# 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)**

## INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2004

The board of directors of Natural Beauty Bio-Technology Limited ("Natural Beauty" or the "Company") is pleased to announce that the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2004 along with the comparative figures for the corresponding period in 2003 are as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

*For the six months ended 30 June 2004*
*(With comparatives for the six months ended 30 June 2003)*
*(Expressed in thousands of Hong Kong dollars (HK$'000))*

| | | **For the six months ended 30 June** | |
|---|---|---|---|
| | | **2004** | 2003 |
| | | **(unaudited)** | (unaudited) |
| | *Note* | ***HK$'000*** | *HK$'000* |
| Turnover | *3* | **150,817** | 103,390 |
| Cost of sales | | **(26,796)** | (20,163) |
| Gross profit | | **124,021** | 83,227 |
| Other revenues | | **6,522** | 10,959 |
| Distribution costs | | **(65,572)** | (40,322) |
| Administrative expenses | | **(31,598)** | (23,754) |
| Other operating expenses | | **(818)** | (391) |
| Income from trading securities | | **215** | 271 |
| Operating profit | | **32,770** | 29,990 |
| Share of loss of an associate | | **(349)** | – |
| Finance costs | | **–** | – |
| Profit before taxation | *4* | **32,421** | 29,990 |
| Taxation | *5* | **(1,596)** | (6,438) |
| Profit after taxation | | **30,825** | 23,552 |
| Minority interests | | **396** | 689 |
| Profit attributable to shareholders | | **31,221** | 24,241 |
| Dividends | *6* | **15,000** | 12,000 |
| Earnings per share | *7* | | |
| – Basic | | **0.016** | 0.012 |
| – Diluted | | **Not applicable** | Not applicable |

**CONDENSED CONSOLIDATED BALANCE SHEET**
*As of 30 June 2004*
*(With comparatives as of 31 December 2003)*
*(Expressed in thousands of Hong Kong dollars (HK$'000))*

| | As of 30 June 2004 (unaudited) *HK$'000* | As of 31 December 2003 (audited) *HK$'000* |
|---|---|---|
| **Non-current assets** | | |
| Intangible assets | **23,837** | 26,828 |
| Property, plant and equipment | **356,642** | 352,527 |
| Interests in an associated company | **594** | 942 |
| Non-trading securities | **9,879** | 11,282 |
| Deferred tax assets | **11,180** | 9,825 |
| Other long term receivable | **8,584** | 8,739 |
| | **410,716** | 410,143 |
| **Current assets** | | |
| Inventories | **54,611** | 62,706 |
| Trade and other receivables | **119,554** | 130,659 |
| Trading securities | **97,394** | 67,642 |
| Bank balances and cash | **195,645** | 170,265 |
| | **467,204** | 431,272 |
| **Total assets** | **877,920** | 841,415 |
| **Current liabilities** | | |
| Trade and other payables | **46,728** | 53,675 |
| Dividend payable | **30,000** | – |
| Deferred income | **6,732** | 5,244 |
| Current taxation payable | **12,106** | 13,532 |
| | **95,566** | 72,451 |
| **Net current assets** | **371,638** | 358,821 |
| **Total assets less current liabilities** | **782,354** | 768,964 |
| **Non-current liabilities** | | |
| Defined benefit liability | **9,262** | 8,376 |
| **Minority interests** | **9,803** | 10,199 |
| | **763,289** | 750,389 |

Financed by:

| | | |
|---|---|---|
| **Capital and reserves** | | |
| Share capital | **200,000** | 200,000 |
| Reserves | **453,760** | 442,081 |
| Retained earnings | | |
| Proposed dividend | **15,000** | 30,000 |
| Others | **94,529** | 78,308 |
| Shareholders' funds | **763,289** | 750,389 |

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. ACCOUNTING POLICIES AND BASIS OF PREPARATION

The accompanying unaudited condensed consolidated interim financial statements are prepared in accordance with Statements of Standard Accounting Practice ("SSAP") 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong and Appendix 16 of the Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The principal accounting policies and basis of preparation adopted in preparing the condensed consolidated interim financial statements of the Group are the same as those adopted in the preparation of the annual financial statements as of and for the year ended 31 December 2003.

Cost that incur unevenly during the financial year are anticipated or deferred in the interim report only if it would be also appropriate to anticipate or defer such costs at the end of the financial year.

These interim financial statements should be read in conjunction with the 2003 annual financial statements.

Comparative figures have been adjusted to conform with the current year's presentation.

## 2. SEGMENT INFORMATION

### (a) Geographical segment

The Group conducts the majority of its business activities in different geographical areas, the PRC, Taiwan, Hong Kong and other region. An analysis by geographical segment is as follows:

| | **For the six months ended 30 June 2004** | | | | For the six months ended 30 June 2003 | | | |
|---|---|---|---|---|---|---|---|---|
| | **PRC unaudited** *HK$'000* | **Taiwan unaudited** *HK$'000* | **Hong Kong and other region unaudited** *HK$'000* | **Total unaudited** *HK$'000* | PRC unaudited *HK$'000* | Taiwan unaudited *HK$'000* | Hong Kong and other region unaudited *HK$'000* | Total unaudited *HK$'000* |
| TURNOVER | **86,530** | **63,173** | **1,114** | **150,817** | 48,487 | 53,245 | 1,658 | 103,390 |
| SEGMENT RESULTS | **22,277** | **14,173** | **(52 )** | **36,398** | 21,828 | 11,254 | (368 ) | 32,714 |
| Unallocated costs | | | | **(3,843 )** | | | | (2,995 ) |
| Income from trading securities | | | | **215** | | | | 271 |
| Operating profit | | | | **32,770** | | | | 29,990 |
| Finance costs | **–** | **–** | **–** | **–** | – | – | – | – |
| Share of loss of an associate | **(349 )** | **–** | **–** | **(349 )** | – | – | – | – |
| Profit before taxation | | | | **32,421** | | | | 29,990 |
| Taxation | | | | **(1,596 )** | | | | (6,438 ) |
| Profit after taxation | | | | **30,825** | | | | 23,552 |
| Minority interests | | | | **396** | | | | 689 |
| Profit attributable to shareholders | | | | **31,221** | | | | 24,241 |

### (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 2004** | | | For the six months ended 30 June 2003 | | |
|---|---|---|---|---|---|---|
| | **Turnover** ***HK$'000*** | **Other revenue** ***HK$'000*** | **Total** ***HK$'000*** | Turnover *HK$'000* | Other revenue *HK$'000* | Total *HK$'000* |
| Cosmetics products and beauty services | **150,817** | **3,825** | **154,642** | 103,390 | 8,731 | 112,121 |
| Investment properties | **–** | **2,697** | **2,697** | – | 2,228 | 2,228 |
| | **150,817** | **6,522** | **157,339** | 103,390 | 10,959 | 114,349 |

| | As at 30 June 2004 | | As of 31 December 2003 | |
|---|---|---|---|---|
| | **Segment Assets** | **Capital expenditure** | Segment Assets | Capital expenditure |
| | ***HK$'000*** | ***HK$'000*** | *HK$'000* | *HK$'000* |
| Cosmetics products | **726,935** | **10,346** | 634,328 | 11,368 |
| Investment properties | **150,985** | **–** | 145,673 | – |
| | **877,920** | **10,346** | 780,001 | 11,368 |

## 3. TURNOVER

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

An analysis of turnover by major categories is as follows:

| | For the six months ended 30 June | |
|---|---|---|
| | **2004** | 2003 |
| | **(unaudited)** | (unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Sales of goods | **138,844** | 92,450 |
| Service income | **9,191** | 10,940 |
| Entrustment fee income | **2,782** | – |
| | **150,817** | 103,390 |

## 4. PROFIT BEFORE TAXATION

Profit before taxation in the condensed consolidated income statement was determined after crediting and charging the following items:

| | For the six months ended 30 June | |
|---|---|---|
| | **2004** | 2003 |
| | **(unaudited)** | (unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Crediting: | | |
| Interest income on bank deposits | **652** | 756 |
| Realized gain on disposal of short-term investments | **215** | 271 |
| Charging: | | |
| Loss on disposals of property, plant and equipment | **4,438** | 117 |
| Staff costs, excluding directors' emoluments | | |
| – Salaries and wages | **14,457** | 16,451 |
| – Pension costs | | |
| – PRC | **2,036** | 1,338 |
| – Taiwan | **927** | 665 |
| – Hong Kong | **19** | 9 |
| Directors' emoluments (salaries and allowances)* | **367** | 350 |
| Depreciation of property, plant and equipment | **12,238** | 6,896 |
| Provision for write-down of inventory | **–** | – |
| Provision for doubtful debts | **–** | – |
| Interest expense on bank borrowings | **–** | – |
| Operating lease expense on land and buildings | **7,982** | 7,185 |
| Research and development costs | **504** | 721 |
| Amortization of other long-term assets | **3,214** | 206 |

*	*Included in directors' remuneration were fees of HK$20,000 (2003: HK$20,000), paid to independent non-executive directors during the report period.*

## 5. TAXATION

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 2004.

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** | |
|---|---|---|
| | **2004** | 2003 |
| | **(unaudited)** | (unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Group: | | |
| Overseas taxation | **1,471** | 6,112 |
| Deferred taxation | **125** | 326 |
| Taxation for the period | **1,596** | 6,438 |

## 6. DIVIDENDS

| | **For the six months ended 30 June** | |
|---|---|---|
| | **2004** | 2003 |
| | **(unaudited)** | (unaudited) |
| | ***HK$'000*** | *HK$'000* |
| 2003 Interim, paid, of HK$0.0060 per ordinary share | **–** | 12,000 |
| 2004 Interim, proposed, of HK$0.0075 per ordinary share | **15,000** | – |
| | **15,000** | 12,000 |

The directors proposed an interim dividend of HK$0.0075 per share. This proposed dividend is not reflected as dividend payable in the current period financial statements, but will be reflected as an appropriation of retained earnings for the period ended 30 June 2004.

## 7. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the Group's unaudited profit attributable to shareholders of approximately HK$31,221,000 for the six months ended 30 June 2004 (2003: HK$24,241,000) divided by weighted average number of approximately 2,000,000,000 ordinary shares (2003: 2,000,000,000) in issue during the period.

No diluted earnings per share is presented, as the Company has no dilutive potential shares.

## 8. COMPARATIVE FIGURES

The presentation of certain comparative figures in the condensed consolidated income statement has been revised. The directors are of the opinion that this revised presentation is more appropriate after considering the nature of the items. The major change is financial refund of HK$4,242,000 from taxation to other revenues.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

Turnover increased by approximately 45.9% or approximately HK$47.4 million to approximately HK$150.8 million for the six months ended 30 June 2004 compared to the corresponding period in last year (2003: approximately HK$103.4 million).

The increase in turnover is primarily due to the recovery from outbreak of the Severe Acute Respiratory Syndrome ("SARS") over the Greater China area in 2003. The mass outbreak of SARS was a single exceptional incident and its impact on our sales was only short-lived.

Gross profit margin of the Group further improved from 80.5% in first half 2003 and 80.9% for full year 2003, to 82.2% in first half this year. The improvement in gross profit margin is attributable to the introduction of high margin products like NB-1 series and lesser discounts were offered to our customers since the adverse effect of SARS subsided in the second half of last year.

Other revenues mainly include rental income and financial refunds. It dropped 40.5% to HK$6.5 million for the first six months in current year compared to HK$11.0 million in the same period last year. This is due to no financial refund was recognized this year while HK$4.2 million related to PRC subsidiaries were recognized same period last year. The financial refunds were granted by local tax bureaus and are subject to annual approval. As at 30 June 2004, the Group has not been informed about the result of current year application.

Distribution costs increased 62.6% to HK$65.6 million in first half 2004 from HK$40.3 million same period last year. As the per capita disposable income is growing steadily in PRC, we believe consumers are more and more brand-aware and they are willing to pay premium for better products and services. With the China's accession to WTO, the cosmetics and beauty market will be fully open up in 2005, foreign renowned brands of products and service providers will continue to land on PRC markets. With such potential threat in mind, the Group invested heavily in the advertising and distribution networks to boost sales and strengthen NB brand awareness and its predominant position in the general public, both in Taiwan and PRC. We believe our current investment will ensure fruitful results in future and put ourselves in the level battle ground to compete with any renowned foreign counterparts.

Administrative expenses increased HK$7.9 million (or 33%) to HK$31.6 million in first half this year from HK$23.7 million last year. The increase was mainly due to the additional HK$5.3 million amortization expenses and HK$2.9 million additional depreciation charges on fixed assets. The goodwill expense was related to the acquisition of additional equity interests in non-wholly subsidiaries in PRC, where the acquisitions were completed in 2003. If such effect was excluded, administrative expense is basically same as in first half last year.

Operating profit margin dropped from 29.0% first half last year to 21.7% in current year. This is the net effect of improved sales, against no tax refunds recognized in current year and additional distribution expenses incurred. Despite drop in margin terms, operating profits actually increased by HK$2.8 million from HK$30.0 million for the first six months last year to HK$32.8 million this year.

Tax expenses for the six months ended 30 June 2004 amounted to approximately HK$1.6 million (2003: approximately HK$6.4 million), representing a decrease of approximately 75.2% over 2003. The decrease in tax expenses was mainly attributable to the grant of a new tax incentive scheme from Taiwan tax authority, where the assessable profit was substantially reduced.

As a result of the above, the Group recorded profit attributable to shareholders amounted to HK$31.2 million (2003: HK$24.2 million), representing an increase of 28.8% over corresponding period in 2003. The increase was mainly attributable to the recovery of beauty market after the adverse effect of SARS faded away. The net profit margin was 20.7% (2003: 23.4%). The slight decrease in the net profit margin was mainly attributable to additional advertising and distribution costs to further strengthen the predominant position of our Group in Taiwan and PRC markets.

We believe that we are now in a much better position to face direct foreign competitions.

**Segment Performance**

In the PRC, the turnover and segment result for the six months ended 30 June 2004 were approximately HK$86.5 million (2003: approximately HK$48.5 million) and HK$22.3 million (2003: approximately HK$21.8 million) respectively. The increase in turnover and segment result was primarily due to no adverse impact of SARS in current year compared to the same period last year in China. Last year SARS significantly affected the Group's key markets in China, including the northern and southern regions of the Chinese Mainland. The closure of public facilities and shopping centers and decrease in total number of local and foreign visitors during the SARS period made the sale turnover in China decreased by approximately 45.3% compared with the first half of 2002. We also entrusted certain of our Spas to the local management where all the sales and operating expenses were borne by the operators and are not included in the Group. In return, the Group receives a fixed sum of entrustment fee annually. We believe such arrangement will enable us to fully utilize the local expertise of our operators to make all our Spas best-tailored to local markets. In addition, we can further consolidate our financial and management resources to span our presence and development in second and third tier cities in China. There was HK$4.2 million financial refunds recognized in 2003 but none in 2004, as the Group was not informed about the decision of the annual application for the financial refunds as of 30 June 2004 and up to the date of this report.

In Taiwan, the turnover and segment result for the six months ended 30 June 2004 were approximately HK$63.2 million (2003: approximately HK$53.2 million) and HK$14.2 million (2003: approximately HK$11.3 million) respectively. The impact of SARS on the Group's result in this region in last year was short and not very substantial compared with China. The increase in the turnover and result was mainly attributable to the broaden products range, including NB-1 introduced at the end of last year.

In Hong Kong and other region, the loss in respect of the segment result was HK$0.1 million (2003: loss of HK$0.4 million). In Hong Kong, an assets entrustment program for the outlets in Hong Kong was introduced during first half of 2003. The revenues and operating expenses are no longer included in the Group. The Group receives a fixed sum of entrustment fee from the operator annually. We also established our presence in Malaysia in 2003 and the result of Malaysia is still immaterial to the Group.

To summarise, the Group has been performing well both in PRC and Taiwan markets. We believe with the continuous growth of the PRC economies, and the increase in average per-capita disposable income, the beauty market in PRC will continue to blossom. The Board of Directors of the Company is confident about the future prospects of the Group. With a strong balance sheet and steady cash flow, the Group is well positioned to capitalise on the tremendous opportunities ahead.

**Liquidity and Financial Management**

As at 30 June 2004, the Group's total shareholders' funds were approximately HK$763.3 million including share capital and reserves of approximately HK$200.0 million and HK$563.3 million respectively. The Group continued to maintain a strong financial position with cash and bank balances plus investment securities (which are mainly capital guaranteed bond funds held in Taiwan) in aggregate of approximately HK$293.0 million with no external bank borrowing or any charge on assets. Net Cash inflow from operating activities was approximately HK$53.7 million for the six months ended 30 June 2004. Accordingly, the Group has adequate resources to fund its future operation.

In terms of gearing, as at 30 June 2004, the Group had a negative gearing level (defined as net debt divided by shareholders' funds) as the Group has a net cash balance at the period end date. Current ratio of the Group (defined as the current assets divided by the current liabilities) as at 30 June 2004 was approximately 4.9 times (as at 31 December 2003: approximately 6.0 times). As at 30 June 2004, the Group had no material contingent liabilities or outstanding contracted capital commitments.

**Treasury Policies and Exposure to Fluctuations in Exchange Rates**

The Group derives most of its revenue from the PRC and Taiwan as its operations are mainly concentrated in these two areas. The Group did not engage in highly leverage or speculative derivative products. In this respect, the Group continued to adopt a conservative approach to financial risk management and with no external bank borrowing during the current period. The Group does not have significant exposure to foreign exchange fluctuations. Periodic review of the Group's exposure to foreign exchange risk will be conducted and derivative financial instruments may be used to hedge against such risks when necessary.

**Employment, Training and Employment**

As at 30 June 2004, the Group had a total of 745 employees of which 506 were based in the PRC, 232 in Taiwan and 7 in Hong Kong and other region, total remuneration for the period ended 30 June 2004 was approximately HK$14.8 million. Remuneration package of the Group are maintained at a competitive level to attract, retain and motivate high performing staff and are reviewed on a periodical basis.

The Group always maintains good working relations with its employees and is committed to employee training and development. Professional training courses to the beauticians employed by the Group and its franchisees are held on a regular basis to promote and maintain the quality and consistency of the services provided.

In addition, the Group has adopted a share option scheme on 11 March 2002, for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operation. The directors of the Company may at their discretion invite any employees or directors of the Group and any qualified persons as set out on the scheme, to subscribe for the shares of the Company. Up to the date of this announcement, no share option has been granted under the share option scheme.

**Closure of Register of Members**

The register of members of the Company will be closed from 27 September 2004 to 28 September 2004, both dates inclusive, during which period no transfer of shares may be registered. In order to qualify for the interim dividend, all completed transfer forms together with relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Hong Kong Registrars Limited at Room 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on 24 September 2004. The dividend will be paid on 15 October 2004.

**Purchase, Redemption or Sale of Listed Securities**

During the six months ended 30 June 2004, neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities.

**Corporate Governance**

The audit committee has reviewed the unaudited consolidated financial statements of the Group for the six months ended 30 June 2004.

None of the directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not at any time during the six months ended 30 June 2004, in compliance with the Code of Best Practice as set out in appendix 14 of the Listing Rules.

By Order of the Board
**Dr. Tsai Yen Yu**
*Chairperson*

Hong Kong, 25 August 2004

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

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