
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

This circular is for information purpose only and does not constitute an invitation or offer to acquire or subscribe for securities.

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in B & B Natural Products Limited, you should at once hand this circular together with the enclosed form of proxy, to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sales was effected for transmission to the purchaser or the transferee.

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

B & B NATURAL PRODUCTS LIMITED
蜂林天然產品有限公司*
(formerly known as Bee & Bee Natural Life Products Limited
蜂蜂天然生命產品有限公司*)
(incorporated in the Cayman Islands with limited liability)

MAJOR TRANSACTIONS

ESTABLISHMENT OF A JOINT STOCK LIMITED COMPANY AND PROPOSED MATERIAL CHANGE TO THE GENERAL CHARACTER OR NATURE OF BUSINESS

PLACING OF EXISTING SHARES AND SUBSCRIPTION OF NEW SHARES

Independent financial adviser to the Independent Board Committee



A letter from the Independent Board Committee is set out in the section headed "Letter from the Independent Board Committee" of this circular.

A letter from Tai Fook Capital Limited, the independent financial adviser, containing its advice to the Independent Board Committee on, among others, the Proposed Change is set out in the section headed "Letter from the independent financial adviser" of this circular.

A notice convening an extraordinary general meeting of B & B Natural Products Limited to be held at Unit 1603, 16th Floor, Dina House, 11 Duddell Street, Central, Hong Kong on Wednesday, 31st December, 2003 at 10:00 a.m. is set out in the section headed "Notice of extraordinary general meeting" of this circular. Whether or not you are able to attend such meeting, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the principal place of business of B & B Natural Products Limited at Unit 1603, 16th Floor, Dina House, 11 Duddell Street, Central, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding such meeting or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting at the meeting or any adjourned meeting (as the case may be) should you so wish.

This circular will remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from the date of its posting.

* for identification only

16th December, 2003

CHARACTERISTICS OF GEM

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

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

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

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DEFINITIONS

In this circular, the following expressions have the following meanings unless the context requires otherwise:

Expressions	Meanings
“associates”	has the meaning as defined in the GEM Listing Rules
“Best Frontier” or “Vendor”	Best Frontier Investments Limited, a controlling shareholder of the Company and a limited company incorporated in the BVI, which is owned as to 99.89% and 0.11% by Madam Cheung Kwai Lan and Mr Chan Tung Mei respectively, who are both executive Directors
“Board”	board of Directors
“Business Day”	a day (other than Saturday) on which banks in Hong Kong are generally open for business
“BVI”	the British Virgin Islands
“Company”	B & B Natural Products Limited (formerly known as Bee & Bee Natural Life Products Limited), an exempted company incorporated in the Cayman Islands with limited liability and whose Shares are listed on GEM
“Director(s)”	director(s), and including independent non-executive director(s) of the Company
“EGM”	an extraordinary general meeting to be convened by the Company to approve, among others, the Proposed Change
“GEM”	the Growth Enterprise Market operated by the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM of the Stock Exchange
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China

DEFINITIONS

“Hunan Apollo”	湖南友誼阿波羅股份有限公司 (Hunan Friendship Apollo Company Limited), a joint stock limited company incorporated in the PRC which is owned by 長沙市商業國有資產經營有限公司 (Chang Sha City Commercial State Owned Asset Operation Company Limited), 友阿公司工會 (You A Company Union) and 13 other individuals, each of which is an Independent Third Party
“Independent Board Committee”	the independent committee of the Board comprised of Professor Peter Chin Wan Fung and Mr Du Ying Min, both being the independent non-executive Directors, established to advise the Independent Shareholders in respect of the Proposed Change
“Independent Shareholders”	Shareholders other than the directors, chief executives and management shareholders of the Company or their respective associates
“Independent Third Party” or “Independent Third Parties”	person(s) or company(ies) who or which is/are not connected with any of the directors, chief executives, substantial shareholders, initial management shareholders of the Company or any of their respective associates
“JV Company”	a joint stock limited company to be incorporated in Hunan Province, the PRC pursuant to the Promoters’ Agreement
“Latest Practicable Date”	12th December, 2003 being the latest practicable date prior to the bulk printing of this circular for ascertaining certain information herein
“Other Promoters”	(1) 湖南其美投資有限公司 (Hunan Qi Mei Investment Company Limited); (2) 青島美雲科貿有限公司 (Qing Dao Mei Yun Scientific Trading Company Limited); and (3) 鳳凰古城旅遊有限責任公司 (Phoenix Old City Travel Company Limited), all of which being Independent Third Parties
“Placing”	the placing of the Placing Shares by the Placing Agent pursuant to the Placing and Subscription Agreement
“Placing Agent”	Pacific Foundation Securities Limited, who and its respective beneficial owner(s) are Independent Third Parties

DEFINITIONS

“Placing and Subscription”	the Placing and the Subscription
“Placing and Subscription Agreement”	a placing and subscription agreement between Best Frontier, the Placing Agent and the Company dated 26th November, 2003
“Placing Shares”	46,000,000 existing Shares beneficially owned by the Vendor which were being placed to investors pursuant to the Placing and Subscription Agreement
“PRC”	the People’s Republic of China which, for the purposes of this circular, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Promoters’ Agreement”	the promoters’ agreement entered into between the Group, Hunan Apollo and the Other Promoters dated 25th November, 2003 for the establishment of the JV Company
“Proposed Change”	the proposed material change(s) to the general character or nature of the business of the Group as contemplated under the Promoters’ Agreement, including the engagement of the business of distribution and retail of consumable goods
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholders”	shareholders of the Company
“Share(s)”	ordinary share(s) with par value of HK\$0.01 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription for the Subscription Shares by the Vendor pursuant to the Placing and Subscription Agreement
“Subscription Shares”	46,000,000 new Shares which were being subscribed for by the Vendor pursuant to the Placing and Subscription Agreement

DEFINITIONS

“Transaction”	the injection of RMB45,000,000 (approximately HK\$42,453,000) by the Group by way of cash contribution for approximately 20.83% equity interest in the JV Company pursuant to the Promoters’ Agreement
“HK\$”	the lawful currency of Hong Kong
“RMB”	the lawful currency of the PRC
“%”	per cent.

Exchange rate between RMB and HK\$ in this circular shall be calculated at a rate of RMB1.06 to HKK\$1.00

LETTER FROM THE BOARD



B & B NATURAL PRODUCTS LIMITED

蜂林天然產品有限公司*

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

(incorporated in the Cayman Islands with limited liability)

Executive Directors:

Madam Cheung Kwai Lan

Mr Chan Tung Mei

Mr Chan Ting

Head office and principal

place of business:

Unit 1603, 16th Floor

Dina House

11 Duddell Street

Central

Hong Kong

Non-executive Director:

Mr Shaw Kyle Arnold Junior

Independent non-executive Directors:

Professor Peter Chin Wan Fung

Mr Du Ying Min

16th December, 2003

To the Shareholders

Dear Sirs/Madams,

MAJOR TRANSACTIONS

**ESTABLISHMENT OF A JOINT STOCK LIMITED COMPANY
AND PROPOSED MATERIAL CHANGE TO
THE GENERAL CHARACTER OR NATURE OF BUSINESS**

**PLACING OF EXISTING SHARES
AND
SUBSCRIPTION OF NEW SHARES**

INTRODUCTION

The Board announced on 28th November, 2003 that the Group has entered into the Promoters' Agreement with four other Independent Third Parties for the establishment of the JV Company. Pursuant to the Promoters' Agreement, the Group will invest a total amount of RMB45,000,000 (approximately HK\$42,453,000) by way of cash contribution and will own approximately 20.83% equity interest in the JV Company upon completion of the Promoters' Agreement.

* for identification only

LETTER FROM THE BOARD

The Board also announced on 28th November, 2003 that pursuant to the Placing and Subscription Agreement, the placing agent, Pacific Foundation Securities Limited, had agreed to place the Placing Shares beneficially owned by the Vendor to independent investors at a price of HK\$0.96 per Placing Share and the Vendor had conditionally agreed to subscribe for the Subscription Shares at a price of HK\$0.96 per Subscription Share.

In view of the current market conditions and the development of the Group, the Directors consider that the Placing and Subscription as a whole are good opportunities to raise capital for the Company and they will broaden the Shareholders' base. 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) will be used to finance the Transaction. The remaining balance of approximately HK\$2,000 will be applied as general working capital. If the Transaction cannot be completed, the net proceeds will be used as general working capital of the Company.

As announced by the Company on 1st December, 2003, the Placing has been completed on 1st December, 2003 and 46,000,000 Placing Shares have been successfully placed to 17 independent placees. Also, the Subscription has been completed on 10th December, 2003 and dealings in the Subscription Shares have commenced on 11th December, 2003.

Each of the Transaction and the Subscription constitutes a major transaction under the GEM Listing Rules.

The purpose of this circular is (i) to provide the Shareholders with further information relating to the Transaction and the Placing and Subscription; (ii) to provide the Independent Shareholders with the recommendation and opinion from the Independent Board Committee in relation to the Proposed Change; (iii) to set out the letter from Tai Fook Capital Limited containing its recommendation to the Independent Board Committee in relation to the Proposed Change; and (iv) to give notice of the EGM at which ordinary resolution as set out in the section headed "Notice of extraordinary general meeting" will be proposed to approve, *inter alia*, the Proposed Change. This circular also contains information in compliance with the GEM Listing Rules.

ESTABLISHMENT OF A JOINT STOCK LIMITED COMPANY AND PROPOSED MATERIAL CHANGE TO THE GENERAL CHARACTER OR NATURE OF BUSINESS

The Promoters' Agreement

Date:

25th November, 2003

LETTER FROM THE BOARD

Parties:

A total of five promoters consist of Loyalion Limited, a wholly owned subsidiary of the Company, Hunan Apollo and the Other Promoters who are all Independent Third Parties.

Interests of the parties in the registered capital of the JV Company:

Pursuant to the Promoters' Agreement, the total investment contribution to be made by the promoters amounts to RMB216,000,000 (approximately HK\$203,774,000), out of which RMB144,000,000 (approximately HK\$135,849,000) will be the proposed registered capital of the JV Company. The Group will invest a total amount of RMB45,000,000 (approximately HK\$42,453,000) by way of cash contribution and will own approximately 20.83% equity interest in the JV Company, out of which RMB30,000,000 (approximately HK\$28,302,000) will be contributed to the registered capital. Hunan Apollo will inject certain net assets at a net asset value as at 31st May, 2003 of approximately RMB140,100,000 (approximately HK\$132,170,000) as valued and verified by an independent valuation into the JV Company as its contribution and will own approximately 64.86% equity interest in the JV Company. Such net assets, represent the entire net assets owned by Hunan Apollo with respect to its retail business, mainly consist of bank balances and cash valued at approximately RMB59,484,000 (approximately HK\$56,117,000), trade receivables valued at approximately RMB41,850,000 (approximately HK\$39,481,000), other receivables and prepayments valued at approximately RMB119,546,000 (approximately HK\$112,779,000), inventory valued at approximately RMB41,147,000 (approximately HK\$38,818,000), fixed assets (including properties and buildings, equipment and fixtures) valued at approximately RMB327,078,000 (approximately HK\$308,564,000), land use rights valued at approximately RMB158,285,000 (approximately HK\$149,325,000), other assets valued at approximately RMB18,620,000 (approximately HK\$17,566,000), bank loans with respect to the pledging of several retail shopping centres valued at approximately RMB340,000,000 (approximately HK\$320,755,000), trade and other payables and accruals valued at approximately RMB285,907,000 (approximately HK\$269,724,000) (collectively the "Assets"). Save as the pledged Assets as mentioned above, the Directors confirmed that the Assets will be transferred to the JV Company free from any claims or charges. The Other Promoters will invest a total amount of RMB30,900,000 (approximately HK\$29,151,000) by way of cash contribution and will own approximately 14.31% equity interest in aggregate in the JV Company.

The consideration payable by the Group has been arrived at after arm's length negotiations between the parties under normal commercial terms with reference to the net asset values of the Assets and cash contributions to be injected into the JV Company and the respective proportionate equity interests in the JV Company to be owned by Hunan Apollo, the Group and the Other Promoters.

The Group shall make its cash contribution within one week after all the approval documents for the establishment of the JV Company have been obtained, which is expected to be on or before 31st January, 2004.

LETTER FROM THE BOARD

Conditions of the Transaction:

The establishment of the JV Company and completion of the Transaction are conditional upon:

- (a) Shareholders' approval approving the Promoters' Agreement and all transactions contemplated therein pursuant to the GEM Listing Rules and all other required consents, approvals and permits have been duly obtained; and
- (b) the publication of an announcement and despatch of a circular to the Shareholders (in the form and substance as approved by the Stock Exchange) by the Company with respect to the Promoters' Agreement and the transactions contemplated therein pursuant to the GEM Listing Rules.

If the abovementioned conditions have not been fulfilled on or before 31st December, 2003 (or such other date as agreed by the Group), the Promoters' Agreement shall be null and void and the Group shall not be obliged to perform any duties (including the injection of RMB45,000,000 (approximately HK\$42,453,000) as cash contribution to the JV Company by the Group) thereunder and no party shall have any claim against the other party except in respect of any antecedent breach. No waiver of such conditions will be allowed pursuant to the Promoters' Agreement.

Waiver in relation to the inclusion of the accountants' report

The Company has applied to the Stock Exchange for a waiver from strict compliance with the requirement to contain an accountant's report in relation to the retail business of Hunan Apollo in this circular pursuant to Rule 19.55(5) of the GEM Listing Rules on the basis that Hunan Apollo is a private company and its financial statements are private and confidential information and the Group is only subscribing shares in the new JV Company but not Hunan Apollo. Accordingly, the Group does not have the right to audit nor investigate any of the financial information of Hunan Apollo without its consent. In fact, the Group has made an effort to liaise with Hunan Apollo in relation to the audit of its financial statements but had been rejected. Thus, the Group would have practical difficulty in conducting audit on the accounts of the retail business of Hunan Apollo. Instead, a review is being conducted on the financial statements of the retail business of Hunan Apollo.

For information of the Shareholders only, please refer to the review report in relation to the retail business of Hunan Apollo set forth in Appendix 1 of this circular. Please note that the review report is for reference only. Save as the Assets to be injected into the JV Company as mentioned above, the financial data contains therein **does not belong to and will not be inherited by the JV Company**.

LETTER FROM THE BOARD

Funding

The Directors intend to fund the Transaction by way of the Placing and Subscription. As announced by the Company on 1st December, 2003, the Placing has been completed on 1st December, 2003 and 46,000,000 Placing Shares have been successfully placed to 17 independent placees. Also, the Subscription has been completed on 10th December, 2003 and the Company has received net proceeds of approximately HK\$42,455,000 from the Subscription to finance the Transaction pursuant to the Promoters' Agreement. Details of the Placing and Subscription are set out in the section headed "Placing of existing Shares and Subscription of new Shares" below.

Information of the JV Company

The JV Company will be primarily engaged in the distribution and retail of consumable goods, including food and beverages, clothing, footwear and electronic equipment in Hunan Province, the PRC. The Assets to be injected into the JV Company by Hunan Apollo will include 11 retail shopping centres and stores, mainly in the form of department stores and supermarkets, with a total area of not less than 270,000 sq.m.. Income of these shopping centres will be derived from their retail business and rental to third parties retailers. The shopping centres are mainly for the retail of various consumable goods including food and beverages, clothing, sports equipment, footwear and electronic equipment etc. Details of the shopping centres are as follows:

Name of shopping centres	Address	Approximate area
1. 阿波羅商業城 (Apollo Commercial City)	長沙市韶山北路69號 (Chang Sha Shi Shao Shan Bei Lu #69)	29,087 sq.m.
2. 友誼商城 (Friendship Commercial City)	長沙市勞動東路165號 (Chang Sha Shi Lao Dong Dong Lu #165)	29,360 sq.m.
3. 友誼商店 (Friendship Commercial City)	長沙市五一東路020號 (Chang Sha Shi Wu Yi Dong Lu #020)	25,252 sq.m.

The Directors confirmed that it is currently proposed that the board of directors of the JV Company will consist of 9 members, out of which 2 members will be appointed by the Group, 5 members from Hunan Apollo and 2 members from the Other Promoters.

Reasons for the Transaction

The JV Company will be primarily engaged in the distribution and retail of consumable goods including food and beverages in Hunan Province, the PRC and will own a distribution network consists of 11 retail shopping centres and stores. The Directors are of the view that such retail network will enhance the distribution and retail businesses of the Group and facilitate the Group to acquire a strong market presence in the Hunan Province.

LETTER FROM THE BOARD

As stated in the prospectus of the Company dated 29th October, 2002 and the first quarterly report 2003 of the Company dated 11th November, 2003, the Group has always intended to strengthen and expand its distribution network, including the PRC market, to pursue lucrative business opportunities and new markets in order to extend its revenue base and distribution of its products. The Directors believe that the Transaction will enable the Group to establish a foothold in the PRC consumer market, particularly in Hunan Province, the PRC. In addition, the Directors believe that the business of the JV Company will provide synergies with the Group's business of natural food products distribution.

The Directors believe that the Group will be able to form a potential strategic alliance with the JV Company which will be beneficial to the Group in view of the strong distribution network owned by the JV Company. In order to strengthen the potential strategic alliance, the Group is having an understanding with Hunan Apollo, the major shareholder of the JV Company, whereby the Group will source and supply its natural food products to the retail outlets currently owned by Hunan Apollo which will be injected into the JV Company by Hunan Apollo after it is being established. This will surely secure and strengthen the distribution channels of the Group's products. Besides securing the distribution channels, the Directors believe that during the course of such distribution and as one of the shareholders of the JV Company, the Group will be in a strong position to obtain more favourable terms and conditions, credit terms, on-shelf fees and other benefits for the distribution of its products through the JV Company's distribution network .

The Directors perceive that the Transaction as a strategic alliance of the Group in attempt to develop and strengthen its distribution network for the Group's products by seeking strong partners and to secure distribution.

The Group is principally engaged in the distribution, research and development and manufacture of natural supplementary food in the PRC and Hong Kong and this will still remain as the core and principal business of the Group after the Transaction. The Group will not have any controlling shareholding in the JV Company and will not be involved in the management role or daily operation of the JV Company, save as the appointment of 2 directors out of 9 into the board of directors of the JV Company. The general character or nature of the Group is and remains as principally engaged in the distribution, research and development and manufacture of natural supplementary food products.

The Directors are of the view that the terms of the Promoters' Agreement have been arrived at after arm's length negotiations and are considered to be fair and reasonable.

Accordingly, the Directors believe that, given the potential market presence of the JV Company in Hunan Province, the PRC, the growing importance of the PRC as consumer market, and the synergies with the Group's business, the Transaction will be beneficial to the Company and Shareholders as a whole.

LETTER FROM THE BOARD

MAJOR TRANSACTION – ESTABLISHMENT OF A JOINT STOCK LIMITED COMPANY

Pursuant to Rule 19.38 of the GEM Listing Rules, a major transaction must be made conditional on approval by shareholders. Pursuant to Rule 19.39 of the GEM Listing Rules, shareholders' approval for a major transaction may be given in writing by a shareholder or closely allied group of shareholders who (together) hold more than 50% in nominal value of the securities giving the right to attend and vote at a general meeting. A written Shareholder's approval in relation to the Promoters' Agreement and all the transactions contemplated therein has been obtained from Best Frontier, a Shareholder which holds more than 50% of the issued share capital of the Company and is entitled to attend and vote at a general meeting. Save the fact that Best Frontier owned or owns approximately 61.72% and 55.69% of the issued share capital of the Company as at the date of the Promoters' Agreement and this circular respectively, Best Frontier has no material interest in the Transaction.

PROPOSED MATERIAL CHANGE TO THE GENERAL CHARACTER OR NATURE OF BUSINESS

Though the Directors are of the view that the core and principal business of the Group is and remains as principally engaged in the distribution, research and development and manufacture of natural supplementary food products, the Transaction contemplated under the Promoters' Agreement will constitute a proposed material change to the general character or nature of the business of the Company under Rule 17.25 of the GEM Listing Rules and will be subject to the approval of the Independent Shareholders in the EGM.

A notice convening the EGM to be held at Unit 1603, 16th Floor, Dina House, 11 Duddell Street, Central, Hong Kong on Wednesday, 31st December, 2003 at 10:00 a.m. is set out in the section headed "Notice of extraordinary general meeting" of this circular at which ordinary resolution will be proposed to consider and, if thought fit, to be passed by the Independent Shareholders to approve, *inter alia*, the Proposed Change.

The EGM will be convened to approve, *inter alia*, the Proposed Change and the directors, chief executives and management shareholders of the Company and their respective associates shall not be eligible to vote at the EGM. Accordingly, Madam Cheung Kwai Lan, Mr Chan Tung Mei, Mr Chan Ting and Best Frontier shall be abstained from voting on the resolution to be proposed at the EGM.

A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the EGM, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the principal place of business of the Company at Unit 1603, 16th Floor, Dina House, 11 Duddell Street, Central, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding such meeting or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjourned meeting (as the case may be) should you wish.

LETTER FROM THE BOARD

Though a written Shareholder's approval in relation to the Promoters' Agreement and all the transactions contemplated therein has been obtained from Best Frontier, if the ordinary resolution to approve, *inter alia*, the Proposed Change at the EGM cannot be passed, the Promoter's Agreement will not become unconditional and will not be completed.

RECOMMENDATIONS

Your attention is drawn to (a) the letter from the Independent Board Committee set out in the section headed "Letter from the Independent Board Committee" which contains its recommendation to the Independent Shareholders as to voting in the EGM in relation to, *inter alia*, the Proposed Change; and (b) the letter from Tai Fook Capital Limited, which contains its advice to the Independent Board Committee in relation to, *inter alia*, the Proposed Change and the principal factors and reasons considered by it in arriving with its opinions. The text of the letter from Tai Fook Capital Limited is set out in the section headed "Letter from the independent financial adviser" of this circular.

The Independent Board Committee, having taken into account the advice of Tai Fook Capital Limited, considers that the Proposed Change is in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends that the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM in relation to the Proposed Change.

PLACING OF EXISTING SHARES AND SUBSCRIPTION OF NEW SHARES

Placing

Date:	Placing and Subscription Agreement dated 26th November, 2003.
Vendor:	Best Frontier Investments Limited, a controlling shareholder of the Company.
Placing Agent:	Pacific Foundation Securities Limited, who is an Independent Third Party.
Placing price:	HK\$0.96 per Placing Share. This price was determined after arm's length negotiation between the Vendor and the Placing Agent and represents (i) a discount of approximately 1.03% to the closing price of HK\$0.97 per Share as quoted on the Stock Exchange on 25th November, 2003, being the last trading day prior to the date of the Placing and Subscription Agreement; and (ii) a premium of approximately 2.35% to the average closing price of HK\$0.938 per Share as quoted on the Stock Exchange for the ten trading days ended 25th November, 2003. The Company will bear all costs and expenses in connection with the Placing and the Subscription.

LETTER FROM THE BOARD

Completion: Completion of the Placing took place on 1st December, 2003 and 46,000,000 Placing Shares, representing approximately 10.83% of the then existing share capital of the Company as at the Completion of the Placing, have been successfully placed to 17 independent placees who are all Independent Third Parties. An announcement in respect of the results of the Placing has been made by the Company in compliance with Rule 16.16 of the GEM Listing Rules on 1st December, 2003.

Subscription

Date: Placing and Subscription Agreement dated 26th November, 2003.

Issuer: The Company.

Subscriber: The Vendor.

Number of Subscription Shares: 46,000,000 new Shares have been subscribed for, representing approximately 10.83% of the then existing issued share capital of the Company immediately before the Subscription and approximately 9.77% of the issued share capital of the Company as enlarged by the Subscription.

Subscription price: HK\$0.96 per Subscription Share. Interest accrued on the net Placing proceeds from the date of completion of the Placing to the date of completion of the Subscription was wholly attributable to the Company.

General Mandate to issue Subscription Shares: The Subscription Shares have been issued and allotted pursuant to the resolutions passed at the annual general meeting of the Company held on 17th October, 2003 authorising the Directors to issue new Shares up to a maximum of 20% of the issued share capital of the Company (being 82,462,000 Shares).

Ranking of the Subscription Shares: The Subscription Shares rank equally in all respects with the existing Shares.

Conditions: The Subscription is conditional upon:

- (a) the Listing Committee of the Stock Exchange granting or agreeing to grant a listing of, and permission to deal in, the Subscription Shares; and
- (b) completion of the Placing.

LETTER FROM THE BOARD

The Listing Committee of the Stock Exchange has granted its approval for the listing of, and permission to deal in, the Subscription Shares.

Completion: The Subscription has been completed on 10th December, 2003.
Dealings in the Subscription Shares have commenced on 11th
December, 2003.

Use of proceeds of the Subscription

In view of the current market conditions and the development of the Group, the Directors consider that the Placing and Subscription as a whole are good opportunities to raise capital for the Company and they will broaden the Shareholders' base. 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) will be used to finance the Transaction. The remaining balance of approximately HK\$2,000 will be applied as general working capital. If the Transaction cannot be completed, the net proceeds will be used as general working capital of the Company.

Interests in the Company

The shareholding of the Company immediately before completion of the Placing, after completion of the Placing but before completion of the Subscription, and after completion of both the Placing and the Subscription are as follows:

Shareholder	Immediately before completion of the Placing		Immediately after completion of the Placing but before completion of the Subscription		Immediately after completion of both the Placing and the Subscription	
	Approximate		Approximate		Approximate	
	Number of Shares	% of issued share capital	Number of Shares	% of issued share capital	Number of Shares	% of issued share capital
Vendor	262,080,000	61.72%	216,080,000	50.88%	262,080,000	55.69%
Cheung Kwai Lan	2,660,000	0.63%	2,660,000	0.63%	2,660,000	0.57%
Chan Tung Mei	2,660,000	0.63%	2,660,000	0.63%	2,660,000	0.57%
Chan Ting	2,660,000	0.63%	2,660,000	0.63%	2,660,000	0.57%
Peter Chin Wan Fung	1,730,000	0.41%	1,730,000	0.41%	1,730,000	0.37%
Sima Resources Limited and its associates	30,650,000	7.22%	30,650,000	7.22%	30,600,000	6.50%
Other public shareholders	122,180,000	28.76%	168,180,000	39.60%	168,230,000	35.73%
Total	424,620,000	100.00%	424,620,000	100.00%	470,620,000	100.00%

LETTER FROM THE BOARD

GENERAL

A waiver from the strict compliance to convene a general meeting to consider and approve the Subscription pursuant to Rule 19.41 of the GEM Listing Rules has been granted by the Stock Exchange on the basis that the interest of the Vendor is the same as all the other Shareholders since the number of Subscription Shares to be subscribed for by the Vendor would be the same as the Placing Shares, the subscription price for the Subscription Shares will be the same as the placing price for the Placing Shares, and accordingly, the Vendor has no economic interest in the Placing and the Subscription save for the fact that the Vendor owned or owns approximately 61.72% and 55.69% of the issued share capital of the Company as at the date of the Placing and Subscription Agreement and this circular respectively. Pursuant to Rule 19.39 of the GEM Listing Rules, the Vendor has approved the Subscription in writing.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in Appendices 1 and 2 to this circular.

By Order of the Board
B & B Natural Products Limited
Chan Ting
Director and Chief Executive Officer



B & B NATURAL PRODUCTS LIMITED

蜂林天然產品有限公司*

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

(incorporated in the Cayman Islands with limited liability)

16th December, 2003

To the Independent Shareholders

Dear Sirs/Madams,

**PROPOSED MATERIAL CHANGE TO
THE GENERAL CHARACTER OR NATURE OF BUSINESS**

We refer to the circular dated 16th December, 2003 of the Company (“**Circular**”) of which this letter forms a part. The terms used herein shall have the same meanings as defined in the Circular unless the context otherwise requires.

As the Independent Board Committee, we have been appointed to advise you on whether the Proposed Change is in the interests of the Company and Shareholders as a whole. Details of the Proposed Change is set out in the letter from the Board contained in the Circular.

We wish to draw your attention to the “Letter from the independent financial adviser” to advise us regarding the Proposed Change as set out in the Circular. Having considered the advice given by Tai Fook Capital Limited and the principal factors and reasons taken into consideration by them in arriving at its advice, we are of the opinion that the Proposed Change is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend that the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve and ratify the Proposed Change.

Yours faithfully,

For and on behalf of

Independent Board Committee

Peter Chin Wan Fung

Du Ying Min

* for identification only

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of the letter of advice to the Independent Board Committee of the Company from Tai Fook Capital Limited dated 16th December, 2003 for incorporation into this circular:



25th Floor, New World Tower
16–18 Queen's Road Central
Hong Kong

16th December, 2003

*To the Independent Board Committee of
B & B Natural Products Limited
(formerly known as Bee & Bee Natural Life Products Limited)*

Dear Sirs,

PROPOSED MATERIAL CHANGE TO THE GENERAL CHARACTER OR NATURE OF BUSINESS

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee in respect of the proposed change in general character or nature of the Group's business (the "**Proposed Change**") resulting from the entering into of the Transaction. Details of the Proposed Change and the Transaction are set out in the section headed "Letter from the Board" contained in the Company's circular dated 16th December, 2003 (the "**Circular**"), of which this letter forms a part of. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 25th November, 2003, Loyalion Limited, a wholly owned subsidiary of the Company, entered into the Promoters' Agreement. Pursuant to the Promoters' Agreement, the Company has conditionally agreed to invest a total amount of RMB45,000,000 (approximately HK\$42,453,000) by way of cash contribution and will own approximately 20.83% equity interest in the JV Company. The JV Company will, through the operation of certain shopping centers, primarily be engaged in the distribution and retail of consumable goods, including food and beverages, clothing, footwear and electronic equipment in Hunan Province, the PRC.

In formulating our opinion, we have relied on the information and facts provided by the management of the Company and the Directors and we have assumed that all such information and facts and any representations made to us are true, accurate and complete as at the date hereof. We have also assumed that all information, representations and opinions contained or referred to in the Circular are fair and reasonable and have relied on them. We have sought and received confirmation from the management and directors of the Company that all relevant information has been supplied to us and that no material facts have been omitted and we are not aware of any facts or circumstances which would render the information provided and the representations made to us untrue, inaccurate or misleading.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent investigation into the business and affairs of the Group, Hunan Apollo and the JV Company or any of its subsidiaries or associates, or the likely prospects for the industry in which they operate.

PRINCIPAL FACTORS AND REASONS CONSIDERED

1. Review of the Group's business and its business strategies

The principal business of the Group is the distribution, production and trading of natural food products. For the year ended 30th June, 2003, the Group has recorded an audited turnover of approximately HK\$88.3 million and net profit of approximately HK\$18 million, which represented an increase of approximately 40.6% and 32.3% respectively compared to prior year. For the three months ended 30th September, 2003, the Group has recorded an unaudited turnover of approximately HK\$28.6 million and net profit of approximately HK\$7.6 million, representing an increase of approximately 18.3% and 14.1% over the corresponding period of last year.

With a view to continuously extending its distribution network, the Group, during the past two years, has (i) opened its own sales and marketing office and warehouse in Shanghai; (ii) established a joint venture company in Malaysia for the distribution of the Group's products; (iii) acquired a natural palm oil trading business to expand the Group's sales network in Singapore; and (iv) appointed a Japanese conglomerate as the Group's sole agent to develop and expand the market presence of its mead products in Japan and Korea. In respect of the lucrative PRC market, the Group has formed a view to penetrate into it by way of developing direct distribution to retail outlets through its own sales and marketing offices instead of solely through sales agents.

In addition, on 27th October, 2003, the Group entered into a memorandum of understanding ("MOU") for the acquisition of Superbee Honey Factory and Honey World (collectively as "**Superbee**"). Superbee is a renowned honey factory in Australia which possesses diverse range of honey products and exports to over 25 countries. The Directors consider that such a proposed acquisition would not only broaden the Group's own honey product platform, but also expand the distribution network for its existing natural food products.

Since its listing on the GEM on 12th November, 2002, the Group has been expanding its business portfolio according to the strategies as stated in the prospectus of the Company dated 29th October, 2002, which include:

- Enhancing its sales and distribution networks through the appointment of distributors, worldwide distributors, and sales agents, exploring of overseas market;
- Broadening its product range to include more natural products such as bird nest mead, bird nest tea and a new honey drink; and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- Enhancing the brand recognition of the products of the Group and awareness of the Group.

As stated in the 2003 first quarterly report of the Company, the Group will continuously explore opportunities for vertical integration in order to secure distribution, enhance efficiency and reduce production costs. Further, the Group will continue to seek out potential business opportunities which will provide the Group with strong vertical integration opportunities and thus further improve the earnings potential of the Group.

2. Background information on the JV Company and reasons for the Transaction

Pursuant to the Promoters' Agreement, the total investment contribution to be made by the promoters amounted to RMB216,000,000 (approximately HK\$203,774,000), out of which RMB144,000,000 (approximately HK\$135,849,000) will be the proposed registered capital of the JV Company. The JV Company, through the operation of the shopping centers, will primarily be engaged in the distribution and retail of consumable goods, including food and beverages, clothing, footwear and electronic equipment in Hunan Province, the PRC. The Group will invest a total amount of RMB45,000,000 (approximately HK\$42,453,000) by way of cash contribution and will own approximately 20.83% equity interest in the JV Company, out of which RMB30,000,000 (approximately HK\$28,302,000) will be contributed to the registered capital. The remaining equity interest will be owned and satisfied as to approximately 64.86% by Hunan Apollo by way of asset contribution and as to approximately 14.31% by the Other Promoters by way of cash contribution.

The assets to be injected into the JV Company by Hunan Apollo will be the entire net assets owned by Hunan Apollo with respect to its retail business (the “**Retail Business**”), which include 11 retail shopping centers and stores (with a total site area of not less than 270,000 sq.m.), three of which are presently owned and operated by Hunan Apollo and the other eight are leased from independent third parties with a tenure of over 10 years. Apart from leasing stores, booths or counters to third party retailers or brand owners, Hunan Apollo also distributes consumer goods and operates certain retail outlets in these shopping centres.

As referred to in the “Review report on the retail business of Hunan Apollo” of appendix 1 to the Circular, for the year ended 31st December, 2002, the Retail Business has recorded an unaudited turnover of approximately RMB1,627.8 million (approximately HK\$1,535.7 million) and net profit of approximately RMB31.9 million (approximately HK\$30.1 million). For the nine months ended 30th September, 2003, the Retail Business has recorded an unaudited turnover of approximately RMB1,332 million (approximately HK\$1,256.6 million) and net profit of approximately RMB45.4 million (approximately HK\$42.8 million). As at 30th September, 2003, the unaudited net asset value of the Retail Business was approximately RMB155.8 million (approximately HK\$147 million).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Directors believe that the entering into of the Transaction represents a good opportunity that will enable the Group to further (i) vertically integrate its business; (ii) expand the Group's distribution network; (iii) establish a strong presence in the PRC market, particularly in Hunan Province; and (iv) enhance its brand awareness. We concur with the view of the Directors that the Transaction will assist the Group to achieve its business objectives.

3. Potential benefits of the Transaction and prospects of the distribution and retail business in the PRC

Upon completion of the Transaction, the JV Company will primarily be engaged in the distribution and retail of consumable goods including food and beverages in Hunan Province, the PRC and will own a distribution network consisting of 11 retail shopping centers. The Directors and we are of the view that such a retail network will enhance the distribution and retail businesses of the Group and facilitate the Group to maintain a strong presence in Hunan Province. Moreover, the Transaction will yield the following long-term benefits to the Group:

- the sales of consumer products to be generated by the JV Company and the income to be derived from the leasing of stores or counters in these shopping centers to third party retailers would immediately broaden the income stream and improve the earnings potential of the Group;
- the Company could leverage on such retail distribution network offered by the JV Company to further expand its geographical scope for its existing and potential natural food product distribution; and
- as the Group has been developing its direct distribution to retail outlets in the PRC, the foothold as established by the JV Company in Hunan Province would provide a strong platform for the Group to further extend its direct distribution network in the PRC consumer market. As mentioned in the "Letter from the Board", the Directors are currently in discussions and have an understanding with Hunan Apollo for the JV Company to distribute the products of the Group through the distribution network of the JV Company.

According to the 2002 China Statistics Yearbook, throughout the past two decades, retail sales of consumer goods in the PRC achieved double-digit annual growth rates until 1998 and 1999 when the annual growth rates stabled at single-digit figures. In 2000, it started to accelerate again and reached a growth rate of approximately 8.8% in 2002 primarily due to the promising economic outlook in the PRC.

The PRC retail market has been restructured with the emergence of the retail chain operating mode. The domestic retail market has not only grown substantially in size, but also in sophistication and competitiveness. The growth of China's consumer markets correlates closely with its economic development. The country's highest spending consumers concentrate on the southern and eastern coastal cities, where average retail sales per capita exceeds

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RMB10,000. With the growing trend of urbanization, it is expected that the consumer markets will continue to expand geographically.

According to the China Statistics Yearbook, the total PRC domestic consumer expenditure, during 1995 to 2001, has been increased by 81% to RMB6,266 billion. Moreover, the retail industry has been expanding rapidly into less developed regions. For example, retail sales per capita in Changsha of Hunan was RMB4,450 in 2002 as compared to the national average of RMB2,958.

Based on the aforesaid, we consider that the prospects of the distribution and retail business in the PRC are promising and is expected to generate tremendous business opportunities for those competitive retail store operators. It is expected that, leveraging on its profitable track record and the retail experience possessed by the management of Hunan Apollo, the JV Company will be able to capture the business opportunities arising therefrom.

4. Effects on the use of proceeds from the IPO and other financial effects resulting from the Proposed Change

On 26th November, 2003, the Company announced the Subscription and the Placing, details of which please refer to the section headed “Placing of existing Shares and subscription of new Shares” under “Letter from the Board” in the Circular. According to the Directors, it is intended that the net proceeds of approximately HK\$42,453,000 arising from the Subscription will be used to fund the entire investment in the Transaction.

The Company raised approximately HK\$35.7 million from the initial public offer of the Shares on 12th November, 2002 (the “IPO Proceeds”). According to the 2003 annual report of the Company, the Company has been implementing the business objectives and has applied the IPO Proceeds towards its implementation plans as stated in the Prospectus. The Independent Shareholders are reminded to note that, based on the Directors’ confirmation that the Transaction will not involve any re-allocation of the use of the IPO Proceeds and they intend to apply the outstanding IPO Proceeds (which amounted to approximately HK\$20.3 million as disclosed in the 2003 annual report) in the matter as envisaged in the Prospectus, none of the IPO proceeds would be used for the funding of the Transaction. As confirmed by the Directors, the business objectives of the Group and the use of the IPO Proceeds will not be affected by the Transaction. The Directors have also confirmed that the Transaction will not only supplement the Group’s existing business objectives but also integrate with the strategic direction of the Group’s principal activities.

As at 30th September, 2003, the net asset value of the Group was approximately HK\$72 million. As a result of the Transaction and the Subscription, the Group’s net asset value will be increased by approximately HK\$42 million.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

5. Other areas for the attention of the Shareholders

We would like to draw the attention of the Company's shareholders that the Proposed Change involves certain level of commercial risks, including:

(i) *Failure to establish successful distribution channels by the JV Company*

Notwithstanding the fact that the Directors are currently in discussions with Hunan Apollo for the JV Company to distribute the products of the Group through the distribution network of the JV Company, it is uncertain that the Group's products will be successfully distributed by the JV Company in a short period of time. In the event that the JV Company could not distribute the Group's products or could not establish successful distribution channels for the Group's products, the expected benefits to be brought by the Transaction will be restricted.

(ii) *Limitation on the investment in the JV Company*

As mentioned in the "Letter from the Board", the Directors are of the view that the principal business of the Group remains the distribution, research and development, and manufacturing of the natural supplementary food products upon the completion of the Transaction while the principal activity of the JV Company, through the operation of the shopping centers, is distribution and retail of consumable goods. The Group's role in this investment will be limited as (i) the Group does not have a controlling equity interest in the JV Company; (ii) the Group has only 2 (out of 9) board representations in the JV Company; (iii) the management of the Group might have limited exposure in the distribution and retail industry in the PRC; and (iv) the Group will not be involved in the daily operation of the JV Company. Given the Transaction represents one of the Group's key investments, should there be any material diminution in value in the investment, it may have adverse impact on the financial results of the Group.

RECOMMENDATION

Despite the fact that the Proposed Change will involve certain commercial risks as detailed in the above paragraph headed "Other areas for the attention of the Shareholders", having taken the factors and reasons mentioned above, we are of the opinion that the Proposed Change is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve and ratify the Proposed Change.

Yours faithfully,

For and on behalf of

Tai Fook Capital Limited

Derek C.O. Chan

April Chan

Deputy Managing Director

Director

The following is the text of a review report, prepared for the purpose of inclusion in this circular, received from Li, Ko & Yan, certified public accountants:

**LI, KO & YAN**

CERTIFIED PUBLIC ACCOUNTANTS, HONG KONG

Partners:

高志強會計師

ALBERT C.K. KO

CPA, FCCA, FHKSA, FTIHK, BBA

甄達華會計師

JOSEPH T.W. YAN

CPA, FCCA, FHKSA, FTIHK, MSCA

INDEPENDENT REVIEW REPORT**TO THE BOARD OF DIRECTORS OF B & B NATURAL PRODUCTS LIMITED
(the “Company”)****Introduction**

We have been instructed by the Company to review the balance sheet as at 30th September, 2003 and the income statement for each of the two years ended 31st December, 2002 and the nine months period ended 30th September, 2003 (the “**Financial Statements**”) of the Retail Business of 湖南友誼阿波羅股份有限公司 *Hunan Friendship Apollo Company Limited (“**Hunan Apollo**”) as set out on pages 24 to 31.

Responsibilities of the directors of Hunan Apollo

It is the responsibilities of the directors of Hunan Apollo to prepare the Financial Statements of the retail business of Hunan Apollo in accordance with the accounting principles generally accepted in Hong Kong. The Financial Statements is the responsibility of the directors of Hunan Apollo, and has been approved by the directors of Hunan Apollo.

Review work performed

We conducted our review in accordance with SAS 700 “Engagements to review interim financial reports” issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of management of Hunan Apollo and applying analytical procedures to the Financial Statements and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the Financial Statements.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the Financial Statements of the retail business of Hunan Apollo.

LI, KO & YAN*Certified Public Accountants*

Hong Kong, 11th December, 2003

INCOME STATEMENT

For each of the two years ended 31st December, 2002 and the nine months period ended 30th September, 2003

		Period from 1.1.2003 to 30.9.2003	Year ended 31.12.2002	Year ended 31.12.2001
	<i>Note</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Turnover	3	1,332,012,392	1,627,820,302	1,482,167,751
Cost of goods sold		(1,114,672,890)	(1,343,320,978)	(1,233,703,034)
		217,339,502	284,499,324	248,464,717
Other revenue		23,004,078	31,844,605	42,010,890
Selling expenses		(74,817,680)	(114,969,574)	(58,717,532)
Administrative expenses		(86,339,670)	(125,920,246)	(143,171,151)
Profit from operations	4	79,186,230	75,454,109	88,586,924
Finance costs	5	(14,816,153)	(21,496,048)	(20,105,186)
Interest income		509,379	385,848	730,648
Profit before taxation		64,879,456	54,343,909	69,212,386
Taxation	6	(19,461,655)	(22,481,268)	(22,471,738)
Net profit for the period		45,417,801	31,862,641	46,740,648

BALANCE SHEET*As at 30th September, 2003*

	<i>Note</i>	As at 30.9.2003 RMB
ASSETS		
Non-current assets	7	605,892,394
Current assets		
Inventories		61,534,945
Rental and utility deposits		75,883,706
Trade deposits and prepayment		55,133,471
Cash at bank and on hand		106,248,004
		298,800,126
Current liabilities		
Trade creditors and trust receipt loan		291,442,690
Accounts payable and accrued charges		85,188,988
Bank loans	8	365,400,000
Provision for taxation	6	2,368,682
		744,400,360
Net current liabilities		(445,600,234)
Total assets less current liabilities		160,292,160
Non-current liabilities		
Unsecured loan	9	4,500,000
NET ASSETS		155,792,160

The balance sheet as at 30th September, 2003 and the income statements for each of the two years ended 31st December, 2002 and the nine months period ended 30th September, 2003 and notes thereto were approved by the board of directors of *Hunan Friendship Apollo Company Limited on 11th December, 2003.

NOTES TO THE ACCOUNTS

1. Principal activities

湖南友誼阿波羅股份有限公司 *Hunan Friendship Apollo Company Limited (“**Hunan Apollo**”) is a joint stock company with limited liability, established in accordance with the laws and regulations of the People’s Republic of China (“**PRC**”) in Hunan, China on 24th September, 1994.

The principal activities of the Retail Business carried by Hunan Apollo are in the distribution and retail of consumable goods including food and beverages, clothing, footwear and electronic equipment in Hunan Province, the PRC.

2. Principal accounting policies

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong. The accounts are prepared under the historical cost convention as modified by valuation of land use rights and buildings.

All the information contained in the balance sheet as at 30th September, 2003 and the income statement for each of the two years ended 31st December, 2002 and the nine months period ended 30th September, 2003 are based on the accounts of Hunan Apollo in relation to its retail business.

The Retail Business of Hunan Apollo include 11 retail shopping centers and stores, mainly in the forms of department stores and supermarkets. They are carried under the following names,

- Trading names
- 友誼商店 (*Friendship Commercial Shop)
 - 友誼商城 (*Friendship Commercial City)
 - 阿波羅商業廣場 (*Apollo Commercial Plaza)
 - 阿波羅商業城 (*Apollo Commercial City)
 - 經營公司 (*Purchasing Company)
 - 大宗業務部 (*Membership Section)

- Company names
- 湖南家潤多超市有限公司 (*Hunan Joindoor Supermarkets Limited)
 - 湖南家潤多家電超市有限公司 (*Hunan Joindoor Appliance-market Co. Limited)

(b) Properties, fixture and equipment

Except for land use rights which have no estimated residual value, depreciation is provided on a straight-line basis to write off the cost or valuation of the fixed assets less accumulated impairment losses over their estimated useful lives, after taking into account their estimated residual of 3% of cost. The estimated useful lives of fixed assets are as follows:

Land use rights	Terms of the leases
Buildings	20–50 years
Others	4–10 years

Land use rights and buildings are valued by independent professional valuers. The valuations are on an open market value basis related to individual properties and separate values are not attributed to buildings. Increases in valuation are credited to the property revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations of the asset and thereafter are debited to the income statement.

Upon the disposal of a property, the relevant portion of the property revaluation reserve realized in respect of previous valuations is released from the property revaluation reserve to the retained profit as direct reserve transfer.

(c) *Inventories*

Inventories are stated at the lower of cost and net realisable value. Cost represents suppliers' invoiced value only. Net realisable value is determined by reference to the sales proceeds of items in the ordinary course of business subsequent to the balance sheet date or to management estimates based on prevailing market conditions.

(d) *Impairment*

At each balance sheet date, the management reviews the carrying amounts of its tangible and intangible 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 recognized as an expense immediately, unless the relevant asset is carried at revalued amount under another Standard, in which case the impairment loss is treated as revaluation decrease under that Standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimated 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, unless the relevant asset is carried at a revalued amount under another Standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other Standard.

(e) *Provisions and contingent liabilities*

Provisions are recognised for liabilities of uncertain timing or amount when the Retail Business has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic is remote.

(f) *Operating leases*

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Where the Retail Business is the lessor, assets leased by the Retail Business under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the income statement on a straight line basis over the lease periods. Where the Retail Business is the lessee, payments made under operating leases net of any incentives received from the lessor are charged to the income statement on a straight line basis over the lease periods.

(g) *Revenue recognition*

Sale of goods

Revenue arising from the sale of goods is recognised when goods are delivered to the customers.

Other income

All other revenue is recognised on receivable basis.

(h) *Employee benefits*

Pension obligations

Pursuant to PRC laws and regulations, contributions to the basic old age insurance for the Retail Business's local employee are made monthly to a government agency based on the 28.5% of the standard salary set by the respective provincial governments, of which 7.5% is borne by the Retail Business and the remainder is borne by the employees. The government agency is responsible for the pension liabilities relating to such employees on their retirement. The Retail Business accounts for these contributions on an accrual basis.

(i) *Subsequent events*

Post-year-end events that provide additional information about Retail Business's position at the balance sheet date or those that indicate the going concern assumption is not appropriate are reflected in the accounts. Post-year-end events that are not adjusting events are disclosed in the notes when material.

(j) *Use of estimates*

The preparation of accounts in conformity with accounting principles generally accepted in Hong Kong required management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results differ from those estimates.

3. Turnover

The Retail Business is principally engaged in distribution and retail of consumable goods including food and beverages, clothing, footwear and electronic equipment in Hunan Province, the PRC. Turnover comprises proceeds on sales of goods.

APPENDIX 1

REVIEW REPORT ON THE RETAIL BUSINESS
OF HUNAN APOLLO

4. Profit from operations

Profit from operations for the year is stated after charging:

	Period from 1.1.2003 to 30.9.2003 <i>RMB</i>	Year ended 31.12.2002 <i>RMB</i>	Year ended 31.12.2001 <i>RMB</i>
Directors' emoluments			
– as directors	–	–	–
– for management	336,000	912,000	644,000
Staff salaries and allowances	43,660,000	65,110,000	52,935,000
Staff welfare and pension contributions	21,307,000	28,828,000	30,087,000
Total staff cost	65,303,000	94,850,000	83,666,000
Rental of premises under operating leases	16,480,000	19,184,000	9,772,000
Depreciation	62,997,000	76,243,000	67,435,000

5. Finance costs

	Period from 1.1.2003 to 30.9.2003 <i>RMB</i>	Year ended 31.12.2002 <i>RMB</i>	Year ended 31.12.2001 <i>RMB</i>
Bank loan interest	13,542,128	18,767,878	16,609,882
Others	1,274,025	2,728,170	3,495,304
	14,816,153	21,496,048	20,105,186

6. Taxation

	Period from 1.1.2003 to 30.9.2003 <i>RMB</i>	Year ended 31.12.2002 <i>RMB</i>	Year ended 31.12.2001 <i>RMB</i>
PRC income tax	19,461,655	22,481,268	22,471,738

Income tax is provided at the rate of 33% of the assessable profit, computed in accordance with PRC tax regulations.

The charge for the year can be reconciled to the profit per the income statement as follows:

	Period from 1.1.2003 to 30.9.2003 <i>RMB</i>	Year ended 31.12.2002 <i>RMB</i>	Year ended 31.12.2001 <i>RMB</i>
Profit before tax	<u>64,879,456</u>	<u>54,343,909</u>	<u>69,212,286</u>
Tax at the PRC tax rate of 33%	21,410,220	17,933,490	22,840,054
Tax effect of non-taxable investment income	(1,948,565)	–	(368,316)
Tax effect of tax losses incurred by certain retail business	<u>–</u>	<u>4,547,778</u>	<u>–</u>
	<u>19,461,655</u>	<u>22,481,268</u>	<u>22,471,738</u>

Provision for taxation in the balance sheet represent profits tax payable net of profits tax already paid for the period.

The Retail Business does not have any unprovided deferred taxation.

7. Non-current assets – Properties, fixtures and equipment

	Land use rights <i>RMB</i>	Buildings <i>RMB</i>	Equipment and fixtures <i>RMB</i>	Leasehold improvement <i>RMB</i>	Others <i>RMB</i>	Total <i>RMB</i>
Cost or revaluation						
At cost	–	138,501,838	177,768,097	51,941,233	26,827,916	395,039,084
At revaluation	<u>160,936,881</u>	<u>287,757,362</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>448,694,243</u>
As at 30.9.2003	160,936,881	426,259,200	177,768,097	51,941,233	26,827,916	843,733,327
Aggregate depreciation						
As at 30.9.2003	<u>7,362,000</u>	<u>131,492,227</u>	<u>63,749,113</u>	<u>25,863,428</u>	<u>9,374,165</u>	<u>237,840,933</u>
Net book value						
As at 30.9.2003	<u>153,574,881</u>	<u>294,766,973</u>	<u>114,018,984</u>	<u>26,077,805</u>	<u>17,453,751</u>	<u>605,892,394</u>

The land use rights together with the buildings are situated in Hunan, the PRC held for a period of 28 years. Certain of them were revalued at 31st May, 2003 on the basis of open market values by Hunan Xiangzi Certified Public Accountants Company Limited, independent professional valuers. As a result of the appraisal, the revaluation surplus of RMB64,000,000 was recognised.

The total net book value of the assets includes an amount of RMB314,152,018 in respect of assets pledged for the bank loan obtained (note 8).

8. Bank loans

As at
30.9.2003
RMB

Portion payable within one year	365,400,000
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The loans are secured by certain land use rights and buildings (note 7).

9. Unsecured loan

The loan is advanced from a third party, unsecured, interest-free and in the opinion of directors, not repayable within twelve months.

10. Operating lease commitments

At 30th September, 2003, the Retail Business had total commitment under operating leases for premises to make payments as follows:

As at
30.9.2003
RMB

Within one year	32,487,525
After one year, but within five years	132,859,980
After five years	371,132,529
	536,480,034

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, include particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

- (a) the information contained in this circular is accurate and complete in all material respects and not misleading;
- (b) there are no other matters the omission of which would make any statement in this circular misleading; and
- (c) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

2. DIRECTORS’ INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

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

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

Name of Director	Company/Name of associated corporation	Capacity	Number and class of securities
Cheung Kwai Lan	Company	Interest of a controlled corporation	262,080,000 Shares (Note 1)
	Company	Beneficial owner	2,660,000 Shares
	Company	Interest of spouse	2,660,000 Shares (Note 2)

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

Notes:

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

(2) Share options

Pre-IPO Share Option Scheme

Pursuant to the Pre-IPO share option scheme adopted by the Company on 18th October, 2002 (“Pre-IPO Share Option Scheme”), certain Directors had been granted share options to subscribe for Shares, details of which as at the Latest Practicable Date were as follows:

Name of Director	Number of share options granted (Note)	Number of share options exercised	Number of share options outstanding as at the Latest Practicable Date
Cheung Kwai Lan	4,000,000	2,660,000	1,340,000
Chan Tung Mei	4,000,000	2,660,000	1,340,000
Chan Ting	4,000,000	2,660,000	1,340,000
Peter Chin Wan Fung	2,600,000	1,730,000	870,000

Note: These share options were granted on 18th 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 options are exercisable in three equal portions. The respective portions are exercised at any time commencing on 12th May, 2003, 12th November, 2003 and 12th May, 2004 respectively. These share options, if not otherwise exercised, will lapse on 17th October, 2007.

Share Option Scheme

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

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

As at the Latest Practicable Date, no share option had been granted or agreed to be granted under the Share Option Scheme.

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

3. INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS

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

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

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

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

4. INDEBTEDNESS

Borrowings

As at the close of business on 1st December, 2003, being the latest practicable date for the purpose of this indebtedness statement prior to the bulk printing of this circular, the Group had total outstanding borrowings of approximately HK\$15,421,000, which were secured bank borrowings. The Group's secured bank borrowings were secured by charges on the bank deposits of the Group.

Contingent liabilities

No material contingent liabilities as at 1st December, 2003.

Capital commitments

As at 1st December, 2003, the Group had capital commitments in respect of the acquisition of fixed assets for its factory in Zhuhai, the PRC amounting to approximately HK\$40,936,000.

Pledge of assets

As at 1st December, 2003, bank deposits totalling approximately HK\$16,110,000 were pledged to banks for securing banking facilities granted to the Group.

Disclaimer

Save as disclosed herein and apart from intra-group liabilities and normal trade payables in the ordinary course of business of the Group, the Group did not have any outstanding charges or bank overdrafts, loans and other similar indebtedness or acceptance of credits or hire purchase commitments or any guarantees or other material contingent liabilities as at the close of business on 1st December, 2003.

Save as disclosed above, the Directors have confirmed that there has not been any material adverse change in the indebtedness and contingent liabilities of the Group since 1st December, 2003.

5. WORKING CAPITAL

Taking into account the financial resources available to the Group, including internally generated funds, the available banking facilities, in the absence of unforeseen circumstances, the Directors are of the opinion that the Group will have sufficient working capital for its present requirements.

6. MATERIAL ADVERSE CHANGE

Save as disclosed in this circular, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 30th June, 2003, the date to which the latest published audited accounts of the Group were made up.

7. LITIGATION

No member of the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

8. SERVICE CONTRACTS

Each of the executive Directors, Madam Cheung Kwai Lan, Mr Chan Tung Mei and Mr Chan Ting, has entered into a service agreement with the Company for a term of three years from 18th October, 2002, renewable automatically for successive terms of one year unless terminated by not less than six months' notice in writing served by either party on the other. The initial annual remuneration of Madam Cheung Kwai Lan, Mr Chan Tung Mei and Mr Chan Ting are HK\$1,950,000, HK\$650,000 and HK\$1,300,000 respectively. Under the service agreements, after each completed year of service, the remuneration of each executive Director shall be increased by not less than 5% of his/her annual remuneration immediately prior to such increase for each corresponding relevant year provided that: (a) the audited combined/consolidated profit before taxation, minority interest and extraordinary items (if any) of the Group ("**Profit**") for the first relevant financial year ending after 18th October, 2002 is not less than HK\$12,000,000; and (b) the Profit for each of the following corresponding relevant financial years increases by not less than 10% of the annual Profit of the immediately preceding relevant financial year. Save as the abovementioned, remuneration of the executive Directors may be increased at the discretion of the Board. In addition, each executive Director will also be entitled to a discretionary bonus provided that the total amount of bonuses payable to all Directors for such year (if any) shall not be less than 10% of the Profit for the relevant financial year if the Profit for such financial year is not less than HK\$12,000,000. Each of the executive Directors will also be entitled to all reasonable out-of-pocket expenses.

Save as disclosed above, none of the Directors has entered into any service agreements with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

9. MATERIAL CONTRACTS

The following contracts, not being contracts in the ordinary course of business, have been entered into by the Group within two years preceding the Latest Practicable Date or may be material:

- (a) an agreement dated 18th December, 2001 between (1) Cheung Kwai Lan, (2) Chan Tung Mei, (3) Chan Ting and (4) the Company whereby Cheung Kwai Lan and Chan Tung Mei agreed to sell 1,998 and 2 shares of US\$1 each in China Success Enterprises Limited respectively to the Company for a consideration satisfied by the allotment and issue of 998,001 and 999 Shares to Cheung Kwai Lan and Chan Tung Mei respectively;
- (b) a contract (in Chinese) dated 19th December, 2001 between (1) 蕪湖長虹房地產有限責任公司 (Wuhu Changhong Real Estate Company Limited) (“**Wuhu Changhong**”) and (2) 蕪湖市蜂蜂自然食品有限公司 (Wuhu Bee & Bee Natural Food Company Limited) (“**Wuhu Bee & Bee**”) in relation to the transfer of 長虹工業園壹號廠 (Industrial Block No. 1 of Changhong Industrial Park) to Wuhu Bee & Bee from Wuhu Changhong at a consideration of RMB980 per sq.m.;
- (c) a subscription agreement dated 3rd January, 2002 between (1) the Company, (2) Cheung Kwai Lan, (3) Chan Ting, (4) the investors named therein, (5) Loyalion Limited (“**Loyalion**”) and (6) Phoenix Capital Asia Limited whereby the Company agreed to, inter alia, allot and issue the convertible notes (“**Convertible Notes**”) of an aggregate amount of HK\$13,000,000;
- (d) an agreement (in Chinese) dated 23rd January, 2002 between (1) 蕪湖市蜂蜂酒業有限公司 (Wuhu Bee & Bee Winery Company Limited) (“**Wuhu Winery**”); (2) Wuhu Bee & Bee and (3) 珠海保稅區蜂蜂天然食品有限公司 (Zhuhai Free Trade Zone Bee & Bee Natural Food Company Limited) (“**Zhuhai Bee & Bee**”) in relation to, inter alia, the transfers of certain patent application rights, registered trademarks and design rights to Zhuhai Bee & Bee;
- (e) a land use rights grant contract no. (2002)006 (in Chinese) dated 10th February, 2002 between (1) 珠海保稅區管理委員會 (Zhuhai Free Trade Zone Administrative Committee) (“**Zhuhai Committee**”) and (2) Loyalion for the grant of the land use rights for a plot of land situated at 珠海保稅區第47號區域 (Zone No. 47 of Zhuhai Free Trade Zone) by Zhuhai Committee to Loyalion at an aggregate consideration of RMB3,240,000;
- (f) a supplemental deed dated 27th May, 2002 between (1) the Company, (2) Cheung Kwai Lan, (3) Chan Ting, (4) Loyalion, (5) Phoenix Capital Asia Limited and (6) the noteholders named therein (by Phoenix Capital Asia Limited for and on behalf of the noteholders) in relation to, inter alia, the amendment of the definition of

- the conversion price in the note instrument (“**Note Instrument**”) constituting HK\$13,000,00 of convertible notes issued by the Company dated 3rd January, 2002;
- (g) a supplemental deed dated 3rd September, 2002 between (1) the Company, (2) Cheung Kwai Lan, (3) Chan Ting, (4) Loyalion, (5) Phoenix Capital Asia Limited and (6) the noteholders named therein (by Phoenix Capital Asia Limited as noteholder agent for and on behalf of the noteholder committee) in relation to, inter alia, amendments on the Note Instrument;
 - (h) a deed of indemnity dated 28th October, 2002 given by Cheung Kwai Lan, Chan Tung Mei and Chan Ting in favour of the Company and its subsidiaries being the deed of indemnity containing indemnities in respect of, inter alia, Hong Kong estate duty;
 - (i) the underwriting and placing agreement dated 28th October, 2002 in respect of the share offer of the Company and made between, among others, the Company, the executive Directors, Guotai Junan Capital Limited (“**Sponsor**”) and the Underwriters (as defined therein);
 - (j) the sponsor agreement dated 28th October, 2002 entered into between (1) the Company and (2) the Sponsor, whereby the Company appointed the Sponsor to act as its sponsor for the period commencing from the date when trading in the Shares first commenced on GEM and expiring on 30th June, 2005 for the purpose of the GEM Listing Rules;
 - (k) a sale and purchase agreement dated 2nd January, 2003 between (1) Pentagon Agents Limited, (2) Telesonic Singapore Pte. Ltd., (3) Wong Kim Ket and (4) B & B Natural Products (BVI) Limited, for the sale and purchase of 75,000 existing shares, representing 75% of the issued share capital of Hsing Long Trading Co. Pte. Ltd.;
 - (l) the Promoters’ Agreement; and
 - (m) the Placing and Subscription Agreement.

10. GENERAL

- (a) The registered office of the Company is at Ugland House, P.O. Box 309, George Town, Grand Cayman, Cayman Islands and the head office and principal place of business of the Company is at Unit 1603, 16th Floor, Dina House, 11 Duddell Street, Central, Hong Kong. The share registrar and transfer office of the Company is Standard Registrars Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

- (b) The Compliance Officer of the Company is Mr Chan Ting.
- (c) The Company Secretary and the Qualified Accountant of the Company is Mr Kwan Yiu Ming, Patrick. Mr Kwan holds a bachelor degree of commerce in accounting from the Curtin University of Technology in Australia. Mr Kwan is a fellow member of the Hong Kong Society of Accountants and the Association of Chartered Certified Accountants.
- (d) The Company established an audit committee on 18th October, 2002 with written terms of reference in compliance with Rule 5.23, 5.24 and 5.25 of the GEM Listing Rules. The primary duties of the audit committee are to review the Company's annual report and accounts, half-year reports and quarterly reports and to provide advice and comments thereon to the Board. The audit committee is also responsible for reviewing and supervising the financial reporting process and internal control procedures of the Group.

The audit committee comprises Professor Peter Chin Wan Fung and Mr Du Ying Min, both being independent non-executive Directors and further details of whom are as follows:

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

Mr Du Ying Min, aged 51, was the Government Deputy Mayor of Xin Xiang City (新鄉市政府，河南省) from 1994 to 1997. He was a director of Zhong Cheng Group Judiciary Department from 1997 to 2001. He graduated from 中國社會科學院研究生院 and received a 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 was appointed as an independent non-executive Director in September 2002.

- (e) The authorised share capital of the Company is HK\$200,000,000 divided into 20,000,000,000 Shares. As at the Latest Practicable Date, the issued share capital of the Company was HK\$4,706,200 divided into 470,620,000 Shares.
- (f) Dealings in the Shares may be settled through CCASS and investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interests.
- (g) Save as disclosed in this circular, the Directors are not aware of any person who was, as at the Latest Practicable Date, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital (including options in respect of such capital) carrying rights to vote in all circumstances at general meetings of the Company or any of its subsidiaries.
- (h) Save as disclosed in this circular:
 - (i) none of the Directors or expert of this appendix has any direct or indirect interest in any assets which have been, since 30th June, 2003, the date to which the latest published audited financial results of the Company were made up, to the Latest Practicable Date, acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group; and
 - (ii) none of the Directors is materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the business of the Group.
- (i) The English text of this circular shall prevail over the Chinese text.

11. EXPERTS

- (a) Tai Fook Capital Limited is a licensed corporation under the transitional arrangement to carry on Type 6 (advisory on corporate finance) regulated activity for the purposes of the SFO.

Tai Fook Capital Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of and references to its name and/or letter in the form and context in which they respectively appear.

As at the Latest Practicable Date, Tai Fook Capital Limited, its directors, employees and associates do not have any shareholding interest in any member of the Group or any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

- (b) As at the Latest Practicable Date, Li, Ko & Yan, certified public accountants, Hong Kong has given and has not withdrawn its written consent to the issue of this circular with inclusion of its review report, which has been prepared for inclusion in this circular, and references to its name in the form and context in which they appear.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong at Unit 1603, 16th Floor, Dina House, 11 Duddell Street, Central, Hong Kong, up to and including 29th December, 2003:

- (a) the memorandum and articles of association of the Company;
- (b) the prospectus dated 29th October, 2002 of the Company;
- (c) the material contracts referred to in the section headed “Material Contracts” of this appendix;
- (d) the service contracts referred to in the section headed “Service Contracts” of this appendix;
- (e) the annual reports of the Company for the years ended 30th June, 2002 and 30th June, 2003;
- (f) a copy of each circular of the Company issued since 1st July, 2003;
- (g) the letter from the Independent Board Committee, the text of which is set out in the section headed “Letter from the Independent Board Committee” of this circular;
- (h) the letter of advice from Tai Fook Capital Limited to the Independent Board Committee, the text of which is set out in the section headed “Letter from the independent financial adviser” of this circular; and
- (i) the written consents of Tai Fook Capital Limited and Li, Ko & Yan as referred to in the section headed “Experts” of this circular.

NOTICE OF EXTRAORDINARY GENERAL MEETING



B & B NATURAL PRODUCTS LIMITED

蜂林天然產品有限公司*

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

(incorporated in the Cayman Islands with limited liability)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of B & B Natural Products Limited (the “Company”) will be held at Unit 1603, 16th Floor, Dina House, 11 Duddell Street, Central, Hong Kong on Wednesday, 31st December, 2003 at 10:00 a.m. for the purpose of considering and, if thought fit, passing (with or without modifications) the following resolution which will be proposed as an ordinary resolution:

ORDINARY RESOLUTION

“**THAT** the proposed material change(s) (“**Proposed Change**”) to the general character or nature of the business of the Company and its subsidiaries (the “**Group**”) as contemplated under the promoters’ agreement (in Chinese) dated 25th November, 2003 (“**Agreement**”) entered into between (1) 湖南友誼阿波羅股份有限公司 (Hunan Friendship Apollo Company Limited); (2) Loyalion Limited, a wholly-owned subsidiary of the Company; (3) 湖南其美投資有限公司 (Hunan Qi Mei Investment Company Limited); (4) 青島美雲科貿有限公司 (Qing Dao Mei Yun Scientific Trading Company Limited) and (5) 鳳凰古城旅遊有限責任公司 (Phoenix Old City Travel Company Limited) (a copy of which has been produced to this meeting marked “A” and initialed by the chairman of the meeting for the purpose of identification) for the establishment of a joint stock limited company to be incorporated in Hunan Province, the People’s Republic of China including the engagement in the business of distribution and retail of consumable goods be and are hereby approved, confirmed and ratified and that any one director of the Company (“**Director**”) or any two Directors if the affixation of common seal is necessary, be and is/are hereby authorized for and on behalf of the Company to execute all such documents, instruments and agreements and to do all such acts or things deemed by him/her/them to be incidental to, ancillary to or in connection with the Proposed Change.”

By order of the Board

Chan Ting

Director and Chief Executive Officer

Hong Kong 16th December, 2003

* for identification only

NOTICE OF EXTRAORDINARY GENERAL MEETING

Head office and principal place

of business in Hong Kong:

Unit 1603, 16th Floor

Dina House

11 Duddell Street

Central, Hong Kong

Notes:

1. Any member of the Company entitled to attend and vote in the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of such member. A proxy need not be a member of the Company.
2. To be valid, the form of proxy, together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be deposited at the principal place of business of the Company in Hong Kong at Unit 1603, 16th Floor, Dina House, 11 Duddell Street, Central, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.