BRAVO FOODS INTERNATIONAL CORP
Form 10KSB
April 14, 2004

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, 2003 to December 31, 2003

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 $1,200,142.

The aggregate market value of the voting stock held by non-affiliates of the issuer on April 2, 2004, based upon the $0.15 per share average bid and asked prices of such stock on that date, was $4,210,799, based upon 28,071,996 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 April 2, 2004 was 31,598,580.

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 was formed on April 26, 1996. The Company 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. These two joint ventures processed milk products for local consumption in the areas of Shanghai and Hangzhou, China, respectively. The Company closed Green Food Peregrine in December 1999 and sold its interest in Hangzhou Meilijian Dairy in December 2000.

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. The Company has announced that it plans to cease all business activities of this Chinese subsidiary in April 2004, owing to low sales volume and insufficient financial or logistic resources to market the Company's products profitably in mainland China.

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. At the end of 2001, the Company assumed this business, and its U.S. subsidiary ceased functioning as an operating company at that time.

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 involves the development and marketing of a Company owned Slammers(R) trademarked brand, the obtaining of license rights from third party holders of intellectual property rights to other trademarked brands, logos and characters and the granting of production and marketing rights to processor dairies to produce branded flavored milk utilizing the Company's intellectual property. The Company generates revenue primarily through the sale of "kits" to these processors. In the United States, the Company also generates revenue from the unit sales of finished branded flavored milks to retail consumer outlets.

"Kits" sold to processors consist of flavor ingredients that are 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 consists of fees charged for the Company's grant of production rights for the branded flavored milks plus a charge for flavor ingredients. The fees charged by the Company for the production rights have been formulated to match its royalty costs for its intellectual property licenses.

Warner Bros. Licenses

In January 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 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. Thereafter, the parties agreed to extend the license to October 29, 2003, at which time the license expired.

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 United States. This licensing agreement obligated the Company to pay a guaranteed royalty of $500,000, and granted 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. This extension was part of a promotional license for the Warner Bros. "Taz Atti-Tour" for the period March 13, 2002 to December 31, 2002, for which the Company paid an additional $250,000 guaranteed royalty.

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 was 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.

Non-Renewal of Warner Bros. Licenses.

The history of the Company with all of the Warner Bros. licenses, as a function of sales of the flavored milks, has not supported the guaranteed royalty structure required by Warner Bros. for its licenses. As a result, the Company developed its own Slammers(R) brand in 2003 and executed licenses with Marvel Comics and Moon Pie in 2004. For these reasons, in the fourth quarter 2003, the Company decided not to seek the renewal for the China license and not accept the offer of Warner Bros. to renew the U.S. license. In addition, the Company decided not to renew its licenses with Warner Bros. for Canada and Mexico.

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 branded flavored fresh milk in the United States. 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.

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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. This 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, and began to market branded ESL and aseptic flavored milks to large national chain accounts.

Significantly, with ESL and aseptic milks, the Company is no longer dependent upon regional processor dairies to promote the sale of the Company's branded 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 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 is derived 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 retained responsibility for aseptic product sales in the food service sector, either directly or through food brokers who represented the Company with both national and regional accounts. The Company's agreement with Parmalat expired with the non-renewal of the Warner Bros. license for the United States.

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 its branded flavored milk for all of Mexico. The Company's responsibilities are to design and provide 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 branded flavored 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 branded flavored milk products. The Company's responsibilities are to design and provide 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 branded flavored 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 traditional white and flavored milks, which the Company sold in Shanghai, Hangzhou, Ningbo, Nanjing, Fuzhou, Wuxi and Suzhou. The administration of supply, distribution, marketing and sales of the branded flavored milk products in China was the responsibility of China Premium Food Corp (Shanghai) Co, Ltd., the Company's wholly owned Chinese registered subsidiary.

In October 2001, China Premium Food Corp (Shanghai) Co, Ltd .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. From October 2001, through the third quarter 2002, Kunming Dairy produced the Company's branded 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.

As of December 31, 2003, China Premium Food Corp (Shanghai) Co, Ltd. ceased business activities in China. The Company anticipates closing all operations of this subsidiary in the second quarter of 2004.

Products

Commencing in September of 2000, the Company implemented the "kit" sales program with third party dairy processors in the United States, for the production and sale of fresh branded 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 branded extended shelf life and aseptic long life flavored milk products. The extended shelf life product was 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(R)" brand name. The Company's Slammers brand is used in conjunction with the Company's licensed third party trademarks. Slammers(R) 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" branded milks occurred in the fourth quarter of 2002. The Company's Slammers(R) flavored milks are sold in the United States in single serve extended shelf life

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11.5 oz plastic bottles, as well as the long life 11.2oz aseptic Tetra Pak Prisma(TM) package. The Company's Slammers(R) 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(R) logo pursuant to a production agreement with the Company executed in June 2002. The 8oz Tetra Brik Slammers(R) does not require refrigeration and has a shelf life of 6 months. Currently, this product is no longer available.

In November 2002, the Company introduced Slim Slammers Fortified Milk(R), a low calorie version of the Company's Slammers Fortified Reduced Fat Milk(R). Slim Slammers Fortified Milk(R) has no sugar added and is sweetened with sucralose, a natural sweetener made from sugar. Slim Slammers Fortified Milk(R) 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(R) brand. The Company will reintroduce this product in the United States with a new package and formulation in 2004.

New Products

In the third quarter 2003, the Company commenced an analysis of the Looney Tunes(TM) brand performance within the context of the possible renewal of its Warner Bros. licenses for United States, Mexico, China and Canada. In the fourth quarter 2003, the Company concluded that, as a function of the sales of flavored milks, the Looney Tunes(TM) brand has not supported the guaranteed royalty structure required by Warner Bros. for its licenses. In the fourth quarter 2004, the Company decided not to renew its license agreements with Warner Bros. and began to develop new products in anticipation of the consummation of other license relationships for co-branded flavored milk with Marvel Comics and MoonPie, as well as a new single Slammers(R) brand. The Company plans to launch these products in the second quarter 2004 on a co-branded basis with Marvel Comics and a separate co-branded line with MoonPie.

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 two years ago.

Flavored milk was 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. Sales of flavored milks for the last two years 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

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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.

The International Dairy Foods Association reports that, although flavored milk currently amounts to only 5 to 6 percent of milk sales, it represents 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.

In addition, the International Dairy Foods Association and Dairy Management Inc. have reported on studies suggesting that dairy products may help in weight loss efforts when coupled with a reduced calorie diet, based on data associating adequate calcium intake with lower body weight and reduced body fat.

The Company continues to develop a niche in the single serve flavored milk business by utilizing strong, national branding as part of the promotion of the Company's Slammers(R) and Slim Slammers(R) products. This niche has as its focus the increased demand for single serve, 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(R) low calorie, no sugar added products.

The Company's Slammers(R) milk products have had promising 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.

The Company has been and continues to pursue a strategic goal of placing the Company's Slammers(R) 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 alternatives to traditional soft drinks Penetration of this market segment has been limited by logistic and economic concerns of school administrators in the push to remove traditional carbonated soft drinks from schools in favor of milk and milk based products.

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 five 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

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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 international brands. The Company has sought and utilized what are believed to be well recognized families of intellectual properties in the form of cartoon/comic book characters. 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 competitive sales levels.

Employees

The Company has seven full time employees located at its North Palm Beach corporate offices. China Premium Food Corp (Shanghai) Co. Ltd., ceased operations and does not maintain any employees in China.

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 an initial term of five years. The current aggregate monthly rent amounts to approximately $6,393. The term of this lease has been extended for five years to May 31, 2009, at a 25% reduction in base rent.

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

None in the fourth quarter 2003

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PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Common stock market price

Of the 28,047,542 shares of common stock outstanding as of December 31, 2003, all but approximately 600,000 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, 3,526,684 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
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
2003			
	Q1 (1/3 - 3/28)	$0.28	$0.20
	Q2 (4/1 - 6/30)	$0.23	$0.09
	Q3 (7/1 - 9/30)	$0.16	$0.09
	Q4 (10/1 - 12/31)	$0.12	$0.05

Equity holders at April 2, 2004

Common stock	31,598,580 shares	1,900 holders (approximate)
Series B preferred stock	107,440 shares	1 holder
Series F preferred stock	120,515 shares	3 holders
Series G preferred stock	55,781 shares	4 holders
Series H preferred stock	100,500 shares	9 holders
Series I preferred stock	30,000 shares	2 holders
Series J preferred stock	200,000 shares	1 holder
Series K preferred stock	95,000 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.

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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.

The Company has accrued dividends for the Company's convertible preferred stock in the amount of $266,666 at December 31, 2002 and $582,823 for the period ended December 31, 2003.

Sale of unregistered securities

Quarter Ended December 31, 2003

On November 21, 2003, the Company entered into a Subscription Agreement with Gamma Opportunity Capital Partners, LP for the sale of a convertible note in the amount of $200,000 and warrants to purchase 5,000,000 shares of common stock. The convertible note is convertible into shares of common stock of the Company at the lesser of $0.05 or 75% of the average of the three lowest closing bid prices for the thirty trading days prior to but not including the conversion date. During the 180 days following the issuance of the convertible note, the conversion price shall not be less that $.03 per share if no event of default exists. This 180 day period shall be extended indefinitely if no event of default exists, the closing trading price for any 15 day consecutive trading period is $0.20 or higher, the daily trading volume for the 15 days is at least 300,000 and a registration statement registering the convertible note is effective. In connection with this transaction, the Company issued 400,000 shares of its common stock and a warrant to purchase 2,000,000 shares of common stock at $.05 per share.

On November 21, 2003, the Company entered into a Subscription Agreement with Mid-Am Capital, LLC for the sale of a convertible note in the amount of $200,000 and warrants to purchase 5,000,000 shares of common stock. The convertible note is convertible into shares of common stock of the Company at the lesser of $0.05 or 75% of the average of the three lowest closing bid prices for the thirty trading days prior to but not including the conversion date. During the 180 days following the issuance of the convertible note, the conversion price shall not be less that $.03 per share if no event of default exists. This 180 day period shall be extended indefinitely if no event of default exists, the closing trading price for any 15 day consecutive trading period is $0.20 or higher, the daily trading volume for the 15 days is at least 300,000 and a registration statement registering the convertible note is effective.

Subsequent Events

On February 12, 2004, the Company held a special meeting of shareholders at which the shareholders approved the increase of the Company's authorized common stock from 50,000,000 shares to 300,000,000 shares.

On February 17, 2004, the Company converted 875 shares of Series G Convertible Preferred Stock into 215,164 shares of common stock pursuant to a January 12, 2004 notice of conversion from Nesher, LP, at a conversion price of $0.0407. The conversion included accrued and unpaid dividends on the converted preferred. The Company and the holder delayed processing this notice in light of the Company's special meeting of shareholders held February 12, 2004. The shares of common stock issued pursuant to this conversion were retired and cancelled on March 5, 2004 and issued to third parties on that date in accordance with the instructions of Nesher, LP.

On February 17, 2004, the Company converted 1,400 shares of Series G Convertible Preferred Stock into 343,980 shares of common stock pursuant to a January 12, 2004 notice of conversion from

Talbiya Investments, Ltd., at a conversion price of $0. 0407. The conversion included accrued and unpaid dividends on the converted preferred. The Company and the holder delayed processing this notice in light of the Company's special meeting of shareholders held February 12, 2004. The shares of common stock issued pursuant to this conversion were retired and cancelled on March 5, 2004 and issued to third parties on that date in accordance with the instructions of Talbiya Investments, Ltd.

On February 17, 2004, the Company converted 700 shares of Series G Convertible Preferred Stock into 172,162 shares of common stock pursuant to a January 12, 2004 notice of conversion from The Keshet Fund, LP, at a conversion price of $0. 0407. The conversion included accrued and unpaid dividends on the converted preferred. The Company and the holder delayed processing this notice in light of the Company's special meeting of shareholders held February 12, 2004. The shares of common stock issued pursuant to this conversion were retired and cancelled on March 5, 2004 and issued to third parties on that date in accordance with the instructions of The Keshet Fund, LP.

On February 17, 2004, the Company converted 2,025 shares of Series G Convertible Preferred Stock into 497,951 shares of common stock pursuant to a January 12, 2004 notice of conversion from Keshet LP, at a conversion price of $0. 0407. The conversion included accrued and unpaid dividends on the converted preferred. The Company and the holder delayed processing this notice in light of the Company's special meeting of shareholders held February 12, 2004. The shares of common stock issued pursuant to this conversion were retired and cancelled on March 5, 2004 and issued to third parties on that date in accordance with the instructions of Keshet, LP.

On March 1,2004, the Company issued 80,000 shares of non-voting Series K 8% Convertible Preferred stock, to Mid-Am Capital, LLC, having a stated value of $10.00 per Preferred K share, for the aggregate purchase price of $800,000. Each preferred share is convertible to 100 shares of the Company's common stock at a conversion price of $0.10, representing 8,000,000 shares of common stock underlying the preferred. In addition, the following adjustments were made to prior issued warrants for the purpose of facilitating future fund raising by the Company arising out of the exercise of the warrants by Holder. The purchase price, as defined in the Warrant No. 2003-B-002, has been reduced to $0.10, subject to further adjustment as described in the warrant. The expiration date, as defined in the warrant, remains as stated. 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 March 9, 2004, the Company converted 5,000 shares of Series F Convertible Preferred Stock into 1,315,789 shares of common stock pursuant to a January 8, 2004 notice of conversion from Esquire Trade & Finance Inc., at a conversion price of $0.038. The conversion did not include accrued and unpaid dividends on the converted preferred. The Company and the holder delayed processing this notice in light of the Company's special meeting of shareholders held February 12, 2004. The shares of common stock issued pursuant to this conversion were issued to third parties on that date in accordance with the instructions of Esquire Trade & Finance Inc.

On April 1 2004, the Company converted 5,000 shares of Series F Convertible Preferred Stock into 1,315,789 shares of common stock pursuant to a January 8, 2004 notice of conversion from Austinvest Anstalt Balzers, at a conversion price of $0.038. The conversion did not include accrued and unpaid dividends on the converted preferred. The Company and the holder delayed processing this notice in light of the Company's special meeting of shareholders held February 12, 2004. The shares of common stock issued pursuant to this conversion were issued to third parties on that date in accordance with the instructions of Austinvest Anstalt Balzers.

On April 2, 2004, the Company and Mid-Am Capital, LLC entered into Supplement No.1 to the Series K Convertible Preferred Subscription Agreement, by which the Company sold an additional 15,000

shares of its Series K Convertible Preferred Stock utilizing the proceeds from a certain promissory note issued by the Company to Mid-Am in the face amount of $150,000. With the consummation of this sale, the $150,000 promissory note was deemed paid in full by the Company.

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 the development and marketing of a Company owned Slammers(R) trademarked brand, the obtaining of license rights from third party holders of intellectual property rights to other trademarked brands, logos and characters and the granting of production and marketing rights to processor dairies to produce branded 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 branded flavored milks to retail consumer outlets.

The Company's new product introduction and growth expansion continues to be expensive, and the Company reported a net loss of $3,016,987 for the year ended December 31, 2003. 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, 2003 has an accumulated deficit, a capital deficit, is delinquent on certain debts and has 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 international business 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. The Company presently has two

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mid-term vacancies on the board. Six of the seven current 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, and the audit committee in particular, review 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. 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 CFO's office, from which the Company prepares financial reports. These financial reports are audited or reviewed by Lazar Levine & Felix LLP, independent certified accountants and auditors. The Company's chief financial officer reviews the preliminary financial and non-financial information prepared in house with 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. Currently, there is one vacancy on the audit committee.

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. Currently, there is one vacancy on the compensation committee.

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.

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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

United States - Production Agreements with Jasper Products and Shamrock Farms
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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 contracts 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: 90% to 95% of the revenue is for the processors' purchase of flavor ingredients; the balance of 5% to10%

represents fees charged by the Company to the processors for production rights. The price of production rights is formulated to cover the Company's intellectual property licenses, which varies by licensor as a percentage 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, processor dairies for the Company's products in 2003, charge the Company with the cost of producing the Company's branded 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 branded 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 "unit sales revenue" when the revenue is realized or realizable and accrues 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.

Commencing with the first quarter 2004, the Company will no longer use the sale of "kits" as a revenue event in the United States. Rather, the Company will take title to its branded flavored milks when they are produced and placed in inventory by the Company's third party processors and recognize as revenue the gross wholesale price charged to the Company's wholesale customers. The Company's gross margin will be determined by the reported wholesale price less the cost charged by the Company's third party processors to produce the branded milk products. The sale of "kits" will remain as the revenue model for the Company's international business.

International Sales and U.S. Sales to Parmalat

In 2003, the Company sold "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 Company's branded 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 branded 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.

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 (90 % to 95% in the U.S., for example) and the balance 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 Company's intellectual property licenses. 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, 2003 Compared to Year Ended December 31, 2002

Consolidated Revenue

The Company had annual revenues in 2003 of $1,200,142, with a cost of goods sold of $192,498, resulting in a gross profit of $1,007,644. Of the $1,200,142, $989,721 was generated in the U.S. and $21,314 from sales recognized by the Company's wholly owned subsidiary, China Premium Food Corp (Shanghai) Co., Ltd in China. The Company's revenue in 2003 decreased by $572,828, a 32.31% decrease compared to revenue of $1,772,970 in 2002, which consisted of $1,515,117 in the U.S. and $55,128 in China. This decrease is the result of the reduction and ultimate cessation of the penetration and distribution of Looney Tunes(TM) flavored milk products, as well as the negotiation of new third party licenses to support the development of new branded milk products, both domestically and internationally. In addition, the Company's China business experienced continuing difficulties with market penetration of its Looney(TM) branded products, including what the Company perceived to be the licensor's continuing overall lack of brand support in China.

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In 2003, the Company's combined gross margin of $1,007,644 decreased by $485,971, or 32.5%, from $1,493,615 in 2002.

Consolidated Cost of Goods Sold

The Company incurred cost of goods sold of $192,498 in 2003, consisting of $127,647 in its U.S operations and $55,650 in Mexico and Canada. The Company's cost of goods sold in 2003 decreased by $86,857, a 31% decrease compared to $279,355 in 2002, of which $184,022 was incurred in the U.S. and $42,291 was incurred in the Canada and Mexico. The decrease in the Company's cost of good sold resulted from decreased sales in 2003.

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(R) 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(R) 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 (2003 and 2002)

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 Company's North America operations generated the remaining revenue. 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(R) Looney Tunes(TM) product. Revenues from these sales are recorded under "US Kit Sales" on the accompanying tables, and the Company's revenue from the sale of ESL and aseptic is recorded as "Unit Sales" on the following table:

2003	United States	Canada	Mexico	China	Total Company
Revenue - unit sales	$ 356,985	$ -	$ -	$ -	$ 356,985
Revenue - net kit sales	2,737	-	-	-	2,737
Revenue - gross kit sales	629,999	43,745	145,362	21,314	840,420
Total revenue	989,721	43,745	145,362	21,314	1,200,142
Cost of goods sold	(127,647)	(10,403)	(45,247)	(9,201)	(192,498)
Gross margin	$ 862,074	$ 33,342	$100,115	$12,113	$1,007,644

2002	United States	Canada	Mexico	China	Total Company
Revenue -unit sales	$ 232,595	$ -	$ -	$ -	$ 232,595
Revenue -net kit sales	433,118	-	-	-	433,118
Revenue -gross kit sales	849,404	112,700	90,025	55,128	1,107,257
Total revenue	1,515,117	112,700	90,025	55,128	1,772,970
Cost of goods sold	(184,022)	(23,511)	(18,780)	(53,042)	(279,355)

Gross margin	$1,331,095	$ 89,189	$ 71,245	$ 2,086	$1,493,615

United States (Jasper, Shamrock and Parmalat Sales)

Revenues in 2003 from kit sales in the United States decreased 50% from approximately $1,282,500 in 2002 to approximately $632,700 in 2003. In addition to kit sales, in 2003 the Company had revenues of approximately $357,000 from selling finished product unit sales to retail outlets, a 53.5% increase of $124,390 from $232,595 in 2002. The decrease in revenues from kit sales was the result of two factors:

* the reduction and ultimate cessation of the penetration and distribution of Looney Tunes(TM) flavored milk products, which resulted from the increasing weakness of the Looney Tunes(TM) brand, and

* the Company's transition away from Looney Tunes(TM) to the development of other branded flavored milk products, which resulted in a period during which processors did not purchase kits owing to the Company's decrease in and ultimate cessation of sales activities for the Looney Tunes(TM) product, while generating marketing interest in the new product line.

The increase in unit sales in 2003 was the result of the implementation of greater efficiencies in the production and distribution of the branded flavored milk and the reduced necessity to pay "slotting fees" to already established wholesale customers. In 2002, certain production/distribution costs and entry level slotting fees reduced the gross revenue reported by the Company for unit sales owing to "contra-revenue" accounting considerations.

In 2003, the Company's gross margin for U.S. sales of $862,074 decreased by $469,021, or by 35.2%, from $1,331,095 in 2002. The decrease in gross profit was the result of the decrease in overall sales, as discussed above.

Mexico and Canada

Revenues in 2003 from kit sales in Mexico increased 61% from approximately $90,000 in 2002 to approximately $145,300 in 2003. The increase was the result of greater market penetration and brand awareness in Mexico. The Company incurred cost of goods sold of approximately $45,000 in 2003 in connection with its Mexico sales, a 141% increase from approximately $19,000 in 2002. This increase is consistent with the increase in sales volume.

In 2003, the Company's gross profit of approximately $ 100,000 for kit sales in Mexico increased by $29,000, or 41%, from approximately $71,000 in 2002. The increase in gross profit is consistent with the increase in sales volume.

Canada sales decreased 61% from approximately $113,000 in 2002 to approximately $44,000. The decrease in sales was the result of lower margins experienced by the Canadian processor, with commensurately fewer resources available for marketing efforts directed at brand growth. The Company incurred cost of goods sold of approximately $10,400 in 2003 in connection with its Canada sales, a 56% decrease from approximately $23,500 in 2002. This decrease is consistent with the decrease in sales volume.

In 2003, the Company's gross profit of approximately $ 33,300 for kit sales in Canada decreased by $55,700, or 63%, from approximately $89,000 in 2002. The decrease in gross profit is consistent with the decrease in sales volume.

China

Revenues in 2002 from kit sales in China decreased 61% from approximately $55,000 in 2002 to approximately $21,300 in 2003. The decrease was the result of the lack of sales in the retail area owing to competition, poor brand support and production issues related to SARS. The Company incurred costs of goods sold of approximately $9,200 in 2003 in connection with its China sales, an 83% decrease from approximately $53,000 in 2002. This decrease is consistent with the decrease in sales volume.

In 2003, the Company's gross profit of approximately $12,000 for sales in China increased by approximately $10,000, or 481%, from a gross profit of approximately $2,000 in 2002.

Consolidated Operating Expense

The Company incurred selling expenses in 2003 of approximately $1,740,000. The Company's selling expense increased in 2003 by approximately $964,000, a 124% increase compared to selling expense of approximately $776,000 in 2002. The increase in selling expenses in 2003 was due in part to the fact that the Company continues to implement its refined business plan in the U.S. with respect to unit sales, where the majority of the selling expenses are incurred. Of the increase of $964,000, approximately $232,000 was incurred for freight and delivery expense, approximately $35,000 was related to marketing, approximately $380,000 for various reclamation costs and approximately $320,000 for the write off of product packaging costs resulting from the discontinuance of the Warner Bros. Looney Tunes(TM) branded products. As a percentage of total revenue, the Company's selling expense increased from approximately 44% of total revenue in 2002 to approximately 145% of total revenue in 2003. The increase was in part due to the increase in reclamation costs in 2003.

The Company incurred product development costs in 2003 of approximately $5,500. Product development expenses in 2003 decreased by approximately $233,728, or 98% compared to approximately $239,000 in 2002. The decrease was mainly the result of developing two new products and corresponding new packaging designs in 2002.

The Company incurred general and administrative expenses in 2003 of approximately $2,250,000 consisting of $2,133,400 in its North America Bravo! operations and $116,278 in its China operations. The Company's general and administrative expenses in 2003 decreased by approximately $1,366,000, a 38% decrease compared to approximately $3,616,000 in 2002, of which approximately $3,424,000 was incurred in the Company's North America Bravo! operations and approximately $192,000 was incurred in

China. The decrease of approximately $1,290,000 in general and administrative expenses in the Company's North America Bravo! operations in 2003 is the result of a reduction in expenses, including management salaries and the reclassification of certain expense items as selling expenses that were reported for a portion of 2002 as general and administrative expenses. At the end of the first quarter 2003, two members of senior management left the Company and were not replaced, and in the last two quarters of 2003, three management personnel took an average 7% voluntary reduction in salary. As a percentage of total revenue, the Company's general and administrative expenses decreased from 204% in 2002 to 187% in 2003 due to the reduction of 2003 expenses.

Interest Expense

The Company incurred net interest expense in 2003 of approximately $29,500,. The Company's interest expense increased by approximately $6,500, a 29% increase, compared to approximately $23,000 in 2002. The increase of $6,500 was due to outstanding and additional loans in 2003.

Loss Per Share

The Company recorded accrued dividends for approximately $902,000, including deemed dividends, to various series of preferred stock during 2003. Compared to the total accrued dividends on a consistent basis, the Company's accrued dividends decreased by approximately $110,000 due primarily to the conversion of preferred stock in 2003. With the decrease in net loss before accrued dividends of approximately $143,000, the Company's current year loss per share was $0.15 per share. Compared to loss per share of $0.23 in 2002, the loss per share in 2003 decreased by $0.08, a 35% decrease, mainly due to the increase of common stock in 2003 by 8,275,373 shares in the weighted average number of common shares outstanding.

Liquidity and Capital Resources

As of December 31, 2003, the Company reported that net cash used in operating activities was approximately $1,562,000, net cash provided by financing activities was approximately $1,427,000 and net cash used in investing activities was approximately $31,000. The Company had a negative working capital of approximately $ 2,972,000 as of December 31, 2003.

Compared to approximately $1,605,000 of net cash used in operating activities in 2002, the Company's current year net cash used in operating activities decreased by approximately $42,000 due mainly to the fact that the Company used more equity to pay service providers in lieu of cash payment in 2003. Included in the net loss in 2003 were depreciation and amortization and stock compensation of approximately $195,000, compared to approximately $725,000 in 2002. This decrease was due to more amortization of the Company's license agreements in 2002. Changes in accounts receivable in 2003 resulted in a cash increase of approximately $210,000, compared to a cash decrease in receivables of approximately $83,000 in 2002; the net result was an increase of approximately $293,000. The changes in accounts payable and accrued expenses in 2002 contributed to a cash increase of approximately $294,000, whereas the changes in accounts payable and accrued expenses in 2003 amounted to approximately $1,285,000. This was due to the fact that the Company paid off less accounts payable and accrued liabilities in 2003. The Company has adopted and will keep implementing cost cutting measures to lower the Company's costs and expenses and, where appropriate, 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 2003, and the Company had to rely on equity financing to cover expenses.

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The Company's cash used in investing activities for furniture and equipment was approximately $31,000 in 2003 primarily for computer equipment in the U.S., compared to disbursements of approximately $9,400 in 2002. The increase was the result of the need for new computers to take advantage of the latest graphic display software technologies.

The Company's net cash provided by financing activities in 2003 was approximately $1,427,000. New cash provided by financing activities in 2002 was approximately $1,606,000 for a net decrease of approximately $179,000. The decrease was the result of the Company's limited ability to attract financing sources in 2003. The Company raised $1,000,000 in 2003 through the issuance of Series J convertible preferred stock, for which it recorded a deemed dividend charge of approximately $367,000. The proceeds from this financing were used to pay critical payables and for general working capital, including the marketing of new Slammers(R) products in early 2003. Short term debt in the aggregate of $550,000 obtained in 2003 was utilized for general working capital.

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) development, launch and marketing costs for the Company's line of new aseptic branded flavored milk products. The Company estimates that its need for financing to meet cash needs for operations will continue to the fourth quarter of 2004, when cash supplied by operating activities will approach the anticipated cash requirements for operation expenses. The Company anticipates the need for additional financing in 2004 to reduce the Company's liabilities, assist in marketing 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 $220,000. The Company will continue to incur significant selling and other expenses in 2004 in order to derive more revenue in retail markets, through the introduction and ongoing support of its new products. 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 versus 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 approximately $50,000, marketing allowances in connection with the Company's kit sales reduced revenues by approximately $47,000 in 2004. 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 its branded flavored milk. Presently, the Company is aggressively pursuing the school and vending 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 2004. Similarly, the Company expects that the greater control over sales resulting from its refined business model and the anticipated expansion into bodega stores as well as national chains, such as 7-Eleven, will have a positive impact on revenues in the second quarter of 2004.

In the third quarter 2003, the Company commenced an analysis of the Looney Tunes(TM) brand performance within the context of the possible renewal of its Warner Bros. licenses for United States,

Mexico, China and Canada. In the fourth quarter 2003, the Company concluded that, as a function of the sales of flavored milks, the Looney Tunes(TM) brand has not supported the guaranteed royalty structure required by Warner Bros. for its licenses. In the fourth quarter 2004, the Company decided not to renew its license agreements with Warner Bros., and began to develop new products in anticipation of the consummation of other license relationships with Marvel Comics and MoonPie for co-branded flavored milk, as well as a new single Slammers(R) brand. The Company has developed new aseptic products in anticipation of these licenses and its own singular brand. The Company plans to launch the following new products in the second quarter 2004.

Brand	Marvel-Slammers	Moon Pie-Slammers	Slim Slammers	Pro-
Item	Ultimate Milkshake	Flavored milk; reduced fat 2% milk	Low calorie, no sugar added, low carb 1% milk	Prot
Licensed Property	Marvel Super Hero comic book characters and Slammers mark (owned by Bravo! Foods)	MoonPie logo and trade dress, and Slammers mark (owned by Bravo! Foods)	Slim Slammers trademark (owned by Bravo! Foods)	Extr athl Slam (own Food
Packaging	16 oz bottles; 11.2 oz Tetra Prisma	16 oz bottles; 11.2 oz Tetra Prisma	16 oz bottles	16 o oz T
Description	Whole milk shake; 5 flavors; vitamin fortification matches Marvel Super Hero powers	Chocolate and banana flavors; fortified with 10 essential vitamins	Chocolate Fudge and French Vanilla; calcium added	Doub shak fort esse

Coincident with these new licenses, the Company executed a production agreement with Saudia Dairy & Foodstuff Company, one of the largest Middle East dairy processors, headquartered in Jeddah, Saudi Arabia. SADAFCO will process the Company's Slammers (R) branded flavored milks, including the Marvel line, for distribution in nine Middle East countries. SADAFCO has the capacity to process the Company's branded milk products for distribution throughout the European Community. The Company's international business is facilitated by AsheTrade, the Company's international agent, with offices in Miami, FL and Jeddah, Saudi Arabia.

DEBT STRUCTURE

As of December 31, 2003 the Company held three licenses for Looney Tunes(TM) characters and names from Warner Bros. The Company accounts for the guaranteed royalty payments under these licenses as debt and licensing rights as assets. The following is a summary of the balances owed as of December 31, 2003 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	$ -	$ -	N/A
China	$400,000	$147,115	$147,115	10/29/03
Mexico	$145,000	$ -	$ -	05/31/04
Canada	$ 32,720	$ -	$ -	03/31/04

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The China license had been extended to October 29, 2003 by agreement of the parties, and the Company did not seek another license from Warner Bros. for China. This decision was based upon the lack of sales in the Company's China markets and what the Company perceived to be the licensor's continuing overall lack of brand support in China. The Company and Warner Bros. dispute the contractual necessity of the payment of the balance owed on the China license as a result of the above circumstances.

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 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 on a demand basis.

On August 27, 2003, the Company received the proceeds of a loan from Mid-Am Capital, L.L.C., in the amount of $150,000. The note is payable November 25, 2003 and bears interest at the annual rate of 10%. This loan is secured by a general security interest in all the Company's assets. On April 2, 2004, this note was paid and cancelled.

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.

BRAVO! FOODS INTERNATIONAL CORP.

AND SUBSIDIARY

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2002 and 2003

BRAVO! FOODS INTERNATIONAL CORP. AND SUBSIDIARY

INDEX TO FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders
Bravo! Foods International Corp.
North Palm Beach, Florida

We have audited the accompanying balance sheet of Bravo! Foods International Corp. as of December 31, 2003 and the related statements of operations and comprehensive loss, shareholders' deficit and cash flows for the year then ended. 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bravo! Foods International Corp. as of December 31, 2003 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As shown in the financial statements, the Company has incurred a net loss of $3,016,987 for the year ended December 31, 2003 and as of that date had a working capital deficiency of $2,971,505 and a shareholders' deficit of $3,719,291. The Company also is delinquent in payment of certain debts. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts and classification of liabilities that might be necessary in the event the Company cannot continue in existence. Management's actions in regard to these matters are more fully described in Note 1.

LAZAR LEVINE & FELIX LLP

New York, New York
April 2, 2004

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Report of Independent Certified Public Accountants

To the Board of Directors
Bravo! Foods International Corp.

We have audited the accompanying consolidated balance sheets of Bravo! Foods International Corp. and subsidiary as of December 31, 2002, and the related consolidated statements of operations and comprehensive loss, shareholders' deficit and cash flows for the year 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 audit 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, 2002, and the results of their operations and their cash flows for the year 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.

BDO Seidman, LLP

Los Angeles, California
March 14, 2003

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BRAVO! FOODS INTERNATIONAL CORP. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

	December 31, 2002	December 31, 2003
Assets		
Current assets:		
Cash and cash equivalents	$224,579	$ 58,859
Accounts receivable, net	236,149	25,921
Other receivables	14,662	6,331
Advance to vendor	8,719	-
Inventories	55,062	54,995
Prepaid expenses	7,605	201,617
Total current assets	546,776	347,723
Furniture and equipment, net	89,602	68,623
License rights, net of accumulated amortization	88,104	24,065
Deferred product development costs	-	41,711
Deposits	15,000	10,736
Total assets	$739,482	$492,858

See accompanying notes

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BRAVO! FOODS INTERNATIONAL CORP. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

	December 31, 2002	December 31, 2003
Liabilities and Capital Deficit		
Current liabilities:		
Note payable to International Paper	$ 187,743	187,7
Notes payable to Alpha Capital	100,000	100,0
Notes payable to Mid-Am Capital LLC	-	150,0
License fee payable to Warner Brothers	270,053	147,1
Accounts payable	1,039,313	2,123,7
Accrued liabilities	409,615	610,6
Total current liabilities	2,006,724	3,319,2
Dividends payable	266,666	582,8
Other notes payable	-	310,0
Total liabilities	2,273,390	4,212,1
Commitments and contingencies		
Capital Deficit:		
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	107,4
Series F convertible and redeemable preferred stock, stated value $10.00 per share, 130,515 shares issued and outstanding	1,205,444	1,205,4
Series G convertible, 8% cumulative and redeemable preferred stock, stated value $10.00 per share, 70,208 and 58,810 shares issued and outstanding	624,115	520,6
Series H convertible, 7% cumulative and redeemable preferred stock, stated value $10.00 per share, 175,500 and 165,500 shares issued and outstanding	939,686	895,5
Series I convertible, 8% cumulative and redeemable preferred stock, stated value $10.00 per share, 30,000 shares issued and outstanding	72,192	72,1
Series J convertible, 8% cumulative and redeemable preferred stock, stated value $10.00 per share, 100,000 and 200,000 shares issued and outstanding	854,279	1,854,2
Common stock, par value $0.001 per share, 50,000,000 shares authorized, 25,732,854 and 28,047,542 shares issued and outstanding	25,730	28,0
Additional paid-in capital	20,266,463	21,144,8
Accumulated deficit	(25,629,016)	(29,548,4
Accumulated other comprehensive loss - translation adjustment	(241)	6
Total capital deficit	(1,533,908)	(3,719,2
Total liabilities and capital deficit	$ 739,482	492,8

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See accompanying notes

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BRAVO! FOODS INTERNATIONAL CORP. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE LOSS

	Years ended December 31, 2002	2003
Revenue - unit sales	$ 232,595	$ 356,985
Revenue - net kit sales	433,118	2,737
Revenue - gross kit sales	1,107,257	840,420
Total revenue	1,772,970	1,200,142
Cost of sales	(279,355)	(192,498)
Gross margin	1,493,615	1,007,644
Selling expense	776,090	1,739,850
Product development	239,298	5,570
General and administrative expense	3,615,674	2,249,678
Loss from operations	(3,137,447)	(2,987,454)
Other income (expense):		
Interest expense, net	22,984	29,533
Loss before income taxes	(3,160,431)	(3,016,987)
Provision for income taxes	-	-
Net loss	(3,160,431)	(3,016,987)
Dividends accrued for Series B preferred stock	(9,803)	(9,669)
Dividends accrued for Series D preferred stock	(18,499)	-
Dividends accrued for Series G preferred stock	(60,279)	(46,457)
Dividends accrued for Series H preferred stock	(312,203)	(120,818)
Dividends accrued for Series I preferred stock	(302,610)	(24,000)
Dividends accrued for Series J preferred stock	(307,765)	(138,960)

Deemed dividend on Series J preferred stock	-	(367,211)
Deemed dividend on Series F preferred stock	-	(195,353)
Net loss applicable to common shareholders	$(4,171,590)	$(3,919,455)
Weighted average number of common shares outstanding	18,503,849	26,779,222
Basic and diluted loss per share	$ (0.23)	$ (0.15)

Comprehensive loss and its components consist of the following:

Net loss	$(3,160,431)	$(3,016,987)
Foreign currency translation adjustment	231	930
Comprehensive loss	$(3,160,200)	$(3,016,057)

See accompanying notes

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BRAVO! FOODS INTERNATIONAL CORP. AND SUBSIDIARY
STATEMENTS OF CAPITAL DEFICIT
FOR THE YEARS ENDED DECEMBER 31, 2002 and 2003

	Preferred Stock		Common Stock		Additional	
	Shares	Amount	Shares	Amount	Paid-In Capital	Accumul Defic
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	278,752	
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	-	-	-	-	-	
Balance, December 31, 2002	613,663	3,803,156	25,732,854	25,730	20,266,464	(25,629
Issuance of common stock for services	-	-	100,000	100	27,900	
Conversion preferred stock	(21,398)	(147,606)	1,814,688	1,815	169,538	
Issuance of Series J preferred stock	100,000	1,000,000	-	-	367,211	(367
Finders' fees for financing	-	-	400,000	400	65,029	
Issuance of warrants for convertible notes	-	-	-	-	49,474	
Beneficial conversion feature of convertible notes	-	-	-	-	40,427	
SEC registration costs for financing	-	-	-	-	(36,500)	
Conversion price changes for warrants	-	-	-	-	195,353	(195
Accrued Dividends - Series B	-	-	-	-	-	(9
Accrued Dividends - Series G	-	-	-	-	-	(46
Accrued Dividends - Series H	-	-	-	-	-	(120
Accrued Dividends - Series I	-	-	-	-	-	(24
Accrued Dividends - Series J	-	-	-	-	-	(138
Net loss for 2003	-	-	-	-	-	(3,016
Translation adjustment	-	-	-	-	-	
Balance, December 31, 2003	692,265	$4,655,550	28,047,542	$28,045	$21,144,896	$(29,548

See accompanying notes

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BRAVO! FOODS INTERNATIONAL CORP. AND SUBSIDIARY
STATEMENTS OF CASH FLOWS

	Years ended December 31,	
	2002	2003
Cash flows from operating activities:		
Net loss	$(3,160,431)	$(3,016,98
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	671,243	101,20
Stock issuance for compensation and financing finder's fee	54,600	93,42
Options issued for compensation	557,008	
Registration costs for financing	-	(36,50
Loss on disposal of fixed assets	-	15,13
Increase (decrease) from changes in:		
Accounts receivable	(83,467)	210,22
Other receivable	(2,484)	8,33
Advance to vendors	12,279	8,71
Inventories	36,341	6
Prepaid expenses	16,501	(189,74
Accounts payable and accrued expenses	293,652	1,285,44
Deferred product and development costs	-	(41,71
Net cash used in operating activities	(1,604,758)	(1,562,38
Cash flows from investing activities:		
Purchase of equipment	(9,422)	(31,32
Net cash used in investing activities	(9,422)	(31,32
Cash flows from financing activities:		
Proceeds from issuance of Series H preferred stock	700,000	
Proceeds from issuance of Series I preferred stock	287,988	
Proceeds from issuance of Series J preferred stock	1,000,000	1,000,00
Proceeds from exercise of stock options	330,000	
Short term borrowing	-	150,00
Notes payable	-	400,00
Borrowings repayment	(250,000)	
Payment of note payable, bank loan and license fee payable	(461,500)	(122,93
Net cash provided by financing activities	1,606,488	1,427,06
Effect of changes in exchange rate on cash	231	93
Net (decrease) in cash and cash equivalents	(7,461)	(165,72
Cash and cash equivalents, beginning of year	232,040	224,57

Cash and cash equivalents, end of year	$ 224,579	$ 58,85
Supplemental cash flow information		
Cash paid during the year for interest	$ 7,988	$
Non-cash investing and financing activities:		
Stock granted in exchange of debt and payables and services	$ 225,151	$ 93,42
Preferred stock and accrued dividends converted to common stock	$ 1,057,466	$ 171,35
Beneficial conversion feature	$ 837,278	$ 133,61

See accompanying notes

BRAVO! FOODS INTERNATIONAL CORP. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Organization, Businesses and Going Concern Uncertainty

Bravo! Foods International Corp. (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 is engaged in the sale of flavored milk products and flavor ingredients in the United States, Puerto Rico, the Middle East, Canada and Mexico and the co-production, marketing and distribution of branded dairy products in the People's Republic of China.

In December 1999, the Company obtained Chinese government approval for the registration of China Premium Food Corp (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. The Company has announced that it plans to cease all business activities of this Chinese subsidiary in the second quarter 2004.

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 accumulated deficit of $29,548,471, a capital deficit of $3,719,291, negative working capital of $2,971,505 and is delinquent on certain of its debts at December 31, 2003. Further, the Company's auditors stated in their report on the Company's Consolidated Financial Statements for the year ended December 31, 2003, that these conditions raise substantial doubt about the Company's ability to continue as a going concern. Management plans to increase gross profit margins in its U.S. business and obtain additional financing and is in the process of repositioning its products with the anticipated launch of four new product lines in the second quarter 2004. While there is no assurance that funding will be available or that the Company will be able to improve its profit margins, the Company is continuing to actively seek equity and/or debt financing and has raised $1,350,000 in the fourth quarter 2003 and first quarter 2004. No assurances can be given that the Company will be successful in carrying out its plans. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Principles of Consolidation

The consolidated financial statements include the accounts of Bravo! Foods International Corp. and its wholly owned subsidiary China Premium Food Corp (Shanghai) Co., Ltd. (the "Company"). All significant intercompany transactions have been eliminated.

Foreign Currency Transactions and Translations

Transaction gains and losses result from a change in exchange rates between the functional currency and the currency in which a foreign currency transaction is denominated. They represent an increase or decrease in (a) the actual functional current cash flows realized upon settlement of foreign currency transactions and (b) the expected functional currency cash flows on unsettled foreign currency transactions. All transaction gains and losses are included in other income or expense.

Assets and liabilities of China Premium Food Corp. (Shanghai) Co., Ltd. are translated into the US dollar at the prevailing exchange rate in effect at each period end. Revenue and expenses are translated into the US dollar at the average exchange rate during the reporting period. Contributed capital is translated into the US dollar at the historical exchange rate when capital was injected. Any difference resulting from using the current

rate, historical rate and average rate in determination of retained earnings is accounted for as a translation adjustment and reported as part of comprehensive income or loss in the equity section.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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. Among the more significant estimates included in these financial statements are the estimated allowance for doubtful accounts receivable and the deferred income tax asset allowance. Actual results could differ materially from those estimates.

Fair Value of Financial Instruments

The carrying amount of cash, receivables, accrued liabilities and notes payable are reasonable estimates of their fair value because of the short maturity of these items.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with a remaining maturity of three months or less to be cash equivalents.

Accounts Receivable and Concentration of Credit Risk

The Company's financial instruments that are exposed to concentrations of credit risk primarily consist of cash and accounts receivable.

During the normal course of business, the Company extends unsecured credit to its customers who are located in various geographical areas. Typically credit terms require payments to be made by the thirtieth day following the sale. The Company regularly evaluates and monitors the creditworthiness of each customer on a case-by-case basis. The Company provides an allowance for doubtful accounts based on its continuing evaluation of its customers' credit risk. As of December 31, 2003, the allowance of doubtful accounts aggregated $39,226. The Company maintains its cash accounts with high credit quality financial institutions. The FDIC insures total cash balances up to $100,000 per bank. Cash balances in any one financial institution were not in excess of this limit at December 31, 2003.

Inventory

Inventory, which consists primarily of packing materials and other flavor ingredients, is stated at the lower of cost on the first-in, first-out method or market.

Furniture and Equipment

Furniture and equipment are stated at cost. Depreciation is computed primarily utilizing the straight-line method over a period of seven years for furniture and five years for equipment.

Maintenance, repairs and minor renewals are charged directly to expenses as incurred. Additions and betterment to property and equipment are capitalized. When assets are disposed of, the related cost and

accumulated depreciation thereon are removed from the accounts, and any resulting gain or loss is included in the statement of operations.

Impairment of Long-Lived Assets

Effective January 1, 2002, the Company began applying the provisions of Statement of Financial Accounting Standard No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"). SFAS No. 144 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable through the estimated undiscounted cash flows expected to result from the use and eventual disposition of the assets. Whenever any such impairment exists, an impairment loss will be recognized for the amount by which the carrying value exceeds the fair value. During 2002, the Company determined that license rights in China having a net book value of $39,286 were impaired.

Revenue Recognition

The Company sells flavor ingredients and production rights (collectively referred to as "kits") to processor dairies in the U.S., China, Canada and Mexico and also sells flavored milk products in the U.S. Revenue is recognized when the goods are shipped and title and the risk and reward of ownership have been passed to the customer and possible return of goods can be reasonably estimated. The criteria to meet this guideline are: 1) persuasive evidence of an arrangement exists, 2) delivery has occurred or services have been rendered, 3) the price to the buyer is fixed or determinable and 4) collectibility is reasonably assured.

The Company follows the final consensus reached by the Emerging Issues Task Force (EITF) 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent". Pursuant to EITF 99-19, sales of kits made directly to customers by the Company are reflected in the statement of operations on a gross basis, whereby the total amount billed to the customer is recognized as revenue. Sales of kits made through intermediaries, in which the Company's role is similar to that of an agent, are reflected on a net basis, which represents the amount earned by the Company in the transaction.

The Company has production agreements with processors of dairy products pursuant to which the Company sells flavored milk products to retail stores (referred to as "unit sales"). The Company benefits from the difference between the prices charged by the dairy processor to produce the product for the Company and the price paid by retail stores to purchase the product. The Company bears the responsibility for paying food brokers fees, transportation and delivery expenses and sample expense, etc. The Company recognizes revenue on the net basis and recognizes the aforementioned expenses as selling expenses.

Shipping and Handling Costs

Shipping and handling costs incurred by the Company are included in selling expenses and aggregated $273,362 and $504,971 for 2002 and 2003, respectively.

Advertising and Promotion Costs

Advertising and promotion costs, which are included in selling expenses, are expensed as incurred and aggregated $304,084 and $342,367 for 2002 and 2003, respectively.

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BRAVO! FOODS INTERNATIONAL CORP. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Income Taxes

The Company accounts for income taxes using the liability method, which requires an entity to recognize deferred tax liabilities and assets. Deferred income taxes are recognized based on the differences between the tax bases of assets and liabilities and their reported amounts in the financial statements that will result in taxable or deductible amounts in future years. Further, the effects of enacted tax laws or rate changes are included as part of deferred tax expense or benefit in the period that covers the enactment date. A valuation allowance is recognized if it is more likely than not that some portion, or all, of a deferred tax asset will not be realized.

Earnings (Loss) Per Share

Basic earnings (loss) per common share is computed by dividing loss applicable to common stockholders by the weighted average number of common shares outstanding for the period.

For the years ended December 31, 2002 and 2003, potential common shares arising from the Company's stock options, stock warrants and convertible preferred stock of 21,157,803 and 39,611,363, respectively, were not included in the computation of diluted earnings per share because their effect was antidilutive.

Stock-based Compensation

The Company has adopted the intrinsic value method of accounting for employee stock options as permitted by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-based Compensation" (SFAS No. 123) and discloses the pro forma effect on net loss and loss per share as if the fair value based method had been applied. For equity instruments, including stock options, issued to non-employees, the fair value of the equity instruments or the fair value of the consideration received, whichever is more readily determinable, is used to determine the value of services or goods received and the corresponding charge to operations.

The following table illustrates the effect on net loss and loss per share as if the Company had applied the fair value recognition provision of SFAS No. 123 to stock-based employee compensation.

	Year ending December 31,	
	2002	2003
Net loss applicable to common shareholders: as reported	$(4,171,590)	$(3,919,455)
Add: total stock based employee compensation expense determined under fair value method for all awards	-	-
Pro forma net loss	$(4,171,590)	$(3,919,455)
Loss per share:		
As reported	$ (0.23)	$ (0.15)
Pro forma	$ (0.23)	$ (0.15)

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BRAVO! FOODS INTERNATIONAL CORP. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Recent Accounting Pronouncements

Adoption of SFAS 150

In May 2003, Statement of Financial Accounting Standards ("SFAS") No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity," was issued effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). The adoption of SFAS No. 150 did not result in the reclassification of any financial instruments in the Company's financial statements.

Adoption of SFAS 149

In April 2003, SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities," was issued effective for contracts entered into or modified after June 30, 2003, with certain exceptions. This statement amends and clarifies financial accounting and reporting for derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activity." The Company does not currently engage in hedging activities, and the adoption of this statement did not have any effect on its financial statements.

Adoption of SFAS No. 148

In December 2002, FASB issued Statement No. 148 (SFAS No. 148), "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123." SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS No. 148 is effective for the Company's financial statements for the year ending after December 15, 2002. As permitted by SFAS No. 148, the Company has elected to retain the intrinsic value method of accounting for stock-based awards granted to employees. Accordingly, the adoption of SFAS No. 148 did not have a material effect on the Company's financial position or results of operations.

Adoption of SFAS No. 146

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Adoption of SFAS No. 143

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 perio