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:157)

RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2004

RESULTS

The directors of Natural Beauty Bio-Technology Limited (the "Company") are pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2004, together with the comparative figures for 2003, as follows:

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2004

	Notes	**2004** *HK$'000*	2003 *HK$'000*
Turnover	*4*	**358,142**	320,086
Cost of sales		**(82,291)**	(61,192)
Gross profit		**275,851**	258,894
Other operating income	*6*	**23,097**	21,950
Distribution costs		**(126,921)**	(123,536)
Administrative expenses		**(63,873)**	(69,576)
Other operating expenses		**(8,759)**	(4,201)
Profit from operations	*7*	**99,395**	83,531
Interest on bank overdraft		**–**	(6)
Share of loss of an associate		**(337)**	–
Profit before taxation		**99,058**	83,525
Income tax expense	*8*	**(36,333)**	(30,084)
Profit before minority interests		**62,725**	53,441
Minority interests		**537**	701
Net profit for the year		**63,262**	54,142
Dividends	*9*	**50,000**	42,000
Basic earnings per share	*10*	**3.2 cents**	2.7 cents

Notes:

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. Its ultimate holding company is Knightcote Enterprises Limited, incorporated in British Virgin Islands.

2. **POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS**

   In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004.

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

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties and investments in securities, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

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.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

4. TURNOVER

Turnover represents the net amounts received and receivables for goods sold by the Group to outside customers and is stated net of sales returns and allowances, service income from provision of skin treatments, beauty and SPA services and entrustment fee income for the year, and is analysed as follows:

	2004	2003
	HK$'000	*HK$'000*
Sales of goods	**324,730**	296,583
Service income	**28,338**	18,719
Entrustment fee income	**5,074**	4,784
	358,142	320,086

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Geographical segments

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

An analysis of the Group's revenue and contribution to operating results and segmental assets and liabilities by geographic segments, irrespective of the origin of the goods, is presented below:

	PRC	**Taiwan**	**Others**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
For the year ended 31 December 2004				
Turnover	**214,061**	**142,150**	**1,931**	**358,142**
Other operating income	**14,161**	**8,540**	**396**	**23,097**
Total revenue	**228,222**	**150,690**	**2,327**	**381,239**
Segment results	**71,328**	**40,516**	**(1,840)**	**110,004**
Unallocated corporate expenses				**(10,609)**
Profit from operations				**99,395**
Share of loss of an associate				**(337)**
Profit before taxation				**99,058**
Income tax expense				**(36,333)**
Profit before minority interests				**62,725**
Minority interests				**537**
Net profit for the year				**63,262**

Consolidated balance sheet

	PRC *HK$'000*	**Taiwan** *HK$'000*	**Others** *HK$'000*	**Total** *HK$'000*
Assets				
Segment assets	**462,399**	**390,018**	**15,077**	**867,494**
Interest in an associate	**605**			**605**
Unallocated corporate assets				**32,132**
Consolidated total assets				**900,231**
Liabilities				
Segment liabilities	**26,214**	**45,423**	**72**	**71,709**
Unallocated corporate liabilities				**23,891**
Consolidated total liabilities				**95,600**
Other information				
Capital expenditure	**8,122**	**5,843**	**218**	**14,183**
Depreciation and amortisation	**29,306**	**6,526**	**1,152**	**36,984**

	PRC *HK$'000*	Taiwan *HK$'000*	Others *HK$'000*	Total *HK$'000*
For the year ended 31 December 2003				
Turnover	200,618	118,084	1,384	320,086
Other operating income	14,224	7,260	466	21,950
Total revenue	214,842	125,344	1,850	342,036
Segment results	55,126	38,393	(3,006)	90,513
Unallocated corporate expenses				(6,982)
Profit from operations				83,531
Finance costs				(6)
Profit before taxation				83,525
Income tax expense				(30,084)
Profit before minority interests				53,441
Minority interests				701
Net profit for the year				54,142

Consolidated balance sheet

	PRC *HK$'000*	Taiwan *HK$'000*	Others *HK$'000*	Total *HK$'000*
Assets				
Segment assets	416,304	347,663	16,034	780,001
Interest in an associate	942			942
Unallocated corporate assets				60,472
Consolidated total assets				841,415
Liabilities				
Segment liabilities	35,637	30,328	142	66,107
Unallocated corporate liabilities				14,720
Consolidated total liabilities				80,827
Other information				
Capital expenditure	9,633	1,700	440	11,773
Depreciation and amortisation	21,268	7,463	1,275	30,006

6. OTHER OPERATING INCOME

	2004 HK$'000	2003 HK$'000
Rental income from investment properties	**5,568**	3,693
Rental income from other properties	**982**	980
Interest income on bank deposits	**1,956**	930
Financial refunds *(note)*	**9,977**	11,842
Gain on disposal of investments in securities	**1,739**	1,841
Others	**2,875**	2,664
	23,097	21,950

Note: Pursuant to the local practice of the finance bureau of the provinces in which certain of the People's Republic of China ("PRC") subsidiaries operate, the PRC subsidiaries will receive financial refunds by way of negotiation with the relevant finance bureau with reference to the percentage of the 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, and could be treated differently in the future. 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.

7. PROFIT FROM OPERATIONS

	2004 HK$'000	2003 HK$'000
Profit from operations has been arrived at after charging:		
Staff costs:		
– directors' emoluments	**818**	1,330
– other staff costs	**46,820**	46,426
Retirement benefits scheme contributions, excluding directors:		
– contributions to defined contribution plan	**4,470**	4,478
– expenses recognised in respect of defined benefit plan	**1,443**	1,138
Total staff costs	**53,551**	53,372
Amortisation of goodwill, included in administrative expenses	**6,755**	4,445
Amortisation of intangible assets, included in administrative expenses	**1,074**	2,477
Auditors' remuneration	**2,639**	1,898
Depreciation of property, plant and equipment	**29,155**	23,084
Loss on disposal of property, plant and equipment	**217**	1,752
Research and development costs	**1,271**	157
and after crediting:		
Rental income from investment properties, net of outgoings of HK$581,000 (2003: HK$443,000)	**4,987**	3,250
Rental income from other properties, net of outgoings of HK$49,000 (2003: HK$49,000)	**933**	931

8. INCOME TAX EXPENSE

	2004 HK$'000	2003 HK$'000
The charge (credit) comprises:		
Hong Kong Profits Tax	**–**	–
Taxation in other jurisdictions		
Current year	**30,589**	31,035
Under(over)provision in prior year	**935**	(1,068)
	31,524	29,967
Deferred taxation		
Charge for the year	**4,553**	218
Underprovision in prior year	**256**	–
Effect of change in tax rate	**–**	(101)
	4,809	117
	36,333	30,084

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

No provision for taxation has been made as the Group's income neither arises in nor is derived from Hong Kong.

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

	2004	2003
	HK$'000	*HK$'000*
Profit before taxation	**99,058**	83,525
Tax at the average income tax rate of 29.4% (2003: 31.6%)	**29,123**	26,434
Tax effect of expenses not deductible for tax purpose	**5,017**	4,221
Tax effect of income not taxable for tax purpose	**(3,776)**	(4,137)
Tax effect of tax losses not recognised	**7,486**	4,735
Increase in opening deferred tax assets resulting from an increase in applicable tax rate	**–**	(101)
Tax effect of tax benefit provided to a Taiwan subsidiary	**(2,807)**	–
Tax effect of share of loss of an associate	**99**	–
Under(over) provision in prior years	**1,191**	(1,068)
Tax charge for the year	**36,333**	30,084

Note: The average income tax rate for the year ended 31 December 2004 represented the weighted average tax rate of the operations in different jurisdictions on the basis of the relative amounts of net profit before taxation and the relevant statutory rates or other reasonable basis.

9. DIVIDENDS

	2004	2003
	HK$'000	*HK$'000*
2004 Interim dividend paid HK$0.0075 (2003: HK$0.006) per share	**15,000**	12,000
2004 Final dividend proposed HK$0.0175 (2003: HK$0.015) per share	**35,000**	30,000
	50,000	42,000

The final dividend of HK$0.0175 (2003: HK$0.015) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

10. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the year of HK$63,262,000 (2003: HK$54,142,000) and on the number of 2,000,000,000 (2003: 2,000,000,000) ordinary shares of the Company in issue during the year.

No diluted earnings per share has been presented as the Company has no dilutive potential shares outstanding.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Turnover has increased 11.9% to HK$358.1 million in 2004 compared to HK$320.1 million in 2003. The increased is attributable to the growth in both Taiwan and PRC markets, by over 20% and 6% respectively, reflecting the robust growth in Greater China Region. Despite the overall store number in 2004 was reduced by 293 stores, the Group average sales per store increased from HK$138,000 in 2003 to HK$161,000 in 2004.

In the PRC, the turnover increased by 6.7% or HK$13.4 million to HK$214.1 million, above the domestic growth rate for cosmetic industry in PRC at 5.2%. The relatively small increase in PRC is caused by the reduction of 171 of our stores from 1,693 stores in 2003 to 1,522 stores as at 31 December 2004, resulting from merging smaller stores into more effective ones to increase sales per store. The average sales per store in PRC, increased by HK$11,000 from HK$122,000 in 2003 to HK$133,000 in 2004, representing a 9% improvement. With our effective advertising and marketing initiatives, the operating costs increased at a lower pace than the growth in sales, hence the operating profit in PRC recorded a 29.4% growth to HK$71.3 million in 2004.

Taiwan market also shows improvement in 2004, and turnover increased by HK$24.1 million, or 20.4% to HK$142.2 million in 2004 compared to HK$118.1 million in 2003, despite the drop of 121 in store numbers. The increase in Taiwan market is mainly attributable to higher average sales per store, from HK$175,000 in 2003 to HK$237,000 in 2004, representing a 35% of growth. However, due to lower other revenues generated in Taiwan and the distribution cost to total turnover increased by 5% to 45% in 2004, as a result, the operating profits slightly increased by 5.5% to HK$40.5 million in 2004.

Other markets includes Hong Kong and Malaysia, there are 2 stores in Hong Kong as at 31 December 2004. The operations of these regions remain immaterial and account for less than 1% of total turnover to the Group.

Turnover by geographical region	**2004** *HK$'000*	**%**	2003 *HK$'000*	%	Changes *HK$'000*	%
PRC	**214,061**	**59.8%**	200,618	62.7%	13,443	6.7%
Taiwan	**142,150**	**39.7%**	118,084	36.9%	24,066	20.4%
Others	**1,931**	**0.5%**	1,384	0.4%	547	39.5%
Total	**358,142**	**100.0%**	320,086	100.0%	38,056	11.9%

Operating profits by geographical region	**2004** *HK$'000*	**%**	2003 *HK$'000*	%	Changes *HK$'000*	%
PRC	**71,328**	**71.8%**	55,126	66.0%	16,202	29.4%
Taiwan	**40,516**	**40.8%**	38,393	46.0%	2,123	5.5%
Others	**(1,840)**	**-1.9%**	(3,006)	-3.6%	1,166	-38.8%
Unallocated corporate expenses	**(10,609)**	**-10.7%**	(6,982)	-8.4%	(3,627)	51.9%
Total	**99,395**	**100.0%**	83,531	100.0%	15,864	19.0%

Average sales per stores

	2004 Average store	2003 Average store	**2004 Average sales per stores** *HK$*	2003 Average sales per stores *HK$*	Changes *HK$*	Changes %
PRC	**1,607.5**	1,641.5	**133,000**	122,000	11,000	9%
Taiwan	**600.0**	676.0	**237,000**	175,000	62,000	35%
Group total	**2,207.5**	2,317.5	**161,000**	138,000	23,000	16.7%

Products

The Group manufactures and sells three main types of products, namely skin care products, beauty products and aromatherapeutic products under the NB and Bio-up brand names. Sales of products are primarily made through spas and dedicated counters and are the Group's key revenue contributor, accounting for HK$324.7 million, or 90.7% in 2004, compared to HK$296.6 million, or 92.7% in 2003, representing a 9.5% increase. Gross margin of products remain stable at 85.2%.

The increase in products sales is mainly attributable to the improvement in the average sales per store, with the revamp of brand image and effective marketing efforts.

Services

The Group provides skin treatments, beauty and spa services through its self-owned and operated spas. Service income is generated from 22 self-owned spas as the Group does not share any service income generated in the franchised spas with franchisees under the current franchise programme. Income from these services increased by 51.4% to 28.3 million, mainly due to Severe Acute Respiratory Syndrome ("SARS") affected Asia in first half 2003, which Customers were inhibited to visit our spa centers.

While there are needs to establish self-owned stores in new markets as model spas, the Group considers it would be more profitable as a whole to allocate resources to stimulate product sales instead of operating our own spas, due to higher overhead costs compared to franchisees. The Group continues to entrust certain of our spas in explored markets to reputable operators.

Entrustment income

In order to allocate our financial and human resources more efficiently, the Group had 18 entrustment arrangements as at 31 December 2004, ranging from one to five years, where our self-owned spas were entrusted to reputable operators in the local areas. The operators will be responsible for all the profits and losses of the operations and the Group receives a fixed annual entrustment income. The Group sells products to the operators with similar terms as to the franchisees.

The Group believes the entrustment arrangement will be a win-win situation for both the operators and the Group. Local operators can better serve the specific needs of the local customers, and hence generate more product and service revenue. The Group, on the other hand, can secure a steady annual entrustment income while maintaining the distribution location, and to re-allocate our resources to explore new markets.

The entrustment income increased 6.1% to HK$5.1 million compared to HK$4.8 million in 2003.

Turnover by activities	**2004** *HK$'000*	*%*	2003 *HK$'000*	*%*	Changes *HK$'000*	*%*
Products	**324,730**	**90.7%**	296,583	92.7%	28,147	9.5%
Service Income	**28,338**	**7.9%**	18,719	5.8%	9,619	51.4%
Entrustment	**5,074**	**1.4%**	4,784	1.5%	290	6.1%
Total	**358,142**	**100.0%**	320,086	100.0%	38,056	11.9%

With the effective advertising and marketing efforts, the Group's distribution costs as a percentage of turnover decreased from 38.6% in 2003 to 35.4% in 2004. The administration expense also reduced HK$5.7 million to HK$63.9 million in 2004 compared to HK$69.6 million in 2003.

As a result, the operating profit increased by 19%, from HK$83.5 million in 2003 to HK$99.4 million in 2004.

Taxation expenses increased 20.8% from HK$30.1 million in 2003 to HK$36.3 million in 2004. The effective tax rate of the Group for financial year ended 31 December 2003 and 2004 were 36.0% and 36.7% respectively. The high effective tax rate is mainly attributable to the fact that there are withholding taxes on dividends paid by our Taiwan subsidiaries when the dividends were paid outside Taiwan. The total withholding tax expense charged by Taiwan tax authority amounted to HK$2.1 million in 2004 (2003: HK$1.7 million).

As a result, the net income for the year increased 16.8% from HK$54.1 million in 2003 to HK$63.3 million in current year.

Liquidity and financial resources

Cash generated from operations for 2004 was approximately HK$157.1 million (2003: HK$37.3 million). The increase was primarily due to increased sales, better management of trade receivables and inventory balances. As at 31 December 2004, the Group had bank balances and cash of approximately HK$235.9 million (2003: HK$170.3 million) and trading securities (which are mainly capital guaranteed bond funds) of approximately HK$94.4 million (2003: HK$67.6 million) with no external bank borrowing.

In terms of gearing, as at 31 December 2003 and 2004, the Group's gearing ratio was zero (defined as net debt divided by shareholders' equity) as the Group has a net cash balance as at both year end dates. Current ratio of the Group (defined as current assets divided by current liabilities) as at 31 December 2003 and 2004 were 6.0 times. As at 31 December 2004, the Group had no material contingent liabilities, other than those disclosed in its financial statements and notes thereto. With the cash and short term securities in hand, the Group's liquidity position remains strong and the Group has sufficient financial resources to finance its commitments and working capital requirements.

Charges on assets

Certain freehold investment properties of the Group with a carrying amount of HK$156.1 million (2003: HK$141.6 million) are pledged to a bank. The banking facilities granted by the bank were terminated in 2002 but the charge has not been released to facilitate application of banking facilities in the future.

Contingent liabilities

On 10 September 2002, 8 October 2002 and 29 October 2002, Shanghai Natural Beauty Sanlian Cosmetics Company Limited ("NB Sanlian") and Chong Ming Sanlian Investment Development Company ("Chong Ming Sanlian"), an independent third party, entered into 25 Sales and Purchase Agreements ("S&P Agreements") with the respective minority shareholders ("Vendors") of the Group's subsidiaries in the PRC (the "PRC subsidiaries") to acquire the equity interests of the PRC subsidiaries owned by the vendors and to assume all management and operation rights of the PRC subsidiaries. The acquisitions were completed during the year ended 31 December 2003.

Under the terms of the S&P Agreements, in the event that Chong Ming Sanlian fails to settle the amounts owed to the Vendors for the acquisition of the equity interests in the PRC subsidiaries, NB Sanlian has undertaken to settle the outstanding amounts on behalf of Chong Ming Sanlian. At 31 December 2004, in respect of the purchase consideration, Chong Ming Sanlian owes to the minority shareholders a total amount of approximately HK$843,000 (2003: HK$6,123,000).

Treasury policies and exposure to fluctuations in exchange rates

The Group derives most of its revenue denominated in Renminbi and New Taiwan Dollar from the PRC and Taiwan as its operations are mainly concentrated in these two geographical areas. As at 31 December 2004, approximately 85.6% (2003: 71.6%) of the Group's bank balances and cash was denominated in Renminbi, while approximately 4.3% (2003: 2.5%) was denominated in New Taiwan Dollar and the remaining 10.1% (2003: 25.9%) was denominated in United States Dollars, Hong Kong Dollars and Malaysia Ringgits. The Group continued to adopt a conservative approach in respect of foreign exchange exposure management. Review of the Group's exposure to foreign exchange risk will be conducted periodically and derivative financial instruments may be used to hedge against such risks when necessary.

Business review

Distribution channels

The Group principally derives income through our unique distribution channels, namely spas and counters in department stores. There are total 2,076 store outlets as at 31 December 2004, of which 2,005 are spas and 71 are counters. All spas can provide hydrotherapy, facial, body care and skin care analysis to our customers and counters in department stores usually provide skin care analysis. The categorization of the spas are mainly by the size of store. The average store sizes for Class A, B and C are 240, 120 and 60 square meters respectively.

Store Number by Type As at 31 December 2004	**Class A**	**Class B**	**Class C**	**Counter**	**Total**
Taiwan	6	101	445	–	552
PRC	72	531	848	71	1,522
Others	2	–	–	–	2
Total	80	632	1,293	71	2,076

There are total 1,953 franchisee spas as of 31 December 2004, and 123 spas and counters owned by the Group, of which 93 are self-owned and 30 of them were entrusted to reputable operators.

Franchise spas are owned by franchisees and they are responsible for the capital investment of their spas, and they are obliged to use "Natural Beauty" or "NB" brand of products in their spas.

Self-owned spas are primarily set up to act as a model spa for potential franchisees. Self-owned spas are usually Class-A spas. While there are needs to establish self-owned spas in new markets as model spas, the Group considers it would be more profitable as a whole to allocate resources to stimulate product sales instead of operating our own spas, due to higher overhead costs compared to franchisees. The Group therefore has entrusted and will continue to entrust certain of our spas in explored markets to reputable operators.

Entrusted spas are owned by the Group and operated by reputable operators. The spas were previously operated by the Group. In order to allocate financial and human resources more efficiently, there were 18 entrustment arrangements as at 31 December 2004, ranging from one to five years, where our self-owned spas were entrusted to reputable operators in the local areas. The operators will be responsible for all the profits and losses of the operations and the Group receives a fixed annual entrustment income from the operators. The Group sells products to the operators with similar terms as to the franchisees.

The Group believes the entrustment arrangement will be a win-win situation for both the operators and the Group. Local operators can better serve the specific needs of the local customers, and hence generate more product and service revenues. The Group, on the other hand, can secure a steady annual entrustment income while maintaining the distribution location, and to re-allocate our resources to explore new markets.

Store Number by Ownership As at 31 December 2004	Franchisee owned	Entrusted	Self owned	Total
Taiwan	543	–	9	552
PRC	1,410	28	84	1,522
Others	–	2	–	2
Total	1,953	30	93	2,076

Revamp brand image

In 2004, we recognized the needs to transform our brand image to be more appealing to our potential client base, typically young office ladies ranging from age 25 to 39, to stay competitive. We deployed a leading global advertising agency to provide full range of advices and services. Toward the end of 2004, we have successfully launched the "YOUTH" campaign for our patent NB-1 anti-aging products using stem cell technology (SCT). Subsequently, we expect to launch our next TVC "BALANCE" for our innovative natural hormone product. Also, in order to keep the dialogue with our investors more effective and open, we hired renowned public relations (PR) and investor relation (IR) professionals to build and maintain close relationships amongst media and investor communities.

Our branding case also won the "Corporate Branding/Reputation Management" category of the Golin Awards in 2004, which is the world wide PR industry award. It honors the most outstanding use of public relations in corporate branding or positioning, resulting in greater awareness, understanding and appreciation of the company or organization among internal and external audiences.

We are currently in the process of implementing shop makeover for existing spas throughout 2005 by incorporating new Corporate Image ("CI") and Visual Image ("VI").

Subsequently, we will repackage our product lines. Majority of our customers are using "treatment products" instead of Do It Yourself ("DIY") products. With the repackaging of our products, it is expected to boost the Group's DIY product sales from our established treatment product users. DIY products will have different price points from low to high, and will be distributed in hypermarkets, local specialty stores and counters in PRC.

Drawing on better product design, economy of scale on the utilization of the same bottles will also lower our production cost in the long run.

Research & development

In order to maintain its competitive edge, the Group takes research and development seriously with a view to improve the quality of its existing products and develop new products. The Group has been collaborating with researchers and experts on bio technological development and imported European, American, Japanese and Australian natural ingredients to be applied in over 700 NB's products. The Group's research and development team comprises 13 members and a number of overseas consultants with expertise in the fields of cosmetics, medical, pharmacy and bio-chemistry. For example, NB has collaborated with Harvard NB Bio-Science LLC in the US, led by Dr. Chen Ji Dai, a leading researcher in the field of human genome and stem cell technology in Harvard Medical School, in the development of anti-aging NB-1 product family. The Group believes that the collaboration of different expertise within the team together with Dr. Tsai's over 30 years of industry experience and knowledge can help developing high quality beauty and skin care products. NB principally uses natural ingredients in producing its products and has special formulation to cater the needs for the delicate skin of oriental women.

In developing new products, all NB products are assured to meet all relevant regulations, the research and development team will also take into account the feedback and advice from senior management of the Group. Prototype of new products will be distributed to over thousands of selected senior beauty professionals. In accordance with the outcome of the tests, refinements or modifications to the products may be made, prior to its full commercial launch thus ensuring the quality, effectiveness and safety standard of NB's products.

Combining Dr. Tsai's over 30 years of experience in the beauty and skin care industry and together with the strong background of its research and development staff, NB has the competitive advantages in the research and development of beauty and skin care products.

Products
Following the successful launch of NB-1, the group rolled out new products within NB-1 family by launching NB-1 Deep Whitening Series. In 2004, there were over 32,000 units sold with a turnover of HK$42.9 million.

Apart from the NB-1 whitening series, there were other synergistic products such as health supplements and body sculpturing lingerie added to the product line. Total sales for the health supplements and lingerie for the year ended 31 December 2004 were HK$6.5 million and HK$7.4 million respectively.

We will continue to enrich our product range in 2005.

Information technology
The Group starts to implement Oracle ERP system by to link up the key decision making process throughout the Group's value chain. The ERP system is expected to enhance the Group's information flow, and to enable the generation of more accurate and timely production planning and sales forecast.

In 2004, the implementation of the ERP in Taiwan was completed and the implementation in PRC is expected to be completed in 2005.

In 2004, the Group also launched NB-patented computerized skin and iris health examination system, incorporating more than 30 years of beauty know how by Dr. Tsai, to increase cross-selling opportunity through customized technology. This will enable NB's beauty consultants to leverage the expertise of Dr. Tsai and provide a thorough diagnosis and customized solutions with fully integrated products and services to NB's customers.

Human resources
As at 31 December 2004, the Group had a total of 1,469 employees, of which 1,279 were based in PRC, 183 in Taiwan and 7 in other areas. Total remuneration for the year ended 31 December 2004 was approximately HK$53.6 million (2003: HK$53.4 million), including retirement benefits cost of HK$5.9 million (HK$5.6 million). Competitive remuneration packages are maintained to attract, retain and motivate capable staff and are reviewed on a periodical basis.

The Group maintains good employee relations and is committed to employee training and development. Professional training courses are offered to beauticians employed by the Group and its franchisees on a regular basis to promote and maintain the quality and consistency of the services provided. Additional training on service quality, consulting and selling skills, will be provided.

In addition, the Group adopted a share option scheme on 11 March 2002, for the purpose of providing incentives and rewards to eligible participants who contributed to the success of the Group's operations. The Directors may, at their discretion, invite any employee or director of the Group and any qualified person as set out in the scheme, to subscribe for shares. Up to the date of this document, no share option had been granted under the share option scheme.

Capital expenditures
The Group's major capital expenditures were related to self-owned spas and machinery in our factories. There were HK$14.2 million additions to fixed assets in 2004 (2003: HK$13.8 million).

Franchisees are responsible for the capital expenditures of their spas.

PROSPECTS
Natural Beauty is already the largest beauty & spa product provider in Greater China. Our vision is to maintain our leadership in the industry in Greater China.

Looking ahead, we will continue to maintain our leading position in Taiwan spa market and we will focus in the PRC, to capture this fast expanding market. We have defined plans for expansion and also plans to maximize our revenues and profitability.

Measures to improve same store sales:

- Revamp corporate and shop front visual image to attract new customers
- Re-engineering of packaging to stimulate DIY products sales
- Introduction of body slimming, breast enlargement health supplements, etc.

Plan for expansion of franchise network:

- To increase 350 stores in 2005 by attracting new franchisees as well as encouraging existing stores to set up second spa by giving discount incentives on products.

New revenue sources:

- One-time new franchise fee is charged at RMB100,000, RMB60,000 and RMB40,000 for tier 1, 2 and 3 cities respectively in PRC
- Promotion and training fee to be introduced from 2006

New Products:

- New products within the NB-1 Family using stem-cell technology (SCT)
- Body-slimming underwear
- New health supplements
- Bio-tech XXS body – slimming and A2D breast enlargement products

Operating efficiency and cost-down strategies:

- Logistics collaborating with China Post: improving delivery time from 2~3 weeks to 2~3 days
- Product repackaging: reducing bottle types from more than 200 to only 24
- Set up franchisee expert team and headquarter call centers to enhance communication, thus better sales

With the relentless pursuit of excellence, we are confident that we will be able to realize our strategies and to meet our objective to become the leading beauty products and spa services provider in Greater China.

FINAL DIVIDEND

The Board has resolved to recommend the payment of a final dividend of HK$0.0175 per share (2003: final dividend of HK$0.015). Subject to the approval of the shareholders at the forthcoming annual general meeting, the final dividend will be distributed on around 10 June 2005 to shareholders whose names appear on the register of members of the Company as at the close of business on 24 May 2005.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 24 May 2005 to 25 May 2005, both dates inclusive, during which period no transfer of shares may be registered. In order to qualify for the final dividend, all completed transfer forms together with the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Hong Kong Registrars Limited at 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on 23 May 2005.

CODE OF BEST PRACTICE

None of the directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not for any part of the year ended 31 December 2004, in compliance with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") prior to the accounting period commencing on 1 January 2005.

AUDIT COMMITTEE

The Company has an Audit Committee which was established in accordance with the requirements of the Code of Best Practice for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee, which comprises three independent non-executive directors of the Company, has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2004.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2004, the Company had not redeemed, and neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed securities.

PUBLICATION OF ANNUAL RESULTS ON THE STOCK EXCHANGE'S WEBSITE

An annual report of the Company containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange in due course.

By order of the Board
Dr. Tsai Yen Yu
Chairman

As of the date hereof, the Executive Directors of the Company are Dr. Tsai Yen Yu, Mr. Lee Ming Ta, Mr. Su Chien Cheng and Dr. Su Sh Hsyu. The Independent Non-executive Directors of the Company are Mr. Yeh Liang Fei, Mrs. Chen Shieh Shu Chen and Mr. Chen Ching.

Hong Kong, 20 April 2005

"Please also refer to the published version of this announcement in The Standard."