



Health
is our power

Interim Report 2003 - 2004

B & B

B & B Natural Products Limited

蜂林天然產品有限公司

(Incorporated in the Cayman Islands with limited liability)

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcement in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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

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

FINANCIAL HIGHLIGHTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2003

- Turnover increased by approximately 41.3% over the same period in 2002 to approximately HK\$59,946,000.
- Net profit for the period increased by approximately 16.5% over the same period in 2002 to approximately HK\$13,766,000.
- Dividend per share was HK0.5 cent.

The Board of Directors (the “Board”) of B & B Natural Products Limited (the “Company”) announces that the unaudited condensed consolidated results of the Company and its subsidiaries (together the “Group”) for the three months and six months ended 31 December 2003, together with the comparative unaudited figures for the corresponding period in 2002, are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT – UNAUDITED

For the three months and six months ended 31 December 2003

	Notes	(Unaudited) Three months ended 31 December		(Unaudited) Six months ended 31 December	
		2003	2002	2003	2002
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	4	31,351	18,258	59,946	42,429
Cost of sales		(18,760)	(9,372)	(35,973)	(22,327)
Gross profit		12,591	8,886	23,973	20,102
Other revenue		85	249	131	299
Selling and distribution costs		(2,624)	(1,990)	(4,568)	(3,795)
Administrative expenses		(3,316)	(1,722)	(5,166)	(3,048)
Profit from operations		6,736	5,423	14,370	13,558
Finance costs		(150)	(143)	(309)	(1,494)
Profit before taxation	6	6,586	5,280	14,061	12,064
Taxation	7	(1)	–	(1)	–
Profit before minority interests		6,585	5,280	14,060	12,064
Minority interests		(407)	(107)	(294)	(243)
Net profit for the period		6,178	5,173	13,766	11,821
Dividend per share (cent)	8	0.5	–	0.5	–
Earnings per share	9				
– basic (cents)		1.44	1.43	3.31	3.55
– diluted (cents)		1.39	1.38	3.17	3.48

CONDENSED CONSOLIDATED BALANCE SHEET*As at 31 December 2003*

		(Unaudited)	(Audited)
		31 December	30 June
		2003	2003
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		3,990	4,132
Technical know-how	<i>10</i>	144	231
Goodwill	<i>11</i>	218	245
Deposits made on acquisition of property, plant and equipment		2,009	1,734
		6,361	6,342
Current assets			
Inventories		10,724	4,205
Trade and other receivables and prepayment	<i>12</i>	15,385	7,007
Pledged bank deposits	<i>15</i>	21,124	14,076
Bank deposits		23,000	2,004
Bank balances and cash		74,999	51,830
		145,232	79,122
Current liabilities			
Trade and other payables	<i>13</i>	14,531	6,519
Taxation		–	346
Bank overdraft – secured		10,085	9,762
		24,616	16,627
Net current assets		120,616	62,495
Total assets less current liabilities		126,977	68,837
Minority interests		4,822	4,327
Net assets		122,155	64,510
Capital and reserves			
Share capital	<i>14</i>	4,706	4,000
Reserves		117,449	60,510
Shareholders' fund		122,155	64,510

CONDENSED CONSOLIDATED CASH FLOW STATEMENT – UNAUDITED*For the six months ended 31 December 2003*

	(Unaudited)	
	Six months ended	
	31 December	
	2003	2002
	HK\$'000	HK\$'000
Net cash inflow from operating activities	7,468	20,103
Net cash outflow from investing activities	(7,505)	(3,384)
Net cash inflow from financing activities	43,871	19,828
	<hr/>	
Net increase in cash and cash equivalents	43,834	36,547
Effect of foreign exchange rates change	8	–
Cash and cash equivalents at beginning of period	44,072	22,621
	<hr/>	
Cash and cash equivalents at end of period	87,914	59,168
	<hr/>	

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED

For the six months ended 31 December 2003

	(Unaudited) Share capital HK\$'000	(Unaudited) Share premium HK\$'000	(Unaudited) Translation reserve HK\$'000	(Unaudited) Special reserve HK\$'000	(Unaudited) Retained profit HK\$'000	(Unaudited) Total HK\$'000
Balance as at 1 July 2003	4,000	30,881	6	(1)	29,624	64,510
Issue of shares pursuant to exercises of share options and placing	706	49,116	–	–	–	49,822
Share issue expenses	–	(1,705)	–	–	–	(1,705)
Exchange differences arising from translation of financial statements of overseas operation	–	–	8	–	–	8
Profit for the period	–	–	–	–	13,766	13,766
Final dividend paid for the year ended 30 June 2003	–	–	–	–	(4,246)	(4,246)

Balance as at 31 December 2003	4,706	78,292	14	(1)	39,144	122,155
-----------------------------------	-------	--------	----	-----	--------	---------

	(Unaudited) Share capital HK\$'000	(Unaudited) Share premium HK\$'000	(Unaudited) Translation reserve HK\$'000	(Unaudited) Special reserve HK\$'000	(Unaudited) Retained profit HK\$'000	(Unaudited) Total HK\$'000
Balance as at 1 July 2002	10	–	(2)	(1)	13,615	13,622
Issue of shares pursuant to public offer and placing	960	43,200	–	–	–	44,160
Capitalization issue of shares	3,030	(3,030)	–	–	–	–
Share issue expenses	–	(9,289)	–	–	–	(9,289)
Profit for the period	–	–	–	–	11,821	11,821

Balance as at 31 December 2002	4,000	30,881	(2)	(1)	25,436	60,314
-----------------------------------	-------	--------	-----	-----	--------	--------

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Basis of Preparation

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

2. Basis of consolidation

The unaudited consolidated results of the Group for the three months and six months ended 31 December 2003 include the results of the Company and its subsidiaries for the three months and six months ended 31 December 2003.

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

3. Principal accounting policies

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

4. Turnover and revenue

Turnover represents the net invoiced value of the goods sold, after allowances for returns and trade discounts excluding value-added tax and business tax. Other revenue represents mainly interest income.

5. Segment information

During the period, since the Group is 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 segment information is presented.

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

	(Unaudited) Turnover		(Unaudited) Results	
	Six months ended 31 December		Six months ended 31 December	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
PRC	42,237	36,140	21,843	15,842
Hong Kong	593	6,289	(7,467)	(2,284)
South East Asia	17,116	–	(6)	–
	59,946	42,429		
Profit from operations			14,370	13,558
Finance costs			(309)	(1,494)
Profit before taxation			14,061	12,064
Taxation			(1)	–
Profit before minority interests			14,060	12,064
Minority interests			(294)	(243)
Net profit for the period			13,766	11,821

6. Profit from operations

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

	(Unaudited) Six months ended 31 December	
	2003	2002
	HK\$'000	HK\$'000
Amortisation of technical know-how	87	86
Amortisation of goodwill	27	–
Depreciation of property, plant and equipment	325	258
Interest on convertible notes	–	366
Amortisation of issue costs of convertible notes	–	343
Premium on redemption of convertible notes	–	731
Interest on bank borrowings	309	54
Interest income	(62)	(224)

7. Taxation

No provision for Hong Kong profits tax has been made as the Group did not have any assessable profits arising in Hong Kong during the period (2002: Nil). 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.

8. Dividend

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

The Board of Directors recommends the payment of an interim dividend of HK0.5 cent per share for the six months ended 31 December 2003 (six months ended 31 December 2002: Nil).

9. Earnings per share

The calculation of basic earnings per share is based on the unaudited net profit for the three months and six months ended 31 December 2003 of approximately HK\$6,178,000 and HK\$13,766,000 respectively (three months and six months ended 31 December 2002: HK\$5,173,000 and HK\$11,821,000 respectively) and of the weighted average number of 429,432,000 and 415,295,000 (three months and six months ended 31 December 2002: 361,391,000 and 332,696,000 respectively) ordinary shares respectively in issue.

The calculation of diluted earnings per share is based on the unaudited net profit for the three months and six months ended 31 December 2003 of approximately HK\$6,178,000 and HK\$13,766,000 respectively (three months and six months ended 31 December 2002: HK\$5,173,000 and HK\$11,821,000 respectively) and of the weighted average number of 443,471,000 and 434,135,000 (three months and six months ended 31 December 2002: 374,927,000 and 339,463,000 respectively) ordinary shares respectively in issued during the period.

10. Technical know-how

	(Unaudited) 31 December 2003 HK\$'000	(Audited) 30 June 2003 HK\$'000
At beginning of the period/year	231	404
Amortisation charge	87	173
	<hr/>	<hr/>
At end of the period/year	144	231

11. Goodwill

	(Unaudited)	(Audited)
	31 December	30 June
	2003	2003
	HK\$'000	HK\$'000
At being of the period/year	245	–
Additions	–	272
Amortisation charge	27	27
	<hr/>	<hr/>
At end of the period/year	218	245
	<hr/>	<hr/>

12. Trade receivables

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

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

	(Unaudited)	(Audited)
	31 December	30 June
	2003	2003
	HK\$'000	HK\$'000
0 to 30 days	8,280	4,419
31 to 60 days	761	1,403
Over 60 days	526	519
	<hr/>	<hr/>
	9,567	6,341
	<hr/>	<hr/>

13. Trade payables

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

	(Unaudited)	(Audited)
	31 December	30 June
	2003	2003
	HK\$'000	HK\$'000
0 to 30 days	3,911	604
31 to 120 days	268	231
Over 120 days	310	–
	<hr/>	<hr/>
	4,489	835
	<hr/>	<hr/>

14. Share capital**Shares**

	(Unaudited)	(Audited)
	31 December	30 June
	2003	2003
	HK\$'000	HK\$'000
Authorised:		
20,000,000,000 (30 June 2003:		
20,000,000,000) ordinary shares of		
HK\$0.01 each	200,000	200,000
Issued and fully paid:		
470,620,000 (30 June 2003: 400,000,000)		
ordinary shares of HK\$0.01 each	4,706	4,000

Share options

The Company operates the Pre-IPO Share Option Scheme and Share Option Scheme, details of the share option schemes of the Company are set out in the paragraph headed "Directors' interests and short positions in shares, underlying shares and debentures". At 31 December 2003, the Company had outstanding pre-IPO share options entitling the holders to subscribe for 12,380,000 shares in the Company. 24,620,000 pre-IPO share options were exercised during the period.

15. Pledge of assets

At 31 December 2003, the Group has pledged its bank deposits of approximately HK\$21,124,000 (30 June 2003: HK\$14,076,000) to banks to secure the credit facilities granted to the Group.

16. Operating leases commitments

At 31 December 2003, the Group was committed to make the following future minimum lease payments under non-cancellable operating leases which fall due as follows:

	(Unaudited)	(Audited)
	31 December	30 June
	2003	2003
	HK\$'000	HK\$'000
Within one year	410	452
In the second to fifth year inclusive	184	382
	594	834

17. Capital commitments

At 31 December 2003, the Group had the following capital commitments:

	(Unaudited) 31 December 2003 HK\$'000	(Audited) 30 June 2003 HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment		
– authorized but not contracted for	18,981	18,981
– contracted for but not provided in the financial statements	22,233	22,453
	41,214	41,434
Capital expenditure in respect of the capital contribution to the joint ventures companies in the PRC		
– authorized but not contracted for	5,660	–
– contracted for but not provided in the financial statements	50,943	–
	56,603	–
Total	97,817	41,434

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Performance

For the six months ended 31 December 2003, the Group continued to achieve encouraging performance. During the period under review, turnover climbed 41.3% to reach HK\$59,946,000, as compared to HK\$42,429,000 in the corresponding period of last year. Net profit also rose by 16.5% to reach HK\$13,766,000, as compared to HK\$11,821,000 in the corresponding period of last year. Gross profit and net profit both improved to HK\$23,973,000 and HK\$13,766,000 respectively, as compared to HK\$20,102,000 and HK\$11,821,000 respectively in the corresponding period of last year.

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

Financial resources and liquidity

As at 31 December 2003, the Group enjoys a healthy financial position, with cash and bank balance of approximately HK\$119,123,000 (30 June 2003: HK\$67,910,000). Net asset value per share is HK\$0.26 (30 June 2003: HK\$0.16), and current assets stand at HK\$145,232,000 (30 June 2003: HK\$79,122,000). The gearing ratio was 0.20 as at 31 December 2003 (30 June 2003: 0.26). Gearing ratio is calculated as current liabilities to total equity.

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

Capital structure

During the six months ended 31 December 2003, 24,620,000 shares were issued due to the exercises of pre-IPO share options.

On 26 November 2003, the Company entered into the placing and subscription agreement for placing and allotment of 46,000,000 shares of the Company for net proceeds of approximately HK\$42,455,000. The completion of placing and subscription took place on 1 December 2003 and 10 December 2003 respectively.

Charges on Group assets

As at 31 December 2003, the Group has pledged its bank deposits of approximately HK\$21,124,000 (30 June 2003: HK\$14,076,000) to banks to secure the credit facilities granted to the Group.

Contingent liabilities

The Group did not have any contingent liabilities as at 31 December 2003 (30 June 2003: Nil).

Commitments

The Group had capital commitments of approximately HK\$97,817,000 and operating leases commitment of approximately HK\$594,000 as at 31 December 2003 (30 June 2003: HK\$41,434,000 and HK\$834,000 respectively).

Significant investments and acquisitions

The Group did not make any material acquisition or disposal of subsidiaries and affiliated companies during the six months ended 31 December 2003.

During the six months ended 31 December 2003, the Group has entered into an agreement for the establishment of a joint stock limited company (“JV Company”) to be incorporated in Hunan Province, the PRC, by way of cash contribution of RMB45,000,000 (approximately HK\$42,453,000) and will own 20.83% equity of the JV Company. Completion is expected to be on or before 31 March 2004.

The Group has also entered into an agreement for the acquisition of 5% equity interest in a company incorporated in Xinjiang, the PRC. The investment amount is RMB9,000,000 (approximately HK\$8,491,000). Completion is expected to be on or before 31 March 2004.

Employees

The Group employed 91 full-time employees as at 31 December 2003. Employees’ remuneration is in line with market conditions, working experience and performance. In addition to basic salaries and provident fund contributions, the Group also offers medical benefits and training programs.

Business Review

During the period under review, the Group remained focused on the production and distribution of healthy natural foods and related products to various markets including the PRC, Hong Kong, Southeast Asia, Japan and Korea. The Group’s products include bird’s nest, honey, palm oil, herbal drinks, mead, bee pollen, royal jelly and other natural products.

With the mission to become the leading producer and distributor of healthy natural food and related products, the Group took the initiative to devise a three-pronged strategic development plan to enhance the synergy among new products development, distribution and production. The Group (1) actively develop and identify new products that have high market potentials; (2) leverage on existing distribution network to penetrate the products into the market promptly; (3) selectively vertical integrate its operation to maximize profit margin and secure the supply. The Group, thus, strengthened the bargaining power with both suppliers and distributors, managed to generate high sales and profit growth.

Production

During the period under review, the Group achieved rapid development in the production of its products through own production and on an OEM basis. For its natural wine products, the Group strengthened the number of mead products to cater to the different market segments. The construction of a new plant has also been commenced and is already well underway for its expected completion by the first half of 2004.

Eyeing on the market potentials of natural products, the Group has sought further development in this sector. In October 2003, the Group has signed a Memorandum of Understanding (“MOU”) to acquire Superbee Honey Factory and Honey World (“Superbee”), a renowned honey products producer from Australia. Further due diligence is currently under progress. In addition, the Group signed a MOU with The City Government of Yunnan Lijiang Old City to cooperate in the planting and distribution of Gastrodia products. Gastrodia is a Chinese herb commonly used for its health benefits and is usually found in the PRC, Korea and Japan.

In December 2003, the Group has signed a MOU to form Sino-Foreign Yunnan Yong Sheng B & B Natural Products Limited with the government of Yong Sheng county and Yunnan Ming-D’ Industrial Investment Company Limited on olive trees plantation and on-site olive oil processing facility in Yong Sheng county, Yunnan Province, the PRC.

Leveraging on its sharp market sense and market familiarity, the Group grasped the opportunity to develop business in olive oil and related products. According to industry statistics, the worldwide production of olive oil has reached 460 million gallons, while consumption exceeds 486 million gallons each year to demonstrate tremendous global demand.

Distribution

During the period under review, the Group committed to developing not only a nationwide distribution network, but also one that spans across the region to other overseas markets. In October 2003, the Group appointed Hardy International Limited as sole agent to develop and expand the market presence of its mead products in the Japanese and Korean markets.

In November 2003, the Group signed an agreement to set up a joint venture with Hunan’s largest retail chain store, Hunan Friendship Apollo Company Limited (“Apollo”), to secure the distribution network in the mid-south region of the PRC. With Apollo’s retail shopping malls, supermarkets and other convenient stores, the Group can effectively expand its sales channel and network in Hunan and in the mid-south region of the PRC.

In December 2003, the Group entered into a conditional agreement to acquire a 5% equity interest of Xinjiang Shizhen Company Limited (新疆新特葯民族葯業有限責任公司) (“Shizhen”), the largest natural products and medicine retailer in western PRC, from one of its shareholders for a total consideration of RMB9 million (approximately HK\$8,491,000). By leveraging on Shizhen’s enormous sales and distribution network and effective logistics center in Western PRC, the Group is confident in further penetrating its products into Western PRC.

Future Prospects

Despite its enviable development in the past half year, the Group did not rest on its laurels and instead, proceeded with its expansion plan with more energy and confidence in the beginning of 2004.

In the coming future, the Group has, and will continue to, embrace the same attitude and aggression to propel its business. The existing product platform, facilities and distribution network has set up a solid foundation for the Group to leverage on. The management has the confidence that further growth potentials will gradually be realised in the coming future. Looking ahead, the Group will further expand its penetration into the PRC market, Asia as well as overseas countries. The road to vast business achievement and expansion will bring forth promising returns to the Group and its supportive shareholders.

INTERIM DIVIDEND

The Board recommends the payment of an interim dividend of HK0.5 cent per share for the six months ended 31 December 2003 (six months ended 31 December 2002: Nil). The dividend will be payable on Friday, 21 May 2004 to shareholders whose names appear on the Register of Members of the Company on Wednesday, 19 May 2004. The Register of Members will be closed between Thursday, 13 May 2004 and Wednesday, 19 May 2004 (both days inclusive) during which period no transfer of the Company’s shares will be effected. To qualify for the aforesaid interim dividend, all completed transfer forms, accompanied by the relevant share certificates, must be lodged with the Company’s Hong Kong branch share registrar, Standard Registrars Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Wednesday, 12 May 2004.

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

	Planned usage for the period from the Listing Date to 31 December 2003 <i>HK\$ million</i>	Actual usage for the period from the Listing Date to 31 December 2003 <i>HK\$ million</i>
Expanding the new production facilities in Zhuhai, the PRC (<i>note 1</i>)		
(i) purchase of land	0.5	0.4
(ii) construction cost	5.5	0.3
Conducting various research and development programmes to increase the varieties of the Group's products (<i>note 2</i>)	2.4	0.2
Marketing and promotional activities	0.9	0.9
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	0.3	0.3
Total	25.1	16.1

Notes:

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 2003. The status of the construction is set out in the section headed "Comparison of Business Objectives with Actual Business Progress".

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 efficiently than originally anticipated.

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

Comparison of Business Objectives with Actual Business Progress

Business objectives for the six months ended 31 December 2003 as stated in the Prospectus

Actual business progress

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

Intend to launch bird's nest tea and other new types of natural supplementary food products including honey drinks, new flavors of mead and different type of bird's nest related products.

Finalise laboratory to provide the suitable environment for development of new recipes and improvement on existing ones.

The development of new products by incorporating new flavours and bird's nest related products has been carried out. Market trial was carried out and selective new products with positive results will have further market development.

The existing laboratory has been equipped with adequate capability to carry out the research and new product development.

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

Construct a special offer corner and a cooking corner.

Website has been expanded to include product concept promotion and cocktail recipes.

3. Appoint distributors and sales agents

Negotiate with nation-wide distributors to distribute the Group's products.

The Group has taken an approach to create strategic alliance with major distribution networks.

The Group has signed an agreement in November 2003 with Hunan Apollo to form a new joint venture with the Group holding 20.83% equity of the new JV Company.

The Group has signed an agreement in December 2003 to acquire 5% equity of Shizhen, one of the largest natural products and medicine retailer in Western China.

4. Explore overseas markets

Join the Asia Food Expo in Manila.

The Group has joined the HOFEX in Hong Kong which has been postponed to February 2004 due to Severe Acute Respiratory Syndrome.

Business objectives for the six months ended 31 December 2003 as stated in the Prospectus

Actual business progress

5. Appoint world-wide distributors

Decide and appoint about three distributors selected from the last period for penetrating into two or three overseas countries in Japan, Korea and the US.

The Group has appointed the distributors for Korea and Japan.

6. Marketing and promotional activities

Utilise more advertisements and public media to promote the Group's products and its brand name in the PRC.

The Group has partnered up with a number of players in the food service industry to enhance public media exposure and carry out joint promotional activities to promote the Group's products and its brand name.

7. Research on technology for production process

Continue to allocate resources to further enhance existing technology.

The Group has allocated resources on further developing existing technology.

Hire professionals to strengthen research team and devote more resources on additional application of technology.

The Group has allied with business partners that would create synergy in strengthening the research and technological aspects of the Group's products.

8. Zhuhai facilities

Set up research and development teams which will conduct various research and development programmes in relation to the introduction of new flavors of mead, honey drinks and different types of bird's nest related products such as bird's nest capsules, bird's nest tea and bird's nest extracts and the distribution centre which will be responsible for the Group's sales and marketing activities.

The progress of the construction has been following the latest schedule and the completion of the first milestone remains to be before the first half of 2004. Development on new products has mainly been carried out in existing facilities.

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

As at 31 December 2003, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rule 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(1) Long positions in the Shares and shares of associated corporations

Name of Director	Company/Name of associated corporation	Capacity	Number and class of securities
Cheung Kwai Lan	Company	Interest of a controlled corporation	262,080,000 Shares <i>(Note 1)</i>
	Company	Beneficial owner	2,660,000 Shares
	Company	Interest of spouse	2,660,000 Shares <i>(Note 2)</i>
Chan Tung Mei	Company	Interest of a controlled corporation	262,080,000 Shares <i>(Note 3)</i>
	Company	Interest of spouse	2,660,000 Shares <i>(Note 4)</i>
	Company	Beneficial owner	2,660,000 Shares
Chan Ting	Company	Beneficial owner	2,660,000 Shares
Peter Chin Wan Fung	Company	Beneficial owner	1,730,000 Shares
Cheung Kwai Lan	Best Frontier Investments Limited	Beneficial owner	909 shares of US\$1 each
		Interest of spouse	1 share of US\$1 <i>(Note 5)</i>
Chan Tung Mei	Best Frontier Investments Limited	Beneficial owner	1 share of US\$1
		Interest of spouse	909 shares of US\$1 each <i>(Note 6)</i>

Notes:

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

(2) Share options*Pre-IPO Share Option Scheme*

Pursuant to the Pre-IPO share option scheme adopted by the Company on 18 October 2002 ("Pre-IPO Share Option Scheme"), certain Directors had been granted share options to subscribe for Shares, details of which as at 31 December 2003 were as follows:

Name of Director	Number of share options granted <i>(Note)</i>	Number of share options exercised	Number of share options outstanding as at 31 December 2003
Cheung Kwai Lan	4,000,000	2,660,000	1,340,000
Chan Tung Mei	4,000,000	2,660,000	1,340,000
Chan Ting	4,000,000	2,660,000	1,340,000
Peter Chin Wan Fung	2,600,000	1,730,000	870,000

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

Share Option Scheme

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

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

As at 31 December 2003, no share option had been granted or agreed to be granted under the Share Option Scheme.

Save as disclosed herein, as at 31 December 2003, none of the Directors or chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of, the Company or any associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS

So far as is known to any Director or chief executive of the Company, as at 31 December 2003, the persons/companies (not being a Director or chief executive of the Company) who have interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or will be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group are as follows:

Name of shareholder	Capacity	Number of Shares	Approximate % of shareholding
Best Frontier Investments Limited	Beneficial owner	262,080,000 Long position	55.69%
Sima Resources Limited	Beneficial owner	30,600,000 Long position	6.50%
Ng Kim Ming	Interest of a controlled corporation	30,600,000 Long position (Note)	6.50%

Note: The 30,600,000 Shares are owned by Sima Resources Limited which is wholly owned by Ng Kim Ming. Accordingly, Ng Kim Ming is deemed to be interested in the Shares under the SFO.

Save as disclosed above, as at 31 December 2003, the Directors are not aware of any other person who has an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other members of the Company.

SPONSOR'S INTEREST

To the best knowledge of the Company's sponsor, Guotai Junan Capital Limited (the "Sponsor"), as at 31 December 2003, neither the Sponsor nor its directors or employees or associates (as referred to in Note 3 of Rule 6.35 of the GEM Listing Rules) had any interest in the securities of the Company or any members of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any members of the Group.

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

COMPETING INTERESTS

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

BOARD PRACTICES AND PROCEDURES

During the six months ended 31 December 2003, none of the directors had been aware of any information that would reasonably indicate that the Company was not in compliance with Rules 5.28 to 5.39 of the GEM Listing Rules, except that the non-executive directors are subject to re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Articles of Association.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based upon the guidelines published by the Hong Kong Society of Accountants. The primary duties of the audit committee are to review the Company's annual report and accounts, half-year reports and quarterly reports and to provide advice and comments thereon to the Board. The audit committee is also responsible for reviewing and supervising the Company's financial reporting and internal control procedures. The audit committee consisted of two independent non-executive Directors, namely Professor Peter Chin Wan Fung and Mr. Du Ying Min. Professor Peter Chin Wan Fung is the chairman of the audit committee. The Group's unaudited results for the six months ended 31 December 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.

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

During the six months ended 31 December 2003, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares.

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

Hong Kong, 12 February 2004