BRAVO FOODS INTERNATIONAL CORP
Form 10KSB
April 14, 2003

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF
THE SECURITIES EXCHANGE ACT OF 1934

Report For Period January 1, 2002 to December 31, 2002

BRAVO! FOODS INTERNATIONAL CORP.
(Name of Small Business Issuer in its Amended Charter)

Commission File Number 0-20549

Delaware	62-1681831
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

11300 US Highway 1, Suite 202, North Palm Beach, Florida 33408 USA
(Address of principal executive offices) (Zip Code)

Telephone number: (561) 625-1411

Securities registered under Section 12(b) of the Exchange Act:

None

Securities registered under Section 12(g) of the Exchange Act

Common Stock, $.001 par value
(Title of class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [ ]

The issuer's revenues for its most recent fiscal year were $1,772,970.

The aggregate market value of the voting stock held by non-affiliates of the issuer on March 24, 2003,based upon the $0.28 per share average bid and asked prices of such stock on that date, was $5,975,527, based upon 21,341,170 shares held by non-affiliates of the issuer. The total number of issuer's shares of common stock outstanding held by affiliates and non-affiliates as of March 24, 2003 was 25,762,854.

Transitional Small Business Disclosure Format (check one): Yes [ ] No [X]

DOCUMENTS INCORPORATED BY REFERENCE: See Exhibits

FORWARD-LOOKING STATEMENTS

Statements that are not historical facts, including statements about the Company's prospects and strategies and its expectations about growth contained in this report are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements represent the Company's present expectations or beliefs concerning future events. The Company cautions that such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the Company's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among other things, the uncertainty as to the Company's future profitability; the uncertainty as to whether the Company's new business model can be implemented successfully; the accuracy of its performance projections; and the Company's ability to obtain financing on acceptable terms to finance its operations until profitability.

PART I

ITEM 1 - DESCRIPTION OF BUSINESS

The Company

The Company is a Delaware corporation, which formerly owned the majority interest in two Sino-American joint ventures in China, known as Green Food Peregrine Children's Food Co. Ltd. and Hangzhou Meilijian Dairy Products Co., Ltd. Presently, the Company wholly owns a so-called "free trade zone" subsidiary in Shanghai, known as China Premium Food Corp (Shanghai) Co., Ltd., as well as a U.S. subsidiary, known as Bravo! Foods, Inc. The U.S. subsidiary has not functioned as an operating company since the end of 2001. Both Green Food Peregrine and Meilijian Dairy processed milk products for local consumption in the areas of Shanghai and Hangzhou, China, respectively

The Company was formed on April 26, 1996 and was formerly known as Shakespeare Holding, Inc. In February 1997, Shakespeare merged with Manor Products Corp., a Delaware company established on January 26, 1996 and changed its name to China Peregrine Food Corporation. Manor was a shell company with 331 shareholders and no operating history. Similarly, China Peregrine Food Corporation was a company without substantial assets or operating activity until it purchased the assets of China Peregrine Enterprises Limited in March 1997.

The Company's March 5, 1997 purchase of the assets of China Peregrine Enterprises Limited resulted in the Company becoming an operating entity. These assets consisted of the equity position and contractual rights, which China Peregrine Enterprises had in the Green Food Peregrine Chinese joint venture. In consideration for this purchase, the Company issued 45% of its outstanding common stock to the limited partnership. Despite various business strategies, product shifts and attempted management changes, Green Food Peregrine's pasteurized milk business failed to reach economic viability, never having penetrated more than 3% of the relevant market. The business activities of Green Food Peregrine ceased in December of 1999.

On September 3, 1997 and June 28, 1998, respectively, the Company executed agreements to acquire a 52% interest in Hangzhou Meilijian Dairy from American Flavors China, Inc., a Delaware corporation, which acquisition was approved by the Chinese government in 1998. The remaining 48% of Hangzhou Meilijian is owned by Hangzhou Dairy Co., a controlled entity of the regional Chinese government. The Company encountered management difficulties with this joint venture around new product issues. In December 2000, the Chinese government approved the buy out of the Company's equity interest in this joint venture by the Company's Chinese partner. That buy out transaction has closed, and the Company has received approximately $900,000 for its interest in 2000 and 2001.

In December 1999, the Company obtained Chinese government approval for the registration of a new wholly owned subsidiary in the Wai Gao Qiao "free trade zone" in Shanghai, China. The Company formed this import-export company to import, export and distribute food products on a wholesale level in China. In addition, China Premium (Shanghai) is the Company's legal presence in China with respect to contractual arrangements for the development, marketing and distribution of branded food products.

In December of 1999, the Company formed Bravo! Foods, Inc., a wholly owned Delaware subsidiary, which the Company utilized to advance the promotion and distribution of branded Looney Tunes(tm) products in the United States, through production agreements with local dairy processors.

On February 1, 2000, the Company changed its name from China Peregrine Food Corporation to China Premium Food Corporation, and on March 16, 2001 the Company changed its name to Bravo! Foods International Corp.

The Business

The Company's business includes obtaining license rights for several Looney Tunes(tm) characters from Warner Bros. Consumer Products, granting production and marketing rights to processor dairies to produce Looney Tunes(tm) flavored milk and generating revenue primarily through the sale of "kits" to these dairies under production contracts. "Kits" sold to processors consist of flavor ingredients that were developed and refined by the Company and the grant of production rights to processors to produce the flavored milks. The consideration paid to the Company under these production contracts consist of fees charged for the Company's grant of production rights for the Looney Tunes(tm) flavored milks plus a charge for flavor ingredients. The fees charged by the Company for the production rights have been formulated to match the Company's costs for the Warner Bros. Looney Tunes(tm) intellectual property licenses. In the United States, the Company also generates revenue from the unit sales of finished Looney Tunes(tm) flavored milks to retail consumer outlets.

Licenses

In March of 1999, the Company commenced a licensing agreement with

Warner Bros. Consumer Products, permitting the Company to produce and distribute a line of high quality, flavored milks branded with the Warner Bros. Looney Tunes(tm) logos, characters and names in the Shanghai and Hangzhou greater metropolitan areas. To obtain this license, the Company agreed to pay 3% royalty fees of net invoiced price of each licensed product with a minimum guaranteed royalty of $300,000. In the summer

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of 2000, the Company agreed to pay an additional $100,000 for an expanded license for all of mainland China and an extension of the expiration date to June 2003.

On July 27, 2000, the Company executed a licensing agreement with Warner Bros. to use Looney Tunes(tm) characters and names on milk products in the entire United States. This licensing agreement grants to the Company the right to use the cartoon characters of Bugs Bunny, Tweety, Tasmanian Devil, Road Runner, Wile E. Coyote, Lola Bunny, Marvin the Martian, Sylvester and Daffy Duck on milk products for sale in specified retail outlets in the fifty United States, Puerto Rico and the United States Virgin Islands. The initial term of the agreement was for 3 years, from January 1, 2000 through December 31, 2002. In early 2002, the parties agreed to extend the term of this license for an additional year to December 31, 2003.

On November 7, 2001, the Company executed a licensing agreement with Warner Bros. to use Looney Tunes(tm) characters and names on milk products in Mexico. This licensing agreement grants the Company the right to use the Warner Bros. cartoon characters on milk products for sale in specified retail outlets throughout Mexico. The initial term of the agreement is for 3 years, from June 1, 2001 through May 31, 2004.

On May 28, 2002, the Company executed a licensing agreement with Warner Bros. to use Looney Tunes(tm) characters and names on milk products in Canada. This licensing agreement grants the Company the right to use the Warner Bros. cartoon characters on milk products for sale in specified retail outlets throughout Canada. The initial term of the agreement is for 25 months, from March 1, 2002 through March 31, 2004.

All of the Company's licensing agreements recognize that the Company will use third party production agreements for the processing of flavored milk products, and that the milk products will be produced and may be sold directly by those processors. The Company's responsibilities under its third party production agreements are to design and provide Warner Bros. approved packaging artwork, to help determine the best tasting flavors for the particular market and to assist in the administration, promotion and expansion of the Looney Tunes(tm) branded milk program. Ingredients for the flavored milks are formulated to the Company's specifications and supplied on an exclusive basis by Givaudan Roure. In the United States, the Company assumes the responsibility for sales and marketing of the Looney Tunes(tm) flavored milks produced by Jasper Products and Shamrock Farms.

Under the Company's United States license, the Company agreed to a royalty rate of 5% on the amount invoiced to the producer dairies for "kits". In Mexico, the Company agreed to a sliding scale royalty rate initially equal to 5% on the amount invoiced, with rate increases to 5% and 7%, respectively for the second and third contract years. The Company agreed to a 5% royalty rate on the amount invoiced to the producers in Canada and a 3% royalty rate in China.

Production Contracts

Prior to 2000, the Company's business primarily involved the production and distribution of milk in China. In the third quarter of 2000, the Company began to refocus the Company's business away from the production - distribution aspect of the value chain by implementing a business model that involved the branding, marketing, packaging design and promotion of flavored fresh milk in the United States, branded with Looney Tunes(tm) characters. During the middle of 2001, this refocused business was implemented in China, in December 2001 in Mexico, and in the third quarter of 2002 in Canada.

United States

The initial dairy processors with which the Company had production contracts were members of Quality Chekd Dairies, Inc., a national cooperative with over 40 member dairies that process fresh milk on a regional basis. Bravo! and Quality Chekd entered into a promotion agreement that governed

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the administration, promotion and marketing of this member dairy program. Under this arrangement, Quality Chek'd was responsible for the administration and logistics of the kit sales to its member dairies, including the collection of revenues and the payment of cost of goods sold and selling expenses for the kits. The Company received net revenue payments from Quality Chek'd upon its collection of receivables and payment of expenses. Sales of flavored milk units to retail consumer outlets were the responsibility of the Quality Chek'd's regional processor dairies. The business, while viable, proved to have limited sales expansion capabilities in the US owing to the inherent regional distribution limitations of a "fresh" milk product with a short shelf life.

The advent of extended shelf life (ESL) and aseptic long life milk presented the Company with the opportunity to increase dramatically sales on a national basis. In the third quarter of 2001 and the first quarter of 2002, the Company entered into production contracts with Shamrock Farms, located in Phoenix, Arizona and Jasper Products, of Joplin, Missouri, respectively, and began to market Looney Tunes(tm) ESL and aseptic flavored milks to accounts such as Wal-Mart and Super Target.

Significantly, with ESL and aseptic milks, the Company is no longer dependent upon regional processor dairies to promote the sale of the Company's Looney Tunes(tm) flavored milks. Since distribution issues do not limit ESL and aseptic milk sales to the accounts of regional dairy processors, the Company has assumed responsibility for promoting sales either directly or through food brokers who represent the Company with both national and regional accounts. This refined business model, coupled with the production capacity of these two ESL dairy processors, allowed the Company to seek national accounts in an aggressive fashion, resulting in arrangements to supply flavored milk products to over 11,000 stores nationally at the end of 2002.

Under the Company's current U.S. business model, the Company's revenue source derives not only from "kit" sales but also from the differential between the cost to the Company of producing the ESL and long life aseptic products and the wholesale price to the Company's accounts for unit sales of the finished Looney Tunes(tm) flavored milks.

In June 2002, the Company entered into a production contract with a division of Parmalat USA Corp. to produce, market and sell the Looney Tunes(tm) brand flavored milks. Under this agreement, Parmalat is the exclusive producer and distributor of Bravo! Foods' new Looney Tunes(tm) brand fortified aseptic milk, packaged in Tetra-Brik(tm) format under the Company's Slammers Fortified Reduced Fat Milk(tm) logo in the United States. The Company's agreement with Parmalat gives the Company an expanded presence in supermarkets through the use of shelf stable aseptic milk that is processed, sold and distributed by Parmalat. In addition, under this agreement the Company has retained responsibility for aseptic product sales in the food service sector, either directly or through food brokers who will represent the Company with both national and regional accounts.

Mexico

In December 2001, the Company commenced its contractual relationship with Neolac S.A, a national dairy processor located in central Mexico. The Company sells kits to Neolac, including production rights for the Looney Tunes(tm) characters licensed from Warner Bros. for all of Mexico. The Company's responsibilities are to design and provide Warner Bros. approved packaging artwork, to help determine the best tasting flavors for the particular market and to assist in the administration, promotion and expansion of the Looney Tunes(tm) branded milk program. Ingredients for the flavored milks are formulated to the Company's specifications and supplied on an exclusive basis by Givaudan Roure. The Company does not have any responsibility for or participation in sales or distribution in Mexico.

Canada

In April 2002, the Company commenced its contractual relationship with Farmers Dairy, a dairy processor located in Halifax, Nova Scotia, Canada. The Company sells kits to Farmers Dairy, including

production rights for the Looney Tunes(tm) characters licensed from Warner Bros. The Company's responsibilities are to design and provide Warner Bros. approved packaging artwork, to help determine the best tasting flavors for the particular market and to assist in the administration, promotion and expansion of the Looney Tunes(tm) branded milk program. Ingredients for the flavored milks are formulated to the Company's specifications and supplied on an exclusive basis by Givaudan Roure. The Company does not have any responsibility for or participation in sales or distribution in Canada.

China

The Company's withdrawal from milk production in China in 2000 resulted in the signing of supply agreements with Hangzhou Meilijian and Huai Nan Dairy to produce branded Looney Tunes(tm) traditional white and flavored milks, which the Company sold in Shanghai, Hangzhou, Ningbo, Nanjing, Fuzhou, Wuxi and Suzhou. Sales of Looney Tunes(tm) flavored milks in Shanghai commenced in September 2000.

The administration of supply, distribution, marketing and sales of the Looney Tunes(tm) branded milk products in China was the responsibility of China Premium Food Corporation (Shanghai), Ltd., the Company's wholly owned Chinese registered subsidiary. While this business model moved the Company away from production, it proved to be inefficient from a market penetration point of view and expensive. Accordingly, the Company commenced negotiations with several large regional dairies to implement the "kit sales" business model.

In October 2001, China Premium (Shanghai) began to implement the Bravo! "kit sales" model with the execution of a production contract with Kunming Xuelan Dairy, located in Kunming City in Southwest China. Since October 2001, Kunming Dairy has been producing all five flavored milks in 250ml single serve gable top packaging.

In January 2002, Heilongjiang Wan Shan Dairy (Wonder Sun Dairy) began producing the vanilla Looney Tunes(tm) flavored milk. This dairy is located in Harbin City in Northeast China and has distribution rights to Heilongjiang, Jilin, Liaoning and Hebei provinces as well as Beijing and Tianjin municipalities. Currently, Wonder Sun Dairy is producing 4 tons for 20,000 production units per day in 200ml single serve plastic bottles for school lunch programs in Heilongjiang and 3.5 tons for 5,000 single serve 220ml production units of drinkable yogurt in Harbin.

Products

Prior to 2000, the Company processed and distributed fresh white milk in China in gable top paper cartons and in traditional Chinese plastic "baggie" pouches. This product was unbranded and was not flavored. In 1999, the Company began to process and sell Looney Tunes(tm) flavored milks in gable top packaging in China. Commencing in September 2000, the Company implemented the "kit" sales model for the production of Looney Tunes(tm) flavored milks in pouches and single serve plastic bottles through third party production agreements. Currently, Looney Tunes(tm) milk products are sold in 200ml plastic bottle packaging. In the last quarter of 2002, the Company introduced drinkable flavored yogurt in 220ml single serve plastic bottles

Commencing in September of 2000, the Company implemented the "kit" sales program with third party processors in the United States, for the production and sale of fresh Looney Tunes(tm) flavored milk in single serve plastic bottles. This product, as with all of the Company's U.S. products up to September 2000, had a limited shelf life of, generally, 21 days.

In early 2002, the Company developed Looney Tunes(tm) brand extended shelf life and aseptic long life flavored milk products. The extended shelf life product is sold in 11.5oz single serve plastic bottles

and must be refrigerated. The shelf life of this product is 90 days. The Company's aseptic product does not require refrigeration and has a shelf life of 8 months. This product is packaged in an 11.2oz Tetra Pak Prisma(tm) sterile paper container. Both of these products were introduced to the public in the second and third quarters of 2002.

Commencing in May 2002, the Company developed a new branded fortified flavored milk product under the "Slammers Fortified Reduced Fat Milk(tm)" brand name. The Company's Slammers brand is used in conjunction with the Company's licensed Looney Tunes(tm) characters. Slammers is made from 2 percent fat milk and is fortified with 11 essential vitamins. The introduction of this new product and the phase out of the Company's "regular" Looney Tunes(tm) branded milks occurred in the fourth quarter of 2002. The Company's Slammers Looney Tunes(tm) flavored milks are sold in the United States in single serve extended shelf life 11.5 oz plastic bottles, as well as the long life 11.2oz aseptic Tetra Pak Prisma(tm) package. The

Company's Slammers Looney Tunes(tm) flavored milks are sold in Mexico and Canada in single serve extended shelf life 11.5 oz plastic bottles.

In October 2002, Parmalat introduced Looney Tunes(tm) brand fortified aseptic milk, packaged in an 8oz Tetra-Brik(tm) format under the Company's Slammers Fortified Reduced Fat Milk(tm) logo pursuant to a production agreement with the Company executed in June 2002. The 8oz Tetra Brik Slammers does not require refrigeration and has a shelf life of 6 months. Currently, this product is available only in the mainland United States.

In November 2002, the Company introduced Slim Slammers Fortified Milk(tm), a low calorie version of the Company's Looney Tunes(tm) Slammers Fortified Reduced Fat Milk(tm). Slim Slammers Fortified Milk(tm) has no sugar added and is sweetened with sucralose, a natural sweetener made from sugar. Slim Slammers Fortified Milk(tm) is made from 1 percent fat milk, is fortified with 11 essential vitamins and is available in the same flavors as the Company's Slammers brand. This product currently is being introduced in the United States.

Industry trends

The dairy industry in the western world is a very mature industry with slow growth and to a large extent, commodity like margins. The "got milk" campaign has helped heighten awareness of the nutritional benefits of dairy products but, even with this promotion, the US consumption of milk was basically flat last year.

Flavored milks were the only area of growth in the past two years and, when promoted aggressively, the sales of flavored milk actually increased the sales of traditional white milk. The International Dairy Foods Association reported that flavored milks represent the only category for price and margin gains. As a result, Nestles, Dean's, Hershey and Borden all promote their brand of refreshment drinks. Last year's sales of flavored milks continued to have a 7% gain in product volume and a 12% increase in sales measured in dollars. Growth of this nature is welcome to this industry and validates the interest by the trade in products like the Company's Slammers brand Looney Tunes(tm) milk. The Beverage Marketing Corp. projects that growth in white milk will be flat to .5%, with growth in flavored milks from 4% to 8% per year over the next five years. Growth in the distribution of single serve milk products is projected by this research group at from 10% to 20%.

Market analysis

The flavored milk business is a relatively new category in the dairy field. The flavored "refreshment" segment is both the fastest growing and most profitable category in the industry and is receiving the most attention in the industry today. Pioneered by Nestle with the NesQuik line and Dean Foods with the Chug brand, this "good for you" segment is in demand both in the U.S. and internationally.

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The International Dairy Foods Association reports that, although flavored milk currently amounts to only 5 to 6 percent of milk sales, it represent over 59% of the growth in milk sales. With the total milk category exceeding $9.3 billion in 2002, the flavored segment was approximately $496 million. Statistically, as the flavored segment grows, the entire category grows as well. Selling more flavored milks has resulted in more sales of white milk as well.

The Company is developing a niche in the single serve flavored milk business by utilizing the Company's license with the well-known Looney Tunes(tm) characters in the U.S., China, Mexico and Canada as part of the promotion of the Company's Slammers and Slim Slammers products. This niche has as its focus the increased demand for a single serve, children's oriented healthy and refreshing drinks.

Market segment strategy

The Bravo! model addresses a very clear and concise target market. The Company knows from experience that the largest retailers of milk products are demanding new and more diverse refreshment drinks, specifically in the dairy area in response to consumer interest and demand. To that end, the Company has and will continue to differentiate the Company's products from those of the Company's competitors through innovative product formulations and packaging designs, such as those implemented in the Company's Slammers fortified milk product line and the Company's Slim Slammers low calorie, no sugar added products.

The Company's Slammers Looney Tunes(tm) milk products have had great results penetrating this arena as consumers continue to look for healthy alternatives to carbonated beverages. The positioning of the Company's products as a healthy, fun and great tasting alternative refreshment drink at competitive prices to more traditional beverages creates value for the producer and the retailer alike. This "profit orientation" for the trade puts old-fashioned milk products in a whole new light. The consumer is happy, the retailer is happy and the producer is able to take advantage of the value added by the brand and the resulting overall increase in milk sales.

In October 2002, the Company announced that 55 schools servicing 35,000 students in Missouri, Nebraska, Pennsylvania and Tennessee will be the first to add Looney Tunes(tm) brand flavored milk to their school lunch programs. The Company has been and continues to pursue a strategic goal of placing the Company's Slammers Looney Tunes(tm) milks in elementary, middle and high schools through ala carte lunch programs and vending facilities in school cafeterias, and is promoting the Company's Slim Slammers milks as low calorie, non-sugar added alternative to traditional soft drinks

Competition

There are definite differences in the various competitors approach to this new segment. The differences address packaging, processing, marketing and distribution. Bravo! has taken the course of least resistance while producing a product that is positioned to reward all involved economically.

Dean Foods based their market entrance four years ago on a new package called the Chug. This was an innovative new way to market milk in a format that made it convenient to drink milk "on the fly". The "chug" bottle was introduced in 8 oz and 16 oz plastic milk bottles. These bottles have a wide mouth opening and a very attractive screw top for convenience of sealing. The graphic label on the bottle was a full wrap and was introduced in both white and chocolate flavors. Currently, Dean is producing a flavored milk line under a license from Hershey's.

Nestle launched their new line of flavored milks approximately four years ago with a shaped bottle, the Nestle "bunny" and a broad line of flavors. Nestle, branding Nesquick as a new name distinct from Nestle Quick, produces a sterile aseptic product, which has long-life characteristics enabling fast national penetration. This long shelf life configuration offers considerable economic advantages in terms of shipping, storage, returns and production economies but significantly impacts product quality and taste.

The Company has settled on the kit approach in an effort to develop and promote a taste tested ultra quality fresh product, while enjoying the instant recognition of an international brand. Looney Tunes(tm) is the most recognized family of intellectual properties in the world today, and Looney Tunes(tm) licensed products generate over $5 billion sales worldwide. The Company has been able to enter into production contracts with several national and international dairies and has moved from fresh milk to ESL and aseptic long shelf life products to expand the market for the Company's branded products.

The Company's resources for promotions have been limited, and the Company runs significantly less promotional activities in comparison to the Company's competitors. Where the Company is in direct competition with Nestles and Hershey's, however, the Company has been able to maintain a competitive sales rate of 26% against 48% for Nestles and 26% for Hershey's.

Employees

The Company has seven full time employees located at its North Palm Beach corporate offices. China Premium (Shanghai) has four employees in management with two clerical staff.

China Premium (Shanghai) import/export company.

In December 1999, the Company moved further away from production by positioning the Company's Chinese subsidiary in the business of food distribution in China. The Company obtained government approval for the registration of China Premium Food Corp (Shanghai) Co., Ltd., the Company's wholly owned subsidiary in the Wai Gao Qiao Free Trade Zone in Shanghai, China. This subsidiary offers foreign companies the entire infrastructure necessary to facilitate import/export transactions in or with China, including tax and legal compliance, customs and foreign currency exchange. Pursuant to Wai Gao Qiao rules, this subsidiary can distribute products that it imports into China, while maintaining reasonable price/profit margins owing to its status as a direct importer. At present, the Company has focused its resources on building the Looney Tunes(tm) business in China. With anticipated increased revenues from the China, US and other overseas operations, the Company hopes to revisit the import/export company concept before the end of 2003 in order to explore the business opportunities attendant to China accession to the WTO.

The Role of Government; Doing Business in China

Doing business in China involves several risks including internal and international political risks, evolving national economic policies as well as financial and accounting standards, expropriation and the potential for a reversal in economic conditions.

The revenues of the Company and its subsidiaries in China will be in Chinese renminbi (RMB). In order to pay the Company fees and dividends, a conversion of RMB into US dollars is required. Under current Chinese law, the conversion of RMB into foreign currency requires government consent. Government authorities may impose restrictions that could have a negative impact on the conversion process.

With respect to the conditions and activities of Chinese companies, including the Company's Chinese subsidiary, the operations of such entities must be viewed in the context of the Chinese business environment existing in the People's Republic of China. There can be no assurance that the sources from which information is provided concerning the day-to-day activities of such companies, including their respective relationships to local governmental and regulatory authorities, are wholly reliable.

Official statistics also may be produced on a basis different to that used in western countries. Any of the statements as to operations contained in this document must be subject to some degree of uncertainty due to doubts about the reliability of available information from and with regard to the respective joint ventures.

ITEM 2 - DESCRIPTION OF PROPERTY

Neither the Company nor its subsidiaries currently own any real property. As of February 1, 1999, the Company moved its corporate offices from West Palm Beach to 11300 US Highway 1, Suite 202, North, Palm Beach, Florida, pursuant to a lease with HCF Realty, Inc., having a term of five years. The initial aggregate monthly rent amounts to approximately $6,107.

China Premium (Shanghai) leases office space at 2052 Zhongshan Road North, Zhengyuan Building, Shanghai, China, at the gross rate of US $1,000 per month.

The Company does not have a policy to acquire property for possible capital gains or income generation. In addition, the Company does not invest in securities of real estate entities or developed or underdeveloped properties.

ITEM 3. LEGAL PROCEEDINGS

There currently are no claims or lawsuits against the Company for which a report is required.

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

On October 9, 2002, the Company held an annual meeting of its shareholders, at which the re-election of five of its directors and the appointment of an auditor were submitted to a vote of the security holders, entitled to vote. The matters presented for a shareholder vote were uncontested. The results are as follows:

Director	Votes For	Percentage	Votes Against	Votes Abstained
Robert J. Cummings	13,960,591	64%	3,365,029	0
George Holdsworth	14,035,734	64%	3,289,886	0
Stanley Hirschman	13,631,634	62%	3,693,986	0
Michael Lucci	13,960,591	64%	3,365,029	0
Phillip Pearce	14,090,734	65%	3,234,886	0
Auditor	16,890,600	77%	394,400	40,620

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Common stock market price

Of the 25,732,854 shares of common stock issued and outstanding as of December 31, 2002, all but 100,000 shares can be traded on the over-the-counter trading on the OTC Electronic Bulletin Board, which trading commenced October 24, 1997. Of this amount, 2,092,710 shares are held by affiliates. The following quarterly quotations for common stock transactions on the OTC Bulletin Board reflect inter-dealer prices, without retail mark-up, markdown or commissions and may not represent actual transactions.

	QUARTER	HIGH BID PRICE	LOW BID PRICE
2001			
	Q1 (1/3 - 3/31)	$0.59	$0.27
	Q2 (4/1 - 6/29)	$0.51	$0.32

	QUARTER	HIGH BID PRICE	LOW BID PRICE
	Q3 (7/1 - 9/28)	$0.51	$0.20
	Q4 (10/1 - 12/31)	$0.50	$0.31
2002			
	Q1 (1/3 - 3/29)	$0.52	$0.37
	Q2 (4/1 - 6/28)	$0.39	$0.21
	Q3 (7/1 - 9/30)	$0.38	$0.22
	Q4 (10/1 - 12/31)	$0.40	$0.24

Equity holders at March 24, 2003

Common stock	25,762,854 shares	1,900 holders (approximate)
Series B preferred stock	107,440 shares	1 holder
Series F preferred stock	130,515 shares	3 holders
Series G preferred stock	69,786 shares	4 holders
Series H preferred stock	175,500 shares	9 holders
Series I preferred stock	30,000 shares	2 holders
Series J preferred stock	150,000 shares	1 holder

Dividends

The Company has not paid dividends on its common stock and does not anticipate paying dividends. Management intends to retain future earnings, if any, to finance working capital, to expand its operations and to pursue its acquisition strategy.

The holders of common stock are entitled to receive, pro rata, such dividends and other distributions as and when declared by the Company's board of directors out of the assets and funds legally available therefor. The availability of funds is dependent upon dividends or distribution of profits from the Company's subsidiaries and may be subject to regulatory control and approval by the appropriate government authorities on either a regional or national level in the People's Republic of China.

The Company has accrued dividends for the Company's convertible preferred stock for 2001 in the amount of $255,725 and accrued $1,011,159 for the period ended December 31, 2002.

Securities authorized for issuance under equity compensation plans

The equity compensation reported in this section has been and will be issued pursuant to individual compensation contracts and arrangements with employees, directors, consultants, advisors, vendors, suppliers, lenders and service providers. The equity is reported on an aggregate basis as of December 31, 2002. The Company's security holders have not approved the compensation contracts and arrangements underlying the equity reported.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average price of outstanding options, warrants and rights	Number of sec remaining for issuance unde compensation
Directors	1,175,000	$0.71	None,
Employees	725,000	$0.57	indivi
Consultants/advisors	1,710,000	$0.46	plans
Consultants/service	312,714	$0.50	provid
Lender	25,000	$0.40	
Total	2,964,714	$0.55	

Compensation Plans

* Directors

On March 27, 2001, the Company issued options to the Company's directors to purchase the aggregate of 925,000 shares of the Company's common stock. The options have an exercise price of $0.75 and expire March 26, 2002. Directors received options for 35,000 shares for each full year of service and an additional 40,000 shares for service on a board committee. On August 14, 2001, the Company issued 250,000 options to the Board of Directors for services rendered as directors. Each director received options for 25,000 shares of common stock at an exercise price of $0.60. The options can be exercised for five years.

* John McCormack, President and Chief Operating Officer

The Company had a two-year contract with Mr. McCormack commencing December 1, 2000, at an annual base salary of $180,000. Mr. McCormack received 100,000 shares of common stock and options for 400,000 shares at $0.75 per share as a signing bonus. The options for 400,000 shares vest 25% on January 1, 2001, 25% on July 1, 2001, 25% on January 1, 2002, and 25%

vested on July 1, 2002, respectively and expire five years from vesting. During his employment, he also will receive five-year incentive options for an additional 500,000 shares in tranches of 100,000 as the public trading price for the Company's stock attains certain pre-determined levels. The exercise price for these options will track the market price for the Company's common stock when granted.

* Michael Edwards, the Company's Vice President for Sales

The Company has a three-year contract with Mr. Edwards commencing June 1, 2000, at an annual base salary of $110,000 plus a $65,000 one-year bonus, payable quarterly. Mr. Edwards received five-year options for 50,000 shares of common stock at an exercise price of $0.69 per share as a signing bonus, plus options for an additional 100,000 shares. These additional options have an exercise price that tracks the market price for the Company's common stock when granted. In 2001, Mr. Edwards' contract was renegotiated to provide for 400,000 additional options that will be issued in 2003.

* Nancy Yuan, Treasurer

Ms. Yuan has a five-year contract dated December 1, 1999 and effective September 13, 1999, at a base annual salary of $40,000, with an annual bonus of $5,000 in the first year. Ms. Yuan's employment agreement calls for her receipt of one time five-year stock options for 25,000 shares at an exercise price of $1.12 per share.

* Jeffrey Tarmy, General Manager of China Premium (Shanghai), wholly owned Chinese subsidiary

Mr. Tarmy has a two-year contract effective January 1, 2001, at a base annual salary of $100,000, with quarterly bonuses of $5,000 in the first year. In addition, Mr. Tarmy receives an $18,000 annual housing allowance and local transportation expenses. Mr. Tarmy's employment agreement calls for his receipt of five-year stock options in four equal tranches of 50,000 shares each at an exercise price of $1.12 per share. The tranches are to be issued January 1, 2001, 2002, 2003 and 2004, respectively, with each tranche vesting one year after issue.

* Consultants/advisors

Options to purchase 1,710,000 shares of common stock, pursuant to three consulting agreements, having an expiration date of May 21, 2003. Of the 1,710,000 options, 1,150,000 options have an exercise price of $0.33 per share and 560,000 options have an exercise price of $0.50 per share. Options for 1,000,000 shares at $0.33 per share were exercised in 2002.

* Consultants/service providers

On October 7, 2002, the Company issued options for 310,714 shares of its common stock to employees, consultants and third party professional service providers pursuant to written agreements with the Company for services rendered. These shares were issued pursuant to a 1933 Act Form S-8 registration statement. The Company received no cash for these options

Recipient	Common	Nature of Services	Exercise Price	Expira

Stock Options

Robert F. Eggleston, Jr	25,000	software services	$1.00 per share	Januar
Larry A. Slavik	25,000	software services	$1.00 per share	Januar
James D. Van de Vuurt	25,000	software services	$1.00 per share	Januar
Anthony P. Guiliano	235,714 (1)	Consultant services	$0.35 per share	June 3

(1) For services rendered by Mr. Guiliano pursuant to his employment contract with the Company's subsidiary Bravo! Foods, Inc.

* Lender

Warrants exercisable to purchase an aggregate of 25,000 shares of common stock at an exercise of $0.40 per share, having an expiration date of 2/28/07. These warrants were issued to the lender in connection with a December 27, 2001 loan of $250,000 to the Company, in lieu of interest.

Sale of unregistered securities

Quarter Ended December 31, 2002

The common stock issued by the Company in the fourth quarter 2002 resulted from conversions by the holders of Series F and G convertible preferred stock. The common stock and the preferred converted were issued to sophisticated and accredited investors, who had appropriate access to information concerning the Company's operations and financial condition in a rule 506 private offering. Holders of the Series F and G preferred can convert such equity into common shares at 75% of the average of the three lowest bid trading prices of the Company's common shares measured during a 20 day lookback period.

On November 8, 2002, the Company issued 160,112 shares of common stock to Austinvest Anstalt Balzers, upon the conversion of 2,642 shares of Series F Convertible Preferred, at a conversion price of $0.165. The Series F preferred does not include dividends.

On November 8, 2002, the Company issued 160,112 shares of common stock to Esquire Trade & Finance, Inc., upon the conversion of 2,642 shares of Series F Convertible Preferred, at a conversion price of $0.165. The Series F preferred does not include dividends.

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On November 18, 2002, the Company issued 26,000 shares of common stock to Nesher, Ltd., upon the conversion of 377 shares of Series G Convertible Preferred, at a conversion price of $0.1963. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $1,333.92.

On November 18, 2002, the Company issued 11,240 shares of common stock to Talbiya B. Investments, Ltd., upon the conversion of 163 shares of Series G Convertible Preferred, at a conversion price of $0.1963. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $577.16.

On November 18, 2002, the Company issued 10,000 shares of common stock to Nesher, Ltd., upon the conversion of 145 shares of Series G

Convertible Preferred, at a conversion price of $0.1963. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $515.68.

On November 18, 2002, the Company issued 6,000 shares of common stock to Talbiya B. Investments, Ltd., upon the conversion of 87 shares of Series G Convertible Preferred, at a conversion price of $0.1963. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $309.67.

On November 18, 2002, the Company issued 8,000 shares of common stock to The Keshet Fund LP, upon the conversion of 116 shares of Series G Convertible Preferred, at a conversion price of $0.1963. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $413.25.

On November 18, 2002, the Company issued 14,440 shares of common stock to Keshet, LP, upon the conversion of 208 shares of Series G Convertible Preferred, at a conversion price of $0.1960. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $747.92.

On November 18, 2002, the Company issued 6,000 shares of common stock to Keshet, LP, upon the conversion of 93 shares of Series G Convertible Preferred, at a conversion price of $0.2093. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $332.70.

On November 20, 2002, the Company issued 2,000,000 shares of common stock to Amro International, SA, upon the conversion of 39,200 shares of Series F Convertible Preferred, at a conversion price of $0.1960. The Series F preferred does not include dividends.

On November 27, 2002, the Company issued 16,000 shares of common stock to Keshet, LP, upon the conversion of 257 shares of Series G Convertible Preferred, at a conversion price of $0.2093. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $931.69.

On November 27, 2002, the Company issued 15,000 shares of common stock to Keshet, LP, upon the conversion of 273 shares of Series G Convertible Preferred, at a conversion price of $0.2480. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $994.59.

On December 24, 2002, the Company issued 8,000 shares of common stock to The Keshet Fund LP, upon the conversion of 144 shares of Series G Convertible Preferred, at a conversion price of $0.2467. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $534.17.

On December 24, 2002, the Company issued 45,000 shares of common stock to Nesher, LP, upon the conversion of 750 shares of Series G Convertible Preferred, at a conversion price of $0.2293. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $2,815.26.

On December 24, 2002, the Company issued 90,000 shares of common stock to Keshet, LP, upon the conversion of 1,501 shares of Series G Convertible Preferred, at a conversion price of $0.2293. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $5,630.52.

On December 24, 2002, the Company issued 45,000 shares of common stock to Talbiya B. Investments, Ltd, upon the conversion of 750 shares of Series G Convertible Preferred, at a conversion price of $0.2293. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $2,815.26.

Subsequent Events

On January 2, 2003 the Company granted options for 100,000 shares of common stock to Mr. Toulan pursuant to an employment contract. These options vested immediately, expire on December 30, 2007 and have an exercise price of $0.40 per share.

On January 2, 2003 the Company granted options for 100,000 shares of common stock to Mr. Toulan pursuant to an employment contract. These options vest on December 31, 2003, expire on December 30, 2008 and have an exercise price of $0.40 per share.

On January 2, 2003 the Company granted options for 100,000 shares of common stock to Mr. Toulan pursuant to an employment contract. These options vest on December 31, 2004, expire on December 30, 2009 and have an exercise price of $0.40 per share.

On February 21, 2002, the Company issued 50,000 shares of non-voting Series J 8% Convertible Preferred stock, having a stated value of $10.00 per Preferred J share, and common stock warrants to Mid-Am Capital, L.L.C. ("Mid-AM") for the aggregate purchase price of $500,000. Each preferred share is convertible to 40 shares of the Company's common stock of at a per common share conversion price of $0.25, representing 2,000,000 shares of common stock underlying the preferred. The issued warrants entitle the holder to purchase 33.33 shares of common stock for each share of Series J Convertible Preferred stock issued at an exercise price of $0.30 per common stock share, representing 1,666,667 shares of common stock underlying the warrants. The warrants are exercisable for a five-year period. The February 21, 2003 closing market trading price was $0.23 per share. This private offering was made to Mid-Am, an accredited investor, pursuant to Rule 506 of Regulation D and Section 4(2) of the Securities Act of 1933.

On February 24, 2003, the Company issued 30,000 shares of common stock to Keshet, LP, upon the conversion of 422 shares of Series G Convertible Preferred, at a conversion price of $0.1960. The conversion included accrued and unpaid dividends on the preferred converted in the amount of $1,662.25.

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ITEM 6. MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

Statements that are not historical facts, including statements about the Company's prospects and strategies and the Company's expectations about growth contained in this report are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements represent the present expectations or beliefs concerning future events. The Company cautions that such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the Company's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among other things, the uncertainty as to the Company's future profitability; the uncertainty as to whether the Company's new business model can be implemented successfully; the accuracy of the Company's performance projections; and the Company's ability to obtain financing on acceptable terms to finance the Company's operations until profitability.

OVERVIEW

The Company's business model includes obtaining license rights from Warner Brothers, Inc., granting production and marketing rights to regional dairies to produce Looney Tunes(tm) flavored milk and generating revenue primarily through the sale of "kits" to these dairies. The price of the "kits" consists of an invoiced price for a fixed amount of flavor ingredients per kit used to produce the flavored milk and a fee charged to the diaries for the production, promotion and sales rights for the branded flavored milk. In the United States, the Company also generates revenue from the unit sales of finished Looney Tunes(tm) flavored milks to retail consumer outlets.

For the year ended December 31, 2002, the Company's annual sales revenue increased with the implementation of the aforementioned business model and reached approximately $1,773,000 from approximately $869,000 in 2001. Notwithstanding a 104% increase in revenue, the Company's new product introduction and growth expansion have been expensive and, in 2002, the Company reported a net loss of approximately $3,160,000. At December 31, 2002, the Company had total assets of approximately $740,000, cash on hand of approximately $225,000, working capital deficit of approximately $1.46 million, accumulated deficit of approximately $25.6 million, and negative total shareholders' equity of approximately $1.5 million.

As shown in the accompanying financial statements, the Company has suffered operating losses and negative cash flows from operations since inception and at December 31, 2002 has an accumulated deficit, negative equity, is delinquent on certain debts and negative working capital. These conditions give rise to substantial doubt about the Company's ability to continue as a going concern. As discussed herein, the Company plans to work toward profitability in the Company's U.S. and China operations in 2003 and obtain additional financing. While there is no assurance that funding will be available or that the Company will be able to improve the Company's operating results, the Company is continuing to seek equity and/or debt financing. No assurances can be given, however, that the Company will be successful in carrying out the Company's plans.

CORPORATE GOVERNANCE

The Board of Directors

The Company's board has positions for nine directors that are elected as Class A or Class B directors at alternate annual meetings of the Company's shareholders. Seven directors of the Company's board are independent. The Company's chairman and chief executive officer are separate. The board meets regularly, at least four times a year, and all directors have access to the information necessary to enable them to discharge their duties. The board, as a whole, reviews the Company's financial condition, performance on an estimated vs. actual basis and financial projections as a regular agenda item at scheduled periodic board meetings, based upon separate reports submitted by the Company's chief executive officer and chief financial officer. Directors are elected by the Company's shareholders after nomination by the board or are appointed by the board when a vacancy arises prior to an election. The Company presently has one mid-term vacancy on the board. This year the Company has adopted a nomination procedure based upon a rotating nomination committee made up of those members of the director Class not up for election. The board presently is examining whether this procedure, as well as the make up of the audit and compensation committees, should be the subject of an amendment to the by-laws.

Audit Committee

The Company's audit committee is composed of three independent directors and functions to assist the board in overseeing the Company's accounting and reporting practices. The Company's financial information is booked in house by the Company's treasurer's office, from which the Company prepares financial reports. These financial reports are audited or reviewed by BDO Seidman, LLP, independent certified accountants and auditors. The Company's chief financial officer reviews the preliminary financial and non-financial information prepared in house, by the Company's securities counsel and the reports of the auditors. The committee reviews the preparation of the Company's audited and unaudited periodic financial reporting and internal control reports prepared by the Company's chief financial officer. The committee reviews significant changes in accounting policies and addresses issues and recommendations presented by the Company's internal and external certified accountants as well as the Company's auditors.

Compensation Committee

The Company's compensation committee is composed of three independent directors and reviews the compensation structure and policies concerning executive compensation. The committee develops proposals and recommendations for executive compensation and presents those recommendations to the full board for consideration. The committee periodically reviews the performance of the Company's other members of management and the recommendations of the chief executive officer with respect to the compensation of those individuals. Given the size of the Company, all such employment contracts are periodically reviewed by the board. The board must approve all compensation packages that involve the issuance of the Company's stock or stock options.

Nominating Committee

The nominating committee was established in the second quarter 2002 and consists of those members of the director Class not up for election. The committee is charged with determining those individuals who will be presented to the shareholders for election at the next scheduled annual meeting. The full board fills any mid term vacancies by appointment.

CRITICAL ACCOUNTING POLICIES

Estimates

This discussion and analysis of the Company's consolidated financial condition and results of operations are based on the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, the Company evaluates the Company's estimates, including those related to reserves for bad debts and valuation allowance for deferred tax assets. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the result of which forms the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from these estimates under different assumptions or conditions. The Company's use of estimates, however, is quite limited as the Company has adequate time to process and record actual results from operations.

Revenue recognition

Pre 2002

Prior to 2002, the Company recognized revenue on a net basis, when it received net kit revenues from Quality Chek'd. The Company did not record cost of sales under this model because it benefited only by the net amount received, and the Company did not have the discretion unilaterally to determine the price of kits sold. This model has been in existence from the third quarter of 2000 up to 2002 and was phased out during the third quarter of 2002. As of the fourth quarter of 2002, this business model no longer exists.

United States - Production Agreements with Jasper Products and Shamrock Farms
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In the fourth quarter of 2001, the Company recognized revenue on a gross basis for the kits sold in Mexico because the Company purchased the inventory for the customer. This was the only instance in which case the Company reported the revenue at gross in 2001. The Company, however, has always reported revenue generated in China at gross as it has ownership of inventory.

Commencing in the second quarter 2002, the Company recognizes revenue in the United States at the gross amount of its invoices for the sale of kits at the shipment of flavor ingredients to processor dairies with whom the Company has production contacts for extended shelf life and aseptic long life milk. This recognition is based upon the Company's role as the principal in these transactions, its discretion in establishing kit prices (including the price of flavor ingredients and production right fees), its development and refinement of flavors and flavor modifications, its discretion in supplier selection and its credit risk to pay for ingredients if processors do not pay ingredient suppliers. The revenue generated by the production contracts under this model is allocated as follows: 95% of the revenue is for the processors' purchase of flavor ingredients; the balance of 5% represents fees charged by the Company to the processors for production rights. The price of production rights is formulated to cover the Company's cost of the Warner Bros. Looney Tunes(tm) intellectual property licenses, which in the U.S. is 5% of the total cost of a kit sold to the processor dairy under the production agreement. The Company recognizes revenue on the gross amount of "kit" invoices to the dairy processors and simultaneously records as cost of good sold the cost of flavor ingredients paid by the processor dairies to ingredients supplier. The recognition of revenue generated from the sale of production rights associated with the flavor ingredients is complete upon shipment of the ingredients to the processor, given the short utilization cycle of the ingredients shipped.

Jasper Products and Shamrock Farms, the processor dairies, charge the Company with the cost of producing Looney Tunes(tm) flavored milk. The Company is responsible for freight charges from processor dairies to retail destinations, promotion costs and product returns of product owing to defects and out of date products. In addition, the Company pays the fee charged by food brokers retained by the Company to generate sales of the Looney Tunes(tm) flavored milk products to retail outlets. In return, the Company is entitled to keep the difference between the cost charged by processor dairies and the wholesale price determined by the Company and charged to retail outlets. The Company treats this second earning event as revenue when the revenue is realized or realizable and accrue any estimated expenses which are related to the Company's revenue at the end of each reporting period. Because the Company benefits only from the price difference and does not own the inventory, it recognizes the revenue generated through this model at net.

International Sales and U.S. Sales to Parmalat

The Company sells "kits" to processors in Mexico, Canada, China and to Parmalat in the United States, which kits include the cost of flavor ingredients and rights to produce, market, distribute and sell the Looney Tunes(tm) flavored milk to retail outlets. As a matter of convenience, processors purchase the flavor ingredients for the kits directly from a designated ingredients supplier and are invoiced by the Company for the full price of the "kits" with a credit for the cost of flavor ingredients purchased by the processors. The Company is directly responsible for the administration of this model, including the collection of kit receivables. Under this model, dairy processors are responsible for production, marketing, distribution and sales of the Looney Tunes(tm) flavored milk to retail outlets. The normal production cycle for processors' utilization of purchased flavor ingredients has ranged from 6 weeks in Mexico, 4 weeks for Parmalat (U.S.) and 3 weeks for Canada. This model was initiated at the end of 2001 with Mexico; Parmalat and Canada were added in the third quarter of 2002.

The Company recognizes revenue at the gross amount of kit invoices after shipment of flavor ingredients based upon the Company's role as the principal in these transactions, its discretion in establishing kit prices (including the price of flavor ingredients and production right fees), its development and refinement of flavors and flavor modifications, its discretion in supplier selection and the Company's credit risk to pay for ingredients if processors do not pay ingredient suppliers. The Company attributes the majority of the kit price to the sale of flavor ingredients (95% in the U.S., for example) and the balance (5% in the U.S.) to the Company's grant of production rights to processor dairies. In this regard, the price of production rights is formulated to cover the Company's costs of the Warner Bros. Looney Tunes(tm) intellectual property licenses, which currently amount to 5% of the total cost of kits sold to the processor dairies under the production agreements for the U.S., 7% for Mexico, 5% for Canada and 3% for China. The Company's recognition of revenue generated from the sale of production rights associated with the flavor ingredients is upon shipment of the ingredients to the processor, given the short utilization cycle of the ingredients shipped.

RESULTS OF OPERATIONS

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

Consolidated Revenue

The Company had annual revenues in 2002 of approximately $1,773,000, with a cost of goods sold of approximately $279,000, resulting in a gross profit of $1,494,000. Of the $1,773,000, approximately $1,718,000 was generated by in the U.S. and approximately $55,000 from sales recognized by the Company's wholly owned subsidiary, China Premium Food Corp. (Shanghai) Co., Ltd in China. The Company's revenue in 2002 increased by approximately $904,000, a 104% increase compared to revenue of approximately $869,000 in 2001, which consisted of approximately $729,000 in the U.S. and $140,000 in

China. This increase is the result of greater market penetration and distribution of Looney Tunes(tm) flavored milk products, as well as the introduction of new branded products in the United States and Mexico during 2002. In addition, the Company expanded its sales territories to include Canada, which accounted for approximately $113,000 of sales in 2002.

In 2002, the Company's combined gross margin of approximately $1,494,000 increased by $818,617, or 121%, from approximately $675,000 in 2001.

Consolidated Cost of Goods Sold

The Company incurred cost of goods sold of approximately $279,000 in 2002, consisting of approximately $53,000 in China and $226,000 in its North America Bravo! operations, consisting of the U.S., Mexico and Canada. The Company's cost of goods sold in 2002 increased by approximately $85,000, a 44% increase compared to approximately $194,000 in 2001, of which approximately $178,000 incurred in China and $16,000 incurred in the North America Bravo! operations. The increase in the Company's cost of good sold resulted from increased sales for 2002 over 2001.

In Mexico, Canada, China and the United States, the Company's revenue is generated in part by the sale of kits to dairy processors. Each kit consists of flavor ingredients for the Company's Slammers Looney Tunes(tm) flavored milks and production rights to manufacture and sell the milks. In line with the Company's revenue recognition policies, the Company recognizes the full invoiced kit price as revenue and credits the processor dairies with the cost of the raw flavor ingredients, which the Company records as cost of goods sold. In addition to kit sales revenue, in the United States the Company is responsible for the sale of finished Slammers Looney Tunes(tm) flavored milk (referred to as "units sales") to retail outlets. For these unit sales, the Company also recognizes as revenue the difference between the prices charged by the processor dairies to produce the milks and the price that the Company charges to the retail outlets that purchase the milks directly from the processor dairies. Since the Company benefits from only the difference between two prices, it does not record any costs of goods sold against this revenue event.

Segmented revenues and costs of goods sold (2002 and 2001)

The following table presents revenue by source and type against costs of goods sold, as well as combined gross revenues and gross margins. China sales are attributed to the Company's wholly owned Chinese subsidiary, China Premium Food Corp. (Shanghai) Co., Ltd.; the remaining revenue was generated by the Company's North America Bravo! operations. Revenues from Canada are generated by kit sales to Farmers Dairy, a Halifax dairy processor. Revenues from Mexico are generated from kit sales to Neolac, a dairy processor in central Mexico. In the United States, revenues are generated by kit sales to Parmalat, which is responsible for marketing and sales, and kit sales to two dairy processors that produce extended shelf life and aseptic long life Slammers Looney Tunes(tm) product. Revenues from these sales are recorded under "US Kit Sales" on the accompanying table.

Kit sales revenues have two components: flavored ingredients and production rights. The Company reports and presents these components separately for revenue recognition purposes as "Kit Sales Revenue (Ingredients)" and "Kit Sales Revenue (Production Rights)" in the table.

The Company's sale of ESL and aseptic product generates revenue recorded as "US Unit Sales" on the following table. Finally, the table designation "US QC Sales" represents net revenues that the Company recognizes from the Company's association with Quality Chek'd, a national dairy cooperative that administered the initial Looney Tunes(tm) flavored milk program for the Company.

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2002	Bravo! Foods International Corp					C
	Canada	Mexico	US Kit Sales	US Unit Sales	US QC Sales	Total Bravo! Sales
Kit Sales Revenue (Ingredients)	$107,065	$85,524	$806,934	$ -	$ -	$ 999,523
Kit Sales Revenue (Production rights)	5,635	4,501	42,470	-	21,656	74,262
Unit sales & QC Revenue (net sales)	-	-	-	232,595	411,462	644,057
Gross sales revenue (total)	112,700	90,025	849,404	232,595	433,118	1,717,842
Cost of goods sold	23,511	18,780	184,022	-	-	226,313
Gross margin	$ 89,189	$71,245	$665,382	$232,595	$433,118	$1,491,529

2001	Bravo! Foods International Corp					Ch
	Canada	Mexico	US Kit Sales	US Unit Sales	US QC Sales	Total Bravo! Sales
Kit Sales Revenue (Ingredients)	$ -	$55,385	$ -	$ -	$ -	$ 55,385

Kit Sales Revenue (Production rights)	-	2,915	-	-	33,550	36,465
Unit sales & QC Revenue (net sales)	-	-	-	-	637,450	637,450
Gross sales revenue (total)	-	58,300	-	-	671,000	729,300
Cost of goods sold	-	15,980	-	-	-	15,980
Gross margin	$ -	$42,320	$ -	$ -	$671,000	$713,320

United States (Jasper, Shamrock and Parmalat Sales)

Revenues in 2002 from kit sales in the United States in which the Company was directly involved increased from $0 in 2001 to approximately $849,000 in 2002. Prior to 2002, the Company sold kits through Quality Chek'd Diaries and did not recognize gross revenues from kit sales. In 2001, the Company recognized $671,000 from net sales through Quality Chek'd. In 2002, the Company recognized revenue of approximately $411,000 from sales through Quality Chek'd, a 39% decrease compared to revenue of $671,000 generated in 2001. In addition to kit sales, in 2002 the Company had revenues of approximately $233,000 from selling finished product unit sales to retail outlets. There were no comparable unit sales in 2001. Revenues from direct kit sales and unit sales in 2002 were the result of the implementation of a refined

business plan under which the Company took control of all sales on a kit level and, in the United States, on a unit sales level. The decrease in revenues from kit sales through Quality Chek'd was the result of the phasing out of the Company's relationship with Quality Chek'd and the implementation of a refined business plan.

The Company incurred cost of goods sold of approximately $184,000 attributable to kit sales in 2002. Since the Company did not have direct kit sales in 2001, it did not report any costs of goods sold associated with that revenue category in 2001. While the Company did have revenue from kit sales through Quality Chek'd, there are no costs of goods sold associated with that net revenue. Similarly, revenues from unit sales to retail outlets are on a net basis and do not have an associated cost of goods sold.

In 2002, the Company's gross profit for U.S. sales of approximately $1,331,000, increased by $660,000, or by 98%, from $671,000 in 2001. The increase in gross profit was the result of the increase in the Company's kit sale revenue and the increase of unit sales revenue. Ultimately the increase in gross profit is due to the Company's implementation of a new business plan that gave the Company greater control over the sales, marketing and promotion of the flavored milks.

Mexico and Canada

Revenues in 2002 from kit sales in Mexico increased 54% from approximately $58,000 in 2001 to approximately $90,000 in 2002. The increase was the result of greater market penetration and brand awareness in Mexico. Canada sales commenced in 2002 and generated revenue of approximately $113,000.

The Company incurred cost of goods sold of approximately $19,000 in 2002 in connection with its Mexico sales, a 17% increase from $16,000 in 2001. The increase was consistent with the increase in sales volume.

In 2002, the Company's gross profit of approximately $71,000 for sales in Mexico increased by $29,000, or 68%, from approximately $42,000 in 2001. The increase in gross profit was consistent with the increase in sales volume.

China

Revenues in 2002 from kit sales in China decreased 60% from approximately $140,000 in 2001 to approximately $55,000 in 2002. The decrease was the result of the lack of sales in the retail area and the refocus of the business to a school based program.

The Company incurred costs of goods sold of approximately $53,000 in 2002 in connection with its China sales, a 70% decrease form approximately $178,000 in 2001.

In 2002, the Company's gross profit of approximately $2,000 for sales in China increased by approximately $40,000, or 105.4%, from a negative gross profit of approximately $38,000 in 2001. The increase in gross profit was the result of writing down of the carrying value of inventory in the prior yearend and the effects of implemented cost cutting measures.

Consolidated Operating Expense

The Company incurred selling expenses in 2002 of approximately $776,000, of which approximately $688,000 was incurred in the Company's North America Bravo! operations and approximately $88,000 was incurred in China. The Company's selling expense increased in 2002 by approximately $582,000, a 300% increase compared to selling expense of approximately $194,000 in 2001, of which approximately $41,000

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was incurred in the Company's North America Bravo! operations and approximately $153,000 was incurred in China. The increase in selling expenses in 2002 was due mainly to the fact that the Company adopted the refined business plan in the U.S. For the Company's U.S. operations, the net increase in selling expenses was approximately $647,000 compared to $41,000 in 2001. Of the increase of $647,000, approximately $273,000 was incurred for freight and delivery expense, approximately $143,000 was related to food brokerage fees, approximately $64,000 was related to marketing, approximately $60,000 for sample expenses, $65,000 for various promotion programs and $42,000 for advertising expense due to the ramp-up of the national United States sales program. For the China operations, the Company's selling expenses in 2002 decreased by approximately $66,000, a 43% decrease, resulting from the change in the focus of the Company's business strategy from China back to North America. As a percentage of total revenue, the Company's selling expense increased from approximately 22% of total revenue in 2001 to approximately 44% of total revenue in 2002.

The Company incurred product development costs in 2002 of approximately

$239,000 in the Company's North America Bravo! operations and $0 in its China operations. Product development expenses in 2002 increased by approximately $161,000, a 206% compared to approximately $78,000 in 2001, which was incurred also in the U.S. The increase was mainly the result of developing two new products, as discussed in business section, and corresponding new packaging designs, which had been launched in 2002.

The Company incurred general and administrative expenses in 2002 of approximately $3,616,000 consisting of $3,424,000 in its North America Bravo! operations and $192,000 in its China operations. The Company's general and administrative expenses in 2002 increased by approximately $295,000, a 9% increase compared to approximately $3,320,000 in 2001, of which $3,146,000 was incurred in the Company's North America Bravo! operations and approximately $174,000 was incurred in China. The increase of approximately $278,000 in general and administrative expenses in the Company's North America Bravo! operations in 2002 is the result mainly from an increase in the license amortization of approximately $258,000 (including approximately $39,000 of impairment of the Warner Bros. licence rights in China) in connection with the execution of a Warner Bros. license for Canada, approximately $113,000 in compensation expenses, approximately $20,000 in postage and mailing expenses offset by the decrease of approximately $81,000 in legal expenses and approximately $32,000 in other expenses. In the Company's China operation, the total general and administrative expenses increased by approximately $26,000, due mainly to the office rent expense and telephone, postage and other office supplies. As a percentage of total revenue, the Company's general and administrative expenses decreased from 382% in 2001 to 204% in 2002 due to the fact that revenue increased significantly in 2002. The Company anticipates a reduction of these expenses through cost cutting efforts and the refinement of business operations.

Interest Expense

The Company incurred net interest expense in 2002 of approximately $23,000, consisting of approximately $23,000 in its U.S. operations and almost $0 in its China operations. The Company's interest expense decreased by approximately $11,000, a 32% decrease, compared to approximately $34,000, of which approximately $28,000 was incurred in the U.S and $6,000 was incurred in 2001. The decrease of $11,000 was due to the fact that Company paid off a bank loan from Fujian Bank in China in 2001, and the Company paid a loan of $250,000 in the US in 2002.

Loss Per Share

The Company accrued dividends payable of approximately $1,011,000, including deemed dividends, to various series of preferred stock during 2002. Comparing to the total accrued dividends on a consistent basis, the Company's accrued dividends increased by approximately $745,000 due to the amount of deemed dividends of approximately $837,000 that are related to the issuance of Series H, I, and J preferred stock in 2002. With the increase in net loss before accrued dividends of approximately $1,011,159, the Company's current year loss per share was $0.23 per share. Compared to loss per share of $0.24 in 2001, the loss per

share in 2002 decreased by $0.01, a 4% decrease, mainly due to the increase of common stock by 4,968,120 shares in the weighted average number of common shares outstanding.

Liquidity and Capital Resources

As of December 31, 2002, the Company reported that net cash used in operating activities was approximately $1,605,000, net cash provided by financing activities was approximately $1,606,000 and net cash used in investing activities was $9,422. The Company had a negative working capital of approximately $ 1,460,000 as of December 31, 2002.

Compared to approximately $1,622,000 of net cash used in operating activities in 2001, the Company's current year net cash used in operating activities decreased by approximately $17,000 due mainly to the fact that the Company used its equity to pay service providers in lieu of cash payment in 2002, having a value of approximately $225,000. Included in the net loss in 2002 were depreciation and amortization and stock compensation of approximately $1,244,000, compared to approximately $610,000 in 2001. This increase was due to the increase of approximately $222,000 in the amortization of Warner Bros. license rights and $431,000 in stock compensation, offset by a decrease in depreciation expense of approximately $43,000. Changes in accounts receivable in 2002 resulted in a cash decrease of approximately $83,000, compared to a cash decrease in receivables of approximately $123,000 in 2001; the net result was an increase of approximately $40,000. The changes in accounts payable and accrued liabilities in 2001, however, contributed to a cash increase of approximately $564,000, whereas the changes in accounts payable and accrued liabilities in 2002 amounted to approximately $294,000. This was due to the fact that the Company paid off certain accounts payable and accrued liabilities by issuing stock in 2002. The Company has adopted and will keep implementing cost cutting measures to lower the Company's cost and expense and to pay the Company's accounts payable and accrued liabilities by using cash and equity instruments. The Company's cash flow generated through operating activities was inadequate to cover all of the Company's cash disbursement needs in 2002, and the Company had to rely on equity financing to cover expenses.

In 2000, the Company disposed its investment in Meilijian, a joint venture in China, for which the Company received $716,000 in 2001. The Company did not receive investment proceeds in 2002. The Company's cash used in investing activities for furniture and equipment was approximately $9,000 for computer equipment in the U.S. Compared to disbursements of approximately $5,000 in 2001, the increase of $4,000 was insignificant.

The Company's net cash provided by financing activities in 2002 was approximately $1,606,000. New cash provided by financing activities in 2001 was approximately $1,109,000 for a net increase of approximately $497,000. The increase was due mainly to issuing Series H preferred stock with total proceeds of approximately $700,000, issuing Series I preferred stock with net proceeds of approximately $288,000, issuing Series J preferred stock with total proceeds of $1 million and issuing 1 million shares of common stock due to the exercise of 1 million options with an exercise price at $0.33 per share in 2002, resulting in gross proceeds of $330,000. The Company paid off a $250,000 note payable to an individual lender and paid approximately $461,000 for Warner Bros.' guaranteed royalty payments.

The remaining proceeds were used for working capital purposes. Notwithstanding total cash proceeds of approximately $2.3 million in 2002, however, the Company owed approximately $270,000 as of December 31, 2002 for Warner Bros. license guaranteed royalty payments. The Company has proposed a concession on the remaining guaranteed royalty payments to Warner Bros. for the Company's China license owing, in part, to the lack of success in introducing Looney Tunes(tm) characters through cartoons and movies to consumers in mainland China. In addition, the Company has arranged for the payment of the outstanding balance due on the Mexico license by April 15, 2003. From December 31, 2002 through March 31, 2003, the Company reduced its indebtedness to Warner Bros. by approximately $98,700.

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Going forward, the Company's primary requirements for cash consist of (1) the continued development of the Company's business model in the United States and on an international basis; (2) general overhead expenses for personnel to support the new business activities; and (3) payments of guaranteed royalty payments to Warner Bros. under existing licensing agreements. The Company estimates that the Company's need for financing to meet the Company's cash needs for operations will continue to the fourth quarter of 2003, when cash supplied by operating activities will enable us to meet the anticipated cash requirements for operation expenses. The Company anticipates the need for additional financing in 2003 to reduce the Company's liabilities and to improve shareholders' equity status. No assurances can be given that the Company will be able to obtain additional financing or that operating cash flows will be sufficient to fund the Company's operations.

The Company currently has monthly working capital needs of approximately $240,000. In the third quarter 2002, the Company anticipated that the Company's total revenues would reach $1,750,000 through the year ended December 31, 2002. While the Company realized that goal, it incurred significant selling and other expenses in 2002 in order to derive more revenue in retail markets. Certain of these expenses, such as slotting fees and freight charges, will be reduced as a function of unit sales costs as the Company expands its sales markets and increases its sales within established markets. Freight charges will be reduced as the Company is able to ship more full truck-loads of product given the reduced per unit cost associated with full truck loads verses less than full truck loads. Similarly, slotting fees, which are paid to warehouses or chain stores as initial set up or shelf space fees, are essentially one-time charges per new customer. Slotting fees reduced the Company's unit sales revenue by $65,000 and the Company's kit sales revenue from Parmalat by approximately $50,000 in 2002. A continued increase in sales to existing customers increases the Company's gross margins on those sales. The Company believes that along with the increase in the Company's unit sales volume, the average unit selling expense and associated costs will decrease, resulting in gross margins sufficient to mitigate the Company's cash needs. In addition, the Company is actively seeking additional financing to support its operational needs and to develop an expanded promotional program for the Company's products.

The Company is continuing to explore new points of sale for Looney Tunes(tm) flavored milk. In the first and second quarters, Looney Tunes(tm) milk products were placed in vending machines in select secondary schools in the greater Chicago area to determine whether a school-vending program is an appropriate point of sale for these products. Presently, the Company is aggressively pursuing this market through trade/industry shows and individual direct contacts. The implementation of such a school base program, if viable, could have an impact on the level of the Company's revenue during 2003. Similarly, the Company expects that the greater control over sales resulting from its refined business model and the cost-wholesale price differential source of revenue will continue to have a positive impact on revenues.

At the beginning of 2002, the Company began negotiations with Warner Bros. to extend the US license agreement for an additional year on the same terms before renewal of the license was necessary. The parties have agreed to such an extension. In addition, a Warner Bros. Looney Tunes(tm) license for Canada has been approved. The Company has executed an agreement with Farmers Dairy in Canada to produce Looney Tunes(tm) flavored milk for distribution in Eastern Canada, beginning in August 2002.

Commencing in May 2002, the Company developed a new branded fortified flavored milk product under the "Slammers Fortified Reduced Fat Milk(TM)" brand name. The Company's Slammers brand is being used in conjunction with its licensed Looney Tunes(tm) characters on vitamin fortified flavored milk. The introduction of the Slammers Fortified Reduced Fat Milk(tm) brand was made in conjunction with the Company's co-sponsoring the nationwide Taz Atti-Tour, a Looney Tunes(tm) action sports tour sponsored by Warner Bros. Consumer Products, Warner Bros. Theatrical, Wal-Mart, Acclaim Entertainment, AOL and ASA Events. This extreme sports tour featured professional international inline skating, skateboard and bike sport stars, who performed demonstrations and lead interactive clinics. The 2002 Taz Atti-Tour occurred at Wal-Mart stores in 19 US cities through September 20, 2002. This promotional tour gave the Company's Slammers brand products national exposure and is expected to have a continued positive impact on product sales.

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In June 2000, the Company executed an exclusive aseptic tetra-brik production agreement with a division of Parmalat USA Corp. for Looney Tunes(tm) flavored milk, as well as the Company's new Slammers Fortified Reduced Fat Milk(TM). The Company launched this new aseptic tetra-brik product in September 2002. The Company expects this product to have a continued positive impact upon the Company's revenues in 2003.

DEBT STRUCTURE

The Company holds five licenses for Looney Tunes(tm) characters and names from Warner Bros. Each license is structured to provide for the payment of guaranteed royalty payments to Warner Bros. The Company accounts for these guaranteed payments as debt and licensing rights as assets. The following is a summary of the balances owed as of December 31, 2002 and the license expiration dates:

License	Guaranty	Balance Due	Amount Past Due	Expiration Date
U.S. License	$500,000	$ -	$ -	12/31/03
U.S. TAZ	$250,000	$ -	$ 83,334	N/A
China	$400,000	$147,115	$ 98,076	06/30/03
Mexico	$145,000	$ 36,250	$ 36,250	05/31/04
Canada	$ 32,720	$ -	$ -	03/31/04

The following is a summary of guaranteed royalty payments due to Warner Bros. as of March 31, 2003.

License	Guaranty	Balance Due	Amount Past Due	Expiration Date
U.S. License	$500,000	$ -	$ -	12/31/03
U.S. TAZ	$250,000	$ -	$ -	N/A
China	$400,000	$147,115	$147,115	06/30/03

Mexico	$145,000	$ 21,250	$ 21,250	05/31/04
Canada	$ 32,720	$ -	$ -	03/31/04

International Paper

During the process of acquiring from American Flavors China, Inc. the 52% of equity interest in Hangzhou Meilijian, the Company issued an unsecured promissory note to assume the American Flavors' debt owed to a supplier, International Paper. The face value of that note was $282,637 at an interest rate of 10.5% per annum, without collateral. The note has 23 monthly installment payments of $7,250 with a balloon payment of $159,862 at the maturity date of July 15, 2000. On July 6, 2000, International Paper agreed to extend the note to July 1, 2001, and the principal amount was adjusted due to different interest calculation. International Paper imposed a charge of $57,000 to renegotiate the note owing the failure of Hangzhou Meilijian to pay for certain packing material, worth more than $57,000 made to order in 1999. The current outstanding balance on this note is $187,743. The Company is delinquent in its payments under this note.

Individual Loans

On November 6 and 7, 2001, respectively, the Company received the proceeds of two loans aggregating $100,000 from two offshore lenders. The two promissory notes, one for $34,000 and the other for $66,000, were payable February 1, 2002 and bear interest at the annual rate of 8%. These loans are

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secured by a general security interest in all the Company's assets. On February 1, 2000, the parties agreed to extend the maturity dates until the completion of the anticipated Series H financing. On June 18, 2002, the respective promissory note maturity dates were extended by agreement of the parties to December 31, 2002. On June 18, 2002, the Company agreed to extend the expiration dates of warrants issued in connection with the Company's Series D and F preferred until June 17, 2005 and to reduce the exercise price of certain of those warrants to $1.00, in partial consideration for the maturity date extension. The holders of these notes have agreed to extend the maturity dates to July 1, 2003.

EFFECTS OF INFLATION

The Company believes that inflation has not had any material effect on its net sales and results of operations.

EFFECT OF FLUCTUATION IN FOREIGN EXCHANGE RATES

The Company's Shanghai subsidiary is located in China. It buys and sells products in China using Chinese renminbi as the functional currency. Based on Chinese government regulation, all foreign currencies under the category of current account are allowed to freely exchange with hard currencies. During the past two years of operation, there were no significant changes in exchange rates. However, there is no assurance that there will be no significant change in exchange rates in the near future.

NEW ACCOUNTING ANNOUNCEMENTS NOT ADOPTED YET

In June 2001, Financial Accounting Standards Board (FASB) issued

Statement No. 143 (SFAS No. 143), "Accounting for Asset Retirement Obligations," effective for fiscal years beginning after June 15, 2002. The Statement requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. The adoption of SFAS No. 143 is not expected to have a material effect on the Company's financial position or results of operations.

In June 2002, FASB issued Statement No. 146 (SFAS No. 146), "Accounting for Costs Associated with Exit or Disposal Activities," effective for activities that are initiated after December 31, 2002, with early application encouraged. This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The adoption of SFAS No. 146 is not expected to have a material effect on the Company's financial position or results of operations.

In November 2002, the FASB issued Interpretation No. 45 ("FIN No. 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN No. 45 expands on the accounting guidance of Statements No. 5, 57, and 107 and incorporates without change the provisions of FASB Interpretation No. 34, which is being superseded. FIN No. 45 will affect leasing transactions involving residual guarantees, vendor and manufacturer guarantees, and tax and environmental indemnities. All such guarantees will need to be disclosed in the notes to the financial statements starting with the period ending after December 15, 2002. For guarantees issued after December 31, 2002, the fair value of the obligation must be reported on the balance sheet. Existing guarantees will be grandfathered and will not be recognized on the balance sheet. The Company has

determined that there has been no impact due to the application of FIN No. 45 on our financial position and results of operations.

In January 2003, FASB issued FASB Interpretation No. 46 (FIN No. 46), "Consolidation of Variable Interest Entities," an interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements." FIN No. 46 explains how to identify variable interest entities and how an enterprise assesses its interest in a variable entity to decide whether to consolidate that entity. FIN No. 46 requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. FIN No. 46 is effective immediately for variable interest entities after January 31, 2003, and to variable interest entities in which an enterprise obtained an interest after that date. FIN No. 46 applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. The adoption of FIN No. 46 is not expected to have a material effect on the Company's financial position and result of operations.

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ITEM 7. FINANCIAL STATEMENTS

BRAVO! FOODS INTERNATIONAL CORPORATION

AND SUBSIDIARY

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2001 and 2002

BRAVO! FOODS INTERNATIONAL CORPORATION AND SUBSIDIARY

INDEX TO FINANCIAL STATEMENTS

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Report of Independent Certified Public Accountants

To the Board of Directors
Bravo! Foods International Corporation

We have audited the accompanying consolidated balance sheets of Bravo! Foods International Corporation and subsidiary as of December 31, 2001 and 2002, and the related consolidated statements of operations and comprehensive loss, shareholders' deficit and cash flows for each of the two years in the period ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bravo! Foods International Corporation and subsidiary as of December 31, 2001 and 2002, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in the summary of accounting policies in the consolidated financial statements, the Company has a limited operating history, has incurred substantial losses since its inception, and at December 31, 2002, has a working capital deficiency, is delinquent on certain of its debts and has negative net assets, all of which raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in the same section. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Los Angeles, California
March 14, 2003

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BRAVO! FOODS INTERNATIONAL CORPORATION AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

	December 31, 2001	December 31, 2002
Assets		
Current assets:		
Cash and cash equivalents	$ 232,040	$224,579
Accounts receivable	152,682	236,149
Other receivables	17,178	14,662
Advance to vendor	20,998	8,719

Inventories	91,403	55,062
Prepaid expenses	24,106	7,605
Total current assets	538,407	546,776
Furniture and equipment, net	123,099	89,602
License rights, net (Note 1)	433,709	88,104
Deposits	10,000	15,000
Total assets	$1,105,215	$739,482

See accompanying summary of accounting policies
and notes to financial statements.

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BRAVO! FOODS INTERNATIONAL CORPORATION AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2001	20
Liabilities and Shareholders' Deficit		
Current liabilities:		
Note payable to International Paper (Note 2)	$ 187,743	$ 1
Notes payable to individual lenders (Note 3)	350,000	1
License fee payable to Warner Brothers (Note 1)	473,750	2
Accounts payables	780,492	1,0
Accrued liabilities	575,019	4
Total current liabilities	2,367,004	2,0
Dividends payable	280,370	2
Total liabilities	2,647,374	2,2
Commitments and contingencies (Note 5)		
Shareholders' Deficit (Notes 6 and 7):		
Series B convertible, 9% cumulative, and redeemable preferred		

stock, stated value $1.00 per share, 1,260,000 shares authorized, 107,440 shares issued and outstanding, redeemable at $107,440	107,440	1
Series D convertible, 6% cumulative and redeemable preferred stock, stated value $10.00 per share, 87,500 and 0 shares issued and outstanding	853,432	
Series F convertible and redeemable preferred stock, stated value $10.00 per share, 174,999 and 130,515 shares issued and outstanding	1,616,302	1,2
Series G convertible, 8% cumulative and redeemable preferred stock, stated value $10.00 per share, 93,335 and 70,208 shares issued and outstanding	829,704	6
Series H convertible, 7% cumulative and redeemable preferred stock stated value $10.00 per share, 105,500 and 175,500 shares issued and outstanding	465,200	9
Series I convertible, 8% cumulative and redeemable preferred stock stated value $10.00 per share, 0 and 30,000 shares issued and outstanding	-	
Series J convertible, 8% cumulative and redeemable preferred stock stated value $10.00 per share, 0 and 100,000 shares issued and outstanding	-	8
Common stock, par value $0.001 per share, 20,000,000 shares authorized in 2001 and 50,000,000 shares authorized in 2002, 14,681,008 and 25,732,854 shares issued and outstanding	14,681	
Additional paid-in capital	16,028,979	20,2
Accumulated deficit	(21,457,425)	(25,6
Accumulated other comprehensive loss - translation adjustment	(472)	
Total shareholders' deficit	(1,542,159)	(1,5
Total liabilities and shareholders' deficit	$ 1,105,215	$ 7

See accompanying summary of accounting policies
and notes to financial statements.

BRAVO! FOODS INTERNATIONAL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE LOSS

	Years ended December 31,	
	2001	2002
Revenue-unit sales	$ -	$ 232,595
Revenue-net kit sales	671,000	433,118
Revenue-gross kit sales	198,227	1,107,257

Total revenue	869,227	1,772,970
Cost of sales	(194,229)	(279,355)
Gross margin	674,998	1,493,615
Selling expense	193,980	776,090
Product development	78,416	239,298
General and administrative expense	3,320,494	3,615,674
Loss from operations	(2,917,892)	(3,137,447)
Interest expense, net	33,952	22,984
Operating loss	(2,951,844)	(3,160,431)
Income taxes provision (Note 4)	-	-
Net loss (2,951,844) (3,160,431)		
Dividends accrued for Series B preferred stock	9,722	9,803
Dividends accrued for Series D preferred stock	65,352	18,499
Dividends accrued for Series G preferred stock	77,085	60,279
Dividends accrued for Series H preferred stock	103,566	312,203
Dividends accrued for Series I preferred stock	-	302,610
Dividends accrued for Series J preferred stock	-	307,765
Net loss applicable to common shares	$(3,207,569)	$(4,171,590)
Basic and diluted loss per share	$ (0.24)	$ (0.23)
Weighted average number of common shares outstanding	13,535,729	18,503,849

Comprehensive loss and its components consist of the following:

Net loss	$(2,951,844)	$(3,160,431)
Foreign currency translation adjustment	(472)	231
Comprehensive loss	$(2,952,316)	$(3,160,200)

See accompanying summary of accounting policies
and notes to financial statements

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BRAVO! FOODS INTERNATIONAL CORPORATION AND SUBSIDIARY

STATEMENTS OF SHAREHOLDERS' DEFICIT
FOR THE YEARS ENDED DECEMBER 31, 2001 and 2002

	Preferred Stock		Common Stock		Additional	Accumul
	Shares	Amount	Shares	Amount	Capital	Defic
Balance, January 1, 2001	491,439	$3,672,873	13,095,414	$13,095	$14,870,754	$(18,249
Issuance of common stock to a consultant	-	-	50,000	50	37,450	
Conversion of preferred stock	(28,165)	(265,995)	1,265,594	1,266	296,399	
Compensation expense on options granted	-	-	-	-	2,320	
Issuance of Series H Preferred stock	105,500	465,200	-	-	584,800	
Beneficial conversion feature of Series H preferred stock	-	-	-	-	98,027	(98
Issuance of common stock to employees	-	-	270,000	270	139,230	
Accrued dividends for Series B	-	-	-	-	-	(9
Accrued dividends for Series D	-	-	-	-	-	(65
Accrued dividends for Series G	-	-	-	-	-	(77
Accrued dividends for Series H	-	-	-	-	-	(5
Net loss	-	-	-	-	-	(2,951
Translation adjustment	-	-	-	-	-	
Balance, December 31, 2001	568,774	3,872,078	14,681,008	14,681	16,028,980	(21,457
Issuance of common stock for service	-	-	999,112	999	278,652	
Stock Issued for options exercised	-	-	1,000,000	1,000	329,000	
Conversion of preferred stock	(155,111)	(1,469,880)	8,952,734	8,950	1,648,516	
Issuance of Series H preferred stock	70,000	474,487	100,000	100	225,513	
Issuance of Series I preferred stock	30,000	72,192	-	-	215,796	
Issuance of Series J preferred stock	100,000	854,279	-	-	145,721	
Issuance of options to consultants	-	-	-	-	161,612	
Extension of option terms	-	-	-	-	391,345	
Issuance of warrants to a lender	-	-	-	-	4,051	
Beneficial conversion feature of Series H preferred stock	-	-	-	-	236,764	(236
Beneficial conversion						

feature of Series I preferred stock	-	-	-	-	294,793	(294
Beneficial conversion of Series J preferred stock	-	-	-	-	305,721	(305
Accrued Dividends - Series B	-	-	-	-	-	(9
Accrued Dividends - Series D	-	-	-	-	-	(18
Accrued Dividends - Series G	-	-	-	-	-	(60
Accrued Dividends - Series H	-	-	-	-	-	(75
Accrued Dividends - Series I	-	-	-	-	-	(7
Accrued Dividends - Series J	-	-	-	-	-	(2
Net Loss for 2002	-	-	-	-	-	(3,160
Translation Adjustment	-	-	-	-	-	
	613,663	$3,803,156	25,732,854	$25,730	$20,266,464	$(25,629

See accompanying summary of accounting policies
and notes to financial statements.

BRAVO! FOODS INTERNATIONAL CORPORATION AND SUBSIDIARY

STATEMENTS OF CASH FLOWS
Increase (Decrease) in Cash and Cash Equivalents

	Years ended December 31,	
	2001	2002
Cash flows from operating activities:		
Net loss	$(2,951,844)	$(3,160,431
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	440,156	671,243
Stock compensation	37,500	54,600
Options issued for compensation	141,820	557,008
Changes in operating assets and liabilities:		
Restricted cash	161,000	-
Accounts receivable	(122,621)	(83,467
Other receivable	11,511	(2,484
Advance to vendors	(7,295)	12,279
Inventories	101,171	36,341
Prepaid expenses and deferred charges	2,568	16,501
Accounts payable and accrued liabilities	563,603	293,652
Net cash used in operating activities	(1,622,431)	(1,604,758

Cash flows from investing activities		
Proceeds from disposal of investment in Meilijian	716,000	-
Purchase of equipment and machinery	(5,126)	(9,422
Net cash provided by (used in) investing activities	710,874	(9,422
Cash flows from financing activities:		
Repayment of bank loan (142,557) -		
Borrowing (repayment) from notes payable from individual lenders	350,000	(250,000
Repayment of notes payable from Warner Bros.	(148,750)	(461,500
Proceeds from issuance of Series H preferred stock	1,050,000	700,000
Proceeds from issuance of Series I preferred stock	-	287,988
Proceeds from issuance of Series J preferred stock	-	1,000,000
Proceeds from options exercised	-	330,000
Net cash provided by financing activities	1,108,693	1,606,488
Effect of changes in exchange rate on cash	(472)	231
Net increase (decrease) in cash and cash equivalents	196,664	(7,461
Cash and cash equivalents, beginning of year	35,376	232,040
Cash and cash equivalents, end of year	$ 232,040	$ 224,579
Supplemental cash flow information		
Cash paid during the year for interest	$ 5,687	$ 7,988
Non-cash investing and financing activities:		
Stock granted in exchange of debt and payables	$ 37,500	$ 225,151
Preferred stock and accrued dividends converted to common stock	$ 297,665	$ 1,657,466
Beneficial conversion feature	$ 98,027	$ 837,278

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BRAVO! FOODS INTERNATIONAL CORPORATION AND SUBSIDIARY

SUMMARY OF ACCOUNTING POLICIES

Organization, Businesses and Going Concern Uncertainty

Bravo! Foods International Corporation (the Company), formerly known as China Premium Food Corporation, was incorporated under the laws of the State of Delaware on April 26, 1996. The Company's business is focusing on selling flavored milk products and flavor ingredients.

In December 1999, the Company obtained Chinese government approval for the registration of Bravo! Foods International (Shanghai) Co. Ltd., a wholly owned subsidiary, in the Wai Gao Qiao free trade zone in Shanghai, China. This subsidiary was formed to import, export and distribute food products and flavored milk ingredients on a wholesale level in China.

Going Concern Uncertainty

As shown in the accompanying consolidated financial statements, the Company has suffered operating losses and negative cash flow from operations since inception and has an a