

B&B

ANNUAL REPORT 2004



B & B Natural Products Limited

蜂林天然產品有限公司 *

(formerly known as Bee & Bee Natural Life Products Limited 蜂蜂天然生命產品有限公司 *)

(Incorporated in the Cayman Islands with limited liability)

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This report, for which the directors of B & B Natural Products Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange 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
Mr. TSUI Wing Tak

AUDIT COMMITTEE

Professor Peter Chin Wan FUNG
Mr. DU Ying Min
Mr. TSUI Wing Tak

AUTHORISED REPRESENTATIVES

Madam CHEUNG Kwai Lan
Mr. CHAN Ting

COMPLIANCE OFFICER

Mr. CHAN Ting

COMPANY SECRETARY

Mr. KWAN Yiu Ming, Patrick FCCA FCPA

QUALIFIED ACCOUNTANT

Mr. KWAN Yiu Ming, Patrick FCCA FCPA

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

Richards Butler

20th Floor
Alexandra House
16-20 Chater Road
Hong Kong

REGISTERED OFFICE

Century Yard, Cricket Square
Hutchins Drive, P.O. Box 2681GT, George Town
Grand Cayman, British West Indies

HEAD OFFICE AND PRINCIPAL

PLACE OF BUSINESS

30th Floor, Sunshine Plaza
No. 353 Lockhart Road, 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

26th Floor, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board") of B & B Natural Products Limited (the "Company"), I am pleased to announce the financial results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 30 June 2004.

FINANCIAL HIGHLIGHTS

For the year ended 30 June 2004, the Group recorded a turnover of approximately HK\$192,971,000, representing an increase of about 118% when compared with HK\$88,337,000 of the corresponding period last year. Profit attributable to shareholders for the same year was approximately HK\$29,013,000, representing an increase of about 61% when compared with HK\$18,009,000 of the corresponding period last year. Basic earnings per share were approximately HK6.53 cents. The Board proposed to distribute a final dividend of HK1.3 cents per ordinary share for the year ended 30 June 2004.

BUSINESS REVIEW

Over the years, our Group has continued to expand its business by enhancing its products portfolio and strengthening its distribution networks. During the period under review, we successfully strengthen our bee related products and natural products. As the Group has utilized its resources more efficiently and subsequently, it has a clearer business focus for future development.

During the said period, the Group's core business of sourcing, manufacturing and distributing bee related products have attained satisfactory results, which was mainly due to a surge in consumer demand for honey wine in the PRC.

To further strengthen our core business of manufacturing and distribution of bee related products, the Group has entered into a memorandum of understanding (the "MOU") with 廣州市供銷合作總社 to form a joint venture (the "JV"). The JV will be involved in the sourcing, manufacturing, processing and distribution of all bee related products as well as tea and natural products. Pursuant to the MOU, 廣州市供銷合作總社 shall inject the operating assets of its wholly owned subsidiary, 廣州市寶生園有限責任公司 ("Bee Eden") into the JV.

Founded in 1924, Bee Eden has more than a hundred proprietary shops in the Guangdong Province and it is one of the largest manufacturers and distributors of a variety of bee related products such as honey, bee pollen, royal jelly and propolis in the PRC. By leveraging on Bee Eden's products and distribution channels, we believe that the Group can further enhance its products portfolio, increase its revenue and expand its distribution networks. Apart from Bee Eden, the Group has also entered into a joint venture agreement with one of the largest retail outlet enterprises in Hunan Province, Hunan Friendship Apollo Company Limited ("Apollo") in November 2003. This joint venture will allow the Group to capitalize Apollo's retail networks for distributing products and promoting the brand name "B&B" in the Hunan region.

CHAIRMAN'S STATEMENT

In addition to expanding and developing our core business of manufacturing and distribution of bee related products, the Group also extended its distribution capacity in natural products. In order to accelerate the expansion of the healthcare distribution network and to better streamline the Group's business, the Group acquired Aptus Holdings Limited ("Aptus") whose ordinary shares are listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong.

OUTLOOK

Leveraging on a concrete foundation of products, extensive distribution networks and vast production facilities, the Group will continue to embrace the same attitude for propelling the core business of bee related products including, but not limited to, bee pollen, royal jelly, honey wine, honey drinks, honey, as well as other natural products while at the same time further strengthen our distribution capacity. As the PRC offers tremendous opportunities, the Group plans to focus primarily on the expansion of its business in the PRC, while maintaining Hong Kong as a strategic distribution and brand building location; and a gateway for exploring overseas markets, resulting in gainful returns for our supportive shareholders.

To portray a clear reflection of our business direction and for strengthening our corporate image, we have proposed to change our company name from B & B Natural Products Limited (蜂林天然產品有限公司) to B & B Group Holdings Limited (中國蜂業集團有限公司).

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.

On Behalf of the Board

Cheung Kwai Lan

Chairman

Hong Kong, 28 September 2004

MANAGEMENT DISCUSSION AND ANALYSIS

FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK1.3 cents per share by the Company for the year ended 30 June 2004.

BUSINESS REVIEW

Capitalizing on its solid business foundation and aspiring to be the market leader, the Group continued its focus on the production and distribution of bee related and natural products. With a primary focus on bee related products, a three-pronged strategy was initiated, to enhance the synergy of product development, distribution and production of natural products. Distribution efforts were mainly contributed to the PRC, Hong Kong, South East Asia, Japan and Korea.

PRODUCTS

Bee Related Products

Mead

For the year ended 30 June 2004, sales in the PRC rose, attributing to the increase in revenue. Mead production recorded positive results, as turnover surged 42% to HK\$87,075,000. Sweet and dry meads remained the flagship products, targeting consumers with high disposable incomes and a fine lifestyle. The Group's mead gained an increasing recognition by winning the Gold medal at "The International Wine Challenge of Asia", organized by The Wine Institute of Asia in June 2004, further enhancing its image for producing high end products. To meet with the growing demand, the Group will continue the development of a variety of mead products.

Bee Pollen and Royal Jelly

Bee pollen and royal jelly were two new products launched during the summer of 2004. Bee pollen is a natural source for vitality and rich in nutrients which the Group strongly marketed to the health conscious consumers of Hong Kong. Cooperation promotions with local retail chains had been carried out to gradually increase exposure of the products to the general public.

Natural products

Herbal Products

A wide range of herbal drinks were introduced into the market, with a positive response from consumers. "Cherry Slim", a Korea cherry drink, made available at "Manning" chain stores in Hong Kong is acclaimed to be "The Holy Water of Beauty", targeting health conscious consumers that looks for beauty and slimming. Mekabu herbal powder, a US FDA approval product, was imported from Korea, and co-branded with the Group's brand name "B&B" to sell in Hong Kong, the PRC and South East Asia. Initial feedbacks from candidates on this internal body cleansing product was highly positive. These two new products were newly launched into the market before the end of the period under review.

MANAGEMENT DISCUSSION AND ANALYSIS

Birds Nest – Raw Natural Products

Due to keen competition, sales was affected while profit margin remained stable.

Edible Oil

The demand for edible oil was increased significantly during the year under review. Therefore, the Group strives this opportunity and enjoys gains in edible oil.

SALES AND DISTRIBUTION

The Group plans to strategically expand its distribution networks throughout South East Asia in places such as Malaysia, Singapore and Hong Kong. However, the Group's expansion plan focuses primarily on the PRC. Hong Kong is sustained as a strategic distribution location where the Group carries out direct distribution and uses it as a gateway for exploring overseas market.

The PRC

The continual high GDP growth over the past decade in the PRC improved the living standard of its people and thus, a middle class with strong purchasing power has emerged. This has created a promising future for the PRC's retail market, benefiting consumption goods such as natural products. Consequently, the Group has continued to extend its sales distribution network in major cities of the PRC.

Hong Kong

In addition to approaching wine retailers, retail shops, entertainment and dining outlets for promotional activities, the Group was actively involved in advertising campaigns, in magazines and on public transport, with the aim of increasing sales in Hong Kong where the Group has over 600 point-of-sales.

Overseas Markets

In addition to Malaysia and Singapore, the Group has established sales and marketing networks in Japan and Korea. We will continue to use sales agents for the distribution of products, simultaneously, exploring South East Asia for new distribution channels.

The Brand

Backed by robust R&D capabilities and vertically integrated facilities, the Group is poised to take advantage of the immense opportunities in the natural supplementary foods sector. Throughout the advertising and promotion campaigns, the Group is bringing up public awareness on the brand "B&B". The Group will continue to use B&B as its corporate logo and brand entity. The Company's website has been revamped to better reflect a corporate image. Our business strategy is to develop, manufacture and distribute new products under the natural product brand image of "B&B" while using Hong Kong as a strategic location for brand building.

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE OUTLOOK

The Group envisions further streamlining its business, with main focus on the following categories:

Production

In aiming to better utilize its resources, the Group plans on outsourcing part of its production rather than wholly relying on self production. This will ensure the Group efficient performance as well as a clear and focused business vision. Consequently, the Group will have the flexibility in production capacity while expanding its market share in the industry. Simultaneously, the Group maintains stringent quality control of its products to support the image of a high quality natural product brand.

Distribution Network

The Group will further expand its distribution network for both bee related products and natural products. The Group recognizes the importance of distribution capacity and plans on using Bee Eden and Apollo's networks for distributing new products in the relevant markets. This will help the Group in increasing its brand presence in the PRC.

Upon the establishment of the JV, capitalizing on Bee Eden's existing retail shops, the Group is optimistic to revamp and upgrade the extensive network into a general health care chain stores which will be similar to the two largest health care chain stores in Hong Kong. Looking forward, the Group will continue to enhance its product portfolio and distribution networks for maximizing results for the shareholders of the Company.

EMPLOYMENT AND REMUNERATION POLICIES

As at 30 June 2004, the Group employed 16 staffs in Hong Kong, 2 staffs in Singapore and 51 staffs in the PRC. Staff costs excluding directors' remuneration amounted to approximately HK\$3,715,000 (2003: HK\$3,185,000). 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.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2004, shareholders' funds amounted to approximately HK\$137,466,000. Current assets amounted to approximately HK\$179,555,000, of which approximately HK\$132,054,000 were cash and bank deposits. The Group had current liabilities amounted to approximately HK\$42,101,000, mainly its trade and other payables and bank borrowings. The Group's bank borrowings amounted to approximately HK\$33,207,000 for the year ended 30 June 2004. The Group financed its operations primarily with internally generated cash flows, the net proceeds from the new issue of the Company's shares by way of placing in December 2003 and the banking facilities granted by the banks. The net asset value per share of the Company was approximately HK\$0.29 (2003: HK\$0.16). The gearing ratio was 36.2% (2003: 32.5%) on the basis of total liabilities divided by shareholders' funds.

MANAGEMENT DISCUSSION AND ANALYSIS

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

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.

SIGNIFICANT INVESTMENT

For the year ended 30 June 2004, the Group has entered into the Promoter's Agreement with four other independent third parties for the establishment of the joint stock limited company ("JV Company") in Hunan Province, the PRC, for RMB45,000,000 (approximately HK\$42,453,000) and will own 20.83% equity of the JV Company upon completion.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group did not make any material acquisition or disposal of subsidiaries and affiliated companies for the year ended 30 June 2004.

CONTINGENT LIABILITIES

As at 30 June 2004, the Group did not have any material contingent liabilities.

CHARGES ON GROUP ASSETS

As at 30 June 2004, the Group pledged certain of its bank deposits as a security for the general banking facilities granted to the Group.

CAPITAL STRUCTURE

For the year ended 30 June 2004, 35,330,000 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.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

For comparisons of business objectives with actual business progress from the Latest Practicable Date (as defined in the prospectus dated 29 October 2002) to 30 June 2003, please refer to the 2003 Annual Report of the Company.

Business objectives for the period from 1 July 2003 to 30 June 2004 as stated in the Prospectus of the Company dated 29 October 2002

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 types of bird's nest related products

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

Feasibility study on other new natural supplementary food products including honey drinks, new flavors of mead and different types of bird's nest related products

Study has been conducted on honey drinks, new flavors of mead, bird's nest related products and other new natural supplementary food products

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

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

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

Since the existing machinery was sufficient for current production and as disclosed in the Company's interim report 2003-2004, the structural design of the new Zhuhai manufacturing facilities was amended in earlier 2003, the purchase of new machinery was not crucial for the period under review.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business objectives for the period from 1 July 2003 to 30 June 2004 as stated in the Prospectus of the Company dated 29 October 2002

Actual business progress

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

Update the Group's supplementary food products

Updates were made to the website on supplementary food products

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

Appoint 10 nation-wide distributors to further penetrate the Group's products into the domestic market of the PRC

Instead of appointing nation-wide distributors, the Group utilized the new JV Company Hunan Apollo to further penetrate the Group's products. The Group also formed strategic alliance with Bee Eden in distributing the Group's products

4. Explore overseas market

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

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business objectives for the period from 1 July 2003 to 30 June 2004 as stated in the Prospectus of the Company dated 29 October 2002

Actual business progress

5. Appoint world-wide distributors

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

The Group has appointed distributors for Korea, Japan and Malaysia

Revise strategy and strengthen presence in overseas countries in Japan, Korea and the US

Strategy has been revised to include more products of the Group to be distributed in Japan, Korea and Malaysia

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

Continue to build up market awareness by advertising and arranging small scale promotional activities in the PRC and overseas countries including Japan, Korea and the US

The Group has been actively advertise and promote the brand name "B&B" in Hong Kong before rippling the awareness to PRC and other countries

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

Allocate resources on cost reduction in the production procedures, conduct research on the process of handling and storing raw material, bottling, corking and labeling

Effort have been spent on cost reduction in the production procedures including procedure revision and expanded scope of sourcing materials

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business objectives for the period from 1 July 2003 to 30 June 2004 as stated in the Prospectus of the Company dated 29 October 2002

Actual business progress

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. 2nd stage of the construction of the facilities and approximately 60% of the whole facilities will be completed by the end of June 2004

The initial construction schedule of the new Zhuhai manufacturing facilities was amended which was due to the amendment of the structural design as disclosed in the Company's interim report 2003-2004. The progress of the construction has been following the latest schedule.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Madam CHEUNG Kwai Lan, aged 66, is the Chairman, one of the founders of the Group and an executive Director. She has served the Group for more than 5 years and is the director of various subsidiaries of the Group. 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 68, is one of the founders of the Group and an executive Director. He has served the Group for more than 5 years and is the director of various subsidiaries of the Group. 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 34, is an executive Director. He has served the Group for more than 3 years and is the director of various subsidiaries of the Group. 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 over 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 43, is a non-executive Director. He has served the Group for more than one year. He 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 joined the Group in May 2003.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS AND SENIOR MANAGEMENT

Independent non-executive Directors

Professor Peter Chin Wan FUNG, aged 66, is an independent non-executive Director. He has served the Group for more than two years. He is the Chair Professor and Chief of Medical Physics; Honorary Professor of Psychiatry and Honorary Professor of Electrical and Electronic Engineering at the University of Hong Kong. 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. He founded the Division of Medical Physics in the University of Hong Kong in 1998. 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 in Hong Kong. He joined the Group in September 2002.

Mr. DU Ying Min, aged 52, is an independent non-executive Director. He has served the Group for more than two years. He 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 master's 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 joined the Group in September 2002.

Mr. TSUI Wing Tak, aged 35, holds a bachelor's degree in Economics from Macquarie University, Australia. He is a member of both the Hong Kong Institute of Certified Public Accountants and CPA Australia. He has over 11 years of experience in auditing, accounting and financing. He is also an independent non-executive director and audit committee member of Aptus Holdings Limited which is a company listed on the GEM and is an indirect non-wholly owned subsidiary of the Company since 26 August 2004. He joined the Group in September 2004.

SENIOR MANAGEMENT

Mr. KWAN Yiu Ming, Patrick, aged 39, is the chief financial officer, the qualified accountant and the company secretary of the Group. He has served the Group for more than three years and is the Company secretary of various subsidiaries of the Group and is the director of a subsidiary 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 Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He joined the Group in August 2001 and has over ten years of experience in accounting and financial management. He also has over four years of experience in auditing.

Mr. YANG Pei Gen, aged 49, is the director and general manager of one of the Company's subsidiaries, Wuhu Bee & Bee Natural Food Company Limited ("Wuhu Bee & Bee"), in the PRC. He has served the Group for more than two years and is the director of another PRC subsidiary of the Group. 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 2004.

CHANGE OF NAME

Pursuant to a special resolution passed at an Annual General Meeting held on 17 October 2003, the name of the Company was changed from Bee & Bee Natural Life Products Limited to B & B Natural Products Limited.

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 2004 are set out in the consolidated income statement on page 25.

An interim dividend of HK0.5 cent per share, amounting to approximately HK\$2,401,000, was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of HK1.3 cents per share to the shareholders on the register of members on 1 November 2004, amounting to approximately HK\$6,257,000.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital are set out in note 22 to the financial statements.

SHARE OPTION SCHEMES

Details of movements in the Company's share option schemes are set out in this Report on pages 19 and 20 and note 23 to the financial statements.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in note 24 to the financial statements.

DIRECTORS' REPORT

USE OF PROCEEDS

	Planned usage for the period from the Listing Date to 30 June 2004 <i>HK\$ million</i>	Actual usage for the period from the Listing Date to 30 June 2004 <i>HK\$ million</i>
Expanding the new production facilities in Zhuhai, the PRC		
(i) purchase of land	0.5	1.7
(ii) construction cost	5.5	2.0
Conducting various research and development programmes to increase the varieties of the Group's products	3.4	0.2
Marketing and promotional activities	1.2	2.0
Purchasing new machinery for producing new natural supplementary foods (<i>note 1</i>)	2.6	0
Redemption of the Convertible Notes	14.0	14.0
General working capital	0.4	0.4
	<hr/>	<hr/>
Total	27.6	20.3

Note:

1. Since the existing machinery was sufficient for current production and as disclosed in the Company's interim report 2003-2004, the structural design of the new Zhuhai manufacturing facilities was amended in earlier 2003, the purchase of new machinery was not crucial for the period under review.

DIRECTORS' REPORT

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

Independent non-executive directors

Professor Peter Chin Wan Fung
Mr. Du Ying Min
Mr. Tsui Wing Tak (Appointed on 13 September 2004)

In accordance with Article 116 of the Articles of Association of the Company (the "Articles"), Madam Cheung Kwai Lan and Mr. Chan Tung Mei retire and being eligible, offer themselves for re-election at the forthcoming annual general meeting. In accordance with Article 99 of the Articles, independent non-executive director, Mr. Tsui Wing Tak retires and being eligible, offers himself 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 retirement by rotation and re-election in accordance with the Articles of Association of the Company.

Two independent non-executive directors, Professor Peter Chin Wan Fung and Mr. Du Ying Min, have entered into service contracts with the Company for a term of three years from 18 October 2002. Another independent non-executive director, Mr. Tsui Wing Tak, has not entered into any service contract with the Company but is subject to retirement by rotation and re-election in accordance with the Articles of Association of the Company.

Each of the independent non-executive directors has confirmed his independence to the Company pursuant to Rule 5.09 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") for the year ended 30 June 2004 and the Company considers the independent non-executive directors to be independent.

DIRECTORS' INTEREST 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.

DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 June 2004, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

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

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

Notes:

1. The 262,080,000 shares are owned by Best Frontier Investments Limited ("Best Frontier") which is owned as to 99.89% and 0.11% by Madam Cheung Kwai Lan and Mr. Chan Tung Mei respectively. Madam Cheung Kwai Lan is the spouse of Mr. Chan Tung Mei. Accordingly, Madam Cheung Kwai Lan is deemed to be interested in the shares under the SFO.
2. The 262,080,000 shares are owned by Best Frontier which is owned as to 99.89% and 0.11% by Madam Cheung Kwai Lan and Mr. Chan Tung Mei respectively. Mr. Chan Tung Mei is the spouse of Madam Cheung Kwai Lan. Accordingly, Mr. Chan Tung Mei is deemed to be interested in the shares under the SFO.
3. The 1,380,000 shares are owned by Madam Cheung Kwai Lan who is the spouse of Mr. Chan Tung Mei. Accordingly, Mr. Chan Tung Mei is deemed to be interested in the shares under the SFO.
4. The 1 share of US\$1 in Best Frontier is owned by Mr. Chan Tung Mei who is the spouse of Madam Cheung Kwai Lan. Accordingly, Madam Cheung Kwai Lan is deemed to be interested in the shares under the SFO.
5. The 909 shares of US\$1 each in Best Frontier are owned by Madam Cheung Kwai Lan who is the spouse of Mr. Chan Tung Mei. Accordingly, Mr. Chan Tung Mei is deemed to be interested in the shares under the SFO.

DIRECTORS' REPORT

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

Pursuant to the Pre-IPO share option scheme adopted by the Company on 18 October 2002 ("Pre-IPO Share Option Scheme"), certain Directors had been granted share options to subscribe for shares, details of which as at 30 June 2004 were as follows:

Name of director	Date of grant	Exercise price HK\$	Outstanding at 1 July 2003	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding at 30 June 2004
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	-	(1,730,000)	-	-	870,000
Total			<u>14,600,000</u>	<u>-</u>	<u>(13,730,000)</u>	<u>-</u>	<u>-</u>	<u>870,000</u>

These shares 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 (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:

- 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;
- any non-executive directors (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;
- any supplier of goods or services to any member of the Group or any Invested Entity;
- any customer of the Group or any Invested Entity;

DIRECTORS' REPORT

- (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 2004, no share option had been granted or agreed to be granted under the Share Option Scheme.

Save as disclosed above, as at 30 June 2004, none of the directors or chief executives of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in the section headed "Directors' and chief executives' interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation" 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 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.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 30 June 2004, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital.

Name of Shareholders	Capacity	Number of ordinary shares held		Percentage of shareholding
		Long position	Short position	
Best Frontier Investments Limited	Beneficial owner	262,080,000	–	54.45%
Oppenheimer Funds, Inc.	Investment manager	26,000,000	–	5.40%
China Value Investment Limited	Investment manager	24,620,000 (Note 1)	–	5.11%
Asian Value Investment Fund, L. P.	Investment manager	24,620,000 (Note 1)	–	5.11%

Note:

- The shares are held by China Value Investment Limited, which is wholly owned by Asian Value Investment Fund, L. P. Accordingly, Asian Value Investment Fund, L. P. is deemed to be interested in the shares under the SFO.

Save as disclosed above, as at 30 June 2004, the directors are not aware of any other person who has an interest or short position in the shares or underlying shares and debentures of the Company which would fall to be disclosed to the Company under Section 336 of the SFO, or who is interested in 5% or more of the Company's issued share capital.

SPONSOR'S INTEREST

To the best knowledge of the Company, as at 30 June 2004, neither Guotai Junan Capital Limited (the "Sponsor"), nor its directors or employees or associates (as referred to in Note 3 of Rule 6.35 of the GEM Listing Rules) had an interest in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

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

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.

DIRECTORS' REPORT

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 40.8% of the total turnover for the year and sales to the largest customer included therein amounted to 13.6%.

Purchase from the Group's five largest suppliers accounted for approximately 75.6% of the total purchases for the year and purchases from the largest supplier included therein amounted to 33.6%.

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.

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 year, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

COMPETING INTERESTS

None of the directors or the management shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules) had any 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 Institute of Certified Public Accountants. The primary duties of the audit committee are to review the Company's annual report and accounts, half-year reports and quarterly reports and to provide advice and comments thereon to the Board. The audit committee is also responsible for reviewing and supervising the Company's financial reporting and internal control procedures. The audit committee consisted of three independent non-executive Directors, namely Professor Peter Chin Wan Fung, Mr. Du Ying Min and Mr. Tsui Wing Tak. Professor Peter Chin Wan Fung is the chairman of the audit committee. The Group's audited results for the year ended 30 June 2004 have been reviewed by the audit committee which was of the opinion that the preparation of such results complied with applicable accounting standards and requirements and that adequate disclosures had been made. The audit committee held four meetings during the year.

DIRECTORS' REPORT

BOARD PRACTICES AND PROCEDURES AND CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has complied with Rules 5.34 to 5.45 of the GEM Listing Rules regarding board practices and procedures throughout the year.

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings as set out in the Rules 5.48 to 5.67 of the GEM Listing Rules. The Company, having made specific enquiry of all the Directors, was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by the Directors during the year.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed between Tuesday, 26 October 2004 and Monday, 1 November 2004 (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 Monday, 25 October 2004.

AUDITORS

Except for the year ended 30 June 2002 in which Messrs. Deloitte Touche Tohmatsu acted as auditors of the Company, Messrs. W.H. Tang & Partners CPA Limited have acted as auditors of the Company for the past three years. A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. W.H. Tang & Partners CPA Limited as auditors of the Company.

On behalf of the Board

Cheung Kwai Lan

Chairman

Hong Kong, 28 September 2004

AUDITORS' REPORT

鄧偉雄會計師事務所有限公司

Level 7, Parkview Centre,
7 Lau Li Street,
Causeway Bay, Hong Kong.

香港銅鑼灣琉璃街七號
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**W.H. TANG
& PARTNERS
CPA LIMITED**

TO THE MEMBERS OF B & B NATURAL PRODUCTS LIMITED

(FORMERLY KNOWN AS BEE & BEE NATURAL LIFE PRODUCTS LIMITED)

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 25 to 61 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 solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public 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.

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 2004 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, 28 September 2004

Tang Wai Hung
Practising Certificate Number P03525

CONSOLIDATED INCOME STATEMENT*For the year ended 30 June 2004*

	Notes	2004 HK\$'000	2003 HK\$'000
Turnover	5	192,971	88,337
Cost of sales		(141,394)	(54,913)
Gross profit		51,577	33,424
Other revenue	5	167	536
Selling and distribution costs		(8,865)	(7,600)
Administrative expenses		(11,050)	(6,519)
Profit from operations	6	31,829	19,841
Finance costs	7	(691)	(1,569)
Profit before taxation		31,138	18,272
Taxation	10	(1,861)	69
Profit before minority interest		29,277	18,341
Minority interest		(264)	(332)
Net profit for the year		29,013	18,009
Dividends	12	8,658	6,000
EARNINGS PER SHARE			
Basic	13	6.53 cents	4.92 cents
Diluted	13	6.34 cents	4.74 cents

CONSOLIDATED BALANCE SHEET

At 30 June 2004

	Notes	2004 HK\$'000	2003 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	3,547	4,132
Technical know-how	15	58	231
Goodwill	16	191	245
Deposits made on acquisition of property, plant and equipment		3,871	1,734
		7,667	6,342
CURRENT ASSETS			
Inventories	18	6,024	4,205
Trade and other receivables and prepayments	19	41,477	7,007
Pledged bank deposits	30	21,135	14,076
Bank deposits		–	2,004
Bank balances and cash		110,919	51,830
		179,555	79,122
CURRENT LIABILITIES			
Trade and other payables	20	10,768	6,519
Taxation		957	346
Bank borrowings – secured	21	30,376	9,762
		42,101	16,627
NET CURRENT ASSETS			
		137,454	62,495
TOTAL ASSETS LESS CURRENT LIABILITIES			
		145,121	68,837
MINORITY INTEREST			
		4,824	4,327
NON-CURRENT LIABILITIES			
Bank borrowings – secured	21	2,831	–
NET ASSETS			
		137,466	64,510
CAPITAL AND RESERVES			
Share capital	22	4,813	4,000
Reserves	24	132,653	60,510
SHAREHOLDERS' FUNDS			
		137,466	64,510

The financial statements on pages 25 to 61 were approved and authorised for issue by the Board of Directors on 28 September 2004 and are signed on its behalf by:

CHEUNG KWAI LAN
Director

CHAN TING
Director

BALANCE SHEET

At 30 June 2004

	Notes	2004 HK\$'000	2003 HK\$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	17	107,427	42,738
CURRENT ASSETS			
Other receivables and prepayments		88	58
Pledged bank deposits		5,004	–
Bank balances and cash		2,628	36
		7,720	94
CURRENT LIABILITIES			
Other payables and accruals		1,187	491
Bank borrowings – secured	21	13,000	–
		14,187	491
NET CURRENT LIABILITIES			
		(6,467)	(397)
NET ASSETS			
		100,960	42,341
CAPITAL AND RESERVES			
Share capital	22	4,813	4,000
Reserves	24	96,147	38,341
SHAREHOLDERS' FUNDS			
		100,960	42,341

CHEUNG KWAI LAN
Director

CHAN TING
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the year ended 30 June 2004*

	<i>Notes</i>	2004 HK\$'000	2003 <i>HK\$'000</i>
Total equity at the beginning of year		64,510	13,622
Exchange differences arising on translation of financial statements of Singapore operation	24	9	8
Net gain not recognised in the Consolidated Income Statement		9	8
Net profit for the year	24	29,013	18,009
Dividends paid	24	(6,647)	(2,000)
Issue of shares pursuant to public offer and placing		–	44,160
Issue of shares pursuant to placing and subscription agreement		44,160	–
Shares issue expenses	24	(1,705)	(9,289)
Shares issued on exercise of options		8,126	–
		72,947	50,880
Total equity at the end of year		137,466	64,510

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2004

	2004 HK\$'000	2003 HK\$'000
OPERATING ACTIVITIES		
Profit from operations	31,829	19,841
Adjustment for:		
Interest income	(89)	(308)
Depreciation	679	546
Amortisation of goodwill	54	27
Loss on disposal of property, plant and equipment	71	81
Impairment of property, plant and equipment	452	–
Amortisation of technical know-how	173	173
Loss on deemed partial disposal of a subsidiary	32	–
Provision for inventories	216	–
Operating cash flows before movements in working capital	33,417	20,360
Increase in inventories	(2,035)	(609)
(Increase) decrease in trade and other receivables and prepayments	(13,695)	5,300
Increase (decrease) in trade and other payables	4,249	(8,475)
Cash generated by operations	21,936	16,576
Interest paid	(691)	(1,224)
Taxation paid	(1,250)	(184)
Taxation refund	–	7
NET CASH FROM OPERATING ACTIVITIES	19,995	15,175
INVESTING ACTIVITIES		
Interest received	89	308
Purchases of property, plant and equipment	(617)	(647)
Deposits paid on acquisition of property, plant and equipment	(2,137)	(704)
Deposits paid on investments	(20,775)	–
Increase in pledged bank deposits	(7,059)	(12,069)
Acquisition of a subsidiary	–	577
NET CASH USED IN INVESTING ACTIVITIES	(30,499)	(12,535)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2004

	2004 HK\$'000	2003 HK\$'000
FINANCING ACTIVITIES		
Issue of shares	52,286	44,160
Share issue expenses	(1,705)	(9,289)
Repayment of convertible notes	–	(13,000)
Dividend paid	(6,647)	(2,000)
New bank loans raised	16,774	–
Capital contribution from minority interest	201	–
	<hr/>	<hr/>
NET CASH FROM FINANCING ACTIVITIES	60,909	19,871
	<hr/>	<hr/>
NET INCREASE IN CASH AND CASH EQUIVALENTS	50,405	22,511
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	44,072	21,553
Effect of foreign exchange rate changes	9	8
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	94,486	44,072
	<hr/>	<hr/>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	110,919	51,830
Bank deposits	–	2,004
Bank overdrafts – secured	(10,470)	(5,910)
Trust receipt loans – secured	(5,963)	(3,852)
	<hr/>	<hr/>
	94,486	44,072
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL

The Company is incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activities of the Group are the manufacture and distribution of natural supplementary foods.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, the Hong Kong Financial Reporting Standards ("HKFRS") – Statement of Standard Accounting Practice ("SSAP") 12 (Revised) "Income taxes" ("SSAP 12 (Revised)") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The term of HKFRS is inclusive of SSAPs and Interpretations approved by HKICPA.

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. Details of this revised accounting policy are set out in note 3 to the financial statements. In the absence of any specific requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The adoption of this standard had no material effect on the results for the current or prior accounting periods, and accordingly, no prior period adjustment has been required.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The principal accounting policies adopted in preparing the audited consolidated results of the Group conform with accounting principles generally accepted in Hong Kong and accounting standards issued by the HKICPA.

Basis of consolidation

The consolidation financial statements include the financial statements of the Company and its subsidiaries made up to 30 June each year. 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.

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***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.

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 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%

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.

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the period.

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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

Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the income statement on a straight line basis over the lease periods.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, amounts repayable on demand from banks and financial institutions within three months from the date of placement, less advances from banks and financial institutions repayable within three months from the date of advance.

Borrowing costs

Interest and related costs on borrowing directly incurred to finance the acquisition, construction and development of an asset that is required to take a substantial period of time to get ready and prepare for its intended use are capitalised as part of the cost of the asset. All other borrowing costs are charged to the income statement as they are incurred.

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.

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

4. SEGMENT INFORMATION

During the years ended 30 June 2004 and 2003, 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:

	2004		2003		2004		2003	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Geographical market								
Segment revenue:								
PRC	173,766	89,228	(39,771)	(28,755)	133,995	60,473		
Hong Kong	1,064	6,624	–	–	1,064	6,624		
South East Asia	43,978	21,240	–	–	43,978	21,240		
Europe	13,934	–	–	–	13,934	–		
Total	232,742	117,092	(39,771)	(28,755)	192,971	88,337		
Segment results:								
PRC					45,788	27,037		
Hong Kong					(14,136)	(7,020)		
South East Asia					134	(176)		
Europe					43	–		
Profit from operations					31,829	19,841		
Finance costs					(691)	(1,569)		
Profit before taxation					31,138	18,272		
Taxation					(1,861)	69		
Profit before minority interest					29,277	18,341		
Minority interest					(264)	(332)		
Net profit for the year					29,013	18,009		

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.

NOTES TO THE FINANCIAL STATEMENTS

5. 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	
	2004	2003
	HK\$'000	<i>HK\$'000</i>
Turnover		
Manufacture and sales of natural supplementary foods	192,971	88,337
Other revenue		
Interest income	89	308
Others	78	228
	167	536

NOTES TO THE FINANCIAL STATEMENTS

6. PROFIT FROM OPERATIONS

	The Group	
	2004 HK\$'000	2003 HK\$'000
Profit from operations has been arrived at after charging:		
Staff costs excluded directors' emoluments	3,507	2,956
Staff's retirement benefits scheme contributions	208	229
	<hr/>	<hr/>
Total staff costs	3,715	3,185
Less: Staff costs included in research and development costs	(61)	(80)
	<hr/>	<hr/>
	3,654	3,105
	<hr/>	<hr/>
Auditors' remuneration		
– provision for the year	263	180
– under(over)provision in prior years	30	(28)
	<hr/>	<hr/>
	293	152
	<hr/>	<hr/>
Amortisation of goodwill	54	27
Amortisation of technical know-how	173	173
Depreciation of property, plant and equipment	679	546
Impairment of property, plant and equipment	452	–
Loss on disposal of property, plant and equipment	71	81
Provision for inventories	216	–
Operating lease rentals in respect of land and building	564	450
Research and development costs	61	180
Cost of inventories recognised as expenses	141,394	54,913
and after crediting:		
Interest income	89	308
Exchange gain	7	11
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS

7. FINANCE COSTS

	The Group	
	2004 HK\$'000	2003 HK\$'000
Amortisation of issue costs of convertible notes	–	343
Interest on:		
convertible notes, including accretion of premium payable upon the final redemption of the convertible notes	–	1,097
bank borrowings wholly repayable within five years	691	129
	691	1,569

8. DIRECTORS' EMOLUMENTS

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

	The Group	
	2004 HK\$'000	2003 HK\$'000
Fees:		
Executive	467	–
Non-executive	78	9
Independent non-executive	190	124
Other emoluments:		
Executive		
Salaries and other benefits	3,900	3,600
Contributions to retirement benefits scheme	19	24
	4,654	3,757

Among the three executive directors, Madam Cheung Kwai Lan, Mr. Chan Ting and Mr. Chan Tung Mei, received emoluments of HK\$2,109,000 (2003: HK\$1,822,000), HK\$1,471,000 (2003: HK\$1,182,000) and HK\$806,000 (2003: HK\$620,000), respectively for the year ended 30 June 2004.

Among the three independent non-executive directors, Professor Peter Chin Wan Fung, Mr. Du Ying Min and Mr. Tsui Wing Tak, and a non-executive director, Mr. Shaw Kyle Arnold Junior, received emoluments of HK\$95,000 (2003: HK\$62,000), HK\$95,000 (2003: HK\$62,000), Nil (2003: Nil) and HK\$78,000 (2003: HK\$9,000), respectively for the year ended 30 June 2004.

No director waived or agreed to waive any of their emoluments in respect of the year ended 30 June 2004 (2003: Nil).

NOTES TO THE FINANCIAL STATEMENTS

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals included three directors (2003: three directors), details of whose emoluments are included above. The aggregate emoluments of the five highest paid employees including three directors (2003: three directors) for the year were as follows:

	The Group	
	2004	2003
	HK\$'000	<i>HK\$'000</i>
Salaries and other benefits	5,338	4,405
Contributions to retirement benefits scheme	43	48
	<hr/> 5,381 <hr/>	<hr/> 4,453 <hr/>

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

	The Group	
	2004	2003
	Number of individuals	Number of individuals
Nil – HK\$1,000,000	3	3
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$1,500,001 – HK\$2,000,000	–	1
HK\$2,000,001 – HK\$2,500,000	1	–
	<hr/> 5 <hr/>	<hr/> 5 <hr/>

During the year ended 30 June 2004, no emoluments have been paid by the Group to the three directors (2003: three directors) or the two (2003: two) highest paid individuals as an inducement to join the Group, or as compensation for loss of office.

NOTES TO THE FINANCIAL STATEMENTS

10. TAXATION

	The Group	
	2004	2003
	HK\$'000	HK\$'000
The charge (credit) comprises:		
Hong Kong Profits Tax		
Current year	–	–
Overprovision in respect of prior years	–	(57)
	<hr/>	<hr/>
	–	(57)
	<hr/>	<hr/>
Other jurisdictions		
Current year	1,861	–
Overprovision in respect of prior years	–	(12)
	<hr/>	<hr/>
	1,861	(12)
	<hr/>	<hr/>
	1,861	(69)
	<hr/>	<hr/>

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 2004. 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 exempt from the 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 were exempted from the PRC income tax during first half year and were entitled to a 50% relief from the PRC income tax during second half year.

NOTES TO THE FINANCIAL STATEMENTS

10. TAXATION (Continued)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the countries in which the Group operates as follows:

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Profit before taxation	31,138	18,272
Tax at the Hong Kong Profits Tax rate of 17.5% (2003: 16%)	5,449	2,923
Tax effect of expenses that are not deductible for tax purposes	2,750	1,383
Tax effect of income that is not taxable for tax purposes	(3,820)	(4,347)
Tax effect of tax losses not recognised	–	49
Tax effect of utilisation of tax losses previously not recognised	(63)	–
Under(over)provision in prior years	1	(69)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(2,456)	(8)
Taxation charge (credit) for the year	1,861	(69)

Deferred tax has not been provided (2003: Nil) because the Company and the Group had no significant temporary differences as at 30 June 2004. At the balance sheet date, the subsidiaries have unused tax losses of HK\$15,849,000 (2003: HK\$6,233,000) approximately, available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profits streams in the subsidiaries. Unused tax losses have no expiry date.

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 30 June 2004 dealt with in the financial statements of the Company is approximately HK\$14,685,000 (2003: HK\$8,059,000).

NOTES TO THE FINANCIAL STATEMENTS

12. DIVIDENDS

	The Company	
	2004	2003
	HK\$'000	HK\$'000
Final dividend paid for 2003	4,246	–
2004 interim dividend paid:		
HK0.5 cent (2003: HK0.5 cent) per share	2,401	2,000
2004 final dividend proposed:		
HK1.3 cents (2003: HK1.0 cent) per share	6,257	4,000
	8,658	6,000

In respect of the current year, the directors propose that a final dividend of HK1.3 cents per share will be paid to shareholders on 29 November 2004. 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 2004 is payable to all shareholders on the Register of Members on 1 November 2004.

13. EARNINGS PER SHARE

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

Earnings

	2004	2003
	HK\$'000	HK\$'000
Earnings for the purposes of basic earnings per share	29,013	18,009
Number of shares		
	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	444,227	366,071
Effect of dilutive potential ordinary shares:		
Share options	13,074	13,966
Weighted average number of ordinary shares for the purpose of diluted earnings per share	457,301	380,037

NOTES TO THE FINANCIAL STATEMENTS

14. 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 2003	369	233	562	3,681	4,845
Additions	61	–	370	186	617
Disposals	–	(233)	–	–	(233)
At 30 June 2004	430	–	932	3,867	5,229
DEPRECIATION					
At 1 July 2003	73	84	88	468	713
Provided for the year	79	78	148	374	679
Eliminated on disposals	–	(162)	–	–	(162)
Impairment loss	–	–	–	452	452
At 30 June 2004	152	–	236	1,294	1,682
NET BOOK VALUES					
At 30 June 2004	278	–	696	2,573	3,547
At 30 June 2003	296	149	474	3,213	4,132

15. TECHNICAL KNOW-HOW

	<i>HK\$'000</i>
THE GROUP	
COST	
At 1 July 2003 and at 30 June 2004	519
AMORTISATION	
At 1 July 2003	288
Provided for the year	173
At 30 June 2004	461
CARRYING VALUES	
At 30 June 2004	58
At 30 June 2003	231

NOTES TO THE FINANCIAL STATEMENTS

16. GOODWILL

	<i>HK\$'000</i>
THE GROUP	
COST	
At 1 July 2003 and at 30 June 2004	272
AMORTISATION	
At 1 July 2003	27
Provided for the year	54
At 30 June 2004	81
CARRYING VALUES	
At 30 June 2004	191
At 30 June 2003	245

Goodwill is amortised using the straight line method over its estimated useful life of 5 years.

17. INTERESTS IN SUBSIDIARIES

	The Company	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	2,579	2,579
Amount due from subsidiaries	104,848	40,159
	107,427	42,738

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.

NOTES TO THE FINANCIAL STATEMENTS

17. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries at 30 June 2004 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
Hsing Long Trading Co. Pte. Ltd.	Singapore	Ordinary shares SGD100,000	–	70.31%	Distribution of natural supplementary foods
B & B Natural Products (BVI) Limited	British Virgin Islands	Ordinary Share US\$1	–	75%	Investment holding
B & B International Marketing Limited	British Virgin Islands	Ordinary Share US\$1	–	100%	Investment holding

NOTES TO THE FINANCIAL STATEMENTS

17. 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	
B & B South East Asia Limited	British Virgin Islands	Ordinary Shares US\$4	–	75%	Distribution of natural supplementary foods
Precise Result Profits Limited *	British Virgin Islands	Ordinary share US\$1	–	100%	Investment holding
Top Entrepreneur Profits Limited *	British Virgin Islands	Ordinary shares US\$200	–	75%	Investment holding
Rapid Progress Profits Limited *	British Virgin Islands	Ordinary shares US\$8	–	56.25%	Investment holding
B & B Winery Limited *	Hong Kong	Ordinary shares HK\$1,000	–	100%	Distribution of natural supplementary Foods
B & B Group Holdings Limited *	Hong Kong	Ordinary shares HK\$100	–	100%	Investment holding
Natural Lives Company Limited *	Hong Kong	Ordinary shares HK\$500,000	–	60%	Distribution of natural supplementary foods
B & B Palm Industry Limited *	British Virgin Islands	Ordinary share US\$1	–	100%	Investment holding
B & B Bio-Products Limited *	British Virgin Islands	Ordinary share US\$1	–	100%	Investment holding

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

* Subsidiaries newly established during the year.

NOTES TO THE FINANCIAL STATEMENTS

18. INVENTORIES

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Raw materials	699	405
Work in progress	3,637	2,399
Finished goods	1,688	1,401
	<u>6,024</u>	<u>4,205</u>

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

19. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Trade receivables	15,206	6,341
Other receivables and prepayments (<i>Notes</i>)	26,271	666
	<u>41,477</u>	<u>7,007</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:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Age		
0 to 30 days	13,969	4,419
31 to 60 days	718	1,403
61 days to 365 days	–	519
Over 1 year	519	–
	<u>15,206</u>	<u>6,341</u>

NOTES TO THE FINANCIAL STATEMENTS

19. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS (Continued)

Notes:

- On 25 November 2003, the Group has entered into the Promoters' Agreement with four other Independent Third Parties for the establishment of the joint stock limited company ("JV Company"), Your-Mart Co. Limited. Pursuant to the Promoters' Agreement, the Group will invest a total amount of RMB45,000,000 (approximately HK\$42,453,000) by way of cash contribution and will own approximately 20.83% equity interest in the JV Company upon the completion of the Promoters' Agreement. As at 30 June 2004, the Group has prepaid HK\$20,000,000 to the investment and the capital verification report has not been completed.
- On 6 March 2004, the Group has entered into an agreement with Independent Third Party to set up a new company, Yunnan RongDa Bio-Technology Limited. Pursuant to the agreement, the Group will invest a total of RMB6,000,000 (approximately HK\$5,660,000) by way of cash contribution and will own 51% equity interest in the new company. As at 30 June 2004, the Group has prepaid approximately HK\$189,000 to the investment and the capital verification report has not been completed.
- On 24 March 2003, the Group set up a wholly owned foreign enterprise, 珠海中林信天然生物產品有限公司, in the PRC. The total investment cost would be US\$700,000 (approximately HK\$5,460,000). As at 30 June 2004, the Group has prepaid approximately HK\$586,000 to the investment and the capital verification report has not been completed.

20. TRADE AND OTHER PAYABLES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Trade payables	1,803	835
Other payables	8,965	5,684
	10,768	6,519

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

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Age		
0 to 30 days	1,777	604
31 to 120 days	26	231
	1,803	835

NOTES TO THE FINANCIAL STATEMENTS

21. BANK BORROWINGS – SECURED

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Bank overdrafts, secured	10,470	5,910
Trust receipt loans, secured	5,963	3,852
Bank loans, secured	16,774	–
	<u>33,207</u>	<u>9,762</u>

At 30 June 2004, the Group's bank borrowings are repayable as follows:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
On demand or within one year	30,376	9,762
More than one year, but not exceeding two years	1,887	–
More than two years, but not exceeding five years	944	–
	<u>33,207</u>	<u>9,762</u>
Less: Amount due within one year shown under current liabilities	<u>(30,376)</u>	<u>(9,762)</u>
Amount due after one year	<u>2,831</u>	<u>–</u>

	THE COMPANY	
	2004	2003
	HK\$'000	HK\$'000
Bank loans, secured	13,000	–

NOTES TO THE FINANCIAL STATEMENTS

22. SHARE CAPITAL

	<i>Notes</i>	Number of shares '000	<i>HK\$'000</i>
Authorised:			
On incorporation and at 1 July 2002, shares of HK\$0.01 each	<i>(a)</i>	39,000	390
Increase in authorised share capital	<i>(b)</i>	<u>19,961,000</u>	<u>199,610</u>
At 30 June 2004, shares of HK\$0.01 each		<u>20,000,000</u>	<u>200,000</u>
Issued and fully paid:			
At 1 July 2002, shares of HK\$0.01 each		1,000	10
Issue of shares by capitalisation of share premium	<i>(c)</i>	303,000	3,030
Issue of shares pursuant to public offer and placing	<i>(d)</i>	<u>96,000</u>	<u>960</u>
At 30 June 2003, shares of HK\$0.01 each		400,000	4,000
Issue of shares pursuant to placing and subscription agreement	<i>(e)</i>	46,000	460
Shares issued on exercise of options	<i>(Note 23)</i>	<u>35,330</u>	<u>353</u>
At 30 June 2004, shares of HK\$0.01 each		<u>481,330</u>	<u>4,813</u>

(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.

(b) 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.

NOTES TO THE FINANCIAL STATEMENTS

22. SHARE CAPITAL *(Continued)*

- (c) 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.
- (d) 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.
- (e) On 1 December 2003, 46,000,000 shares of HK\$0.01 each were placed to 17 independent investors at a price of HK\$0.96 per share from the substantial shareholder, Best Frontier Investments Limited, pursuant to the placing and subscription agreement dated 26 November 2003. After completion on placing, the subscription of 46,000,000 new shares of HK\$0.01 each in the capital of the Company at the subscription price of HK\$0.96 per new share were allotted and issued to Best Frontier Investments Limited on 10 December 2003. The net proceeds of the subscription amounted to approximately HK\$42,455,000 and out of which approximately HK\$42,453,000 (RMB45,000,000) would be used to finance the injection by the Group by way of cash contribution for approximately 20.83% equity interest in the joint stock limited company, pursuant to the Promoters' Agreement. The remaining balance of approximately HK\$2,000 would be applied as general working capital.

NOTES TO THE FINANCIAL STATEMENTS

23. SHARE OPTION SCHEMES

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. At 30 June 2003, 3,000,000 share options were lapsed.

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 2003 '000	Granted during the year '000	Exercised during the year '000	Number of share options at 30 June 2004 '000
Directors	18/10/2002	0.23	14,600	–	(13,730)	870
Consultant	18/10/2002	0.23	4,000	–	(4,000)	–
Employees	18/10/2002	0.23	18,400	–	(17,600)	800
Total			37,000	–	(35,330)	1,670

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

23. SHARE OPTION SCHEMES *(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.

The weighted average closing price of the shares immediately before the dates in which the options were exercised was HK\$0.77. The options were exercised from September to November 2003 and in May 2004.

Consideration paid for each grant of an option was HK\$1. No charge was recognised in the income statement in respect of the value of options granted.

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

NOTES TO THE FINANCIAL STATEMENTS

23. SHARE OPTION SCHEMES *(Continued)*

Share Option Scheme *(Continued)*

- (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. 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 2004, 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

24. RESERVES

(a) The Group

	Share premium <i>HK\$'000</i>	Translation reserve <i>HK'000</i>	Special reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 July 2002	–	(2)	(1)	13,615	13,612
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)
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)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2003 and 1 July 2003	30,881	6	(1)	29,624	60,510
Issue of shares pursuant to placing and subscription agreement	43,700	–	–	–	43,700
Share issue expenses	(1,705)	–	–	–	(1,705)
Share issued on exercise of options	7,773	–	–	–	7,773
Exchange differences arising from translation of financial statements of Singapore operation	–	9	–	–	9
Net profit for the year	–	–	–	29,013	29,013
Dividend paid	–	–	–	(6,647)	(6,647)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2004	80,649	15	(1)	51,990	132,653

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.

NOTES TO THE FINANCIAL STATEMENTS

24. 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>
At 1 July 2002	–	2,569	(1,168)	1,401
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)
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2003 and 1 July 2003	30,881	2,569	4,891	38,341
Issue of shares pursuant to placing and subscription agreement	43,700	–	–	43,700
Share issue expenses	(1,705)	–	–	(1,705)
Share issued on exercise of options	7,773	–	–	7,773
Net profit for the year	–	–	14,685	14,685
Dividend paid	–	–	(6,647)	(6,647)
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2004	<u>80,649</u>	<u>2,569</u>	<u>12,929</u>	<u>96,147</u>

NOTES TO THE FINANCIAL STATEMENTS

25. 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	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Within one year	970	452
In the second to fifth year inclusive	582	382
	<u>1,552</u>	<u>834</u>

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 three years.

The Company had no significant operating lease commitments at 30 June 2004 (2003: Nil).

26. CAPITAL COMMITMENTS

	THE GROUP	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Capital expenditure in respect of the acquisition of property, plant and equipment		
– authorised but not contracted for	18,981	18,981
– contracted for but not provided in the financial statements	20,058	22,453
	<u>39,039</u>	41,434
Capital expenditure in respect of the acquisition of joint stock limited company and subsidiary		
– contracted for but not provided in the financial statements	32,798	–
	<u>71,837</u>	<u>41,434</u>

The Company had no significant capital commitments at 30 June 2004 (2003: Nil).

NOTES TO THE FINANCIAL STATEMENTS

27. CONTINGENT LIABILITIES

The Company provided corporate guarantees to the extent of approximately HK\$89,174,000 (2003: HK\$20,000,000) to banks and financial institution to secure general banking facilities granted to certain subsidiaries.

The total facilities utilised by the Group at 30 June 2004 amounted to approximately HK\$33,207,000 (2003: HK\$9,762,000).

28. 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\$111,300 (2003: HK\$101,000) 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.

29. 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 2004 (2003: Nil).

NOTES TO THE FINANCIAL STATEMENTS

30. PLEDGE OF ASSETS

At 30 June 2004, the Group has pledged its bank deposits of HK\$21,135,000 (2003: HK\$14,076,000), approximately as a security for the general banking facilities granted to the Group.

31. EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to the balance sheet date, on 9 July 2004, the Group issued a circular (the "Circular") to the shareholders of the Company in relation to a discloseable transaction. According to the Circular, the Group disposed 75% equity interest of Top Entrepreneur Profits Limited to Aptus Holdings Limited ("Aptus") at a price of HK\$4,000,000. The purchase price is to be satisfied by the allotment and issue of the acquisition consideration shares at HK\$0.021 per share of Aptus.

Besides, the Group conditionally agreed on 23 March 2004 to subscribe for 738,095,238 new Aptus shares at approximately HK\$0.021 per share. On 26 August 2004, the above sale and purchase agreement and subscription agreement were completed. Aptus Holdings Limited became an indirect non wholly-owned subsidiary of the Company.

FINANCIAL SUMMARY

RESULTS

	2004 HK\$'000	For the year ended 30 June		
		2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover	192,971	88,337	62,850	8,784
Cost of sales	(141,394)	(54,913)	(40,968)	(7,377)
Gross profit	51,577	33,424	21,882	1,407
Other revenue	167	536	152	–
Selling and distribution costs	(8,865)	(7,600)	(3,746)	(31)
Administrative expenses	(11,050)	(6,519)	(2,873)	(135)
Profit from operations	31,829	19,841	15,415	1,241
Finance costs	(691)	(1,569)	(1,072)	–
Profit before taxation	31,138	18,272	14,343	1,241
Taxation	(1,861)	69	(368)	(191)
Profit before minority interest	29,277	18,341	13,975	1,050
Minority interest	(264)	(332)	(362)	–
Net profit for the year	29,013	18,009	13,613	1,050

ASSETS AND LIABILITIES

	2004 HK\$'000	At 30 June		
		2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
Total assets	187,222	85,464	41,451	323
Total liabilities	(44,932)	(16,627)	(23,943)	(320)
Minority interest	(4,824)	(4,327)	(3,886)	–
Shareholders' funds	137,466	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.