half of the new financial year. There are also plans to set up new sales and marketing offices in the major cities in the PRC.

HONG KONG

Distribution of mead commenced in March 2003, and distribution channels have included wine retailers, entertainment and dining outlets. B & B mead is retailed at over 380 point-of-sales comprising small chain stores and restaurants.

The Group expects to carry out promotion activities in Hong Kong from the first half of the upcoming financial year via promotion counters, promotional offers and other marketing activities, as well as joint promotions with well established restaurants. Promoters will be hired for these activities. The Group also expects to begin mass media exposure for its mead products.

Management Discussion and Analysis

BRAND IMAGE

The Group has developed a new corporate logo and a new product logo comprising of “B & B”, which is pending registration. B & B’s products are recognized as “Good Quality Food” products in the PRC, and as a “Designated Reception Beverage” by the Zhuhai and Wuhu government authorities. The Group’s website has been updated to provide more information on B & B products and other natural products to support effective marketing and brand building.

There are plans to develop new products in line with the Group’s business direction in the manufacturing or distribution of natural products or natural wine products under the brand name of B & B.

MANUFACTURING

There was a revision in the blueprint and construction schedule of the new plant in Zhuhai. Despite delays as a result of revision of structured design, construction of the first phase is progressing well, and is scheduled for completion during the first half of 2004.

RESEARCH & DEVELOPMENT

The Group has achieved a breakthrough in shortening the mead fermentation process from 15 days to approximately 12 days. A new B & B product range featuring incorporation of different new flavours such as ginseng, aloe, plum and milk into mead was developed.

In view of the soft market conditions, the impact of SARS in Hong Kong and the PRC, which negatively affected projected business growth, and the slow recovery of the economies of Hong Kong and the region, the Group considered it prudent to revise the planned Research & Development programme.

EMPLOYMENT AND REMUNERATION POLICIES

As at 30 June, 2003, the Group employed 13 staffs in Hong Kong, 6 staffs in Singapore and 77 staffs in the PRC. Staff costs excluding directors’ remuneration amounted to approximately HK\$3,185,000 (2002: HK\$1,400,000). 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. Share options may be granted to employees based on performance valuation in order to provide incentives and rewards.

Management Discussion and Analysis

BUSINESS PROSPECTS

The PRC's economy is expected to show positive growth, while the economy of Hong Kong and elsewhere in the region are showing only slow recovery. In this environment, the Group will continue to exercise cautiousness and prudence in developing its business in the upcoming year. Sales of products has begun to pick up in the post-SARS period and the Group is confident of increased demand for mead and other natural products in the upcoming financial year. Market expansion in the PRC, Malaysia, Singapore and Hong Kong will continue. Concurrently, the Group will explore other viable markets in South East Asia.

The Group looks forward to expanding product range by diversifying the Group's products portfolio. R&D is important in developing more varieties and better flavours of mead for customers. As to manufacturing, the Group intends to keep up the manufacturing capacity with the expanding product range or to vertically integrate new products that the Group distributes.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2003, shareholders' funds amounted to approximately HK\$64,510,000. Current assets amounted to approximately HK\$79,122,000, of which approximately HK\$67,910,000 were cash and bank deposits. The Group had no non-current liabilities and its current liabilities amounted to approximately HK\$16,627,000, mainly its trade and other payables and bank borrowings. The Group's bank borrowings amounted to approximately HK\$9,762,000 as at 30 June 2003. The Group financed its operations primarily with internally generated cash flows and the net proceeds from the new issue of the Company's shares by way of placing and public offer in November 2002. The net asset value per share of the Company was approximately HK\$0.16. The gearing ratio was 32.5% (2002: 204.3%) on the basis of total liabilities divided by shareholders' funds.

The business activities of the Group are not exposed to material fluctuations in exchange rates except the operations through its subsidiaries in the PRC and Singapore which are subject to fluctuation in exchange rates between Renminbi, Singapore dollars and Hong Kong dollars.

For the year ended 30 June 2003, there were no significant investments in securities made by the Group, and there were no material acquisitions or disposal of subsidiaries and affiliated companies for this year.

As at 30 June 2003, the Group did not have any material contingent liabilities.

As at 30 June 2003, the Group pledged certain of its bank deposits as a security for the general banking facilities granted to the Group.

CAPITAL STRUCTURE

The Group has capitalized HK\$3,030,000 through listing on the GEM on 12 November 2002. There has been no change in the capital structure of the Company since that date to 30 June 2003.

Comparison of Business Objectives with Actual Business Progress

According to the business plans from the Latest Practicable Date (as defined in the Prospectus) to 30th June, 2003 as stated in the Prospectus

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

Intend to launch bird's nest mead and purchase new machinery to prepare large-scale production of new honey drinks, new flavors of mead and different types of bird's nest related products.

Begin to establish laboratory for the research and product development of new natural supplementary food products including honey drinks, new flavors of mead and different types of bird's nest related products.

Actual business progress

The research and development of certain new natural supplementary food products including honey drinks, new flavors of mead and different types of bird's nest related products have been completed.

The development of new products by incorporating new flavors such as ginseng, aloe, milk and plum etc. into mead was completed in the first half of the financial year 2002/03. The development of B & B sparkling honey wine product with a 4% alcohol level was completed during the last quarter of the current financial year. The Group began test launching the new products to collect market responses and the result is expected to be concluded within the first half of the financial year 2003/04.

The purchase of new machinery will be pending on the response from test launch.

Comparison of Business Objectives with Actual Business Progress

According to the business plans from the Latest Practicable Date (as defined in the Prospectus) to 30th June, 2003 as stated in the Prospectus

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

Add supplementary food products information to the website.

3. Appoint distributors and sales agents

Appoint 10 sales agents in the Guangdong southern region of the PRC.

4. Appoint world-wide distributors

Identify and begin to negotiate with new distributors in overseas countries like Japan, Korea and the US.

Actual business progress

The Group's website has been enriched with a new design and additional information on supplementary food products.

The Group has appointed 10 direct and indirect sales agents within the sales network throughout PRC including Hong Kong.

The Group also developed direct distribution to sales points through the establishment of its own sales and marketing office in the PRC, resulting in less reliance on sales agents and more sophisticated multi-tiers sales network.

The Group has been negotiating with some distributors in overseas countries like Japan, Korea and the US. The Group established a joint venture company, B & B South East Asia Ltd., to introduce B & B products and set up a distribution network in major cities in South East Asia.

Comparison of Business Objectives with Actual Business Progress

According to the business plans from the Latest Practicable Date (as defined in the Prospectus) to 30th June, 2003 as stated in the Prospectus

5. Marketing and promotional activities

Arrange small-scale promotional activities in the PRC to promote awareness of the Group's products in the domestic market.

6. Research on technology for production process

Conduct research on different technologies used in the production process so as to regularly fine tune to perfect the results.

7. Zhuhai facilities

First stage of the construction of the facilities and approximately 40% of the whole facilities will be completed by December 2002.

Actual business progress

The Group organized promotional activities in Shanghai and Zhuhai in order to create greater awareness of B & B products and to reach a wider market.

The Group has successfully developed relevant technologies, so that the mead fermentation process was reduced from 15 days to approximately 12 days.

In the first half of the financial year, as advised by the contractor, the foundation structure of the facilities was required to be further strengthen. For this reason, certain portions of the blueprint of the facilities was amended while the estimated total construction cost was not changed. The completion of the first milestone is scheduled for the first half of the 2004.

Directors and Senior Management

DIRECTORS

Executive Directors

Madam CHEUNG Kwai Lan, aged 65, is the Chairman, one of the founders of the Group and an executive Director. Madam Cheung Kwai Lan is responsible for business development, strategic planning and marketing for the Group. She is the vice president of the Zhang Xueliang Foundation (張學良基金會). She graduated from Shanxi Tai Yuan Medical School in 1960 and was a researcher of 山西省太原(原子能)研究所, which was one of the institutions of the Chinese Academy of Science. She also participated in the research and development of the radioactive material Cobalt 60 for imaging and cancer treatment. She is the mother of Mr. Chan Ting and the wife of Mr. Chan Tung Mei, both being executive Directors.

Mr. CHAN Tung Mei, aged 67, is one of the founders of the Group and an executive Director. He is responsible for the overall management and operation of the Group. He graduated from Shanxi Industrial University in the PRC and received a bachelor degree in Civil Engineering in August 1960. Mr. Chan Tung Mei has over ten years of experience in establishing and managing companies. He is the father of Mr. Chan Ting and the husband of Madam Cheung Kwai Lan, both being executive Directors.

Mr. CHAN Ting, aged 33, is an executive Director. He is responsible for the marketing and business development of the Group. He was awarded a degree in Economics from Macquarie University in Australia in 1993. Mr. Chan Ting has ten years of solid working experience in establishing and managing companies in the PRC. He is the son of Madam Cheung Kwai Lan and Mr. Chan Tung Mei, both being executive Directors. He joined the Group in July 2001.

Non-executive Director

Mr. SHAW Kyle Arnold Junior, aged 42, is a Partner and Managing Director of Shaw Kwei & Partners, a private equity fund manager focused on Asia. He has been involved in Asian private equity since 1986, and has successfully organised and managed Asian private equity funds for two U.S. financial institutions: Security Pacific Bank and Tudor Investment Corp. He has been involved in a variety of investment transactions throughout Asia, including Hong Kong and China. He received an M.B.A. degree from the Wharton School of the University of Pennsylvania and a Bachelor of Science in Commerce, majoring in Finance, from the University of Virginia. He was appointed as a non-executive Director in May 2003.

Directors and Senior Management

DIRECTORS AND SENIOR MANAGEMENT

Independent non-executive Directors

Professor Peter Chin Wan FUNG, aged 65, is the Chair Professor and Chief of Medical Physics at the University of Hong Kong. He completed his Ph.D. program in 1966 at the University of Tasmania, Australia. He worked at the Institute for Plasma Research of Stanford University between 1968 and 1970. He then worked at the University of Hong Kong from September 1970 until the present day. He also acted as the Scientific Consultant to Stanford University and as a Visiting Professor to Kansas University. He acquired his Reader title in 1980, became the Personal Professor of Physics in 1984 and founded the Division of Medical Physics in the University of Hong Kong in 1998. He is one of the Members of the Board of Trustees of the Chinese University of Hong Kong – New Asia College. He is an editorial advisory member of the DRUG Indexed Medical Speciality publication. He has published well over 260 research articles in international peer reviewed journals and over 10 text books for Hong Kong high schools. He was appointed as an independent non-executive Director in September 2002.

Mr. DU Ying Min, aged 51, was the Government Deputy Mayor of Xin Xiang City (新鄉市政府, 河南省) from 1994 to 1997. He was a director of Zhong Cheng Group Judiciary Department from 1997 to 2001. He graduated from 中國社會科學院研究生院 and received a masters degree in investment management in November 1998. He is a committee member (理事) of the China Development Research Foundation (中國發展研究基金會) and the Chairman of 中國國發投資公司. He was appointed as an independent non-executive Director in September 2002.

CONSULTANT

Mr. FANN Chung Ta, aged 55, is a consultant to the Group. He is responsible for advising the Group on business expansion and development. He is the founder of Key Find Co., Ltd., which is principally a general trading business in Taipei, in 1979. Mr. Fann has substantial experience in the business of trading and merchandising. In 1989, Mr. Fann focused his business in the PRC. Mr. Fann set up a joint venture company, Mandarin Group S.A., in Belgium in 1992, which was principally a general trading business. In 1995, he set up Key Find Co., Ltd. (Guangzhou office) (川集企業有限公司廣州公司) in Guangzhou which was principally engaged in overseas merchandising and investment in the PRC. He joined the Group in September 2002.



Directors and Senior Management

SENIOR MANAGEMENT

Mr. KWAN Yiu Ming, Patrick, aged 38, is the chief financial officer, the qualified accountant and the company secretary of the Group. He holds a bachelor degree of commerce in accounting from the Curtin University of Technology in Australia. Mr. Kwan is a fellow member of the Hong Kong Society of Accountants and the Association of Chartered Certified Accountants. He joined the Group in August 2001 and has over 10 years of experience in accounting and financial management. He also has over 4 years of experience in auditing.

Mr. YANG Pei Gen, aged 48, is the general manager of one of the Company's subsidiaries, Wuhu Bee & Bee Natural Food Company Limited ("Wuhu Bee & Bee") in the PRC. He is responsible for the daily operation of Wuhu Bee & Bee. A medical doctor by profession, Mr. Yang is a graduate of 蕪湖市皖南醫學院 (Wuhu Wan Nan Medical College) where he majored in 臨床醫學 (clinical medicine) and is the founder of Wuhu Bee & Bee Winery Company Limited. He is one of the pioneers in the PRC to carry out research on ultra-filtration technology and the cultivation of yeast for mead production. He joined the Group in October 2001.

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 30 June 2003.

GROUP REORGANISATION

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. Pursuant to a Group reorganisation completed on 18 December 2001 (the "Reorganisation") to establish the Group's structure in preparation for the listing of the shares on GEM, the Company became the holding company of the subsidiaries of the Group. The Company's shares have been listed on GEM since 12 November 2002. Further details of the Reorganisation and the subsidiaries are set out in notes 1 and 18 to the financial statements.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are the manufacture and distribution of natural supplementary foods.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 30 June 2003 are set out in the consolidated income statement on page 28. An interim dividend of HK0.5 cent per share, amounting to HK\$2 million, was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of HK\$0.01 per share to the shareholders on the register of members on 20 November 2003, amounting to HK\$4 million, and the retention of the remaining profit for the year.

SUMMARY OF PRO FORMA COMBINED AND CONSOLIDATED FINANCIAL INFORMATION

The Company was incorporated in the Cayman Islands on 11 December 2001 and became the holding company of the subsidiaries now comprising the Group as a result of the Reorganisation, which became effective on 18 December 2001. A summary of the pro forma combined results for the years ended 30 June 2001 and 2002 which are presented on the basis that the current Group structure had been in existence throughout that years, together with the consolidated results and assets and liabilities of the Group for the year ended 30 June 2003, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 66 of the annual report. This summary does not form part of the audited financial statements.

USE OF PROCEEDS

	Planned usage for the period from the Listing Date to 30th June, 2003 <i>HK\$ million</i>	Actual usage for the period from the Listing Date to 30th June, 2003 <i>HK\$ million</i>
Expanding the new production facilities in Zhuhai, the PRC (<i>note 1</i>)		
(i) purchase of land	0.2	0.2
(ii) construction cost	3.8	0.3
Conducting various research and development programmes to increase the varieties of the Group's products (<i>note 2</i>)	1.2	0.1
Marketing and promotional activities	0.6	0.6
Purchasing new machinery for producing new natural supplementary foods (<i>note 1</i>)	1.5	0
Redemption of the Convertible Notes	14.0	14.0
General working capital	0.2	0.2
Total	21.5	15.4

Note:

1. Zhuhai Plant Construction and Purchase of New Machinery

Construction of the new Zhuhai manufacturing facilities and the purchase of new machinery have been delayed due to the change in structured design earlier in the year, the details of which are set out in the section headed "Comparison of Business Objectives with Actual Business Progress" of this report.

2. 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 quickly and more efficiently than originally anticipated. Proceeds not yet used will continue to be applied to the R&D of the Group's upcoming new products.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 15 to the financial statements.

Directors' Report

SHARE CAPITAL

Details of movements in the Company's share capital together with the reasons therefor, and details of the Company's share option scheme are set out in notes 24 to 25 to the financial statements, respectively.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors

Madam Cheung Kwai Lan

Mr. Chan Tung Mei

Mr. Chan Ting

Non-executive director

Mr. Shaw Kyle Arnold Junior (Appointed on 19 May 2003)

Independent non-executive directors

Professor Peter Chin Wan Fung (Appointed on 16 September 2002)

Mr. Du Ying Min (Appointed on 16 September 2002)

In accordance with Article 116 of the Articles of Association of the Company (the "Articles"), Mr. Chan Ting retires and being eligible, offers himself for re-election at the forthcoming annual general meeting. In accordance with Article 99 of the Articles, non-executive director, Mr. Shaw Kyle Arnold Junior and independent non-executive directors, Professor Peter Chin Wan Fung and Mr. Du Ying Min retire and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company for a term of three years from 18 October 2002, renewable automatically for successive terms of one year unless terminated by not less than six months' notice in writing served by either party on the other.

The non-executive director has no fixed term of office but is subject to the provision of retirement and rotation of directors under the Articles.

Each of the independent non-executive directors has entered into a service contract with the Company for a term of three years from 18 October 2002.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

1. Shares

As at 30 June 2003, the interests or short positions of the directors and chief executives of the Company in the securities of the Company and any 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 Directors	Capacity/ Nature of interest	Number of shares held		Percentage of shareholding
		Long position	Short position	
Madam Cheung Kwai Lan	Corporate interest	262,080,000 (Note)	–	65.52%
Mr. Chan Tung Mei	Corporate interest	262,080,000 (Note)	–	65.52%

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 Madam Cheung Kwai Lan and Mr. Chan Tung Mei respectively. Madam Cheung Kwai Lan is the wife of Mr. Chan Tung Mei. Madam Cheung Kwai Lan and Mr. Chan Tung Mei are deemed to be interested in 262,080,000 Shares.

2. Share options

Pre-IPO Share Option Scheme

On 18 October 2002, the Company adopted a share option scheme (the "Pre-IPO Share Option Scheme"), under which 13 individuals, including three executive directors, one independent non-executive director, one consultant and eight employees, have been granted by the Company options to subscribe for an aggregate of 40,000,000 shares in the Company at an exercise price of HK\$0.23.

Directors' Report

The following table discloses details of options outstanding under the Pre-IPO Share Option Scheme and movements during the year:

Categories of grantees	Date of grant	Exercise price HK\$	Outstanding at 1 July 2002	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding at 30 June 2003
Directors								
Cheung Kwai Lan	18/10/2002	0.23	-	4,000,000	-	-	-	4,000,000
Chan Tung Mei	18/10/2002	0.23	-	4,000,000	-	-	-	4,000,000
Chan Ting	18/10/2002	0.23	-	4,000,000	-	-	-	4,000,000
Peter Chin Wan								
Fung	18/10/2002	0.23	-	2,600,000	-	-	-	2,600,000
Consultant	18/10/2002	0.23	-	4,000,000	-	-	-	4,000,000
Employees	18/10/2002	0.23	-	21,400,000	-	-	(3,000,000)	18,400,000
Total			-	40,000,000	-	-	(3,000,000)	37,000,000

Under the terms of the options granted under the Pre-IPO Share Option Scheme, these options can only be exercised by the grantees in the following manner:

Exercisable period	Number of shares that can be exercised under the Pre-IPO Share Option Scheme
12 May 2003 – 17 October 2007	12,333,333
12 November 2003 – 17 October 2007	12,333,333
12 May 2004 – 17 October 2007	12,333,334

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, Shenyn 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 during the year.

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 belonging to any of the following classes of participants, to take up options to subscribe for the shares in the Company:

- (a) any employees (whether full-time or part-time) of the Company, any of its subsidiaries or any entity (the "Invested Entity") in which the Group holds any equity interest, including any executive director of the Company, any of such subsidiaries or any Invested Entity;
- (b) any non-executive directors (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;
- (c) any supplier of goods or services to any member of the Group or any Invested Entity;
- (d) any customer of the Group or any Invested Entity;
- (e) any person or entity that provides research, development, or other technological support to the Group or any Invested Entity; and
- (f) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity.

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

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

Save as disclosed above, as at 30 June 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 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 they were 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.

Directors' Report

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in the section headed "Directors' and Chief Executive's Interests in Securities" above, at no time during the year was the Company or its subsidiaries a party to any arrangements to enable the directors and chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the directors and chief executives or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2003, shareholders who had interests or short positions in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, 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 Shareholders	Number of shares held		Percentage of shareholding
	Long position	Short position	
Best Frontier Investments Limited (Note 1)	262,080,000	–	65.52%
Cheung Kwai Lan (Note 1)	262,080,000	–	65.52%
Chan Tung Mei (Note 1)	262,080,000	–	65.52%
Choice Palace Holdings Limited (Note 2)	30,000,000	–	7.50%
COFCO (Hong Kong) Limited (Note 2)	30,000,000	–	7.50%
China National Cereals, Oils & Foodstuffs Import & Export Corporation (Note 2)	30,000,000	–	7.50%

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 Madam Cheung Kwai Lan and Mr. Chan Tung Mei respectively. Madam Cheung Kwai Lan is the wife of Mr. Chan Tung Mei. Madam Cheung Kwai Lan and Mr. 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 June 2003, the directors and chief executives of the Company were not aware of any other person who had an interest or short position in the shares, underlying shares and debentures 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.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No other contract of significance to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SPONSOR'S INTEREST

To the best knowledge of the Company, as at 30 June 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.

CONNECTED TRANSACTIONS

During the year, there were no significant transactions which require to be disclosed as connected transactions in accordance with the requirements of the GEM Listing Rules and accounting principles generally accepted in Hong Kong.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 30% of the total turnover for the year and sales to the largest customer included therein amounted to 9%.

Purchase from the Group's five largest suppliers accounted for approximately 74% of the total purchases for the year and purchases from the largest supplier included therein amounted to 35%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

Directors' Report

PRE-EMPTIVE RIGHTS

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

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

During the period from 12 November 2002, being the date on which dealings of the Company's shares first commenced on GEM, to 30 June 2003, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares during the period under review.

CORPORATE GOVERNANCE

The Company has complied for the period from 12 November 2002 to 30 June 2003 with the corporate governance matters as set out in rules 5.28 to 5.39 of Chapter 5 of the GEM Listing Rules.

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.

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 audited results for the year ended 30 June 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.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed between Friday, 14 November 2003 and Thursday, 20 November 2003 (both days inclusive) during which period no transfer of the Company's shares will be effected. To qualify for the final 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 Thursday, 13 November 2003.

AUDITORS

During the financial year, Messrs. Deloitte Touche Tohmatsu resigned and Messrs. W.H. Tang & Partners CPA Limited were appointed as auditors of the Company.

A resolution will be submitted to the annual general meeting to re-appoint Messrs. W.H. Tang & Partners CPA Limited.

On behalf of the Board

Cheung Kwai Lan
Chairman

Hong Kong, 19 September 2003

Auditors' Report

鄧偉雄會計師事務所有限公司

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Causeway Bay, Hong Kong.

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**W.H. TANG
& PARTNERS
CPA LIMITED**

TO THE MEMBERS OF BEE & BEE NATURAL LIFE PRODUCTS LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 28 to 65 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.



Auditors' Report

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30 June 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

W.H. Tang & Partners CPA Limited

Hong Kong, 19 September 2003

Tang Wai Hung

Practising Certificate Number P03525

Consolidated Income Statement

For the year ended 30 June 2003

	Notes	2003 HK\$'000	2002 HK\$'000
Turnover	6	88,337	62,850
Cost of sales		(54,913)	(40,968)
Gross profit		33,424	21,882
Other revenue	6	536	152
Selling and distribution costs		(7,600)	(3,746)
Administrative expenses		(6,519)	(2,873)
Profit from operations	7	19,841	15,415
Finance costs	8	(1,569)	(1,072)
Profit before taxation		18,272	14,343
Taxation	11	69	(368)
Profit before minority interest		18,341	13,975
Minority interest		(332)	(362)
Net profit for the year		18,009	13,613
Dividends	13	6,000	–
EARNINGS PER SHARE			
Basic (cents)	14	4.92 cents	4.48 cents
Diluted (cents)	14	4.74 cents	N/A

Consolidated Balance Sheet

At 30 June 2003

	Notes	2003 HK\$'000	2002 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	4,132	3,603
Technical know-how	16	231	404
Goodwill	17	245	–
Deposits made on acquisition of property, plant and equipment		1,734	1,539
		6,342	5,546
CURRENT ASSETS			
Inventories	19	4,205	3,596
Trade and other receivables and prepayments	20	7,007	7,681
Pledged bank deposits	35	14,076	2,007
Bank deposits		2,004	–
Bank balances and cash		51,830	22,621
		79,122	35,905
CURRENT LIABILITIES			
Trade and other payables	21	6,519	9,415
Convertible notes	22	–	12,901
Taxation		346	559
Bank borrowings – secured	23	9,762	1,068
		16,627	23,943
NET CURRENT ASSETS			
		62,495	11,962
CAPITAL AND RESERVES			
Share capital	24	4,000	10
Reserves	26	60,510	13,612
		64,510	13,622
MINORITY INTEREST			
		4,327	3,886
		68,837	17,508

The financial statements on pages 28 to 65 were approved and authorised for issue by the Board of Directors on 19 September 2003 and are signed on its behalf by:

CHEUNG KWAI LAN
Director

CHAN TING
Director

Balance Sheet

At 30 June 2003

	Notes	2003 HK\$'000	2002 HK\$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	18	42,738	12,553
CURRENT ASSETS			
Other receivables and prepayments		58	2,403
Bank balances and cash		36	–
		94	2,403
CURRENT LIABILITIES			
Other payables		491	644
Convertible notes	22	–	12,901
		491	13,545
NET CURRENT LIABILITIES			
		(397)	(11,142)
		42,341	1,411
CAPITAL AND RESERVES			
Share capital	24	4,000	10
Reserves	26	38,341	1,401
		42,341	1,411

CHEUNG KWAI LAN
Director

CHAN TING
Director

Consolidated Statement of Changes in Equity

For the year ended 30 June 2003

	Share capital HK\$'000	Share premium HK\$'000	Translation reserve HK'000	Special reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 July 2001	–	–	–	–	2	2
Arising from the Group Reorganisation	–	–	–	9	–	9
Capitalisation of reserve	10	–	–	(10)	–	–
Exchange differences arising from translation of financial statements of PRC operations	–	–	(2)	–	–	(2)
Net profit for the year	–	–	–	–	13,613	13,613
At 30 June 2002 and 1 July 2002	10	–	(2)	(1)	13,615	13,622
Issue of shares pursuant to public offer and placing	960	43,200	–	–	–	44,160
Capitalisation issue of shares	3,030	(3,030)	–	–	–	–
Share issue expenses	–	(9,289)	–	–	–	(9,289)
Exchange differences arising from translation of financial statements of Singapore operation	–	–	8	–	–	8
Net profit for the year	–	–	–	–	18,009	18,009
Dividend paid	–	–	–	–	(2,000)	(2,000)
At 30 June 2003	4,000	30,881	6	(1)	29,624	64,510

The special reserve of the Group represents the difference between the nominal amount of the share capital issued by the Company in exchange for the nominal value for the issued share capital of the subsidiaries acquired pursuant to the Group Reorganisation on 18 December 2001.

Consolidated Cash Flow Statement

For the year ended 30 June 2003

	Note	2003 HK\$'000	2002 HK\$'000 (restated)
OPERATING ACTIVITIES			
Profit from operations		19,841	15,415
Adjustment for:			
Interest income		(308)	(42)
Depreciation		546	214
Amortisation of goodwill		27	–
Loss on disposal of property, plant and equipment		81	91
Amortisation of technical know-how		173	115
Operating cash flows before movements in working capital		20,360	15,793
Increase in inventories		(609)	(1,426)
Decrease/(increase) in trade and other receivables and prepayments		5,300	(7,452)
(Decrease)/increase in trade and other payables		(8,475)	9,144
Cash generated by operations		16,576	16,059
Interest paid		(1,224)	(243)
Taxation paid		(184)	–
Taxation refund		7	–
NET CASH FROM OPERATING ACTIVITIES		15,175	15,816
INVESTING ACTIVITIES			
Interest received		308	42
Purchases of property, plant and equipment		(647)	(3,295)
Deposits paid on acquisition of property, plant and equipment		(704)	(1,539)
Increase in pledged bank deposits		(12,069)	(2,007)
Acquisition of a subsidiary	27	577	–
NET CASH USED IN INVESTING ACTIVITIES		(12,535)	(6,799)

Consolidated Cash Flow Statement

For the year ended 30 June 2003

	2003 HK\$'000	2002 HK\$'000 (restated)
FINANCING ACTIVITIES		
Issue of shares	44,160	–
Share issue expenses	(9,289)	–
Repayment of convertible notes	(13,000)	–
Dividend paid	(2,000)	–
Proceeds from issue of shares of a subsidiary prior to the Reorganisation	–	8
Proceeds from issue of convertible notes	–	13,000
Expenses incurred in connection with the issue of convertible notes	–	(685)
Capital contributions from the minority owner of a subsidiary	–	307
Net advance received	–	138
Net repayment of advances	–	(239)
NET CASH FROM FINANCING ACTIVITIES	19,871	12,529
NET INCREASE IN CASH AND CASH EQUIVALENTS	22,511	21,546
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	21,553	9
Effect of foreign exchange rate changes	8	(2)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	44,072	21,553
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	51,830	22,621
Bank deposits	2,004	–
Bank overdrafts	(5,910)	(1,068)
Trust receipt loans	(3,852)	–
	44,072	21,553

Notes to the Financial Statements

1. GROUP REORGANISATION

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.

Pursuant to a group reorganisation completed on 18 December 2001 (the "Reorganisation") to establish the Group's structure in preparation for the listing of the shares on the Growth Enterprise Market ("GEM"), the Company became the holding company of the subsidiaries of the Group. This was accomplished by acquiring the entire issued share capital of China Success Enterprises Limited ("China Success") in consideration of and in exchange for the Company's allotted and issued share capital. Further details of the Reorganisation are set out in the Company's prospectus dated 29 October 2002 (the "Prospectus"). The ordinary shares of the Company were listed on GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 12 November 2002.

The Group resulting from the Reorganisation is recorded as a continuing entity. Accordingly, the consolidated financial statements have been prepared using the principles of merger accounting in accordance with Statement of Standard Accounting Practice 27 "Accounting for group reconstructions" issued by the Hong Kong Society of Accountants.

2. CORPORATE INFORMATION

The registered office of Bee & Bee Natural Life Products Limited is Ugland House, P.O. Box 309, George Town, Grand Cayman, Cayman Islands.

The principal place of business of Bee & Bee Natural Life Products Limited is Unit 1603, 16th Floor, Dina House, 11 Duddell Street, Central, Hong Kong.

During the year, the Group was involved in manufacture and distribution of natural supplementary foods.

3. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice ("SSAP(s)") issued by the Hong Kong Society of Accountants which has resulted in the adoption of the following new and revised accounting policies.

SSAP 1 (Revised)	: "Presentation of financial statements"
SSAP 11 (Revised)	: "Foreign currency translation"
SSAP 15 (Revised)	: "Cash flow statements"
SSAP 34	: "Employee benefits"

Notes to the Financial Statements

3. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE *(Continued)*

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of those SSAPs which have had a significant effect on the financial statements, are summarised as follows:

Presentation of financial statements

The revisions to SSAP 1 (Revised) "Presentation of financial statements" have introduced the new format of presentation of the statement of changes in equity in the current year's financial statements which is now presented on page 31 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group's reserves note.

Foreign currency translation

The revisions to SSAP 11 (Revised) "Foreign currency translation" have eliminated the choice of translating the income statements of overseas operations at the closing rate for the period. The income and expenses of overseas operations are now required to be translated at an average rate. This change in accounting policy has not had any material effect on the results for the current or prior accounting periods.

Cash flow statements

In the current year, the Group has adopted SSAP 15 (Revised) "Cash flow statements". Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest received, interest paid and dividends paid, which were previously presented under a separate heading, are classified as investing, operating and financing cash flows, respectively. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. Cash flows of overseas subsidiaries have been re-translated at the rates prevailing at the dates of the cash flows rather than the rate of exchange ruling on the balance sheet date.

Employee benefits

SSAP 34 "Employee benefits" prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no material change to the previously adopted accounting treatments for employee benefits as at the balance sheet date. Disclosures are now required in respect of the Company's share option scheme, as detailed in note 25 to the financial statements.

Notes to the Financial Statements

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

Basis of consolidation

The consolidation financial statements include the financial statements of the Company and its subsidiaries for the year ended 30 June 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the subsidiary at the date of acquisition. Goodwill arising on acquisition is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

On disposal of a subsidiary, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Notes to the Financial Statements

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and any identified impairment loss at the balance sheet date.

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

The cost of leasehold improvements is depreciated using the straight line method over the period of the respective leases. Depreciation is provided to write off the cost of other property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Furniture, fixtures and equipment	20%
Motor vehicle	20%
Plant and machinery	10%

Technical know-how

Acquired technical know-how is stated at cost less amortisation and any identified impairment loss. Amortisation is calculated to write off the cost of the acquired technical know-how over a period of three years, using the straight line method.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

Notes to the Financial Statements

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of assets *(Continued)*

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Taxation

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Certain items of income and expense are recognised for tax purposes in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

Convertible notes

Convertible notes are separately disclosed and regarded as liabilities unless conversion actually occurs. The finance cost, including the premium payable upon the final redemption of the convertible note, recognised in the income statement in respect of the convertible notes is calculated so as to produce a constant periodic rate of charge on the remaining balances of the convertible notes for each accounting period.

The costs incurred in connection with the issue of convertible notes are deferred and amortised on a straight line basis over the lives of the convertible notes from the date of issue of the notes to their final redemption date. If any of the notes are purchased and cancelled, redeemed, or converted prior to the final redemption date, an appropriate portion of any remaining unamortised costs will be charged immediately to the income statement.

Notes to the Financial Statements

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on translation are dealt with in the income statement.

On consolidation, the assets and liabilities of the foreign subsidiaries are translated at the rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the average exchange rates for the period.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 3 to the financial statements, the profit and loss accounts and the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements, while the revised SSAP 15 has resulted in revisions to the layout of the cash flow statement, as detailed in note 28(a) to the financial statements, but has had no material effect on the previously-reported cash flows of the prior year.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the period of the respective leases.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short term maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management. For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Notes to the Financial Statements

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Dividends

Final dividends proposed by the directors are retained in the retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability. Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Employee benefits

(a) *Retirement benefits scheme*

The employees of the Group's subsidiaries which operate in Hong Kong are required to participate in the Mandatory Provident Fund Scheme (the "MPF Scheme"). Payments to the MPF Scheme are charged as expense as they fall due.

The employees of the Group's subsidiaries which operate in China and Singapore are required to participate in a central pension scheme operated by the local municipal government and Central Provident Fund Scheme, respectively. These subsidiaries are required to contribute pension, based on a certain percentage of their payroll costs, to the pension schemes. The contributions are charged to income statement as they become payable in accordance with the rules of the pension schemes.

(b) *Share option scheme*

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the income statement or balance sheet for their cost.

Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Notes to the Financial Statements

5. SEGMENT INFORMATION

During the years ended 30 June 2003 and 2002, the Group was principally engaged in the manufacture and sales of natural supplementary foods. The directors consider that the Group operates within a single business segment. Accordingly, no business segmental information is prepared by the Group.

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

			Elimination		Consolidated	
	2003 HK\$'000	2002 HK\$'000	2003 HK'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Geographical market						
Segment revenue:						
PRC	89,228	59,825	(28,755)	(13,665)	60,473	46,160
Hong Kong	6,624	23,672	–	(6,982)	6,624	16,690
South East Asia	21,240	–	–	–	21,240	–
Total	117,092	83,497	(28,755)	(20,647)	88,337	62,850
Segment results:						
PRC					27,037	13,717
Hong Kong					(7,020)	1,698
South East Asia					(176)	–
Profit from operations					19,841	15,415
Finance costs					(1,569)	(1,072)
Profit before taxation					18,272	14,343
Taxation					69	(368)
Profit before minority interest					18,341	13,975
Minority interest					(332)	(362)
Net profit for the year					18,009	13,613

Notes to the Financial Statements

5. SEGMENT INFORMATION *(Continued)*

Analysis of carrying amount of segment assets and additions to property, plant and equipment and technical know-how, analysed by the geographical area in which the assets are located has not been presented as they are substantially situated in China.

6. TURNOVER AND OTHER REVENUE

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts excluding value-added tax and business tax. An analysis of turnover and other revenue is as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Turnover		
Manufacture and sales of natural supplementary foods	88,337	62,850
Other revenue		
Interest income	308	42
Others	228	110
	536	152

Notes to the Financial Statements

7. PROFIT FROM OPERATIONS

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Profit from operations has been arrived at after charging:		
Staff costs excluded directors' emoluments	2,956	1,310
Staff's retirement benefits scheme contributions	229	90
Total staff costs	3,185	1,400
Less: Staff costs included in research and development costs	(80)	(36)
	3,105	1,364
Allowance for slow-moving inventories	–	303
Auditors' remuneration		
– provision for the year	180	300
– overprovision in prior years	(28)	–
	152	300
Amortisation of goodwill	27	–
Amortisation of technical know-how	173	115
Depreciation of property, plant and equipment	546	214
Loss on disposal of property, plant and equipment	81	91
Operating lease rentals in respect of land and building	450	29
Research and development costs	180	107
Cost of inventories recognised as expenses	54,913	40,968
and after crediting:		
Interest income	308	42
Exchange gain	11	–

Notes to the Financial Statements

8. FINANCE COSTS

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Amortisation of issue costs of convertible notes	343	342
Interest on:		
convertible notes, including accretion of premium payable upon the final redemption of the convertible notes	1,097	722
bank borrowings wholly repayable within five years	129	8
	1,569	1,072

9. DIRECTORS' EMOLUMENTS

Directors' remuneration, disclosed pursuant to the GEM Listing Rules and Section 161 of the Companies Ordinance, is as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Fees for independent non-executive directors	124	–
Fees for non-executive director	9	–
Other emoluments:		
Executive directors		
Salaries and other benefits	3,600	1,354
Contributions to retirement benefits scheme	24	24
	3,757	1,378

The three executive directors received remunerations of HK\$1,822,000 (2002: HK\$657,000), HK\$1,182,000 (2002: HK\$371,000) and HK\$620,000 (2002: HK\$350,000), respectively for the year ended 30 June 2003.

Two independent non-executive directors and a non-executive director received remunerations of HK\$62,000 (2002: Nil), HK\$62,000 (2002: Nil) and HK\$9,000 (2002: Nil), respectively for the year ended 30 June 2003.

Notes to the Financial Statements

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals included three directors (2002: three directors), details of whose emoluments are included above. The aggregate emoluments of the five highest paid employees including three directors (2002: three directors) for the year were as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Salaries and other benefits	4,405	1,843
Contributions to retirement benefits scheme	48	41
	<hr/>	<hr/>
	4,453	1,884

The emoluments for the five highest paid individuals were within the following bands:

	THE GROUP	
	2003 Number of individuals	2002 Number of individuals
Nil – HK\$1,000,000	3	5
HK\$1,000,001 – HK\$1,500,000	1	–
HK\$1,500,001 – HK\$2,000,000	1	–
	<hr/>	<hr/>
	5	5

Notes to the Financial Statements

11. TAXATION

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
The (credit) charge comprises:		
Hong Kong Profits Tax		
Current year	–	368
Overprovision in respect of prior years	(57)	–
Other jurisdictions		
Overprovision in respect of prior years	(12)	–
	<hr/>	<hr/>
	(69)	368

The Group did not derive any assessable profits in Hong Kong and thus no provision for Hong Kong Profits Tax has been made during the year ended 30 June 2003. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

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.

Deferred tax has not been provided as there were no significant timing differences as at 30 June 2003 (2002: Nil).

12. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 30 June 2003 dealt with in the financial statements of the Company is approximately HK\$8,059,000 (2002: Loss approximately HK\$1,168,000)

Notes to the Financial Statements

13. DIVIDENDS

	THE COMPANY	
	2003 HK\$'000	2002 HK\$'000
Interim dividend paid:		
0.5 cent (2002: Nil) per share	2,000	–
Final dividend proposed:		
1.0 cent (2002: Nil) per share	4,000	–
	<hr/>	<hr/>
	6,000	–
	<hr/>	<hr/>

In respect of the current year, the directors propose that a final dividend of HK\$0.01 per share will be paid to shareholders on 28 November 2003. This dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

The proposed final dividend for 2003 is payable to all shareholders on the Register of Members on 20 November 2003.

14. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

Earnings

	2003 HK\$'000	2002 HK\$'000
Earnings for the purposes of basic earnings per share	18,009	13,613
	<hr/>	<hr/>
Number of shares		
	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	366,071	304,000
Effect of dilutive potential ordinary shares:		
Share options	13,966	–
	<hr/>	<hr/>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	380,037	304,000
	<hr/>	<hr/>

Notes to the Financial Statements

15. PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixtures and equipment <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Motor vehicle <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP					
COST					
At 1 July 2002	240	223	391	2,933	3,787
Additions	129	10	269	748	1,156
Disposals	–	–	(98)	–	(98)
At 30 June 2003	369	233	562	3,681	4,845
DEPRECIATION					
At 1 July 2002	10	4	11	159	184
Provided for the year	63	80	94	309	546
Eliminated on disposals	–	–	(17)	–	(17)
At 30 June 2003	73	84	88	468	713
NET BOOK VALUES					
At 30 June 2003	296	149	474	3,213	4,132
At 30 June 2002	230	219	380	2,774	3,603

Notes to the Financial Statements

16. TECHNICAL KNOW-HOW

HK\$'000

THE GROUP

COST

At 1 July 2002 and at 30 June 2003 519

AMORTISATION

At 1 July 2002 115

Provided for the year 173

At 30 June 2003 288

CARRYING VALUES

At 30 June 2003 231

At 30 June 2002 404

17. GOODWILL

HK\$'000

THE GROUP

COST

Arising on acquisition of a subsidiary and at 30 June 2003 272

AMORTISATION

Provided for the year and at 30 June 2003 27

CARRYING VALUE

At 30 June 2003 245

Notes to the Financial Statements

18. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	2,579	2,579
Amounts due from subsidiaries	40,159	9,974
	42,738	12,553

The amounts due from subsidiaries are unsecured, interest free and have no fixed repayment terms. In the opinion of the directors, the amounts are unlikely to be repaid within the next twelve months from the balance sheet date and are therefore shown in the balance sheet as non-current.

Particulars of the principal subsidiaries at 30 June 2003 are as follows:

Name of subsidiary	Place of incorporation/ operations	Issued and fully paid up share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
China Success Enterprises Limited	British Virgin Islands	Ordinary shares US\$2,000	100%	–	Investment holding
Loyalion Limited	Hong Kong	Ordinary shares HK\$1,000	–	100%	Distribution of natural supplementary foods and investment holding
Wuhu Bee & Bee Natural Food Company Limited #	PRC	Registered capital US\$1,000,000	–	55%	Manufacture and distribution of natural supplementary foods
Zhuhai Free Trade Zone Bee & Bee Natural Food Company Limited #	PRC	Registered capital HK\$1,000,000	–	100%	Distribution of natural supplementary foods
B & B International Marketing (HK) Limited **	Hong Kong	Ordinary shares HK\$2	–	100%	Distribution of natural supplementary foods

Notes to the Financial Statements

18. INTERESTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ operations	Issued and fully paid up share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Hsing Long Trading Co. Pte. Ltd. *	Singapore	Ordinary shares SGD100,000	–	75%	Distribution of natural supplementary foods
B & B Natural Products (BVI) Limited **	British Virgin Islands	Ordinary share US\$1	–	100%	Investment holding
B & B International Marketing Limited **	British Virgin Islands	Ordinary share US\$1	–	100%	Investment holding
B & B South East Asia Limited **	British Virgin Islands	Ordinary shares US\$4	–	75%	Distribution of natural supplementary foods

The statutory financial year end date of these subsidiaries is 31 December.

* Subsidiary acquired during the year.

** Subsidiaries newly established during the year.

19. INVENTORIES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Raw materials	405	378
Work in progress	2,399	2,504
Finished goods	1,401	714
	4,205	3,596

At the respective balance sheet dates, no inventories were stated at net realisable value.

Notes to the Financial Statements

20. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Trade receivables	6,341	4,863
Other receivables and prepayments	666	2,818
	<u>7,007</u>	<u>7,681</u>

Payment terms with customers are mainly on credit together with deposits. Invoices are normally payable within 60 days of issuance. The following is an aged analysis of trade receivables at the balance sheet dates:

Age	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
0 to 30 days	4,419	4,297
31 to 60 days	1,403	566
61 to 360 days	519	–
	<u>6,341</u>	<u>4,863</u>

Notes to the Financial Statements

21. TRADE AND OTHER PAYABLES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Trade payables	835	2,134
Other payables	5,684	7,281
	<u>6,519</u>	<u>9,415</u>

The following is an aged analysis of trade payables at the balance sheet dates:

Age	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
0 to 30 days	604	1,053
31 to 120 days	231	1,081
	<u>835</u>	<u>2,134</u>

22. CONVERTIBLE NOTES

At 15 November 2002, all the convertible notes at nominal value and premium payable were redeemed and paid by the Company, amounting to HK\$13 million and HK\$975,000, respectively.

23. BANK BORROWINGS – SECURED

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Bank overdrafts, secured	5,910	1,068
Trust receipt loans, secured	3,852	–
	<u>9,762</u>	<u>1,068</u>

The maturity profile of the above overdrafts and loans are on demand or within one year.

Notes to the Financial Statements

24. SHARE CAPITAL

	<i>Notes</i>	Number of shares '000	<i>HK\$'000</i>
Authorised:			
On incorporation and at 30 June 2002, shares of HK\$0.01 each	(a)	39,000	390
Increase in authorised share capital	(c)	19,961,000	199,610
<hr/>			
At 30 June 2003, shares of HK\$0.01 each		20,000,000	200,000
Issued and fully paid:			
Issue of shares of HK\$10 to initial subscribers	(a)	1	–
Issue of shares as consideration for the acquisition of the entire share capital of a subsidiary	(b)	999	10
<hr/>			
At 30 June 2002, shares of HK\$0.01 each		1,000	10
Issue of shares by capitalisation of share premium	(d)	303,000	3,030
Issue of shares pursuant to public offer and placing	(e)	96,000	960
<hr/>			
At 30 June 2003, shares of HK\$0.01 each		400,000	4,000

The following changes in the Company's authorised and issued share capital took place during the period from 11 December 2001 (date of incorporation of the Company) to 30 June 2003:

- (a) On incorporation, the authorised share capital of the Company was HK\$390,000 divided into 39,000,000 shares of HK\$0.01 each, 1,000 shares of which were allotted and issued, credited as fully paid, to the initial subscribers of the Company on the same date.

Notes to the Financial Statements

24. SHARE CAPITAL (Continued)

- (b) On 18 December 2001, as part of the Reorganisation, the Company allotted and issued an aggregate of 999,000 shares of HK\$0.01 each credited as fully paid at par in consideration of and in exchange for the acquisition of the entire issued share capital of China Success Enterprises Limited, the then holding company of the Group.
- (c) On 16 September 2002, the authorised share capital of the Company was increased from HK\$390,000 to HK\$200,000,000 by the creation of addition 19,961,000,000 shares of HK\$0.01 each.
- (d) On 18 October 2002, written resolutions of all the then shareholders of the Company was passed pursuant to which, a total of 303,000,000 shares of HK\$0.01 each were allotted and issued as fully paid at par to the holders of the Company's shares whose names appeared on the register of members of the Company at the close of business on 18 October 2002, in proportion to their respective shareholdings, by way of capitalisation of the sum of HK\$3,030,000 standing to the credit of the share premium account of the Company, conditional on the share premium account being credited as a result of the issue of shares pursuant to public offer and placing on 12 November 2002.
- (e) On 12 November 2002, 96,000,000 shares of HK\$0.01 each were issued at HK\$0.46 to the public by way of issue of shares pursuant to public offer and placing for a total cash consideration, before related expenses, of HK\$44,160,000. The excess over the par value of the shares issued was credited to the share premium account.

25. SHARE OPTION SCHEME

Pre-IPO Share Option Scheme

Pursuant to the Pre-IPO Share Option Scheme adopted by the Company on 18 October 2002, 13 individuals, including three executive directors, one independent non-executive director, one consultant and eight employees, have been granted by the Company options to subscribe for an aggregate of 40,000,000 shares in the Company at an exercise price of HK\$0.23.

Notes to the Financial Statements

25. SHARE OPTION SCHEME (Continued)

Pre-IPO Share Option Scheme (Continued)

Details of movements during the year in the Company's Pre-IPO Share Option Scheme held by employees (including directors and consultant) are as follows:

Categories of grantees	Date of grant	Exercise price HK\$	Number of share options at 1 July 2002 '000	Granted during the year '000	Lapsed during the year '000	Number of share options at 30 June 2003 '000
Directors	18/10/2002	0.23	–	14,600	–	14,600
Consultant	18/10/2002	0.23	–	4,000	–	4,000
Employees	18/10/2002	0.23	–	21,400	(3,000)	18,400
Total			–	40,000	(3,000)	37,000

Under the terms of the options granted under the Pre-IPO Share Option Scheme, these options can only be exercised by the grantees in the following manner:

Exercisable period	Number of shares that can be exercised under the Pre-IPO Share Option Scheme
12 May 2003 – 17 October 2007	12,333,333
12 November 2003 – 17 October 2007	12,333,333
12 May 2004 – 17 October 2007	12,333,334

Notes to the Financial Statements

25. SHARE OPTION SCHEME (Continued)

Pre-IPO Share Option Scheme (Continued)

Each of the above eligible participants 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 during the year. No charge is recognised in the income statement in respect of the value of options granted in the year.

A nominal consideration of HK\$1 is payable on acceptance of each grant. Total consideration received during the year from employees (including directors and consultant) for taking up the options granted amounted to HK\$13.

Share Option Scheme

The Company has adopted a share option scheme (the "Share Option Scheme"), under which the Directors may, at its discretion, invite any persons belonging to any of the following classes of participants, to take up options to subscribe for the shares in the Company:

- (a) any employees (whether full-time or part-time) of the Company, any of its subsidiaries or any entity (the "Invested Entity") in which the Group holds any equity interest, including any executive director of the Company, any of such subsidiaries or any Invested Entity;
- (b) any non-executive directors (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;
- (c) any supplier of goods or services to any member of the Group or any Invested Entity;
- (d) any customer of the Group or any Invested Entity;
- (e) any person or entity that provides research, development, or other technological support to the Group or any Invested Entity; and
- (f) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity.

Notes to the Financial Statements

25. SHARE OPTION SCHEME *(Continued)*

Share Option Scheme *(Continued)*

The Share Option Scheme will remain valid for a period of 10 years commencing from 18 October 2002. The exercise price of the share options is determinable by the directors, and may not be less than the highest of:

- (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a business day;
- (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and
- (iii) the nominal value of a share of the Company.

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

The maximum number of shares of the Company which may be issued upon exercise of all the outstanding options granted and yet to be issued under the Pre-IPO Share Option Scheme, the Share Option Scheme or any other schemes must not, in aggregate, exceed 30% of the shares of the Company in issue from time to time.

The maximum number of shares which may be granted under the Pre-IPO Share Option Scheme of the Company must not exceed 40,000,000 shares, being 10% of the issued share capital as at the listing of the Company's shares on GEM on 12 November 2002.

The maximum number of shares issued and to be issued on the exercise of options granted and to be granted to each eligible participant (included both exercised and outstanding options) in any 12-month period must not exceed 1% of the total issued share capital of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholder's approval in a general meeting.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Notes to the Financial Statements

26. RESERVES

(a) The Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 31 of the financial statements.

Translation reserve

The revised SSAP 11 was adopted during the year, as explained in note 3 to the financial statements. As a result, on consolidation, the income statements of foreign subsidiaries are now translated into Hong Kong dollars at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the translation reserve.

Such translation difference are recognised as income or as expenses in the period in which the operation is disposed of. This changes in accounting policy, however, has had no material effect on the previously-reported amounts for prior years.

Special reserve

The special reserve of the Group represents the difference between the nominal amount of the share capital issued by the Company in exchange for the nominal value for the issued share capital of the subsidiaries acquired pursuant to the Reorganisation on 18 December 2001.

Share premium

On 12 November 2002, 96,000,000 shares of HK\$0.01 each were issued at HK\$0.46 to the public by way of issue of shares pursuant to public offer and placing for a total cash consideration, before related expenses, of HK\$44,160,000.

The excess over the par value of the shares issued was credited to the share premium account which would be used to offset the share issue expenses and capitalisation issue of shares.

Notes to the Financial Statements

26. RESERVES (Continued)

(b) The Company

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Retained profits (deficit) <i>HK\$'000</i>	Total <i>HK\$'000</i>
Incorporation on 11 December 2001	–	–	–	–
Arising from the Group Reorganisation	–	2,579	–	2,579
Capitalisation of reserve	–	(10)	–	(10)
Net loss for the period	–	–	(1,168)	(1,168)
At 30 June 2002 and 1 July 2002	–	2,569	(1,168)	1,401
Premium on issue of shares pursuant to public offer and placing	43,200	–	–	43,200
Capitalisation issue of shares	(3,030)	–	–	(3,030)
Share issue expenses	(9,289)	–	–	(9,289)
Net profit for the year	–	–	8,059	8,059
Dividend paid	–	–	(2,000)	(2,000)
At 30 June 2003	30,881	2,569	4,891	38,341

Notes to the Financial Statements

27. ACQUISITION OF A SUBSIDIARY

During the year, the Company indirectly acquired 75% of the issued share capital of a subsidiary, Hsing Long Trading Co. Pte. Ltd. for a total consideration of HK\$600,000. This acquisition has been accounted for by the acquisition method of accounting. The amount of goodwill arising as a result of the acquisition was approximately HK\$272,000.

	<i>HK\$'000</i>
NET ASSETS ACQUIRED	
Trade receivable	4,626
Bank balances	1,177
Trade and other payable	(5,333)
Taxation	(33)
Minority interest	(109)
	<hr/>
	328
Goodwill	272
	<hr/>
Total consideration	600
	<hr/>
SATISFIED BY CASH	600
	<hr/>
Net cash inflow arising on acquisition:	
Cash consideration	600
Bank balances	(1,177)
	<hr/>
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	<hr/> (577)

The subsidiary acquired during the year contributed HK\$21,240,000 to the Group's turnover, and decreased HK\$176,000 to the Group's profit from operations between the date of acquisition and the balance sheet date.

Notes to the Financial Statements

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reclassification

SSAP 15 (Revised) was adopted during the current year, as detailed in note 3 to the financial statements, which has resulted in a change to the layout of the consolidated cash flow statement. The consolidated cash flow statement is now presented under three headings: cash flows from operating activities, investing activities and financing activities. The significant reclassifications resulting from the change in presentation are that taxes paid and interest paid are now included in cash flows from operating activities, and interest received is now included in cash flows from investing activities, and dividends paid is now included in cash flows from financing activities. The presentation of the 2002 comparative consolidated cash flow statement has been changed to accord with the new layout.

(b) Major non-cash transaction

The Reorganisation of the Group in preparation for the public listing of the Company's shares involved the capitalisation of approximately HK\$3,030,000 as share capital, as detailed in note 24 to the financial statements.

29. DEFERRED TAXATION

The Group and the Company had no significant unprovided deferred tax asset or liability at 30 June 2003.

Notes to the Financial Statements

30. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Within one year	452	323
In the second to fifth year inclusive	382	710
	834	1,033

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for the terms ranging from one year to five years.

The Company had no significant operating lease commitments at 30 June 2003 (2002: Nil).

31. CAPITAL COMMITMENTS

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment		
– authorised but not contracted for	18,981	37,736
– contracted for but not provided in the financial statements	22,453	8,653
	41,434	46,389

The Company had no significant capital commitments at 30 June 2003 (2002: Nil).

Notes to the Financial Statements

32. CONTINGENT LIABILITIES

The Company provided corporate guarantees to the extent of approximately HK\$20,000,000 (2002: Nil) to banks and financial institution to secure general banking facilities granted to certain subsidiaries.

The total facilities utilised by the subsidiaries at 30 June 2003 amounted to approximately HK\$9,762,000 (2002: HK\$1,068,000).

33. RETIREMENT BENEFITS SCHEME

With the introduction of Mandatory Provident Fund Scheme (the "MPF Scheme") in December 2000 in Hong Kong, the Group has arranged its employees in Hong Kong to join the MPF Scheme. The retirement benefits scheme contributions charged to the income statements represents contributions payable to the MPF Scheme by the Group at rates specified in the rules of the MPF Scheme.

The total cost charged to the income statements of HK\$101,000 (2002: HK\$61,000) represents contributions payable to the MPF Scheme in respect of the current accounting year.

The employees employed in the PRC subsidiaries are members of the state-managed retirement benefits schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the schemes.

The employees employed in the Singapore subsidiary are members of the Central Provident Fund Scheme. The Singapore subsidiary is required to contribute pension, based on a certain percentage of their payroll, to the Central Provident Fund Scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

34. PROVISION FOR LONG SERVICE PAYMENTS

Under the Hong Kong Employment Ordinance, the Group is obliged to make lump sum payments on cessation of employment in certain circumstances to certain employees who have completed at least five years of service with the Group. The amount payable is dependent on the employee's final salary and years of service, and is reduced by entitlements accrued under the Group's retirement plan that are attributable to contributions made by the Group. The Group does not set aside any assets to fund any remaining obligations.

The Group had no significant provision for long service payments at 30 June 2003.

Notes to the Financial Statements

35. PLEDGE OF ASSETS

At 30 June 2003, the Group has pledged its bank deposits of HK\$14,076,000 (2002: HK\$2,007,000), approximately as a security for the general banking facilities granted to the Group.

Financial Summary

RESULTS

	For the year ended 30 June		
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover	88,337	62,850	8,784
Cost of sales	(54,913)	(40,968)	(7,377)
Gross profit	33,424	21,882	1,407
Other revenue	536	152	–
Selling and distribution costs	(7,600)	(3,746)	(31)
Administrative expenses	(6,519)	(2,873)	(135)
Profit from operations	19,841	15,415	1,241
Finance costs	(1,569)	(1,072)	–
Profit before taxation	18,272	14,343	1,241
Taxation	69	(368)	(191)
Profit before minority interest	18,341	13,975	1,050
Minority interest	(332)	(362)	–
Net profit for the year	18,009	13,613	1,050

ASSETS AND LIABILITIES

	At 30 June		
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
Total assets	85,464	41,451	323
Total liabilities	(16,627)	(23,943)	(320)
Minority interest	(4,327)	(3,886)	–
Shareholders' funds	64,510	13,622	3

Notes:

- (1) The Company was incorporated in Cayman Islands on 11 December 2001 and became the holding company of the Group with effect from 18 December 2001 upon completion of the Group Reorganisation as set out in the Company's prospectus dated 29 October 2002.
- (2) The results of the Group for the two years ended 30 June 2001 and 2002 and the balance sheet of the Group as at 30 June 2001 and 2002 have been prepared on a merger basis and are extracted from the Company's prospectus dated 29 October 2002.