

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

If you are in any doubt as to any aspect of this Composite Document or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or otherwise transferred all your shares in Natural Beauty Bio-Technology Limited, you should at once hand this Composite Document and the accompanying Form of Acceptance to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer, registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s). This Composite Document should be read in conjunction with the Form of Acceptance, the contents of which form part of the terms of the Offer contained herein.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this Composite Document and the accompanying Form of Acceptance, make no representation as to their accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Composite Document and the accompanying Form of Acceptance.



自然美  
natural beauty

**Standard Cosmos Limited**

*(Incorporated in the British Virgin Islands  
with limited liability)*

Natural Beauty Bio-Technology Limited

自然美生物科技有限公司

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

**(Stock code: 00157)**

**COMPOSITE DOCUMENT RELATING  
TO THE MANDATORY UNCONDITIONAL CASH OFFER  
BY CITIGROUP GLOBAL MARKETS ASIA LIMITED  
ON BEHALF OF STANDARD COSMOS LIMITED  
TO ACQUIRE ALL THE ISSUED SHARES IN THE SHARE CAPITAL OF  
NATURAL BEAUTY BIO-TECHNOLOGY LIMITED  
(OTHER THAN THOSE ALREADY OWNED BY STANDARD COSMOS LIMITED  
AND PARTIES ACTING IN CONCERT WITH IT)**

**Financial Adviser to Standard Cosmos Limited**



**Independent Financial Adviser to the Independent Board Committee**



All capitalised terms used in this document have the meanings set out in the section of this Composite Document headed "Definitions".

A letter from Citi containing, amongst other things, the details of the terms of the Offer is set out in Part I of this Composite Document.

A letter from the Natural Beauty Board is set out in Part II of this Composite Document. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out in Part III of this Composite Document. A letter of advice from the Independent Financial Adviser, Somerley Limited, containing its opinion and advice to the Independent Board Committee is set out in Part IV of this Composite Document.

The procedures for acceptance and other related information are set out in Appendix I to this Composite Document and in the accompanying Form of Acceptance. Acceptances should be received by the Registrar of Natural Beauty, Hong Kong Registrars Limited at Shops 1712-1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:00 p.m. on 14 December 2009 or such later time and/or date as Bidco may determine and announce in accordance with the Takeovers Code.

Persons (including, without limitation, custodians, nominees and trustees) who would, or otherwise intend to, forward this Composite Document and/or the Form of Acceptance to any jurisdiction outside Hong Kong should, before doing so, read the details in this regard which are contained in the section headed "Overseas Independent Shareholders" in the "Letter from Citi" as set out in Part I of this Composite Document and inform themselves about and observe and comply with any applicable legal, tax and regulatory requirements of such jurisdiction before taking any action. Overseas Independent Shareholders are advised to seek professional advice in deciding whether to accept the Offer.

This Composite Document is issued jointly by Standard Cosmos Limited and Natural Beauty Bio-Technology Limited.

In the event of any inconsistency, the English language text of this Composite Document shall prevail over the Chinese language text.

23 November 2009

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## EXPECTED TIMETABLE

Despatch date of this Composite Document and commencement of the Offer . . . . .	23 November 2009
Latest time and date for acceptance of the Offer ( <i>Note 1</i> ) . . . . .	4:00 p.m. on 14 December 2009
Closing Date of the Offer ( <i>Note 2</i> ) . . . . .	14 December 2009
Announcement of the results of the Offer published on the Stock Exchange's website . . . . .	7:00 p.m. on 14 December 2009
Latest date for posting remittances for amounts due in respect of valid acceptances received under the Offer ( <i>Note 3</i> ) . . . . .	24 December 2009

*Notes:*

- (1) The Offer, which is unconditional, will close on 14 December 2009 unless Bidco revises or extends the Offer in accordance with the Takeovers Code. In the event that Bidco decides to extend the Offer, notice in writing of at least 14 days will be given to the Independent Shareholders.
- (2) The Offer is capable of acceptance on and from 23 November 2009, being the date of this Composite Document, until 4:00 p.m. on the Closing Date. Acceptances of the Offer will be irrevocable and not capable of being withdrawn, except in the circumstances set out in Rule 19.2 of the Takeovers Code.
- (3) Remittances in respect of the consideration after deducting the seller's ad valorem stamp duty payable for the Natural Beauty Shares tendered under the Offer will be posted to accepting Independent Shareholders by ordinary post at their own risk as soon as possible, but in any event within 10 days of the date of receipt by the Registrar of the duly completed Form of Acceptance and all the relevant documents.

**Unless otherwise expressly stated, all time and date references contained in this Composite Document refer to Hong Kong times and dates. The timetable set out above is indicative only and further announcements will be made in the event of any changes to the timetable.**

*Shareholders should note that:*

- (a) *if the level of acceptances reaches the prescribed level under the Companies Law and Rule 2.11 of the Takeovers Code permits a compulsory acquisition and Bidco proceeds with the privatisation of Natural Beauty, dealings in the securities of Natural Beauty will be suspended from the close of the Offer up to the withdrawal of listing of Natural Beauty's securities from the Stock Exchange pursuant to Rule 6.15 of the Listing Rules; and*
- (b) *if, at the close of the Offer, less than 25 per cent. of the Natural Beauty Shares are held by the public (within the meaning of the Listing Rules), or if the Stock Exchange believes that a false market exists or may exist in the trading of the Natural Beauty Shares or there are insufficient Natural Beauty Shares in public hands to maintain an orderly market, the Stock Exchange may exercise its discretion to suspend trading in the Natural Beauty Shares.*

## DEFINITIONS

*In this Composite Document, unless the context otherwise requires, the following words and expressions shall have the following meanings:*

“acting in concert”	has the meaning given to it under the Takeovers Code;
“Announcement”	means the joint announcement issued by Bidco and Natural Beauty in relation to the Offer dated 19 October 2009;
“Announcement Date”	means 19 October 2009, being the date of the Announcement;
“associates”	has the meaning given to it under the Takeovers Code;
“Bidco”	means Standard Cosmos Limited, a company incorporated in the British Virgin Islands with limited liability;
“Bidco Board”	means the board of directors of Bidco;
“CA NB”	means CA NB Limited, an exempted company incorporated in the Cayman Islands with limited liability;
“Carlyle”	has the meaning given to it in the section headed “Information on Bidco, Holdco, CA NB and Family Holdco 2” in the “Letter from Citi” as set out in Part I of this Composite Document;
“CCASS”	means the Central Clearing and Settlement System established and operated by the Hong Kong Securities Clearing Company Limited;
“Citi”	means Citigroup Global Markets Asia Limited, the financial adviser to Bidco in respect of the Offer, which is licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO);
“Citibank”	means Citibank N.A.;
“Closing Date”	means 14 December 2009, or such other time and/or date as Bidco may determine and announce in accordance with the Takeovers Code;

## DEFINITIONS

“Companies Law”	means the Companies Law (as amended) of the Cayman Islands;
“Completion”	means completion of the Sale and Purchase Agreement;
“Composite Document”	means this Offer Document and Response Document dated 23 November 2009 issued jointly by Bidco and Natural Beauty in connection with the Offer;
“Director(s)”	means the director(s) of Natural Beauty;
“Executive”	means the Executive Director of the Corporate Finance Division of the SFC or any of his delegates;
“Family Group Reorganisation”	means the reorganisation of the indirect interests of the Family Investors in Natural Beauty pursuant to the steps described in the section headed “The Family Group Reorganisation” in the “Letter from Citi” as set out in Part I of this Composite Document;
“Family Holdco 1”	means Invest Focus Limited, a company incorporated in the British Virgin Islands with limited liability;
“Family Holdco 2”	means Next Focus Holdings Limited, a company incorporated in the British Virgin Islands with limited liability;
“Family Investors”	means Dr. Tsai Yen-Yu, Dr. Su Chien-Cheng and Dr Su Sh-Hsyu;
“Family Vehicle 1”	means Knightcote Enterprises Limited, a company incorporated in the British Virgin Islands with limited liability which is ultimately wholly-owned by Dr. Tsai Yen-Yu;
“Family Vehicle 2”	means Beautivalue Holdings Limited, a company incorporated in the British Virgin Islands with limited liability which is ultimately wholly-owned by Dr. Su Chien-Cheng;
“Family Vehicle 3”	means Colour Shine Holdings Limited, a company incorporated in the British Virgin Islands with limited liability which is ultimately wholly-owned by Dr. Su Sh-Hsyu;

## DEFINITIONS

“Form of Acceptance”	means the form of acceptance and transfer in respect of the Offer Shares accompanying this Composite Document;
“Fund”	has the meaning given to it in the section headed “Information on Bidco, Holdco, CA NB and Family Holdco 2” in the “Letter from Citi” as set out in Part I of this Composite Document;
“Group”	means the Holdco Group and the Natural Beauty Group;
“HK\$”	means Hong Kong dollars, the lawful currency of Hong Kong;
“Holdco”	means Starsign International Limited, a company incorporated in the British Virgin Islands with limited liability;
“Holdco Board”	means the board of directors of Holdco, as from time to time constituted;
“Holdco Group”	means Holdco and its direct and indirect subsidiaries (excluding each member of the Natural Beauty Group);
“Holdco Shareholders”	means CA NB and Family Holdco 2;
“Holdco Shares”	means ordinary shares of US\$1.00 each in the share capital of Holdco;
“Hong Kong”	means the Hong Kong Special Administrative Region of the People’s Republic of China;
“Independent Board Committee”	means the independent board committee of the Natural Beauty Board comprising all of the independent non-executive directors of Natural Beauty, namely, Mr. Yeh Liang Fei, Mrs. Chen Shieh Shu Chen and Mr. Chen Ching;

## DEFINITIONS

“Independent Financial Adviser”	means Somerley Limited, a corporation licensed by the SFC to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) of the regulated activities under the SFO and the independent financial adviser to the Independent Board Committee in respect of the Offer;
“Independent Shareholders”	means Shareholders other than Bidco and parties acting in concert with it;
“Last Trading Day”	means 15 October 2009, being the last trading day prior to the suspension of trading in Natural Beauty Shares on the Stock Exchange pending the release of the Announcement;
“Latest Practicable Date”	means 20 November 2009, being the latest practicable date prior to the printing of this Composite Document for the purpose of ascertaining certain information contained in this Composite Document;
“Listing Rules”	means the Rules Governing the Listing of Securities on the Stock Exchange;
“Natural Beauty”	means Natural Beauty Bio-Technology Limited, an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange with stock code 00157;
“Natural Beauty Board”	means the board of directors of Natural Beauty, as from time to time constituted;
“Natural Beauty Group”	means Natural Beauty and its direct and indirect subsidiaries;
“Natural Beauty Shares”	means the ordinary shares of HK\$0.10 each in the share capital of Natural Beauty;
“Offer”	means the mandatory unconditional cash offer at the Offer Price for all the issued Offer Shares;
“Offer Document”	means the offer document to be issued by Bidco to Independent Shareholders in connection with the Offer;

## DEFINITIONS

“Offer Price”	means the consideration of HK\$1.25 per Offer Share;
“Offer Shares”	means Natural Beauty Shares not already owned or agreed to be acquired by Bidco and parties acting in concert with it;
“Optionholders”	holders of Options;
“Options”	means the options granted by Natural Beauty under the Share Option Scheme which were outstanding as at the Announcement Date;
“Overseas Independent Shareholders”	means Independent Shareholders whose registered addresses as shown on the register of members of Natural Beauty are outside Hong Kong;
“Prior Privatisation Proposal”	means the proposed privatisation of Natural Beauty by Global Radiance Company Limited, as announced on 25 November 2008;
“Property Valuer”	means Vigers Appraisal & Consulting Limited;
“Registrar”	means Hong Kong Registrars Limited at Shop 1712-1716, 17/F., Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong;
“Reserved Matters”	has the meaning given to it in the section headed “The Shareholders Agreement – Proceedings of Directors and Reserved Matters” in the “Letter from Citi” as set out in Part I of this Composite Document;
“Response Document”	means the document to be issued by Natural Beauty to all Independent Shareholders in accordance with the Takeovers Code;
“Sale and Purchase Agreement”	means the sale and purchase agreement dated 15 October 2009 entered into among CA NB, Family Holdco 1, Family Holdco 2 and the Family Investors, pursuant to which Family Holdco 1 agreed to sell and CA NB agreed to purchase the Sale Shares;
“Sale Shares”	means 25,000 Holdco Shares, representing 50 per cent. of the issued share capital of Holdco;
“SFC”	means the Securities and Futures Commission of Hong Kong;



## DEFINITIONS

“SFO”	means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Shareholders”	means registered holders for the time being of Natural Beauty Shares;
“Shareholders’ Agreement”	means the shareholders’ agreement dated 15 October 2009 entered into among CA NB, the Family Investors, Family Holdco 2 and Holdco setting out the rights and obligations of the parties in relation to the Group;
“Share Option Scheme”	means the share option scheme adopted by Natural Beauty on 11 March 2002;
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited;
“Takeovers Code”	means The Hong Kong Code on Takeovers and Mergers; and
“US\$”	means United States dollars, the lawful currency of the United States of America.



**CITIGROUP GLOBAL MARKETS ASIA LIMITED**

50th Floor, Citibank Tower, Citibank Plaza  
3 Garden Road, Central, Hong Kong

23 November 2009

*To: the Independent Shareholders*

Dear Sir or Madam,

**COMPOSITE DOCUMENT RELATING  
TO THE MANDATORY UNCONDITIONAL CASH OFFER  
BY CITIGROUP GLOBAL MARKETS ASIA LIMITED  
ON BEHALF OF STANDARD COSMOS LIMITED  
TO ACQUIRE ALL THE ISSUED SHARES IN THE SHARE CAPITAL OF  
NATURAL BEAUTY BIO-TECHNOLOGY LIMITED  
(OTHER THAN THOSE ALREADY OWNED BY STANDARD COSMOS LIMITED  
AND PARTIES ACTING IN CONCERT WITH IT)**

**1 INTRODUCTION**

On 15 October 2009, the Family Group Reorganisation was implemented and CA NB entered into the Sale and Purchase Agreement with Family Holdco 1, Family Holdco 2 and the Family Investors, pursuant to which Family Holdco 1 agreed to sell, and CA NB agreed to purchase, the Sale Shares. Holdco holds the entire issued share capital of Bidco, which, in turn, indirectly holds 1,311,690,000 Natural Beauty Shares (representing approximately 65.53 per cent. of the issued share capital of Natural Beauty as at 15 October 2009 and, as a result of the Natural Beauty Shares issued following the exercise by Optionholders of their Options in full after the Announcement Date, approximately 65.52 per cent. of the issued share capital of Natural Beauty as at the Latest Practicable Date). On the same day, CA NB, the Family Investors, Family Holdco 2 and Holdco entered into the Shareholders' Agreement setting out the rights and obligations of the parties in relation to the Group.

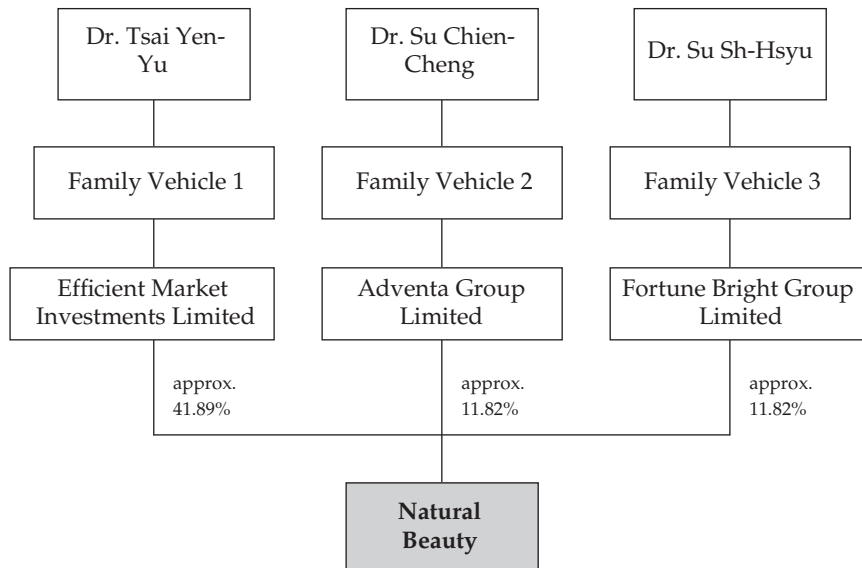
This letter sets out, among other things, the principal terms of the Offer, together with information relating to Bidco and its intentions regarding Natural Beauty. Further details of the terms of the Offer and the procedures for acceptance of the Offer are set out in Appendix I to the Composite Document and the accompanying Form of Acceptance.

Independent Shareholders are strongly advised to consider carefully the information contained in the "Letter from the Natural Beauty Board" as set out in Part II, the "Letter from the Independent Board Committee" as set out in Part III and the "Letter from the Independent Financial Adviser" as set out in Part IV of the Composite Document.

**2 THE FAMILY GROUP REORGANISATION**

**Shareholding structure before implementation of the Family Group Reorganisation**

Immediately before the implementation of the Family Group Reorganisation, each of Dr. Tsai Yen-Yu, Dr. Su Chien-Cheng and Dr. Su Sh-Hsyu indirectly held approximately 41.89 per cent., 11.82 per cent. and 11.82 per cent. of the total share capital of Natural Beauty, respectively. The structure of the Family Investors' shareholding in Natural Beauty immediately before the implementation of the Family Group Reorganisation is set out in the following diagram:



**Steps of the Family Group Reorganisation**

The Family Group Reorganisation was effected through the following steps:

- (1) each of Family Vehicle 1, Family Vehicle 2 and Family Vehicle 3 transferred its respective shares in Efficient Market Investments Limited, Adventa Group Limited and Fortune Bright Group Limited to Bidco in consideration for shares of Bidco. As a result of such transfers, each of Family Vehicle 1, Family Vehicle 2 and Family Vehicle 3 received shares in Bidco representing approximately 63.93 per cent., 18.04 per cent. and 18.04 per cent. of the total issued share capital of Bidco, respectively;

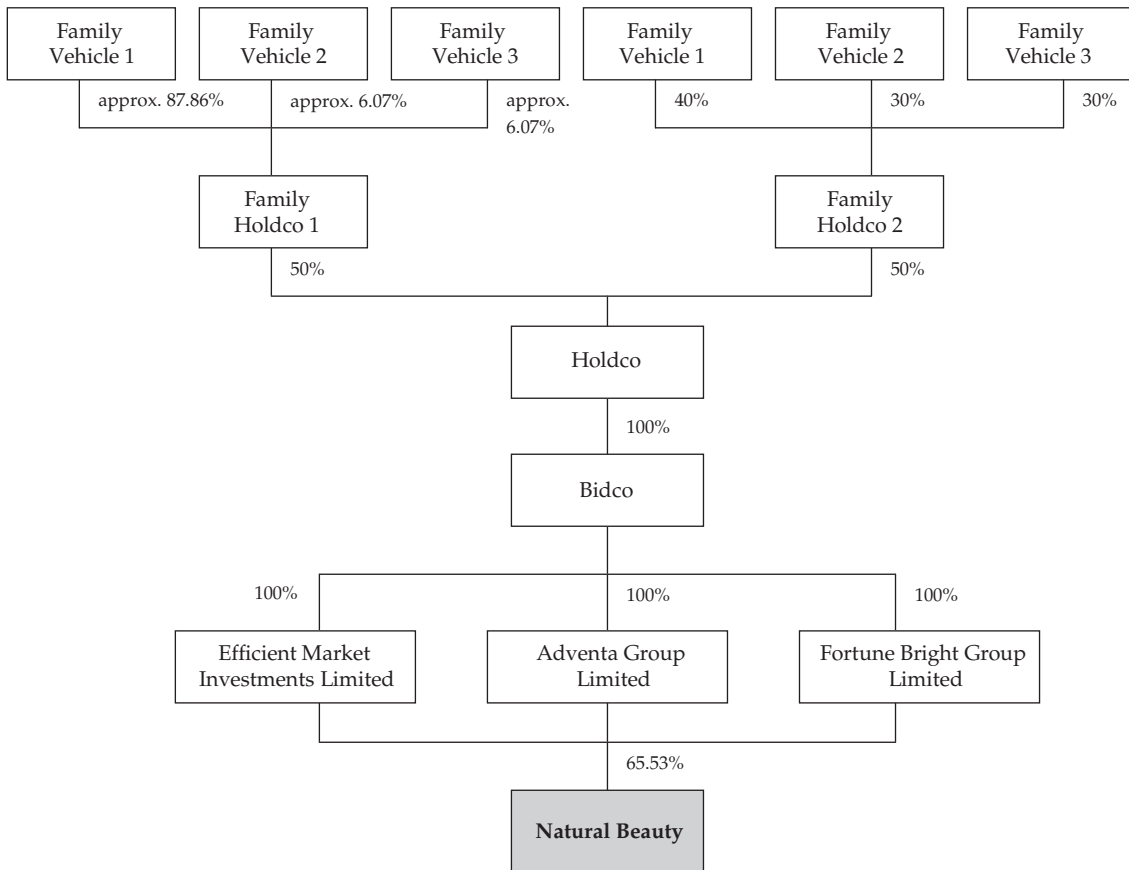
**PART I : LETTER FROM CITI**

- (2) each of Family Vehicle 1, Family Vehicle 2 and Family Vehicle 3 then transferred its respective shares in Bidco to Holdco in consideration for Holdco Shares. As a result of such transfers, each of Family Vehicle 1, Family Vehicle 2 and Family Vehicle 3 received Holdco Shares representing approximately 63.93 per cent., 18.04 per cent. and 18.04 per cent. of the total issued share capital of Holdco, respectively; and
  
- (3) each of Family Vehicle 1, Family Vehicle 2 and Family Vehicle 3 then transferred:
  - (a) Holdco Shares representing approximately 43.93 per cent., 3.04 per cent. and 3.04 per cent. of the total issued share capital of Holdco, respectively, to Family Holdco 1 in consideration for shares of Family Holdco 1. As a result of such transfers, each of Family Vehicle 1, Family Vehicle 2 and Family Vehicle 3 received shares of Family Holdco 1 representing approximately 87.86 per cent., 6.07 per cent. and 6.07 per cent. of the total issued share capital of Family Holdco 1, respectively; and
  
  - (b) Holdco Shares representing approximately 20 per cent., 15 per cent. and 15 per cent. of the total issued share capital of Holdco, respectively, to Family Holdco 2 in consideration for shares of Family Holdco 2. As a result of such transfers, each of Family Vehicle 1, Family Vehicle 2 and Family Vehicle 3 received shares of Family Holdco 2 representing approximately 40 per cent., 30 per cent. and 30 per cent. of the total issued share capital of Family Holdco 2, respectively.

## PART I : LETTER FROM CITI

### Shareholding structure upon implementation of the Family Group Reorganisation

The structure of the Family Investors' shareholding in Natural Beauty following the implementation of the Family Group Reorganisation (but before Completion) is as set out in the following diagram:



The Family Investors have applied to the SFC for, and the SFC has granted, a waiver from a general offer obligation under Rule 26.1 of the Takeovers Code in respect of the implementation of the Family Group Reorganisation pursuant to Note 6(a) to Rule 26.1 of the Takeovers Code.

### 3 THE PRINCIPAL TERMS OF THE SALE AND PURCHASE AGREEMENT

#### Sale Shares

The Sale Shares comprise 25,000 Holdco Shares, representing 50 per cent. of the issued share capital of Holdco, free from all encumbrances and together with all rights which are, and which may anytime thereafter, become attached thereto (including, without limitation, the right to receive all dividends and distributions declared, made or paid on or after Completion).

## PART I : LETTER FROM CITI

### **Purchase Price**

The aggregate purchase price for the Sale Shares was HK\$819,806,250, which was paid by CA NB in full in cash on Completion, of which HK\$387,867,910.50 was paid directly to recipients designated by Family Holdco 1 and HK\$431,938,339.50 was paid into an escrow account with Citibank Hong Kong branch for the purpose of financing the amount to be contributed by Family Holdco 2 under the Offer. See the section headed “The Offer – Confirmation of Financial Resources” in the “Letter from Citi” as set out in Part I of the Composite Document for further details.

The purchase price was determined after arm’s length negotiations between Family Holdco 1 and CA NB. Based on Holdco’s indirect shareholding of 1,311,690,000 Natural Beauty Shares, the aggregate price for the Sale Shares implies a see-through price of HK\$1.25 per Natural Beauty Share.

### **Completion**

The sale and purchase of the Sale Shares was completed on the same day as the Sale and Purchase Agreement was entered into (namely, 15 October 2009).

### **Warranties, Indemnities and Undertakings**

In connection with the sale of the Sale Shares under the Sale and Purchase Agreement, Family Holdco 1, Family Holdco 2 and the Family Investors gave certain warranties and indemnities to CA NB, in respect of, among other things, the due incorporation and valid standing of the members of the Group and the underlying business and operations of the Group.

In addition, each of the Family Investors agreed, among other things, (a) not to compete with the Natural Beauty Group, except in respect of an excluded anti-aging resort business (which is outside the current scope of business of the Natural Beauty Group); (b) to assign and license on a perpetual basis (as the case may be), to the Natural Beauty Group, certain trademarks currently owned by the Family Investors which are used in the business of the Natural Beauty Group for an aggregate nominal consideration of HK\$20, such assignment being subject to certain reserved rights reasonably necessary for the conduct by the Family Investors of the excluded anti-aging resort business; and (c) to use such reserved rights and any other rights the Family Investors may have in relation to any intellectual property owned by the Natural Beauty Group from time to time only in relation to the excluded anti-aging resort business.

**4 THE PRINCIPAL TERMS OF THE SHAREHOLDERS' AGREEMENT**

**Effective Date**

The Shareholders' Agreement became effective on Completion, namely, 15 October 2009.

**Holdco Board and Key Nominations**

The Holdco Board will comprise a minimum of eight directors, and each Holdco Shareholder will have the right to appoint, remove and replace up to half the total number of directors on the Holdco Board. Similar provisions will apply to Natural Beauty and such other member(s) of the Group as may be determined by CA NB from time to time. Pending appointment by CA NB of directors to the Natural Beauty Board and the board(s) of directors of such other member(s) of the Group, CA NB will have the right to nominate (a) up to four observers to the Natural Beauty Board; and (b) up to such number of observers to the board of directors of any other member of the Natural Beauty Group as is equal to the total number of directors which CA NB would otherwise have the right to appoint to that board. The observers will have the right to attend all meetings of the Natural Beauty Board or meetings of the directors of the relevant member of the Natural Beauty Group (as the case may be) and shall have all rights and privileges of the Natural Beauty Board or the board of directors of the relevant member of the Natural Beauty Group (as the case may be) (including the right to receive notice of meetings and board packages and other information) but will not be counted for determination of a quorum for, and will not have voting rights at, meetings of Natural Beauty Board or meetings of the directors of the relevant member of the Natural Beauty Group (as the case may be).

Dr. Tsai Yen-Yu will act as chairman of the Holdco Board and, subject to approval by the Holdco Board, each Holdco Shareholder will have the right to nominate for appointment a vice-chairman. In addition, CA NB will have the right to appoint, remove and replace the chief executive officer of the Natural Beauty Group.

**Proceedings of Directors and Reserved Matters**

In general, questions arising at a meeting of any member of the Group will be decided by a majority of votes cast, and the chairman will not have a second or casting vote. However, certain matters may not be effected by the Group without the prior written consent of both Holdco Shareholders (the "**Reserved Matters**"). The Reserved Matters include (without limitation) the alteration of any share or loan capital, the taking of any winding-up or dissolution steps, certain acquisitions, disposals and capital commitments, any material change in the nature or scope of, or the cessation of substantially all of, the Group's business, any change in the brand name of Natural Beauty and the grant or entry into any licence, agreement or

## PART I : LETTER FROM CITI

arrangement relating to any part of the name or trading names of the Group or any other part of its intellectual property.

### **Deadlock Resolution**

In the event that the Holdco Shareholders fail, following consultation in good faith, to reach agreement on certain matters (“**Deadlock Matters**”), the board of directors of the relevant member of the Group shall instruct management of that member of the Group to continue to act in accordance with the directions of the directors appointed or nominated for appointment by CA NB in respect of the relevant Deadlock Matter. The Deadlock Matters include (without limitation) the issuance of Holdco Shares on a pro rata basis or equity securities of Natural Beauty (subject to certain conditions being satisfied) and any acquisitions and incurrence by the Group of indebtedness above certain prescribed levels.

### **Tax and Regulatory Matters**

Where any action, or failure to take any action, by any member of the Holdco Group would result in a material adverse impact on the tax position of a Holdco Shareholder or members of its group or a violation by a Holdco Shareholder of any applicable laws or regulations, the Holdco Shareholder so affected will have the right to instruct management of the relevant member of the Group to act in accordance with the instructions of that Holdco Shareholder, provided that the interests of the Group, the other Holdco Shareholder and other members of that Holdco Shareholder’s group are not materially adversely affected as a result.

### **Restrictions on Transfers of Holdco Shares**

No Holdco Shareholder may transfer its Holdco Shares save for (a) transfers by CA NB and, following the second anniversary of completion of the Sale and Purchase Agreement, by Family Holdco 2, to a third party purchaser, provided that the transferring Holdco Shareholder has first given the other Holdco Shareholder the opportunity to make an offer to acquire those Holdco Shares; (b) transfers made in compliance with, and subject to, the “tag-along” and “drag-along” rights of the Holdco Shareholders (as described below); (c) transfers by CA NB to a licensed financial institution as security under the terms of a loan arrangement; and (d) transfers that are agreed in writing by the Holdco Shareholders.

Each Holdco Shareholder has, in respect of its Holdco Shares, (a) “tag-along” rights exercisable by it on the transfer of the other Holdco Shareholders’ Holdco Shares to a third party purchaser; and (b) “drag-along” rights whereby, on the sale by a Holdco Shareholder of its Holdco Shares at any time following the fifth anniversary of Completion, such transferring Holdco Shareholder has the right to require the other Holdco Shareholder to transfer such minimum number of its Holdco Shares as would, when aggregated with the transferring Holdco Shareholder’s Holdco Shares, be equal to 51 per cent. of the then issued share capital of Holdco.



**Events of Default**

Upon the occurrence of any event of default in relation to a Holdco Shareholder, the non-defaulting Holdco Shareholder has the right to subscribe at fair value (as determined by a pre-agreed formula) for such number of Holdco Shares as would, when aggregated with the Holdco Shares held by the non-defaulting Holdco Shareholder, be equal to 51 per cent. of the Holdco Shares then in issue, and the Shareholders' Agreement will terminate such that, as provided in the articles of association of Holdco, the defaulting Holdco Shareholder will lose its rights to appoint directors to the Holdco Board and its veto rights in respect of the Reserved Matters. The events of default comprise any change of control of a Holdco Shareholder (save in certain limited circumstances), any transfer of Holdco Shares other than in compliance with the Shareholders' Agreement and the occurrence of any insolvency event.

**5 THE OFFER**

**5.1 The Offer**

As a result of Completion, Bidco is required to make a mandatory general offer for all the Offer Shares pursuant to Rule 26.1 of the Takeovers Code and to make an appropriate offer to the holders of any convertible securities, warrants, options or subscription rights in compliance with Rule 13 of the Takeovers Code. All of the Options were exercised in full after the Announcement Date and, as such, no offer is required to be made in respect of the Options. As at the Latest Practicable Date, there were 2,002,100,932 Natural Beauty Shares in issue and Natural Beauty did not have any outstanding options, warrants or other securities issued by Natural Beauty that carry a right to subscribe for or which are convertible into Natural Beauty Shares.

Citi is making the Offer, on behalf of Bidco, to the Independent Shareholders. The Offer is unconditional in all respects and is made on the following basis:

For each Offer Share . . . . . HK\$1.25 in cash

The Offer Price is equal to the see-through price per Natural Beauty Share paid by CA NB pursuant to the Sale and Purchase Agreement for an interest in 50 per cent. of Holdco's indirect holding of 1,311,690,000 Natural Beauty Shares.

**5.2 Comparisons of value**

The Offer Price represents:

- (i) a discount of approximately 8.09% to the closing price of HK\$1.360 per Natural Beauty Share as quoted on the Stock Exchange on the Last Trading Day;

## PART I : LETTER FROM CITI

- (ii) a discount of approximately 7.54% to the average closing price of HK\$1.352 per Natural Beauty Share as quoted on the Stock Exchange for the five consecutive trading days immediately prior to and including the Last Trading Day;
- (iii) a discount of approximately 7.77% to the average closing price of HK\$1.355 per Natural Beauty Share as quoted on the Stock Exchange for the 30 consecutive trading days immediately prior to and including the Last Trading Day;
- (iv) a discount of approximately 2.34% to the closing price of HK\$1.28 per Natural Beauty Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (v) a premium of approximately 9.46% over the average closing price of HK\$1.142 per Natural Beauty Share as quoted on the Stock Exchange for the 10 consecutive trading days immediately prior to and including 5 November 2008, being the last trading day prior to the suspension of trading in Natural Beauty Shares on the Stock Exchange prior to the announcement of the Prior Privatisation Proposal; and
- (vi) a premium of approximately 179.64% over the unaudited consolidated net asset value attributable to Shareholders per Natural Beauty Share of approximately HK\$0.447 as at 30 June 2009.

### 5.3 Highest and lowest prices

The highest and lowest closing prices of the Natural Beauty Shares as quoted on the Stock Exchange during the six-month period preceding the Last Trading Day and ending on the Latest Practicable Date were HK\$1.42 per Natural Beauty Share on 4 August 2009, and HK\$0.95 per Natural Beauty Share on 28 April 2009, respectively.

### 5.4 Total consideration for the Offer

On the basis of the Offer Price of HK\$1.25, the entire issued share capital of 2,002,100,932 Natural Beauty Shares as at the Latest Practicable Date is valued at approximately HK\$2,502.6 million.

In the event that the Offer is accepted in full, the aggregate amount payable by Bidco will be HK\$863.0 million.

## PART I : LETTER FROM CITI

### 5.5 Terms of the Offer

Under the terms of the Offer, the Offer Shares will be acquired with all rights attached thereto as at the date of the Announcement, or subsequently becoming attached thereto, including all rights to any dividends or other distributions declared, made or paid on or after the Announcement Date, and free from all rights of pre-emption, options, liens, claims, equities, charges, encumbrances and third party rights.

### 5.6 Payment

Payment in cash in respect of acceptances of the Offer will be made as soon as possible but in any event within 10 days of the date of receipt of duly completed and valid acceptances.

### 5.7 Stamp duty

Seller's ad valorem stamp duty at a rate of HK\$1 for each HK\$1,000 or part thereof for the consideration payable by Bidco in respect of relevant acceptances will be deducted from the amount payable to the relevant Independent Shareholders under the Offer. Bidco will pay to the Stamp Office of the Hong Kong Inland Revenue Department the buyer's ad valorem stamp duty on its own behalf and the seller's ad valorem stamp duty on behalf of the accepting Independent Shareholders in respect of the Natural Beauty Shares accepted under the Offer.

### 5.8 Confirmation of Financial Resources

Citi, the financial adviser to Bidco in respect of the Offer, is satisfied that sufficient financial resources are available to Bidco to satisfy full acceptance of the Offer. Bidco will finance the amount payable under the Offer as to 50 per cent. to be contributed by Family Holdco 2 through funds in the amount of HK\$431.9 million which have been deposited in an escrow account with Citibank Hong Kong branch and as to 50 per cent. to be contributed by CA NB through drawdown of a letter of credit in the amount of US\$55,750,000 (equivalent to HK\$432,062,500, based on an assumed exchange rate of US\$1.00:HK\$7.75) from Wachovia Bank, National Association which is available to Bidco for drawdown for two months from the issuance of the letter of credit or any extended date, if applicable. Bidco made a single drawdown of the funds available to it under this letter of credit on 9 November 2009.

The payment of interest on, repayment of or security for any liability (contingent or otherwise) in respect of the funds drawdown by Bidco under the letter of credit will not depend to any significant extent on the business of the Natural Beauty Group.

### **5.9 Overseas Independent Shareholders**

The making of the Offer to Overseas Independent Shareholders may be subject to the laws and regulations of the relevant jurisdictions. Such persons and persons (including, without limitation, custodians, nominees and trustees) who would, or otherwise intend to, forward this Composite Document and/or the Form of Acceptance to any jurisdiction outside Hong Kong, should inform themselves about and observe and comply with any applicable legal, tax and regulatory requirements. It is the responsibility of any Overseas Independent Shareholder wishing to accept the Offer to satisfy himself as to the full observance of, and compliance with, the laws of the relevant jurisdictions in connection therewith, including obtaining any governmental, exchange control or other consents which may be required, or compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such jurisdiction. Acceptance of the Offer by any Overseas Independent Shareholder will constitute a warranty given by such person in favour of Bidco and Natural Beauty that, among other things, such person is permitted under all applicable laws to receive the Composite Document and accept the Offer and any revision thereof, and such acceptance shall be valid and binding in accordance with all applicable laws.

## **6 INFORMATION ON BIDCO, HOLDCO, CA NB AND FAMILY HOLDCO 2**

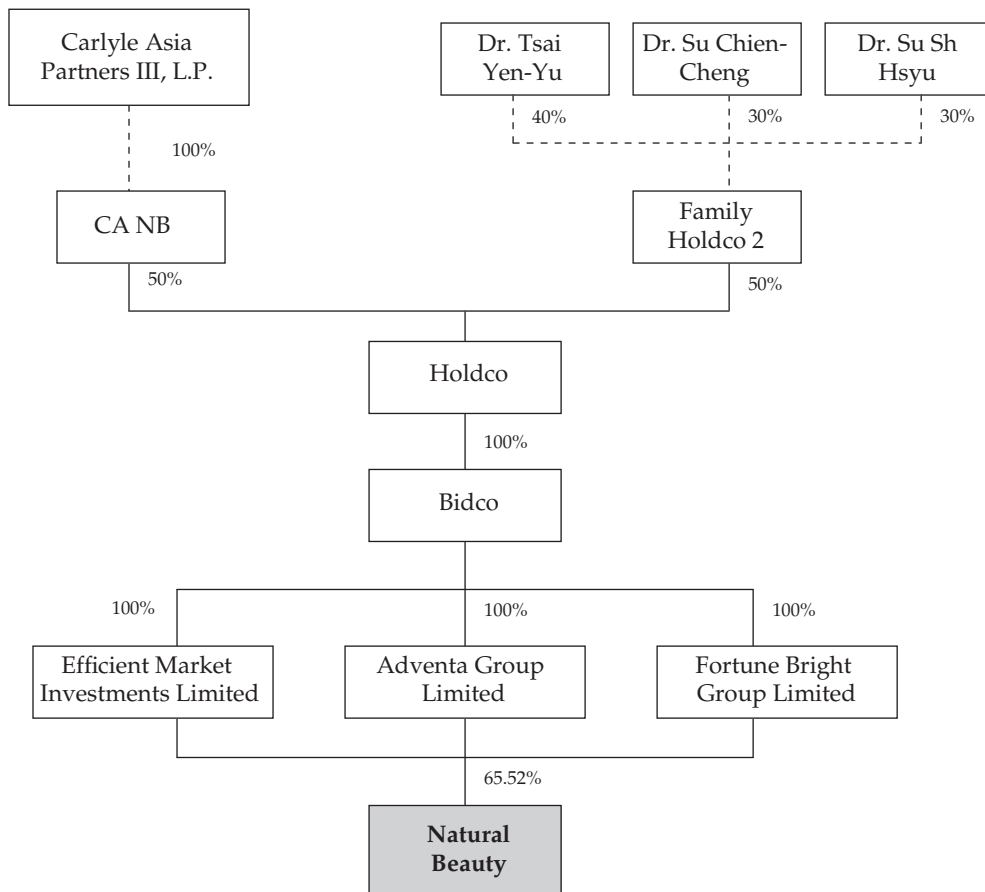
Bidco is a company incorporated in the British Virgin Islands with limited liability on 21 August 2009 and is a wholly-owned subsidiary of Holdco. Holdco is a company incorporated in the British Virgin Islands with limited liability on 19 August 2009. Holdco is held as to 50 per cent. by each of CA NB and Family Holdco 2. Each of Bidco and Holdco is an investment holding company.

CA NB is an exempted company incorporated in the Cayman Islands with limited liability on 30 September 2009. CA NB is ultimately owned by Carlyle Asia Partners III, L.P. (the “Fund”), a Cayman Islands limited liability partnership that was launched in 2007. The Fund is advised by investment advisory entities within The Carlyle Group (“Carlyle”), including Carlyle Asia Investment Advisors Limited, an entity established in Hong Kong. Carlyle Asia Investment Advisors Limited has offices in Hong Kong, Mumbai, Seoul, Beijing, Shanghai, Singapore and Sydney. Carlyle Asia Investment Advisors Limited acts as the Asian investment advisor to various Asian focused investment funds managed by Carlyle, including the Fund and certain property and growth capital funds, and the committed capital to those Asian funds (including the Fund) currently totals approximately US\$7.5 billion. The Fund, together with its two predecessor funds, has invested in 19 companies (the first investment being made in 1999), committing approximately US\$3.9 billion in equity to such investments.

Family Holdco 2 is a company incorporated in the British Virgin Islands on 12 August 2009, which is ultimately held as to 40 per cent., 30 per cent. and 30 per cent. by each of Dr. Tsai Yen-Yu, Dr. Su Chien-Cheng and Dr. Su Sh-Hsyu, respectively. Each of Dr. Tsai Yen-Yu, Dr. Su Chien-Cheng and Dr. Su Sh-Hsyu is currently an executive director of Natural Beauty.

## PART I : LETTER FROM CITI

The relationship between Bidco, Holdco, CA NB, Family Holdco 2, Dr. Tsai Yen-Yu, Dr. Su Chien-Cheng and Dr. Su Sh-Hsyu, and the structure of their interest in Natural Beauty, as at the Latest Practicable Date are set out in the following diagram:



### 7 REASONS AND BENEFITS OF THE OFFER

The Bidco Board believes that the terms of the Offer are attractive to the Independent Shareholders and represent a unique opportunity to realise their respective holdings in an illiquid stock for cash. In this regard, the Bidco Board notes that the average daily traded volume of Natural Beauty Shares from 27 February 2009, being the date of the resumption of trading of Natural Beauty Shares following the announcement of the results of the court meeting and extraordinary general meeting in relation to the Prior Privatisation Proposal, to the Latest Practicable Date was fewer than 2,377,967 Natural Beauty Shares per day, representing approximately 0.12 per cent. of the total number of Natural Beauty Shares in issue. The Bidco Board also notes that the price per Natural Beauty Share has significantly underperformed the broader equity markets. From 27 February 2009 to the Latest Practicable Date, the closing price per Natural Beauty Share increased by 9.40 per cent.. By comparison, the Hang Seng Index increased by 75.28 per cent. and the Hang Seng HK Small Cap Index increased by 108.33 per cent. over the same period.

The Bidco Board believes that the Offer provides Independent Shareholders the opportunity to monetise their holdings in Natural Beauty and to invest such cash in other investment opportunities that they may consider more attractive.

## PART I : LETTER FROM CITI

### 8 THE HOLDCO GROUP'S INTENTION IN RELATION TO NATURAL BEAUTY

It is the intention of the Holdco Group that, if the Offer is completed, the Natural Beauty Group will continue to carry on the business of manufacturing and selling skincare, beauty, health foods and supplements and aromatherapy products, the provision of skin treatments, beauty and spa services, skin care consulting and beauty training.

The Holdco Group has no plans, if the Offer is completed, to introduce any major changes to the business of the Natural Beauty Group, including (i) making any major disposal or redeployment of assets (including fixed assets) of the Natural Beauty Group; or (ii) discontinuing the employment of the employees of the Natural Beauty Group, other than in the ordinary course of business.

The Holdco Group believes that Natural Beauty has good market potential in the consumer, health and beauty sector over the long term and that the Family Investors and CA NB will bring their collective industry knowledge and experience to facilitate the implementation of effective long-term strategies to create value for the business of the Natural Beauty Group.

### 9 PROPOSED CHANGE TO THE BOARD COMPOSITION OF NATURAL BEAUTY AND RE-DESIGNATION OF DIRECTOR

The Natural Beauty Board currently comprises seven directors, of whom four are executive directors and three are independent non-executive directors. CA NB has nominated four new directors, being Ms. Janine Junyuan Feng, Ms. Christina Shieu-Yeung Ng, Mr. Patrick Thomas Siewert and Mr. Gregory Michael Zeluck, for appointment to the Natural Beauty Board with effect from 24 November 2009, being the business day after the despatch of the Composite Document. The biographies of Ms. Janine Junyuan Feng, Ms. Christina Shieu-Yeung Ng, Mr. Patrick Thomas Siewert and Mr. Gregory Michael Zeluck are set out below:

**Ms. Janine Junyuan FENG**, aged 40, is currently a managing director of Carlyle based in Hong Kong and is focused on Asian buyout and growth capital investments in sectors including consumer, financial services, industrial and healthcare. Ms. Feng has been working at Carlyle since 1998, and has been responsible for several investments in China. Ms. Feng currently serves as a director of China Pacific Insurance (Group) Company Limited. Prior to joining Carlyle, Ms. Feng was a senior associate at Credit Suisse First Boston's investment banking group in New York. Ms. Feng received a Master of Business Administration degree from Harvard Business School and a Bachelor of Arts degree, summa cum laude and Phi Beta Kappa, from Middlebury College.

**Ms. Christina Shieu-Yeung NG**, aged 37, is currently a director of Carlyle based in Hong Kong. Ms. Ng has been working at Carlyle since 1998 and has been a director since January 2006. At Carlyle, Ms. Ng has overseen investments in, among others, Taiwan Broadband Communications Co., Ltd, Eastern Broadcasting Company Limited, China Pacific Insurance (Group) Company Limited, kbco Co., Ltd. and Natural Beauty. Ms. Ng currently sits on the board of directors of a number of companies in which funds of Carlyle have investments, including, without limitation, kbco Co., Ltd. and Eastern Broadcasting Company Limited. Prior to joining Carlyle, Ms. Ng was an associate with Exor Asia, the direct investment arm of the Agnelli Group of Italy from 1997 to 1998. Ms. Ng received a Bachelor of Science degree in management science from the Massachusetts Institute of Technology.

## PART I : LETTER FROM CITI

**Mr. Patrick Thomas SIEWERT**, aged 54, is currently a senior director of Carlyle based in Hong Kong. Mr. Siewert has been working at Carlyle since April 2007. Mr. Siewert currently sits on the board of directors of a variety of companies in which funds of Carlyle have investments, including, without limitation, kbro Co., Ltd., Zhejiang Kaiyuan Hotel Management Co., Ltd. and Coates Hire Limited. Mr. Siewert also sits on the board of directors of Avery Dennison Corporation and Computime International Limited. Mr. Siewert has also been the chairman of Eastern Broadcasting Company Limited since August 2008. Prior to joining Carlyle, Mr. Siewert worked at The Coca-Cola Company from 2001 to 2007 as group president and chief operating officer Asia, and was previously president of Kodak Professional and senior vice president of Eastman Kodak Company. Mr. Siewert received a Master of Science degree in service management from Rochester Institute of Technology and a Bachelor of Science degree in business administration from Elmhurst College.

**Mr. Gregory Michael ZELUCK**, aged 47, is currently a managing director of Carlyle and is a co-head of the Fund. Mr. Zeluck has been working at Carlyle since July 1998 and has been a managing director since that time. At Carlyle, Mr. Zeluck has overseen investments in a variety of companies across Asia, including, without limitation, Taiwan Broadband Communications Co., Ltd, Eastern Broadcasting Company Limited, Pacific China Holdings Limited, kbro Co., Ltd., Ta Chong Bank Limited and Natural Beauty. Mr. Zeluck currently sits on the board of directors of a number of companies in which funds of Carlyle have investments, including, without limitation, Caribbean Group, Hyundai Communications & Network Co. Limited, Eastern Broadcasting Company Limited, kbro Co., Ltd. and Ta Chong Bank Limited. Prior to joining Carlyle, Mr. Zeluck worked in Merrill Lynch's Asian high yield team and spent 13 years in Lehman Brothers' corporate finance and merchant banking groups, approximately four of which were spent in Asia. Mr. Zeluck received a Bachelor of Arts degree from Princeton University, graduating magna cum laude in East Asian studies.

**Dr. Su Sh-Hsyu**, an executive director of Natural Beauty since 21 September 2004, will be re-designated as a non-executive director of Natural Beauty with effect from 24 November 2009. Dr. Su Sh-Hsyu, aged 36, is the daughter of Dr. Tsai Yen Yu and Mr. Lee Ming Ta, who are the chairlady and an executive director of Natural Beauty respectively, and the younger sister of Dr. Su Chien-Cheng, who is an executive director of Natural Beauty. Dr. Su Sh-Hsyu graduated from the London School of Economics with a Master of Science degree in industrial relations, personnel management and human resources management and obtained her PhD in international and comparative education from Columbia University in New York, United States. Dr. Su Sh-Hsyu has been actively engaged in the marketing and business development of the Natural Beauty Group in Taiwan and China during the period from 2004 to 2009.

Any further changes to the Natural Beauty Board will be made in compliance with the Takeovers Code and the Listing Rules and a further announcement will be made accordingly.

## PART I : LETTER FROM CITI

### 10 PROPOSED CHANGES TO BOARD COMMITTEES OF NATURAL BEAUTY

Dr. Su Sh-Hsyu and Ms. Christina Shieu-Yeing Ng will be appointed as members of the audit committee of Natural Beauty, with effect from 24 November 2009. Following such appointments, the audit committee of Natural Beauty will comprise Dr. Su Sh-Hsyu, Ms. Christina Shieu-Yeing Ng, Mr. Yeh Liang Fei, Mrs. Chen Shieh Shu Chen and Mr. Chen Ching.

Dr. Su Chien-Cheng and Mr. Patrick Thomas Siewert will be appointed as members of the remuneration committee of Natural Beauty with effect from 24 November 2009. Following such appointments, the remuneration committee of Natural Beauty will comprise Dr. Su Chien-Cheng, Mr. Patrick Thomas Siewert, Mr. Yeh Liang Fei, Mrs. Chen Shieh Shu Chen and Mr. Chen Ching.

An executive committee of Natural Beauty will be established with effect from 24 November 2009, comprising Dr. Su Chien-Cheng, Dr. Su Sh-Hsyu, Mr. Patrick Thomas Siewert and Mr. Gregory Michael Zeluck to which the Natural Beauty Board will, until it otherwise determines, delegate such powers, authorities and discretions as may from time to time be approved by the Natural Beauty Board, including, without limitation, all of the powers, authorities and discretions to consider the strategic direction of and for the Natural Beauty Group and review the monthly business and financial performance of the Natural Beauty Group and the implementation and execution of the business plan and annual budget of the Natural Beauty Group.

### 11 COMPULSORY ACQUISITION AND WITHDRAWAL OF LISTING

If Bidco acquires 90 per cent. or more of the Offer Shares within four months of the posting of the Composite Document, it intends to exercise any rights it may have under section 88 of the Companies Law and in accordance with Rule 2.11 of the Takeovers Code to compulsorily acquire those Natural Beauty Shares not acquired by Bidco pursuant to the Offer. On completion of such compulsory acquisition, Natural Beauty would become a wholly-owned subsidiary of Bidco and an application would be made for the withdrawal of the listing of the Natural Beauty Shares from the Stock Exchange in accordance with the Listing Rules.

**WARNING:** *If the level of acceptances reaches the prescribed level under the Companies Law and Rule 2.11 of the Takeovers Code permits a compulsory acquisition and Bidco proceeds with the privatisation of Natural Beauty, dealings in the securities of Natural Beauty will be suspended from the close of the Offer up to the withdrawal of listing of Natural Beauty's securities from the Stock Exchange pursuant to Rule 6.15 of the Listing Rules.*



## PART I : LETTER FROM CITI

### 12 SUSPENSION OF TRADING AND MAINTENANCE OF LISTING

If, at the close of the Offer, less than 25 per cent. of the Natural Beauty Shares are held by the public (within the meaning of the Listing Rules), or if the Stock Exchange believes that a false market exists or may exist in the trading of the Natural Beauty Shares or there are insufficient Natural Beauty Shares in public hands to maintain an orderly market, the Stock Exchange may exercise its discretion to suspend trading in the Natural Beauty Shares. In this connection, it should be noted that, upon completion of the Offer and if Bidco is unable to or does not exercise any rights it may have under section 88 of the Companies Law, there may be insufficient public float for the Natural Beauty Shares and trading in the Natural Beauty Shares may, therefore, be suspended until a prescribed level of public float is attained.

To the extent that there is insufficient public float for Natural Beauty Shares as a result of the Offer and Bidco is unable to or does not exercise any right it may have under the Companies Law to compulsorily acquire those Natural Beauty Shares not acquired by Bidco pursuant to the Offer, the directors of Bidco and the new directors to be appointed to the Natural Beauty Board will jointly and severally undertake to the Exchange to take appropriate steps to ensure that sufficient public float exists in the Natural Beauty Shares following the close of the Offer.

### 13 ACCEPTANCE, WITHDRAWAL AND SETTLEMENT

#### 13.1 Procedures for acceptance of the Offer

To accept the Offer, which is open to all Independent Shareholders whether resident in or outside of Hong Kong, Independent Shareholders should complete the accompanying Form of Acceptance in accordance with the instructions printed on it, which forms part of the terms and conditions of the Offer.

The completed Form of Acceptance should then be forwarded, together with the relevant Natural Beauty Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) for not less than the number of Natural Beauty Shares in respect of which you intend to accept the Offer, by post or by hand to the Registrar, Hong Kong Registrars Limited at Shops 1712-1716, 17/F., Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as practicable after the receipt of the relevant Form of Acceptance but in any event to reach the Registrar or the company secretary (as the case may be) by no later than 4:00 p.m. on 14 December 2009 (Hong Kong time) or such later time and/or date as Bidco may determine and announce.

Your attention is also drawn to the further terms of the Offer as set out in Appendix I to the Composite Document.

#### 13.2 Procedures for withdrawal of acceptances

Withdrawal of acceptances under the Offer will not be permitted save as provided under Rule 19.2 of the Takeovers Code, which is described in further detail in "Appendix I – Further Terms of the Offer" to the Composite Document.

## PART I : LETTER FROM CITI

Further details of these rights of withdrawal and the procedure for effecting withdrawals are set out in “Appendix I – Further Terms of the Offer” to the Composite Document.

### 13.3 Settlement of the Offer

Provided that a valid Form of Acceptance and the relevant Natural Beauty Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) (if any) are complete and in good order and have been received by the Registrar on or before 4:00 p.m. on 14 December 2009 for acceptance of the Offer (or such later time and/or date as Bidco may determine and announce), a cheque for the amount due to the relevant accepting Independent Shareholder in respect of the Natural Beauty Shares tendered by him under the Offer, less seller’s ad valorem stamp duty payable by him, will be despatched to the relevant accepting Independent Shareholders by ordinary post at his own risk as soon as possible, and in any event within 10 days of the date on which all relevant documents are received by the Registrar to render such acceptance complete and valid.

## 14 GENERAL

To ensure equality of treatment of all Independent Shareholders, those registered Independent Shareholders who hold Natural Beauty Shares as nominee for more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. It is essential for the beneficial owners of the Natural Beauty Shares whose investments are registered in the names of nominees to provide instructions to their nominees of their intentions with regard to the Offer.

All documents and remittances sent to the Independent Shareholders will be sent by ordinary post and sent to them at their own risk to their addresses stated on the Form of Acceptance or, if no such address is stated, as they appear in the register of members of Natural Beauty or, in the case of joint Independent Shareholders, to the Independent Shareholder whose name stands first in the register of members of Natural Beauty. None of Bidco, parties acting in concert with Bidco, Natural Beauty, the Registrar, any of their respective directors or agents or any other person involved in the Offer accepts any liability for any loss in postage, delay or any other liabilities that may arise as a result.

**You are recommended to consult your own professional advisers if you are in doubt as to the taxation or other implications of accepting the Offer. It is emphasised that none of Bidco, parties acting in concert with Bidco, Natural Beauty or any of their respective directors or agents or any other person involved in the Offer accepts responsibility for any tax or other effects on, or liabilities of, any persons as a result of their acceptance of the Offer or otherwise.**

**PART I : LETTER FROM CITI**

**15 ADDITIONAL INFORMATION AND RECOMMENDATION**

Your attention is drawn to the additional information regarding the Offer set out in the Appendices, including “Appendix I – Further Terms of the Offer”, which form part of the Composite Document and the Form of Acceptance. Your attention is also drawn to the recommendations in the “Letter from the Natural Beauty Board” in Part II, the “Letter from the Independent Board Committee” in Part III and the “Letter from the Independent Financial Adviser” in Part IV of the Composite Document.

Yours faithfully,  
For and on behalf of  
**Citigroup Global Markets Asia Limited**  
**Florence Fan**  
*Director*



自然美  
natural beauty

Natural Beauty Bio-Technology Limited  
自然美生物科技有限公司

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

**(Stock code: 00157)**

*Executive Directors*

Dr. Tsai Yen-Yu

Mr. Lee Ming Ta

Dr. Su Chien-Cheng

Dr. Su Sh-Hsyu

*Registered office*

P.O. Box 309

Ugland House

Grand Cayman

KY1-1104

Cayman Islands

*Independent Non-executive Directors*

Mr. Yeh Liang Fei

Mrs. Chan Shieh Shu Chen

Mr. Chen Ching

*Head office and principal place of  
business in Hong Kong*

Unit 3512, 35/F, The Center

99 Queen's Road

Central

Hong Kong

23 November 2009

*To: the Independent Shareholders*

Dear Sir or Madam,

**COMPOSITE DOCUMENT RELATING  
TO THE MANDATORY UNCONDITIONAL CASH OFFER  
BY CITIGROUP GLOBAL MARKETS ASIA LIMITED  
ON BEHALF OF STANDARD COSMOS LIMITED  
TO ACQUIRE ALL THE ISSUED SHARES IN THE SHARE CAPITAL OF  
NATURAL BEAUTY BIO-TECHNOLOGY LIMITED  
(OTHER THAN THOSE ALREADY OWNED BY STANDARD COSMOS LIMITED  
AND PARTIES ACTING IN CONCERT WITH IT)**

**1 INTRODUCTION**

On 19 October 2009, Bidco and Natural Beauty jointly announced in the Announcement as follows:

- (i) on 15 October 2009, the Family Group Reorganisation was implemented and CA NB entered into the Sale and Purchase Agreement with Family Holdco 1, Family Holdco 2 and the Family Investors, pursuant to which Family Holdco 1 agreed to sell, and CA NB agreed to purchase, the Sale Shares. Holdco holds

## PART II : LETTER FROM THE NATURAL BEAUTY BOARD

the entire issued share capital of Bidco, which indirectly holds 1,311,690,000 Natural Beauty Shares, representing approximately 65.53% of the issued share capital of Natural Beauty as at 15 October 2009 and, as a result of the Natural Beauty Shares issued following the exercise by Optionholders of their Options in full after the Announcement Date, approximately 65.52 per cent. of the issued share capital of Natural Beauty as at the Latest Practicable Date. On the same day, CA NB, the Family Investors, Family Holdco 2 and Holdco entered into the Shareholders' Agreement setting out the rights and obligations of the parties in relation to the Group;

- (ii) the sale and purchase of the Sale Shares was completed on the date of the Sale and Purchase Agreement (namely, 15 October 2009). On Completion, Holdco was (and, as at the Latest Practicable Date, is) owned as to 50% by CA NB and 50% by Family Holdco 2; and
- (iii) as a result of Completion, Bidco and the parties acting in concert with it are required to make a mandatory general offer for all the Offer Shares, pursuant to Rule 26.1 of the Takeovers Code, and to make an appropriate offer to the holders of any convertible securities, warrants, options or subscription rights in compliance with Rule 13 of the Takeovers Code.

The principal terms of the Offer, together with information relating to Bidco and its intentions regarding Natural Beauty are set out in the "Letter from Citi" as set out in Part I of the Composite Document. Further details of the terms of the Offer and the procedures for acceptance of the Offer are set out in Appendix I to the Composite Document and the accompanying Form of Acceptance.

The purpose of the Composite Document is to provide you with, among other things, information relating to Natural Beauty, Bidco, the Offer, the recommendation of the Independent Board Committee containing its recommendations to the Independent Shareholders, and the advice of the Independent Financial Adviser to the Independent Board Committee in respect of the Offer.

## 2 THE OFFER

### 2.1 The Offer

As a result of Completion, Bidco is required to make a mandatory general offer for all the Offer Shares pursuant to Rule 26.1 of the Takeovers Code and to make an appropriate offer to the holders of any convertible securities, warrants, options or subscription rights in compliance with Rule 13 of the Takeovers Code. All of the Options were exercised in full after the Announcement Date and, as such, no offer is required to be made in respect of the Options. As at the Latest Practicable Date, there were 2,002,100,932 Natural Beauty Shares in issue and Natural Beauty did not have any outstanding options, warrants or other securities issued by Natural Beauty that carry a right to subscribe for or which are convertible into Natural Beauty Shares.

## PART II : LETTER FROM THE NATURAL BEAUTY BOARD

Citi is making the Offer, on behalf of Bidco, to the Independent Shareholders. The Offer is unconditional in all respects and is made on the following basis:

For each Offer Share . . . . .HK\$1.25 in cash

The Offer Price is equal to the see-through price per Natural Beauty Share paid by CA NB pursuant to the Sale and Purchase Agreement for an interest in 50 per cent. of Holdco's indirect holding of 1,311,690,000 Natural Beauty Shares.

### 2.2 Comparisons of value

The Offer Price represents:

- (i) a discount of approximately 8.09% to the closing price of HK\$1.360 per Natural Beauty Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 7.54% to the average closing price of HK\$1.352 per Natural Beauty Share as quoted on the Stock Exchange for the five consecutive trading days immediately prior to and including the Last Trading Day;
- (iii) a discount of approximately 7.77% to the average closing price of HK\$1.355 per Natural Beauty Share as quoted on the Stock Exchange for the 30 consecutive trading days immediately prior to and including the Last Trading Day;
- (iv) a discount of approximately 2.34% to the closing price of HK\$1.28 per Natural Beauty Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (v) a premium of approximately 9.46% over the average closing price of HK\$1.142 per Natural Beauty Share as quoted on the Stock Exchange for the 10 consecutive trading days immediately prior to and including 5 November 2008, being the last trading day prior to the suspension of trading in Natural Beauty Shares on the Stock Exchange prior to the announcement of the Prior Privatisation Proposal; and
- (vi) a premium of approximately 179.64% over the unaudited consolidated net asset value attributable to Shareholders per Natural Beauty Share of approximately HK\$0.447 as at 30 June 2009.

### 2.3 Highest and lowest prices

The highest and lowest closing prices of the Natural Beauty Shares as quoted on the Stock Exchange during the six-month period preceding the Last Trading Day and ending on the Latest Practicable Date were HK\$1.42 per Natural Beauty Share on 4 August 2009, and HK\$0.95 per Natural Beauty Share on 28 April 2009, respectively.

## **PART II : LETTER FROM THE NATURAL BEAUTY BOARD**

### **3 INFORMATION ON NATURAL BEAUTY**

Natural Beauty is an exempted company incorporated in the Cayman Islands with limited liability, the shares of which have been listed on the Main Board of the Stock Exchange since March 2002. The Natural Beauty Group is principally engaged in the manufacture and sale of skincare, beauty, health foods and supplements and aromatherapy products, the provision of skincare treatments, beauty and spa services, skin care consulting and beauty training. Financial information relating to the Natural Beauty Group is set out in Appendix II to the Composite Document.

As at the Latest Practicable Date, the Natural Beauty Board comprised four executive Directors and three independent non-executive Directors. Please refer to the section headed "Proposed Change to the Board Composition of Natural Beauty and Re-designation of Director" in the "Letter from Citi" as set out in Part I of the Composite Document for details of the proposed changes to the Natural Beauty Board that are intended to be made in compliance with the Takeovers Code and the Listing Rules.

### **4 INDEPENDENT BOARD COMMITTEE**

Under Rule 2.1 of the Takeovers Code, a board which receives an offer must establish an independent committee of the board to make a recommendation: (i) as to whether the offer is, or is not, fair and reasonable; and (ii) as to acceptance. As soon as reasonably practicable, the board must retain a competent independent financial adviser to advise the independent committee in writing in connection with the offer and in particular as to whether the offer is, or is not, fair and reasonable and as to acceptance.

The Independent Board Committee has been established to consider and make recommendations to the Independent Shareholders on, the terms of the Offer, and Mr. Yeh Liang Fei, Mrs. Chen Shieh Shu Chen and Mr. Chen Ching, being all the independent non-executive directors of Natural Beauty, have been appointed as members of the Independent Board Committee. Somerley Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee in respect of the Offer. The appointment of the Independent Financial Adviser has been approved by the Independent Board Committee.

**PART II : LETTER FROM THE NATURAL BEAUTY BOARD**

**5 SHAREHOLDING STRUCTURE**

The table below sets out the shareholding structure of Natural Beauty (i) as at the date of Completion and (ii) as at the Latest Practicable Date:

	As at date of Completion		As at the Latest Practicable Date	
	Number of Natural Beauty Shares owned	Percentage of total issued share capital (%) <sup>(6)</sup>	Number of Natural Beauty Shares owned	Percentage of total issued share capital (%) <sup>(6)</sup>
Efficient Market Investments Limited <sup>(1)</sup>	838,530,000	41.89	838,530,000	41.88
Adventa Group Limited <sup>(2)</sup>	236,580,000	11.82	236,580,000	11.82
Fortune Bright Group Limited <sup>(3)</sup>	236,580,000	11.82	236,580,000	11.82
Citibank <sup>(4)</sup>	5,456,200	0.27	5,347,300	0.27
<b>Aggregate number of Natural Beauty Shares held by Bidco and parties acting in concert with Bidco</b>	<b>1,317,146,200</b>	<b>65.81</b>	<b>1,317,037,300</b>	<b>65.78</b>
Martin Currie (Holdings) Limited <sup>(5)</sup>	225,296,000	11.26	225,296,000	11.25
Keywise Capital Management (HK) Limited	181,210,000	9.05	181,210,000	9.05
UBS AG	122,970,000	6.14	96,650,000	4.83
Others	154,957,871	7.74	181,907,632	9.08
<b>Total</b>	<b>2,001,580,071</b>	<b>100.00</b>	<b>2,002,100,932</b>	<b>100.00</b>

Notes:

- (1) Efficient Market Investments Limited is wholly-owned by Bidco. These Natural Beauty Shares are therefore attributable to Bidco by virtue of its 100 per cent. interest in Efficient Market Investments Limited.
- (2) Adventa Group Limited is wholly-owned by Bidco. These Natural Beauty Shares are therefore attributable to Bidco by virtue of its 100 per cent. interest in Adventa Group Limited.



## PART II : LETTER FROM THE NATURAL BEAUTY BOARD

- (3) Fortune Bright Group Limited is wholly-owned by Bidco. These Natural Beauty Shares are therefore attributable to Bidco by virtue of its 100 per cent. interest in Fortune Bright Group Limited.
- (4) Citibank is presumed to be a person acting in concert with Bidco under the Takeovers Code as it is an affiliate of Citi. Citibank holds such Natural Beauty Shares as custodian on behalf of its clients (who are the beneficial owners thereof and who control all the voting rights attached thereto) as at the Latest Practicable Date and does not have discretionary management thereof.
- (5) Martin Currie (Holdings) Limited is the sole shareholder of Martin Currie Ltd, which, in turn, is the sole shareholder of Martin Currie Inc and Martin Currie Investment Management. Martin Currie Inc and Martin Currie Investment Management directly hold 130,491,000 (approximately 6.52 per cent.) and 94,805,000 (approximately 4.74 per cent.) of Natural Beauty Shares, respectively. As such, the 225,296,000 Natural Beauty Shares (approximately 11.25 per cent.) held by Martin Currie Inc and Martin Currie Investment Management are attributable to Martin Currie (Holdings) Limited.
- (6) Any discrepancy in the sum of the various percentages is due to rounding.

### 6 INFORMATION ON BIDCO, HOLDCO, CA NB AND FAMILY HOLDCO 2

Your attention is drawn to the section headed “Information on Bidco, Holdco, CA NB and Family Holdco 2” in the “Letter from Citi” as set out in Part I of the Composite Document.

### 7 COMPULSORY ACQUISITION AND WITHDRAWAL OF LISTING

If Bidco acquires 90 per cent. or more of the Offer Shares within four months of the posting of the Composite Document, it intends to exercise any rights it may have under section 88 of the Companies Law and in accordance with Rule 2.11 of the Takeovers Code to compulsorily acquire those Natural Beauty Shares not acquired by Bidco pursuant to the Offer. On completion of such compulsory acquisition, Natural Beauty would become a wholly-owned subsidiary of Bidco and an application would be made for the withdrawal of the listing of the Natural Beauty Shares from the Stock Exchange in accordance with the Listing Rules.

**WARNING:** *If the level of acceptances reaches the prescribed level under the Companies Law and Rule 2.11 of the Takeovers Code permits a compulsory acquisition and Bidco proceeds with the privatisation of Natural Beauty, dealings in the securities of Natural Beauty will be suspended from the close of the Offer up to the withdrawal of listing of Natural Beauty’s securities from the Stock Exchange pursuant to Rule 6.15 of the Listing Rules.*

### 8 SUSPENSION OF TRADING AND MAINTENANCE OF LISTING

If, at the close of the Offer, less than 25 per cent. of the Natural Beauty Shares are held by the public (within the meaning of the Listing Rules), or if the Stock Exchange believes that a false market exists or may exist in the trading of the Shares or there are insufficient Natural Beauty Shares in public hands to maintain an orderly market, the Stock Exchange may exercise its discretion to suspend trading in the Natural Beauty Shares. In this connection, it should be noted that, upon completion of the Offer and if

## PART II : LETTER FROM THE NATURAL BEAUTY BOARD

Bidco is unable or does not exercise any rights it may have under section 88 of the Companies Law, there may be insufficient public float for the Natural Beauty Shares and trading in the Natural Beauty Shares may, therefore, be suspended until a prescribed level of public float is attained.

To the extent that there is insufficient public float for Natural Beauty Shares as a result of the Offer and Bidco is unable to or does not exercise any right it may have under the Companies Law to compulsorily acquire those Natural Beauty Shares not acquired by Bidco pursuant to the Offer, the directors of Bidco and the new directors to be appointed to the Natural Beauty Board will jointly and severally undertake to the Exchange to take appropriate steps to ensure that sufficient public float exists in the Natural Beauty Shares following the close of the Offer.

### 9 RECOMMENDATION AND ADDITIONAL INFORMATION

Your attention is drawn to the recommendations of the Independent Board Committee in respect of the Offer as set out in the “Letter from the Independent Board Committee” set out in Part III of the Composite Document and the “Letter from the Independent Financial Adviser” set out in Part IV of the Composite Document, which contains the advice of the Independent Financial Adviser to the Independent Shareholders (i) as to whether the Offer is, or is not, fair and reasonable; and (ii) as to acceptance and the principal factors and reasons it has considered before arriving at its advice to the Independent Board Committee.

You are also advised to read the “Letter from Citi” set out in Part I of the Composite Document, the Appendices to the Composite Document and the Form of Acceptance in respect of the terms and the acceptance and settlement procedures of the Offer.

In considering what action to take in connection with the Offer, Independent Shareholders should also consider their own tax implications and, if they are in any doubt, they should consult their professional advisers.

By Order of the Natural Beauty Board  
**Natural Beauty Bio-Technology Limited**  
**Mr. Chen Ching**  
*Independent Non-Executive Director*



自然美  
natural beauty

Natural Beauty Bio-Technology Limited  
自然美生物科技有限公司

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

**(Stock code: 00157)**

23 November 2009

*To: the Independent Shareholders*

Dear Sir or Madam,

**COMPOSITE DOCUMENT RELATING  
TO THE MANDATORY UNCONDITIONAL CASH OFFER  
BY CITIGROUP GLOBAL MARKETS ASIA LIMITED  
ON BEHALF OF STANDARD COSMOS LIMITED  
TO ACQUIRE ALL THE ISSUED SHARES IN THE SHARE CAPITAL OF  
NATURAL BEAUTY BIO-TECHNOLOGY LIMITED  
(OTHER THAN THOSE ALREADY OWNED BY STANDARD COSMOS LIMITED  
AND PARTIES ACTING IN CONCERT WITH IT)**

We refer to the composite document dated 23 November 2009 (the “**Composite Document**”) issued jointly by Bidco and Natural Beauty of which this letter forms part. Terms defined in the Composite Document shall have the same meanings in this letter unless the context otherwise requires. We have been appointed as members of the Independent Board Committee to consider the Offer and to advise you as to whether, in our opinion, the terms of the Offer are fair and reasonable. We, being the members of the Independent Board Committee, have declared that we are independent and do not have any conflict of interest in respect of the Offer and are therefore able to consider the terms of the Offer and make recommendations to the Independent Shareholders. Somerley Limited has been appointed as the Independent Financial Adviser to advise us in respect of the Offer.

Details of the advice from the Independent Financial Adviser and the principal factors taken into consideration in arriving at its recommendation are contained in the “Letter from the Independent Financial Adviser” as set out in Part IV of the Composite Document. We also wish to draw your attention to: (i) the “Letter from the Natural Beauty Board” as set out in Part II of the Composite Document; (ii) the “Letter from Citi” as set out in Part I of the Composite Document; and (iii) the additional information set out in the Composite Document, including the Appendices to the Composite Document and the Form of Acceptance; in respect of the terms and the acceptance and settlement procedures of the Offer.

**PART III : LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

Having taken into account the terms of the Offer and the advice and recommendation of the Independent Financial Adviser, we concur with the advice of the Independent Financial Adviser that the terms of the Offer are not fair and not reasonable so far as the Independent Shareholders are concerned and, accordingly, we recommend the Independent Shareholders not to accept the Offer.

However, given the relatively thin trading volume of the Natural Beauty Shares, Independent Shareholders who hold a large block of Natural Beauty Shares may not be able to realise their Natural Beauty Shares in full without creating pressure on the market price of the Natural Beauty Shares. Independent Shareholders, in particular those Independent Shareholders who hold a large block of the Natural Beauty Shares, may consider to take advantage of this opportunity to realise all or part of their Natural Beauty Shares at the Offer Price of HK\$1.25, which represents a small discount of approximately 2.34% to the closing price of the Natural Beauty Shares as of the Latest Practicable Date.

Notwithstanding our recommendation, the Independent Shareholders should consider carefully the terms and conditions of the Offer.

Yours faithfully,

**For and on behalf of the Independent Board Committee**

**Mr. Yeh Liang Fei**

**Mrs. Chen Shieh Shu Chen**

**Mr. Chen Ching**

**(signed by Mr. Chen Ching  
under a power of attorney  
dated 15 October 2009)**

*Independent non-executive Directors*

**PART IV : LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

*The following is the letter of advice from Somerley to the Independent Board Committee, which has been prepared for the purpose of inclusion in this Composite Document.*



**SOMERLEY LIMITED**  
10th Floor  
The Hong Kong Club Building  
3A Chater Road  
Central  
Hong Kong

23 November 2009

To: the Independent Board Committee of  
Natural Beauty Bio-Technology Limited

Dear Sirs,

**MANDATORY UNCONDITIONAL CASH OFFER BY  
CITIGROUP GLOBAL MARKETS ASIA LIMITED  
ON BEHALF OF STANDARD COSMOS LIMITED  
TO ACQUIRE ALL THE ISSUED SHARES IN THE SHARE CAPITAL OF  
NATURAL BEAUTY BIO-TECHNOLOGY LIMITED  
(OTHER THAN THOSE ALREADY OWNED BY STANDARD COSMOS LIMITED  
AND PARTIES ACTING IN CONCERT WITH IT)**

**INTRODUCTION**

We refer to our appointment to advise the Independent Board Committee in connection with the mandatory unconditional cash offer by Citigroup Global Markets Asia Limited on behalf of Standard Cosmos Limited to acquire all the issued shares in the capital of Natural Beauty Bio-Technology Limited (other than those already owned by Standard Cosmos Limited and parties acting in concert with it). Details of the Offer are contained in the document to the Independent Shareholders dated 23 November 2009 (the “**Composite Document**”), of which this letter forms a part. Terms used in this letter shall have the same meanings as those defined in the Composite Document unless the context otherwise requires.

On 15 October 2009, the Family Group Reorganisation was implemented and CANB entered into the Sale and Purchase Agreement with Family Holdco 1, Family Holdco 2 and the Family Investors, pursuant to which Family Holdco 1 agreed to sell, and CANB agreed to purchase, the Sale Shares. Holdco holds the entire issued share capital of Bidco, which indirectly holds 1,311,690,000 Natural Beauty Shares (representing approximately 65.53% of the issued share capital of Natural Beauty as at 15 October 2009 and, as a result of the Natural Beauty Shares issued following the exercise by Optionholders of their Options in full after the Announcement Date, approximately 65.52% of the issued share capital of Natural Beauty as at the Latest Practicable Date). On the same day, CANB, the Family Investors, Family Holdco 2 and Holdco entered into the Shareholders’ Agreement setting out the rights and obligations of the parties in relation to the Group. The sale and purchase

## PART IV : LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

of the Sale Shares was completed on the date of the Sale and Purchase Agreement (namely, 15 October 2009). Since Completion, Holdco has been owned as to 50% by CA NB and 50% by Family Holdco 2.

As a result of Completion, Bidco is required to make a mandatory general offer for all the Offer Shares pursuant to Rule 26.1 of the Takeovers Code and to make an appropriate offer to the holders of any convertible securities, warrants, options or subscription rights in compliance with Rule 13 of the Takeovers Code. All of the Options were exercised in full after the Announcement Date and, as such, no offer is required to be made in respect of the Options. As at the Latest Practicable Date, there were 2,002,100,932 Natural Beauty Shares in issue and Natural Beauty did not have any outstanding options, warrants or other securities issued by Natural Beauty that carry a right to subscribe for or which are convertible into Natural Beauty Shares. Citi is making the Offer, on behalf of Bidco, to the Independent Shareholders.

The Natural Beauty Board comprised four executive directors and three independent non-executive directors. The Independent Board Committee, comprising all three independent non-executive directors of Natural Beauty, namely Mr. Yeh Liang Fei, Mrs. Chen Shieh Shu Chen and Mr. Chen Ching, has been constituted to advise the Independent Shareholders in connection with Offer. The Independent Board Committee has approved the appointment of Somerley Limited as the independent financial adviser to the Independent Board Committee in the same regard.

We are not associated or connected with Natural Beauty or Bidco, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them and, accordingly, are considered eligible to give independent advice on the Offer. Apart from normal professional fees payable to us in connection with this appointment or other similar appointments, no arrangement exists whereby we will receive any fees or benefits from Natural Beauty or Bidco, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them.

In formulating our opinion, we have reviewed, among other things, principal terms of the Sale and Purchase Agreement and the Shareholders' Agreement as set out in the letter from Citi in the Composite Document, the annual reports of Natural Beauty for each of the five years ended 31 December 2008 and the interim report of Natural Beauty for the six months ended 30 June 2009 (the "**2009 Interim Report**").

We have also relied on the information and facts supplied, and the opinions expressed, by the directors of Natural Beauty (the "**Natural Beauty Directors**") and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects at the time they were made and up to the date of this letter. We have also sought and received confirmation from the Natural Beauty Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view and have no reason to believe that any material information has been withheld, nor doubt the truth or accuracy of the information provided. We have not, however, conducted any independent investigation into the business and affairs of the Natural Beauty Group, nor have we carried out any independent verification of the information supplied.

## PART IV : LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have not considered the tax and regulatory implications on the Independent Shareholders of acceptance or non-acceptance of the Offer since these are particular to their individual circumstances. In particular, the Independent Shareholders who are overseas residents or subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

### PRINCIPAL TERMS OF THE OFFER

Citi is making the Offer, on behalf of Bidco, to the Independent Shareholders. The Offer is unconditional in all respects and is made on the following basis:

#### The Offer

For each Offer Share . . . . . HK\$1.25 in cash

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the Offer, we have taken into account the following principal factors and reasons:

#### 1. Reasons for and benefits of the Offer

As set out in the letter from Citi, the Bidco Board believes that the terms of the Offer are attractive to the Independent Shareholders and represent a unique opportunity to realise their respective holdings in an illiquid stock for cash. In this regard, the Bidco Board notes that the average daily traded volume of Natural Beauty Shares from 27 February 2009, being the date of the resumption of trading of Natural Beauty Shares following the announcement of the results of the court meeting and extraordinary general meeting in relation to the Prior Privatisation Proposal, to the Latest Practicable Date was fewer than 2,377,967 Natural Beauty Shares per day, representing approximately 0.12% of the total number of Natural Beauty Shares in issue. The Bidco Board also notes that the price per Natural Beauty Share has significantly underperformed the broader equity markets. From 27 February 2009 to the Latest Practicable Date, the closing price per Natural Beauty Share increased by 9.40%. By comparison, the Hang Seng Index increased by 75.28% and the Hang Seng HK Small Cap Index increased by 108.33% over the same period.

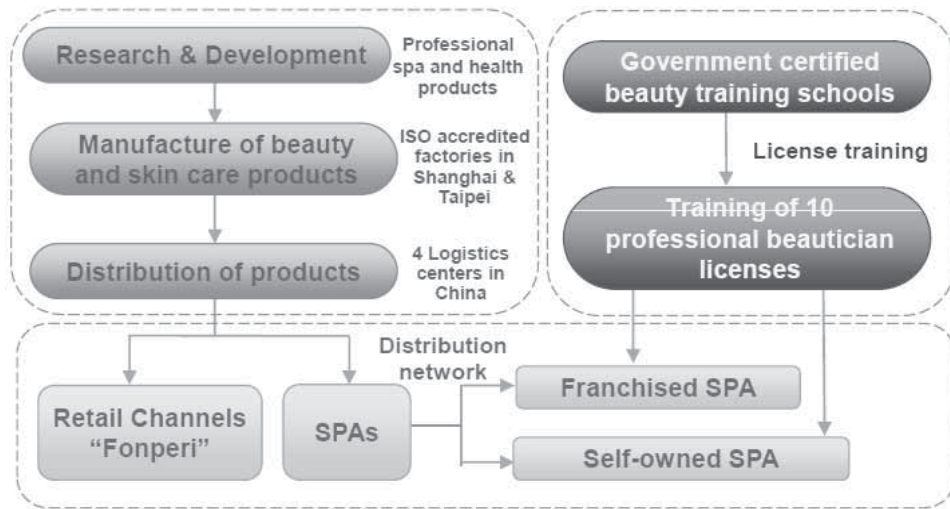
The Bidco Board believes that the Offer provides the Independent Shareholders the opportunity to monetise their holdings in Natural Beauty and to invest such cash in other investment opportunities that they may consider more attractive.

**PART IV : LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

**2. Information on the Natural Beauty Group and the Bidco group companies**

*(a) Business of the Natural Beauty Group*

The Natural Beauty Group is principally engaged in the manufacture and sale of skin care products, beauty products, aromatherapeutic products, colour make up and health supplements, sold under the “Natural Beauty” (「自然美」), “NB” and “Fonperi” brand names. Set out below is a chart demonstrating the business model of the Natural Beauty Group:



As set out above, the business of the Natural Beauty Group can be divided into three main areas, namely (i) research, development and manufacturing; (ii) sales of products under its own brand names through retail channels in Taiwan, and self-owned spas and franchised spas; and (iii) provision of training services.

The Natural Beauty Group will continue to launch new products in both the PRC and Taiwan markets including health food and supplements. It also plans to introduce a new store format, “Beauty and Health SPA Specialty Store”, which has higher productivity, requires lower investment from franchisees as well as enhances consumers’ awareness of the brand “Natural Beauty”.



**PART IV : LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

(b) *Financial information on the Natural Beauty Group*

(i) Financial results

Set out below is certain key financial information on the Natural Beauty Group for the five years ended 31 December 2008 and for the six months ended 30 June 2008 and 30 June 2009 respectively:

	For the six months ended 30 June			For the year ended 31 December			
	2009	2008	2008	2007	2006	2005	2004
	HK\$(million) (unaudited)	HK\$(million) (unaudited)	HK\$(million) (audited)	HK\$(million) (audited)	HK\$(million) (audited)	HK\$(million) (audited)	HK\$(million) (audited)
Turnover	255.3	315.7	592.7	450.1	363.7	357.9	358.1
- Product sales	248.6	307.8	575.5	430.4	334.6	322.8	324.7
- Service	6.6	7.6	16.7	16.9	24.5	29.8	28.3
- Others	0.1	0.3	0.5	2.8	4.6	5.3	5.1
Gross profit	208.7	265.0	506.6	372.6	295.0	284.6	275.9
<i>Gross profit margin</i>	<i>81.7%</i>	<i>83.9%</i>	<i>85.5%</i>	<i>82.8%</i>	<i>81.1%</i>	<i>79.5%</i>	<i>77.0%</i>
Profit before taxation	118.9	168.3	308.5	208.0	174.5	119.8	99.1
Profit attributable to the Natural Beauty Shareholders	109.0	149.7	238.5	178.7	123.2	81.1	63.3
<i>Net profit margin</i>	<i>42.7%</i>	<i>47.4%</i>	<i>40.2%</i>	<i>39.7%</i>	<i>33.9%</i>	<i>22.7%</i>	<i>17.7%</i>
Earnings per Natural Beauty Share (Hong Kong cents)	5.45	7.48	11.9	8.9	6.2	4.1	3.2
Dividend per Natural Beauty Share (Hong Kong cents)	3.50	5.00	8.35	15.00	6.25	3.30	2.50
<i>Dividend payout ratio</i>	<i>64.2%</i>	<i>66.8%</i>	<i>70.2%</i>	<i>168.5%</i>	<i>100.8%</i>	<i>80.5%</i>	<i>78.1%</i>

As set out in the table above, between 2004 and 2008, the Natural Beauty Group demonstrated sales growth at a compound annual growth rate of approximately 13.4%. This increase was mainly due to (i) improvement in product image and the introduction of a number of new distinct products; and (ii) the opening of new franchised spas. Furthermore, the Natural Beauty Group has benefited from the overall robust economic growth in the People's Republic of China (the "PRC") in the past few years.

## PART IV : LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The turnover for the six months ended 30 June 2009 decreased by approximately 19.1% as compared with that for the corresponding period in 2008. As disclosed in the 2009 Interim Report, against the backdrop of the financial tsunami and threat of global recession, the fall in turnover was a result of cautious consumer sentiment: consumers' tendency to cut spending and delay buying decisions after the financial tsunami was prevalent during the first few months of 2009. In addition, the Natural Beauty Group raised the price of its products in June 2008 and franchisees had stocked up on more goods than usual. Therefore, the revenue base for the first half of 2008 was comparatively higher than the corresponding period in 2009.

Gross profit margin has generally increased during the five and a half years ended 30 June 2009. As discussed with the management of the Natural Beauty Group, this was due to the improvement in the product mix, therefore the proportion of sales of products with higher profit margins has increased.

The net profit surged from HK\$63.3 million for 2004 to HK\$238.5 million for 2008. The increase was mainly due to both increases in turnover and profit margins and a lower percentage of distribution, selling and administrative expenses. The net profit margin has continued an upward trend during the period under review although the rate of increase in the margin slowed down for the year ended 31 December 2008, due to, among other factors, the introduction of the new Unified Enterprise Tax Law (the "New Tax Law") became effective on 1 January 2008. Prior to the New Tax Law, dividends paid to foreign investors are exempted from withholding tax. Under the New Tax Law, certain Natural Beauty subsidiaries were subject to 5% to 10% withholding tax on dividends paid to intermediate holding companies incorporated outside the PRC but within the Natural Beauty Group. As a result, the Natural Beauty Group paid a dividend withholding tax of approximately HK\$32.3 million (which also included the dividend withholding tax paid by the Taiwan subsidiaries) for the year ended 31 December 2008. Such tax will continue to be payable in future by the Natural Beauty Group in the PRC if and when dividends are declared. In addition, the Natural Beauty Group has recorded some significant one-off gains in 2008, including an exchange gain as a result of the distribution of dividend by a PRC subsidiary of HK\$16.8 million and a gain on disposal of a property of HK\$17.7 million. Discounting these one-off items, the net profit margin of the Natural Beauty Group will decrease further.

As set out in the table above, the full year dividend payout ratio of Natural Beauty has remained over 70% between 2004 and 2008. It should be noted that the high dividend payout for 2007 was mainly due to the one-off distribution of the cash proceeds from the disposal of an investment property in that year. The interim dividend payout ratio for the six months ended 30 June 2009 remains unchanged from the corresponding period in previous year despite the downturn in the performance of the Natural Beauty Group.

**PART IV : LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

(ii) Financial position

	As at 30 June			As at 31 December			
	2009 HK\$(million) (unaudited)	2008 HK\$(million) (unaudited)	2008 HK\$(million) (audited)	2007 HK\$(million) (audited)	2006 HK\$(million) (audited)	2005 HK\$(million) (audited)	2004 HK\$(million) (audited and restated)
<b>Non-current assets</b>							
Property, plant and equipment	227.3	230.8	230.6	218.0	173.5	178.7	183.4
Leasehold land payment	9.7	10.0	9.8	9.5	9.1	9.0	9.3
Goodwill	25.8	25.7	25.8	24.6	23.2	13.9	16.8
Investment properties	4.5	4.9	4.5	4.5	162.2	159.7	160.5
Other non-current assets	18.8	16.5	15.0	16.7	17.0	13.0	19.4
	<u>286.1</u>	<u>287.9</u>	<u>285.7</u>	<u>273.3</u>	<u>385.0</u>	<u>374.3</u>	<u>389.4</u>
<b>Current assets</b>							
Bank balances and cash	593.5	710.4	546.2	588.7	356.2	338.7	235.9
Other current assets	211.5	232.1	194.3	170.3	256.5	224.5	274.9
	<u>805.0</u>	<u>942.5</u>	<u>740.5</u>	<u>759.0</u>	<u>612.7</u>	<u>563.2</u>	<u>510.8</u>
<b>Total liabilities</b>	<u>190.2</u>	<u>322.0</u>	<u>169.8</u>	<u>116.7</u>	<u>118.5</u>	<u>117.2</u>	<u>95.6</u>
<b>Net assets</b>	<u><u>900.9</u></u>	<u><u>908.4</u></u>	<u><u>856.4</u></u>	<u><u>915.6</u></u>	<u><u>879.2</u></u>	<u><u>820.3</u></u>	<u><u>804.6</u></u>
<b>Natural Beauty</b>							
Shareholders' equity	894.5	901.9	845.0	909.6	878.8	813.5	795.0
Minority interests	6.4	6.5	6.4	6.0	0.4	6.8	9.6
<b>Total equities</b>	<u><u>900.9</u></u>	<u><u>908.4</u></u>	<u><u>856.4</u></u>	<u><u>915.6</u></u>	<u><u>879.2</u></u>	<u><u>820.3</u></u>	<u><u>804.6</u></u>
<b>Natural Beauty</b>							
Shareholders' equity per Natural Beauty Share (HK\$)	0.4471	0.4510	0.4248	0.4548	0.4394	0.4068	0.3975

**(A) *Property, plant and equipment, and leasehold land payment***

Property, plant and equipment mainly comprise buildings, leasehold improvements, plant and machinery, and furniture, fixture and equipment of the Natural Beauty Group's production factory in Shanghai, the PRC. The increase during the year ended 31 December 2007 primarily represents the acquisition of a factory in the PRC incurred during 2007. The leasehold land payment represents the land portion of the leasehold land and building of the Natural Beauty Group. As set out in the letter from the Property Valuer in part V of the Composite Document, the valuation of the land and building, including the investment properties, of the Natural Beauty Group was appraised at approximately HK\$285.2 million as at 31 October 2009, compared with the net book value of HK\$160.9 million as at 30 June 2009.

**(B) *Investment properties***

Investment properties represent properties held by the Natural Beauty Group for lease. The significant decrease in the balance during the year ended 31 December 2007 was due to the disposal of an investment property located in Taiwan in 2007.

**(C) *Bank balances and cash***

Bank balances and cash have increased in general over the period under review. The increase in bank balances and cash was principally the net effect of profits generated less the dividend distributed. The balance as at 31 December 2008 was lower than that as at 30 June 2008 and 31 December 2007 due to the payment of the special dividend of approximately HK\$116.0 million primarily attributable to the disposal of the investment properties as set out in the paragraph above. As at 30 June 2009, bank balances and cash represented approximately 54.4% of the total assets.

**(D) *Other current assets***

Other current assets mainly consist of inventories, trade and other receivables, prepaid lease payments and held-for-trading investments.

**(E) *Total liabilities***

Total liabilities mainly comprise trade and other payables, dividend payable, deferred income, taxation payable and retirement benefits obligations. The Natural Beauty Group did not have any borrowings and has remained substantially debt free in the past few years. The increase in the balance as at 30 June 2008 was mainly due to the accrual of 2007 final dividend of HK\$200.0 million.

## PART IV : LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### *(c) Prospects of the Natural Beauty Group*

As disclosed in the 2009 Interim Report, despite the second half of 2009 continues to be extremely challenging, the Natural Beauty Group believes that the PRC market is relatively more resilient than other countries and it would be one of the emerging markets to outperform other countries or regions in 2009. The domestic consumer market in Taiwan rebounded in 2009 mainly due to the opening up of the tourism industry to PRC visitors and the rally of the stock market in recent months. The Natural Beauty Group is confident of benefiting from a better consumer sentiment in the second half of the year. Meanwhile, the Natural Beauty Group will also focus on cost effectiveness, enhancing product sales and profits while seeking opportunities for further growth in the second half of 2009.

Although the global financial crisis has significantly weakened both the world and the PRC economies and led to a significant decline in growth of consumer spending in the fourth quarter of 2008 and the first quarter of 2009, the recent economic statistics of the PRC reflect that the PRC economy has been recovering.

The Renminbi (“RMB”) 4 trillion stimulus plan rolled out by the PRC government in November 2008 has enabled the PRC economy to quickly rebound. According to the National Bureau of Statistics, the PRC economy grew 6.1% and 7.9% year-on-year in the first and second quarter of 2009 respectively and 7.7% year-on-year for the first nine months of 2009. According to data from the International Monetary Fund, the gross domestic products of the PRC is projected to increase by 8.5% in 2009.

In Taiwan, according to the monthly export statistics compiled by the Ministry of Finance of Taiwan, exports hit a ten-month high in August 2009. It is an indication that the export-dependent economy is gradually recovering after suffering a deep slump caused by reduced global demand for Taiwan’s computer and electronics products. The August export figure was the second smallest monthly contraction (comparing to the corresponding month in previous year) over the past nine months and if exports continue to rise to US\$20 billion in September 2009, trade will recover to normal levels.

Moreover, we have reviewed the latest management accounts of the Natural Beauty Group and discussed current trading prospects with the directors and management of Natural Beauty. We note that the declining sales experienced by the Natural Beauty Group in both the PRC and Taiwan markets in the first half of 2009 have stabilised in the third quarter of 2009. With the recovering consumer sentiment in the second half of 2009, the performance of the Natural Beauty Group has gradually recovered in the third quarter of 2009. In fact, the turnover of the Natural Beauty Group for the third quarter of 2009 was close to that of the corresponding period in last year. The possible recovery during the second half of the year is likely to ease partly the declining performance of the Natural Beauty Group as reported in the first half of 2009.

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The Natural Beauty Directors are of the view that the change in the board composition following Completion may result in the Natural Beauty Group taking additional time to resume growth in the short-term. Nevertheless, as the threat of a global recession has gradually subsided as compared to a few months ago, and the PRC is one of the emerging markets to outperform other countries and regions, the Natural Beauty Directors are of the view that the outlook of the Natural Beauty Group is cautiously positive.

Having considered the various signs of recovery in economy and the gradual recovery of consumer confidence in both the PRC and Taiwan and the high correlation between individuals' disposable incomes and the demand for high-end goods such as cosmetic and personal care products, unless the recent economic rebound is not sustainable, we are of the view that outlook for the Natural Beauty Group is cautiously positive.

Separately, as set out in the 2009 Interim Report, in both the PRC and Taiwan markets, new products including health food and supplements will be launched to meet customers' changing needs and preferences. In 2008, the Natural Beauty Group launched 109 new products, including 29 new health supplement products. The turnover of the health supplement products grew 186% from HK\$16.6 million in 2007 to HK\$47.4 million in 2008. For the six months ended 30 June 2009, despite the overall decrease in products sales, the turnover of health supplement products registered another remarkable growth of 69.5% from HK\$20.4 million to HK\$34.6 million. Based on such track record and the strategy to continue launching more health supplement products, it is expected that such products will be a growth driver in the coming years for the Natural Beauty Group.

The Natural Beauty Group will also focus on the franchisee network development through a new store format, "Beauty and Health SPA Specialty Store" which has higher productivity, requires lower investment from franchisees and enhance consumers' brand awareness. While it is uncertain whether the introduction of the new store format will be successful, the Natural Beauty Group is confident that these measures will enable the Natural Beauty Group to be more resilient during the trough of the economic cycle.

*(d) Intention of the Holdco Group regarding Natural Beauty*

As discussed with the Natural Beauty Directors, we understand that the Natural Beauty Group will continue its existing business model and implement the business plan as mentioned above regardless of the outcome of the Offer.

As set out in the letter from Citi in the Composite Document, it is the intention of the Holdco Group that, if the Offer is completed, the Natural Beauty Group will continue to carry on the business of manufacturing and selling skincare, beauty, health foods and supplements and aromatherapy products, the provision of skin treatments, beauty and spa services, skin care consulting and beauty training.

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The Holdco Group has no plans, if the Offer is completed, to introduce any major changes to the business of the Natural Beauty Group, including (i) making any major disposal or redeployment of assets (including fixed assets) of the Natural Beauty Group; or (ii) discontinuing the employment of the employees of the Natural Beauty Group, other than in the ordinary course of business.

The Natural Beauty Board currently comprises seven directors, of whom four are executive directors and three are independent non-executive directors. CA NB has nominated four new directors for appointment to the Natural Beauty Board with effect from 24 November 2009, being the business day after the despatch of the Composite Document. Brief biographies of the new directors are set out in the letter from Citi in the Composite Document.

If Bidco acquires 90% or more of the Offer Shares within four months of the posting of the Composite Document, it intends to exercise any rights it may have to compulsorily acquire those Natural Beauty Shares not acquired by Bidco pursuant to the Offer. On completion of such compulsory acquisition, Natural Beauty would become a wholly-owned subsidiary of Bidco and an application would be made for the withdrawal of the listing of the Natural Beauty Shares from the Stock Exchange in accordance with the Listing Rules.

*(e) Information on the Bidco group of companies*

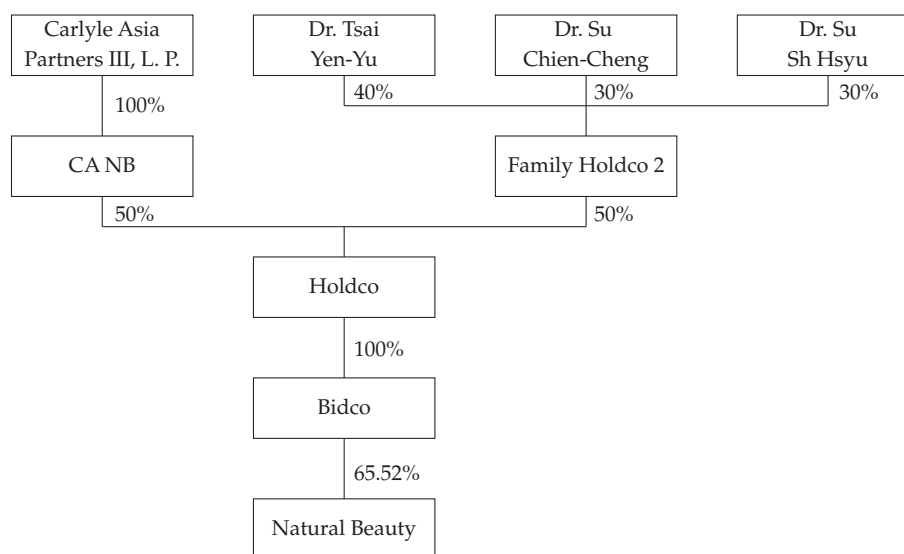
As set out in the letter from Citi in the Composite Document, Bidco is a company incorporated in the British Virgin Islands with limited liability on 21 August 2009 and is a wholly-owned subsidiary of Holdco. Holdco is a company incorporated in the British Virgin Islands with limited liability on 19 August 2009. Holdco is held as to 50% by each of CA NB and Family Holdco 2. Each of Bidco and Holdco is an investment holding company.

CA NB is a company incorporated in the Cayman Islands with limited liability on 30 September 2009. CA NB is ultimately owned by Carlyle Asia Partners III, L.P. (the "**Fund**"), a Cayman Islands limited liability partnership that was launched in 2007. The Fund is advised by investment advisory entities within The Carlyle Group, including Carlyle Asia Investment Advisors Limited, an entity established in Hong Kong. Carlyle Asia Investment Advisors Limited has offices in Hong Kong, Mumbai, Seoul, Beijing, Shanghai, Singapore and Sydney. Carlyle Asia Investment Advisors Limited acts as the Asian investment advisor to various Asian focused investment funds managed by The Carlyle Group, including the Fund and certain property and growth capital funds, and the committed capital to those Asian funds (including the Fund) currently totals approximately US\$7.5 billion. The Fund, together with its two predecessor funds, has invested in 19 companies (the first investment being made in 1999), committing approximately US\$3.9 billion in equity to such investments. Based on our review of the website of The Carlyle Group, while The Carlyle Group has stakes in certain overseas health and personal care products companies, The Carlyle Group advised funds in Asia have not invested in any companies similar to the Natural Beauty Group.

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Family Holdco 2 is a company incorporated in the British Virgin Islands on 12 August 2009, which is ultimately held as to 40%, 30% and 30% by each of Dr. Tsai Yen-Yu, Dr. Su Chien-Cheng and Dr. Su Sh Hsyu, respectively. Each of Dr. Tsai Yen-Yu, Dr. Su Chien-Cheng and Dr. Su Sh Hsyu is currently an executive director of Natural Beauty.

Set out below is the relationship between Bidco, Holdco, CA NB, Family Holdco 2, Dr. Tsai Yen-Yu, Dr. Su Chien-Cheng and Dr. Su Sh Hsyu, and the simplified structure of their interest in Natural Beauty as at the Latest Practicable Date:



### Non-competition and intellectual property

As set out in the letter from Citi in the Composite Document, under the Sale and Purchase Agreement, each of the Family Investors agreed, among other things, (a) not to compete with the Natural Beauty Group, except in respect of an excluded anti-aging resort business (which is outside the current scope of business of the Natural Beauty Group); (b) to assign and license on a perpetual basis (as the case may be), to the Natural Beauty Group, certain trademarks currently owned by the Family Investors which are used in the business of the Natural Beauty Group for an aggregate nominal consideration of HK\$20, such assignment being subject to certain reserved rights reasonably necessary for the conduct by the Family Investors of the excluded anti-aging resort business; and (c) to use such reserved rights and any other rights the Family Investors may have in relation to any intellectual property owned by the Natural Beauty Group from time to time only in relation to the excluded anti-aging resort business.



### **Board composition**

The Holdco Board will comprise a minimum of eight directors, and each Holdco Shareholder will have the right to appoint, remove and replace up to half the total number of directors on the Holdco Board. Similar provisions will apply to Natural Beauty and such other member(s) of the Group as may be determined by CA NB from time to time.

In addition, CA NB will have the right to appoint, remove and replace the chief executive officer of the Natural Beauty Group.

### **Proceedings of directors and Reserved Matters**

In general, questions arising at a meeting of any member of the Natural Beauty Group will be decided by a majority of votes cast, and the chairman will not have a second or casting vote. However, certain matters may not be effected by the Natural Beauty Group without the prior written consent of both Holdco Shareholders (the "Reserved Matters"). The Reserved Matters include (without limitation) the alteration of any share or loan capital, the taking of any winding-up or dissolution steps, certain acquisitions, disposals and capital commitments, any material change in the nature or scope of, or the cessation of substantially all of the Natural Beauty Group's business, any change in the brand name of Natural Beauty and the grant or entry into any licence, agreement or arrangement relating to any part of the name or trading names of the Natural Beauty Group or any other part of its intellectual property.

### **Deadlock resolution**

In the event that the Holdco Shareholders fail, following consultation in good faith, to reach agreement on certain matters (the "**Deadlock Matters**"), the board of directors of the relevant member of the Natural Beauty Group shall instruct the management of that member of the Natural Beauty Group to continue to act in accordance with the directions of the directors appointed or nominated for appointment by CA NB in respect of the relevant Deadlock Matter. The Deadlock Matters include (without limitation) the issuance of equity securities of Natural Beauty (subject to certain conditions being satisfied) and any acquisitions and incurrence by the Natural Beauty Group of indebtedness above certain prescribed levels.

### **Tax and regulatory matters**

Where any action, or failure to take any action, by any member of the Holdco Group would result in a material adverse impact on the tax position of a Holdco Shareholder or members of its group or a violation by a Holdco Shareholder of any applicable laws or regulations, the Holdco Shareholder so affected will have the right to instruct the management of the relevant member of the Natural Beauty Group to act in accordance with the

instructions of that Holdco Shareholder, provided that, among other things, the interests of the Natural Beauty Group are not materially adversely affected as a result.

#### **Events of default**

Upon the occurrence of any event of default in relation to a Holdco Shareholder, the non-defaulting Holdco Shareholder will have the right to subscribe at fair value (as determined by a pre-agreed formula) such number of Holdco Shares as would, when aggregated with the Holdco Shares held by the non-defaulting Holdco Shareholder, be equal to 51% of the Holdco Shares then in issue, and the Shareholders' Agreement will terminate such that, as provided in the articles of association of Holdco, the defaulting Holdco Shareholder will lose its rights to appoint directors to the Holdco Board and its veto rights in respect of the Reserved Matters. The events of default comprise any change of control of a Holdco Shareholder (save in certain limited circumstances), any transfer of Holdco Shares other than in compliance with the Shareholders' Agreement and the occurrence of any insolvency event.

(f) *Historical price performance of the Natural Beauty Shares*

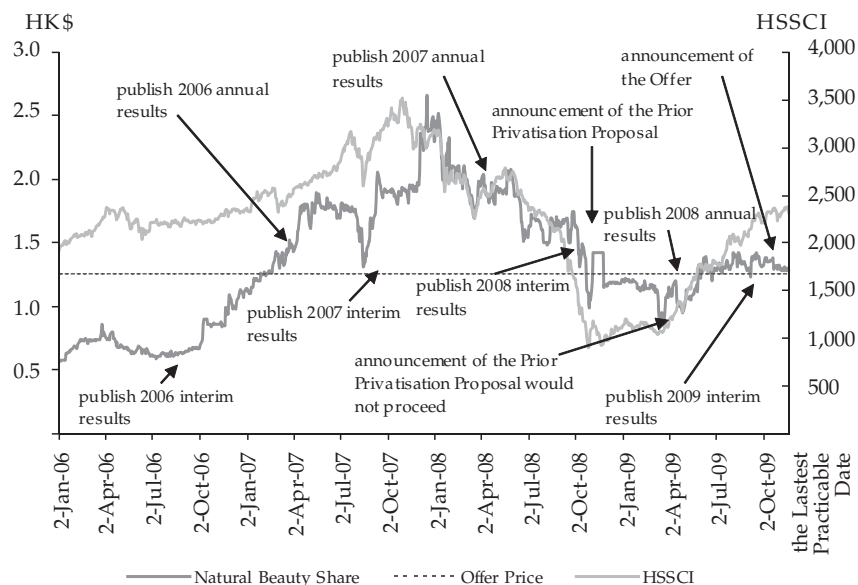
The Offer Price of HK\$1.25 per Offer Share under the Offer represents:

- (i) a discount of approximately 8.09% to the closing price of HK\$1.360 per Natural Beauty Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 7.54% to the average closing price of approximately HK\$1.352 per Natural Beauty Share as quoted on the Stock Exchange for the five consecutive trading days immediately prior to and including the Last Trading Day;
- (iii) a discount of approximately 7.77% to the average closing price of approximately HK\$1.355 per Natural Beauty Share as quoted on the Stock Exchange for the 30 consecutive trading days immediately prior to and including the Last Trading Day;
- (iv) a discount of approximately 2.34% to the closing price of HK\$1.28 per Natural Beauty Share as at the Latest Practicable Date;
- (v) a premium of approximately 9.46% over the average closing price of HK\$1.142 per Natural Beauty Share as quoted on the Stock Exchange for the 10 consecutive trading days immediately prior to and including 5 November 2008, being the last trading day prior to the suspension of trading in the Natural Beauty Shares on the Stock Exchange prior to the announcement of the Prior Privatisation Proposal; and

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- (vi) a premium of approximately 179.64% over the unaudited consolidated net asset value attributable to Shareholders per Natural Beauty Share of approximately HK\$0.447 as at 30 June 2009.

Set out below is the movement of the price of the Natural Beauty Shares from 3 January 2006 to the Latest Practicable Date (the “Relevant Period”):



Source: Bloomberg

As set out in the chart above, the Natural Beauty Share closing price traded below HK\$1.25 in 2006 and started to increase in late 2006 and exceeded the Offer Price of HK\$1.25 for the first time in early 2007. It remained above the Offer Price until the market crash in late October 2008, when the Natural Beauty Share closing price dropped to HK\$0.99 on 29 October 2008. Following a brief period of rebound and stabilisation, the Natural Beauty Share closing price reached a new low of HK\$0.87 on 23 March 2009.

The Natural Beauty Share closing price was close at HK\$1.36 on 15 October 2009, being the Last Trading Day. Trading of the Natural Beauty Shares was suspended after the Last Trading Day and resumed on 20 October 2009. Natural Beauty Share price has traded slightly above the HK\$1.25 level during the period after resumption in trading on 20 October 2009 and up to the Latest Practicable Date.

The drop in Natural Beauty Share’s closing price since its high in December 2007 was in general consistent with the drop in the Hang Seng Hong Kong Small Cap Index (the “HSSCI”) over the relevant time period. However, the percentage decrease in the Natural Beauty Share price of approximately 40.61% is relatively higher than the percentage decrease in the HSSCI of approximately 27.38% during the period from the beginning of 2008 to the Last Trading Day. Moreover, since the

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resumption of the trading following the announcement of the unsuccessful of the Prior Privatisation Proposal, being 27 February 2009, to the Last Trading Day, the closing price per Natural Beauty Share increased by 16.24%. By comparison, the Hang Seng Index increased by 71.71% and the HSSCI increased by 108.60% over the same period.

In general, the Offer Price has been at discount to the average market trading price of the Natural Beauty Shares since the release of the interim results for the six months ended 30 June 2009 on 12 August 2009.

(g) *Liquidity of the Natural Beauty Shares*

Set out in the table below are the monthly total trading volumes of the Natural Beauty Shares and the percentages of such monthly total trading volumes to the total issued share capital and public float of Natural Beauty during the Relevant Period:

	<b>Monthly total trading volume of the Natural Beauty Shares</b>	<b>Percentage of the monthly total trading volume of the Natural Beauty Shares to the total issued Shares</b> <i>(Note 1)</i>	<b>Percentage of the monthly total trading volume of the Natural Beauty Shares to public float</b> <i>(Note 2)</i>
<b>2006</b>			
January	25,530,000	1.28%	5.11%
February	24,880,000	1.24%	4.98%
March	26,406,000	1.32%	5.28%
April	8,872,000	0.44%	1.77%
May	6,288,000	0.31%	1.26%
June	13,640,566	0.68%	2.73%
July	72,731,000	3.64%	14.55%
August	6,932,500	0.35%	1.39%
September	51,370,000	2.57%	10.27%
October	233,720,000	11.69%	38.95%
November	55,664,000	2.78%	9.28%
December	49,155,000	2.46%	8.19%

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	<b>Monthly total trading volume of the Natural Beauty Shares</b>	<b>Percentage of the monthly total trading volume of the Natural Beauty Shares to the total issued Shares</b> <i>(Note 1)</i>	<b>Percentage of the monthly total trading volume of the Natural Beauty Shares to public float</b> <i>(Note 2)</i>
<b>2007</b>			
January	40,376,594	2.02%	6.73%
February	40,460,000	2.02%	6.74%
March	44,552,161	2.23%	7.43%
April	18,217,000	0.91%	3.04%
May	38,685,200	1.93%	6.45%
June	13,690,000	0.68%	2.28%
July	13,940,000	0.70%	2.32%
August	15,034,804	0.75%	2.51%
September	28,074,170	1.40%	4.68%
October	22,573,371	1.13%	3.76%
November	126,592,000	6.33%	18.23%
December	29,430,000	1.47%	4.24%
<b>2008</b>			
January	26,661,357	1.33%	3.84%
February	4,924,617	0.25%	0.71%
March	6,249,000	0.31%	0.90%
April	27,952,612	1.40%	4.03%
May	38,975,000	1.95%	5.61%
June	20,480,000	1.02%	2.96%
July	9,296,922	0.46%	1.35%
August	12,450,997	0.62%	1.81%
September	13,399,000	0.67%	1.94%
October	19,081,749	0.95%	2.77%
November	13,817,148	0.69%	2.01%
December	24,057,400	1.20%	3.49%

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	<b>Monthly total trading volume of the Natural Beauty Shares</b>	<b>Percentage of the monthly total trading volume of the Natural Beauty Shares to the total issued Shares (Note 1)</b>	<b>Percentage of the monthly total trading volume of the Natural Beauty Shares to public float (Note 2)</b>
<b>2009</b>			
January	6,501,500	0.32%	0.94%
February	12,996,300	0.65%	1.89%
March	23,333,649	1.17%	3.39%
April	48,609,616	2.43%	7.06%
May	118,397,651	5.92%	17.19%
June	33,562,041	1.68%	4.87%
July	64,071,966	3.20%	9.29%
August	28,362,677	1.42%	4.11%
September	16,833,700	0.84%	2.44%
October	83,288,742	4.16%	12.07%
From 1 November 2009 to the Latest Practicable Date	13,700,000	0.68%	1.98%

*Source: Bloomberg and the Stock Exchange website*

*Notes:*

1. The calculation is based on the number of the Natural Beauty Shares in issue as at the end of each month, being 2,000,000,000 Natural Beauty Shares from January 2006 to June 2008. From July 2008 to June 2009 is based on 2,000,639,430 Natural Beauty Shares, from July 2009 to October 2009 is based on 2,001,580,071 Natural Beauty Shares and from November 2009 to Latest Practicable Date is based on 2,002,100,932 Natural Beauty Shares.
2. The calculation is based on the number of Natural Beauty Shares in issue as set out in note 1 above excluding the Natural Beauty Shares held by the Family Investors and Carlyle Asia Partners III, L.P., if any, in the corresponding month.

Save for the placements of the Natural Beauty Shares by a substantial Shareholder in October 2006 and November 2007, the liquidity of the Natural Beauty Shares was generally thin in 2006 and 2007, even though the Natural Beauty Share price increased rapidly during this period. Trading volume of the Natural Beauty Shares continued to be thin in 2008 which in general corresponded to the declining trading volume of the Hong Kong stock market. Except the acquisition of a block of approximately 52.4 million Natural Beauty Shares by a fund in May 2009, the trading volume of Natural Beauty Shares remained thin.

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**3. Offer Price analysis**

*(a) Comparable Companies*

The Natural Beauty Group is principally engaged in the manufacture and sale of skin care products, beauty products, aromatherapeutic products, colour make up and health supplements. For comparison purpose, we have exhaustively selected companies listed on the Stock Exchange which (i) have target customers or markets comparable and similar to that of the Natural Beauty Group; (ii) are engaged in sales of cosmetic, skin care and beauty related products and/or provision of related services; and (iii) have market capitalisation of over HK\$100 million as at the Latest Practicable Date. Based on these criteria, we set out in the table below five companies which we consider comparable to Natural Beauty (the “**Comparable Companies**”) and together with Natural Beauty.

Name	Stock code	Principal activities	Latest financial year end date <i>(Note)</i>	Market capitalisation as at the Latest Practicable Date HK\$ (million)
Sa Sa International Holdings Ltd. (“Sa Sa”)	178	Retailing and wholesaling of a wide range of cosmetic brand products in Hong Kong, Macau, the PRC, Taiwan, Thailand, Singapore and Malaysia	31 March 2009	5,811.3
Water Oasis Group Ltd. (“Water Oasis”)	1161	Distribution of branded skin-care products, and operation of retail outlets, spa centres and internet portal in Hong Kong, Taiwan, Macau and the PRC	30 September 2008	761.3

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Name	Stock code	Principal activities	Latest financial year end date <i>(Note)</i>	Market capitalisation as at the Latest Practicable Date <i>HK\$ (million)</i>
Global Green Tech Group Ltd. ("Global Green")	274	Manufacturing and sale of household products, industrial products, cosmetics and skincare products and bio-technology products with medical applications, and provision of investments services in Hong Kong and the PRC	31 December 2008	856.7
Bonjour Holdings Ltd. ("Bonjour")	653	Retailing and wholesaling of beauty and health-care products and the operation of beauty and health salons in Hong Kong	31 December 2008	1,427.0
Modern Beauty Salon Holdings Ltd. ("Modern Beauty")	919	Provision of beauty and wellness services and sales of beauty products in Hong Kong and the PRC	31 March 2009	672.9
Natural Beauty	157	manufacturing and sale of skin care products, beauty products, aromatherapeutic products, colour make up and health supplements in the PRC, Taiwan, Hong Kong and Malaysia	31 December 2008	2,562.7

*Source: Bloomberg and the Stock Exchange website*

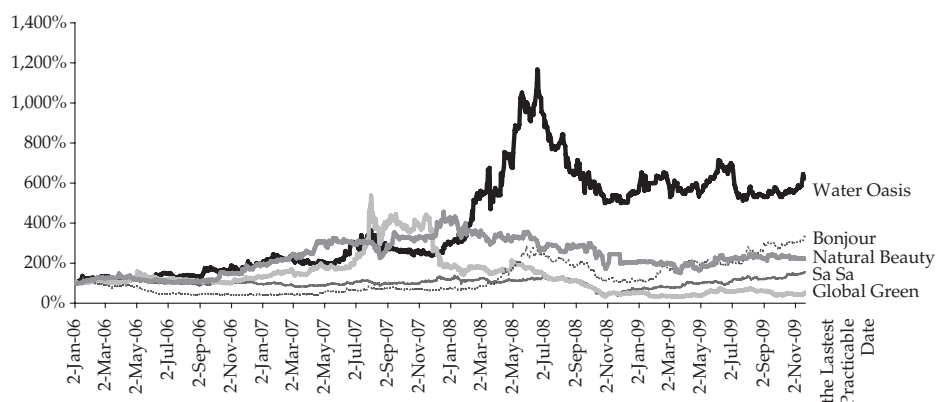
*Note:* Latest financial year end represents the year end date of the financial year of the most recent published annual results of the respective company.



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(b) *Comparison of share price performance*

Set out in the chart below are the relative share price performances of Natural Beauty and the Comparable Companies (excluding Modern Beauty, which is not listed until August 2006) during the Relevant Period:



Source: Bloomberg

During the Relevant Period, the Natural Beauty Share price largely outperformed the Comparable Companies except for Water Oasis since February 2008 and also Bonjour until recently.

We have also reviewed the recent price performance of the Natural Beauty Shares as compared to the Comparable Companies.

	Closing share price as at the Last Trading Day	Premium/(Discount) of share price of the Comparable Companies over/(to) the respective average closing prices of			
		10 trading days	30 trading days	90 trading days	180 trading days
Sa Sa	3.66	6.36%	7.68%	13.00%	28.01%
Water Oasis	1.81	0.72%	(0.28)%	(3.93)%	(6.25)%
Global Green	0.34	5.92%	(5.12)%	(21.21)%	(8.45)%
Bonjour	5.48	3.03%	1.82%	18.75%	36.63%
Modern Beauty	0.78	0.00%	0.78%	(7.20)%	8.20%
<b>Simple average (mean)</b>		<b>3.21%</b>	<b>0.98%</b>	<b>(0.12)%</b>	<b>11.63%</b>
<b>Median</b>		<b>3.03%</b>	<b>0.78%</b>	<b>(3.93)%</b>	<b>8.2%</b>
<b>Natural Beauty</b>	<b>1.36</b>	<b>0.00%</b>	<b>0.34%</b>	<b>2.16%</b>	<b>11.63%</b>
<b>Offer Price</b>	<b>1.25</b>	<b>(8.09)%</b>	<b>(7.77)%</b>	<b>(6.10)%</b>	<b>2.60%</b>

Source: Stock Exchange website

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The Offer Price of HK\$1.25 is lower than the closing price of Natural Beauty Shares on the Last Trading Day and represents discounts to the respective average closing price of the Natural Beauty Shares for the 10, 30 and 90 trading days up to and including the Last Trading Day.

In addition, the Offer Price implies discounts to the average closing price of the Natural Beauty Shares for the 10, 30 and 90 trading days up to and including the Last Trading Day, while the share prices of the Comparable Companies as at the Last Trading Day generally represent premiums over their average prices in the corresponding periods.

*(c) Comparison of trading volume*

Set out in the table below is a comparison of liquidity of the Natural Beauty Shares and the shares of the Comparable Companies:

<b>Company</b>	<b>Average monthly trading volume as a percentage of the total number of outstanding shares</b> <i>(Note)</i>
Sa Sa	3.2%
Water Oasis	2.8%
Global Green	17.8%
Bonjour	4.4%
Modern Beauty	6.3%
<b>Simple average (mean)</b>	<b>6.9%</b>
<b>Median</b>	<b>4.4%</b>
<b>Maximum</b>	<b>17.8%</b>
<b>Minimum</b>	<b>2.8%</b>
<b>Natural Beauty</b>	<b>2.1%</b>

*Source: Bloomberg and Stock Exchange website*

*Note:* The percentage of monthly trading volume to the total number of the outstanding shares above are calculated based on the average monthly trading volume of the shares of the Comparable Companies and Natural Beauty from 1 January 2009 to the Latest Practicable Date divided by the total number of outstanding shares of the respective company as at the Latest Practicable Date.

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As shown in the table above, the monthly trading volume of the Natural Beauty Shares was significantly lower as compared to that of the Comparable Companies. The average trading volume as a percentage of the total number of outstanding shares of Natural Beauty is lower than the minimum of the Comparable Companies.

*(d) Comparison of price earnings multiple ("PE")*

Natural Beauty distributed a substantial portion of its earnings in the past and is substantially debt free. Net asset value per Natural Beauty Share remains within a narrow range from approximately HK\$0.40 to HK\$0.45 yet considerable growths in sales and profit have been achieved. We therefore consider PE is an appropriate method to value Natural Beauty. Set out below is the historical PE of the Comparable Companies based on the closing price as at the Latest Practicable Date:

<b>Company</b>	<b>Closing price per share as at the Latest Practicable Date (HK\$)</b>	<b>PE (times) based on earnings of the latest financial year (Note 1)</b>
Sa Sa	4.20	18.39
Water Oasis	2.06	10.69
Global Green	0.395	104.64
Bonjour	6.23	10.77
Modern Beauty	0.93	39.06
 <i>All Comparable Companies</i>		
<b>Simple average (mean)</b>		<b>36.71</b>
<b>Median</b>		<b>18.39</b>
<b>Maximum</b>		<b>104.64</b>
<b>Minimum</b>		<b>10.69</b>
 <i>Excluding Global Green (Note 2)</i>		
<b>Simple average (mean)</b>		<b>19.73</b>
<b>Median</b>		<b>14.58</b>
<b>Maximum</b>		<b>39.06</b>
<b>Minimum</b>		<b>10.69</b>
<b>Offer Price (Note 3)</b>		<b>10.50</b>

*Source: Bloomberg, Stock Exchange website and the respective Comparable Companies' annual reports*

*Notes:*

- The computations are calculated based on (i) the audited earnings of the Comparable Companies in their respective latest published annual results; and (ii) the respective market capitalisation of the Comparable Companies based on closing price of the shares of the Comparable Companies as at the Latest Practicable Date.

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2. Global Green recorded a minimal profit for the year ended 31 December 2008 after deducting various significant non-cash expenses including non-cash provision for unrealised loss on investment securities, provision for redemption money and interest payment on convertible preference shares issued by a subsidiary and general provision for receivables and inventories.
3. Based on the Offer Price of HK\$1.25 divided by the earnings per Natural Beauty Share for the year ended 31 December 2008.

Our analyses on the PE are principally based on the latest audited earnings of Natural Beauty for the year ended 31 December 2008 and the respective latest audited financial results of the Comparable Companies.

As shown in the table above, the PE of Global Green is approximately 104.64 times. The relatively high PE ratio of Global Green was mainly due to a minimal profit for the year ended 31 December 2008 after deducting various significant non-cash expenses including non-cash provision for unrealised loss on investment securities, provision for redemption money and interest payment on convertible preference shares issued by a subsidiary and general provision for receivables and inventories. Accordingly, we are of the view that the PE of Global Green may distort our analysis.

Excluding Global Green, the PE multiples of the Comparable Companies range from approximately 10.69 times to approximately 39.06 times with an average of approximately 19.73 times and a median of approximately 14.58 times. The implied PE of Natural Beauty based on the Offer Price of HK\$1.25 is approximately 10.50 times, representing discounts of approximately 46.78% and 27.98% to the simple average and the median of the Comparable Companies (excluding Global Green) respectively, and it is also below the lower end of the range of the PEs of the Comparable Companies.

Given Natural Beauty and some of the Comparable Companies have released interim results after the publication of the last audited annual results, we have reviewed the PE multiples based on the earnings of Natural Beauty and the Comparable Companies of the last twelve months. In addition, we have also reviewed the PE multiples implied by the Offer Price by deducting certain one-off gains from the earnings of Natural Beauty, namely the exchange gain of approximately HK\$16.8 million as a result of the distribution of dividend by a PRC subsidiary and a gain of approximately HK\$17.7 million on disposal of a property. In both cases, we note that the PE implied by the Offer Price of HK\$1.25 is still lower than the simple average and the median of that of the Comparable Companies.

**PART IV : LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

(e) *Comparison of dividend yield*

Set out in the table below is an analysis on dividend yields of the Natural Beauty Shares and the shares of the Comparable Companies:

<b>Company</b>	<b>Dividend yield (Note 1)</b>	<b>Total dividend yield (Note 2)</b>
Sa Sa	1.9%	5.5%
Water Oasis	8.5%	10.4%
Global Green (Note 3)	0.0%	0.0%
Bonjour	6.9%	6.9%
Modern Beauty	4.6%	4.6%
<b>Simple average (mean)</b>	<b>4.4%</b>	<b>5.5%</b>
<b>Median</b>	<b>5.8%</b>	<b>6.2%</b>
<b>Maximum</b>	<b>8.5%</b>	<b>10.4%</b>
<b>Minimum</b>	<b>1.9%</b>	<b>4.6%</b>
<b>Offer Price</b>	<b>5.5%</b>	<b>5.5%</b>

Source: Bloomberg and the Stock Exchange website

Notes:

1. The dividend yield represents the total dividend, but excluding special dividend (if any), declared by the Comparable Companies or Natural Beauty in the past twelve months divided by the share price of the Comparable Companies as at the Latest Practicable Date or the Offer Price of HK\$1.25 respectively.
2. The total dividend yield represents the total dividend, including special dividend per share (if any), declared by the Comparable Companies or Natural Beauty in the past twelve months divided by the share price of the Comparable Companies as at the Latest Practicable Date or the Offer Price of HK\$1.25 respectively.
3. Global Green has not declared any dividends in their latest financial year.

As illustrated above, the implied dividend yields of Natural Beauty based on the Offer Price of HK\$1.25 is 5.5%. These yields are equal to the average and lower than the median of that of the Comparable Companies if special dividends are included.

## **DISCUSSION AND ANALYSIS**

The business and financial results of the Natural Beauty Group are summarised above. The Natural Beauty Group has been able to achieve considerable growth in earnings without significantly expanding its net asset base (net book value per Natural Beauty Share for the period under review remained having no significant change and ranged from HK\$0.40 to HK\$0.45 per Natural Beauty Share). We consider a company such as Natural Beauty is most appropriately valued by reference to earnings.

Results for the first half of 2009 were somewhat disappointing with the six-month earnings amounting to approximately HK\$109.0 million (or HK\$0.0545 per Natural Beauty Share), which was down by approximately HK\$40.7 million or 27.2% from the corresponding period in 2008. It should be noted that the decline in the Natural Beauty Group's results for the first half of 2009 was due to two one-off events, namely (i) the consumers' tendency to cut spending and delay buying decisions after the financial tsunami hit across the globe during the first few months of 2009; and (ii) the higher revenue base for the first half of 2008 as compared to that for the corresponding period of 2009 due to the effect of stock-up on more goods than usual by franchisees after the Natural Beauty Group raised the price of its products in June 2008. However, the recent economic statistics of the PRC and Taiwan have revealed important signs of recovery, which is expected to give rise to the gradual revival of consumer confidence in the region. Given the high correlation between individuals' disposable incomes and the demand for high-end goods, such as cosmetic and personal care products, the outlook for the Natural Beauty Group is considered cautiously positive. In fact, the recent performance of the Natural Beauty Group has generally recovered together with the improvement of the market sentiment in the region. Moreover, with a strong balance sheet and successful track record in launching health supplement products to the markets, it is expected that such products will become a growth driver to the Natural Beauty Group when consumer sentiment improves in the near future.

Based on Natural Beauty's 2008 earnings per share of HK\$0.119, the Offer Price of HK\$1.25 represents an implied PE of approximately 10.50 times. This is lower than the simple average and the median of the Comparable Companies (excluding Global Green) of 19.73 times and 14.58 times respectively and closes to the lower bound of that of the Comparable Companies. Even taking into account the latest interim results published by Natural Beauty and the Comparable Companies, where applicable, or the one-off gains in the earnings of Natural Beauty for 2008, the results of the PE analysis remain having no significant change.

The Natural Beauty Group will continue to carry on the existing business regardless of the outcome of the Offer. However, the ultimate controlling shareholder has changed from the Family Investors, being Dr. Tsai Yen-Yu, Dr. Su Chien-Cheng and Dr. Su Sh Hsyu, to a venture jointly controlled by the Family Investors and CA NB. CA NB has nominated half of the members of the boards of the Natural Beauty Group and will have significant influence over various operating and management decisions. While The Carlyle Group has stakes in certain overseas health and personal care products companies, The Carlyle Group advised funds in Asia have investments mainly unrelated to the industry where the Natural Beauty Group operates. The lack of experience in the investment and

## PART IV : LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

management of similar ventures may not foster the future development of the Natural Beauty Group. On the above basis, we consider that it is uncertain that the proposed changes of the boards of the Natural Beauty Group will have a positive impact on the existing business of the Natural Beauty Group and its performance in the immediate future.

The non-competition undertaking and assignment and licensing of trademarks and intellectual property will allow the Natural Beauty Group to continue its existing operations without interruption and/or significant adverse impact as a result of the change of the controlling shareholders.

The trading liquidity of Natural Beauty Shares is thin, with the percentage of Natural Beauty's monthly trading volume to the total number of outstanding Natural Beauty Shares being approximately 2.1% only. Given the relatively low liquidity, it may be difficult for Shareholders with significant holdings to realise all or a substantial portion of their investment in Natural Beauty in the market without creating pressure on the market price of the Natural Beauty Shares. In this regard, we concur with the Bidco Board's view that the Offer provides an opportunity for the Independent Shareholders to monetise their holdings in a relatively illiquid stock.

However, the Offer Price represents discounts of 8.1%, 7.8% and 6.1% to the 10, 30 and 90 days average closing price of the Natural Beauty Shares prior to the Last Trading Day respectively. This is also lower than those of the Comparable Companies, which register premiums, on average, in the corresponding periods. As discussed, the implied PE of the Offer Price is lower than the simple average and the median of the Comparable Companies of 19.73 times and 14.58 times respectively and is also below the lower bound of that of the Comparable Companies. On this basis, we consider the Offer Price is not attractive.

We have not considered the different tax or other legal implications on the Independent Shareholders for electing different alternatives since these depend on their individual circumstances. In particular, the Independent Shareholders should consider their own tax position and, if in any doubt, should consult their own professional advisers.

### OPINION AND RECOMMENDATION

We are of the view that the terms of the Offer is not fair and not reasonable as the Offer Price (i) implies discounts to the average closing price of the Natural Beauty Shares for the 10, 30 and 90 trading days up to and including the Last Trading Day, while the share prices of the Comparable Companies as at the Last Trading Day generally represent premiums over their average prices in the corresponding periods; and (ii) represents a lower than average PE comparing to the Comparable Companies. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders not to accept the Offer.

**PART IV : LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

However, given the relatively thin trading volume of the Natural Beauty Shares, the Independent Shareholders who hold a large block of Natural Beauty Shares may not be able to realise their Natural Beauty Shares in full without creating pressure on the market price of the Natural Beauty Shares. Independent Shareholders, in particular for those Independent Shareholders who hold a large block of the Natural Beauty Shares, may consider to take advantage of this opportunity to realise all or part of their Natural Beauty Shares at the Offer Price of HK\$1.25 which represents a small discount of approximately 2.34% to the closing price of the Natural Beauty Shares as at the Latest Practicable Date.

The Independent Shareholders are also be reminded that in the event that there is less than 25% of the Natural Beauty Shares are held by the public (within the meaning of the Listing Rules) upon the close of the Offer, the insufficient public float may result in temporary suspension in the trading of the Natural Beauty Shares on the Stock Exchange.

Yours faithfully,  
for and on behalf of  
**SOMERLEY LIMITED**  
**Kenneth Chow**  
*Director*



## PART V : LETTER FROM THE PROPERTY VALUER

*The following is the texts of letter, summary of valuation and valuation certificates, prepared for the purpose of incorporation in this composite document, received from Vigers Appraisal & Consulting Limited, an independent property valuer, in connection with their valuation as at 31st October 2009 for the property interests of the Group in the People's Republic of China and Taiwan.*

**Vigers Appraisal & Consulting Limited**  
**International Assets Appraisal Consultants**

10th Floor, The Grande Building  
398 Kwun Tong Road  
Kowloon  
Hong Kong



23rd November 2009

The Directors  
Natural Beauty Bio-Technology Limited  
Unit 3512, 35/F  
The Center, 99 Queen's Road Central  
Hong Kong

Dear Sirs,

In accordance with your instructions for us to value the property interests held by Natural Beauty Bio-Technology Limited (the "Company") and its subsidiaries (together referred to as the "Group") in the People's Republic of China (the "PRC") and Taiwan, we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of such property interests as at the 31st October 2009 ("date of valuation") for the purpose of incorporation into the composite document issued by Standard Cosmos Limited and the Company on the date hereof.

Our valuation is our opinion of the market value of the property interest where we would define market value as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

In valuing the property interests in Group I, which are located in Shanghai City, we have adopted a combination of the market and depreciated replacement cost approach in assessing the land portion of the properties and the buildings and structures standing on the land respectively. Hence, the sum of the two results represents the market value of the properties as a whole. In the valuation of the land portion, reference has been made to the standard land price in Shanghai City and the sales evidence as available to us in the locality. As the nature of the buildings and structures cannot be valued on the basis of market value, they have therefore been valued on the basis of their depreciated replacement costs. The depreciated replacement cost approach considers the current cost

## PART V : LETTER FROM THE PROPERTY VALUER

of replacement (reproduction) of the buildings and improvements less deductions for physical deterioration and all relevant forms of obsolescence and optimisation. The depreciated replacement cost approach generally furnishes the most reliable indication of value for property in the absence of a known market based on comparables sales. The approach is subject to adequate potential profitability of the business.

In valuing the property interest in Group III, which is held by the Group in Taiwan, direct comparison approach is adopted with reference to comparable transactions in the open market and on the basis of vacant possession.

In valuing the property interests in Groups II and IV which are held by the Group in the PRC and Taiwan for investment purpose, we have valued on the basis of capitalization of net rental income currently derived from the existing tenancy and taken into account the reversionary income of the property.

In the course of our valuation of properties in Group III and IV, which are located in Taiwan, we have considered the professional opinion provided by Mr. Alpha Jwo, FRICS, the holder of the Real Estate Appraiser Certificate of Taiwan and Real Estate Appraiser Practicing License of Taiwan from Honda Appraisers Joint Firm. Mr. Jwo has over 24 years' experience in undertaking valuations of properties in Taiwan.

Our valuation has been made on the assumption that the owner sells the property interests on the open market in its existing state without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the value of the property interests. In addition, no forced sale situation in any manner is assumed in our valuation.

We have caused title searches to be made for the property interests located in Taiwan, but have not caused title searches to be made for the property interests at the relevant government bureaus in the PRC. We have been provided with certain extracts of title documents relating to the property interests in the PRC and Taiwan. However, we have not inspected the original documents to verify the ownership, encumbrances or the existence of any subsequent amendments which may not appear on the copies handed to us. In undertaking our valuation for the property interests in the PRC, we have relied on the legal opinion (the "PRC legal opinion") provided by the Company's PRC legal adviser, Shanghai Liting Law Firm.

We have relied to a considerable extent on information provided by the Group and have accepted advice given to us by the Group on such matters as planning approvals or statutory notices, easements, tenure, occupancy, lettings, site and floor areas and in the identification of the properties and other relevant matter. We have also been advised by the Group that no material facts had been concealed or omitted in the information provided to us. All documents have been used for reference only.

All dimensions, measurements and areas included in the valuation certificates are based on information contained in the documents provided to us by the Group and are approximations only. No on-site measurement has been taken.

## PART V : LETTER FROM THE PROPERTY VALUER

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out a structural survey nor have we inspected woodwork or other parts of the structures which are covered, unexposed or inaccessible and we are therefore unable to report that any such parts of the properties are free from defect. No tests were carried out on any of the services.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property interests nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

Our valuation is prepared in accordance with the HKIS Valuation Standards on Properties (First Edition 2005) published by The Hong Kong Institute of Surveyors (HKIS) and the requirements set out in Chapter 5 and Practice Note 12 to the Rule Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited.

Unless otherwise stated, all money amounts stated are in Hong Kong Dollars (HK\$). The exchange rates adopted in valuing the property interests in the PRC and Taiwan as at 31st October 2009 were as follows:

Country/Region	Currency	Exchange Rate as at 31st October 2009
The PRC	Renminbi (RMB)	HK\$1 : RMB0.8823
Taiwan	New Taiwan Dollars (NT\$)	HK\$1 : NT\$ 4.1981

There has been no significant fluctuation in the exchange rates for these currencies against Hong Kong Dollars between that date and the date of this letter.

For the purpose of compliance with Rule 11.3 of the Code on Takeovers and Mergers and as advised by the Company, the potential tax liabilities which may arise from the sale of the properties include:

- (a) (i) PRC business tax (5% of sales revenue), (ii) PRC land appreciation tax (30% – 60% of the net appreciation amount) and (iii) PRC corporate income tax (25%) for the properties in the PRC; and
- (b) (i) Land appreciation tax at a rate ranges from 10% to 40% of the Land Appreciation Amount, (ii) Property tax charged from 1.38% to 3% of the transaction price subject to the occupancy, (iii) Land tax charged from 0.02% to 0.1% of the share on land lot, (iv) Enterprise income tax at 25% of gross profit gained annually of enterprises and (v) other administrative fee for the properties in Taiwan.

**PART V : LETTER FROM THE PROPERTY VALUER**

It is unlikely that such tax liability will be crystallized in the recent future as the Group has no intention to dispose of or transfer the relevant property interests. According to our established practice, in the course of our valuation, we have neither verified nor taken into account such tax liability.

We enclose herewith a summary of valuation and the valuation certificates.

Yours faithfully,  
For and on behalf of  
**Vigers Appraisal & Consulting Limited**  
**Raymond Ho Kai Kwong**  
*Registered Professional Surveyor (GP)*  
*MRICS MHKIS MSc(e-com)*  
*Managing Director*

*Note:* Mr. Raymond Ho Kai Kwong, Chartered Surveyor, MRICS MHKIS MSc(e-com), has over twenty three years' experience in undertaking valuations of properties in Hong Kong and has over sixteen years' experience in valuations of properties in the PRC, Taiwan, Macau and the Asia-Pacific region. Raymond joined Vigers in 1989.

**PART V : LETTER FROM THE PROPERTY VALUER**

**SUMMARY OF VALUATION**

**Group I – Property interests held by the Group for self-occupation in the PRC**

<b>Property</b>	<b>Market Value in existing state as at 31st October 2009</b>	<b>Interest attributable to the Group</b>	<b>Market Value in existing state attributable to the Group as at 31st October 2009</b>
1. An industrial complex located at No. 471 Beimen Road, (Formerly known as No. 297 Beimen Road) Chengqiao Town, Chongming County, Shanghai City, the PRC	RMB5,290,000 (equivalent to approximately HK\$6,000,000)	100%	RMB5,290,000 (equivalent to approximately HK\$6,000,000)
2. An industrial complex located at No. 577 Sanshahong Road, Chengqiao Town, Chongming County, Shanghai City, the PRC	RMB24,030,000 (equivalent to approximately HK\$27,240,000)	100%	RMB24,030,000 (equivalent to approximately HK\$27,240,000)
<b>Sub-total:</b>	<b>RMB29,320,000 (equivalent to approximately HK\$33,230,000)</b>		<b>RMB29,320,000 (equivalent to approximately HK\$33,230,000)</b>

<b>PART V : LETTER FROM THE PROPERTY VALUER</b>
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**Goup II – Property interests held by the Group for investment in the PRC**

<b>Property</b>	<b>Market Value in existing state as at 31st October 2009</b>	<b>Interest attributable to the Group</b>	<b>Market Value in existing state attributable to the Group as at 31st October 2009</b>
3. The whole block of building located on the junction between No. 399 Yanping Road and No. 958 Changping Road, Jingan District, Shanghai City, the PRC	RMB176,600,000 (equivalent to approximately HK\$200,160,000)	100%	RMB176,600,000 (equivalent to approximately HK\$200,160,000)
4. Unit 501, Block 6, Yueneng Building, No. 45 Tianhe Road, Tianhe District, Guangzhou City, Guangdong Province, the PRC	RMB10,200,000 (equivalent to approximately HK\$11,560,000)	100%	RMB10,200,000 (equivalent to approximately HK\$11,560,000)
<b>Sub-total:</b>	<hr style="width: 50%; margin: 0 auto;"/> <b>RMB186,800,000</b> <b>(equivalent to</b> <b>approximately</b> <b>HK\$211,720,000)</b>		<hr style="width: 50%; margin: 0 auto;"/> <b>RMB186,800,000</b> <b>(equivalent to</b> <b>approximately</b> <b>HK\$211,720,000)</b>

<b>PART V : LETTER FROM THE PROPERTY VALUER</b>
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**Group III – Property interests held by the Group for self-occupation in Taiwan**

Property	Market Value in existing state as at 31st October 2009	Interest attributable to the Group	Market Value in existing state attributable to the Group as at 31st October 2009
5. Level 8 and eight carparking spaces 18 to 22, 55, 64, 65, on basement level, Nos. 248, 250, 252, 254 Section 3, Peishen Road, Shengkeng County, Taipei, Taiwan	NT\$150,000,000 (equivalent to approximately HK\$35,730,000)	100%	NT\$150,000,000 (equivalent to approximately HK\$35,730,000)

**Group IV – Property interests held by the Group for investment in Taiwan**

6. Units 1 to 3 and 5, Level 3 and 3 carparking spaces Nos. 133 to 135 on basement level 3, No. 128 Section 2, Chongde Road, Taichung City, Taiwan	NT\$19,000,000 (equivalent to approximately HK\$4,530,000)	100%	NT\$19,000,000 (equivalent to approximately HK\$4,530,000)
<b>Grand – total:</b>	<b>HK\$285,210,000</b>		<b>HK\$285,210,000</b>





## PART V : LETTER FROM THE PROPERTY VALUER

Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 31st October 2009
2.	An industrial complex located at No. 577 Sanshahong Road, Chengqiao Town, Chongming County, Shanghai City, the PRC	The property at present is occupied by the Group for production use.	RMB24,030,000 (equivalent to approximately HK\$27,240,000)
	The property comprises a parcel of land together with various single to 3-storey buildings and structures completed in between 2001 and 2005 erected thereon.		<b>Interest attributable to the Group</b>
	The site area and total gross floor area of the property are approximately 40,625 sq.m. and 7,242.25 sq.m. respectively.		100%
	The land use rights of the property were granted for a term commencing on 26th September 2007 and expiring on 22nd August 2051 for industrial use.		<b>Market Value in existing state attributable to the Group as at 31st October 2009</b>
			RMB24,030,000 (equivalent to approximately HK\$27,240,000)

*Notes:*

1. Pursuant to the Shanghai Certificate of Real Estate Ownership (Document No: Hu Fang Di Chong Zi (2007) No. 003619) issued by Shanghai Housing and Land Resource Administrative Bureau on 26 September 2007, the land use rights of the property with a site area of approximately 40,625 sq.m. have been granted to Shanghai Natural Beauty Cosmetics Co., Ltd. for a term commencing on 26th September 2007 and expiring on 22nd August 2051 for industrial use.

As stipulated in the aforesaid Shanghai Certificate of Real Estate Ownership, the ownership of ten buildings comprising part of the property with a total gross floor area of approximately 6,092.82 sq.m. is vested in Shanghai Natural Beauty Cosmetics Co., Ltd.

2. As advised by the Group, there are three buildings with a total gross floor area of approximately 1,149.43 sq.m. erected thereon without Shanghai Certificate of Real Estate Ownership.
3. In the course of our valuation, we have attributed no commercial value to the buildings stated in Note 2 which do not have a Shanghai Certificate of Real Estate Ownership, hence this portion of the property is forbidden to be transferred, leased and mortgaged in the market.

However, for indicative purpose, the depreciated replacement cost of this portion of the property as at the valuation date was RMB1,750,000 (equivalent to approximately HK\$1,980,000) assuming the relevant title documents were obtained and this portion is freely transferrable in the market.

4. The PRC Legal Opinion states that:
  - (a) The current registered owner of the land and buildings mentioned in Note 1 of the property is Shanghai Natural Beauty Cosmetics Co., Ltd., which is entitled to occupy, transfer, lease and mortgage the property in the open market;
  - (b) The property is free from any mortgages, charges and other legal encumbrances which may cause adverse effects on the ownership of the property;
  - (c) The existing occupancy of the property has complied with the permitted use of the property; and
  - (d) Portion of the property mentioned in Note 2 is not entitled to be transferred, leased and mortgaged in the market because it has not obtained the relevant title documents.

## PART V : LETTER FROM THE PROPERTY VALUER

### Group II – Property interests held by the Group for investment in the PRC

Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 31st October 2009
3.	<p>The whole block of building located on the junction between No. 399 Yanping Road and No. 958 Changping Road, Jingan District, Shanghai City, the PRC</p> <p>The property comprises the whole of an 18-storey composite building completed in 2000.</p> <p>The total gross floor area and the site area of the property are approximately 9,995.98 sq.m. and 1,633 sq.m. respectively.</p> <p>The land use rights of the property were granted for a term commencing on 17th June 2001 and expiring on 17th April 2051 for composite use.</p>	<p>The property is subject to various tenancies with the latest expiry date on 30th June 2013 at a total annual rent of RMB1,201,123.2.</p> <p>The particulars of the tenancies are summarized in Note 2.</p> <p>At present, portion of the property is occupied by the tenants for retail uses and the remaining portion of the property is occupied by the Group as office and beauty salon.</p>	<p>RMB176,600,000 (equivalent to approximately HK\$200,160,000)</p> <p style="text-align: center;"><b>Interest attributable to the Group</b></p> <p style="text-align: right;">100%</p> <p style="text-align: center;"><b>Market Value in existing state attributable to the Group as at 31st October 2009</b></p> <p>RMB176,600,000 (equivalent to approximately HK\$200,160,000)</p>

*Notes:*

- Pursuant to the Shanghai Certificate of Real Estate Ownership (Document No.: Hu Fang Di Shi Zi (2001) No. 004875) issued by Shanghai Housing and Land Administration Bureau on 13th July 2001, the land use rights of the property with a site area of approximately 1,633 sq.m. have been granted to Shanghai Natural Beauty Cosmetics Co., Ltd. for a term commencing from 17th June 2001 and expiring on 17th April 2051 for composite use.

As stipulated in the aforesaid Shanghai Certificate of Real Estate Ownership, the ownership of the building portion of the property with a total gross floor area of approximately 9,995.98 sq.m. is vested in Shanghai Natural Beauty Cosmetics Co., Ltd.

## PART V : LETTER FROM THE PROPERTY VALUER

2. Pursuant to 5 tenancy agreements, portion of the property with a total gross floor area of approximately 1,222 sq.m. are subject to tenancies, the particulars are as follows:

Leased part of the property	Tenant	Lease Term	Annual Rent	Approximate Gross Floor Area (sq.m.)
Level 1	China Minsheng Bank (Shanghai Branch)	1st August 2005 to 31st July 2010	RMB141,523.2 inclusive of management fee but exclusive of operating outgoings.	52
West portion on Level 2	Shanghai Yunkong Beauty Salon Company Limited	10th July 2009 to 9th July 2011	RMB219,600 exclusive of management fee and operating outgoings.	305
Left Portion on Levels 1 and 2	Shanghai Manabe Enterprise Management Company Limited	18th May 2005 to 30th June 2013	RMB300,000, exclusive of management fee and operating outgoings.	300
Level 7	Shanghai Yongdao Logistic Company Limited	1st November 2008 to 31st October 2011	RMB432,000, exclusive of management fee and operating outgoings.	450
South-west portion on Level 8	Zheng You Sheng	1st July 2009 to 30th June 2012	RMB108,000 exclusive of management fee and other operating outgoings.	115
<b>Total</b>			<b>RMB1,201,123.2</b>	<b>1,222</b>

3. As advised by the Group, the tenants are independent third parties, which are not connected with and are independent of, any of the directors, or any of their respective associates of the Group.
4. According to the information provided, Shanghai Natural Beauty Cosmetic Co., Ltd. is an indirect wholly-owned subsidiary of the Company.
5. The PRC Legal Opinion states that:
- (a) The current registered owner of the property is Shanghai Natural Beauty Cosmetics Co., Ltd., which is entitled to occupy, transfer, lease and mortgage the property in the open market;
  - (b) The property is free from any mortgages, charges and other legal encumbrances which may cause adverse effects on the ownership of the property;
  - (c) The existing occupancy of the property has complied with the permitted use of the property; and
  - (d) The tenancy agreements entered into between the Group and the tenants are valid and legally effective.

## PART V : LETTER FROM THE PROPERTY VALUER

Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 31st October 2009
4. Unit 501, Block 6, Yueneng Building, No. 45 Tianhe Road, Tianhe District, Guangzhou City, Guangdong Province, the PRC	<p>The property comprises the whole on level 5 of a 29-storey office building (exclusive of a 2-storey basement) completed in about 2004.</p> <p>The property has a gross floor area of approximately 964.8484 sq. m.</p> <p>The land use rights of the property were granted for a term of 50 years commencing on 16th October 2003 for office use.</p>	<p>At present, the property is leased to an independent third party for a term commencing from 1st April 2006 to 14th February 2011 at a monthly rental of RMB57,891 exclusive of management fee and operating outgoings.</p> <p>The property at present is occupied by the tenant for office use.</p>	<p>RMB10,200,000 (equivalent to approximately HK\$11,560,000)</p> <p style="text-align: center;"><b>Interest attributable to the Group</b></p> <p style="text-align: right;">100%</p> <p style="text-align: center;"><b>Market Value in existing state attributable to the Group as at 31st October 2009</b></p> <p>RMB10,200,000 (equivalent to approximately HK\$11,560,000)</p>

*Notes:*

1. Pursuant to a Real Estate Ownership Certificate (Document No. Yue Fang Di Zheng Zi Di No. C4912210) dated 21st October 2006 issued by Guangzhou Land and Building Administration Bureau, the ownership of the property with a gross floor area of approximately 964.8484 sq.m. is vested in Guangzhou Branch of Shanghai Natural Beauty Sanlian Cosmetics Co., Ltd..
2. Pursuant to a Sale and Purchase Agreement (Document No. Sui Fang He Zi 2004027793) entered into between Guangzhou Runlong Real Estate Company Limited ("Party A") and Guangzhou Branch of Shanghai Natural Beauty Sanlian Cosmetics Co., Ltd. ("Party B"), Party B has agreed to purchase the property with a gross floor area of approximately 954 sq.m. from Party A at a consideration of RMB6,792,500 for office uses.
3. As advised by the Group, the tenant is an independent third party, which is not connected with and is independent of any of the directors, or any of their respective associates of the Group.
4. Shanghai Natural Beauty Sanlian Cosmetics Co., Ltd. is an indirect wholly-owned subsidiary of the Company. Guangzhou Branch is the branch office of Shanghai Natural Beauty Sanlian Cosmetics Co., Ltd. established in Guangzhou.
5. The PRC Legal Opinion states that:
  - (a) The current registered owner of the property is Guangzhou Branch of Shanghai Natural Beauty Sanlian Cosmetics Co., Ltd., which is entitled to occupy, transfer, lease and mortgage the property in the open market;
  - (b) The property is free from any mortgages, charges and other legal encumbrances which may cause adverse effects on the ownership of the property;
  - (c) The existing occupancy of the property has complied with the permitted use of the property; and
  - (d) The tenancy agreement entered into between the Group and the tenant is valid and legally effective.

## PART V : LETTER FROM THE PROPERTY VALUER

### Group III – Property interest held by the Group for self-occupation in Taiwan

Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 31st October 2009
5.	Level 8 and eight carparking spaces 18 to 22, 55, 64, 65, on basement level, Nos. 248, 250, 252, 254 Section 3, Peishen Road, Shenkeng County, Taipei, Taiwan	The property comprises the whole on Level 8 and eight carparking spaces on basement level of an 8-storey (exclusive of 1 basement level) industrial building completed in 1989.  The total gross floor area of the property is approximately 4,289.04 sq.m. (exclusive of carparking spaces)	The property at present is occupied by the Group for industrial, carparking and ancillary uses.  <b>Interest attributable to the Group</b>  100%  <b>Market Value in existing state attributable to the Group as at 31st October 2009</b>  NT\$150,000,000 (equivalent to approximately HK\$35,730,000)

*Notes:*

1. According to a Land Ownership Certificate (Document No.: 087 Xin Zhi Tu Zi No. 016754) and four Building Ownership Certificates (Document Nos.: 090 Xin Zhi Jian Zi No. 008149 to 008152), the current registered owner of the property with a total gross floor area of approximately 4,289.04 sq.m. (exclusive of carparking spaces) is Natural Beauty Cosmetics Co., Ltd..
2. According to the information provided by the Group, Natural Beauty Bio-Technology Co., Ltd. was formerly known as Natural Beauty Cosmetics Co., Ltd., Natural Beauty Bio-Technology Co., Ltd. is a company incorporated in Taiwan, is an indirect wholly-owned subsidiary of the Company.
3. According to the Land Registration Record and Building Registration Record, the current registered owner of the property is Natural Beauty Bio-Technology Co., Ltd. and the property is free from any mortgages and other legal encumbrances which may cause adverse effects on the ownership of the property.
4. In the course of our valuation, we have considered the professional opinion provided by Mr. Alpha Jwo, FRICS, the holder of the Real Estate Appraiser Certificate of Taiwan and Real Estate Appraiser Practicing License of Taiwan from Honda Appraisers Joint Firm. Mr. Jwo has over 24 years' experience in undertaking valuations of properties in Taiwan.

## PART V : LETTER FROM THE PROPERTY VALUER

### Group IV – Property interest held by the Group for investment in Taiwan

Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 31st October 2009
6.	Units 1 to 3 and 5, Level 3 and 3 carparking spaces Nos. 133 to 135 on basement level 3, No. 128 Section 2, Chongde Road, Taichung City, Taiwan	The property comprises four units on level 3 and 3 car parking spaces on basement level 3 of an 18-storey (exclusive of 3 basement levels) commercial building completed in 1993.  The total gross floor area of the property is approximately 806.33 sq.m. (exclusive of carparking spaces)	The property is leased by the Group to an independent third party for a term of two years commencing from 1st January 2009 to 31st December 2009 at a monthly rent of NT\$50,000 inclusive of tax but exclusive of other operating expenses.  The property at present is occupied by the tenant as beauty salon, store and training centre.
			NT\$19,000,000 (equivalent to approximately HK\$4,530,000)
			<b>Interest attributable to the Group</b>
			100%
			<b>Market Value in existing state attributable to the Group as at 31st October 2009</b>
			NT\$19,000,000 (equivalent to approximately HK\$4,530,000)

*Notes:*

1. According to a Land Ownership Certificate (Document No.: Zhong Zheng Zi No. 13555) and five Building Improvement Certificates (Document Nos.: Zhong Zheng Zi No. 15831, 15830, 15829, 15828 and 15827), the current registered owner of the property with a total gross floor area of approximately 806.33 sq.m. (exclusive of carparking spaces) is Natural Beauty Cosmetics Co., Ltd..
2. According to the information provided by the Group, Natural Beauty Bio-Technology Co., Ltd. was formerly known as Natural Beauty Cosmetics Co., Ltd.. Natural Beauty Bio-Technology Co., Ltd. is a company incorporated in Taiwan and is an indirect wholly-owned subsidiary of the Company.
3. According to the information provided by the Group, the tenant of the property is an independent third party, which is not connect with and is independent of any of the directors or any of their respective associates of the Group.
4. According to the Land Registration Record and Building Registration Record, the current registered owner of the property is Natural Beauty Bio-Technology Co., Ltd. and the property is free from any mortgages and other legal encumbrances which may cause adverse effects on the ownership of the property.
5. In the course of our valuation, we have considered the professional opinion provided by Mr. Alpha Jwo, FRICS, the holder of the Real Estate Appraiser Certificate of Taiwan and Real Estate Appraiser Practicing License of Taiwan from Honda Appraisers Joint Firm. Mr. Jwo has over 24 years' experience in undertaking valuations of properties in Taiwan.

**THIS SECTION SHOULD BE READ TOGETHER WITH THE INSTRUCTIONS ON THE FORM OF ACCEPTANCE**

**1 FURTHER PROCEDURES FOR ACCEPTANCE**

This section should be read together with the instructions on the Form of Acceptance. The instructions on the Form of Acceptance shall be deemed to form part of the terms of the Offer.

- (a) If the Natural Beauty Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Natural Beauty Shares is/are in your name, and you wish to accept the Offer, you must send the accompanying Form of Acceptance duly completed together with the relevant Natural Beauty Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar.
- (b) If the Natural Beauty Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Natural Beauty Shares is/are in the name of a nominee company or a name other than your own, and you wish to accept the Offer in respect of your Natural Beauty Shares (whether in full or part), you must either:
  - (i) lodge your Natural Beauty Share certificate(s) and/or transfer receipts and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee, with instructions authorising it to accept the Offer on your behalf and requesting it to deliver the Form of Acceptance duly completed together with the relevant Natural Beauty Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or
  - (ii) arrange for the Natural Beauty Shares to be registered in your name by Natural Beauty through the Registrar, and send the Form of Acceptance duly completed together with the relevant Natural Beauty Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or
  - (iii) if your Natural Beauty Shares have been lodged with your licensed securities dealer (or other registered dealer in securities)/custodian bank through CCASS, instruct your licensed securities dealer (or other registered dealer in securities)/custodian bank to authorise HKSCC Nominees Limited to accept the Offer on your behalf on or before the deadline set by HKSCC Nominees Limited. In order to meet the

deadline set by HKSCC Nominees Limited, you should check with your licensed securities dealer (or other registered dealer in securities)/custodian bank for the timing on the processing of your instruction, and submit your instruction to your licensed securities dealer (or other registered dealer in securities)/custodian bank as required by them; or

- (iv) if your Natural Beauty Shares have been lodged with your Investor Participant Account with CCASS, authorise your instruction via the CCASS Phone System or CCASS Internet System on or before the deadline set out by HKSCC Nominees Limited.
- (c) If the certificate(s) and/or transfer receipts and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Natural Beauty Shares is/are not readily available and/or is/are lost and you wish to accept the Offer in respect of your Natural Beauty Shares, the Form of Acceptance should nevertheless be completed and delivered to the Registrar together with a letter stating that you have lost one or more of your Natural Beauty Share certificate(s) and/or transfer receipts and/or other document(s) of title or that it/they is/are not readily available. If you find such document(s) or if it/they become(s) available, the relevant Natural Beauty Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title should be forwarded to the Registrar as soon as possible thereafter. If you have lost your Natural Beauty Share certificate(s), you should also write to the Registrar for a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Registrar.
- (d) If you have lodged transfer(s) of any of your Natural Beauty Shares for registration in your name and have not yet received your Natural Beauty Share certificate(s), and you wish to accept the Offer in respect of your Natural Beauty Shares, you should nevertheless complete the Form of Acceptance and deliver it to Natural Beauty or the Registrar together with the transfer receipt(s) duly signed by yourself. Such action will be deemed to be an irrevocable authority to Citi and/or Bidco or their respective agent(s) to collect from the Registrar on your behalf the relevant Natural Beauty Share certificate(s) when issued and to deliver such certificate(s) to the Registrar as if it was/they were delivered to the Registrar with the Form of Acceptance in accordance with and subject to the terms of the Offer.
- (e) Acceptance of the Offer will be treated as valid only if the completed Form of Acceptance is received by the Registrar by not later than 4:00 p.m. on 14 December 2009 in Hong Kong or such later time and/or date as Bidco may determine and announce in accordance with the Takeovers Code and the Registrar has recorded that the acceptance and any relevant documents required by Note 1 to Rule 30.2 of the Takeovers Code have been so received, and is:
  - (i) accompanied by the relevant Natural Beauty Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any



satisfactory indemnity or indemnities required in respect thereof) and, if those Natural Beauty Share certificate(s) is/are not in your name, such other documents (for example, a duly stamped transfer of the relevant Natural Beauty Shares executed by the registered holder in blank or in your favour) in order to establish your right to become the registered holder of the relevant Natural Beauty Shares; or

- (ii) from a registered Independent Shareholder of the Natural Beauty Shares or his personal representative (but only up to the amount of the registered holding and only to the extent that the acceptance relates to the Natural Beauty Shares which are not taken into account under this paragraph (e)); or
- (iii) certified by the Registrar or the Stock Exchange.

If the Form of Acceptance is executed by a person other than the registered holder of the Natural Beauty Shares, appropriate documentary evidence of authority (for example, a grant of probate or certified copy of a power of attorney) to the satisfaction of the Registrar must be produced.

- (f) No acknowledgement of receipt of any Form(s) of Acceptance, Natural Beauty Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

## 2 ACCEPTANCE PERIOD AND REVISIONS

The Offer is made on 23 November 2009, being the date of posting of this Composite Document, and is capable of acceptance on and from this date and will remain open for acceptance until 4.00 p.m. on Monday, 14 December 2009, unless extended or revised in accordance with the Takeovers Code.

The Offer may be revised at any time up to the Closing Date. If the Offer is revised, such revised Offer will remain open for acceptance for a period of at least 14 days from the date of posting of the written notification of the revision to the Independent Shareholders.

## 3 ANNOUNCEMENTS

- (a) As required by Rule 19 of the Takeovers Code, by 6:00 p.m. (or such later time as the Executive may in exceptional circumstances permit) on 14 December 2009, which is the Closing Date, Bidco must inform the Executive and the Stock Exchange of its decision in relation to the revision, extension or expiry of the Offer. Bidco must publish an announcement, through the Stock Exchange, by 7:00 p.m. on the Closing Date stating whether the Offer has been revised, extended or has expired.

The announcement will state the total number of Natural Beauty Shares and rights over Natural Beauty Shares:

- (i) for which acceptances of the Offer have been received;
- (ii) held, controlled or directed by Bidco and persons acting in concert with it before the Offer period; and
- (iii) acquired or agreed to be acquired during the Offer period by Bidco or any persons acting in concert with it.

The announcement will also include the details of voting rights, rights over Natural Beauty Shares, derivatives and arrangements as required in rules 3.5(c), (d) and (f) of the Takeovers Code. The announcement will also specify the percentages of the issued share capital and the percentages of voting rights in Natural Beauty represented by the number of Natural Beauty Shares.

- (b) As required under the Takeovers Code and the Listing Rules, all announcements in relation to the Offer in respect of which the Executive and the Stock Exchange have confirmed that they have no further comments, must be published on the website of the Stock Exchange and made in accordance with the Listing Rules.

#### **4 RIGHT OF WITHDRAWAL UNDER THE OFFER**

- (a) Acceptances of the Offer by the Independent Shareholders shall be irrevocable and cannot be withdrawn, except in the circumstances set out in sub-paragraph (b) below.
- (b) If Bidco is unable to comply with the requirements set out in paragraph 3 of this Appendix I, the Executive may require, pursuant to Rule 19.2 of the Takeovers Code, that the Independent Shareholders who have tendered their acceptances be granted a right of withdrawal on terms acceptable to the Executive until the requirements set out in Rule 19 of the Takeovers Code are met.

#### **5 GENERAL**

- (a) All communications, notices, Forms of Acceptance, certificates of Natural Beauty Shares, transfer receipts, other documents of title, indemnities and remittances to be delivered by or sent to the holders of Natural Beauty Shares will be delivered by or sent to or from them, or their designated agents, at their own risk, and none of Bidco, parties acting in concert with Bidco, Natural Beauty, the Registrar, any of their respective directors or agents or any other person involved in the Offer accepts any liability for any loss in postage or any other liabilities that may arise as a result.

- (b) Subject to the terms of the Takeovers Code, acceptance(s) of the Offer may, at the discretion of Bidco, be treated as valid even if not accompanied by the Natural Beauty Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities in respect thereof), but in such cases, the cheque(s) for the consideration in respect of such Natural Beauty Shares tendered will not be despatched until the Natural Beauty Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities in respect thereof) has/have been received by the Registrar.
- (c) The provisions set out in the accompanying Form of Acceptance form part of the terms of the Offer.
- (d) The accidental omission to despatch this Composite Document and/or Form of Acceptance or either of them to any person to whom the Offer is made will not invalidate the Offer in any way.
- (e) To the extent permissible, the Offer and all acceptances will be governed by and construed in accordance with the laws of Hong Kong.
- (f) Due execution of the Form of Acceptance will constitute an irrevocable authority to Bidco, Citi or such other person or persons as Bidco or Citi may direct to complete, amend and execute any document on behalf of the person accepting the Offer, including, without limitation, to insert a date in the Form of Acceptance or, if a date has been inserted, to delete such date and insert another date and to insert, delete, amend or substitute the transferee in the Form of Acceptance, and to do any other act that may be necessary or expedient for the purposes of vesting in Bidco or such person or persons as it may direct the Natural Beauty Shares in respect of which such person has accepted the Offer.
- (g) Acceptance of the Offer by any person or persons will be deemed to constitute a warranty by such person or persons to Bidco that the Natural Beauty Shares acquired under the Offer are sold by any such person or persons with all rights attaching thereto as at the Announcement Date, including, without limitation, all rights to any dividends or other distributions declared, made or paid on or after the Announcement Date, or subsequently becoming attached thereto, and free from all rights of pre-emption, options, liens, claims, equities, charges, encumbrances and third party rights.
- (h) Settlement of the consideration to which any Independent Shareholder is entitled under the Offer will be implemented in full in accordance with the terms of the Offer without regard to any lien, right of set-off, counterclaim or other analogous right to which Bidco may otherwise be, or claim to be, entitled against such Independent Shareholder.

- (i) References to the Offer in this Composite Document and in the Form of Acceptance shall include any revision and/or extension thereof.
- (j) In the event of inconsistency, the English language text of this Composite Document and of the Form of Acceptance shall prevail over the Chinese language text.

## I. THREE-YEAR FINANCIAL INFORMATION

Set out below are the consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements of Natural Beauty (the "Company") and its subsidiaries (the "Group") for each of the three years ended 31 December 2006, 31 December 2007 and 31 December 2008, and the six months ended 30 June 2009 and the consolidated balance sheets as at 31 December 2006, 31 December 2007 and 31 December 2008, and the six months ended 30 June 2009 which are reproduced from the published financial statements of the Group for the periods then ended. From 1 January 2005, all Hong Kong Statements of Standard Accounting Practice and interpretations have been withdrawn and replaced by a number of new or revised Hong Kong Accounting Standards. The auditor's reports (prepared by Deloitte Touche Tohmatsu, Certified Public Accountants) in respect of the Group's financial statements for each of the three years ended 31 December 2006, 31 December 2007 and 31 December 2008 did not contain any qualifications. The consolidated income statements, consolidated statements of changes in equity, consolidated cash flow statements and consolidated balance sheets are prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants.

The consolidated income statements of the Group set out in the financial information on the Group in Appendix I to the Composite Document does not contain extraordinary items, exceptional items or minority interests.

### Statement of Indebtedness

As at the Latest Practicable Date, save as a bank guarantee granted by Industrial and Commercial Bank of China Limited ("ICBC") at the request of a subsidiary of Natural Beauty to Venetian Cotai Limited in respect of the subsidiary's legal and contractual obligations under an agreement entered into between Venetian Cotai Limited and the subsidiary granting a right of use of a shop in the Grand Canal Shoppes at the Venetian Macao in respect of Shop 2128 which guarantees a maximum amount of up to HKD428,220.00, which is backed by a bank deposit in the same amount with ICBC, none of Natural Beauty or its subsidiary has any bank overdrafts or loans, or other similar indebtedness, mortgages, charges or guarantees or other contingent liabilities.

### Material Changes

The turnover of the Natural Beauty Group, for the six months ended 30 June 2009, declined 19.1% to HK\$255.3 million as compared with HK\$315.7 million recorded in the same period last year, and the profit for the period declined by 27.3% from HK\$149.8 million for the first six months of 2008 to HK\$108.9 million for the same period of 2009. Further details of the declines in the sales and the profit of the Natural Beauty Group has been set out in the sections titled "management discussion and analysis" and "condensed consolidated statement of comprehensive income" together with the relevant notes in the interim report of Natural Beauty for the six months ended 30 June 2009.

Save as disclosed above, the Directors confirm that there are no material changes in the financial or trading position or outlook of the Group since 31 December 2008, the date to which the latest audited consolidated financial statements of the Group were made up.

**CONSOLIDATED INCOME STATEMENT**

*For the year ended 31 December 2008*

	<i>Notes</i>	<b>2008</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>	<b>2006</b> <i>HK\$'000</i>
Turnover	5	592,701	450,147	363,746
Cost of sales		<u>(86,102)</u>	<u>(77,573)</u>	<u>(68,725)</u>
Gross profit		506,599	372,574	295,021
Other income	7	58,222	32,461	47,323
Distribution and selling costs		(127,587)	(117,937)	(101,383)
Administrative expenses		(112,731)	(74,536)	(59,450)
Other expenses		(16,026)	(4,247)	(6,881)
Share of loss of an associate		–	(373)	(172)
Share of profit (loss) of a jointly controlled entity		<u>–</u>	<u>87</u>	<u>(5)</u>
Profit before taxation		308,477	208,029	174,453
Income tax expense	8	<u>(69,898)</u>	<u>(29,248)</u>	<u>(51,641)</u>
Profit for the year	9	<u><u>238,579</u></u>	<u><u>178,781</u></u>	<u><u>122,812</u></u>
Attributable to:				
Equity holders of the Company		238,477	178,707	123,198
Minority interests		<u>102</u>	<u>74</u>	<u>(386)</u>
		<u><u>238,579</u></u>	<u><u>178,781</u></u>	<u><u>122,812</u></u>
Dividends	12	<u><u>300,032</u></u>	<u><u>185,000</u></u>	<u><u>80,000</u></u>
Earnings per share	13			
Basic		<u><u>11.9 cents</u></u>	<u><u>8.9 cents</u></u>	<u><u>6.2 cents</u></u>
Dividends per share		<u><u>8.35 cents</u></u>	<u><u>15.0 cents</u></u>	<u><u>6.3 cents</u></u>

**CONSOLIDATED BALANCE SHEET**

*At 31 December 2008*

	<i>Notes</i>	<b>2008</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>	<b>2006</b> <i>HK\$'000</i>
<b>Non-current assets</b>				
Investment properties	14	4,486	4,544	162,228
Property, plant and equipment	15	230,569	218,025	173,479
Prepaid lease payments	16	9,809	9,516	9,119
Goodwill	17	25,766	24,562	23,207
Interest in an associate		–	–	373
Interest in a jointly controlled entity		–	–	353
Available-for-sale investments	18	5,926	9,126	6,786
Deferred taxation assets	27	9,156	7,550	9,437
		<u>285,712</u>	<u>273,323</u>	<u>384,982</u>
<b>Current assets</b>				
Inventories	19	100,859	71,017	63,573
Trade and other receivables	20	92,744	98,971	164,905
Prepaid lease payments	16	278	262	244
Held-for-trading investments		–	–	27,713
Pledged bank deposit	21	428	–	–
Bank balances and cash	21	546,205	588,741	356,243
		<u>740,514</u>	<u>758,991</u>	<u>612,678</u>
<b>Current liabilities</b>				
Trade and other payables	22	105,979	90,308	70,198
Deferred income	23	10,374	9,763	9,336
Taxation payable		41,207	4,693	27,638
		<u>157,560</u>	<u>104,764</u>	<u>107,172</u>
Net current assets		<u>582,954</u>	<u>654,227</u>	<u>505,506</u>
Total assets less current liabilities		<u>868,666</u>	<u>927,550</u>	<u>890,488</u>
<b>Non-current liability</b>				
Retirement benefit obligations	24	12,259	11,899	11,317
		<u>856,407</u>	<u>915,651</u>	<u>879,171</u>

APPENDIX II	FINANCIAL INFORMATION OF THE NATURAL BEAUTY GROUP		
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	<i>Notes</i>	<b>2008</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>	<b>2006</b> <i>HK\$'000</i>
Capital and reserves				
Share capital	25	200,064	200,000	200,000
Reserves		<u>649,896</u>	<u>709,626</u>	<u>678,739</u>
Equity attributable to equity holders of the Company		849,960	909,626	878,739
Minority interests		<u>6,447</u>	<u>6,025</u>	<u>432</u>
Total equity		<u><u>856,407</u></u>	<u><u>915,651</u></u>	<u><u>879,171</u></u>



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Attributable to equity holders of the Company									
	Share capital	Capital surplus	Share premium	Statutory reserve	Translation reserve	Share option reserve	Retained profits	Total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2007	200,000	42,554	336,758	106,803	26,124	-	166,500	878,739	432	879,171
Exchange differences arising from translation of foreign operation recognised directly in equity	-	-	-	-	37,079	-	-	37,079	(27)	37,052
Profit for the year	-	-	-	-	-	-	178,707	178,707	74	178,781
Total recognised income and expense for the year	-	-	-	-	37,079	-	178,707	215,786	47	215,833
Transfers	-	-	-	43,919	-	-	(43,919)	-	-	-
Contribution from minority shareholders	-	-	-	-	-	-	-	-	5,115	5,115
Acquisition of a subsidiary (note 28)	-	-	-	-	-	-	-	-	431	431
Dividends paid (note 12)	-	-	-	-	-	-	(185,000)	(185,000)	-	(185,000)
Recognition of share based payments	-	-	-	-	-	138	-	138	-	138
Forfeiture of share options	-	-	-	-	-	(37)	-	(37)	-	(37)
At 31 December 2007	200,000	42,554	336,758	150,722	63,203	101	116,288	909,626	6,025	915,651
Exchange differences arising from translation of foreign operation recognised directly in equity	-	-	-	-	519	-	-	519	317	836
Profit for the year	-	-	-	-	-	-	238,477	238,477	102	238,579
Total recognised income and expense for the year	-	-	-	-	519	-	238,477	238,996	419	239,415
Transfers	-	-	-	(2,376)	-	-	2,376	-	-	-
Contribution from minority shareholders	-	-	-	-	-	-	-	-	377	377
Acquisition of additional interest in a subsidiary	-	-	-	-	-	-	-	-	(374)	(374)
Dividends paid (note 12)	-	-	(300,032)	-	-	-	-	(300,032)	-	(300,032)
Recognition of share based payments	-	-	-	-	-	840	-	840	-	840
Forfeiture of share options	-	-	-	-	-	(595)	-	(595)	-	(595)
Shares issued upon exercise of share options	64	-	1,298	-	-	(237)	-	1,125	-	1,125
At 31 December 2008	200,064	42,554	38,024	148,346	63,722	109	357,141	849,960	6,447	856,407

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	Attributable to equity holders of the Company									
	Share capital HK\$'000	Capital surplus HK\$'000	Share premium HK\$'000	Statutory reserve HK\$'000	Exchange reserve HK\$'000	Share option reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1 January 2006	200,000	42,554	336,758	94,975	4,094	-	135,130	813,511	6,786	820,297
Exchange differences arising from translation of overseas operation and expense recognised directly in equity	-	-	-	-	22,030	-	-	22,030	100	22,130
Profit for the year	-	-	-	-	-	-	123,198	123,198	(386)	122,812
Total recognised income and expense for the year	-	-	-	-	22,030	-	123,198	145,228	(286)	144,942
Transfer to statutory reserve	-	-	-	11,828	-	-	(11,828)	-	-	-
Acquisition of additional interest in a subsidiary	-	-	-	-	-	-	-	-	(5,742)	(5,742)
Dividends paid	-	-	-	-	-	-	(80,000)	(80,000)	-	(80,000)
Dividends paid to minority shareholders	-	-	-	-	-	-	-	-	(326)	(326)
At 31 December 2006	200,000	42,554	336,758	106,803	26,124	-	166,500	878,739	432	879,171
Exchange differences arising from translation of overseas operation recognised directly in equity	-	-	-	-	37,079	-	-	37,079	(27)	37,052
Profit for the year	-	-	-	-	-	-	178,707	178,707	74	178,781
Total recognised income and expense for the year	-	-	-	-	37,079	-	178,707	215,786	47	215,833
Transfer to statutory reserve	-	-	-	43,919	-	-	(43,919)	-	-	-
Contribution from minority shareholders	-	-	-	-	-	-	-	-	5,115	5,115
Acquisition of a subsidiary (note 28)	-	-	-	-	-	-	-	-	431	431
Dividends paid (note 12)	-	-	-	-	-	-	(185,000)	(185,000)	-	(185,000)
Recognition of share-based payments	-	-	-	-	-	138	-	138	-	138
Forfeiture of share options	-	-	-	-	-	(37)	-	(37)	-	(37)
At 31 December 2007	200,000	42,554	336,758	150,722	63,203	101	116,288	909,626	6,025	915,651

**SHARE PREMIUM**

In accordance with the Companies Law of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

**STATUTORY RESERVE**

According to the laws and regulations of the People's Republic of China ("PRC"), the PRC companies with foreign investment are required to transfer a certain percentage of its profit after taxation, as determined under PRC accounting regulations (the "net profit under PRC generally accepted accounting principles ("PRC GAAP")), to the general reserve fund, enterprise expansion fund and staff and workers' bonus and welfare fund. Distribution of these reserves shall be made in accordance with the Articles of Association of the Company and approved by the board of directors each year. Other PRC companies are required to transfer a certain percentage of their net profit under PRC GAAP to the statutory surplus reserve fund until the reserve balance reaches 50% of their paid-in capital, and to transfer a certain percentage of its net profit under PRC GAAP to the statutory public welfare fund.

According to the laws and regulations of Taiwan, Taiwan companies shall set aside 10% of their statutory net income each year for legal reserve, until the reserve balance has reached the paid-in share capital amount.

These above-mentioned reserves and funds cannot be used for purposes other than those for which they were created and are not distributable as cash dividends.

**CONSOLIDATED CASH FLOW STATEMENT**

*For the year ended 31 December 2008*

	Notes	2008 HK\$'000	2007 HK\$'000	2006 HK\$'000
<b>Operating Activities</b>				
Profit before taxation		308,477	208,029	174,453
Adjustments for:				
Interest income		(6,583)	(6,754)	(4,321)
Depreciation of property, plant and equipment		17,131	17,522	20,815
(Gain) loss on disposal of property, plant and equipment		(14,699)	(858)	601
Gain on disposal of an associate		–	(1,024)	–
Gain on disposal of investment properties		–	(1,199)	–
Release of prepaid lease payments		275	252	239
Gain of held-for-trading investments		(2,617)	(4,102)	(2,476)
Increase in fair value of investment properties		(15)	(50)	(320)
Amortisation of intangible assets		–	–	939
(Written back) allowance for obsolete inventories		(1,495)	(1)	1,317
Impairment loss on trade receivables		15,243	2,185	1,240
Impairment loss on available-for sale investments		3,200	–	–
Share of loss of an associate		–	373	172
Share-based payments		245	101	–
Share of (profit) loss of a jointly-controlled entity		–	(87)	5
		319,162	214,387	192,664
Operating cash flows before movements in working capital		319,162	214,387	192,664
Increase in inventories		(27,010)	(7,443)	(8,413)
Decrease (increase) in trade and other receivables		(8,032)	65,132	(24,916)
Decrease in held-for-trading investments		2,617	31,815	1,628
Increase (decrease) in trade and other payables		16,530	19,604	(11,843)
Increase (decrease) in deferred income		611	427	847
Increase in defined benefit obligations		360	582	427
		304,238	324,504	150,394
Cash generated from operations		304,238	324,504	150,394
Overseas tax paid		(34,950)	(50,306)	(44,242)
		269,288	274,198	106,152
<b>Net cash from operating activities</b>		<b>269,288</b>	<b>274,198</b>	<b>106,152</b>

APPENDIX II	FINANCIAL INFORMATION OF THE NATURAL BEAUTY GROUP
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	<i>Notes</i>	<b>2008</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>	<b>2006</b> <i>HK\$'000</i>
<b>Investing activities</b>				
Proceeds on disposal of investment properties		–	158,056	–
Interest received		6,583	6,754	4,321
Proceeds from disposal of property, plant and equipment		30,356	2,732	65
Proceeds on disposal of an associate		–	1,024	–
Purchase of property, plant and equipment		(35,427)	(53,778)	(11,265)
Acquisition of available for sale investment		–	(2,340)	–
Acquisition of a subsidiary	28	(3,123)	(6)	–
Acquisition of additional interests in subsidiaries		(374)	–	(14,520)
Increase in pledged bank deposit		(428)	–	–
Investment in a jointly-controlled entity		–	–	(358)
<b>Net cash from (used in) investing activities</b>		<u>(2,413)</u>	<u>112,442</u>	<u>(21,757)</u>
<b>Financing activities</b>				
Dividends paid		(300,032)	(185,000)	(80,000)
Contribution from minority shareholders		377	5,115	–
Dividends paid to minority shareholders of subsidiaries		–	–	(326)
<b>Net cash used in financing activities</b>		<u>(299,655)</u>	<u>(179,885)</u>	<u>(80,326)</u>
<b>Net (decrease) increase in cash and cash equivalents</b>		(32,780)	206,755	4,069
<b>Cash and cash equivalents at beginning of the year</b>		588,741	356,243	338,748
<b>Effect of foreign exchange rate changes</b>		<u>(9,756)</u>	<u>25,743</u>	<u>13,426</u>
<b>Cash and cash equivalents at end of the year, represented by bank balances and cash</b>		<u><u>546,205</u></u>	<u><u>588,741</u></u>	<u><u>356,243</u></u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2008*

### 1. GENERAL

The Company was incorporated in Cayman Islands on 29 June 2001 as an exempted company with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 28 March 2002. Its ultimate holding company and immediate holding company are Knightcote Enterprises Limited and Efficient Market Investments Limited, respectively, and both were incorporated in the British Virgin Islands. The addresses of the registered office and principal place of business of the Company are disclosed in the introduction to the annual report.

The Company acts as an investment holding company. The Group is principally engaged in (a) manufacturing and selling of skin care, beauty and aromatherapeutic products and (b) provision of skin treatments, beauty and spa services and skin care consulting and beauty training. The principal activities of its subsidiaries are set out in note 35 to the consolidated financial statements.

The consolidated financial statements are presented in Hong Kong dollars, which is also the functional currency of the Company.

### 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not earlier applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs <sup>1</sup>
HKAS 1 (Revised)	Presentation of Financial Statements <sup>2</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>2</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>3</sup>
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation <sup>2</sup>
HKAS 39 (Amendment)	Eligible Hedged Items <sup>3</sup>
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate <sup>2</sup>
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations <sup>2</sup>
HKFRS 3 (Revised)	Business Combinations <sup>3</sup>
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments <sup>2</sup>
HKFRS 8	Operating Segments <sup>2</sup>
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives <sup>4</sup>
HK(IFRIC) – Int 13	Customer Loyalty Programmes <sup>5</sup>
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate <sup>2</sup>
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation <sup>6</sup>
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners <sup>3</sup>
HK(IFRIC) – Int 18	Transfer of Assets from Customers <sup>7</sup>

- <sup>1</sup> Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
- <sup>2</sup> Effective for annual periods beginning on or after 1 January 2009
- <sup>3</sup> Effective for annual periods beginning on or after 1 July 2009
- <sup>4</sup> Effective for annual periods ending on or after 30 June 2009
- <sup>5</sup> Effective for annual periods beginning on or after 1 July 2008
- <sup>6</sup> Effective for annual periods beginning on or after 1 October 2008
- <sup>7</sup> Effective for transfers on or after 1 July 2009

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis, except for investment properties and certain financial instruments which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

#### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

#### **Business combinations**

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The

acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 Business Combinations are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

#### **Acquisition of additional interest in a subsidiary**

On acquisition of additional interest in a subsidiary, goodwill is measured at the aggregate of the carrying amounts of identified assets and liabilities of the subsidiary and any excess of the consideration over the net assets acquired.

#### **Goodwill**

##### *Goodwill arising on acquisitions prior to 1 January 2005*

Goodwill arising on an acquisition of net assets and operations of another entity for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant acquiree at the date of acquisition.

For previously capitalised goodwill arising on acquisitions of net assets and operations of another entity after 1 January 2001, the Group has discontinued amortisation from 1 January 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below).

##### *Goodwill arising on acquisitions on or after 1 January 2005*

Goodwill arising on an acquisition of a business for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.



**Interest in associate**

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of the associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

**Joint ventures***Jointly controlled entities*

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from sales of goods is recognised when goods are delivered and title has passed.

Service income is recognised when services are provided. Payments that are related to service not yet rendered are deferred and shown as deferred income in consolidated balance sheet.

Entrustment fees arising from arrangements for third party operators to operate the same business as the Group are recognised in the consolidated income statement in equal instalments over the entrustment periods.

Rental income under operating leases is recognised on a straight-line basis over the terms of the relevant leases.

Interest income from a financial asset, including financial assets at fair value through profit or loss, is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

**Property, plant and equipment**

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than freehold land and construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment (other than freehold land and construction in progress) over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Freehold land is stated at cost less accumulated impairment losses, if any.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

**Investment properties**

Investment properties are properties held to earn rentals and/or for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the item is derecognised.

**Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

*The Group as lessor*

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease.

*The Group as lessee*

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Contingent rentals arising under operating leases are charged as an expense in the period in which they are incurred.

*Leasehold land and building*

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases except for those that are classified and accounted for as investment properties under the fair value model.

**Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

**Government grants**

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are reported separately as other income.

**Retirement benefits costs**

Payments to the Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance and the Labour Standards Law (as amendment) in Taiwan and the PRC municipal government retirement scheme, are charged as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses which exceed 10% of the greater of the present value of the Group's pension obligations and the fair value of plan assets are amortised over the expected average remaining working lives of the participating employees. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the amended benefits become vested.

The amount recognised in the consolidated balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

#### **Taxation**

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

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

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

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

#### **Research and development expenditure**

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

**Financial instruments**

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

*Financial assets*

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Interest income is recognised on an effective interest basis for debt instruments.

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss represents financial assets held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the year in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank deposit and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).

#### Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade and other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period ranging from one to six months, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in profit or loss in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods.

#### *Financial liabilities and equity*

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

#### Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

#### Financial liabilities

The Group's financial liabilities including trade and other payables are subsequently measured at amortised cost, using the effective interest method.

#### Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

#### *Derecognition*

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for proceeds received.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

#### **Share based payment transactions**

##### *Equity-settled share based payment transactions*

#### Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period or recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share options reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

#### **Impairment losses on tangible assets (other than goodwill)**

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

**4. KEY SOURCES OF ESTIMATION UNCERTAINTY**

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

**Estimated impairment of trade receivables**

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2008, the carrying amount of trade receivable is approximately HK\$65,302,000 (2007: HK\$59,351,000), net of allowance for doubtful debts of approximately HK\$2,963,000 (2007: HK\$1,767,000).

**5. REVENUE**

Revenue represents (i) the net amount received and receivables for goods sold by the Group to outside customers which is stated net of sales returns and allowances, (ii) service income from provision of skin treatments, beauty and SPA services and (iii) entrustment fee income for the year, and is analysed as follows:

	<b>2008</b>	<b>2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales of goods	575,491	430,416
Service income	16,693	16,914
Entrustment fee income	517	2,817
	592,701	450,147
	592,701	450,147

**6. BUSINESS AND GEOGRAPHICAL SEGMENTS**

**Geographical segments**

The Group's operations are located in the PRC, Taiwan, Hong Kong, Malaysia and Macau.



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An analysis of the Group's revenue and contribution to segment results and segment assets and liabilities by geographic segments based on customers' location, irrespective of the origin of the goods/services, is presented below:

	PRC <i>HK\$'000</i>	Taiwan <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
For the year ended 31 December 2008				
Revenue	<u>436,516</u>	<u>146,782</u>	<u>9,403</u>	<u>592,701</u>
Segment results	<u>255,201</u>	<u>74,907</u>	<u>(10,542)</u>	319,566
Unallocated corporate expenses				(30,982)
Unallocated income				<u>19,893</u>
Profit before taxation				308,477
Income tax expense				<u>(69,898)</u>
Profit for the year				<u>238,579</u>

*Consolidated balance sheet*

	PRC <i>HK\$'000</i>	Taiwan <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Assets</b>				
Segment assets	315,898	140,542	9,626	466,066
Unallocated corporate assets				<u>560,160</u>
Consolidated total assets				<u>1,026,226</u>
<b>Liabilities</b>				
Segment liabilities	51,373	47,794	1,921	101,088
Unallocated corporate liabilities				<u>68,731</u>
Consolidated total liabilities				<u>169,819</u>
<b>Other information</b>				
Capital expenditure	18,280	15,017	2,130	35,427
Depreciation of property, plant and equipment	10,321	4,702	2,108	17,131
Release of prepaid lease payments	275	-	-	275
Loss (gain) on disposal of property, plant and equipment	3,100	(17,953)	154	(14,699)
(Write back of) allowance for obsolete inventories	(1,501)	(82)	88	(1,495)
Impairment loss on trade receivables	13,963	1,280	-	15,243
Increase in fair value of investment properties	<u>-</u>	<u>15</u>	<u>-</u>	<u>15</u>

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	PRC <i>HK\$'000</i>	Taiwan <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
For the year ended 31 December 2007				
Revenue	316,808	126,837	6,502	450,147
Segment results	174,024	44,732	(5,198)	213,558
Unallocated corporate expenses				(11,997)
Unallocated income				6,754
Share of loss of an associate				(373)
Share of profit of a jointly controlled entity				87
Profit before taxation				208,029
Income tax expense				(29,248)
Profit for the year				178,781
<i>Consolidated balance sheet</i>				
	PRC <i>HK\$'000</i>	Taiwan <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Assets				
Segment assets	291,155	131,218	10,666	433,039
Unallocated corporate assets				599,275
Consolidated total assets				1,032,314
Liabilities				
Segment liabilities	58,448	45,728	1,824	106,000
Unallocated corporate liabilities				10,663
Consolidated total liabilities				116,663
Other information				
Capital expenditure	44,821	4,408	4,549	53,778
Depreciation of property, plant and equipment	11,461	4,930	1,131	17,522
Release of prepaid lease payments	252	–	–	252
(Gain) loss on disposal of property, plant and equipment	(884)	(3)	29	(858)
Gain on disposal of investment properties	–	(1,199)	–	(1,199)
(Write back of) allowance for obsolete inventories	(866)	809	56	(1)
Impairment loss on trade receivables	1,401	784	–	2,185
Increase in fair value of investment properties	–	50	–	50

**Business segments**

For management purposes, the Group is currently organised into 2 operating divisions – (i) sale of cosmetic products and provision of beauty services and (ii) leasing of investment properties. In the opinion of the directors, the leasing of investment properties are not considered as the principal activity of the Group, and accordingly, the income from this segment is not included as revenue.

An analysis of the Group's revenue by business segments is presented below:

	Revenue		Other income	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cosmetic products and beauty services	592,701	450,147	–	–
Investment properties	–	–	195	4,942
Others	–	–	58,027	27,519
	<u>592,701</u>	<u>450,147</u>	<u>58,222</u>	<u>32,461</u>

The following is an analysis of the carrying amount of segment assets and capital expenditure analysed by the business segments in which the assets are included:

	Carrying amount of segment assets		Capital expenditure	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cosmetic products and beauty services	461,580	428,495	35,427	53,778
Investment properties	4,486	4,544	–	–
	<u>466,066</u>	<u>433,039</u>	<u>35,427</u>	<u>53,778</u>

**7. OTHER INCOME**

	2008	2007
	HK\$'000	HK\$'000
Interest on bank deposits	6,583	6,754
Rental income from investment properties	180	3,693
Rental income from other properties and equipment	4,745	3,839
Financial refunds ( <i>note</i> )	2,170	9,659
Increase in fair value of investment properties	15	50
Foreign exchange gain	25,371	–
Gain on held-for-trading investments	2,617	4,102
Gain on disposal of an associate	–	1,024
Gain on disposal of property, plant and equipment	14,699	858
Gain on disposal of investment properties	–	1,199
Write back of obsolete inventories	1,495	1
Others	347	1,282
	<u>58,222</u>	<u>32,461</u>

*Note:* Pursuant to the local practice of the finance bureau of the provinces in which certain of the PRC subsidiaries operate, the PRC subsidiaries will receive financial refunds in the form of government grants by way of negotiation with the relevant finance bureau with reference to the percentage of income and other taxes paid. These financial refunds are treated as tax exempted by such finance bureaus. However, the refunds and the tax exemption treatment thereof are subject to review annually. It is therefore uncertain if these subsidiaries will continue to be eligible for such financial refunds and the tax exemption treatment thereof in the future.

**8. INCOME TAX EXPENSE**

	<b>2008</b>	<b>2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
The charge comprises:		
Taxation in PRC and Taiwan		
Current year	37,667	26,772
Underprovision in prior years	1,537	233
	39,204	27,005
Deferred tax ( <i>note 27</i> ):		
Current year	(1,566)	1,625
Attributable to a change in tax rate	–	618
	(1,566)	2,243
Dividend withholding tax	32,260	–
	69,898	29,248

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the “New Law”) by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulation of the New Law. Under the New Law and Implementation Regulation, the Enterprise Income Tax rate of the Group’s subsidiaries in the PRC was reduced from 27% or 33% to 25%, effective from 1 January 2008 onwards. The relevant tax rate for the Group’s subsidiaries in the PRC is 25% (2007: 27% or 33%).

Pursuant to the relevant laws and regulations in the PRC, certain of the Group’s PRC subsidiaries are exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years (the “Tax Holiday”). The Tax Holiday will continue on the implementation of the New Law using the new tax rate of 25%.

Pursuant to the relevant laws and regulations in Taiwan, certain of the Group’s Taiwan subsidiaries are eligible to certain tax concessions.

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On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5%, effective from the year of assessment 2008/2009. Therefore, Hong Kong profits tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the year.

No provision for Hong Kong profits tax has been made as the Company and its subsidiaries have no assessable profit for both years.

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

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Profit before taxation	<u>308,477</u>	<u>208,029</u>
Tax at domestic rates applicable to profits of taxable entities in the countries concerned	89,154	66,429
Tax effect of expenses not deductible for tax purpose	11,264	9,026
Tax effect of income not taxable for tax purpose	(7,325)	(5,769)
Tax effect of tax losses not recognised	10,578	4,593
Tax effect of tax concession provided to a Taiwan subsidiary	(7,859)	(6,614)
Tax effect of tax exemption granted to a PRC subsidiary under the Tax Holiday	(60,803)	(39,268)
Underprovision in prior years	1,537	233
Increase in opening deferred tax liability resulting from a decrease in applicable tax rate	–	618
Dividend withholding tax	32,260	–
Deferred tax liabilities arising on undistributed profits of PRC subsidiaries from 1 January 2008	<u>1,092</u>	<u>–</u>
Tax charge for the year	<u>69,898</u>	<u>29,248</u>

*Note:* As the Group operates in several different tax jurisdictions, separate reconciliations using the domestic tax rate in each individual tax jurisdiction have been aggregated and presented.

9.      PROFIT FOR THE YEAR

	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the year has been arrived at after charging (crediting):		
Staff costs:		
– directors' emoluments ( <i>note 10</i> )	14,325	1,560
– other staff costs	<u>86,684</u>	<u>71,476</u>
	<u>101,009</u>	<u>73,036</u>
Retirement benefits scheme contributions, excluding directors:		
– defined contribution plans ( <i>note 24 (b)</i> )	9,509	7,062
– defined benefit plan ( <i>note 24 (a)</i> )	<u>866</u>	<u>870</u>
	<u>10,375</u>	<u>7,932</u>
Share based payments		
Equity-settled share based payments	<u>245</u>	<u>101</u>
Total staff costs	<u>111,629</u>	<u>81,069</u>
Depreciation of property, plant and equipment	17,131	17,522
Release of prepaid lease payments	275	252
Auditors' remuneration	3,435	3,508
Gain on disposal of property, plant and equipment	(14,699)	(858)
Research and development costs	1,714	1,693
Write back of obsolete inventories	(1,495)	(1)
Cost of inventories recongised as an expense	86,102	77,573
Net exchange (gain) loss	(25,371)	180
Impairment losses on trade receivables	15,243	2,185
Impairment losses on available-for-sale investments	<u>3,200</u>	<u>–</u>

## 10. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the seven (2007: seven) directors were as follows:

**For the year ended 31 December 2008**

	Dr. Tsai Yen Yu	Mr. Lee Ming Ta	Dr. Su Chien Cheng	Dr. Su Sh Hsyu	Mr. Yeh Liang Fei	Mrs. Chen Shieh Shu Chen	Mr. Chen Ching	Total 2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fees	1,000	700	600	600	20	20	48	2,988
Other emoluments								
Salaries and other benefits	15	340	305	664	-	-	-	1,324
Contributions to retirement benefits scheme	-	6	5	2	-	-	-	13
Discretionary and performance related incentive payments (Note)	4,000	-	3,000	3,000	-	-	-	10,000
<b>Total emoluments</b>	<b>5,015</b>	<b>1,046</b>	<b>3,910</b>	<b>4,266</b>	<b>20</b>	<b>20</b>	<b>48</b>	<b>14,325</b>

**For the year ended 31 December 2007**

	Dr. Tsai Yen Yu	Mr. Lee Ming Ta	Dr. Su Chien Cheng	Dr. Su Sh Hsyu	Mr. Yeh Liang Fei	Mrs. Chen Shieh Shu Chen	Mr. Chen Ching	Total 2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fees	1,000	700	600	600	20	20	48	2,988
Other emoluments								
Salaries and other benefits	14	325	292	805	-	-	-	1,436
Contributions to retirement benefits scheme	-	17	15	4	-	-	-	36
Discretionary and performance related incentive payments (Note)	-	-	-	-	-	-	-	-
Waiver of fees	(1,000)	(700)	(600)	(600)	-	-	-	(2,900)
<b>Total emoluments</b>	<b>14</b>	<b>342</b>	<b>307</b>	<b>809</b>	<b>20</b>	<b>20</b>	<b>48</b>	<b>1,560</b>

Note: Dr. Tsai, Mr. Lee, Dr. Su Chien Cheng and Dr. Su Sh Hsyu are entitled to a management bonus aggregately not exceed 15% of the audited consolidated profit attributable to equity holders of the Company in respect of that financial year of the Group, as recommended by the Remuneration Committee.

For the year ended 31 December 2007, each of the executive directors voluntarily agreed to waive their entitlement to certain remuneration of approximately HK\$2.9 million. No directors waived any emoluments in the year ended 31 December 2008.

No emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year ended 31 December 2007 and 2008.

**11. EMPLOYEES' EMOLUMENTS**

Of the five individuals with the highest emoluments in the Group, three of them (2007: Nil) were directors of the Company whose emoluments are included in the disclosures in note 10 above. The emoluments of the two (2007: five) individuals were as follows:

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Salaries and other benefits	3,919	6,223
Contributions to retirement benefits scheme	31	36
Share based payments expense	61	70
Discretionary and performance related incentive payments	372	1,545
	4,383	7,874
	4,383	7,874

The emoluments of the two (2007: five) within the following bands:

	2008 <b>Headcount</b>	2007 <b>Headcount</b>
HK\$0 – HK\$1,000,000	–	1
HK\$1,000,001 – HK\$1,500,000	–	3
HK\$1,500,001 – HK\$2,000,000	1	–
HK\$2,500,001 – HK\$3,000,000	1	–
HK\$3,000,001 – HK\$3,500,000	–	1
	–	1
	–	1

**12. DIVIDENDS**

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Dividends recognised as distribution during the year:		
Interim dividend, paid		
– HK\$0.050 per share (2007: HK\$0.030 per share)	100,032	60,000
Interim special dividend, paid		
– Nil per share (2007: HK\$0.020 per share)	–	40,000
Final dividend, paid		
– HK\$0.042 per share for 2007 (2007: HK\$0.030 per share for 2006)	84,000	60,000
Final special dividend, paid		
– HK\$0.058 per share for 2007 (2007: HK\$0.0125 per share for 2006)	116,000	25,000
	300,032	185,000
	300,032	185,000

The final dividend of HK\$0.0335 per share (2007: HK\$0.0420 per share for 2007), amounting to approximately HK\$67,021,000 have been proposed by the directors and is subject to approval by the shareholders in general meeting.

No final special dividend (2007: HK\$0.0580 per share for 2007) has been proposed by the directors after the balance sheet date.



**13. EARNINGS PER SHARE**

The calculation of the basic earnings per share attributable to the equity holders of the Company is based on the profit attributable to the equity holders of the Company of approximately HK\$238,477,000 (2007: HK\$178,707,000) and on the weighted average number of 2,000,310,980 (2007: 2,000,000,000) ordinary shares of the Company in issue during the year.

No diluted earnings per share has been presented because the exercise price of the Company's options was higher than the average market price of the shares for both years.

**14. INVESTMENT PROPERTIES**

	<i>HK\$'000</i>
<b>FAIR VALUE</b>	
At 1 January 2007	162,228
Exchange realignment	(877)
Disposal during the year	(156,857)
Increase in fair value recognised in the consolidated income statement	50
At 31 December 2007	4,544
Exchange realignment	(73)
Increase in fair value recognised in the consolidated income statement	15
At 31 December 2008	4,486

The fair values of the Group's investment properties at 31 December 2008 and 2007 have been arrived at on the basis of a valuation carried out on that date by Messrs. Vigers Appraisal & Consulting Limited and Euro-Asia Real Estate Appraisers Firm, respectively, independent qualified professional valuers not connected with the Group. Raymond Ho Kai Kwong, the managing director of Messrs. Vigers Appraisal & Consulting Limited, who is a member of Hong Kong Institute of Surveyors (HKIS) and Royal Institution of Chartered Surveyors (RICS), and the relevant responsible person of Euro-Asia Real Estate Appraisers Firm both have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation was arrived at using the direct comparison approach by reference to market evidence of recent transaction prices for similar properties in the same locations and conditions.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

The carrying value of investment properties shown above are situated on freehold land outside Hong Kong.

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**15. PROPERTY, PLANT AND EQUIPMENT**

	Freehold land <i>HK\$'000</i>	Buildings <i>HK\$'000</i>	Leasehold improve- ments <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>COST</b>								
At 1 January 2007	24,154	135,275	60,453	28,052	6,120	49,762	554	304,370
Exchange realignment	132	8,005	2,728	1,940	377	2,219	1,280	16,681
Additions	-	30	9,596	2,032	3,115	9,130	29,875	53,778
Disposals	-	(1,176)	(9,223)	(683)	(2,581)	(1,353)	-	(15,016)
At 31 December 2007	24,286	142,134	63,554	31,341	7,031	59,758	31,709	359,813
Exchange realignment	(12)	6,722	1,411	1,580	298	1,411	1,888	13,298
Additions	-	-	23,065	3,534	561	8,125	142	35,427
Disposals	(8,635)	(3,709)	(25,162)	(11,633)	(1,886)	(9,303)	-	(60,328)
Acquired on acquisition of subsidiaries ( <i>note 28</i> )	-	-	-	768	-	300	-	1,068
Transfer	-	1,336	-	-	-	-	(1,336)	-
At 31 December 2008	15,639	146,483	62,868	25,590	6,004	60,291	32,403	349,278
<b>DEPRECIATION</b>								
At 1 January 2007	-	24,953	43,784	20,671	3,668	37,815	-	130,891
Exchange realignment	-	1,287	1,949	1,500	181	1,600	-	6,517
Provided for the year	-	3,246	7,066	1,677	453	5,080	-	17,522
Eliminated on disposals	-	(463)	(9,223)	(489)	(1,931)	(1,036)	-	(13,142)
At 31 December 2007	-	29,023	43,576	23,359	2,371	43,459	-	141,788
Exchange realignment	-	1,051	1,157	1,241	118	894	-	4,461
Provided for the year	-	3,514	5,568	1,657	729	5,663	-	17,131
Eliminated on disposals	-	(1,192)	(24,608)	(9,843)	(844)	(8,184)	-	(44,671)
At 31 December 2008	-	32,396	25,693	16,414	2,374	41,832	-	118,709
<b>CARRYING VALUES</b>								
At 31 December 2008	15,639	114,087	37,175	9,176	3,630	18,459	32,403	230,569
At 31 December 2007	24,286	113,111	19,978	7,982	4,660	16,299	31,709	218,025

The carrying values of buildings shown above are situated on:

	<b>2008</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>
Land held in the PRC under medium-term land use rights	101,161	96,930
Freehold land in Taiwan	12,926	16,181
	<u>114,087</u>	<u>113,111</u>

<b>APPENDIX II</b>	<b>FINANCIAL INFORMATION OF THE NATURAL BEAUTY GROUP</b>
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The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis at the following rates per annum:

Freehold land	Nil
Buildings	40 – 55 years
Leasehold improvements	The shorter of the unexpired period of the lease and estimated useful life of 3 to 10 years
Plant and machinery	5 – 10 years
Motor vehicles	3 – 5 years
Furniture, fixtures and equipment	2 – 15 years

At 31 December 2007, certain plant and equipment with a total carrying values of HK\$1,798,000 were entrusted to the operators of the Group (note 20). Such entrustment of plant and equipment was terminated during the year ended 31 December 2008.

**16. PREPAID LEASE PAYMENTS**

	<b>2008</b>	<b>2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
The Group's prepaid lease payments comprise leasehold lands rights in the PRC under medium-term land use rights	<u>10,087</u>	<u>9,778</u>
Analysed for reporting purposes as:		
Non-current asset	9,809	9,516
Current asset	<u>278</u>	<u>262</u>
	<u>10,087</u>	<u>9,778</u>

**17. GOODWILL**

	<i>HK\$'000</i>
<b>COST</b>	
At 1 January 2007	26,399
Exchange realignment	<u>1,355</u>
At 31 December 2007	27,754
Exchange realignment	<u>1,204</u>
At 31 December 2008	<u>28,958</u>
<b>IMPAIRMENT</b>	
At 1 January 2007, 31 December 2007 and 31 December 2008	<u>3,192</u>
<b>CARRYING VALUES</b>	
At 31 December 2008	<u>25,766</u>
At 31 December 2007	<u>24,562</u>

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For the purposes of impairment testing, goodwill has been allocated to an individual cash generating unit, namely, sale of cosmetic products (CGU). The carrying amounts of goodwill as at 31 December 2008 and 2007 is allocated to this CGU.

The recoverable amount of the CGU has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period using a declining growth rate, and discount rate of 5% (2007: 8%). This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Another key assumption for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development.

**18. AVAILABLE-FOR-SALE INVESTMENTS**

Available-for-sale investments comprise:

	<b>2008</b>	<b>2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted equity securities, at cost	<u>5,926</u>	<u>9,126</u>

The above unlisted investments represent investments in unlisted equity securities issued by private entities incorporated in the British Virgin Islands and Cayman Islands which are engaged in investment holding and online health consultancy service respectively. They are measured at cost less accumulated impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that the fair values cannot be measured reliably.

**19. INVENTORIES**

	<b>2008</b>	<b>2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	49,612	35,735
Work in progress	–	2,354
Finished goods	<u>51,247</u>	<u>32,928</u>
	<u>100,859</u>	<u>71,017</u>

**20. TRADE AND OTHER RECEIVABLES**

	<b>2008</b>	<b>2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	68,265	61,118
Less: allowance for doubtful debts	<u>(2,963)</u>	<u>(1,767)</u>
	65,302	59,351
Prepayments and deposits	16,713	14,064
Financial refunds receivable	–	9,834
Other receivables	<u>10,729</u>	<u>15,722</u>
Total trade and other receivables	<u>92,744</u>	<u>98,971</u>

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The Group allows a credit period ranging from one to six months to its trade customers. The following is an aged analysis of trade receivables (net of allowance for doubtful debts) at the balance sheet date:

	<b>2008</b>	<b>2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 180 days	57,892	44,874
181 days to 365 days	3,828	5,096
1 to 2 years	3,246	7,391
Over 2 years	336	1,990
	65,302	59,351
	65,302	59,351

Before accepting any new customer, the Group uses an internal credit system to assess the potential customer's credit quality and defines credit limits by customer. Limits to customers are reviewed twice a year. 89% (2007: 76%) of the trade receivables that are neither past due nor impaired have the best credit attributable under the system used by the Group as at 31 December 2008.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK\$7,410,000 (2007: HK\$14,477,000) which are past due at the balance sheet date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is within 180 days (2007: within 180 days).

Aging of trade receivables which are past due but not impaired:

	<b>2008</b>	<b>2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
181 days to 365 days	3,828	5,096
1 to 2 years	3,246	7,391
Over 2 years	336	1,990
	7,410	14,477
	7,410	14,477

Since 2002, certain subsidiaries have entered into Assets Entrustment Agreements with various operators. Pursuant to these agreements, these subsidiaries and the operators agreed for the latter to manage and operate the same business (the "Entrusted Assets") as the subsidiaries, including the provision of spa and beauty services, the sale of beauty and skin care product, the provision of beauty training courses and the provision of assistance by the subsidiaries to the operators in the development of the franchise network. The appointments are effective for period ranging from one to five years and the operators are required to pay the subsidiaries an entrustment fee which is determined with reference to the net asset value of the respective subsidiaries at the date of the agreement. The operators are entitled to retain any profits and are obligated to bear any losses, excluding the depreciation of property, plant and equipment, arising from the operation of the Entrusted Assets under the operators' management and operation. The subsidiaries retain the title to the property, plant and equipment. As security for the operators' obligations under the agreement, the operators are required to place a security with the subsidiaries. The Group is not permitted to repledge the collateral in the absence of default by the operators.

The impact of the assets entrustment agreements on the consolidated financial statements are summarised as follows:

	<b>2008</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>
Carrying values of plant and equipment entrusted	–	1,798
Entrustment fee income for the year	517	2,817

At the balance sheet date, the following outstanding balances arising from the assets entrustment agreements with operators are included as other receivables in the consolidated balance sheet:

	<b>2008</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>
Entrustment fees receivables	960	3,686
Consideration receivables for sale of assets (other than plant and machinery) to the operators	1,862	1,990
	<u>2,822</u>	<u>5,676</u>

**Movement in the allowance for doubtful debts**

	<b>2008</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>
Balance at beginning of the year	1,767	2,300
Impairment losses recognised on receivables	15,327	3,502
Amounts written off as uncollectible	(14,047)	(2,718)
Amounts recovered during the year	(84)	(1,317)
Balance at end of the year	<u>2,963</u>	<u>1,767</u>

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of HK\$2,963,000 (2007: HK\$1,767,000), which have been identified with financial difficulties. The Group does not hold any collateral over these balances.

**21. PLEDGED BANK DEPOSIT/BANK BALANCES AND CASH**

**Pledged bank deposit**

The pledged bank deposit is an interest-free deposit which represents deposit pledged to bank to secure the obligation under the rental agreement. The pledge will be released upon the termination of the relevant rental agreement.

**Bank balances and cash**

Bank balances and cash comprises cash held by the Group and short-term bank deposits with an original maturity of three months or less. The amounts bear interest at market rates which ranged from 0.36% to 2.86% per annum (2007: 0.18% to 5.27% per annum).

At 31 December 2008, the Group's bank deposits of US\$22,970,000 (equivalent to approximately HK\$178,031,000) (2007: HK\$124,940,000) was denominated in a currency other than the functional currency of the relevant group entity.

**22. TRADE AND OTHER PAYABLES**

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Trade payables	14,035	21,813
Deposits from customers	25,730	25,389
Other tax payables	9,998	12,743
Other payables	56,216	30,363
	105,979	90,308
	105,979	90,308

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

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Within 180 days	13,814	21,795
181 days to 365 days	199	–
1 to 2 years	22	2
Over 2 years	–	16
	14,035	21,813
	14,035	21,813

The average credit period on purchases of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables within the credit timeframe.

**23. DEFERRED INCOME**

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Prepaid treatment fees	10,374	9,763
	10,374	9,763

Deferred income represents the receipts via credit cards, cheques and cash from sales of beauty services to customers and recognised in the consolidated income statement upon provision of the services to the customers.

**24. RETIREMENT BENEFITS PLANS**

**(a) Defined benefit plan**

The Group's Taiwan subsidiaries participate in a central pension scheme providing benefits to all employees in accordance with the Labour Standards Law (as amended) in Taiwan. The Group has an obligation to ensure that there are sufficient funds in the scheme to pay the benefits earned by its employees. The Group currently contributes at 2% of the total salaries as determined and approved by the relevant government authorities. Under the schemes, the employees are entitled to retirement benefits equals to two months' salary for each year of service for the first 15 years and one month's salary for each year of service following the 15 years, but not more than 45 months' salary in aggregate on the attainment age of 60. No other post-retirement benefits are provided.

The Group's net obligation in respect of the pension scheme is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value, and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method. An actuarial valuation as at 31 December 2008 and 2007 was carried out by a qualified staff member of PricewaterhouseCoopers Taiwan, who is a member of the Taiwan Enrolled Pension Actuary. The actuarial valuation indicates that the Group's obligations under this defined benefit retirement scheme are 2% (2007: 15%) covered by the deposits paid with the Bank of Taiwan, Ltd.

- (i) The principal assumptions used for the purposes of the actuarial valuations were as follows:

	2008	2007
Discount rate	2.75%	3.50%
Expected return on plan assets	1.50%	2.75%
Expected rate of salary increases	2.50%	2.50%
	<u>          </u>	<u>          </u>

The actuarial valuation showed that the market value of plan assets was HK\$560,000 (2007: HK\$1,282,000).

- (ii) Amounts recognised in profit or loss in respect of the defined benefit plans are as follows:

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Current service cost	407	446
Interest on obligation	495	478
Expected return on plan assets	(36)	(54)
	<u>          </u>	<u>          </u>
	<u>          </u>	<u>          </u>
	866	870
	<u>          </u>	<u>          </u>

- (iii) The amounts included in the consolidated balance sheet arising from the Group's obligation in respect of its defined benefit plans are as follows:

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Present value of funded defined benefit obligations	12,162	13,757
Fair value of plan assets	(560)	(1,282)
Net unrecognised actuarial gains (losses)	657	(576)
	<u>          </u>	<u>          </u>
Net liability arising from defined benefit obligation	<u>          </u>	<u>          </u>
	12,259	11,899
	<u>          </u>	<u>          </u>



- (iv) Movements in the present value of the defined benefit obligations in the current year were as follows:

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
At 1 January	13,757	12,827
Current service cost	407	446
Interest on obligation	495	478
Benefits paid	(1,095)	(1,105)
Actuarial (gains) losses	(1,247)	1,031
Exchange differences on foreign plans	(155)	80
	<u>12,162</u>	<u>13,757</u>
At 31 December	<u>12,162</u>	<u>13,757</u>

- (v) Movements in the fair value of the plan assets in the current year were as follows:

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
At 1 January	1,282	1,965
Contributions from the employer	293	356
Expected return on plan assets	36	54
Benefits paid	(1,095)	(1,105)
Actuarial gains	33	8
Exchange differences on foreign plans	11	4
	<u>560</u>	<u>1,282</u>
At 31 December	<u>560</u>	<u>1,282</u>

The major categories of plan assets, and the percentage of the fair value at the balance sheet date for each category are as follows:

	2008 %	2007 %
Deposits with financial institutions	32.27	39.58
Short term bills	12.90	11.61
Stocks	12.11	11.17
Bonds	11.69	12.20
Others	31.03	25.44
	<u>100.00</u>	<u>100.00</u>

**(b) Defined contribution plans**

- (i) The Group operates a Mandatory Provident Fund Scheme (“the HK MPF scheme”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and Mandatory Provident Fund Scheme under the Labour Standards Law (as amended) in Taiwan (the “TW MPF Scheme”). The HK MPF scheme and TW MPF Scheme are defined contribution retirement scheme administered by independent trustees. Under the HK MPF scheme and TW MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% and 6%, respectively, of the employees’ relevant income, subject to a cap of monthly relevant income of HK\$20,000 for HK MPF Scheme while there is no cap to monthly income under TW MPF Scheme. Contributions to the scheme vest immediately.
- (ii) The employees of the Group’s subsidiaries in the PRC are members of the state-managed retirement benefit plan operated by the PRC government. As stipulated by the regulations of the PRC, these relevant subsidiaries participate in various defined contribution retirement plans organised by the relevant authorities for its PRC employees. The employees are entitled to retirement pension calculated with reference to their basic salaries on retirement and their length of service in accordance with the relevant government regulations. The PRC government is responsible for the pension liabilities to these retired staff. The Group is required to make contributions to the retirement plans which are calculated based on certain prescribed rates and the salaries, bonuses and certain allowances of its PRC employees. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above.

The total cost charged to consolidated income statement of HK\$10,388,000 (2007: HK\$7,968,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

**25. SHARE CAPITAL**

	Number of shares		Share Capital	
	2008 '000	2007 '000	2008 HK\$'000	2007 HK\$'000
Ordinary shares of HK\$0.1 each				
Authorised share capital:				
At beginning of year and end of year	<u>4,000,000</u>	<u>4,000,000</u>	<u>400,000</u>	<u>400,000</u>
Issued and fully paid share capital:				
At beginning of year	2,000,000	2,000,000	200,000	200,000
Shares issued upon exercise of share options	<u>640</u>	<u>–</u>	<u>64</u>	<u>–</u>
At end of year	<u>2,000,640</u>	<u>2,000,000</u>	<u>200,064</u>	<u>200,000</u>

**26. SHARE OPTION SCHEME**

Pursuant to the written resolution passed by the shareholders on 11 March 2002, the Company has adopted a share option scheme (The "Scheme") for the primary purpose of providing incentives to directors and eligible employees. Under the Scheme, the Company may grant options to full-time employees (including executive or non-executive Directors) of the Company or its subsidiaries to subscribe for the shares at a consideration of HK\$1 for each lot of share options granted. Options granted must be taken up within 28 days of the date of grant. The Scheme with remain valid for a period of 10 years commencing on 11 March 2002.

Options granted may be exercised during such period as would be determined by the board of directors of the Company (the "Board") and notified to each grantee upon grant of the option, but in any event not later than 10 years from the date of grant of the option. The subscription price for shares under the Scheme may be determined by the Board at its absolute discretion but in any event will not be less than the higher of: (a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option, which must be a business day; and (b) the average of the closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the relevant option.

The Company may grant share options to specified participants over and above the scheme mandate limit or the refreshed scheme mandate limit referred to above subject to shareholders' approval in general meetings and the issue of a circular.

The total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Company (or the subsidiary) must not exceed 30% of the relevant class of securities of the Company (or the subsidiary) in issue from time to time. No options may be granted under any schemes of the Company (or the subsidiary) if this will result in the limit being exceeded.

At 31 December 2008, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 1,516,533 (2007: 1,278,861), representing 0.08% (2007: 0.06%) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in the 12-month period up to and including the date of such grant in excess of 0.1% of the Company's share capital in issue or with an aggregate value in excess of HK\$5 million based on the closing price of the shares at the date of each grant must be approved in advance by the Company's shareholders.

There was no option granted to substantial shareholders, executive directors or independent non-executive directors during both years.

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The following table discloses movements of the Company's share options held by employees during the years ended 31 December 2007 and 2008:

Option type	Date of grant	Vesting period	Exercisable period	Exercise price	Outstanding at 1.1.2007	Granted	Forfeited	Outstanding	Granted	Exercised	Forfeited	Outstanding	
						during year ended 31.12.2007	during year ended 31.12.2007	at 31.12.2007	during year ended 31.12.2008	during year ended 31.12.2008	during year ended 31.12.2008	at 31.12.2008	
2007 Type I	27 July 2007	1 year	1 July 2008 to 26 July 2017	1.76	-	864,771	(225,341)	639,430	-	(639,430)	-	-	
2007 Type II	27 July 2007	2 years	1 July 2009 to 26 July 2017	1.76	-	518,863	(135,204)	383,659	-	-	-	383,659	
2007 Type III	27 July 2007	3 years	1 July 2010 to 26 July 2017	1.76	-	345,908	(90,136)	255,772	-	-	-	255,772	
2008 Type I	16 July 2008	1 year	1 July 2009 to 15 July 2018	1.69	-	-	-	-	1,106,728	-	(668,177)	438,551	
2008 Type II	16 July 2008	2 years	1 July 2010 to 15 July 2018	1.69	-	-	-	-	664,037	-	(400,906)	263,131	
2008 Type III	16 July 2008	3 years	1 July 2011 to 15 July 2018	1.69	-	-	-	-	442,691	-	(267,271)	175,420	
						-	1,729,542	(450,681)	1,278,861	2,213,456	(639,430)	(1,336,354)	1,516,533
Exercisable at the end of the year					Nil			Nil				Nil	
Weighted average exercise price					-	1.76	1.76	1.76	1.69	1.76	1.69	1.72	

During the year ended 31 December 2007, the Group granted option to certain employees to subscribe for a maximum of 1,729,542 shares and will be vested on a ratio of 50%, 30% and 20% over a three year period subject to the grantees achieving certain performance targets. The options were granted on 27 July 2007. The estimated fair values of the options granted on that date were HK\$673,000.

During the year ended 31 December 2008, the Group granted options to certain employees to subscribe for a maximum of 2,213,456 shares and will be vested on a ratio of 50%, 30% and 20% over a three year period subject to the grantees achieving certain performance targets. The options were granted on 16 July 2008. The estimated fair values of the options granted on that date were HK\$984,000.

As an additional employee incentive, the Company will pay the relevant option holder a cash bonus in the amount of the total exercise price payable for the exercise of the options. The option holders are required to use any such cash bonus towards payment of the exercise price of the relevant options and a cash bonus of approximately HK\$1,125,000 had been paid and used directly for the exercise of those options for 639,430 share issued during the year ended 31 December 2008.

These fair values were calculated using the Black-Scholes Options Pricing Model. The inputs into the model were as follows:

**2007 Options**

	Option type		
	2007 Type I	2007 Type II	2007 Type III
Vest date	01/07/2008	01/07/2009	01/07/2010
Grant date share price	HK\$1.76	HK\$1.76	HK\$1.76
Exercise price	HK\$1.76	HK\$1.76	HK\$1.76
Expected volatility	39.88%	39.88%	39.88%
Expected life	3 years	4 years	5 years
Expected dividend yield	5.91%	5.91%	5.91%
Risk-free interest rate	4.17%	4.28%	4.38%

**2008 Options**

	Option type		
	2008 Type I	2008 Type II	2008 Type III
Vest date	01/07/2009	01/07/2010	01/07/2011
Grant date share price	HK\$1.69	HK\$1.69	HK\$1.69
Exercise price	HK\$1.69	HK\$1.69	HK\$1.69
Expected volatility	47.97%	47.97%	47.97%
Expected life	3 years	4 years	5 years
Expected dividend yield	5.44%	5.44%	5.44%
Risk-free interest rate	2.61%	2.94%	3.13%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 7 years. The expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The Group recognised the total expense of approximately HK\$840,000 (2007: HK\$138,000) and reversal of expenses of HK\$595,000 (2007: HK\$37,000) for the year ended 31 December 2008 in relation to share options granted and share options forfeited by the Company respectively.

The number of share options granted expected to vest has been reduced to reflect historical experience of forfeiture of 60% (2007: 26%) of options granted prior to completion of vesting period and accordingly the share option expenses has been adjusted. At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognized in the profit and loss over the remaining vest period, with a corresponding adjustment to the share options reserve.

The Black-Scholes Options Pricing Model has been used to estimate the fair value of the options. The valuables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of the option varies with different variables of certain subjective assumptions.

27. DEFERRED TAXATION

The following are the major deferred tax assets and liabilities recognised in the consolidated balance sheet and movements thereon during the current or prior years are as follows:

	Allowance for bad and doubtful debts HK\$'000	Revaluation of properties HK\$'000	Defined benefit liability HK\$'000	Unrealised profits on inventories HK\$'000	Other short-term temporary differences HK\$'000	Undistributed earnings of PRC entities HK\$'000	Total HK\$'000
At 1 January 2007	(465)	2,583	(2,955)	(8,925)	325	-	(9,437)
Exchange realignment	(1)	(24)	(18)	(304)	(9)	-	(356)
Effect of change in tax rate	-	-	-	617	1	-	618
Charge (credit) to consolidated income statement	134	(3,413)	(191)	5,182	(87)	-	1,625
At 31 December 2007	(332)	(854)	(3,164)	(3,430)	230	-	(7,550)
Exchange realignment	18	4	66	(152)	24	-	(40)
(Credit) charge to consolidated income statement	(327)	3	(362)	(1,814)	(158)	1,092	(1,566)
At 31 December 2008	(641)	(847)	(3,460)	(5,396)	96	1,092	(9,156)

At the balance sheet date, the Group has unutilised tax losses of approximately HK\$127,343,000 (2007: HK\$91,231,000) available for offset against future profits. No deferred tax asset has been recognised of such tax losses due to the unpredictability of future profit streams. The Hong Kong tax losses of HK\$44,170,000 (2007: HK\$38,278,000) do not expire under the current tax legislation in Hong Kong and all other tax losses will expire from 2009 to 2013 (2007: 2008 to 2010).

Deferred taxation has been provided in full in respect of the undistributed earnings of the Group's PRC subsidiaries arising since 1 January 2008 as the directors consider that such earnings are estimated to be distributable in the foreseeable future. In respect of the undistributed earnings of the Group's PRC subsidiaries for the same period, because the Group is in a position to control the quantum and timing of the distribution thereof, deferred taxation is only provided to the extent that such earnings are estimated to be distributable in the foreseeable future. Deferred tax has been provided for in respect of the temporary differences attributable to such profits amounting to approximately HK\$20,874,000.

## 28. ACQUISITION OF A SUBSIDIARY

## (i) For the year ended 31 December 2008

On 20 August 2008, the Group acquired 100% interest in Shanghai Natural Beauty Bio-Med Company Limited (上海自然美生物醫學有限公司) ("Bio-Med"), from Uni Way Associates Limited, a company beneficially owned by shareholders of the Company, at a consideration of USD3,313,966 (equivalent to approximately HK\$25,848,936). Bio-Med is engaged in the business of manufacturing and sale of health supplement. This acquisition has been accounted for using the purchase method.

The net assets acquired in the transaction are as follows:

	<b>Acquiree's carrying amount before combination (Note)</b> <i>HK\$'000</i>
Net assets acquired:	
Bank and cash balances	22,726
Plant and equipment	1,068
Inventories	1,337
Trade and other receivables	984
Trade and other payables	(266)
	<hr/>
Total consideration	25,849
	<hr/> <hr/>
Satisfied by:	
Cash consideration paid	25,849
	<hr/> <hr/>
Net cash outflow arising on acquisition:	
Cash consideration paid	(25,849)
Bank balances and cash acquired	22,726
	<hr/>
	(3,123)
	<hr/> <hr/>

*Note:* The fair value of the net assets acquired approximate to their carrying amounts on or before the date of acquisition.

If the acquisition had been completed on 1 January 2008, total group revenue for the year would have been approximately HK\$593,343,000, and profit for the year would have been approximately HK\$237,040,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2008, nor is it intended to be a projection of future results.

(ii) For the year ended 31 December 2007

On 15 August 2007, the Group acquired an additional 1% interest in STREMARK Technology Enterprise Limited\*, previously a 50% jointly controlled entity of the Group, at a consideration of approximately HK\$6,000. This acquisition has been accounted for using the purchase method.

\* for identification purpose only

The net assets acquired in the transaction are as follows:

	Acquiree's carrying Amount before Combination (Note) HK\$'000
Net assets acquired:	
Trade and other receivables	1,383
Trade and other payables	(506)
Minority interests	(431)
	446
Transfer from interest in jointly controlled entity	(440)
	6
Total consideration	6
Net cash outflow arising on acquisition:	
Cash consideration paid	(6)
	(6)

*Note:* The fair value of the net assets acquired approximate to their carrying amounts on or before the date of acquisition.

If the acquisition had been completed on 1 January 2007, to total group revenue for the year would have been approximately HK\$450,774,000, and profit for the year would have been approximately HK\$178,948,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2007, nor is it intended to be a projection of future results.

29. OPERATING LEASES

The Group as lessee

During the year, the Group made rental payments for office premises under operating leases as follows:

	2008 HK\$'000	2007 HK\$'000
Minimum lease payments	18,929	15,920
Contingent rental payments	5,393	2,315
	24,322	18,235
	24,322	18,235



APPENDIX II	FINANCIAL INFORMATION OF THE NATURAL BEAUTY GROUP
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At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Within one year	18,705	14,807
In the second to fifth year inclusive	24,612	22,412
Over five years	8,478	6,010
	51,795	43,229

Operating lease payments represent rentals payable by the Group for certain of its leased properties. Leases are negotiated and rentals are fixed for an average term of five years. In addition, the Group's PRC subsidiaries have commitments to make rental payments at a percentage of turnover for certain leased properties.

**The Group as lessor**

(i) *Property*

Property rental income earned during the year was HK\$4,723,000 (2007: HK\$7,109,000), net of outgoings of HK\$203,000 (2007: HK\$423,000). All of the properties held have committed tenants for the next one to five years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Within one year	623	4,547
In the second year to fifth year inclusive	623	2,195
	1,246	6,742

(ii) *Entrustment arrangement*

At the balance sheet date, the Group had contracted with operators for the following future minimum lease payments for use by them of the Group's plant and machinery:

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Within one year	–	1,802
In the second year	–	1,132
In the third year	–	587
In the fourth year	–	231
	–	3,752

30. CAPITAL COMMITMENTS

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	349	1,545

31. CONNECTED AND RELATED PARTY DISCLOSURES

During the year, the Group had significant transactions with related parties, some of which are also deemed to be connected parties pursuant to the Rules Governing the Listing of Securities on the Stock Exchange. The significant transactions with these parties during the year are as follows:

(A) TRANSACTIONS

(I) CONNECTED PARTIES

Name of company	Nature of transactions	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
<i>Companies controlled by the substantial shareholders:</i>			
自然美雜誌社	Rental income	9	4
財團法人台北市蔡燕萍文教事業基金會	Rental income	5	1
中華民國儀容美協會	Rental income	5	1
自然美出版社	Rental income	9	4
中澳義國際股份有限公司	Rental income	9	4
台北市美容技術協會	Rental income	5	1
瑞昇醫學美容科技企業股份有限公司	Rental income	-	4
上海自然美生物醫學有限公司	Rental income	235	-
(Prior to 20 August 2008, Note (a))	Purchase of natural health food	7,327	4,992
上海自然美製衣有限公司	Purchase of lingerie	15	125
	Balance due to at 31st December – trade payables	4	1,131
北京中澳意自然美化妝品有限公司	Rental expenses	324	-
<i>Director of the Company:</i>			
Su Chien Cheng	Rental expenses	207	199
Tsai Yen Yu	Rental expenses	1,110	-

*Note:*

- (a) 上海自然美生物醫學有限公司 has become a wholly-owned subsidiary of the Company on 20 August 2008 upon the acquisition of the 100% interest from Uni Way Associates Limited, a connected party to the Company, as set out in note 28.

## (II) COMPENSATION OF KEY MANAGEMENT PERSONNEL

The remuneration of directors and other members of key management during the year was as follows:

	2008 HK\$'000	2007 HK\$'000
Short-term benefits	23,998	9,316
Post-employment benefits	111	172
Share based payments	220	98
	<u>24,329</u>	<u>9,586</u>

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

## (B) OTHER ARRANGEMENTS

- (i) Under a licensing agreement, a director of the Company granted to Natural Beauty Cosmetics Company Limited ("NB Taiwan"), a subsidiary incorporated and operated in Taiwan, a license to use a skin test software from 1 January 1997 to 31 December 2011 for a nominal consideration of NT\$1.
- (ii) On 5 October 2001, NB Taiwan entered into two separate licensing agreements with two directors of the Company. Under the agreements, the directors agreed to license a number of trademarks to NB Taiwan, on an exclusive basis, for a nominal consideration of NT\$1. The licensing agreements will be effective till the expiry of the registration of the respective trademarks.
- (iii) On 10 November 2008, Dr. Tsai, Dr. Su Chien Cheng and Dr. Su Sh Hsyu (collectively the "Licensors") and the Company (the "Licensee") entered into a license agreement at a consideration of HK\$10 for the royalty-free, fully paid-up, perpetual and non-revocable licence and privilege throughout the world to use the certain trade marks on exclusive use and non-exclusive use basis.
- (iv) On 10 November 2008, the Company (the "Licensor") and Dr. Tsai (the "Licensee") entered into a license agreement at a consideration of HK\$10 for a non-exclusive, royalty-free and perpetual licence (including the right to grant sub-licences) to use certain trademarks solely in relation to the operation of resorts and hotels, for education related purposes and in the field of healthcare and only in the jurisdiction in which such trademarks are registered or has been applied for. The Licensee shall offer the Company the opportunity to participate in any new investments.

**32. BALANCE SHEET OF THE COMPANY**

The balance sheet of the Company is as follows:

	<b>2008</b>	<b>2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Assets</b>		
Investments in subsidiaries	169,602	287,129
Available-for-sale investments	5,926	9,126
Amounts due from subsidiaries	414,836	277,900
Other receivables	2,960	2,989
Bank balances and cash	177,883	93,406
	<u>771,207</u>	<u>670,550</u>
<b>Liabilities</b>		
Other payables	27,523	5,941
Amounts due to subsidiaries	27,558	727
	<u>55,081</u>	<u>6,668</u>
<b>Net assets</b>	<u>716,126</u>	<u>663,882</u>
<b>Capital and reserves</b>		
Share capital	200,064	200,000
Reserves ( <i>note</i> )	516,062	463,882
	<u>716,126</u>	<u>663,882</u>

*Note:*

	<b>Share premium</b>	<b>Share option reserve</b>	<b>Retained profits</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2007	336,758	–	126,847	463,605
Profit for the year and total recognised income for the year	–	–	185,176	185,176
Dividends paid	–	–	(185,000)	(185,000)
Recognition of share based payments	–	138	–	138
Forfeiture of share options	–	(37)	–	(37)
	<u>336,758</u>	<u>101</u>	<u>127,023</u>	<u>463,882</u>
At 31 December 2007	336,758	101	127,023	463,882
Shares issued upon exercise of share options	1,298	(237)	–	1,061
Profit for the year and total recognised income for the year	–	–	350,906	350,906
Dividends paid	(300,032)	–	–	(300,032)
Recognition of share based payments	–	840	–	840
Forfeiture of share options	–	(595)	–	(595)
	<u>38,024</u>	<u>109</u>	<u>477,929</u>	<u>516,062</u>
At 31 December 2008	38,024	109	477,929	516,062

**33. CAPITAL RISK MANAGEMENT**

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained earnings.

The directors of the Company review the capital structure on a semi-annual basis. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs or issue of new debt.

**34. FINANCIAL INSTRUMENTS**

**34a. Categories of financial instruments**

	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Financial assets</b>		
Loans and receivables (including cash and cash equivalents)	622,664	673,648
Available-for-sale investments	5,926	9,126
<b>Financial liabilities</b>		
Amortised cost	70,251	52,176

**34b. Financial risk management objectives and policies**

The Group's major financial instruments include equity investments, trade and other receivables, pledged bank deposit, bank balances and trade and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

*Market risk*

(i) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to bank balances due to the fluctuation of the prevailing market interest rates. It is also exposed to fair value interest rate risk in relation to the short-term bank deposits. The directors of the Company consider the Group's exposure to the interest rate risk is not significant as interest bearing bank balances are within a short maturity period.

The Group currently does not have any interest rate hedging policy in relation to interest rate risks. The directors of the Company will continuously monitor interest rate fluctuation and will consider hedging interest rate risk should the need arise.

### Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for the bank balances at the balance sheet date. For bank balances, the analysis is prepared assuming the amount of balances at the balance sheet date was held the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2008 would increase/decrease by HK\$2,731,000 (2007: increase/decrease by HK\$2,944,000). This is mainly attributable to the Group's exposure to interest rates on its bank balances.

#### (ii) Currency risk

The Group has bank deposits denominated in foreign currency which expose the Group to foreign currency risk.

The Group does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Management considers that Group does not expose to significant foreign currency risk as majority of its transactions are either denominated in functional currency of the Group's subsidiaries or in USD. Since USD is pegged to HKD, relevant foreign currency risk is minimal.

### *Credit risk*

As at 31 December 2008, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

At 31 December 2008, the five largest trade receivable balances accounted for approximately 23% (2007: 20%) of the trade receivables and the largest trade receivables attributable to the Group's trade receivables were approximately 9% (2007: 6%) of the Group's total trade receivables.

The Group's concentration of credit risk by geographical locations are mainly PRC other than Hong Kong and Taiwan, which accounted for 39% (2007: 42%) and 60% (2007: 58%) of the trade receivables as at 31 December 2008.

### *Liquidity risk*

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group relies on its operating cash flows as a significant source of liquidity.

The Group's remaining contractual maturity for its financial liabilities falls within 30 to 90 days as at 31 December 2007 and 2008.

**34c. Fair value**

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices; and
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

**35. PARTICULARS OF SUBSIDIARIES**

Details of the Company's subsidiaries at 31 December 2007 and 2008 are as follows:

Name of company	Place of incorporation and operations	Kind of legal status	Registered capital/issued and fully paid ordinary share capital	Proportion of nominal value of issued capital held by the Company and its subsidiaries	Attributable to the Group	Principal activity
Shanghai Natural Beauty Cosmetics Company Limited	The PRC	Foreign investment enterprise with limited liability	US\$29,980,000	100%	100%	Production and sale of skin care and beauty products
Shanghai Natural Beauty Sanlian Cosmetics Company Limited	The PRC	Limited liability joint venture enterprise	RMB8,000,000	100%	100%	Wholesale and retail of skin care and beauty products; provision of beauty treatments
Shanghai Natural Beauty Qingbo Cosmetics Company Limited	The PRC	Limited liability joint venture enterprise	RMB5,000,000	100%	100%	Wholesale and retail of skin care and beauty products
Shanghai Natural Beauty Fansi Jewellery Company Limited	The PRC	Limited liability joint venture enterprise	RMB500,000	100%	100%	Sale of jewellery, craftwork, adornment, leather and horologe
Xi An Natural Beauty Mingyu Cosmetics Company Limited	The PRC	Limited liability joint venture enterprise	RMB3,000,000	100%	100%	Sale of skin care and beauty products and related instruments; provision of skin care and beauty consulting
Qingdao Natural Beauty Ornaments Company Limited	The PRC	Limited liability joint venture enterprise	RMB4,000,000	100%	100%	Sale of skin care and beauty products and adornment

Name of company	Place of incorporation and operations	Kind of legal status	Registered capital/issued and fully paid ordinary share capital	Proportion of nominal value of issued capital held by the Company and its subsidiaries	Attributable to the Group	Principal activity
Nanjing Natural Beauty Cosmetics Company Limited	The PRC	Limited liability joint venture enterprise	RMB2,000,000	100%	100%	Sale of cosmetic products and provision of beauty treatments
Chengdu Natural Beauty Cosmetics Company Limited	The PRC	Limited liability joint venture enterprise	RMB2,500,000	100%	100%	Sale of skin care and beauty products; provision of beauty treatments and skin care and beauty consulting and training
Hainan Natural Beauty Cosmetics Company Limited	The PRC	Limited liability joint venture enterprise	RMB2,500,000	100%	100%	Sale of skin care and beauty products; provision of beauty treatments and beauty consulting and training
Shenzhen Natural Beauty Cosmetics Company Limited	The PRC	Limited liability joint venture enterprise	RMB4,000,000	90%	90%	Sale of cosmetic products and provision of beauty treatments
Haerbin Sanlian Natural Beauty Cosmetics Company Limited	The PRC	Limited liability joint venture enterprise	RMB1,000,000	100%	100%	Sale of cosmetic products and provision of beauty treatments
Ningbo Hai Shu Natural Beauty Cosmetics Company Limited	The PRC	Limited liability joint venture enterprise	RMB3,500,000	100%	100%	Sale of cosmetic products and provision of beauty treatments
Wuhan Natural Beauty Cutural Development Company Limited	The PRC	Limited liability joint venture enterprise	RMB2,500,000	100%	100%	Sale of cosmetic products and provision of beauty treatments
Tianjin Natural Beauty Cosmetics Company Limited	The PRC	Limited liability joint venture enterprise	RMB2,000,000	90%	90%	Sale of cosmetic products and provision of beauty treatments
Wenzhou Natural Beauty Cosmetics Company Limited	The PRC	Limited liability joint venture enterprise	RMB2,000,000	100%	100%	Sale of cosmetic products and provision of beauty treatments



Name of company	Place of incorporation and operations	Kind of legal status	Registered capital/issued and fully paid ordinary share capital	Proportion of nominal value of issued capital held by the Company and its subsidiaries	Attributable to the Group	Principal activity
Beijing Natural Beauty Cosmetics Company Limited	The PRC	Limited liability joint venture enterprise	RMB20,000,000	100%	100%	Sale of cosmetic products and provision of beauty treatments
Kunshan Natural Beauty Sanlian Cosmetics Company Limited	The PRC	Limited liability joint venture enterprise	RMB1,500,000	100%	100%	Sale of cosmetic products and provision of beauty treatments
Changchun Natural Beauty Cosmetics Company Limited	The PRC	Limited liability joint venture enterprise	RMB1,500,000	100%	100%	Sale of skin care and beauty products; provision of beauty treatments and skin care and beauty consulting
Mudanjiang Natural Beauty Cosmetics Company Limited	The PRC	Limited liability joint venture enterprise	RMB800,000	100%	100%	Sale of cosmetic products and provision of beauty treatments
Suzhou Natural Beauty Cosmetics Company Limited	The PRC	Limited liability joint venture enterprise	RMB1,200,000	100%	100%	Sale of skin care and beauty products and related instruments
Fuzhou Natural Beauty Cosmetics Company Limited	The PRC	Limited liability joint venture enterprise	RMB1,500,000	90%	90%	Wholesale and retail of skin care and beauty products and related instruments; provision of skin care and beauty consulting
Shanghai Natural Beauty Funong Cosmetics Company Limited	The PRC	Limited liability joint venture enterprise	RMB500,000	100%	100%	Wholesale and retail of skin care and beauty products
Shanghai Natural Beauty Fuli Cosmetics Company Limited (Formerly known as Shanghai Full-Beauty Cosmetics Company Limited)	The PRC	Foreign investment enterprise with limited liability	US\$1,408,000	100%	100%	Production and sale of skin care and beauty products
北京自然美九鼎軒投資有限公司	The PRC	Limited liability joint venture enterprise	RMB10,000,000	51%	51%	Sale of cosmetic products and provision of beauty treatments

Name of company	Place of incorporation and operations	Kind of legal status	Registered capital/issued and fully paid ordinary share capital	Proportion of nominal value of issued capital held by the Company and its subsidiaries	Attributable to the Group	Principal activity
Natural Beauty Bio-Technology Company Limited (Formerly known as Natural Beauty Cosmetics Company Limited)	Taiwan	Limited liability company	NT\$200,000,000	100%	100%	Production and sale of skin care and beauty products
Tian Ran Mei Bio-Technology Company Limited	Taiwan	Limited liability company	NT\$32,000,000	100%	100%	Production and sale of skin care and beauty products
Huei Yao Investment Company Limited	Taiwan	Limited liability company	NT\$122,043,420	100%	100%	Investment holding
Beauty Essen Cosmetics Company Limited	Taiwan	Limited liability company	NT\$1,000,000	100%	100%	Provision of beauty consulting and training
Ray-Sen Medical Cosmetics Company Limited	Taiwan	Limited liability company	NT\$50,000,000 (2007: NT\$3,000,000)	94%	94%	Provision of beauty consulting and training
Belem Holdings Sdn. Bhd.	Malaysia	Limited liability company	MYR68,609,858 (2007: MYR123,235,408) Class B shares MYR10,000 Class A shares	100%	100%	Investment holding
Billion Synergy Sdn. Bhd.	Malaysia	Limited liability company	MYR2	100%	100%	Wholesale of skin care and beauty products
Ice Crystal Management Limited	British Virgin Islands ("BVI")	Limited liability company	US\$52,000	100%	100%	Investment holding
Great Glamour Company Limited	BVI	Limited liability company	US\$50,000	100%	100%	Investment holding
Next Success International Limited	BVI	Limited liability company	US\$100	100%	100%	Investment holding
Fortune Investment Global Limited	BVI	Limited liability company	US\$50,000	100%	100%	Investment holding
Natural Beauty Bio-Technology (Hong Kong) Company Limited	Hong Kong	Limited liability company	HK\$10,000	100%	100%	Sale of cosmetic products and provision of beauty treatments

Name of company	Place of incorporation and operations	Kind of legal status	Registered capital/issued and fully paid ordinary share capital	Proportion of nominal value of issued capital held by the Company and its subsidiaries	Attributable to the Group	Principal activity
Natural Beauty Bio-Technology (Macao) Company Limited	Macau	Limited liability company	MOP25,000	100%	100%	Sale of cosmetic products and provision of beauty treatments
Natural Beauty China Holding Limited	Hong Kong	Limited liability company	HK\$1	100% (Note i)	100%	Investment holding
Shanghai Natural Beauty Bio-Med Company Limited	The PRC	Limited liability company joint venture enterprise	US\$2,600,000	100% (Note iii)	100%	Manufacture and sale of health supplement
上海自然美美容休闲有限公司	The PRC	Limited liability company joint venture enterprise	RMB6,000,000	100% (Note i)	100%	Beauty consulting; wholesale and retail of skin care and beauty products
Spring Perfect Biomedical Company Limited	Taiwan	Limited liability company joint venture enterprises	NT\$16,500,000	100% (Note i)	94%	Provision of professional medical care products
Anshan Natural Beauty Cosmetics Company Limited	PRC	Limited liability joint venture enterprise	RMB1,000,000	100% (Note ii)	100%	Sale of skin care and beauty products and related instruments; provision of skin care and beauty consulting
Lanzhou Natural Beauty Cosmetics Company Limited	PRC	Limited liability joint venture enterprise	RMB1,000,000	90% (Note ii)	90%	Sale of cosmetic products and provision of beauty treatments

*Notes:*

- (i) The subsidiary was incorporated during the year ended 31 December 2008.
- (ii) The subsidiary was deregistered during the year ended 31 December 2008.
- (iii) The subsidiary was newly acquired on 20 August 2008.

None of the subsidiaries had issued any debt securities outstanding at the end of the year or at any time during the year.

**II. FINANCIAL STATEMENTS OF THE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2009**

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

*For the six months ended 30 June 2009*

*(With comparatives for the six months ended 30 June 2008)*

*(Expressed in thousands of Hong Kong dollars (HK\$'000))*

		<b>For the six months ended 30 June</b>	
		<b>2009</b>	<b>2008</b>
		<b>(unaudited)</b>	<b>(unaudited)</b>
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	4	255,329	315,651
Cost of sales		<u>(46,672)</u>	<u>(50,679)</u>
Gross profit		208,657	264,972
Other income		19,221	23,107
Distribution and selling expenses		(56,966)	(69,168)
Administrative expenses		(48,901)	(38,535)
Other expenses		<u>(3,133)</u>	<u>(12,089)</u>
Profit before taxation		118,878	168,287
Income tax expense	5	<u>(10,007)</u>	<u>(18,509)</u>
Profit for the period	6	<u>108,871</u>	<u>149,778</u>
Other comprehensive income			
Exchange differences arising on translation of foreign operations		<u>2,576</u>	<u>42,791</u>
Total comprehensive income for the period		<u><u>111,447</u></u>	<u><u>192,569</u></u>
Profit for the period attributable to:			
Owners of the Company		108,958	149,655
Non-controlling interests		<u>(87)</u>	<u>123</u>
		<u><u>108,871</u></u>	<u><u>149,778</u></u>
Total comprehensive income attributable to:			
Owners of the Company		111,529	192,055
Non-controlling interests		<u>(82)</u>	<u>514</u>
		<u><u>111,447</u></u>	<u><u>192,569</u></u>
Dividends – proposed	7	<u><u>70,055</u></u>	<u><u>100,032</u></u>
Earnings per share	8		
– Basic		5.45 HK cents	7.48 HK cents
– Diluted		<u><u>5.45 HK cents</u></u>	<u><u>7.48 HK cents</u></u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

*At 30 June 2009*

*(with comparatives at 31 December 2008)*

*(Expressed in thousands of Hong Kong dollars (HK\$'000))*

		At 30 June 2009 (unaudited) HK\$'000	At 31 December 2008 (audited) HK\$'000
	<i>Notes</i>		
<b>Non-current assets</b>			
Investment properties		4,466	4,486
Property, plant and equipment		227,345	230,569
Prepaid lease payments		9,684	9,809
Goodwill		25,797	25,766
Available-for-sale investments		5,926	5,926
Deferred taxation assets		12,909	9,156
		286,127	285,712
<b>Current assets</b>			
Inventories		109,312	100,859
Trade and other receivables	9	101,548	92,744
Prepaid lease payments		278	278
Pledged bank deposit		428	428
Bank balances and cash		593,458	546,205
		805,024	740,514
<b>Current liabilities</b>			
Trade and other payables	10	84,363	105,957
Dividend payable		67,030	22
Deferred income		10,385	10,374
Taxation payable		16,020	41,207
		177,798	157,560
<b>Net current assets</b>		627,226	582,954
<b>Total assets less current liabilities</b>		913,353	868,666
<b>Non-current liability</b>			
Retirement benefit obligations	11	12,436	12,259
		900,917	856,407
<b>Capital and reserves</b>			
Share capital	12	200,064	200,064
Reserves		694,488	649,896
		894,552	849,960
<b>Equity attributable to owners of the Company</b>		894,552	849,960
<b>Non-controlling interests</b>		6,365	6,447
<b>Total equity</b>		900,917	856,407

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY***For the six months ended 30 June 2009**(Expressed in thousands of Hong Kong dollars (HK\$'000))*

	For the six months ended 30 June 2009 (Unaudited)									
	Attributable to owners of the Company							Non-controlling interests		
	Share Capital HK\$'000	Capital Surplus HK\$'000	Share Premium HK\$'000	Statutory Reserve HK\$'000	Exchange Reserve HK\$'000	Share option reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
THE GROUP										
At 1 January 2009	200,064	42,554	38,024	148,346	63,722	109	357,141	849,960	6,447	856,407
Profit (loss) for the period	-	-	-	-	-	-	108,958	108,958	(87)	108,871
Exchange difference arising from translation of foreign operations	-	-	-	-	2,571	-	-	2,571	5	2,576
Total comprehensive income for the period	-	-	-	-	2,571	-	108,958	111,529	(82)	111,447
Dividends declared*	-	-	-	-	-	-	(67,021)	(67,021)	-	(67,021)
Recognition of share-based payments	-	-	-	-	-	84	-	84	-	84
At 30 June 2009	200,064	42,554	38,024	148,346	66,293	193	399,078	894,552	6,365	900,917

\* Dividends declared represent the final dividend for 2008 and do not include the interim dividend for 2009.

The comparative figures for 2008 are set out as follows:

	For the six months ended 30 June 2008 (Unaudited)									
	Attributable to owners of the Company							Non-controlling interests		
	Share Capital	Capital Surplus	Share Premium	Statutory Reserve	Exchange Reserve	Share option reserve	Retained profits	Total		Total
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP										
At 1 January 2008	200,000	42,554	336,758	150,722	63,203	101	116,288	909,626	6,025	915,651
Profit for the period	-	-	-	-	-	-	149,655	149,655	123	149,778
Exchange difference arising from translation of foreign operations	-	-	-	-	42,400	-	-	42,400	391	42,791
Total comprehensive income for the period	-	-	-	-	42,400	-	149,655	192,055	514	192,569
Dividends declared*	-	-	(200,000)	-	-	-	-	(200,000)	-	(200,000)
Recognition of share-based payments	-	-	-	-	-	234	-	234	-	234
At 30 June 2008	200,000	42,554	136,758	150,722	105,603	335	265,943	901,915	6,539	908,454

\* Dividends declared represent the final dividend and final special dividend for 2007 and do not include the interim dividend for 2008.

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

*For the six months ended 30 June 2009*

*(With comparatives for the six months ended 30 June 2008)*

*(Expressed in thousands of Hong Kong dollars (HK\$'000))*

		<b>For the six months ended 30 June</b>	
		<b>2009</b>	<b>2008</b>
		<b>(unaudited)</b>	<b>(unaudited)</b>
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Cash generated from operations</b>	13	85,513	179,630
Overseas taxation paid		<u>(38,946)</u>	<u>(10,598)</u>
Net cash from operating activities		<u>46,567</u>	<u>169,032</u>
<b>Investing activities</b>			
Purchase of property, plant and equipment		(15,451)	(7,549)
Proceeds from disposal of property, plant and equipment		12,008	60
Purchase of held-for-trading investments		–	(70,080)
Interest received		<u>1,473</u>	<u>3,384</u>
Net cash used in investing activities		<u>(1,970)</u>	<u>(74,185)</u>
Net increase in cash and cash equivalents		44,597	94,847
Cash and cash equivalents at 1 January		546,205	588,741
Effect of foreign exchange rate changes		<u>2,656</u>	<u>26,821</u>
Cash and cash equivalents at 30 June, represented by bank balances and cash		<u><u>593,458</u></u>	<u><u>710,409</u></u>



**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

*As of 30 June 2009*

*(With comparatives for the six months ended 30 June 2008 and as of 31 December 2008)*

*(Expressed in thousands of Hong Kong dollars (HK\$'000) unless otherwise stated)*

**1. BASIS OF PREPARATION AND ACCOUNTING POLICIES**

The unaudited consolidated accounts have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The condensed consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties which are carried at their fair values. The accounting policies adopted are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2008, except as described below.

In the current period, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1 January 2009.

HKFRSs (Amendments)	Improvements to HKFRSs May 2008
HKFRSs (Amendments)	Improvements to HKFRSs April 2009
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 32 and 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC)-Int 9 and HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC)-Int 13	Customer Loyalty Programmes
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation

The adoption of the new HKFRSs, except for HKAS 1 (Revised) as described below, had no material effect on the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been recognised.

HKAS 1 (Revised) separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present one single statement.

The Group has not early applied the following new and revised standards, amendments and interpretations that have been issued but are not yet effective at 30 June 2009.

HKFRSs (Amendments)	Improvements to HKFRSs May 2008 <sup>1</sup>
HKFRSs (Amendments)	Improvements to HKFRSs April 2009 <sup>2</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>3</sup>
HKAS 39 (Amendment)	Eligible Hedged Items <sup>3</sup>
HKFRS 1 (Revised)	First-time Adoption of HKFRSs <sup>3</sup>
HKFRS 3 (Revised)	Business Combinations <sup>3</sup>
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives <sup>4</sup>
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners <sup>3</sup>
HK(IFRIC) – Int 18	Transfers of Assets from Customers <sup>5</sup>

- <sup>1</sup> Amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009.
- <sup>2</sup> Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.
- <sup>3</sup> Effective for annual periods beginning on or after 1 July 2009.
- <sup>4</sup> Effective for annual periods ending on or after 30 June 2009.
- <sup>5</sup> Effective for transfers of assets from customers received on or after 1 July 2009.

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and financial position of the Group.

## **2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The Group makes estimates and assumptions as appropriate in the preparation of the accounts. These estimates are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances and will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant effect on the carrying amounts of assets and liabilities include the productive life of property, plant and equipment, impairment of goodwill, allowances for trade receivable and inventories and the determination of income tax.

## **3. SEGMENT INFORMATION**

### **(a) Geographical segment**

The Group's operations are located in the People's Republic of China (the "PRC"), Taiwan, Hong Kong, Macau and Malaysia.

An analysis of the Group's revenue and contribution to segment results and segmental assets and liabilities by geographic segments based on customers location, irrespective of the origin of the goods/services, is presented below:

	For the six months ended 30 June 2009			
	PRC	Taiwan	Others	Total
	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000
Revenue	191,042	59,706	4,581	255,329
Segment results	112,966	15,115	(5,093)	122,988
Unallocated corporate expenses				(7,347)
Unallocated income				3,237
Profit before taxation				118,878
Income tax expense				(10,007)
Profit for the period				108,871

	For the six months ended 30 June 2008			
	PRC	Taiwan	Others	Total
	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000
Revenue	235,452	75,847	4,352	315,651
Segment results	135,249	28,152	(5,855)	157,546
Unallocated corporate expenses				(5,149)
Unallocated income				15,890
Profit before taxation				168,287
Income tax expense				(18,509)
Profit for the period				149,778

**(b) Business segment**

The group comprises the following main business segments:

- sale of cosmetic products and provision of beauty services
- leasing of investment properties

	For the six months ended 30 June 2009			For the six months ended 30 June 2008		
	Revenue	Other income	Capital expenditure	Revenue	Other income	Capital expenditure
	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000
Cosmetics products and beauty services	255,329	-	15,451	315,651	-	7,549
Investment properties	-	66	-	-	73	-
Others	-	19,155	-	-	23,034	-
	<u>255,329</u>	<u>19,221</u>	<u>15,451</u>	<u>315,651</u>	<u>23,107</u>	<u>7,549</u>

	Segment Assets	
	At 30 June 2009 (unaudited) HK\$'000	At 31 December 2008 (audited) HK\$'000
	Cosmetics products and beauty services	474,845
Investment property	4,466	4,486
	<u>479,311</u>	<u>466,066</u>

#### 4. REVENUE

Revenue represents the net invoiced value of goods sold or services rendered after allowances for returns and discounts, net of consumption tax.

An analysis of revenue by major categories is as follows:

	For the six months ended 30 June	
	2009 (unaudited) HK\$'000	2008 (unaudited) HK\$'000
	Sales of goods	248,607
Service income	6,566	7,590
Entrustment fee income	156	266
	<u>255,329</u>	<u>315,651</u>

#### 5. INCOME TAX EXPENSE

No Hong Kong profits tax has been provided, as the Group has no assessable profits in Hong Kong for the six months ended 30 June 2009 (2008: Nil).

Taxation in overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries/places in which the Group operates.

	For the six months ended 30 June	
	2009	2008
	(unaudited) HK\$'000	(unaudited) HK\$'000
Group:		
Overseas taxation	6,254	18,407
Deferred taxation	3,753	102
	<u>          </u>	<u>          </u>
Taxation for the period	<u>10,007</u>	<u>18,509</u>

## 6. PROFIT FOR THE PERIOD

Profit for the period in the condensed consolidated statement of comprehensive income was determined after crediting and charging the following items:

	For the six months ended 30 June	
	2009	2008
	(unaudited) HK\$'000	(unaudited) HK\$'000
Crediting:		
Interest income on bank deposits	1,473	3,384
Gain on held-for-trading investments	12	1,842
Foreign exchange gain	1,740	12,506
	<u>          </u>	<u>          </u>
Charging:		
Net (gain) loss on disposals of property, plant and equipment	(3,114)	251
Staff costs, excluding directors' emoluments		
– Salaries and wages	46,537	43,706
– Pension costs		
– PRC	4,715	3,530
– Taiwan	1,191	1,654
– Hong Kong and other regions	101	91
Directors' emoluments (salaries and allowances)*	403	2,123
Depreciation of property, plant and equipment	9,675	8,359
Allowance for (written back) obsolete inventories	1,112	(462)
Provision for doubtful debts	1,101	5,245
Written off of uncollectible financial refunds receivable	–	4,431
Operating lease expense on land and buildings	14,175	8,418
Research and development costs	1,696	956
	<u>          </u>	<u>          </u>

\* Included in directors' remuneration were fees of HK\$44,000 (2008: HK\$1,494,000), payable to directors during the report period.

## 7. DIVIDENDS

The directors proposed an interim dividend of 3.5 HK cents per share (2008: interim dividend of 5.0 HK cents per share). This proposed dividend has not been recognised as a liability at the balance sheet date.

8.      EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the Group's unaudited profit attributable to owners of the Company of approximately HK\$108,958,000 for the six months ended 30 June 2009 (2008: HK\$149,655,000) divided by weighted average number of approximately 2,000,639,430 ordinary shares (2008: 2,000,000,000) in issue during the period.

The calculation of the diluted earnings per share is based on the Group's unaudited profit attributable to owners of the Company of approximately HK\$108,958,000 for the six months ended 30 June 2009 (2008: HK\$149,655,000) divided by weighted average number of approximately 2,000,639,430 ordinary shares for the purposes of diluted earnings per share (2008: 2,000,136,325 ordinary shares).

9.      TRADE AND OTHER RECEIVABLES

	At 30 June 2009 (unaudited) <i>HK\$'000</i>	At 31 December 2008 (audited) <i>HK\$'000</i>
Trade receivables	72,970	68,265
<i>Less: allowance for doubtful debts</i>	<u>(4,071)</u>	<u>(2,963)</u>
	68,899	65,302
Prepayments and deposits	13,132	16,713
Other receivables	<u>19,517</u>	<u>10,729</u>
Total trade and other receivables	<u><u>101,548</u></u>	<u><u>92,744</u></u>

The Group allows a credit period ranging from one to six months to its trade customers. The following is an aged analysis of trade receivables at the reporting date:

	At 30 June 2009 (unaudited) <i>HK\$'000</i>	At 31 December 2008 (audited) <i>HK\$'000</i>
Within 180 days	58,498	57,892
181 days to 365 days	7,069	3,828
1 to 2 years	3,332	3,246
Over 2 years	<u>–</u>	<u>336</u>
	<u><u>68,899</u></u>	<u><u>65,302</u></u>

The fair value of the Group's trade and other receivables at 30 June 2009 was approximate to the corresponding carrying amount.

10.      TRADE AND OTHER PAYABLES

	At 30 June 2009 (unaudited) <i>HK\$'000</i>	At 31 December 2008 (audited) <i>HK\$'000</i>
Trade payables	16,149	14,035
Deposits from customers	26,313	25,730
Other tax payables	7,513	9,998
Other payables	34,388	56,194
	84,363	105,957
	84,363	105,957

The following is an aged analysis of trade payables at the reporting date:

	At 30 June 2009 (unaudited) <i>HK\$'000</i>	At 31 December 2008 (audited) <i>HK\$'000</i>
Within 180 days	16,127	13,814
181 days to 365 days	–	199
1 to 2 years	–	22
Over 2 years	22	–
	16,149	14,035
	16,149	14,035

The fair value of the Group's trade and other payables at 30 June 2009 was approximate to the corresponding amount.

11.      RETIREMENT BENEFIT OBLIGATIONS

	At 30 June 2009 (unaudited) <i>HK\$'000</i>	At 31 December 2008 (audited) <i>HK\$'000</i>
Obligations on:		
– defined contribution plans	–	–
– defined benefits plans	12,436	12,259
	12,436	12,259
	12,436	12,259

APPENDIX II	FINANCIAL INFORMATION OF THE NATURAL BEAUTY GROUP
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Movement in the liability recognised for the period:

	<b>For the six months ended 30 June 2009 (unaudited) HK\$'000</b>	<b>For the year ended 31 December 2008 (audited) HK\$'000</b>
Accrued retirement benefit obligations, beginning	12,259	11,899
Total expense ( <i>Note</i> )	1,198	866
Contributions paid	(965)	(293)
Currency realignments	(56)	(213)
	<u>12,436</u>	<u>12,259</u>
Accrued retirement benefit obligations, ending	<u>12,436</u>	<u>12,259</u>

*Note:* Actuarial valuation of the pension plan is performed by a qualified actuary annually. Last actuarial valuation was made as at 31 December 2008. The amount charged for the period was based on the projected pension cost per last actuarial report for the foregoing year on a straight line basis.

## 12. SHARE CAPITAL

	Number of shares		Share Capital	
	At 30 June 2009 '000	At 31 December 2008 '000	At 30 June 2009 (unaudited) HK\$'000	At 31 December 2008 (audited) HK\$'000
Ordinary shares of HK\$0.1 each				
Authorised share capital:				
At beginning of period/year and end of period/year	<u>4,000,000</u>	<u>4,000,000</u>	<u>400,000</u>	<u>400,000</u>
Issued and fully paid share capital:				
At beginning of period/year	2,000,640	2,000,000	200,064	200,000
Shares issued upon exercise of share options	<u>-</u>	<u>640</u>	<u>-</u>	<u>64</u>
At end of period/year	<u>2,000,640</u>	<u>2,000,640</u>	<u>200,064</u>	<u>200,064</u>



13. NOTES TO THE CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of operating profit before working capital changes to net cash generated from operations.

	For the six months ended 30 June	
	2009	2008
	(unaudited) <i>HK\$'000</i>	(unaudited) <i>HK\$'000</i>
Operating profit before working capital changes	128,918	182,861
Increase in inventories	(9,565)	(10,713)
(Increase)/decrease in trade and other receivables	(12,421)	9,710
Decrease in trade, other payables, and deferred income	(21,596)	(3,469)
Increase in retirement benefit obligations	177	1,241
	85,513	179,630
Cash generated from operations	85,513	179,630

14. CONNECTED AND RELATED PARTY TRANSACTIONS

During the period, the Group had significant transactions with related parties, some of which are also deemed to be connected parties pursuant to the Listing Rules. The significant transactions with these parties during the period are as follows:

	For the six months ended 30 June	
	2009	2008
	(unaudited) <i>HK\$'000</i>	(unaudited) <i>HK\$'000</i>
Rental income	42	18
Rental expenses	5,186	503
Purchase of finished goods from related companies	–	7,644

The rental transactions were carried out in accordance with terms determined and agreed by both parties.

The purchase transactions were carried out at cost plus a percentage profit mark-up.

15. OPERATING LEASES

The Group as lessee

At the reporting date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	At 30 June 2009 (unaudited) <i>HK\$'000</i>	At 31 December 2008 (audited) <i>HK\$'000</i>
Within one year	24,352	18,705
In the second to fifth years inclusive	21,404	24,612
Over five years	7,974	8,478
	53,730	51,795
	53,730	51,795

Operating lease payments represent rentals payable by the Group for certain of its leased properties. Leases are negotiated and rentals are fixed for an average term of five years. In addition, the Group's PRC subsidiaries have commitments to make rental payments at a percentage of turnover for certain leased properties.

The Group as lessor

At the reporting date, the Group had contracted with tenants for the following future minimum lease payments:

	At 30 June 2009 (unaudited) <i>HK\$'000</i>	At 31 December 2008 (audited) <i>HK\$'000</i>
Within one year	620	623
In the second year to fifth year inclusive	207	623
	827	1,246
	827	1,246

16. CAPITAL COMMITMENTS

	At 30 June 2009 (unaudited) <i>HK\$'000</i>	At 31 December 2008 (audited) <i>HK\$'000</i>
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements	113	349
	113	349
	113	349

17. SUBSEQUENT EVENTS

There was no significant subsequent events occurred after 30 June 2009 and up to the date of this report.

**1      RESPONSIBILITY STATEMENT**

The directors of Bidco, Holdco and CA NB jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than that relating to the Natural Beauty Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than those expressed by the Natural Beauty Group) have been arrived at after due consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement (other than those relating to the Natural Beauty Group) in this Composite Document misleading.

**2      DISCLOSURE OF INTERESTS IN NATURAL BEAUTY SHARES**

As at the Latest Practicable Date, Bidco indirectly holds 1,311,690,000 Natural Beauty Shares, representing approximately 65.52 per cent. of the issued share capital of Natural Beauty. The interests of parties acting in concert with Bidco and Bidco's directors in Natural Beauty Shares as at the Latest Practicable Date are as set out below:

	<b>Number of Natural Beauty Shares owned</b>	<b>Percentage of the total issued share capital (%)</b>
Efficient Market Investments Limited <sup>(1)</sup>	838,530,000	41.88
Adventa Group Limited <sup>(2)</sup>	236,580,000	11.82
Fortune Bright Group Limited <sup>(3)</sup>	236,580,000	11.82
Citibank <sup>(4)</sup>	5,347,300	0.27
Dr. Tsai Yen-Yu <sup>(5)</sup>	1,311,690,000	65.52
Dr. Su Chien-Cheng <sup>(6)</sup>	1,311,690,000	65.52
Dr. Su Sh-Hsyu <sup>(6)</sup>	1,311,690,000	65.52
Mr. Lee Ming Ta <sup>(7)</sup>	1,311,690,000	65.52
Carlyle Asia Partners III, L.P. <sup>(8)</sup>	1,311,690,000	65.52

*Notes:*

- (1) Efficient Market Investments Limited is wholly owned by Bidco. These Natural Beauty Shares are therefore attributable to Bidco by virtue of its 100 per cent. interest in Efficient Market Investments Limited.
- (2) Adventa Group Limited is wholly owned by Bidco. These Natural Beauty Shares are therefore attributable to Bidco by virtue of its 100 per cent. interest in Adventa Group Limited.
- (3) Fortune Bright Group Limited is wholly owned by Bidco. These Natural Beauty Shares are therefore attributable to Bidco by virtue of its 100 per cent. interest in Fortune Bright Group Limited.
- (4) Citibank is presumed to be a person acting in concert with Bidco under the Takeovers Code as it is an affiliate of Citi. Citibank holds such Natural Beauty Shares as custodian on behalf of its clients (who are the beneficial owners thereof and who control all the voting rights attached thereto) and does not have discretionary management in respect thereof as at the date of this Composite Document.

## APPENDIX III GENERAL INFORMATION RELATING TO BIDCO

- (5) Dr. Tsai Yen-Yu indirectly owns 40 per cent. of Family Holdco 2, which, in turn, indirectly owns 50 per cent. of Bidco. Bidco is therefore a controlled corporation of Dr. Tsai Yen-Yu pursuant to section 316 of the SFO. As such, the 1,311,690,000 Natural Beauty Shares attributable to Bidco are attributable to Dr Tsai Yen-Yu.
- (6) Each of Dr. Su Chien-Cheng and Dr. Su Sh-Hsyu is taken to be interested in the 1,311,690,000 Natural Beauty Shares which are indirectly owned by Holdco pursuant to sections 317 and 318 of the SFO by virtue of Dr. Su Chien-Cheng and Dr. Su Sh-Hsyu being parties to the Shareholders' Agreement which imposes obligations or restrictions on the parties thereto with respect to their use, retention or disposal of their interest in Natural Beauty Shares.
- (7) Mr. Lee Ming Ta is the spouse of Dr. Tsai Yen-Yu and, accordingly, is deemed to be interested in the 1,311,690,000 Natural Beauty Shares attributable to Dr. Tsai Yen-Yu pursuant to section 316 of the SFO.
- (8) Carlyle Asia Partners III, L.P. is the sole shareholder of CA North Beach Limited, which, in turn, owns 100 per cent. of CA NB. CA NB directly owns 50 per cent. of Holdco, which, in turn, owns 100 per cent. of Bidco. As such, the 1,311,690,000 Natural Beauty Shares attributable to Bidco are attributable to Carlyle Asia Partners III, L.P.

Save as disclosed above, as at the Latest Practicable Date:

- (a) none of Bidco, the directors of Bidco nor any person acting in concert with it owns or controls any Natural Beauty Shares;
- (b) neither Bidco nor any person acting in concert with it has borrowed or lent any Natural Beauty Shares, save for any borrowed Natural Beauty Shares which had been either on-lent or sold;
- (c) no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code has been entered into between Bidco or any person acting in concert with Bidco and any other person; and
- (d) no person has irrevocably committed themselves to accept or reject the Offer.

### 3 DEALING IN NATURAL BEAUTY SHARES

Save for dealings for the account of non-discretionary clients by Citi, none of the directors of Bidco, Bidco nor parties acting in concert with Bidco had dealt for value in the Natural Beauty Shares or convertible securities, warrants, options and derivatives of Natural Beauty during the period commencing six months prior to the Announcement Date and ending on the Latest Practicable Date.

### 4 ARRANGEMENTS IN CONNECTION WITH THE OFFER

As at the Latest Practicable Date:

- (a) no benefit has been or will be given to any of the Directors as compensation for loss of office or otherwise in connection with the Offer;

- (b) save for the Sale and Purchase Agreement and the Shareholders' Agreement, there is no agreement, arrangement or understanding (including any compensation arrangement) between Bidco or any person acting in concert with it and any of the Directors or recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Offer; and
- (c) no arrangement, agreement or undertaking has been entered into by Bidco, directors of Bidco or any person acting in concert with Bidco for the transfer, charge or pledge by any of them to any other person of any Natural Beauty Shares acquired pursuant to the Offer.

**5 INFORMATION ON BIDCO, HOLDCO, CA NB AND FAMILY HOLDCO 2**

Bidco, Holdco, CA NB and Family Holdco 2 are the principal members of the Bidco concert group.

- (a) Bidco is a company registered in the British Virgin Islands under number 1545010, whose registered and correspondence address is at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands. The directors of Bidco comprise Dr. Tsai Yen-Yu, Mr. Lee Ming Ta, Dr. Su Chien-Cheng, Dr. Su Sh-Hsyu, Mr. Gregory Michael Zeluck, Mr. Patrick Thomas Siewert, Ms. Christina Shieu-Yeing Ng and Mr. Alex Ying.
- (b) Holdco is a company registered in the British Virgin Islands under number 1544700, whose registered and correspondence address is at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands. The directors of Holdco comprise Dr. Tsai Yen-Yu, Mr. Lee Ming Ta, Dr. Su Chien-Cheng, Dr. Su Sh Hsyu, Mr. Gregory Michael Zeluck, Mr. Patrick Thomas Siewert, Ms. Christina Shieu-Yeing Ng and Mr. Alex Ying.
- (c) CA NB is a company registered in the Cayman Islands, whose registered office is at Walkers Corporate Services Limited, Walker House, 87 Mary Street, George Town, Grand Cayman KY1-9005, Cayman Islands. The correspondence address of CA NB is 28th Floor, Two Pacific Place, 88 Queensway, Central, Hong Kong. The directors of CA NB comprise Mr. Gregory Michael Zeluck, Mr. Patrick Thomas Siewert, Ms. Christina Shieu-Yeing Ng and Mr. Alex Ying.
- (d) Family Holdco 2 is a company registered in the British Virgin Islands under number 1543674, whose registered office is at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands. The correspondence address of Family Holdco 2 is 4th Floor, No. 9 Songqin Street, Sinyi District, Taipei, Taiwan. The directors of Family Holdco 2 comprise Dr. Tsai Yen-Yu, Mr. Lee Ming Ta, Dr. Su Chien-Cheng and Dr. Su Sh-Hsyu.

**6      EXPERT'S QUALIFICATIONS AND CONSENT**

- (a)    The following are the qualifications of Citi, which has given its opinion or advice contained in this Composite Document:

<b>Name</b>	<b>Qualification</b>
Citi	Licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

- (b)    Citi has given and has not withdrawn its written consent to the issue of this Composite Document with the inclusion of the text of its letter and with references to its name in the form and context in which they respectively appear.

## **1      RESPONSIBILITY STATEMENT**

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document relating to the Natural Beauty Group and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Document by the Natural Beauty Group have been arrived at after due and careful consideration and there are no other facts, the omission of which would make any statement relating to the Natural Beauty Group in this Composite Document misleading.

## **2      SHARE CAPITAL**

The Natural Beauty Shares are listed and traded on the Stock Exchange. None of the Natural Beauty Shares is listed, or dealt in, on any other stock exchange, nor is any listing of or permission to deal in the Natural Beauty Shares being, or proposed to be, sought on any other stock exchange. As at the Latest Practicable Date, the authorised and issued share capital of Natural Beauty is as follows:

	<i>HK\$</i>
<i>Authorised:</i>	400,000,000.00
<i>Issued and fully paid or credited as fully paid:</i>	200,210,093.20

Other than the Natural Beauty Shares, there are no other classes of securities in the share capital of Natural Beauty in issue. All the Natural Beauty Shares rank *pari passu* in all respects as regards rights to dividends, voting and capital. Save for 940,641 Natural Beauty Shares issued on 7 July 2009 and 520,861 Natural Beauty Shares issued on 2 November 2009 to Optionholders who exercised their Options pursuant to the terms of the Share Option Scheme, no Natural Beauty Shares have been issued since 31 December 2008. Natural Beauty does not have any outstanding options, warrants or other securities issued by Natural Beauty that carry a right to subscribe for or which are convertible into Natural Beauty Shares.

### **3      MARKET PRICES**

The table below sets out the closing prices of Natural Beauty Shares as quoted on the Stock Exchange on: (i) the Last Trading Day; (ii) the Latest Practicable Date; and (iii) the last business day of each of the calendar months during the period commencing six months before the Announcement Date and ending on the Latest Practicable Date:

<b>Date</b>	<b>Closing Price</b> <i>(HK\$)</i>
30 April 2009	0.97
29 May 2009	1.32
30 June 2009	1.29
31 July 2009	1.32
31 August 2009	1.28
30 September 2009	1.32
15 October 2009 (Last Trading Day)	1.36
30 October 2009	1.32
20 November 2009 (Latest Practicable Date)	1.28

### **4      DISCLOSURE OF INTERESTS IN NATURAL BEAUTY SHARES**

**(a)      Directors' interests and short positions in the securities of Natural Beauty and its associated corporations**

As at the Latest Practicable Date, the following Directors have, or are deemed to have, interests and short positions in Natural Beauty Shares, underlying Natural Beauty Shares and debentures of Natural Beauty or shares, underlying shares and debentures of any of Natural Beauty's associated corporations (within the meaning of Part XV of the SFO), which are required to be notified to Natural Beauty and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which are required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in



Appendix 10 of the Listing Rules, to be notified to Natural Beauty and the Stock Exchange:

Director	Nature of interest	Number of Natural Beauty Shares	Percentage of the total issued share capital of Natural Beauty (%)
Dr. Tsai Yen-Yu <sup>(1)</sup>	Interest of controlled companies	1,311,690,000	65.52
Mr. Lee Ming Ta <sup>(2)</sup>	Interest of spouse	1,311,690,000	65.52
Dr. Su Chien-Cheng <sup>(3)</sup>	Deemed interest	1,311,690,000	65.52
Dr. Su Sh-Hsyu <sup>(3)</sup>	Deemed interest	1,311,690,000	65.52

*Notes:*

- (1) Dr. Tsai Yen-Yu indirectly owns 40 per cent. of Family Holdco 2, which, in turn, indirectly owns 50 per cent. of Bidco. Bidco is therefore a controlled corporation of Dr. Tsai Yen-Yu pursuant to section 316 of the SFO. As such, the 1,311,690,000 Natural Beauty Shares attributable to Bidco are attributable to Dr Tsai Yen-Yu.
- (2) Mr. Lee Ming Ta is the spouse of Dr. Tsai Yen-Yu and accordingly, is deemed to be interested in the 1,311,690,000 Natural Beauty Shares attributable to Dr. Tsai Yen-Yu pursuant to section 316 of the SFO.
- (3) Each of Dr. Su Chien-Cheng and Dr. Su Sh-Hsyu is taken to be interested in the 1,311,690,000 Natural Beauty Shares which are indirectly owned by Holdco pursuant to sections 317 and 318 of the SFO by virtue of Dr. Su Chien-Cheng and Dr. Su Sh-Hsyu being parties to the Shareholders' Agreement which imposes obligations or restrictions on the parties thereto with respect to their use, retention or disposal of their interest in Natural Beauty Shares.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and their respective associates have any interests or short positions in Natural Beauty Shares, underlying Natural Beauty Shares and debentures of Natural Beauty and shares, underlying shares and debentures of its associated corporations (within the meaning of Part XV of the SFO), which are required to be notified to Natural Beauty and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are deemed or taken to have under such provisions of the SFO) or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which are required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules to be notified to Natural Beauty and the Stock Exchange.

**(b) Substantial shareholders and other person's interests and short positions in Natural Beauty Shares and underlying Natural Beauty Shares**

As at Latest Practicable Date, so far as is known to the Directors, the following persons (other than the Directors) have interests or short positions in Natural Beauty Shares and underlying Natural Beauty Shares which fall to be disclosed to Natural Beauty under the provisions of Divisions 2 and 3 of Part XV of the SFO, or are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at a general meeting of any member of the Natural Beauty Group:

Name of Substantial Shareholder	Nature of interest	Number of Natural Beauty Shares interested in or deemed to be interested in	Percentage of the total issued share capital of Natural Beauty
Efficient Market Investments Limited	Beneficial owner	838,530,000	41.88
Adventa Group Limited	Beneficial owner	236,580,000	11.82
Fortune Bright Group Limited	Beneficial owner	236,580,000	11.82
Bidco <sup>(1)</sup>	Interest of controlled companies	1,311,690,000	65.52
Holdco <sup>(1)</sup>	Interest of controlled companies	1,311,690,000	65.52
Next Focus Holdings Limited <sup>(2)</sup>	Interest of controlled companies	1,311,690,000	65.52
Knightcote Enterprises Limited <sup>(2)</sup>	Interest of controlled companies	1,311,690,000	65.52
CA NB <sup>(3)</sup>	Interest of controlled companies	1,311,690,000	65.52
CA North Beach Limited <sup>(3)</sup>	Interest of controlled companies	1,311,690,000	65.52
Carlyle Asia Partners III, L.P. <sup>(3)</sup>	Interest of controlled companies	1,311,690,000	65.52

APPENDIX IV	GENERAL INFORMATION RELATING TO NATURAL BEAUTY
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Name of Substantial Shareholder	Nature of interest	Number of Natural Beauty Shares interested in or deemed to be in interested in	Percentage of the total issued share capital of Natural Beauty
Martin Currie Inc	Beneficial owner	130,491,000	6.52
Martin Currie Ltd <sup>(4)</sup>	Interest of controlled companies	225,296,000	11.25
Martin Currie (Holdings) Limited <sup>(4)</sup>	Interested of controlled companies	225,296,000	11.25
Keywise Capital Management (HK) Limited	Beneficial owner	181,210,000	9.05

*Notes:*

- (1) Holdco is the sole shareholder of Bidco, which, in turn, is the sole shareholder of Efficient Markets Investments Limited, Adventa Group Limited and Fortune Bright Group Limited. As such, the 1,311,690,000 Natural Beauty Shares (65.52 per cent.) collectively held by Efficient Markets Investments Limited, Adventa Group Limited and Fortune Bright Group Limited are attributable to Bidco and Holdco.
- (2) Knightcote Enterprises Limited directly owns 40 per cent. of Next Focus Holdings Limited, which, in turn, directly owns 50 per cent. of Holdco. As such, the 1,311,690,000 Natural Beauty Shares in which Holdco is interested are attributable to Next Focus Holdings Limited and Knightcote Enterprises Limited.
- (3) Carlyle Asia Partners III, L.P. is the sole shareholder of CA North Beach Limited, which, in turn, is the sole shareholder of CA NB. CA NB directly owns 50 per cent. of Holdco. As such, the 1,311,690,000 Natural Beauty Shares in which Holdco is interested are attributable to CA NB, CA North Beach Limited and Carlyle Partners III, L.P.
- (4) Martin Currie (Holdings) Limited is the sole shareholder of Martin Currie Ltd, which, in turn, is the sole shareholder of Martin Currie Inc and Martin Currie Investment Management. Martin Currie Inc and Martin Currie Investment Management directly hold 130,491,000 (approximately 6.52 per cent.) and 94,805,000 (approximately 4.74 per cent.) of Natural Beauty Shares, respectively. As such, the 225,296,000 Natural Beauty Shares (approximately 11.25 per cent.) held by Martin Currie Inc and Martin Currie Investment Management are attributable to Martin Currie Ltd and Martin Currie (Holdings) Limited.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors are aware of any person (other than a Director) who, as at the Latest Practicable Date, has an interest or short position in Natural Beauty Shares and underlying Natural Beauty Shares which would fall to be disclosed to Natural Beauty under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at a general meeting of any member of the Natural Beauty Group.

(c) **Other interests**

As at the Latest Practicable Date:

- (i) no subsidiary of Natural Beauty, nor any pension fund of the Natural Beauty Group or any adviser to Natural Beauty as specified in class (2) of the definition of “associate” under the Takeovers Code, owns or controls any Natural Beauty Shares or any convertible securities, warrants, options or derivatives in respect of Natural Beauty Shares;
- (ii) no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code has been entered into between Natural Beauty or any person who is an associate of Natural Beauty by virtue of classes (1), (2), (3) or (4) of the definition of “associate” under the Takeovers Code and any other person;
- (iii) no fund manager connected with Natural Beauty who manages funds on a discretionary basis owns or controls any Natural Beauty Shares or any convertible securities, warrants, options or derivatives in respect of Natural Beauty Shares;
- (iv) no Director intends to accept or reject the Offer in respect of Natural Beauty Shares held by him/her, directly or indirectly; and
- (v) neither Natural Beauty nor any of its Directors has borrowed or lent any Natural Beauty Shares or any convertible securities, warrants, options or derivatives in respect of Natural Beauty Shares.

**5      SHAREHOLDINGS AND DEALINGS IN BIDCO SHARES**

During the period commencing six months prior to the Announcement Date, and up to the Latest Practicable Date, other than the interests of Dr. Tsai Yen-Yu, Dr. Su Chien-Cheng, Dr. Su Sh-Hsyu and Mr. Lee Ming Ta in Bidco arising from the Family Group Reorganisation and the Sale and Purchase Agreement as disclosed in paragraph (a) in section 4 of this Appendix IV, none of Natural Beauty nor any of its Directors had any interest in the shares of Bidco, and no such person (including Natural Beauty) had dealt in the shares of Bidco. As at the Latest Practicable Date, Bidco does not have any outstanding options, warranties or other securities issued by Bidco that carry a right to subscribe for or which are convertible into shares of Bidco.

**6 DEALINGS IN NATURAL BEAUTY SHARES**

During the period commencing six months prior to the Announcement Date, and up to the Latest Practicable Date:

- (a) none of the Directors had dealt for value in any Natural Beauty Shares or convertible securities, warrants, options or derivatives issued by Natural Beauty;
- (b) no subsidiary of Natural Beauty, nor any pension fund of the Natural Beauty Group or any adviser to Natural Beauty as specified in class (2) of the definition of “associate” under the Takeovers Code, had dealt for value in any Natural Beauty Shares or any convertible securities, warrants, options or derivatives in respect of Natural Beauty Shares; and
- (c) no fund manager connected with Natural Beauty, who manages funds on a discretionary basis, had dealt for value in any Natural Beauty Shares or any convertible securities, warrants, options or derivatives in respect of Natural Beauty Shares.

**7 ARRANGEMENTS IN CONNECTION WITH THE OFFER**

As at the Latest Practicable Date,

- (a) no benefit has been given or will be given to any Director as compensation for the loss of office or otherwise in connection with the Offer;
- (b) no material contract has been entered into by Bidco in which any Director had a material personal interest; and
- (c) there is no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of the Offer or otherwise connected with the Offer.

**8 MATERIAL CONTRACTS**

Save as disclosed below, the Natural Beauty Group has not entered into any material contract (not being a contract entered into in the ordinary course of business) within the period commencing two years before the Announcement Date, and up to and including the Latest Practicable Date:

- (a) an implementation agreement dated 10 November 2008 between Global Radiance Company Limited and Natural Beauty, pursuant to which the parties agreed to effect the earlier privatization proposal of Natural Beauty by way of a scheme of arrangement under Section 86 of the Companies Law;

- (b) an agreement dated 30 September 2008 between Ice Crystal Management Limited as the seller and Natural Beauty China Holding Limited as the purchaser in connection with the sale and purchase of the entire equity interests in Shanghai Natural Beauty Cosmetics Company Limited for a consideration of US\$29,980,000;
- (c) an agreement dated 22 September 2008 between Natural Beauty Bio-Technology Company Limited (formerly Natural Beauty Cosmetics Company Limited) as the seller and Wai Sing Investment and Development Holdings Limited (威盛投資開發股份有限公司) as the purchaser in connection with the sale and purchase of the premises at 9/F, No. 76 Section 2, Tun Hua S. Road, Taipei, Taiwan and a carparking space at B2, No. 76, Section 2, Tun Hua S. Road, Taipei, Taiwan for a consideration of NTD121,700,000; and
- (d) an agreement dated 20 August 2008 between Uni Way Associates Limited as the seller and Natural Beauty China Holding Limited as the purchaser in connection with the sale and purchase of the entire equity interests in Shanghai Natural Beauty Bio-Med Company Limited for a consideration of US\$3,313,966.

## 9      DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, Natural Beauty has entered into service contracts with the following Directors:

- (a) a service contract dated 11 March 2008 with Dr. Tsai Yen-Yu for a fixed term of three years commencing on 11 March 2008 at an annual remuneration of HK\$1,000,000 (subject to an annual increment at the discretion of the Natural Beauty Board of not more than 10 per cent. of the annual remuneration immediately prior to such increase);
- (b) a service contract dated 11 March 2008 with Mr. Lee Ming Ta for a fixed term of three years commencing on 11 March 2008 at an annual remuneration of HK\$700,000 (subject to an annual increment at the discretion of the Natural Beauty Board of not more than 10 per cent. of the annual remuneration immediately prior to such increase);
- (c) a service contract dated 11 March 2008 with Dr. Su Chien-Cheng for a fixed term of three years commencing on 11 March 2008 at an annual remuneration of HK\$600,000 (subject to an annual increment at the discretion of the Natural Beauty Board of not more than 10 per cent. of the annual remuneration immediately prior to such increase);

- (d) a service contract dated 21 September 2007 with Dr. Su Sh-Hsyu for a fixed term of three years commencing on 21 September 2007 at an annual remuneration of HK\$600,000 (subject to an annual increment at the discretion of the Natural Beauty Board of not more than 10 per cent. of the annual remuneration immediately prior to such increase);
- (e) a service contract dated 21 September 2007 with Mr. Chen Ching for a fixed term of three years commencing on 21 September 2007 at an annual remuneration of HK\$48,000 (subject to an annual increment at the discretion of the Natural Beauty Board of not more than 10 per cent. of the annual remuneration immediately prior to such increase);
- (f) a service contract dated 11 March 2008 with Mr. Yeh Liang Fei for a fixed term of three years commencing on 11 March 2008 at an annual remuneration of HK\$20,000 (subject to an annual increment at the discretion of the Natural Beauty Board of not more than 10 per cent. of the annual remuneration immediately prior to such increase); and
- (g) a service contract dated 11 March 2008 with Mrs. Chen Shieh Shu Chen for a fixed term of three years commencing on 11 March 2008 at an annual remuneration of HK\$20,000 (subject to an annual increment at the discretion of the Natural Beauty Board of not more than 10 per cent. of the annual remuneration immediately prior to such increase).

Each of Dr. Tsai Yen-Yu, Mr. Lee Ming Ta, Dr. Su Chien-Cheng and Dr. Su Sh-Hsyu is entitled to a management bonus. The aggregate amount of the bonuses payable to these executive Directors will not exceed 15 per cent. of the audited consolidated profit attributable to equity holders of Natural Beauty in respect of the relevant financial year of the Natural Beauty Group. No variable remuneration is payable to any of Mr. Chen Ching, Mr. Yeh Liang Fei and Mrs. Chen Shieh Shu Chen under their respective service contracts.

As at the Latest Practicable Date, save as disclosed above, none of the Directors have any existing or proposed service contracts with any member of the Natural Beauty Group or any associated company of the Natural Beauty Group which:

- (a) (including both continuous and fixed term contracts) have been entered into or amended within six months prior to the Announcement Date;
- (b) are continuous contracts with a notice period of 12 months or more; or
- (c) are fixed term contracts with more than 12 months to run irrespective of the notice period.

## **10      EXPERTS' QUALIFICATIONS AND CONSENTS**

- (a) The following are the qualifications of Somerley Limited and Vigers Appraisal & Consulting Limited, who have been named in this Composite Document and given their opinion or advice which are contained in this Composite Document:

<b>Name</b>	<b>Qualification</b>
Somerley Limited	A corporation licensed by the SFC to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) of the regulated activities under the SFO.
Vigers Appraisal & Consulting Limited	Property valuer

- (b) Each of Somerley Limited and Vigers Appraisal & Consulting Limited has given and has not withdrawn its written consent to the issue of this Composite Document with the inclusion of the text of its letter and with references to its names in the form and context in which they respectively appear.

## **11      LITIGATION**

As at the Latest Practicable Date, no member of the Natural Beauty Group is engaged in any litigation or arbitration or claim of material importance and no litigation or claim of material importance is pending or known to the Natural Beauty Board to be threatened by or against any member of the Natural Beauty Group.

## **12      GENERAL**

The registered office address of Natural Beauty is P.O. Box 309, Uglan House, Grand Cayman, KY1-1104, Cayman Islands and its principal office in Hong Kong is Unit 3512, 35/F, The Center, 99 Queen's Road Central, Hong Kong.

## **13      DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours from 9:00 a.m. to 6:00 p.m. (save for Saturdays, Sundays and public holidays) at the office of Natural Beauty at Unit 3512, 35/F, The Center, 99 Queen's Road Central, Hong Kong and will be displayed on the websites of Natural Beauty ([www.nblife.com/ir](http://www.nblife.com/ir)) and the SFC ([www.sfc.hk](http://www.sfc.hk)) from the date of this Composite Document up to and including the Closing Date:

- (a) the memorandum and articles of association of Natural Beauty;



- (b) the memorandum and articles of association of Bidco;
- (c) the audited financial statements of the Natural Beauty Group for the two years ended 31 December 2007 and 2008;
- (d) the interim report of the Natural Beauty Group for the six months ended 30 June 2009;
- (e) the letter from Citi, the text of which is set out in Part I of this Composite Document;
- (f) the letter from the Natural Beauty Board, the text of which is set out in Part II of this Composite Document;
- (g) the letter from the Independent Board Committee, the text of which is set out in Part III of this Composite Document;
- (h) the letter from the Independent Financial Adviser, the text of which is set out in Part IV of this Composite Document;
- (i) the letter from the Property Valuer, the text of which is set out in Part V of this Composite Document;
- (j) the material contracts referred to in the section headed "Material Contracts" in paragraph 8 of this Appendix IV;
- (k) the service contracts of the Directors referred to in the section headed "Directors' Service Contracts" in paragraph 9 of this Appendix IV;
- (l) the written consent from Citi referred to in the section headed "Expert's Qualifications and Consent" in paragraph 6 of Appendix III to this Composite Document; and
- (m) the written consents from the Independent Financial Adviser and the Property Valuer referred to in the section headed "Experts' Qualifications and Consents" in paragraph 10 of this Appendix IV.