

# B & B

**B & B GROUP HOLDINGS LIMITED**  
**中國蜂業集團有限公司**  
*(Incorporated in the Cayman Islands with limited liability)*



# 2005

**Annual Report**

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

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*This report, for which the directors of B & B Group Holdings 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  
Mr. LAU Hin Kun

#### *Non-executive Director*

Mr. SHAW Kyle Arnold Junior

#### *Independent non-executive Directors*

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

### AUDIT COMMITTEE

Professor Peter Chin Wan FUNG  
Mr. TIAN He Nian  
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

### AUDITORS

#### **W.H. Tang & Partners CPA Limited**

Level 7, Parkview Centre  
7 Lau Li Street, Causeway Bay  
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](http://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 Group Holdings 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 2005.

### FINANCIAL HIGHLIGHTS

For the year ended 30 June 2005, the Group recorded a turnover of approximately HK\$189,131,000, representing a slight decrease of about 2% when compared with HK\$192,971,000 of the corresponding period last year. Profit attributable to the shareholders for the same year was approximately HK\$31,685,000, representing an increase of about 9.2% when compared with HK\$29,013,000 of the corresponding period last year. Basic earnings per share were approximately HK6.57 cents. The Board proposed to distribute a final dividend of HK1.5 cents per ordinary share for the year ended 30 June 2005.

### BUSINESS DEVELOPMENT

The Group has taken the past financial year to realize its development direction. Product portfolio have been much enriched with natural health products remains the core focus of the Group. As the product spectrum expanded, the Group increases marketing efforts accordingly and enjoyed a stronger relationship with various distribution chains.

The strategic acquisition of Aptus Holdings Limited ("Aptus") (stock code: 8212) was completed within the financial year ended June 2005. Thereafter, Aptus has entered into an agreement to acquire 70% equity interest of CNPC Huayou CU Energy Investment Company which has an oilfield development project located in Xin Jiang of the PRC. Aptus will become a division of the Group that specialise in the oil and natural resources industry.

### DIRECTORS AND MANAGEMENT

For the period being review, there were three new additions to the Board. I am very pleased to welcome Mr. Tian He Nian and, Mr. Tsui Wing Tak who have been appointed as independent non-executive directors and audit committee members and Mr. Lau Hin Kun who has been appointed as an executive director of the Company. Mr. Tian was the deputy head of the Department of United Front Work of the Central Government of the PRC from 1998 to 2003. Mr. Tsui has over 11 years of experience in auditing, accounting and financing. Mr. Lau has over twenty years of experience in the banking sector and accounting experience of both Hong Kong and the PRC.

Among the management team, we have fortunately recruited Mr. Ma Lishan to join the Group as the Chief Executive Officer beginning in August 2005. Mr. Ma had been the managing director of COFCO International Limited before joining the Group. I am confident that his extensive management experience and skill will be crucial to the Company's future development.

### EMPLOYEES

I would like to acknowledge the important role played by all employees in the achievement of the 2005 result. Their skill, loyalty and commitment represent one of the major assets of the Group. On behalf of the Board, I thank them for their dedication and excellent performance.

## CHAIRMAN'S STATEMENT

### FUTURES

As the Company's business operation grows, the requirement on the management quality and resources become more stringent. The Company will continue to strengthen its management resources and recruit expertise so that to keep up to the standard of skill, due care and diligence undertaken by the management and deliver quality results. I am confident that the management will be able to realize more business opportunities; and bring added value to the shareholders.

Finally, I wish to thank the shareholders for their support in the past years. The Company will strive to continue to earn that support in the coming year.

On behalf of the Board

**Cheung Kwai Lan**

*Chairman*

Hong Kong, 29 September 2005

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK1.5 cents per share by the Company for the year ended 30 June 2005.

### BUSINESS REVIEW

It has been a profitable year for the Group amid an environment of rising competition. The competitions in the market of natural health products were keen despite uniqueness, quality and characteristics of the Group's products. In order to build up consumers' confidence on the Group's products which is a key factor for market acceptance of natural health products, the Group expanded the varieties of products to form a strong product platform and devoted more efforts into advertising and promotion.

### RETAIL PRODUCTS

During the year, the Group distributed both products under own brand name and products under other brand names where the Group acted as the regional distributor. Products have been acquired from Korea, Thailand, France, Russia, the PRC and Taiwan. Products platform was expanded to contain more than 100 varieties which includes natural health food, drinks and daily care products. The Group has successfully built up a stable relationship and operation arrangement with various distribution chains and outlets. This serves as the Group's distribution capacity which will facilitates future growth of the Group.

The Group's natural health products are mainly produced from natural herbs and ingredients. This includes bee related natural products, KGB - natural hangover remedy from Russia, Cherry Slim - Korea cherry drinks for beauty, Goldshape - herbal formulated slimming cream from Thailand, Mekabu - brown seaweed body cleansing product from Korea and other natural products. The products are being sold in various distribution chains with an emphasis on health chain stores and some cosmetic chains. Throughout the year, the Group worked with various distribution chains on joint promotion campaigns to assist the sales of these products. During the time, advertisements were published to enhance the awareness of the products and promotion activities themselves. Through the promotions and advertisements, new products were able to win market recognitions and acceptance.

Several lines of natural skin care products, imported from Korea and France, were being distributed by the Group. Products distributed include shampoo, lotions, cream and facial mask along the line of aloe, honey, garden series and others. Targeted customers were mainly re-sellers and cosmetic chains. The Group is considering to arrange concept counters for the products and was in negotiations with certain outlets on such arrangement. No firm commitments have been made as of the date of this report.

The Group also carried soft drinks, snacks and other food supplements. Targeted sales outlets are supermarkets, retail chains that specify in selling food and snacks. The Group has taken a prudent strategy when introducing new products into the market. The Group started off with trial distribution of smaller scale, collected market feedbacks, fine-tune products selection based on the feedbacks before further committed into distributing the products. Sales outlets of these products may require regular promotion counters being setup for tasting, price or gift promotions. During the period under review, the Group succeeded in bringing confident from the retail chains on the products, therefore, promotion arrangement and shelf-space have been arranged accordingly.

## MANAGEMENT DISCUSSION AND ANALYSIS

### MARKETING AND PROMOTION

During the period under review, the Group actively carried out advertising and promotion campaigns on various products and gradually built up the brand presence of B&B.

The Group participated in exhibitions and promotions in Hong Kong, Chengdu and Guangzhou. In particular, the Cosmoprof Asia in Hong Kong in November 2004 and the 6th Beauty & Fitness Expo in June 2005 where the usage and efficacy of the products were demonstrated to the public and the Company has received enthused responses from the exhibition visitors.

The Company has established a new website <http://club.bbnatural.com> which is separated from the corporate website and is dedicated to the retail clients and in specific B&B club members. The website becomes a media for the Company to carry-out membership program to reward loyal customers with privileges. To strengthen the relationship between consumers and the Company, the website provides a fun and interactive platform to consumers, not only to publish promotions and updated information, but also provides an easy way for consumers to understand or order the products. Meanwhile, the website <http://www.bbnatural.com> remains as the corporate website for investors, shareholders and business partners.

### PRODUCTION

As envisioned last year, the Group has substantially broadened its range of products while at the same time minimizing capital expenditure on production facilities. New products had been produced by appointed manufacturers located in Korea, Thailand and the PRC. This strategy efficiently allows the Group to support its expansion in the products while maintaining its flexibility.

### FUTURE OUTLOOK

On the retail side, the Group will ride on the existing distribution capacity to further expand its products range. As the sales operation of new products that were introduced in the past year becomes more mature, the Group will divert resources into broader penetration of the market through smaller retailers while the relationship with existing retail chains remain the primary interest of the Group. Marketing promotions has become part of the normal operation of the Group and is expected to be maintained in the coming year. While the Company maintains its strategy of products growth, the Company will remain cautious on capital expenditures.

The Directors are interested to actively explore new opportunities and will consider strategic development that can bring the Group to new heights.



## MANAGEMENT DISCUSSION AND ANALYSIS

### EMPLOYMENT AND REMUNERATION POLICIES

As at 30 June 2005, the Group employed 18 staffs in Hong Kong, 2 staffs in Singapore and 64 staffs in the PRC. Staff costs excluding directors' remuneration amounted to approximately HK\$4,274,000 (2004: HK\$3,715,000). 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 2005, shareholders' funds amounted to approximately HK\$160,642,000 (2004: HK\$137,466,000). Current assets amounted to approximately HK\$197,932,000 (2004: HK\$179,555,000), mainly its cash and bank deposits. The Group had current liabilities amounted to approximately HK\$72,863,000 (2004: HK\$42,101,000), mainly its trade and other payables and bank borrowings. The Group's bank borrowings amounted to approximately HK\$56,439,000 (2004: HK\$33,207,000) for the year ended 30 June 2005. The Group financed its operations primarily with internally generated cash flows and the banking facilities granted by the banks. The net asset value per share of the Company was approximately HK\$0.33 (2004: HK\$0.29). The gearing ratio was 54.6% (2004: 36.2%) on the basis of total liabilities divided by shareholders' funds.

### 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 INVESTMENTS

For the year ended 30 June 2005, the Group did not have any significant investments.

### MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

For the year ended 30 June 2005, the Group disposed 75% equity interest of Top Entrepreneur Profits Limited to Aptus Holdings Limited ("Aptus") at a consideration of HK\$4,000,000 (the "Disposal"). The consideration was satisfied by the allotment and issue of shares at HK\$0.021 per share of Aptus. Besides, the Group also subscribed for 738,095,238 new Aptus shares at approximately HK\$0.021 per share (the "Subscription"). After the completion of the Disposal and the Subscription, Aptus became an indirect non wholly-owned subsidiary of the Group. The Group also disposed certain of its subsidiaries for the year ended 30 June 2005 and gave rise to a gain of approximately HK\$2.9 million.

## MANAGEMENT DISCUSSION AND ANALYSIS

### CONTINGENT LIABILITIES

As at 30 June 2005, the Group did not have any material contingent liabilities.

### CHARGES ON GROUP ASSETS

As at 30 June 2005, 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 2005, 800,000 shares were issued due to the exercises of pre-IPO share options.

## 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 2004, please refer to the 2003 and 2004 Annual Reports of the Company.

**Business objectives for the period from 1 July 2004 to 30 June 2005 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)**

Appoint laboratory to test the other new natural supplementary food products

Since the market feedbacks and opinions collected on the new test products developed were not promising enough to proceed with further development, no laboratory test were carried out on those test products. However, the Company appointed laboratory to test on other new natural supplementary food products introduced by the Company during the period under review.

Prepare large-scale production of bird's nest extract

The Company appointed manufacturer to begin commercial production of instant bird's nest products from raw bird's nest. The products were being distributed to various sales outlets.

**2. Enrich the contents of the Group's exiting website**

Continue to update the web site information

Besides updating the corporate website, due to expansion in retail products, a separate dedicated website was established <http://club.bnbnatural.com> for retail products and B&B club members. Refer to the section Marketing Promotion for more details.

**3. Explore overseas market**

Join the Asia Food Expo

The Company joined Cosmoprof Asia (二零零四亞太區美容展) in November 2004 and 6th Beauty & Fitness Expo (第六屆美容及健康減肥博覽) in June 2005 which are specific to the corresponding products that are to be promoted.

## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

**Business objectives for the period from 1 July 2004 to 30 June 2005 as stated in the Prospectus of the Company dated 29 October 2002**

**Actual business progress**

**4. Appoint world-wide distributors**

Expand into more overseas countries by appointing more new distributors

The Company negotiated with distributors in Taiwan but have not formally appointed the distributor for the region.

**5. Marketing and promotional activities**

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 Company continued to build up market awareness by advertising, arranging promotions and participating exhibitions in the PRC including Hong Kong. More resources and focus have been put into the PRC as it remains as the Company's major market.

**6. Research on technology for production process**

Maintain dedication to technology research, new product development and focus on production enhancement and quality improvements

The Company was dedicated to products with technological value, functionally effective and uniqueness. The Company introduced various new products to expand its product platform and have maintained focus on production enhancement and quality improvements.

**7. Zhuhai facilities**

Expand the research and development team and the distribution centre

Due to a number of new products being outsourced from third party manufacturers, the research and development team was not needed to be expanded. The Company has formed the core distribution team in the head office in Hong Kong (formerly named distribution centre) and have expanded the distribution team to help organize sales operation.

Complete the construction of the facilities

The construction schedule was postponed due to amendment in structural design which was discovered after the beginning of construction. The latest schedule has a time lag of approximately 18 months when compared with the original schedule as of the time of the publication of Prospectus. 1st stage of construction had been reached by June 2004 and completion of the construction has been postponed to December 2006.

## DIRECTORS AND SENIOR MANAGEMENT

### DIRECTORS

#### Executive Directors

**Madam CHEUNG Kwai Lan**, aged 67, 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 an executive Director of Aptus Holding Limited, an indirect non-wholly owned subsidiary listed on the GEM. 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 69, 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 35, 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 an executive Director of Aptus Holding Limited, an indirect non-wholly owned subsidiary listed on the GEM. 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.

**Mr. LAU Hin Kun**, aged 46, is an executive Director. He is a director of certain subsidiaries of the Company and the Finance Manager of Aptus Holdings Limited, an indirect non-wholly owned subsidiary listed on the GEM. He has over twenty years of experience in the banking sector and accounting experience of both Hong Kong and the PRC and he previously worked in Nanyang Commercial Bank, Limited, Charlio International Holdings Limited and Chiyu Banking Corporation Limited. He joined the Group in July 2001.

#### Non-executive Director

**Mr. SHAW Kyle Arnold Junior**, aged 44, 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 67, 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. TIAN He Nian**, aged 65, an independent non-executive Director. He was the deputy head of the Department of United Front Work of the Central Government of the PRC from 1998 to 2003. He is the vice-chairman of China Overseas Association. He is also an independent non-executive director and audit committee member of Aptus Holdings Limited, an indirect non-wholly owned subsidiary listed on the GEM. He joined the Group in November 2004.

**Mr. DU Ying Min**, aged 53, 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 36, 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, an indirect non-wholly owned subsidiary listed on the GEM. He joined the Group in September 2004.

### SENIOR MANAGEMENT

**Mr. MA Lishan**, aged 51, has become the Chief Executive Officer of the Group since August 2005. Mr. Ma had been the managing director of COFCO International Limited before joining the Group. He was also a director of COFCO (HK). Mr. Ma graduated from the University of Foreign Languages in Beijing and has more than 24 years of experience in international trade and management. He has worked abroad for several years.

**Mr. KWAN Yiu Ming, Patrick**, aged 40, 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 50, 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 of the Group and the Company for the year ended 30 June 2005.

### CHANGE OF NAME

Pursuant to a special resolution passed at an Annual General Meeting held on 1 November 2004, the name of the Company was changed from B & B Natural Products Limited to B & B Group Holdings Limited.

### PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries and associate are set out in notes 17 and 18 to the financial statements, respectively.

### RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 30 June 2005 are set out in the consolidated income statement on page 24.

An interim dividend of HK0.5 cent per share, amounting to approximately HK\$2,411,000, was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of HK1.5 cents per share to the shareholders on the register of members on 31 October 2005, amounting to approximately HK\$7,232,000.

### 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 share capital of the Company during the year are set out in note 23 to the financial statements.

### SHARE OPTION SCHEMES

Details of movements in the share option schemes of the Company during the year are set out in this Report on pages 17 to 19 and note 24 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 25 to the financial statements.

## DIRECTORS' REPORT

## USE OF PROCEEDS

	<b>Planned usage for the period from the Listing Date to 30 June 2005</b> <i>HK\$ million</i>	<b>Actual usage for the period from the Listing Date to 30 June 2005</b> <i>HK\$ million</i>
Expanding the new production facilities in Zhuhai, the PRC		
(i) purchase of land	1.3	1.3
(ii) construction cost ( <i>note 1</i> )	5.5	2.0
Conducting various research and development programmes to increase the varieties of the Group's products ( <i>note 2</i> )	4.4	0.2
Marketing and promotional activities	1.8	1.8
Purchasing new machinery for producing new natural supplementary foods ( <i>note 1</i> )	2.6	0.0
Redemption of the Convertible Notes	14.0	14.0
General working capital	0.6	0.6
	<hr/>	<hr/>
Total	<b>30.2</b>	<b>19.9</b>

## Note:

1. The construction schedule was shifted behind by approximately 18 months since the first milestone. The planned usage of construction cost and purchase of new machinery is postponed accordingly. Refer to annual report of 2002-2003 under the heading of "Actual business progress".
2. Varieties of new products have been outsourced from third party manufacturers. The remaining amount of HK\$4.2 million is reserved for the same planned usage in the future.



## 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

Mr. Lau Hin Kun (Appointed on 20 May 2005)

#### **Non-executive director**

Mr. Shaw Kyle Arnold Junior

#### **Independent non-executive directors**

Professor Peter Chin Wan Fung

Mr. Tian He Nian (Appointed on 23 November 2004)

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"), Mr. Chan Ting and Professor Peter Chin Wan Fung retire and being eligible, offer themselves for re-election at the forthcoming annual general meeting. In accordance with Article 99 of the Articles, an executive director, Mr. Lau Hin Kun and an independent non-executive director, Mr. Tian He Nian retire and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

### DIRECTORS' SERVICE CONTRACTS

All of the executive directors of the Company except Mr. Lau Hin Kun have 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.

Mr. Lau Hin Kun has not entered into any service contract with the Company and he is not appointed for a specific term since he is subject to retirement by rotation and re-election in accordance with the Articles of Association of the Company.

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. The other independent non-executive directors, Mr. Tian He Nian and Mr. Tsui Wing Tak have not entered into any service contract with the Company but are subject to retirement by rotation and re-election in accordance with the Articles of Association of the Company.

## DIRECTORS' REPORT

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 2005 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' 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 2005, 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 of the Company

Name of Directors	Company/ Name of associated corporation	Corporate interest	Number of ordinary shares held			Total interest	Percentage of interest
			Personal interest	Family interest			
Cheung Kwai Lan	Company	262,080,000 (Note 1)	1,380,000	–	263,460,000	54.65%	
Chan Tung Mei	Company	262,080,000 (Note 2)	–	1,380,000 (Note 3)	263,460,000	54.65%	
Peter Chin Wan Fung	Company	–	1,730,000	–	1,730,000	0.36%	
Shaw Kyle Arnold Junior	Company	330,000	–	–	330,000	0.07%	
Lau Hin Kun	Company	–	805,000	–	805,000	0.17%	
Cheung Kwai Lan	Best Frontier	–	909	1 (Note 4)	910	–	
Chan Tung Mei	Best Frontier	–	1	909 (Note 5)	910	–	

## DIRECTORS' REPORT

*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 Investments Limited 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.

**(2) Share option schemes**

Details of the share option schemes adopted by the Company are set out in note 24 to the financial statements.

*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 2005 were as follows:

Name of director	Date of grant	Exercise price HK\$	Outstanding at 1 July 2004	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding at 30 June 2005
Lau Hin Kun	18/10/2002	0.23	800,000	-	(800,000)	-	-	-
Peter Chin Wan Fung	18/10/2002	0.23	870,000	-	-	-	-	870,000
Total			<u>1,670,000</u>	<u>-</u>	<u>(800,000)</u>	<u>-</u>	<u>-</u>	<u>870,000</u>

An employee, Mr. Lau Hin Kun was appointed as director on 20 May 2005.

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.

## DIRECTORS' REPORT

*Share Option Scheme*

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

- (a) any employees (whether full-time or part-time) of the Company, any of its subsidiaries or any entity (the "Invested Entity") in which the Group holds any equity interest, including any executive director of the Company, any of such subsidiaries or any Invested Entity;
- (b) any non-executive directors (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;
- (c) any supplier of goods or services to any member of the Group or any Invested Entity;
- (d) any customer of the Group or any Invested Entity;
- (e) any person of 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.

During the year, 40,000,000 share options had been granted to 19 eligible participants (including one executive director and one non-executive director) under Share Option Scheme.

Name of director	Date of grant	Exercise price HK\$	Granted during the year	Exercised during the year	Cancelled during the year	Outstanding at 30 June 2005	Exercise period of share options
Lau Hin Kun	18/8/2004	0.64	1,600,000	-	-	1,600,000	19/8/2004-17/10/2012
Shaw Kyle Arnold Junior	19/10/2004	0.65	1,200,000	-	-	1,200,000	20/10/2004-17/10/2012
Total			<u>2,800,000</u>	<u>-</u>	<u>-</u>	<u>2,800,000</u>	

The closing prices of the Company's shares on 18 August 2004 and 19 October 2004, the dates of grant of the share options, were HK\$0.64 and HK\$0.65, respectively.

## DIRECTORS' REPORT

The Directors consider that it is inappropriate to state the value of the options granted during the year due to the following reasons:

- (1) the calculation of the value of the options will be based on a number of undetermined but crucial variables such as the exercise price payable for the shares in the Company, the number of options to be granted under the scheme during its duration, the exercisable period, interest rate, expected volatility and other relevant variables. In particular, the duration of the scheme will make these volatile variables very difficult to ascertain with accuracy;
- (2) the generally accepted pricing models of options normally value options which are transferable but the options granted to a grantee under the scheme are personal to the grantee and are non-transferable and non-assignable and hence calculation of the value of the options granted under the scheme using such pricing models may not be appropriate; and
- (3) the Directors are of the view that the calculation on speculative assumptions would not be meaningful and would be misleading to the shareholders of the Company.

### (3) Long positions in the shares of associated corporation – Aptus Holdings Limited

Name of Director	Corporate interest	Number of ordinary shares held			Total interest	Approximate percentage of shareholding
		Personal interest	Family interest			
Cheung Kwai Lan (Note)	928,571,428	–	–	928,571,428	59.90%	

Note: Madam Cheung Kwai Lan and Mr. Chan Tung Mei have equity interests of 99.89% and 0.11% respectively of the issued share capital of Best Frontier Investments Limited (“Best Frontier”). Madam Cheung Kwai Lan is the spouse of Mr. Chan Tung Mei. Accordingly, Madam Cheung Kwai Lan is deemed to be 100% interested in the shares of Best Frontier under the SFO. As at 30 June 2005, Best Frontier is interested in approximately 54.36% of the issued share capital of B & B Group Holdings Limited which in turn holds 100% shareholding of China Success Enterprises Limited. China Success Enterprises Limited then holds 100% shareholding of Precise Result Profits Limited which directly holds 928,571,428 shares of Aptus Holdings Limited. Besides, Madam Cheung Kwai Lan holds 1,380,000 shares of B & B Group Holdings Limited as at 30 June 2005.

Save as disclosed above, as at 30 June 2005, none of the directors or chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any 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**

As at 30 June 2005, so far as is known to the Directors and the chief executives of the Company, the interests and short positions of the persons or corporations in the shares or underlying shares of the Company which have been disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept by the Company under S336 of the SFO were as follows:

Name of Shareholders	Capacity	Number of ordinary shares held		Percentage of shareholding
		Long position	Short position	
Best Frontier Investments Limited	Directly beneficially owned	262,080,000 (Note 1)	–	54.36%
Oppenheimer Funds, Inc.	Investment manager	26,000,000	–	5.39%
China Value Investment Limited	Investment manager	24,620,000 (Note 2)	–	5.11%
Asian Value Investment Fund, L. P.	Investment manager	24,620,000 (Note 2)	–	5.11%

*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.
2. 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 2005, 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 S336 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 2005, 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.

## DIRECTORS' REPORT

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. This agreement has expired since 1 July 2005.

### CONNECTED TRANSACTIONS

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

### MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 62.4% of the total turnover for the year and sales to the largest customer included therein amounted to 25.9%.

Purchase from the Group's five largest suppliers accounted for approximately 90.0% of the total purchases for the year and purchases from the largest supplier included therein amounted to 35.1%.

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

## DIRECTORS' REPORT

the Company's financial reporting and internal control procedures. The audit committee consisted of four independent non-executive Directors, namely Professor Peter Chin Wan Fung, Mr. Tian He Nian, 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 2005 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.

### BOARD PRACTICES AND PROCEDURES AND CODE OF CONDUCT REGARDING SECURITIES TRANSACTION BY DIRECTORS

Throughout the year, the Company was in compliance with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules, which applied before the amendment of the GEM Listing Rules relating to the Code of Corporate Governance Practices and Rules on Corporate Governance Report on 1 January 2005. The Company will prepare a Corporate Governance Report in accordance with Rule 18.44 of the GEM Listing Rules for the financial period ending 30 June 2006.

The Company had applied a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, all Directors confirmed they had complied with the required standard of dealings and the Code of Conduct regarding securities transactions by Directors adopted by the Company.

The Company has received, from each of the four independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers all of the four independent non-executive Directors are independent.

### CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed between Tuesday, 25 October 2005 and Monday, 31 October 2005 (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, 24 October 2005.

### AUDITORS

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, 29 September 2005



## 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  
栢景中心七樓

Tel : (852) 23426130  
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**W.H. TANG  
& PARTNERS  
CPA LIMITED**

#### TO THE MEMBERS OF B & B GROUP HOLDINGS LIMITED

(FORMERLY KNOWN AS B & B NATURAL PRODUCTS LIMITED)

*(Incorporated in the Cayman Islands with limited liability)*

We have audited the financial statements on pages 24 to 63 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 2005 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, 29 September 2005

**Tang Wai Hung**

*Practising Certificate Number P03525*

**CONSOLIDATED INCOME STATEMENT***For the year ended 30 June 2005*

	Notes	2005 <b>HK\$'000</b>	2004 <i>HK\$'000</i>
Turnover	5	<b>189,131</b>	192,971
Cost of sales		<b>(142,875)</b>	(141,394)
Gross profit		<b>46,256</b>	51,577
Other revenue	5	<b>5,112</b>	167
Selling and distribution costs		<b>(12,747)</b>	(8,865)
Administrative expenses		<b>(18,884)</b>	(11,050)
Gain on disposal of subsidiaries		<b>6,945</b>	–
Loss on disposal of a jointly controlled entity		<b>(2,789)</b>	–
Profit from operations	6	<b>23,893</b>	31,829
Finance costs	7	<b>(1,849)</b>	(691)
Share of results of an associate		<b>17,653</b>	–
Profit before taxation		<b>39,697</b>	31,138
Taxation	10	<b>(9,086)</b>	(1,861)
Profit before minority interest		<b>30,611</b>	29,277
Minority interest		<b>1,074</b>	(264)
Net profit for the year		<b>31,685</b>	29,013
Dividends	12	<b>9,643</b>	8,658
EARNINGS PER SHARE			
Basic	13	<b>6.57 cents</b>	6.53 cents
Diluted	13	<b>6.53 cents</b>	6.34 cents

**CONSOLIDATED BALANCE SHEET**

At 30 June 2005

	Notes	2005 HK\$'000	2004 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	14	3,329	3,547
Technical know-how	15	–	58
Interest in an associate	18	31,081	–
Goodwill	16	12,230	191
Deposits made on acquisition of property, plant and equipment		3,779	3,871
		<b>50,419</b>	<b>7,667</b>
<b>CURRENT ASSETS</b>			
Inventories	19	5,738	6,024
Trade and other receivables and prepayments	20	24,944	41,477
Pledged bank deposits	32	31,761	21,135
Bank balances and cash		135,489	110,919
		<b>197,932</b>	<b>179,555</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	21	20,602	10,768
Taxation		539	957
Bank borrowings – secured	22	51,722	30,376
		<b>72,863</b>	<b>42,101</b>
<b>NET CURRENT ASSETS</b>			
		<b>125,069</b>	<b>137,454</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		<b>175,488</b>	<b>145,121</b>
<b>MINORITY INTEREST</b>			
		<b>10,129</b>	<b>4,824</b>
<b>NON-CURRENT LIABILITIES</b>			
Bank borrowings – secured	22	4,717	2,831
<b>NET ASSETS</b>			
		<b>160,642</b>	<b>137,466</b>
<b>CAPITAL AND RESERVES</b>			
Share capital	23	4,821	4,813
Reserves	25	155,821	132,653
<b>SHAREHOLDERS' FUNDS</b>			
		<b>160,642</b>	<b>137,466</b>

The financial statements on pages 24 to 63 were approved and authorised for issue by the Board of Directors on 29 September 2005 and are signed on its behalf by:

**CHEUNG KWAI LAN**  
Director

**CHAN TING**  
Director

**BALANCE SHEET**

At 30 June 2005

	Notes	2005 HK\$'000	2004 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Interests in subsidiaries	17	<u>129,955</u>	<u>107,427</u>
<b>CURRENT ASSETS</b>			
Other receivables and prepayments		104	88
Pledged bank deposits		5,042	5,004
Bank balances and cash		<u>205</u>	<u>2,628</u>
		<u>5,351</u>	<u>7,720</u>
<b>CURRENT LIABILITIES</b>			
Other payables and accruals		1,006	1,187
Bank borrowings – secured	22	<u>19,000</u>	<u>13,000</u>
		<u>20,006</u>	<u>14,187</u>
<b>NET CURRENT LIABILITIES</b>			
		<u>(14,655)</u>	<u>(6,467)</u>
<b>NET ASSETS</b>			
		<u>115,300</u>	<u>100,960</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	23	4,821	4,813
Reserves	25	<u>110,479</u>	<u>96,147</u>
<b>SHAREHOLDERS' FUNDS</b>			
		<u>115,300</u>	<u>100,960</u>

**CHEUNG KWAI LAN**  
Director

**CHAN TING**  
Director

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY***For the year ended 30 June 2005*

	<i>Notes</i>	<b>2005</b> <b>HK\$'000</b>	2004 <i>HK\$'000</i>
Total equity at the beginning of year		<b>137,466</b>	64,510
Exchange differences arising from acquisition and disposal of overseas subsidiaries	25a	<b>(22)</b>	–
Exchange differences arising from translation of financial statements of Singapore operation	25a	<b>7</b>	9
Net (loss) gain not recognised in the Consolidated Income Statement		<b>(15)</b>	9
Net profit for the year	25a	<b>31,685</b>	29,013
Dividends paid	25a	<b>(8,678)</b>	(6,647)
Issue of shares pursuant to placing and subscription agreement		–	44,160
Shares issue expenses		–	(1,705)
Shares issued on exercise of options		<b>184</b>	8,126
		<b>23,191</b>	72,947
Total equity at the end of year		<b>160,642</b>	137,466

**CONSOLIDATED CASH FLOW STATEMENT**

For the year ended 30 June 2005

	Notes	2005 HK\$'000	2004 HK\$'000
<b>OPERATING ACTIVITIES</b>			
Profit before taxation		39,697	31,138
Adjustment for:			
Interest income		(245)	(89)
Interest expenses		1,849	691
Depreciation of property, plant and equipment		1,384	679
Provision of deposits made on acquisitions of property, plant and equipment		130	–
Amortisation of goodwill		1,085	54
Loss on disposal of property, plant and equipment		36	71
Share of results of an associate		(17,653)	–
Share of loss of a jointly controlled entity		53	–
Gain on disposal of subsidiaries		(6,945)	–
Loss on disposal of a jointly controlled entity		2,789	–
Gain on redemption of convertible notes		(4,319)	–
Impairment of property, plant and equipment		–	452
Amortisation of technical know-how		58	173
Loss on deemed partial disposal of a subsidiary		–	32
Provision for inventories		–	216
Operating cash flows before movements in working capital		17,919	33,417
Decrease (increase) in inventories		286	(2,035)
(Increase) decrease in trade and other receivables and prepayments		(1,709)	(13,695)
Increase (decrease) in trade and other payables		6,374	4,249
Increase in amount due from a jointly controlled entity		(873)	–
Cash generated by operations		21,997	21,936
Interest paid		(1,849)	(691)
Taxation paid		(2,932)	(1,250)
<b>NET CASH FROM OPERATING ACTIVITIES</b>		<b>17,216</b>	<b>19,995</b>
<b>INVESTING ACTIVITIES</b>			
Interest received		245	89
Purchases of property, plant and equipment		(622)	(617)
Deposits paid on acquisition of property, plant and equipment		(38)	(2,137)
Deposits paid on investments		–	(20,775)
Increase in pledged bank deposits		(10,626)	(7,059)
Acquisition of subsidiaries	26a	5,859	–
Proceeds from disposal of subsidiaries	26b	(2,367)	–
Proceeds from disposal of a jointly controlled entity		–	–
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(7,549)</b>	<b>(30,499)</b>

## CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2005

	<b>2005</b> <b>HK\$'000</b>	2004 HK\$'000
<b>FINANCING ACTIVITIES</b>		
Issue of shares	<b>184</b>	52,286
Share issue expenses	–	(1,705)
Repayment of convertible notes	<b>(1,500)</b>	–
Dividend paid	<b>(8,678)</b>	(6,647)
Net bank loans raised	<b>9,773</b>	16,774
Capital contribution from minority interest	<b>266</b>	201
	<hr/>	<hr/>
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<b>45</b>	60,909
	<hr/>	<hr/>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>9,712</b>	50,405
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	<b>94,486</b>	44,072
Effect of foreign exchange rate changes	<b>(15)</b>	9
Capital reserve realised on disposal	<b>1,414</b>	–
	<hr/>	<hr/>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	<b>105,597</b>	94,486
	<hr/>	<hr/>
<b>ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Bank balances and cash	<b>135,489</b>	110,919
Bank overdrafts – secured	<b>(29,568)</b>	(10,470)
Trust receipt loans – secured	<b>(324)</b>	(5,963)
	<hr/>	<hr/>
	<b>105,597</b>	94,486
	<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. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants ("HKICPA") issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (hereinafter collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005 except for HKFRS 3 "Business Combinations". The Group has not early adopted these new HKFRSs in the financial statements for the year ended 30 June 2005.

HKFRS 3 is applicable to business combinations for which the agreement date is on or after 1 January 2005. The Group has not entered into any business combination for which the agreement date is on or after 1 January 2005. Therefore, HKFRS 3 did not have any impact on the Group for the year ended 30 June 2005.

The Group has commenced considering the potential impact of other new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position of the Group are prepared and presented.

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of presentation**

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

#### **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.

**Interest in an associate**

The consolidated income statement includes the Group's share of the post acquisition results of its associate for the year. In the consolidated balance sheet, interest in an associate is stated at the Group's share of the net assets of the associate 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%

## NOTES TO THE FINANCIAL STATEMENTS

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

#### **Property, plant and equipment** *(Continued)*

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.

#### **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. Exchange differences are dealt with in the income statement.

## 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 2005 and 2004, 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:

	2005		2004		2005		2004	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Geographical market								
Segment revenue:								
PRC	145,964	173,766	(33,507)	(39,771)	112,457	133,995		
Hong Kong	5,938	1,064	-	-	5,938	1,064		
South East Asia	61,464	43,978	-	-	61,464	43,978		
Europe	9,272	13,934	-	-	9,272	13,934		
Total	<u>222,638</u>	<u>232,742</u>	<u>(33,507)</u>	<u>(39,771)</u>	<u>189,131</u>	<u>192,971</u>		
Segment results:								
PRC					29,961	45,788		
Hong Kong					(3,212)	(14,136)		
South East Asia					(2,436)	134		
Europe					(420)	43		
Profit from operations					23,893	31,829		
Finance costs					(1,849)	(691)		
Share of results of an associate					17,653	-		
Profit before taxation					39,697	31,138		
Taxation					(9,086)	(1,861)		
Profit before minority interest					30,611	29,277		
Minority interest					1,074	(264)		
Net profit for the year					<u>31,685</u>	<u>29,013</u>		

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 the PRC including Hong Kong.

## 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:

	<b>The Group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Turnover		
Manufacture and sales of natural supplementary foods	<b>189,131</b>	192,971
Other revenue		
Interest income	<b>245</b>	89
Gain on redemption of convertible notes	<b>4,319</b>	–
Others	<b>548</b>	78
	<b>5,112</b>	167

## NOTES TO THE FINANCIAL STATEMENTS

## 6. PROFIT FROM OPERATIONS

	The Group	
	2005 HK\$'000	2004 HK\$'000
Profit from operations has been arrived at after charging:		
Staff costs excluded directors' emoluments	4,002	3,507
Staff's retirement benefits scheme contributions	272	208
	<hr/>	<hr/>
Total staff costs	4,274	3,715
Less: Staff costs included in research and development costs	(67)	(61)
	<hr/>	<hr/>
	4,207	3,654
	<hr/>	<hr/>
Auditors' remuneration		
– provision for the year	453	263
– under provision in prior years	25	30
	<hr/>	<hr/>
	478	293
	<hr/>	<hr/>
Amortisation of goodwill	1,085	54
Amortisation of technical know-how	58	173
Depreciation of property, plant and equipment	1,384	679
Provision of deposits made on acquisition of property, plant and equipment	130	–
Impairment of property, plant and equipment	–	452
Loss on disposal of property, plant and equipment	36	71
Loss on disposal of jointly controlled entity	2,789	–
Provision for inventories	–	216
Operating lease rentals in respect of land and building	794	564
Research and development costs	67	61
Cost of inventories recognised as expenses	142,875	141,394
Net foreign exchange losses	59	–
and after crediting:		
Interest income	245	89
Net foreign exchange gains	–	7
	<hr/>	<hr/>



## NOTES TO THE FINANCIAL STATEMENTS

## 7. FINANCE COSTS

	The Group	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank borrowings wholly repayable within five years	<b>1,849</b>	691

## 8. DIRECTORS' EMOLUMENTS

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

	The Group	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees:		
Executive	<b>277</b>	467
Non-executive	<b>78</b>	78
Independent non-executive	<b>377</b>	190
Other emoluments:		
Executive		
Salaries and other benefits	<b>4,174</b>	3,900
Contributions to retirement benefits scheme	<b>24</b>	19
	<b>4,930</b>	4,654

Among the four executive directors, Madam Cheung Kwai Lan, Mr. Chan Ting, Mr. Chan Tung Mei and Mr. Lau Hin Kun received emoluments of HK\$2,040,000 (2004: HK\$2,109,000), HK\$1,408,000 (2004: HK\$1,471,000), HK\$728,000 (2004: HK\$806,000) and HK\$299,000 (2004: HK\$ Nil), respectively for the year ended 30 June 2005.

Among the four independent non-executive directors, Professor Peter Chin Wan Fung, Mr. Tian He Nian, Mr. Du Ying Min and Mr. Tsui Wing Tak, and a non-executive director, Mr. Shaw Kyle Arnold Junior, received emoluments of HK\$78,000 (2004: HK\$95,000), HK\$125,000 (2004: HK\$ Nil), HK\$78,000 (2004: HK\$95,000), HK\$96,000 (2004: HK\$ Nil) and HK\$78,000 (2004: HK\$78,000), respectively for the year ended 30 June 2005.

No director waived or agreed to waive any of their emoluments in respect of the year ended 30 June 2005 (2004: Nil).

## NOTES TO THE FINANCIAL STATEMENTS

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals included three directors (2004: three directors), details of whose emoluments are included above. The aggregate emoluments of the five highest paid employees including three directors (2004: three directors) for the year were as follows:

	<b>The Group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Salaries and other benefits	<b>5,194</b>	5,338
Contributions to retirement benefits scheme	<b>36</b>	43
	<hr/> <b>5,230</b> <hr/>	<hr/> 5,381 <hr/>

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

	<b>The Group</b>	
	<b>2005</b>	2004
	<b>Number of individuals</b>	Number of individuals
Nil – HK\$1,000,000	<b>3</b>	3
HK\$1,000,001 – HK\$1,500,000	<b>1</b>	1
HK\$2,000,001 – HK\$2,500,000	<b>1</b>	1
	<hr/> <b>5</b> <hr/>	<hr/> 5 <hr/>

During the year ended 30 June 2005, no emoluments have been paid by the Group to the three directors (2004: three directors) or the two (2004: 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

	<b>The Group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
The charge comprises:		
Hong Kong Profits Tax		
Current year	—	—
Other jurisdictions		
Current year	<b>2,514</b>	1,861
	<b>2,514</b>	1,861
Share of taxation charge of an associate	<b>6,572</b>	—
	<b>9,086</b>	1,861

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 2005. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Pursuant to the relevant laws and regulations in the PRC, the Group's PRC subsidiaries are entitled to exemption from 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 are entitled to a 50% relief from the PRC income tax.

## 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	
	2005 HK\$'000	2004 HK\$'000
Profit before taxation	<u>39,697</u>	<u>31,138</u>
Tax at the Hong Kong Profits Tax rate of 17.5% (2004: 17.5%)	6,947	5,449
Tax effect of sharing result of an associate	6,572	–
Tax effect of expenses that are not deductible for tax purposes	2,144	2,750
Tax effect of income that is not taxable for tax purposes	(4,781)	(3,820)
Tax effect of tax losses not recognised	1,556	–
Tax effect of utilisation of tax losses previously not recognised	–	(63)
Under provision in prior years	–	1
Effect of different tax rates of subsidiaries operating in other jurisdictions	<u>(3,352)</u>	<u>(2,456)</u>
Taxation charge for the year	<u>9,086</u>	<u>1,861</u>

Deferred tax has not been provided (2004: Nil) because the Company and the Group had no significant temporary differences as at 30 June 2005. At the balance sheet date, the subsidiaries have unused tax losses of HK\$27,963,000 (2004: HK\$15,849,000) 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.

The components of unrecognised deductible (taxable) temporary differences are as follows:

	The Group	
	2005 HK\$'000	2004 HK\$'000
Deductible temporary differences		
Unutilised tax losses	27,963	15,849
Taxable temporary differences		
Accelerated tax allowances	(168)	(325)
	<u>27,795</u>	<u>15,524</u>

## 11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 30 June 2005 dealt with in the financial statements of the Company is approximately HK\$22,834,000 (2004: HK\$14,685,000).

## NOTES TO THE FINANCIAL STATEMENTS

## 12. DIVIDENDS

	<b>The Company</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Interim dividend paid at HK0.5 cent per share on 482,130,000 shares (2004: HK0.5 cent per share on 480,130,000)	<b>2,411</b>	2,401
Proposed final dividend at HK1.5 cents per share on 482,130,000 shares (2004: HK1.3 cents per share on 481,330,000)	<b>7,232</b>	6,257
	<b>9,643</b>	8,658

In respect of the current year, the directors propose that a final dividend of HK1.5 cents per share will be paid to shareholders on 29 November 2005. 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 2005 is payable to all shareholders on the Register of Members on 31 October 2005.

## 13. EARNINGS PER SHARE

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

**Earnings**

	<b>The Group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Earnings for the purposes of basic earnings per share	<b>31,685</b>	29,013
<b>Number of shares</b>		
	<b>'000</b>	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>481,915</b>	444,227
Effect of dilutive potential ordinary shares:		
Share options	<b>3,354</b>	13,074
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>485,269</b>	457,301

## 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>
<b>THE GROUP</b>					
COST					
At 1 July 2004	430	–	932	3,867	5,229
Additions	103	519	–	–	622
Acquired on acquisition of subsidiaries	1,487	–	–	–	1,487
Disposal of subsidiaries	(1,487)	–	–	–	(1,487)
Disposal	(1)	–	(75)	(616)	(692)
<b>At 30 June 2005</b>	<b>532</b>	<b>519</b>	<b>857</b>	<b>3,251</b>	<b>5,159</b>
DEPRECIATION					
At 1 July 2004	152	–	236	1,294	1,682
Charged for the year	682	187	186	329	1,384
Eliminated on disposal of subsidiaries	(580)	–	–	–	(580)
Eliminated on disposal	(1)	–	(39)	(616)	(656)
<b>At 30 June 2005</b>	<b>253</b>	<b>187</b>	<b>383</b>	<b>1,007</b>	<b>1,830</b>
NET BOOK VALUES					
<b>At 30 June 2005</b>	<b>279</b>	<b>332</b>	<b>474</b>	<b>2,244</b>	<b>3,329</b>
At 30 June 2004	278	–	696	2,573	3,547

## NOTES TO THE FINANCIAL STATEMENTS

## 15. TECHNICAL KNOW-HOW

	<i>HK\$'000</i>
<b>THE GROUP</b>	
COST	
At 1 July 2004 and at 30 June 2005	519
AMORTISATION	
At 1 July 2004	461
Provided for the year	58
<b>At 30 June 2005</b>	<b>519</b>
CARRYING VALUES	
<b>At 30 June 2005</b>	<b>–</b>
At 30 June 2004	58

## 16. GOODWILL

	<i>HK\$'000</i>
<b>THE GROUP</b>	
COST	
At 1 July 2004	272
Arising on acquisition of subsidiaries	13,305
Disposal of subsidiaries	(272)
<b>At 30 June 2005</b>	<b>13,305</b>
AMORTISATION	
At 1 July 2004	81
Provided for the year	1,085
Eliminated on disposal of subsidiaries	(91)
<b>At 30 June 2005</b>	<b>1,075</b>
CARRYING VALUES	
<b>At 30 June 2005</b>	<b>12,230</b>
At 30 June 2004	191

Goodwill is amortised using the straight line method over its estimated useful lives of 5-20 years.

## NOTES TO THE FINANCIAL STATEMENTS

## 17. INTERESTS IN SUBSIDIARIES

	<b>The Company</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Unlisted shares, at cost	<b>2,579</b>	2,579
Amount due from subsidiaries	<b>128,971</b>	104,848
Amount due to subsidiaries	<b>(1,595)</b>	–
	<b>129,955</b>	107,427

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

Particulars of the principal subsidiaries at 30 June 2005 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	
Aptus Holdings Limited*	Cayman Islands	Ordinary shares HK\$15,501,564	–	59.9%	Investment holding
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 <sup>#</sup>	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 <sup>#</sup>	PRC	Registered capital HK\$1,000,000	–	100%	Distribution of natural supplementary foods
B & B International Marketing (HK) Limited	Hong Kong	Ordinary shares HK\$2	–	100%	Distribution of natural supplementary foods



## NOTES TO THE FINANCIAL STATEMENTS

## 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 International Marketing Limited	British Virgin Islands	Ordinary share US\$1	–	100%	Investment holding
B & B Winery Limited	Hong Kong	Ordinary shares HK\$1,000	–	100%	Distribution of natural supplementary foods
B & B Enterprises Limited (Formerly known as 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 Bio-Products Limited	British Virgin Islands	Ordinary share US\$1	–	100%	Investment holding
High Faith (China) Limited**	Hong Kong	Ordinary share HK\$1	–	100%	Investment holding
珠海中林信天然生物 產品有限公司#	PRC	Registered capital US\$75,104	–	100%	Distribution of natural supplementary foods
Rain International Company Limited**	Hong Kong	Ordinary shares HK\$1,000,000	–	100%	Investment holding

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

\*\* Subsidiaries newly established during the year.

\* Subsidiary acquired during the year.

## NOTES TO THE FINANCIAL STATEMENTS

## 18. INTEREST IN AN ASSOCIATE

	The Group	
	2005 HK\$'000	2004 HK\$'000
Share of net assets	<b>31,081</b>	–

At 30 June 2005, the Group had interest in the following associate:

Name of company	Form of business structure	Place of incorporation operation	Class of shares held	Proportion of nominal value of issued share capital held by the Group	Nature of business
Your-Mart Co. Limited	Incorporated	PRC	Ordinary	20.83%	Engagement on department store

Pursuant to the Promoters' Agreement in set up of Your-Mart Co. Limited, the Group will invest a total amount of RMB45,000,000 (approximately HK\$42,453,000) by way of cash contribution and will own 20.83% equity interest in You-Mart Co. Limited. At 30 June 2005, the Group has contributed HK\$20,000,000 to the investment.

## 19. INVENTORIES

	The Group	
	2005 HK\$'000	2004 HK\$'000
Raw materials	479	699
Work in progress	2,045	3,637
Finished goods	3,214	1,688
	<b>5,738</b>	6,024

All inventories are stated at cost.

## NOTES TO THE FINANCIAL STATEMENTS

## 20. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	The Group	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	22,155	15,206
Other receivables and prepayments	2,789	26,271
	<u>24,944</u>	<u>41,477</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	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Age		
0 to 30 days	18,073	13,969
31 to 60 days	2,288	718
61 to 365 days	1,792	–
Over 1 year	2	519
	<u>22,155</u>	<u>15,206</u>

## NOTES TO THE FINANCIAL STATEMENTS

## 21. TRADE AND OTHER PAYABLES

	<b>The Group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Trade payables	<b>11,896</b>	1,803
Other payables	<b>8,706</b>	8,965
	<b>20,602</b>	10,768

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

	<b>The Group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Age		
0 to 30 days	<b>11,235</b>	1,777
31 to 120 days	<b>661</b>	26
	<b>11,896</b>	1,803

## NOTES TO THE FINANCIAL STATEMENTS

## 22. BANK BORROWINGS – SECURED

	The Group	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Bank overdrafts, secured	29,568	10,470
Trust receipt loans, secured	324	5,963
Bank loans, secured	26,547	16,774
	<u>56,439</u>	<u>33,207</u>

At 30 June 2005, the Group's bank borrowings are repayable as follows:

	The Group	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
On demand or within one year	51,722	30,376
More than one year, but not exceeding two years	4,717	1,887
More than two years, but not exceeding five years	–	944
	<u>56,439</u>	<u>33,207</u>
Less: Amount due within one year shown under current liabilities	<u>(51,722)</u>	<u>(30,376)</u>
Amount due after one year	<u>4,717</u>	<u>2,831</u>

	The Company	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Bank loans, secured	<u>19,000</u>	<u>13,000</u>

## NOTES TO THE FINANCIAL STATEMENTS

## 23. SHARE CAPITAL

	<i>Notes</i>	<b>Number of shares '000</b>	<i>HK\$'000</i>
<i>Authorised:</i>			
At 1 July 2004 and 30 June 2005, shares of HK\$0.01 each		<u>20,000,000</u>	<u>200,000</u>
<i>Issued and fully paid:</i>			
At 1 July 2003, shares of HK\$0.01 each		400,000	4,000
Issue of shares pursuant to placing and subscription agreement	<i>(a)</i>	46,000	460
Shares issued on exercise of options		<u>35,330</u>	<u>353</u>
At 30 June 2004, shares of HK\$0.01 each		481,330	4,813
Shares issued on exercise of options	<i>(Note 24)</i>	<u>800</u>	<u>8</u>
At 30 June 2005, shares of HK\$0.01 each		<u>482,130</u>	<u>4,821</u>

## NOTES TO THE FINANCIAL STATEMENTS

## 23. SHARE CAPITAL (Continued)

- (a) 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 on 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 will be applied as general working capital.

## 24. 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 2004 '000	Granted during the year '000	Exercised during the year '000	Number of share options at 30 June 2005 '000
Directors (Note)	18/10/2002	0.23	1,670	–	(800)	870
Total			1,670	–	(800)	870

Note: An employee, Mr. Lau Hin Kun was appointed as director on 20 May 2005.

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:

## NOTES TO THE FINANCIAL STATEMENTS

## 24. SHARE OPTION SCHEMES (Continued)

## Pre-IPO Share Option Scheme (Continued)

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

Each of the above 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 closing price of the shares immediately before the date in which the options were exercised was HK\$0.64. The options were exercised in October 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;



## NOTES TO THE FINANCIAL STATEMENTS

## 24. SHARE OPTION SCHEMES (Continued)

## Share Option Scheme (Continued)

- (d) any customer of the Group or any Invested Entity;
- (e) any person or entity that provides research, development, or other technological support to the Group or any Invested Entity; and
- (f) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity.

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

During the year, 40,000,000 share options had been granted to 19 eligible participants (including one executive director and one non-executive director) under Share Option Scheme

Categories of grantees	Date of grant	Exercise price HK\$	Granted during the year	Exercised during the year	Cancelled during the year	Outstanding at 30 June 2005	Exercise period of share option
Director	18/8/2004	0.64	1,600,000	–	–	1,600,000	19/8/2004– 17/10/2012
Director	19/10/2004	0.65	1,200,000	–	–	1,200,000	20/10/2004– 17/10/2012
Eligible participants	18/8/2004	0.64	37,200,000	–	–	37,200,000	19/8/2004 17/10/2012
			40,000,000	–	–	40,000,000	

The closing prices of the Company's shares on 18 August 2004 and 19 October 2004, the dates of grant of the share options, were HK\$0.64 and HK\$0.65, respectively.

A nominal consideration of HK\$1 is payable on acceptance of each grant. Total consideration received during the year from employees (including two directors) for taking up the options granted amounted to HK\$19.

## NOTES TO THE FINANCIAL STATEMENTS

### 24. SHARE OPTION SCHEMES *(Continued)*

#### **Share Option Scheme** *(Continued)*

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

## 25. 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 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 and 1 July 2004	80,649	15	(1)	51,990	132,653
Exchange differences arising from acquisition and disposal of overseas subsidiaries	–	(22)	–	–	(22)
Exchange differences arising from translation of financial statements of Singapore operation	–	7	–	–	7
Shares issued on exercise of options	176	–	–	–	176
Net profit for the year	–	–	–	31,685	31,685
Dividend paid	–	–	–	(8,678)	(8,678)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>At 30 June 2005</b>	<b>80,825</b>	<b>–</b>	<b>(1)</b>	<b>74,997</b>	<b>155,821</b>

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

## 25. RESERVES (Continued)

## (b) The Company

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 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 and 1 July 2004	80,649	2,569	12,929	96,147
Share issued on exercise of options	176	–	–	176
Net profit for the year	–	–	22,834	22,834
Dividend paid	–	–	(8,678)	(8,678)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>At 30 June 2005</b>	<b><u>80,825</u></b>	<b><u>2,569</u></b>	<b><u>27,085</u></b>	<b><u>110,479</u></b>

## NOTES TO THE FINANCIAL STATEMENTS

## 26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

## (a) Acquisition of subsidiaries

On 26 August 2004, the Company directly acquired 60.03% of the issued share capital of a subsidiary, Aptus Holdings Limited and its subsidiaries for a total consideration of HK\$19,500,000. This acquisition has been accounted for by the acquisition method of accounting. The amount of goodwill arose as a result of the acquisition was approximately HK\$9,254,000.

	<b>2005</b> <i>HK\$'000</i>
NET ASSETS ACQUIRED	
Property, plant and equipment	1,487
Interest in a jointly controlled entity	1,969
Goodwill	4,051
Prepayments, deposits and other receivables	2,054
Bank balances and cash	21,359
Convertible notes	(5,819)
Accounts payable	(1,930)
Accrued liabilities and other payables	(5,555)
Finance lease payable	(14)
Taxation	(534)
Minority interest	(6,822)
	<hr/>
	10,246
Goodwill on acquisition	9,254
	<hr/>
Total consideration	<u>19,500</u>
Satisfied by:	
Cash	15,500
Shares allotted	4,000
	<hr/>
	19,500
	<hr/>
Net cash inflow arising on acquisition:	
Cash consideration	(15,500)
Bank balance and cash acquired	21,359
	<hr/>
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<u>5,859</u>

The subsidiaries acquired during the year ended 30 June 2005 contributed approximately HK\$101,099,000 to the Group's consolidated turnover and had a loss before taxation of approximately HK\$2,906,000 attributable to the Group.

## NOTES TO THE FINANCIAL STATEMENTS

## 26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

**(b) Disposal of subsidiaries**

On 26 August 2004, the Group disposed 75% equity interest of Top Entrepreneur Profits Limited and its subsidiaries to Aptus Holdings Limited ("Aptus") at a price of HK\$4,000,000.

On 30 September 2004, the Group disposed 100% and 100% of the issued share capital of Splendich Investment Company Limited and Lucky Mountain Group Limited, respectively for a total sales proceeds of HK\$1.

On 4 March 2005, the Group disposed of its entire 100% equity interests in Aptus Group Limited ("AGL") and Aptus Medical Group Limited ("AMGL") to certain independent third parties for total consideration of HK\$50,001.

On 23 June 2005, the Group disposed its entire 75% of the issued share capital of B & B South East Asia Limited for a total sales proceeds of HK\$23. On 30 June 2005, the Group disposed its entire 100% of the issued share capital of B & B Palm Industry Limited at no consideration.

	<b>2005</b> <i>HK\$'000</i>
NET LIABILITIES DISPOSED OF	
Property, plant and equipment	907
Goodwill	181
Deposits and other receivables	296
Bank balances and cash	2,417
Accounts payable	(2,580)
Accrued liabilities and other payables	(2,101)
Finance lease payables	(14)
Tax payable	(534)
Minority interest	(53)
	<hr/>
Net liabilities disposed	(1,481)
Capital reserve realised on disposed	(1,414)
Gain on disposal of subsidiaries	6,945
	<hr/>
Total consideration	<u>4,050</u>
Satisfied by:	
Cash	50
Shares allotted	4,000
	<hr/>
	<u>4,050</u>
Net cash outflow arising on disposal of subsidiaries:	
Cash consideration	50
Bank balance and cash disposed of	(2,417)
	<hr/>
	<u>(2,367)</u>

The subsidiaries did not have a significant contribution to the Group's results or cash flow for the year ended 30 June 2005.

## NOTES TO THE FINANCIAL STATEMENTS

## 27. 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:

	<b>The Group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>693</b>	970
In the second to fifth year inclusive	<b>26</b>	582
	<hr/>	<hr/>
	<b>719</b>	1,552
	<hr/>	<hr/>

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 2005 (2004: Nil).

## 28. CAPITAL COMMITMENTS

	<b>The Group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment		
– authorised but not contracted for	<b>18,981</b>	18,981
– contracted for but not provided in the financial statements	<b>20,019</b>	20,058
	<hr/>	<hr/>
	<b>39,000</b>	39,039
Capital expenditure in respect of the acquisition of joint stock limited company and subsidiary		
– contracted for but not provided in the financial statements	<b>22,453</b>	32,798
	<hr/>	<hr/>
	<b>61,453</b>	71,837
	<hr/>	<hr/>

The Company had no significant capital commitments at 30 June 2005 (2004: Nil).

## NOTES TO THE FINANCIAL STATEMENTS

### 29. CONTINGENT LIABILITIES

The Company provided corporate guarantees to the extent of approximately HK\$66,538,000 (2004: HK\$89,174,000) to banks and financial institution to secure general banking facilities granted to certain subsidiaries.

The total facilities utilised by the Group at 30 June 2005 amounted to approximately HK\$56,439,000 (2004: HK\$33,207,000).

### 30. 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\$148,000 (2004: HK\$111,300) 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.

### 31. 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 2005 (2004: Nil).



## NOTES TO THE FINANCIAL STATEMENTS

### 32. PLEDGE OF ASSETS

At 30 June 2005, the Group has pledged its bank deposits of HK\$31,761,000 (2004: HK\$21,135,000), approximately as a security for the general banking facilities granted to the Group.

### 33. EVENTS AFTER THE BALANCE SHEET DATE

On 10 August 2005, the Group entered into a Conditional Sale and Purchase Agreement with Bemaestro International Limited which was beneficially owned as to 60% and 40% by Madam Cheung Kwai Lan and Mr. Chan Ting. Madam Cheung Kwai Lan is a substantial shareholder and an executive director of the Company. Mr. Chan Ting is an executive director of the Company. Accordingly, the entering into of the Conditional Sale and Purchase Agreement constituted a major and connected transaction of the Company. On 26 August 2005, the Group and Bemaestro International Limited entered into the rescission agreement in relation to the rescission of the Conditional Sale and Purchase Agreement.

On 12 August 2005, the Company entered into the Subscription Agreement with Best Frontier Investments Limited (the "Subscriber") which is beneficially owned as to 99.89% and 0.11% by Madam Cheung Kwan Lan and Mr. Chan Tung Mei respectively. Pursuant to the Subscription Agreement, the Subscriber agreed to subscribe for an aggregate of 30,000,000 new share of the Company. On 26 August 2005, the Company and the Subscriber mutually agreed to terminate the Subscription Agreement.

### 34. SHARE AWARD SCHEME

On 24 January 2005, the Company adopted a share award scheme for employees and consultants, excluding executive directors and chief executive, of the Group for the purpose of recognising the contributions of certain employees and consultants of the Group to the growth of the Group, by rewarding them with opportunities to obtain an ownership interest in the Company and to further motivate them and give an incentive to these persons to continue to contribute to the Group's long term success and prosperity. No shares were granted under the share award scheme since its adoption on 24 January 2005 and up to the date of this report.

### 35. COMPARATIVE FIGURES

Certain comparative figures have been restated to conform with current year's presentation.

## FINANCIAL SUMMARY

## RESULTS

	For the year ended 30 June				
	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover	189,131	192,971	88,337	62,850	8,784
Cost of sales	(142,875)	(141,394)	(54,913)	(40,968)	(7,377)
Gross profit	46,256	51,577	33,424	21,882	1,407
Other revenue	5,112	167	536	152	–
Selling and distribution costs	(12,747)	(8,865)	(7,600)	(3,746)	(31)
Administrative expenses	(18,884)	(11,050)	(6,519)	(2,873)	(135)
Gain on disposal of subsidiaries	6,945	–	–	–	–
Loss on disposal of a jointly controlled entity	(2,789)	–	–	–	–
Profit from operations	23,893	31,829	19,841	15,415	1,241
Finance costs	(1,849)	(691)	(1,569)	(1,072)	–
Share of results of an associate	17,653	–	–	–	–
Profit before taxation	39,697	31,138	18,272	14,343	1,241
Taxation	(9,086)	(1,861)	69	(368)	(191)
Profit before minority interest	30,611	29,277	18,341	13,975	1,050
Minority interest	1,074	(264)	(332)	(362)	–
Net profit for the year	31,685	29,013	18,009	13,613	1,050

## ASSETS AND LIABILITIES

	At 30 June				
	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
Total assets	248,351	187,222	85,464	41,451	323
Total liabilities	(77,580)	(44,932)	(16,627)	(23,943)	(320)
Minority interest	(10,129)	(4,824)	(4,327)	(3,886)	–
Shareholders' funds	160,642	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.
- (3) The results of the Group for the years ended 30 June 2004 and 2005 are those set out on page 24 of the financial statements.